

## MARKET COMMENTARY

### Devon's presentation to the NZ Shareholders Association AGM:

This month Devon had the privilege of giving the opening presentation at the NZ Shareholders Association AGM. The NZSA has done great work both publically and behind the scenes in improving the capital markets for the benefit of all investors. Recently the NZSA was instrumental in ensuring a smooth transition of the chairmanship of Contact Energy from Phil Pryke to the highly respected Sir Ralph Norris. The NZSA has matured from its inception in 2001, under the very colourful but effective Bruce Sheppard (who used to turn up to AGM's in Viking Horns and other costumes), to be a well regarded financial markets participant under the stewardship of John Hawkins.

While a video of our full presentation can be found by following the link below, in summary it covered four areas:

The World Big Picture  
Investing in a Low Interest Rate World  
Closer to Home  
Corporate Governance Update

Touching briefly on some of the key points, we noted that while markets had been negative in the short term, that over longer periods the returns have been exceptionally, and in many ways...[Read More](#)

## MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P NZX50 Gross	NZ	-1.1%	6.4%
S&P ASX200	AU	-3.0%	-0.7%
MSCI World Index	GLOBAL	-3.5%	-0.2%
S&P500	USA	-2.5%	-0.6%
FTSE100	UK	-2.9%	-5.1%
NIKKEI 225	JP	-7.3%	9.4%
NZ 90 Day Bank Bill	NZ	0.3%	3.7%



AT A  
GLANCE

## UNIT PRICES

### DEVON ALPHA FUND

**\$1.4886**

### DEVON AUSTRALIAN FUND

**\$1.2369**

### DEVON DIVIDEND YIELD FUND

**\$1.6251**

### DEVON TRANS-TASMAN FUND

**\$3.2148**

### GLOBAL THEMES FUND

**\$2.2435**

Prices as at 30 September 2015

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### IN YOUR FUND

#### DEVON ALPHA FUND

Few changes were made to the portfolio during the month with the only transaction of note being the recent purchase of shares in Commonwealth Bank of Australia. This transaction occurred in conjunction with the company's capital raising post the Australian regulators determination on mortgage risk weights. Although the recent reporting season highlighted challenges with the sector achieving credible revenue growth we believe that recent share price weakness has now factored many of the top line and margin headwinds in. The market has recently shifted its focus away from capital to the sustainability of dividends. We will keep a very close eye on this but believe that current dividends can be maintained unless the Australian economic situation deteriorates markedly from here. The best performing stocks for this portfolio during the month included oOh!Media and Meridian Energy while the worst performers included our investments in Vista and Fletcher Building.

#### DEVON AUSTRALIAN FUND

September was another difficult month for Australian equities as the S&P/ASX 200 Accumulation index fell 3% (-4.8% in NZD). This was in part due to a significant correction in the Resources sector due to weakening commodity prices and continued soft macro data from China. The Devon Australian Fund fell 3.2% in NZD outperforming the S&P/ASX 200. On the positive side oOh!Media (+13.5%), Ardent Leisure (+8.5%) and Oil Search (+7.2%) added to Fund performance. Detractors included BHP Billiton (-9.4%), Westpac (-6%), Wesfarmers (-5.4%) and Rio Tinto (-4.9%). Positioning remains underweight the Resources and Banks sector. The Fund trimmed a position in Oil Search following the announcement of a script bid by Woodside while also initiating a position in Super Retail Group as the improved operating performance flagged at the recent full year result and recent share price weakness created an opportunity.

#### DEVON DIVIDEND YIELD FUND

The Dividend Yield Fund performed solidly over September, up 0.23%. It was another month of significant volatility, particularly across the Australian share market, and it was pleasing to see the Fund perform in a reasonably defensive manner, which is one of the aims we hope to achieve through the Fund's construction. Equity investment is an intrinsically unpredictable business but one of the theoretical attractions of high dividend yield investing is that it should steer investment towards businesses with more stable earnings. These businesses may also have more defensive valuations and that appears to have been the case over September. Highlights over the month included continuing strong performance from oOh!Media, which has followed on from its post-result bounce to rise another 13.5% over September, and further recovery of Trade Me. The latter company saw significant weakness in its stock price prior to its August result but the prospect of margin stabilisation over coming years has seen a solid recovery.

