

MARKET COMMENTARY

Picking Petals at the Fed

"She loves me, she loves me not" has been the question that has dominated financial markets over recent months. The "she" of course is the Chairman of the Federal Reserve Janet Yellen. And the "love" at issue is whether or not she and the Fed will continue to provide the world with very, very cheap money. There were many in financial markets who expected the Fed to move rates up in their meeting in September as they had explicitly stated they would continue to be "guided by data" and the data (particularly employment creation in the US) remained strong. However concerns around global markets, which had sold off sharply over August, stayed their hand. Attention has now moved to focus on the December meeting where again market expectations are balanced.

Any Federal Reserve utterance on interest rates is always immensely important to financial markets because it determines the price of the globe's reserve currency. But, because of the very sustained period of extremely loose monetary policy that almost all central banks around the world have been engaged in over recent years, the current discussions around the Federal Funds rate have assumed an even greater degree of importance than usual. The question at stake is whether the monetary policy that has been in place since the Global Financial Crisis has reached its natural conclusion. While it is interesting to remind ourselves that the Fed lowered its target funds rate to 0% in December 2008, it is truly striking to reflect that Fed has not lifted interest rates since December 2006 – very nearly 9 years ago!

The strongest reason to suggest that the Fed would raise rates is...[Read More](#)

MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P NZX50 Gross	NZ	7.0%	11.1%
S&P ASX200	AU	4.4%	-0.7%
MSCI World Index	GLOBAL	7.9%	6.4%
S&P500	USA	8.4%	5.2%
FTSE100	UK	5.2%	0.8%
NIKKEI 225	JP	9.8%	18.3%
NZ 90 Day Bank Bill	NZ	0.2%	3.5%



AT A
GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.5215

DEVON AUSTRALIAN FUND

\$1.2235

DEVON DIVIDEND YIELD FUND

\$1.6979

DEVON TRANS-TASMAN FUND

\$3.2557

GLOBAL THEMES FUND

\$2.3593

Prices as at 31 October 2015

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IN YOUR FUND

DEVON ALPHA FUND

The Alpha Fund generated solid absolute performance during October. Strong positive contributions were made from our investments in Estia Health, oOh!media and Fletcher Building while Woolworths weighed on performance after issuing poor earnings guidance. With equity markets rallying during the month a number of our companies saw their share prices appreciate towards our internal valuation levels. In response to this we sold down a number of stocks including Scentre Group and Commonwealth Bank. This resulted in the cash weighting rising back above 30%, although with market volatility remaining elevated we would anticipate that opportunities to reinvest this capital should present themselves over the next few months. As highlighted above, Estia Health was a particularly strong performer generating a return over the month of almost 10%. This was achieved after the company announced that they had acquired 4 new aged care facilities to support their growth ambitions.

DEVON AUSTRALIAN FUND

The S&P ASX200 rose 4.4% in local currency terms but due to strength in the NZD/AUD cross rate the index rose only 0.25% in NZD terms. The Fund rose 0.87% in NZD terms, outperforming the index. IAG (+15.9%), Macquarie (+11.8%), Estia (+9.8%) and oOh!media (+8%) added to Fund performance. An underweight position in ANZ also helped relative performance over the month as the group reported FY15 earnings that underwhelmed in part due to rising bad debts in the Asian business which present an ongoing risk to ANZ earnings as the CEO transition occurs. Over the month, the Fund initiated a position in Link Group at IPO. Link is the largest provider of services to Australia's superannuation fund administration industry, which services the world's fourth largest pension industry based on FUM, and has significant scope to grow earnings as it integrates the recent Superpartners acquisition.

DEVON DIVIDEND YIELD FUND

The Dividend Yield Fund rose strongly over October, up 5.7%. The Fund's performance was driven by strength in underlying markets which bounced back strongly over the months but it was pleasing to see the Fund return slightly more than the benchmark. One of the main contributors was Insurance Australia Group (IAG) which rose 15.9%. IAG is a very high quality business, being the largest general insurer in Australasia (in New Zealand, where it operates the brand names NZI, State and AMI, it has more than 60% of the personal lines market) but its share price saw significant weakness post its August result. The apparent cause was a suggestion by the soon-to-depart CEO that the company was looking at making a significant investment in China. The reversal of that strategy following the appointment of a new CEO in October saw the share price bounce. The only negative contributor in absolute terms over the month was Sky Television which gave disappointing profit guidance at its Annual General Meeting.

DEVON TRANS-TASMAN FUND

The Trans-Tasman Fund performed broadly in line with its benchmark over the month and delivered good absolute positive returns. There were a large number of favorable contributors to this result including Fletcher Building and oOh!media although the most significant outcomes came from Macquarie Group which rallied 11.0% and Spark, which finished the month up almost 13%. Investors were encouraged by the release of Macquarie's 1H16 result in which they reported a profit lift of 58%, driven by robust revenue growth and meaningful improvement in their cost base and efficiencies. Spark hosted a strategy day for analysts and investors in which management highlighted their objectives around growth and margins and re-affirmed FY16 earnings guidance and their dividend policy. The most significant change was the purchase of shares in the IPO of Link Group. This business is one of Australia's largest providers of service in superannuation fund administration.



