Devon

FUNDS MANAGEMENT

MONTHLY REPORT

Keeping you up to date with Devon Funds and the markets

November 2015

MARKET COMMENTARY

A fascinating time for stock investment

The current environment for stock investment is a fascinating one. We're now 7-years on from the Global Financial Crisis (GFC) and since that time we have had to adapt our investment framework to consider a world where inflation is largely non-existent, interest rates have been set by the major central banks at effectively zero and an unprecedented amount of money has been printed. The implication of these conditions on the pricing of many asset classes has been obvious. Due to the historically low cost-of-capital, conditions have been extremely accommodative for most asset classes, but especially house prices and equities. But here we sit today waiting and wondering, along with the rest of the world, as to what will happen when this major lever of support, interest rates, begin their adjustment back in the other direction.

It is largely expected that the Federal Reserve will lift their overnight cash rate, from effectively zero, at their next meeting in December. Financial market participants are well aware that this is likely to occur and in most economic realms view this step towards normalising monetary conditions as not just acceptable but necessary. Free money, which often leads to asset bubbles, may be financially rewarding in the short term but can be hazardous to long term wealth creation. At this stage very few are forecasting a material lift in interest rates as global growth rates remain below long term trend and inflation is structurally low. The global debt situation is now almost the exact opposite of what we saw before the GFC, with governments now being highly indebted and businesses typically conservatively geared.

Despite the cautionary mood out there markets continue to…Read More

MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P NZX50 Gross	NZ	1.9%	12.5%
S&P ASX200	AU	-0.7%	1.9%
MSCI World Index	GLOBAL	0.7%	4.1%
S&P500	USA	0.3%	2.8%
FTSE100	UK	0.3%	-1.9%
NIKKEI 225	JP	3.5%	15.1%
NZ 90 Day Bank Bill	NZ	0.2%	3.5%

AT A GLANCE

UNIT PRICES

DEVON ALPHA FUND
$1.5505

DEVON AUSTRALIAN FUND
$1.2999

DEVON DIVIDEND YIELD FUND
$1.7386

DEVON TRANS-TASMAN FUND
$3.3715

GLOBAL THEMES FUND
$2.4313

Prices as at 30 November 2015

IN THIS REPORT

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IN YOUR FUND

DEVON ALPHA FUND

The Alpha Fund generated a positive absolute return during the month. This performance was principally led by the significant value appreciation of our investments in oOh!Media and Vista Group. Strong investor support for oOh!Media occurred after the company announced that they had acquired Inlink Group, the largest operator of Digital Out Of Home media across Australia's major central business districts. The proposed acquisition is expected to be immediately earnings accretive and accompanied another announcement by management that their expected FY15 profit for the Group would be materially higher than expected. Partially offsetting this positive news for the portfolio was the disappointing revelation by Tower Limited that they had increased their provisioning for the Canterbury earthquakes. The cash weighting for Alpha remains at close to 40% and reflects our view that although we expect markets to track higher over the next year, a patient approach to stock selection is warranted.

DEVON AUSTRALIAN FUND

The Devon Australian Fund rose 6.2% in NZD over the month, outperforming the S&P ASX200 (+3.6% in NZD terms). A number of Fund holdings delivered positive performance including PWR Holdings (+78%), oOh!media (+25%) and Touchcorp (+17%). PWR listed on the ASX in November and is involved in the design and production of customised cooling solutions for motorsports including teams associated with F1, NASCAR, V8 Supercars and World Rally Championship where the growth outlook looks favourable. The Fund also added GUD Holdings to the portfolio following share price weakness in recent months. GUD operates in the manufacture and importation of consumer and industrial goods. Following the acquisition of BWI earlier in 2015 GUD derives over 60% of EBIT from the distribution of key auto brands like Ryco, Narva and Projecta brands.

DEVON DIVIDEND YIELD FUND

The Dividend Yield Fund performed well over November, up 2.4%, comfortably outperforming its benchmark. The stand out performer was oOh!Media – the company's share price was up 25% over the month. oOh! has been in the Dividend Yield Fund since its listing late in 2014. Our investment thesis was that the company, which operates in the out-of-home (hence oOH!) media sphere, would benefit from two important developments. Firstly, the market was seeing a re-allocation of existing media spend away from traditional, but challenged, media formats (principally television and print) towards out-of-home. Secondly, oOh! was early in the process of converting static outdoor and retail billboards to digital, thus creating more inventory. The compelling mix of a market with rising demand and oOh!'s ability to flexibly provide supply suggested the company would be able to generate very strong earnings growth. This has proven to be the case and has been reflected in oOh!'s share price more than doubling since listing.

