

MARKET COMMENTARY

Market volatility is back, but it isn't all bad news:

Global equity markets have experienced significant volatility over the past month. At one stage in the month the US S&P500 was down over 11% while the Shanghai Composite Index fell by over 27% or 43% from its June 2015 peak. The New Zealand S&P NZX50 and Australian S&P ASX200 markets also suffered and at one point over the month were down by more than 6% and 12% respectively. The cause of this volatility was sliding confidence in the Chinese economy and concerns over the possible implications of the US Federal Reserve initiating their interest rate hiking cycle, which is expected to begin before year-end.

However, by the end of the month markets had recovered much of their lost ground and there almost seemed to be a sense of embarrassment about the reaction to the slowing of growth in China and the prospect of interest rate increases in the US, both of which have been known about for some time. The US economy has limited direct links to the pace of Chinese growth. US exports account for roughly 13% of total US GDP, which includes 5% to emerging markets and less than 1% to China. Indeed, the limited links to the Chinese growth outlook is illustrated by the low correlation of US economic growth to Chinese growth during recent years. The US economy continues to perform well with second quarter GDP growing at an annualised rate of 3.7%, after a weak first quarter which was effected by weather and ...[Read More](#)

MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P NZX50 Gross	NZ	-4.5%	8.3%
S&P ASX200	AU	-7.8%	-3.2%
MSCI World Index	GLOBAL	-6.6%	2.4%
S&P500	USA	-6.0%	0.5%
FTSE100	UK	-6.0%	-5.0%
NIKKEI 225	JP	-8.2%	24.5%
NZ 90 Day Bank Bill	NZ	0.3%	3.7%



AT A
GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.5115

DEVON AUSTRALIAN FUND

\$1.2779

DEVON DIVIDEND YIELD FUND

\$1.6213

DEVON TRANS-TASMAN FUND

\$3.2930

GLOBAL THEMES FUND

\$2.3237

Prices as at 31 August 2015

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IN YOUR FUND

DEVON ALPHA FUND

The Alpha strategy was well positioned to benefit from the volatile markets during August. For a while now the Fund has had a large cash allocation which reflected our frustration at broad market valuations. The price declines that occurred during the month were productive as they enabled us to deploy some of this cash and to acquire shares in a number of quality businesses at more attractive price points. The cash weighting in Alpha fell to 20% by month-end as we invested in Westfield Corporation and Contact Energy. Westfield is a high quality global retail group that is well positioned to benefit from an US\$11.8bn development pipeline including their almost completed World Trade Centre project in New York. The Fund also participated in the sell-down of shares by Origin Energy in New Zealand gentailer, Contact Energy. Earnings for this business will be supported by ongoing cost management and industry rationalisation.

DEVON AUSTRALIAN FUND

The S&P ASX200 index fell 7.8% in August (or 6.6% in NZ dollar terms) representing its worst month since the GFC. The Devon Australian Fund fell 5.2% in NZD terms, outperforming the ASX200. Results season was generally difficult for Australian companies although a number of our holdings delivered good performance including Estia (+8.8% over the month), oOh!Media (+5.4%) and Asciano (+4.4%). The Fund remains underweight Banks and Resource companies but a weaker performance from both groups impacted absolute performance during the month. The Fund exited ANZ due to concerns about the group's Asian exposure, overweight position in Institutional Banking, NZ dairy and Australian resource exposure. Asciano was also divested following a formal offer to acquire the company from Brookfield. Meanwhile, the Fund added to an existing oOh!Media position following a strong H1 2015 result as the tailwinds for the outdoor advertising sector remain strong.

DEVON DIVIDEND YIELD FUND

The Dividend Yield Fund declined nearly 3% over August, a month which saw the largest swings in global markets for several years. Although a negative performance is always disappointing, the Fund did perform much better than its benchmark which was down more than 6%. August is the busiest month of the year for companies to report their financial results and news, this combined with the gyrations of global markets, saw some large price moves. The Fund had a mainly positive reporting results experience. The stand out was oOh!Media. oOh!Media is an outdoor media business with an attractive growth profile driven by an expanding market (outdoor is benefitting from the decline in audiences in traditional media) and digitisation of billboards (which provides higher volumes of ads). The result confirmed our positive thesis on the stock with earnings growth on the previous period of 51% and an upgrade to full year earnings guidance of 11%.

