

MARKET COMMENTARY

The Hunt For Yield

It seems like everywhere you go these days people are talking about the "yield." The rationale goes something like this: global central banks have sought to drive investors into higher yielding assets by buying up long term government debt (and thereby depressing its yield), consequently investors have sought higher yield wherever it can be found, and some of that cash has flowed into higher dividend paying shares. The argument sounds logical and arguably even has some empirical merit, but its weakness is that it implies that investing in higher yielding equities is a cyclical phenomenon that only offers attractions in the current exceptional circumstances. In fact investing in higher dividend yielding stocks has proved over very long periods to be remarkably rewarding.

If we look at the long run history of stock market returns it is clear that dividends have been an enormously important component of returns.

Let's start with the New Zealand experience. If we compare total cumulative return, including reinvested dividends, of the NZ market over the last 15 years with the

return produced by movements in share prices alone, it is clear that dividends have provided the bulk of the return. Over that period the S&P NZX50 excluding dividends has returned a compound annual growth rate of 3.14%. The S&P NZX50 Gross (i.e. including reinvested dividends) has returned 8.97% p.a. That annual difference, which is purely driven by reinvesting dividends, means that for \$100,000 invested on 31 March 2001, capital growth on its own would have seen the initial investment grow to \$158,930, a 59% return. But counting reinvested dividends, the same amount would have grown to \$362,547, a return of 263%.

If we look at a very long time series of returns for the US market, we see a very similar result. The most comprehensive work on long term investment returns has been done by three London Business School Finance academics; Elroy Dimson, Paul Marsh and Mike Staunton. Their work in the US shows that in the period from 1900 to 2012, the real return on...[Read more](#)

MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P NZX50 Gross	NZ	8.4%	15.7%
S&P ASX200	AU	4.7%	-9.6%
MSCI World Index	GLOBAL	7.2%	-2.6%
S&P500	USA	7.0%	2.0%
FTSE100	UK	1.8%	-5.3%
NIKKEI 225	JP	5.4%	-11.1%
NZ 90 Day Bank Bill	NZ	0.3%	3.2%



AT A
GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.5705

DEVON AUSTRALIAN FUND

\$1.2908

DEVON DIVIDEND YIELD FUND

\$1.8310

DEVON DIVERSIFIED INCOME FUND

\$1.5314

DEVON TRANS-TASMAN FUND

\$3.4848

GLOBAL THEMES FUND

\$2.1386

Prices as at 31 March 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

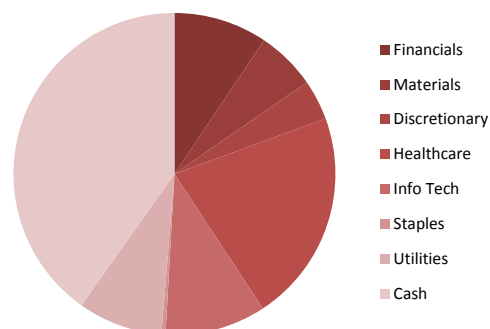
The Alpha strategy generated solid absolute returns during the month despite still having a large allocation to cash. This defensive portfolio positioning reflects our concern over broader market valuations and that the operating conditions across New Zealand and Australia remain fragile. This backdrop has resulted in the Alpha Fund being particularly cautious given its objective is to generate a positive return for its investors irrespective of market direction.

There were a number of particularly strong contributors over the month including Fletcher Building and Tower which respectively delivered returns of 14% and 13%. Pacific Edge also performed well with its share price lifting by 35% after recently announcing deals with the Veterans Administration in the US and with the Canterbury DHB. The major changes that occurred to the portfolio holdings included the sale of our shares in Westpac and an increase in our exposure to Vista Group.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	35.7%
Australian Equities	24.1%
Cash	40.2%
Currency Hedge	30.1%