DEVON TRANS-TASMAN FUND

The Trans-Tasman portfolio delivered solid absolute performance during November and also outperformed its underlying equity benchmarks. There were a number of important contributors to this including Isentia Group, CSL and Ramsay Health Care. Ramsay finished the month up over 8% after management confirmed at the company's AGM that given the supportive industry fundamentals and execution of strategy, they are on track to achieve Core EPS growth of 12% to 14%. The most significant changes that were made to the portfolio included the sale of shares held in Ardent Leisure and the purchase of stock in National Australia Bank. Although we believe that a number of medium-term challenges exist for the Australian banking sector we believe that following the demerger and IPO of Clydesdale Bank in 2016 the majority of National Australia Bank's legacy issues will have been resolved in support of value.

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 policymakers 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.

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Devon FUNDS MANAGEMENT

MONTHLY REPORT November 2015

NET FUND RETURNS (AFTER ALL FEES)*

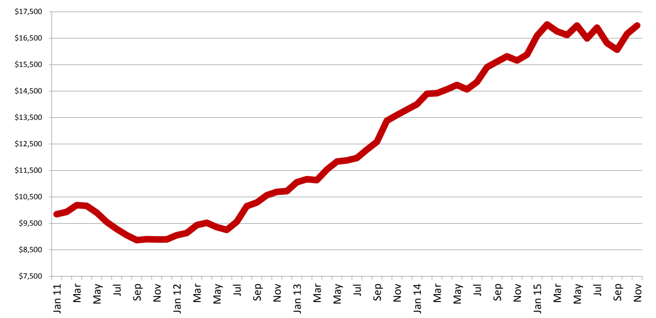
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	1.9%	4.1%	8.5%	16.7%	11.9%
Devon Australian Fund	6.2%	3.7%	12.3%	12.0%	7.8%
Devon Dividend Yield Fund	2.4%	8.5%	15.3%	-	-
Devon Trans-Tasman Fund	3.6%	4.4%	12.4%	15.1%	11.2%
Global Themes Fund	3.1%	4.6%	15.2%	-	-

MARKET INDICES

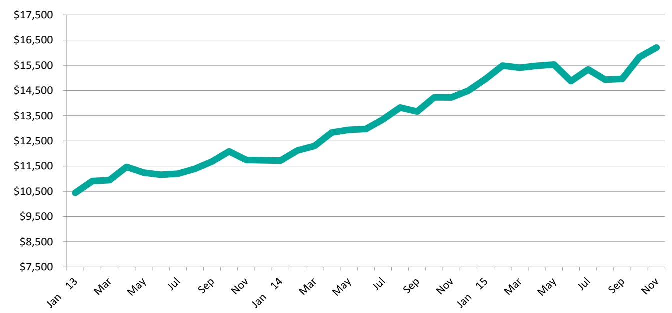
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
OCR	0.2%	0.7%	3.2%	2.9%	2.8%
S&P NZX50	1.9%	7.8%	12.5%	14.6%	13.3%
S&P ASX200 (NZD)	3.6%	-1.2%	3.1%	4.3%	3.8%
TT Index (Hedged)	0.6%	4.2%	7.2%	-	-
TT Index (Un-Hedged)	2.7%	3.3%	7.8%	9.4%	8.6%
All Country World Index (50% Hedged)	1.0%	1.9%	8.5%	-	-