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

October 2015

NET FUND RETURNS (AFTER ALL FEES) *

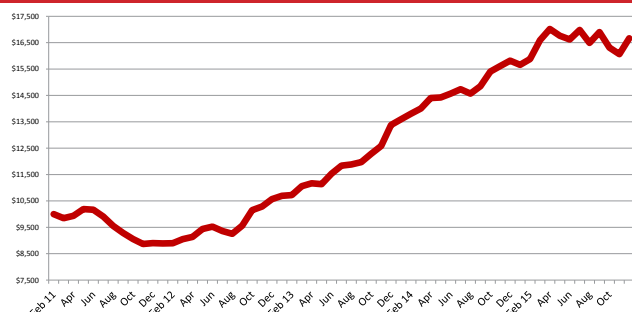
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	3.7%	-1.4%	5.4%	16.4%	11.1%
Devon Australian Fund	0.9%	-7.5%	0.4%	10.4%	6.3%
Devon Dividend Yield Fund	5.7%	3.2%	12.6%	-	-
Devon Trans-Tasman Fund	3.3%	-3.3%	5.4%	14.4%	10.0%
Global Themes Fund	5.2%	-4.1%	13.4%	-	-

MARKET INDICES

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
OCR	0.2%	0.7%	3.3%	2.9%	2.8%
S&P NZX50	7.0%	1.1%	11.1%	14.8%	12.6%
S&P ASX200 (NZD)	0.2%	-10.9%	-7.4%	3.5%	3.0%
TT Index (Hedged)	5.7%	-2.8%	5.2%	-	-
TT Index (Un-Hedged)	3.6%	-4.9%	1.9%	9.1%	7.8%
All Country World Index (50% Hedged)	4.7%	-3.8%	8.7%	-	-

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

Devon Alpha Fund

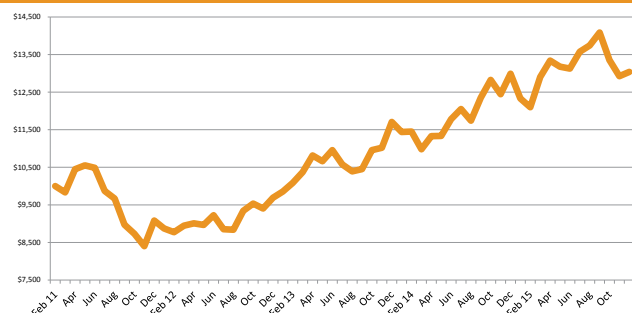


Devon Dividend Yield Fund*

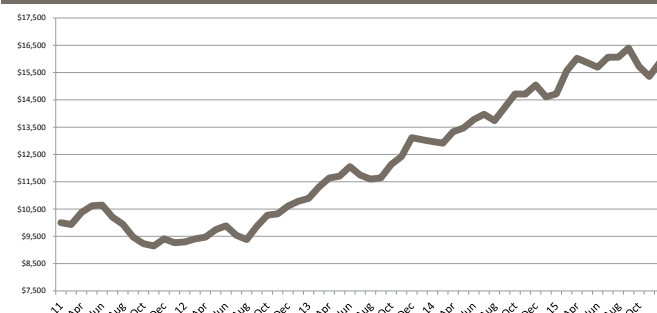


*Fund commenced on 20 December 2012

Devon Australian Fund



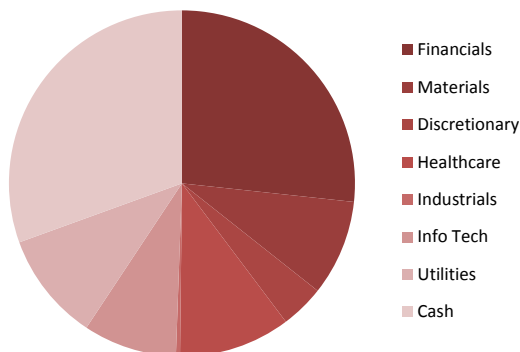
Devon Trans-Tasman Fund



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

Devon Alpha Fund

Sector Allocation



Geographic Allocation

New Zealand Equities	39.0%
Australian Equities	30.5%
Cash	30.5%
	100.0%
Currency Hedge	98.5%

Top Companies



meridian

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.

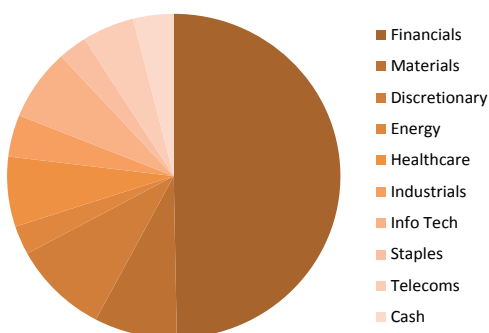
PORTFOLIO MANAGER - SLADE ROBERTSON

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	90.4%
Cash	3.9%
	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.