#### DEVON TRANS-TASMAN FUND

There were a number of minor changes made to this portfolio during the month. These transactions were typically representative of our investment process utilising the recent volatility in equity markets to build positions in stocks that are now being priced at discounts to our interpretations of fair value. Included amongst these were the purchases of shares in Fletcher Building and Meridian Energy. We also repositioned our Bank sector weightings in this strategy, replacing some of our exposure in Westpac with the Commonwealth Bank of Australia. Although we are conscious of certain operating challenges that continue to weigh on this industry we believe that after recent significant price weakness, the value proposition is now supportive of a higher weighting to this sector. The Commonwealth Bank also recently completed a large capital raising in response to changes in risk weightings by the Australian regulator which was a strategy that the portfolio was supportive of.



### QUARTERLY OUTLOOK

Whilst the Fed continues to send mixed messages to financial markets, physical activity levels are slowing in China led by property and construction (floor space started and under construction is at its lowest level for many years). There remains a view that the 2009 stimulus was excessive, and contributed to the debt build up and overcapacity issues facing China today. It is therefore uncertain to what extent the Chinese Government will step up fiscal stimulus to support the economy should it weaken further. Expectations for further depreciation of the CNY are strong which have led to a rapid increase in capital outflows. Whilst large FX reserves give policy-makers time to decide what to do, the risk premium for China is rising.

Lower commodity prices have hit the resources sector hard in Australia (down 16% over the last year) and we continue to avoid the sector. Not only is demand uncertain, but the supply response we would expect to see from lower prices is difficult to ascertain in a world with excess Chinese supply. Bank earnings growth has slowed (the dilution impact of recent capital raisings and the end of the lower bad debt cycle), however, we think Banks are fairly valued now and have adopted a more neutral position. It is not all bad news though. The lower AUD has provided a tailwind for companies with foreign sourced revenue helping the industrials sector rise 18% over the last year. We hold a number of businesses with foreign sourced earnings in the portfolios and expect that, even in a scenario where the AUD stabilises, these companies will provide robust earnings and cash flow growth over the medium term as a result of their strong business franchises.

In NZ the slow-down in economic growth (the secondary impacts of lower dairy prices and the Canterbury rebuild plateau are the largest factors) has been discounted quickly and equity prices are much improved. With interest rates low, the (often fully tax paid) dividend yield remains attractive compared to low (and taxed) term deposits. We are mindful of the usual over-zealous growth expectations from analysts (consensus earnings growth expectations are currently 9% which we think is too high), but the risk/reward equation for NZ equities is improving.



## MONTHLY REPORT

September 2015

### NET FUND RETURNS (AFTER ALL FEES) \*

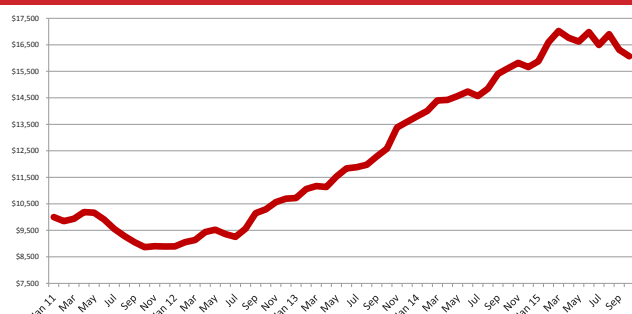
	1 Mth	3 Mth	6 Mth	1 Yr	3 Yr p.a
Devon Alpha Fund	-1.5%	-2.6%	-4.1%	2.9%	16.0%
Devon Australian Fund	-3.2%	-5.9%	-1.9%	3.9%	11.2%
Devon Dividend Yield Fund	0.2%	0.6%	-2.9%	10.8%	-
Devon Trans-Tasman Fund	-2.4%	-4.4%	-3.2%	4.4%	14.2%
Global Themes Fund	-3.5%	-6.4%	0.1%	-	-

### MARKET INDICES

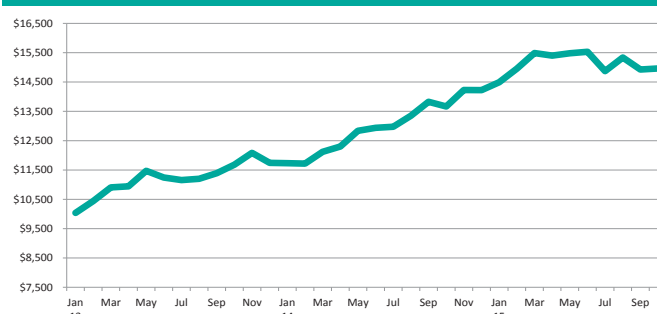
	1 Mth	3 Mth	6 Mth	1 Yr	3 Yr p.a
OCR	0.2%	0.7%	1.6%	3.4%	2.9%
S&P NZX50	-1.1%	-2.3%	-4.1%	6.4%	13.4%
S&P ASX200 (NZD)	-4.8%	-9.8%	-5.9%	-2.9%	4.7%
TT Index (Hedged)	-2.0%	-4.5%	-8.4%	2.9%	-
TT Index (Un-Hedged)	-3.0%	-6.0%	-5.0%	1.8%	9.0%
All Country World Index	-3.7%	-6.2%	-0.7%	-	-