DEVON TRANS-TASMAN FUND

Although equity markets were broadly weaker during the month there were a number of stocks which generated positive returns for the portfolio. Spark rallied more than 14% after the company demonstrated they had made credible progress on developing a platform to grow their contributions from Mobile and IT Services and successfully delivering on their cost out program. The stock also benefitted from a step up in capital management commitment. Estia Health also rallied after the company reported a solid FY15 result with investors particularly encouraged by strong bond inflows. Management also provided guidance that earnings are likely to grow by over 20% during FY16. There were a number of changes made to the portfolio including the sale of shares in Air New Zealand and Boral and the purchase of stock in Westfield Corporation and Woolworths. We continue to focus on building a portfolio characterised by quality and good valuation support.



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



MONTHLY REPORT

August 2015

NET FUND RETURNS (AFTER ALL FEES) *

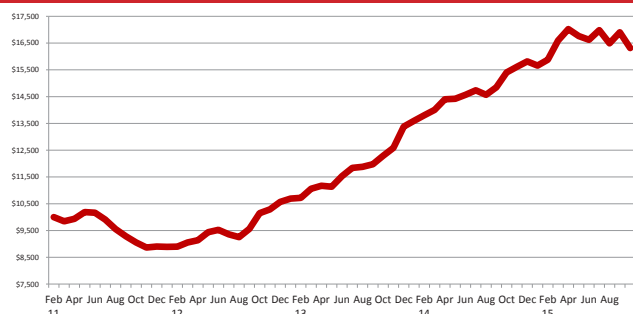
	1 Mth	3 Mth	6 Mth	1 Yr	3 Yr p.a
Devon Alpha Fund	-3.5%	-3.9%	-4.2%	5.9%	17.1%
Devon Australian Fund	-5.2%	-1.6%	0.1%	4.1%	11.9%
Devon Dividend Yield Fund	-2.7%	-3.9%	-3.6%	9.3%	-
Devon Trans-Tasman Fund	-4.1%	-2.0%	-1.8%	6.9%	15.3%
Global Themes Fund	-5.5%	-2.4%	4.5%	-	-

MARKET INDICES

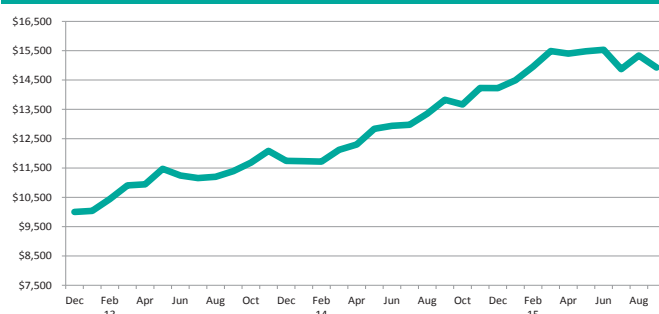
	1 Mth	3 Mth	6 Mth	1 Yr	3 Yr p.a
OCR	0.3%	0.8%	1.7%	3.4%	2.9%
S&P NZX50	-4.5%	-3.2%	-3.8%	8.3%	15.5%
S&P ASX200 (NZD)	-6.6%	-5.1%	-2.7%	-2.9%	6.2%
TT Index (Hedged)	-6.1%	-6.0%	-6.9%	2.6%	-
TT Index (Un-Hedged)	-5.5%	-4.2%	-3.2%	2.7%	10.9%
All Country World Index	-4.5%	-2.6%	2.4%	-	-

