

## MARKET COMMENTARY

### Why investors should support corporate governance forum

Thirty years ago New Zealand's markets were quite rightly regarded as the Wild West of the financial world. Insider trading was rife, boards and management teams often focused more on how they could make money for themselves than for their shareholders and investing money into the equity market was like swimming through a shark-infested pool.

Through a series of much needed reforms the NZ financial markets have been brought into line with global best practice and, for the most part, now function well. With the devastating collapse of the unregulated finance company sector, where 45 companies went into liquidation between 2006 and 2011, the last real opponents of regulated markets have come to understand that a sensible regulatory regime is needed to protect investors. We are not a wealthy country and we need to ensure that what wealth we do have is not squandered or stolen.

The major reforms that have been enacted, including the Takeovers Act 1993 and the Financial Markets Conduct Act 2013, should give investors confidence that they will be treated fairly when investing in financial assets. The objective is not to eliminate risk, but to ensure that risks are identified and understood so that they can be correctly priced.

However, regulatory reforms only go part of the way. Sitting over these regulatory structures we need a code of conduct that ensures that we optimise the outcome for all stakeholders in a business, an area we broadly refer to as corporate governance. From our point of view, as shareholders in listed companies, we have noted over a long period of time that investment outcomes tend to be better in...[Read More](#)

## MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P NZX50 Gross	NZ	3.4%	14.6%
S&P ASX200	AU	4.4%	5.7%
MSCI World Index	GLOBAL	2.5%	12.6%
S&P500	USA	2.1%	11.2%
FTSE100	UK	2.8%	3.1%
NIKKEI 225	JP	1.7%	34.0%
NZ 90 Day Bank Bill	NZ	0.3%	3.7%



AT A  
GLANCE

## UNIT PRICES

### DEVON ALPHA FUND

**\$1.5660**

### DEVON AUSTRALIAN FUND

**\$1.3481**

### DEVON DIVIDEND YIELD FUND

**\$1.6657**

### DEVON TRANS-TASMAN FUND

**\$3.4328**

### GLOBAL THEMES FUND

**\$2.4596**

Prices as at 31 July 2015

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### IN YOUR FUND

#### DEVON ALPHA FUND

The Alpha portfolio generated good absolute performance over the month as a number of our investments performed strongly. Stocks in the Healthcare sector were particularly impressive with CSL rallying over 14% and Resmed finished up 10%. Resmed was supported by a strong quarterly result as their US flow generators grew by 53% due to the success of the 'AirSense10' range. During the month we made a number of changes to the portfolio including the purchase of shares in AMP and Westpac. Operating performance at AMP has improved recently as evidenced by strong underlying profit growth across their contemporary businesses while Westpac is offering improved risk-adjusted prospects after its share price weakened over recent months and there has been progress made in getting better clarity around their capital requirements. We currently have a cash weighting in this strategy of over 30% which we will invest when opportunities present themselves.

#### DEVON AUSTRALIAN FUND

The Australian Fund (+2.5% in NZD) outperformed the ASX200 (+1.6% in NZD) over the month. The most significant contributor was Vista Group (+9%) after its subsidiary MACCS signed an agreement with Warner Brothers to manage the group's domestic movie distribution and Vista reported solid quarterly cash flow. Other positive contributors included Asciano (+22%), CSL (+14%), Ardent Leisure (+12%) and Westfield (+10%). The Fund added a position in Westfield Corp (WFD) during the month following a de-rating on market concerns about the potential for US interest rate hikes and concern around near term dilution from US asset sales. WFD has a number of high quality development projects including Westfield London, Century City (Los Angeles), Westfield Milan and the World Trade Centre (New York) and the market has yet to factor or value the 3,000 London apartment pipeline.

#### DEVON DIVIDEND YIELD FUND

The Dividend Yield Fund performed positively over July as both the Australian and New Zealand share markets rose. The standout performer in the Fund was Sydney Airport (SYD), which rose nearly 13%. The company has been a holding in the Dividend Yield Fund since inception and has generated strong returns over that time. SYD's operating performance has benefitted from the same key drivers as Auckland Airport - strong international travel growth, particularly from China, and higher spend per passenger. The attraction of SYD as an investment relative to Auckland Airport is that it is the key gateway to a truly global city and it operates within a more benign regulatory environment. Other strong performers over the month included Ardent Leisure, which rose more than 11% in Australian dollars, Westpac which continued to recover as concerns around potential capital requirements abated, and Wesfarmers, which has benefitted from slightly more positive sentiment towards its primary competitor, Woolworths.