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

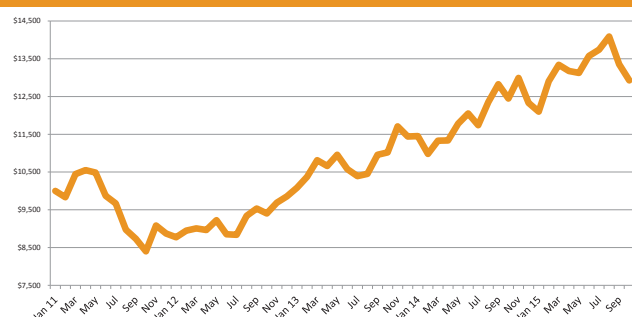
#### Devon Alpha Fund



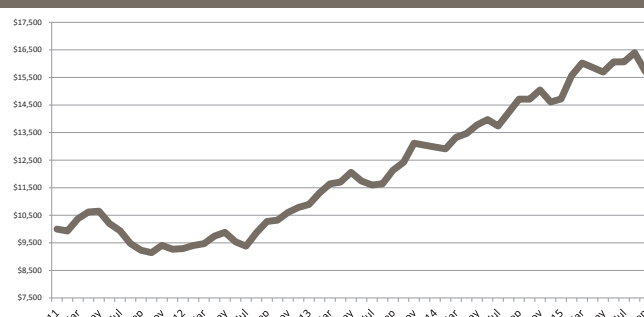
#### Devon Dividend Yield Fund\*



#### Devon Australian Fund



#### Devon Trans-Tasman Fund

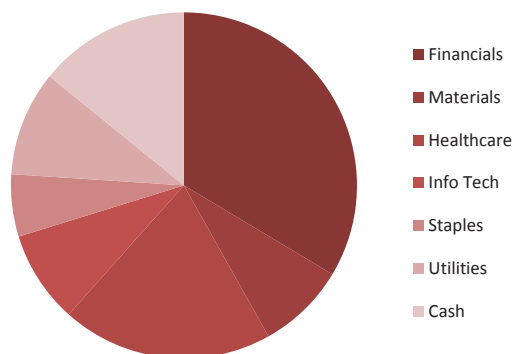


\*Past performance is not a reliable indicator of future returns.



### Devon Alpha Fund

#### Sector Allocation



#### Geographic Allocation

New Zealand Equities	37.7%
Australian Equities	48.2%
Cash	14.2%
	100.0%
Currency Hedge	96.2%

#### Top Companies

oh!media

Westfield



#### 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.

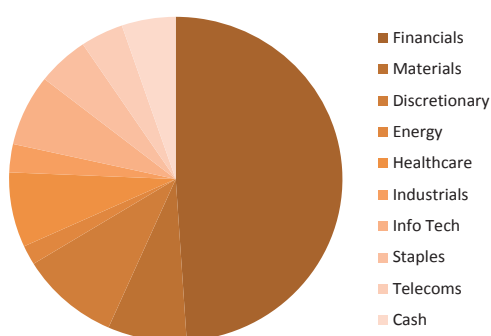
#### PORTFOLIO MANAGER - SLADE ROBERTSON

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	5.6%
Australian Equities	89.1%
Cash	5.2%
	100.0%
Currency Hedge	0.0%

#### Top Companies



ARDENT  
LEISURE

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.