PERFORMANCE As at 31/03/16

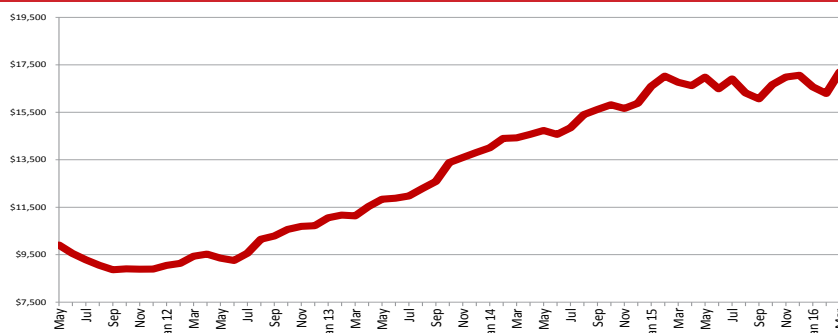
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	5.6%	0.9%	2.6%	15.6%	11.0%
OCR	0.2%	0.6%	2.9%	2.9%	2.8%

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



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

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

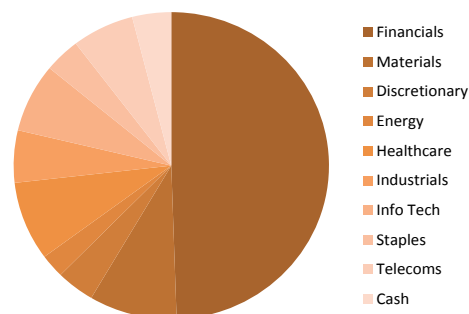
The Devon Australian Fund rose 6.74% over the month versus the S&P ASX200 Accumulation index return of +7.12%. AMP (+11.5%), Vista (+11.2%), Fletcher Building (+9.4%) and Healthscope (+8.7%) were contributors. Meanwhile, key Fund holding Vista (VGL) announced a landmark transaction selling a controlling stake in Vista China to WePiao (affiliate of Tencent - US\$186bn market cap). Vista China will have long-term exclusivity over the distribution of Vista Cinema, Movio, Veezi and VGL's other products in the China market.

VGL is realising upfront cash proceeds of \$30m+ in Year 1 and a further undisclosed amount of upfront license payment in Year 2. Management also successfully completed a sell-down of stock during the month. The Fund also participated in the Motorcycle Holdings IPO. Founded 27 years ago, it is now Australia's largest motorcycle dealership operator with 24 dealership locations. The group sells both new and used motorcycles as well as providing accessories and parts, service and repair and finance, insurance and warranty products.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

Dual Listed	5.9%
Australian Equities	90.1%
Cash	4.0%
	100.0%
Currency Hedge	0.0%

PERFORMANCE

As at 31/03/16

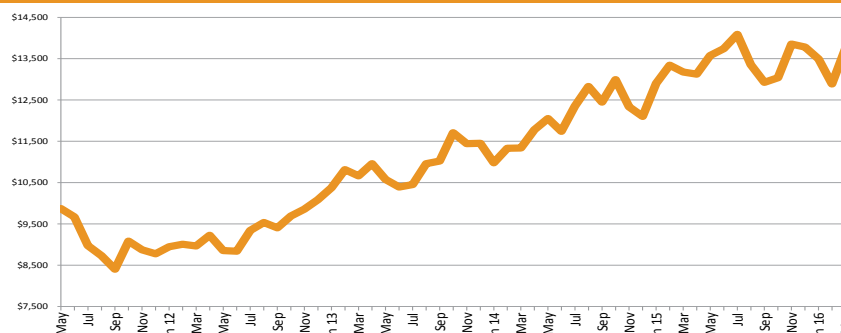
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	6.7%	-0.2%	4.4%	8.9%	5.5%
ASX200 Index Gross (NZD)	7.1%	1.4%	-1.7%	1.4%	1.5%

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



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 and Trans Tasman Funds. Tama is widely regarded as a leading expert on resource and mining stocks.



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.

DEVON DIVERSIFIED INCOME FUND

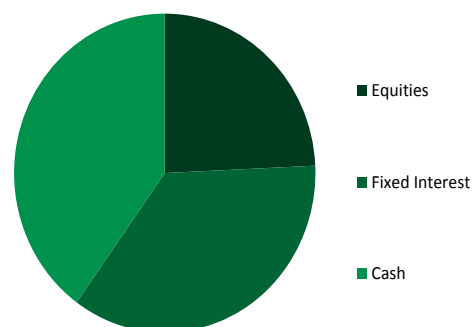
Interest rates globally remain near historically low levels. During the month a number of Central Banks surprised the market by their "dovish" approach to policy. The US Federal Reserve left their cash rate unchanged but did announce their concerns over global economic uncertainty and weak domestic inflation. Janet Yellen also highlighted that US policy-makers will take a very gradual approach to normalising monetary policy which resulted in broad weakness for the US Dollar.