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

Devon Alpha Fund

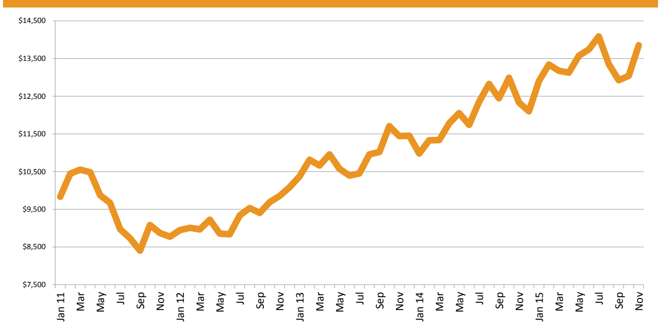


Devon Dividend Yield Fund*

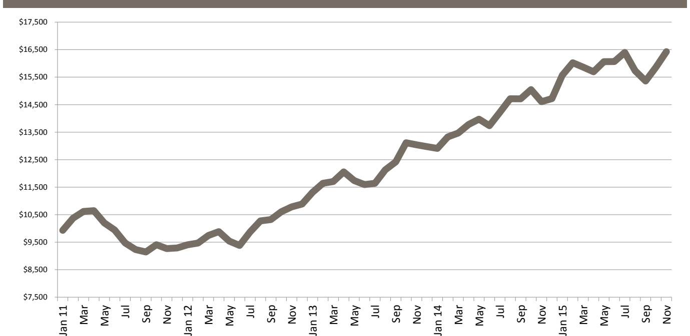


*Fund commenced on 20 December 2012

Devon Australian Fund



Devon Trans-Tasman Fund



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

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Devon FUNDS MANAGEMENT

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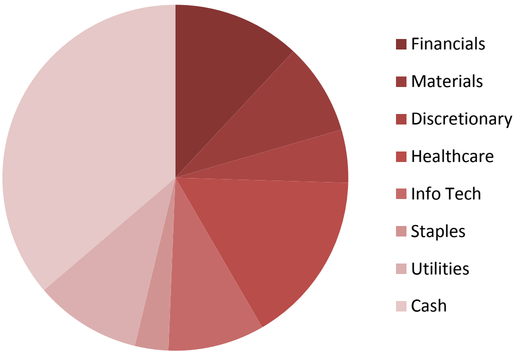
Devon Alpha Fund

Sector Allocation



Top Companies

CSL

VISTA GROUP

Westfield

Geographic Allocation

New Zealand Equities	37.5%
Australian Equities	26.2%
Cash	36.3%
	100.0%
Currency Hedge	48.9%

FUND OUTLINE

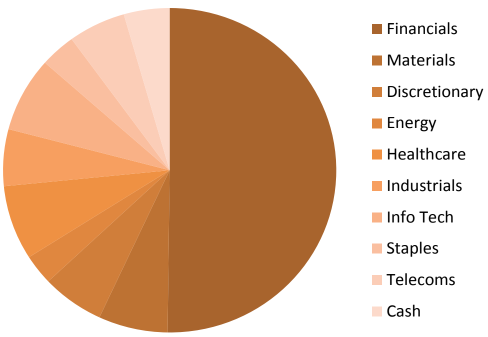
The Alpha Fund invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets. The Fund does not follow any index and is actively managed. The Fund aims to generate capital growth over the long term. Currency exposure is actively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

PORTFOLIO MANAGER - SLADE ROBERTSON

Slade has a long and succesful 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 opportunites for his clients.

Devon Australian Fund

Sector Allocation



Top Companies

Westfield

VISTA GROUP

oOh!media

Geographic Allocation

Dual Listed	6.0%
Australian Equities	89.6%
Cash	4.4%
	100.0%
Currency Hedge	0.0%

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.

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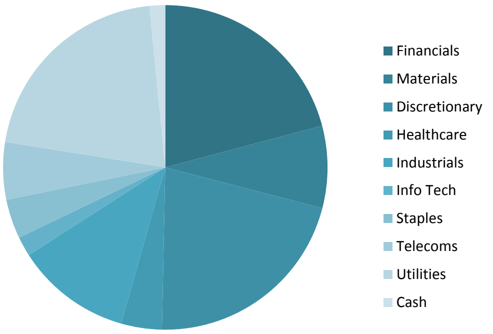
Devon Dividend Yield Fund

Sector Allocation



Top Companies

FletcherBuilding

trade me Where Kiwis Buy and Sell

oh!media

Geographic Allocation

New Zealand Equities	57.9%
Australian Equities	40.6%
Cash	1.6%
	100.0%
Currency Hedge	101.2%
Yield	6.6%

FUND OUTLINE

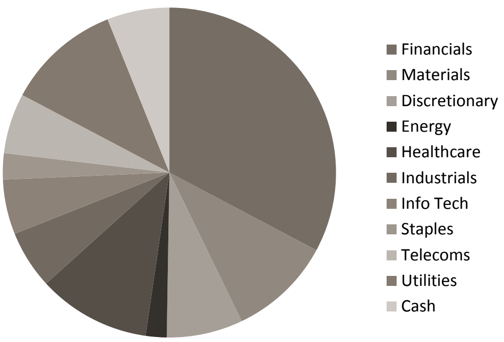
The Devon Equity Income Fund consists of a select group of up to 25 New Zealand and Australian listed companies. These stocks are chosen for their attractive dividend yields and growth prospects with the aim of maintaining the dividend yield and capital value in real terms. The Australian dollar currency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



