

MONTHLY REPORT

Keeping you up to date with Devon Funds and the markets

February 2016

MARKET COMMENTARY

New Look Monthly Newsletter!

Welcome to our new and improved monthly report. In this report you will find detailed updates relevant to each of the Devon Retail Funds. We have taken client feedback onboard and, although much of the content remains the same, we have tried to ensure a much more user-friendly format. We trust you will find it an interesting and substantial read.

Another exciting point to note, is that the Alpha Fund has been re-opened for all new applications for a short period of time. The Portfolio Manager has decided that due to market growth, there is room for limited further intakes. For more information, please contact us directly.

Looking beyond the Macro: The Reporting Season in Review

Global equity markets have started this year in a truly volatile fashion. A range of factors have impacted investor sentiment including concerns over Chinese growth, commodity price deflation and a continuation of the extraordinary monetary policies that

have defined life in the post-GFC era. This past month though local stocks have had the chance to step out from under the macro cloud and provide insights into how their businesses are travelling by releasing their profit results. This is also an important time for company executives to update investors on the opportunities and challenges their businesses face going forward.

Throughout last year, local analysts revised their company earnings forecasts lower on account of concerns around domestic economic growth and the uncertainty being created by the volatility in offshore markets. Despite this negative momentum, the verdict across New Zealand and Australia on the past month's reporting season is that overall results were better than had been expected. It is hard to draw sector based conclusions on the New Zealand market given it's lack of size but we can identify some important trends from Australia. This is a market which has significantly underperformed the NZX over the past 5-years but encouragingly current earnings momentum looks to have held up reasonably well, especially across the...[Read more](#)

MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P NZX50 Gross	NZ	1.0%	6.0%
S&P ASX200	AU	-1.8%	-13.7%
MSCI World Index	GLOBAL	-0.7%	-10.5%
S&P500	USA	-0.1%	-6.2%
FTSE100	UK	0.8%	-8.7%
NIKKEI 225	JP	-8.5%	-13.2%
NZ 90 Day Bank Bill	NZ	0.2%	3.3%



AT A
GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.4874

DEVON AUSTRALIAN FUND

\$1.2093

DEVON DIVIDEND YIELD FUND

\$1.7172

DEVON DIVERSIFIED INCOME FUND

\$1.5055

DEVON TRANS-TASMAN FUND

\$3.2276

GLOBAL THEMES FUND

\$2.0703

Prices as at 29 February 2016

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DEVON ALPHA FUND

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, is actively managed and aims to generate capital growth over the long term. Currency exposure is actively managed.

DEVON ALPHA FUND

We went into this year with a large cash weighting after selling a number of shares in late 2015 which had reached our internal valuation assessments and after taking an increasingly conservative view on the investing environment.

This view proved to be correct but unfortunately a couple of the small-cap stocks that we retained in the Fund suffered during the recent market volatility. These include Vista Group, which is a business that we still have an enormous level of confidence in but whose shares have fallen almost 20% this year, in part due to concerns over management shares coming off escrow. Despite this we were impressed with the company's FY15 result and expect strong growth over the next few years from all of their cinema divisions.

There were a number of changes made in this strategy last month including the sale of shares in Estia and the purchase of stock in Healthscope and Macquarie Group after its recent price weakness. We have taken advantage of market volatility to increase our holdings of selected stocks.

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.

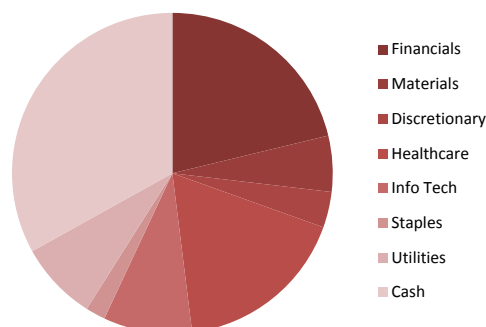
KEY HOLDINGS

Westfield

oh!media



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	32.3%
Australian Equities	34.6%
Cash	33.1%
	100.0%
Currency Hedge	32.3%