#### DEVON TRANS-TASMAN FUND

The Trans-Tasman strategy was supported over the month by strong performances from CSL, Boral, Vista, Ardent Leisure and Auckland Airport. Boral rallied over 13% in July after the company forecast a lift in its FY15 earnings above market expectations. Although their guidance incorporated some property sale gains the company is achieving solid operational performance. CSL finished the month up over 14% as the market has grown in confidence over the company's product pipeline and earnings profile over the next few years. We made a number of changes to the portfolio during July including the purchase of shares in TradeMe and Westfield Corporation. Westfield is a high quality global property group that owns and operates a portfolio of retail centres across the US and UK and its growth over the next few years will be supported by a multi-billion dollar development pipeline.



### QUARTERLY OUTLOOK

## Outlook

The environment for equities remains constructive although an increasing level of caution is required due to elevated valuation levels. A major driver of support over recent years has been accommodative central bank policies and although we expect the Federal Reserve to begin to lift cash rates over the next 12-months we believe that the monetary conditions will remain supportive for asset values over the medium-term. Global growth is improving although economic conditions remain vulnerable to shocks, such as the possibility of a major slowdown in Chinese growth or debt default in peripheral Europe.

The New Zealand economy is facing a range of growth challenges. These include the recent falls in the dairy price and a declining contribution from the rebuild of Christchurch. In response to these, and in consideration of a headline inflation rate which is below the target range, the RBNZ has begun to ease monetary conditions. We expect additional interest rate cuts to occur this year and for the New Zealand Dollar to depreciate further. Although our listed stocks continue to be of high quality we need to be very careful of earnings which are leveraged to the domestic cycle and of valuations which remain expensive.

In Australia the economy remains subdued and operating commissions are challenging. This has seen a number of businesses downgrade earnings recently. We remain of the view though that better opportunities will present themselves from this market over the next 12-months due to better relative valuations and efforts being made to support margins through improved operating efficiencies across many businesses.

Equity markets will continue to be volatile over the course of 2015. This should present opportunities for us at Devon to leverage off our fundamental approach to identify high quality business trading at discounts to their intrinsic value.

VISIT: [www.devonfunds.co.nz](http://www.devonfunds.co.nz)



## MONTHLY REPORT

July 2015

### NET FUND RETURNS (AFTER FEES AND BEFORE TAX) \*

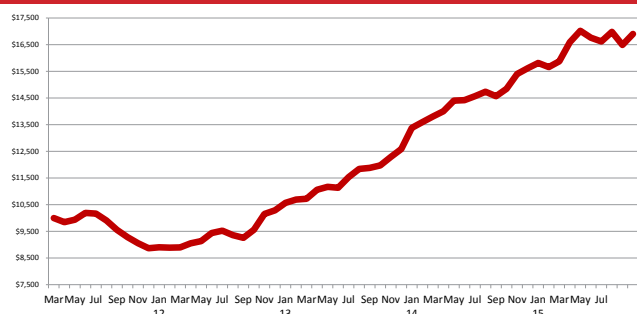
	1 Mth	3 Mth	6 Mth	1 Yr	3 Yr p.a
Devon Alpha Fund	2.5%	1.7%	1.9%	13.9%	20.9%
Devon Australian Fund	2.5%	7.3%	9.2%	14.0%	14.7%
Devon Dividend Yield Fund	3.1%	-0.9%	2.5%	16.3%	-
Devon Trans-Tasman Fund	2.1%	4.5%	5.4%	15.3%	18.4%
Global Themes Fund	2.6%	10.2%	16.3%	-	-