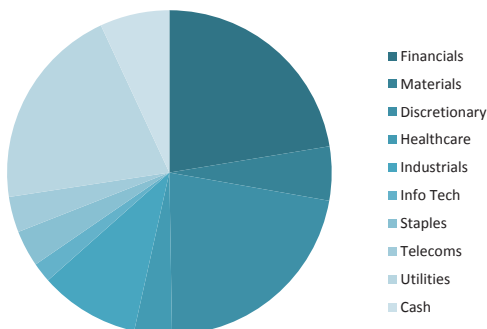
#### PORTFOLIO MANAGER - TAMA WILLIS

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	49.9%
Australian Equities	43.2%
Cash	6.9%
	100.0%
Currency Hedge	99.4%
Current YIELD	7.1%

#### 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.

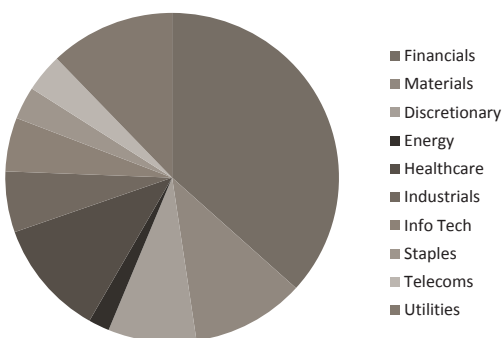
#### PORTFOLIO MANAGER - NICK DRAVITZKI

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	41.3%
Australian Equities	53.5%
Cash	5.2%
	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

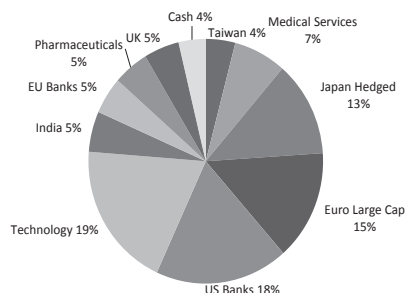
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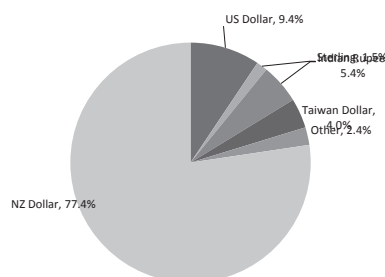


### Global Themes Fund

#### Sector Allocation

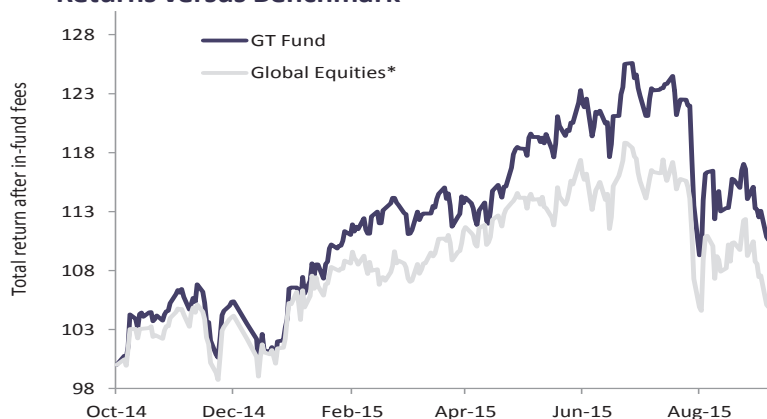


#### Currency Exposure



#### 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

September saw another month of volatile markets, with fears centred on China's slowing economy and the potential for this to impact global growth. A somewhat mixed message from the Federal Reserve on the path of monetary tightening did little to settle nerves.

The Fund saw a partial recovery in our emerging market exposures: India and Taiwan. Indian sentiment was boosted by a surprise 0.50% rate cut during the month. This highlights a difference between now and past emerging market sell-offs where countries were forced to raise interest rates to defend their currency pegs.

Elsewhere, Japan and Europe were sold-off on fairly limited new information. Yes, a Chinese slowdown hurts these economies, but investors have overpriced the impact in our opinion. Even a small improvement in Chinese economic data could see a fairly powerful rebound in these two markets.

Our US Banks were resilient through a volatile month – we like what we are seeing in the US economy and expect a recovery in loan growth and margins to reward patience with this theme.

#### Our Returns

The Global Themes Fund fell 3.5% in September to a unit price of \$2.2435. This compared with a 3.8% decline in global equity markets. The Fund has risen 12.4% since inception in October 2014, versus 6.9% in the I-Share All Country Exchange Traded Fund 50% hedged to NZD.

#### Our currency exposures

We remain happy fully hedging the Fund's exposure to Euro and Yen. We may see further policy easing from the Bank of Japan this month which would support our stance of not taking any exposure to the Yen. Finally, we have further built our NZD hedge to a target level of around ~75%. We are increasingly of the view that the NZD at these levels represents good medium term value. Yes, the Kiwi may fall further before it rises, but the potential downside from here looks balanced against the possibility of surprise rebound. Two things we are watching in this regard: 1. whether the gains in dairy prices stick, and 2. The impact of the latest measures aimed at cooling the NZ/Auckland housing market.