PERFORMANCE

As at 29/02/16

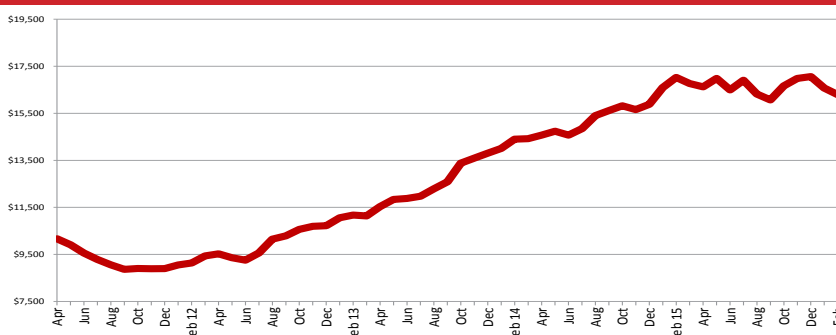
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	-1.7%	-4.1%	-4.3%	13.4%	10.4%
OCR	0.2%	0.6%	3.0%	2.9%	2.8%

Devon Alpha Fund returns are after all fees and expenses, but before tax which varies by investor.

NET PERFORMANCE

Based on \$10,000 invested at 1 January 2011

Devon Alpha Fund





DEVON AUSTRALIAN FUND

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 of this Fund is typically unhedged.

DEVON AUSTRALIAN FUND

The S&P ASX200 Accumulation index fell 1.8% (-2.7% in NZD) over the month while the Devon Australian Fund fell 4.5% in NZD, underperforming the S&P ASX200. A strong performance from the Materials sector impacted relative performance over the month after a long period of weak outcomes.

While Chinese macro data remains subdued large mining companies like Rio Tinto are cutting costs, reducing dividends and preserving balance sheets. Vista Group (-10%) and Ooh!Media (-9%) were also weak but both delivered strong results and prospects remain good. Vista reported a solid 2015 result with growth across all divisions. While contributing less than 15% of group revenue in 2015, the Movio division ended the year with a database of 81 million movie goers, which we believe will be monetised in the future.

During the month Movio signed an agreement with Sony Pictures to utilise Movio Media cinema marketing solutions platform and there remains scope to sign more Studios during 2016.

PORTFOLIO MANAGER

Tama Willis

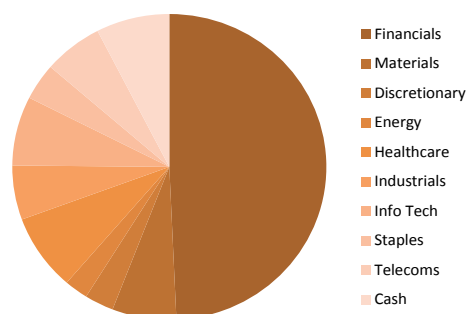


A 14-year veteran of international investment markets, Tama returned to NZ after a very successful career in London and Singapore to join Devon's investment team and holds responsibility for Devon's Australian Fund. Tama is widely regarded as a leading expert on resource and mining stocks.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

Dual Listed	4.9%
Australian Equities	87.5%
Cash	7.6%
	100.0%
Currency Hedge	0.0%

PERFORMANCE

As at 29/02/16

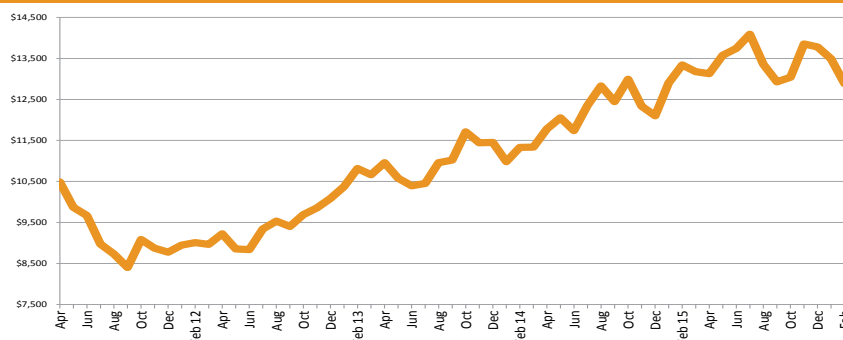
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	-4.5%	-7.0%	-3.4%	6.0%	4.3%
ASX200 Index Gross (NZD)	-2.7%	-6.0%	-9.7%	-1.4%	0.3%

Devon Australian Fund returns are after all fees and expenses, but before tax which varies by investor.