### MARKET INDICES

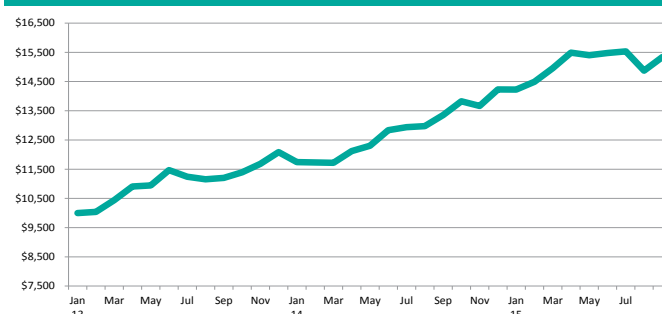
	1 Mth	3 Mth	6 Mth	1 Yr	3 Yr p.a
OCR	0.3%	0.8%	1.7%	3.5%	2.9%
S&P NZX50	3.4%	2.2%	3.1%	14.6%	18.6%
S&P ASX200 (NZD)	1.6%	5.9%	7.4%	6.6%	9.2%
TT Index (Hedged)	3.9%	0.7%	3.7%	10.1%	-
TT Index (Un-Hedged)	2.5%	4.1%	5.2%	10.6%	13.9%
All Country World Index	2.1%	5.8%	11.0%	-	-

### NET PERFORMANCE BASED ON \$10,000 INVESTED AT 1 JANUARY 2011

#### Devon Alpha Fund



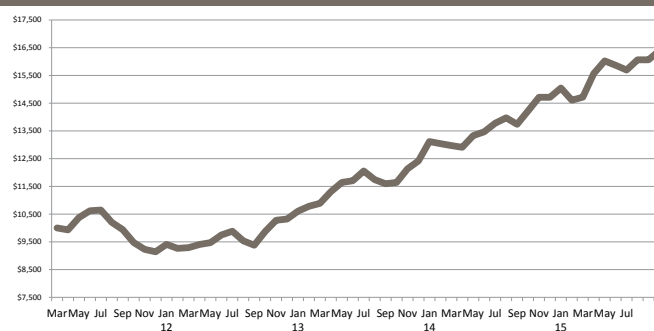
#### Devon Dividend Yield Fund\*



#### Devon Australian Fund



#### Devon Trans-Tasman Fund

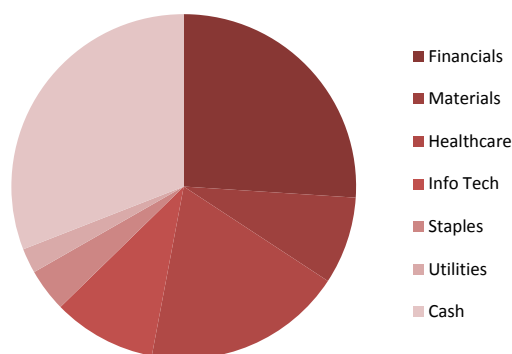


\*Past performance is not a reliable indicator of future returns.



### Devon Alpha Fund

#### Sector Allocation



#### Geographic Allocation

New Zealand Equities	30.4%
Australian Equities	38.6%
Cash	30.9%
	100.0%
Currency Hedge	85.5%

#### Top Companies



#### FUND OUTLINE

The Alpha Fund invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets. The Fund does not follow any index and is actively managed. The Fund aims to generate capital growth over the long term. Currency exposure is actively managed.

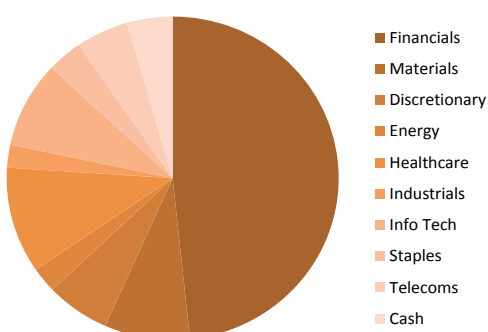
#### PORTFOLIO MANAGER - SLADE ROBERTSON

Slade has a long and successful career in investment management. With over 20 years experience in both the New Zealand and Australian investment industries, Slade's excellent track record is proof of his determination to pursue the best investment opportunities for his clients.