Top Companies

National Australia Bank

meridian

oh!media

Geographic Allocation

New Zealand Equities	40.1%
Australian Equities	53.9%
Cash	6.0%
	100.0%
Currency Hedge	0.0%

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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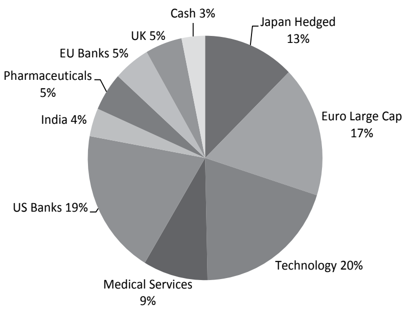
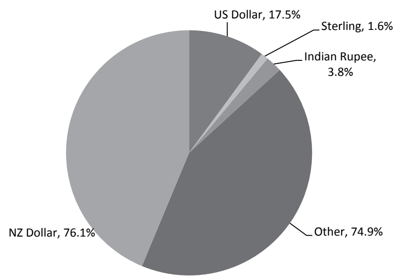
Global Themes Fund

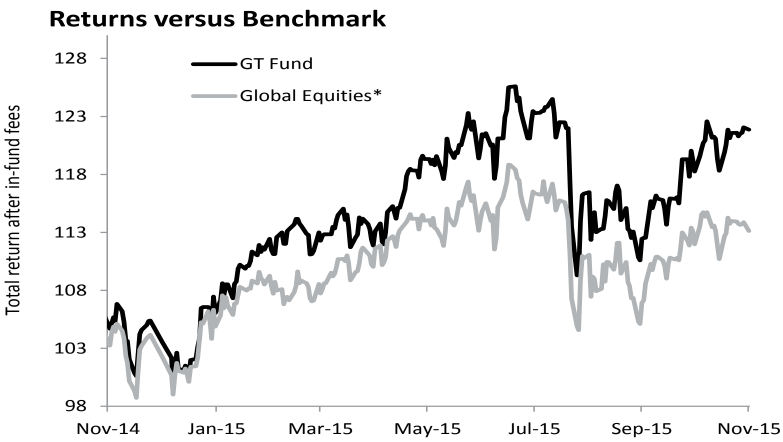
Sector Allocation



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 predominently 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 INFINZ 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

November saw markets treading water, consolidating on October's rebound. It was an active month for the Fund, exiting our Taiwanese holding and reducing our exposure to India. We used these funds to build up our exposure to Medical Devices and Europe.

Our decision to exit Taiwan reflected three factors: 1. the economy was not performing as well as we hoped in 2015; 2. the country faces a highly uncertain election in 2016; and 3. our attitude to Emerging Markets has hardened somewhat ahead of an upcoming Fed tightening cycle. We retain a holding in India, but have reduced our exposure to reflect the BJP's disappointing performance in the Bihar state elections.

Adding to medical devices and Europe is part of our ongoing project of "future proofing" the Fund against a maturing US business cycle. Both of these themes should be resilient in the face of higher US interest rates. In the same vein, the holdings in US Banks had a particularly strong month (~+6%), and look well positioned ahead of the Federal Reserve rate hike pencilled for December 16. The Banks should enjoy a stronger margin environment as interest rates move away from the zero lower bound. However we will be watching loan growth carefully in 2016, as this is another important plank of the US Bank investment case.

Our Returns

The Global Themes Fund rose 3.0% in November compared with a 1.0% increase in our global equity benchmark. The Fund has risen 21.9% since inception in October 2014, versus 13.1% in the I-Share All Country Exchange Traded Fund 50% hedged to NZD.

Our currency exposures

The NZD hedge remains at ~75%, which proved to be a modest drag over the month as the Kiwi eased back from recent highs. It is possible the NZD drifts lower in the face of Fed rate hikes. However it is likely we would use this as an opportunity to further boost our hedge. Medium term, we see NZD/USD pricing in the low 60's or high 50's as an attractive entry point for hedging.

Outside of the NZD, our decision to stay fully hedged against the Euro has been vindicated thus far by Mario Draghi's apparent commitment to further easing measures. The Euro continues to creep toward parity against the USD, a barrier we expect to be breached.

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