NET PERFORMANCE

Based on \$10,000 invested at 1 January 2011

Devon Australian Fund





DEVON DIVERSIFIED INCOME FUND

FUND OUTLINE

The Devon Diversified Income Fund ("the Fund") aims to give New Zealanders access to a diverse and good quality portfolio of high yielding investments.

The Fund aims to generate better-than-bank income rates by investing in a carefully selected portfolio of government and corporate bonds, cash, listed property, infrastructure, utility companies, high yielding equities, credit securities and other yielding financial assets.

FUND UPDATE

It has now been two months since we launched this strategy and we are very pleased with the way in which the portfolio construction process is working and with the assets that we have acquired to date.

The current asset allocation results in a 25% exposure to the Devon Dividend Yield Fund with the balance invested into a mix of New Zealand Fixed Interest and cash. During the month we saw global government bonds rally on concerns over economic growth and central banks pursuing additional stimulus measures. The experience in New Zealand was similar including an expansion in credit spreads, reflecting a contraction in risk appetite.

Since the strategy's launch we have invested into a range of bank debt and are reviewing a number of interesting corporate bonds.

AT A GLANCE

Targeted Portfolio Yield	5.5%
Commenced	January 2016
Total strategy	New Fund
Distributions	Target distributions of 1.5 cents per unit after tax paid quarterly

PORTFOLIO MANAGER

Slade Robertson



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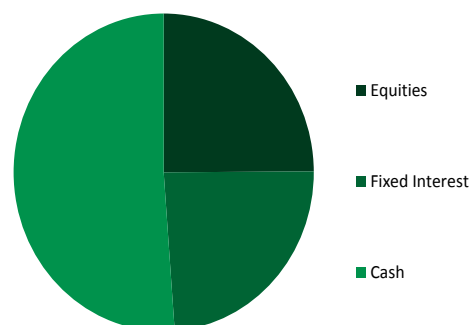
KEY HOLDINGS



GROWTH

NZ Equities	13.9%
AU Equities	8.9%

ASSET ALLOCATION



DEFENSIVE

Cash	2.1%
NZ Corporate Bonds	23.9%
NZ Government Bonds	0.0%
Currency Hedge	100.0%

PERFORMANCE

As at 29/02/16

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Diversified Income Fund	0.1%	N/A	N/A	N/A	N/A
OCR +1.5%	0.3%	N/A	N/A	N/A	N/A

Devon Diversified Income Fund returns are after all fees and expenses, but before tax which varies by investor. Inception date for the Fund is 1 January 2016.



DEVON DIVIDEND YIELD FUND

FUND OUTLINE

The Devon Dividend Yield 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.

FUND UPDATE

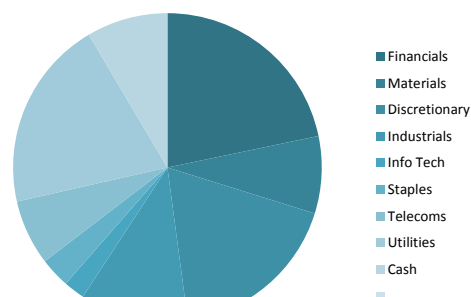
The Dividend Yield Fund declined in absolute terms over February by 1.4%, underperforming its benchmark by 1%. The Fund's performance over the month was hurt by one stock in particular: Wellard (WLD), a recently listed Australian exporter of live cattle. The company has attractive growth prospects into Asia and the IPO contributed to funding additional capacity that will allow them to increase volumes by more than 35%. Since listing the company has experienced a run of problems – 2 of its existing fleet have suffered mechanical failure that has necessitated removing them from service for repairs, and a large ship that was due to begin service in early April has been delayed by 3 weeks.