### Devon Australian Fund

#### Sector Allocation



#### Geographic Allocation

Dual Listed	7.5%
Australian Equities	88.1%
Cash	4.4%
	100.0%
Currency Hedge	0.0%

#### Top Companies



#### FUND OUTLINE

The Australian Fund is actively managed and invests in a select portfolio of approximately 25 to 35 companies which are primarily Australian listed companies. The Australian market is much larger than the NZ market and offers exposure to a number of sectors that are not available in NZ. The Australian dollar currency exposure is typically unhedged.

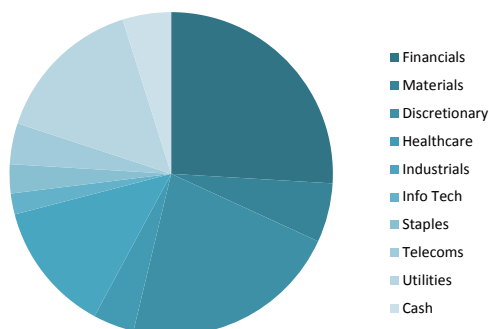
#### PORTFOLIO MANAGER - TAMA WILLIS

A 14-year veteran of international investment markets, Tama returned to NZ after a very successful career in London and Singapore to join Devon's investment team and holds responsibility for Devon's Australian Fund. Tama is widely regarded as a leading expert on resource and mining stocks.



### Devon Dividend Yield Fund

#### Sector Allocation



#### Geographic Allocation

New Zealand Equities	49.5%
Australian Equities	45.7%
Cash	4.9%
	100.0%
Currency Hedge	98.3%
Yield	6.9%

#### Top Companies



#### FUND OUTLINE

The Devon Equity Income Fund consists of a select group of up to 25 New Zealand and Australian listed companies. These stocks are chosen for their attractive dividend yields and growth prospects with the aim of maintaining the dividend yield and capital value in real terms. The Australian dollar currency exposure is typically fully hedged.

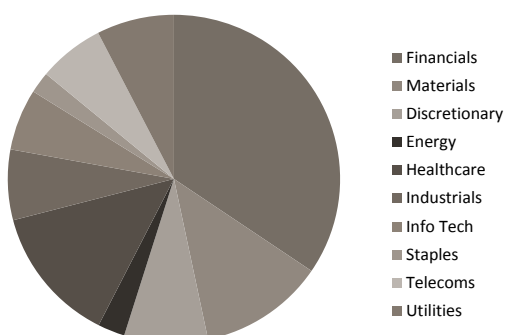
#### PORTFOLIO MANAGER - NICK DRAVITZKI

Over the last decade Nick has specialised in investing in high yield equities and is Portfolio manager for the Devon Equity Income Fund. At Devon, Nick has responsibility for the analysis of consumer staples, IT, consumer discretionary and property sectors. Nick is also responsible for our quantitative screening process.



### Devon Trans-Tasman Fund

#### Sector Allocation



#### Geographic Allocation

New Zealand Equities	39.7%
Australian Equities	56.3%
Cash	4.0%
	100.0%
Currency Hedge	0.0%

#### Top Companies



#### FUND OUTLINE

The Trans-Tasman Fund provides a broad and actively managed exposure to the NZ and Australian equity markets. This Fund typically holds 25 to 35 shares listed on the NZ and Australian stock exchanges which have been carefully selected as offering good value and attractive medium term growth prospects. The Australian dollar currency exposure is typically unhedged.

#### PORTFOLIO MANAGER - SLADE ROBERTSON

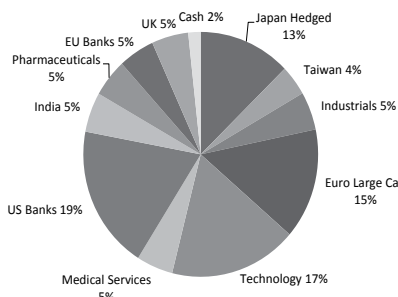
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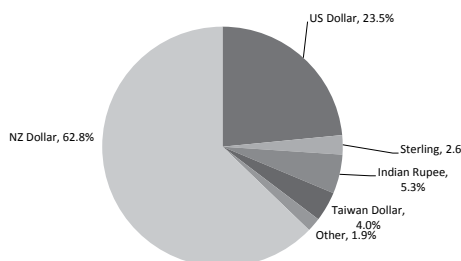