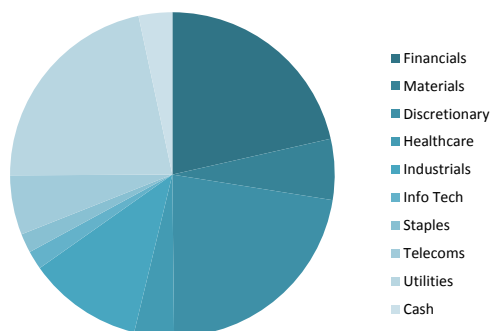
PORTFOLIO MANAGER - TAMA WILLIS

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	55.3%
Australian Equities	41.4%
Cash	3.4%
	100.0%
Currency Hedge	98.2%
Yield	6.8%

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.

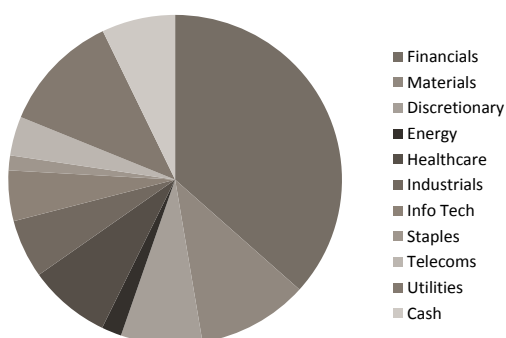
PORTFOLIO MANAGER - NICK DRAVITZKI

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	42.2%
Australian Equities	50.7%
Cash	7.1%
	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

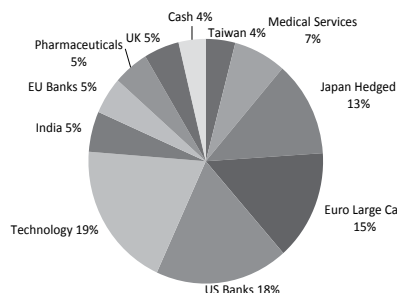
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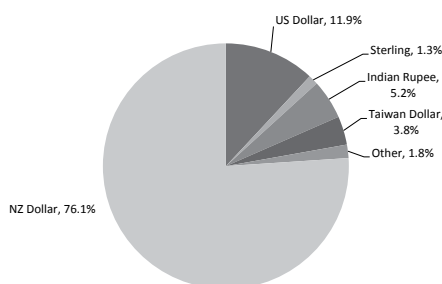


Global Themes Fund

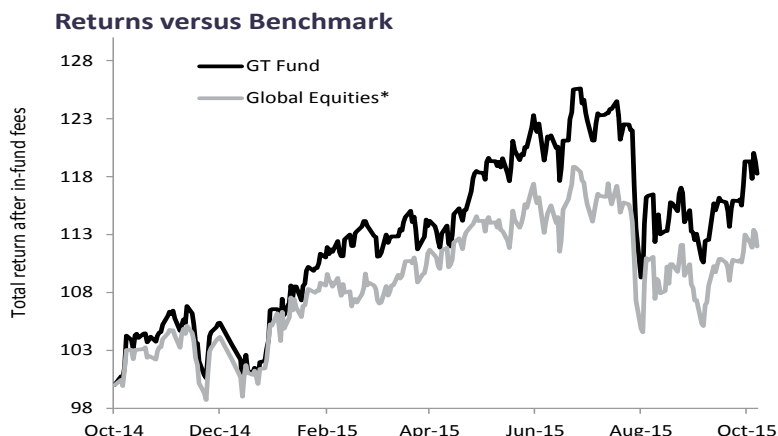
Sector Allocation



Currency Exposure



Net Performance Since Inception



* 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

Markets were more settled in October with fears of an imminent emerging market crisis easing somewhat.

We spent time in Asia during the month, deep-diving the themes we own currently and exploring the potential for new investments. We were generally pleased with what we heard in our discussions on India, where confidence in the path of reform remains high.

Elsewhere, the greater China investment universe remains complex, with low visibility around the critical SOE reform plan. However near term Chinese growth looks set to stabilise, thanks to liquidity injections from the Central Bank and an easing in anti-corruption measures. Our Taiwanese theme is running into political uncertainty, with a contentious election set for January. This is something we are monitoring closely. Finally, we like what we heard on Japan, with positive feedback around the corporate sector's reform drive.

Outside of Asia, a feature of the month was some exceptional returns from the tech sector, driven by a strong earnings season. We continue to see the technology theme as a cornerstone of our portfolio.

Our financial sector holdings were lag-gards during the month, in both Europe and the US. A mixed tone of US economic data since June has held back this theme. If economic newsflow improves as we expect, then returns from financials should enjoy some catch-up.

Our Returns

The Global Themes Fund rose 5.2% in October. This compared with a 4.7% increase in global equity markets. The Fund has risen 18.4% since inception in October 2014, versus 12.0% for the index.

Our currency exposures

Our NZD hedge remains at ~75%, which provided useful protection against the NZD's ~6% increase over the month. From here, further NZD strength would tempt us to reduce our hedge position. We remain committed to our stance of hedging our exposures in Europe and Japan. This was reinforced by the European Central Bank's recent hint at an expansion of Quantitative Easing, which saw a sharp drop in the Euro ensue.