Consequently WLD has downgraded 2016 June year end earnings by 8.4%. The market response has been savage – the stock fell 27% over the month. At current levels WLD presents attractive value but future positive share price performance depends upon it materially improving its operating performance.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	55.8%
Australian Equities	35.7%
Cash	8.5%
Currency Hedge	100.0%
Yield	6.7%

PERFORMANCE

As at 29/02/16

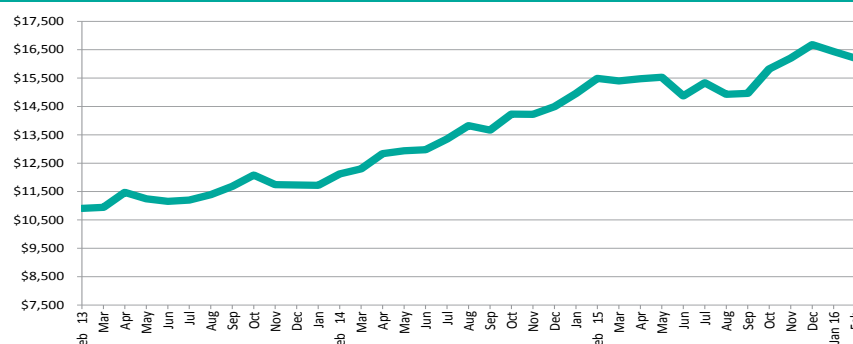
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	-1.4%	0.0%	4.6%	14.6%	-
TT Index (Hedged)	-0.4%	-1.2%	-3.9%	8.0%	-

Devon Dividend Yield Fund returns are after all fees and expenses, but before tax which varies by investor.

NET PERFORMANCE

Based on \$10,000 invested at 20 December 2012

Devon Dividend Yield Fund*



*Fund commenced on 20 December 2012

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

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.

FUND UPDATE

The Trans-Tasman Fund underperformed its benchmark over the month. Key positive contributors to performance were Metlife-care and Meridian after both reported strong financial results. Key detractors were Wellard, Tower, Vista Group and Ooh!Media. Wellard disappointed post IPO with a downgrade to prospectus earnings on mechanical issues with two of its vessels and a delay in the delivery of a new vessel which is disappointing.

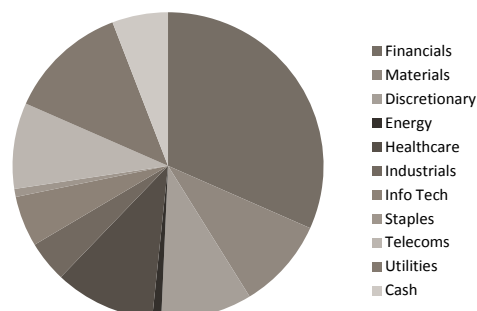
The Fund also had no exposure to Diligent and Nuplex which were both subject to takeover bids during the month. Key Fund holding Vista reported a solid 2015 result with growth across all divisions. While contributing less than 15% of group revenue in 2015, Movio ended the year with a database of 81 million movie goers, which we believe will be monetised in the future.

During the month Movio signed an agreement with Sony Pictures to utilise Movio Media cinema marketing solutions and there remains scope to sign more Studios during 2016.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	48.9%
Australian Equities	45.3%
Cash	5.8%
	100.0%
Currency Hedge	0.0%

PERFORMANCE

As at 29/02/16

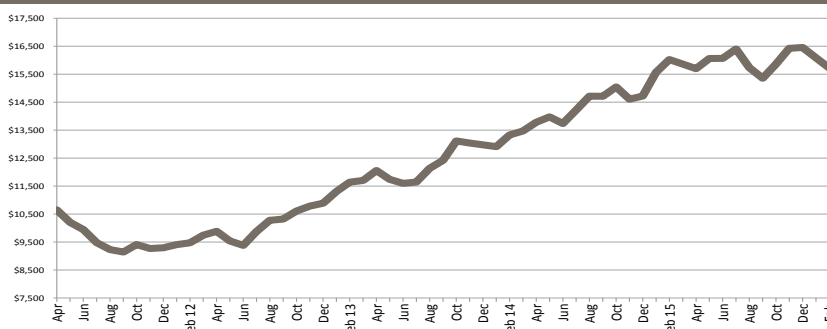
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	-2.3%	-4.3%	-1.9%	10.5%	8.7%
Trans-Tasman Index Gross	-0.8%	-1.9%	-1.8%	5.8%	6.7%

Devon Trans Tasman Fund returns are after all fees and expenses, but before tax which varies by investor.

NET PERFORMANCE

Based on \$10,000 invested at 1 January 2011

Devon Trans-Tasman Fund



PORTFOLIO MANAGER

Tama Willis



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GLOBAL THEMES FUND

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.