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

Devon Alpha Fund

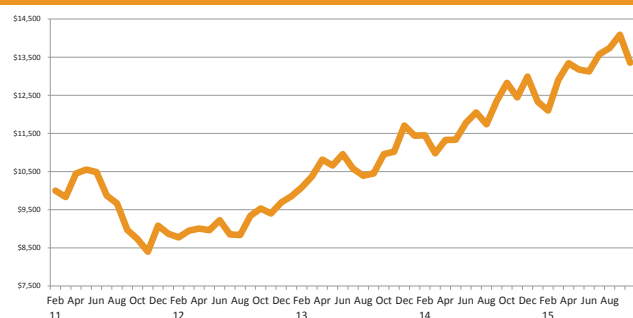


Devon Dividend Yield Fund*

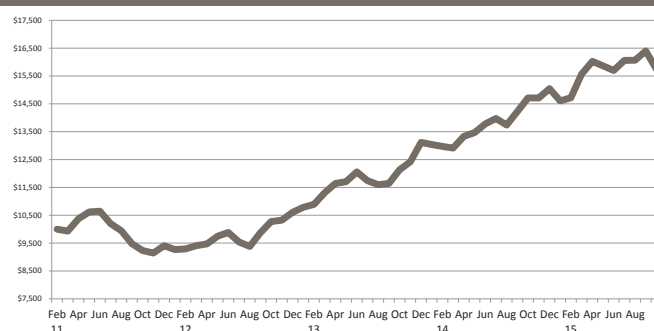


*Fund commenced on 20 December 2012

Devon Australian Fund



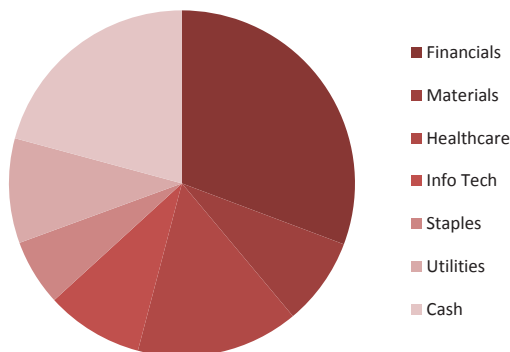
Devon Trans-Tasman Fund



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

Devon Alpha Fund

Sector Allocation



Geographic Allocation

New Zealand Equities	37.1%
Australian Equities	42.1%
Cash	20.8%
	100.0%
Currency Hedge	97.3%

Top Companies

Westfield

CSL

Estia Health

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.

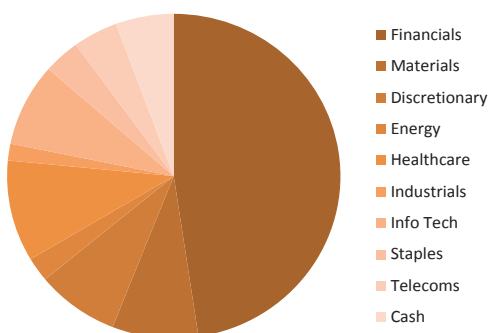
PORTFOLIO MANAGER - SLADE ROBERTSON

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	6.9%
Australian Equities	87.5%
Cash	5.6%
	100.0%
Currency Hedge	0.0%

Top Companies

VISTA GROUP

ooh!media

Westfield

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.

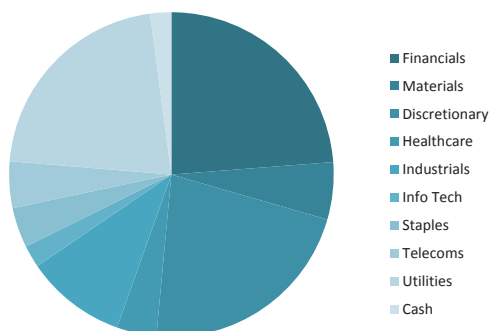
PORTFOLIO MANAGER - TAMA WILLIS

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	53.1%
Australian Equities	44.8%
Cash	2.1%
	100.0%
Currency Hedge	99.8%
Current YIELD	6.6%

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.