# Global Themes Fund

## Sector Allocation

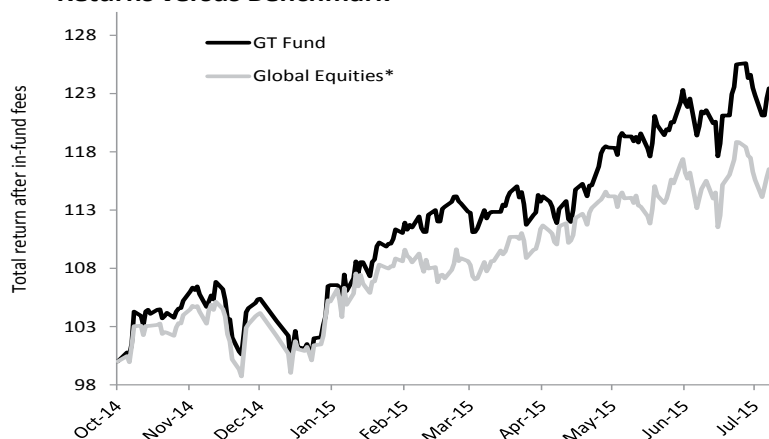


## Currency Exposure



## Net Performance Since Inception

### Returns versus Benchmark



\* I-shares All Country World Index ETF, 50% hedged to NZD  
Source: Datastream, Iress, JBWere Investment Strategy Group

## FUND OUTLINE

The Global Themes Fund invests in Global Financial Assets predominantly Global Exchange Traded Funds (ETF's). We identify macroeconomic or thematic investment ideas with a 2-5 year time horizon, and implement the investment ideas through an appropriate high quality assets. Portfolio risk is managed by ensuring broad diversification, ample liquidity and close monitoring of tracking variation versus a passive equity benchmark. The Global Themes strategy has been run by JBWere since March 2005. In October 2014 Devon Funds Management created a NZ PIE Fund to follow the Global Themes strategy and has appointed JBWere as the adviser to the fund.

## SENIOR INVESTMENT ADVISER - BERNARD DOYLE

Bernard oversees equity strategy and global tactical asset allocation for JBWere New Zealand. Prior to this role, Bernard was the New Zealand Equity Strategist for Goldman Sachs and Partners, where his team was rated #1 for Strategy and Economics by INFNZ for a number of years. Bernard has 18 years experience in financial markets. He graduated in 1993 with Honours in Economics from Victoria University of Wellington.



## WHAT WE OWN AND WHY

July was a messy month with two factors driving market sentiment: a sharp sell-off in Chinese equities and the journey to the brink of default made by Greece. The tense Greek situation led us to build cash, peaking at almost 15% of our portfolio. However as soon as it became clear that a "Grexit" was not an imminent threat, we moved our portfolio back to being fully invested.

Interestingly, through the Greek angst, our European investments were some of our better performers. In particular, our European Pharmaceutical holdings rose 9%, which is pleasing given a number of earnings announcements during the month. This reinforced our view that the pipeline for innovative drugs in the pharmaceuticals industry is extremely attractive. We also saw pleasing results from our medical equipment companies, which supports our thesis that these companies have earnings momentum in their favour for the next 12-18 months.

Against that, our global industrial holding included some earnings misses (one example being United Technologies Corporation, the owner of brands such as Otis and Sikorsky). We are therefore, reviewing our holding in these large industrial conglomerates, and in particular worry that their exposure to emerging markets will remain an earnings headwind for the foreseeable future.

## RETURNS

The Global Themes Fund rose 2.6% in July to a unit price of \$2.4596. This compared with a 2.1% increase in global equity markets. Our fund has risen 23.3% since inception in October 2014, versus 16.4% in the I-Share All Country Exchange Traded Fund 50% hedged to NZD.

## CURRENCY EXPOSURES

We continue to remain happy fully hedging our exposure to Euro and Yen. The NZD continued to fall in July. The decline over the past year marks one of the sharpest in our post-float history. Whilst we are seeing tentative signs of a base being formed in the mid-60's against the USD, we would not be surprised to see some further weakness before year end. All the above said, our strategy is to build hedging cover as the NZD falls below fair value. Accordingly we have boosted our hedging ratio into the 60-70% range to reflect the sizeable decline in the currency's value over recent months.