FUND UPDATE

Markets continued to trade nervously through February. A number of financial market indicators, including credit spreads, equity prices and bond yields, are signalling heightened risk of global recession. If these fears are vindicated, equities have further to decline. Conversely, if recession does not appear in 2016, equities will likely grind higher.

As investors we find ourselves in an unusually binary position: our base case remains that the US economy, and the US consumer, will underpin slow, but positive growth this year. Accordingly we see value across our portfolio. Two levers stand out. Firstly, if we are right that global recession is not imminent, then 10 year treasury yields do not make sense at 1.7%. We expect higher yields over the balance of 2016 to provide support to our financial sector holdings. Even a small reversal in the interest rate environment (which currently envisages no Federal Reserve hikes in 2016) should generate strong returns for bank names.

Our second portfolio lever is our ongoing tilt to the "Quantitative Easers", Europe and Japan. Markets are rightly questioning the efficacy of negative interest rates or ever more money printing in these regions. However we believe investors have moved too far toward ignoring the efforts of policy makers. The acid test will

come with Mario Draghi's next announcement on March 10 where we expect a significant expansion of Quantitative Easing.

The macro environment remains complex, fast moving and volatile. However our holdings are intended to be owned over 3 to 5 years. On that time horizon we remain comfortable that our investments will deliver positive absolute returns and superior relative returns to a passive portfolio.

Returns

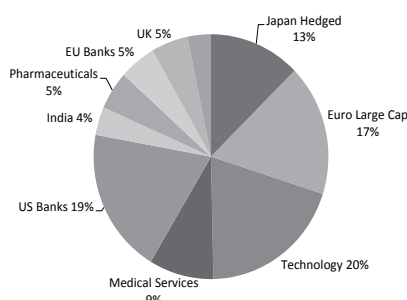
The Global Themes Fund fell 4.8% in February to a unit price of \$2.0703. This compared with a 1.9% decline in our glob-

al equity benchmark. Our fund has risen 3.8% since inception in October 2014, in line with the I-Share All Country Exchange Traded Fund 50% hedged to NZD.

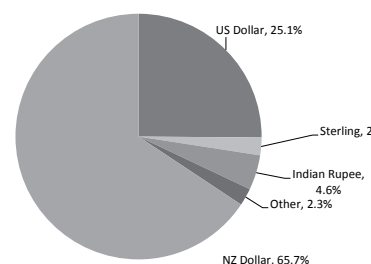
Currency exposures

We have reduced our NZD hedge to ~65% during the month. We believe the NZD has been artificially propped up by an expectation that the Federal Reserve is on hold for an extended period. We are also mindful that the RBNZ may restart its easing cycle over coming months, which may encourage further NZD weakness.

SECTOR ALLOCATION

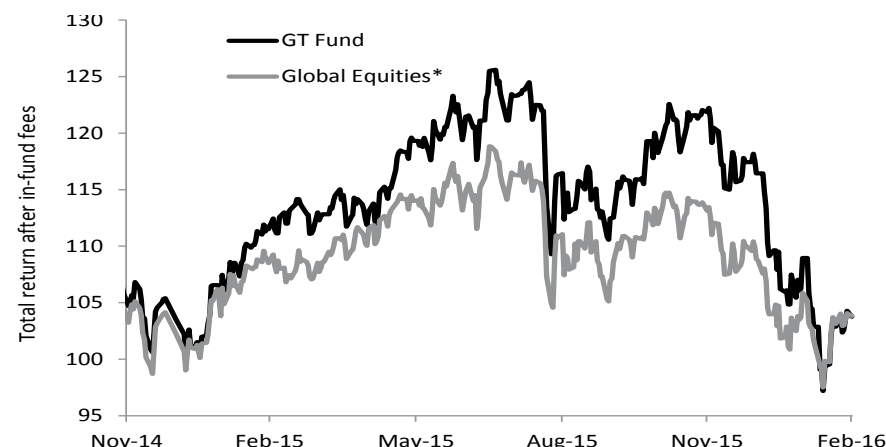


CURRENCY EXPOSURE



NET PERFORMANCE SINCE INCEPTION

Returns versus Benchmark



* iShares All Country World Index ETF, 50% hedged to NZD
Source: Datastream, IRESS, JBWere Investment Strategy Group

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.