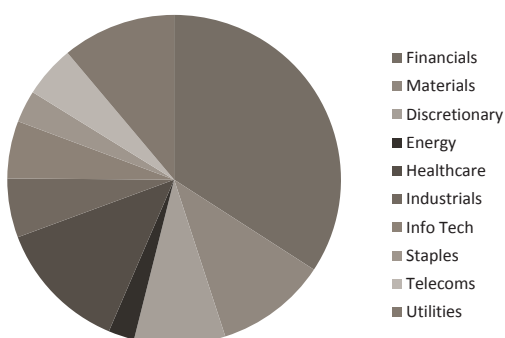
PORTFOLIO MANAGER - NICK DRAVITZKI

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	41.9%
Australian Equities	53.7%
Cash	4.4%
	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

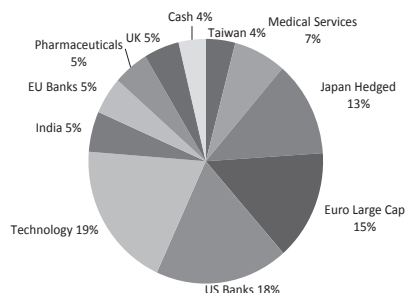
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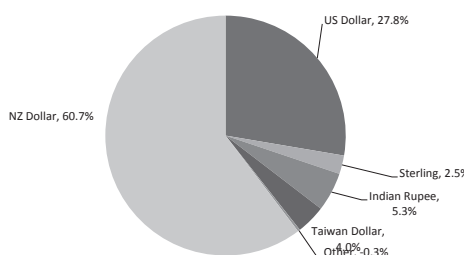


Global Themes Fund

Sector Allocation

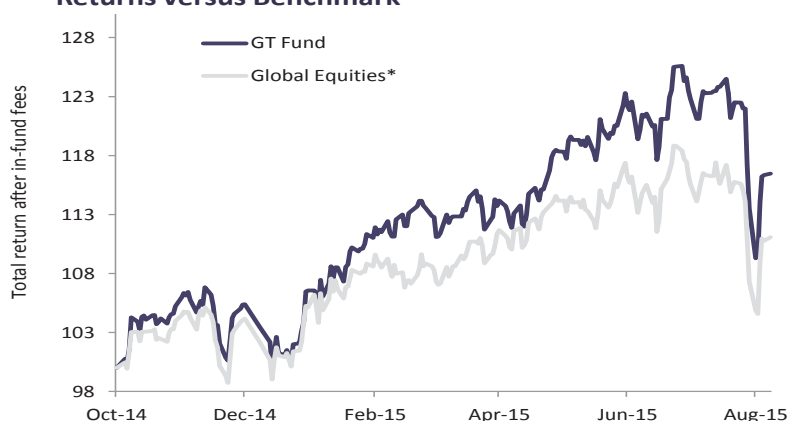


Currency Exposure



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 we own it

August saw markets hit by a China growth scare which late in the month had spread to developed markets. Our portfolio was buffeted largely in line with global price movements. Our European and Japanese investments were marked down for their perceived exposure to emerging markets. Taiwan, a significant trading partner of China, was sold down 8%. Unsurprisingly our defensive themes in the healthcare sector held up relatively well over the month, as did our technology holdings.

A month like August forces us to revisit the rationale for owning themes that the market is punishing. We believe our European and Japanese holdings are oversold. Japanese equities, for example, have around 10% revenue exposure to emerging markets. Japanese earnings should grow around 15 – 20% this year, even with weak demand growth from emerging economies. The Japanese market trades on 14 times earnings and remains easy for us to own. Taiwanese equities are a tougher proposition, with much greater exposure to China. But even here we are reluctant to react hastily: the market trades on 11 times earnings and pays a 4% yield, with some good underlying thematic: exposure to the "internet of things" and a beneficiary of lower oil prices.

Our Returns

The Global Themes Fund fell 5.5% in July to a unit price of \$2.3237. This compared with a 4.5% decline in global equity markets. The Fund has risen 16.5% since inception in October 2014, versus 11.1% in the I-Share All Country Exchange Traded Fund 50% hedged to NZD.

Our currency exposures

We remain happy fully hedging our exposure to Euro and Yen. Lift-off in US interest rates may be delayed until December, but we see the US "Dollar Bull" market as a powerful investment theme, particularly against currencies still engaging in Quantitative Easing, which both the Euro Area and Japan are. The NZD fell late in the month as global risk aversion spiked. We are targeting the low 60's as a possible area to further build our NZD hedge position, which currently sits at ~65%.