The New Zealand Reserve Bank also highlighted economic concerns when they met during March. Graeme Wheeler announced a cut to the overnight cash rate of 0.25% and a forward looking statement which suggested that further easings may be required to ensure that inflation remains consistent with their target range. During the month the Diversified Income Portfolio benefited from its exposure to high yielding equities via the Devon Dividend Yield strategy and through exposure to a number of well considered local fixed interest opportunities.

KEY HOLDINGS



ASSET ALLOCATION



GROWTH

NZ Equities	13.9%
AU Equities	8.8%

DEFENSIVE

Cash	41.6%
NZ Corporate Bonds	35.7%
NZ Government Bonds	0.0%
CURRENCY HEDGE	100.0%

PERFORMANCE

As at 31/03/16

	1 Mth	3 Mth	Inception
Diversified Income Fund	1.7%	1.8%	1.8%
OCR +1.5%	0.3%	1.0%	1.0%

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.

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.

AT A GLANCE

Targeted Portfolio Yield	5.5%
Commenced	January 2016
Total strategy	\$1.45m
Distributions	Target distributions of 1.5 cents per unit after tax paid quarterly



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.

DEVON DIVIDEND YIELD FUND

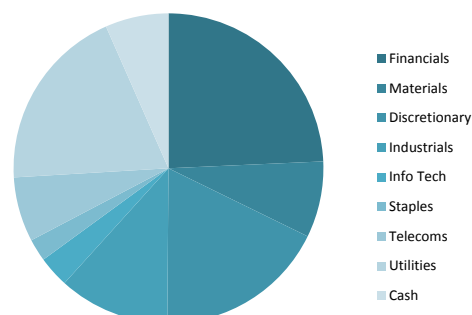
The Dividend Yield Fund recorded a very strong performance over March as it benefited from the bounce back in Australasian equity markets. The Fund was up 6.63% over March, which was marginally ahead of its underlying benchmark.

Given the Fund aims to provide a defensive exposure to investing in local shares it was pleasing to see it outperform such strong markets. One of the strongest contributors over the month was Fletcher Building (FBU), the largest position in absolute terms in the Fund at 8% - FBU's share price was up 13% over February. The company has looked attractive from a valuation perspective for some time but has seen earnings hurt by specific factors in some of its offshore businesses. FBU's result in February was in line with guidance and showed a clear path to strongly improving earnings. With the very strong domestic construction cycle providing momentum and concrete evidence of remedies for offshore problems, the share price has started to see a meaningful re-rate.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	57.3%
Australian Equities	36.1%
Cash	6.6%
Currency Hedge	100.0%
Yield	6.5%

PERFORMANCE As at 31/03/16

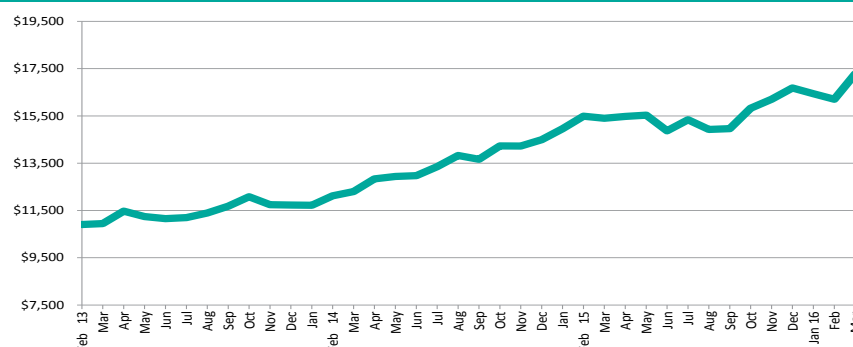
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	6.6%	3.6%	12.2%	16.9%	-
TT Index (Hedged)	6.6%	2.0%	3.1%	10.3%	-

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.

DEVON TRANS-TASMAN FUND

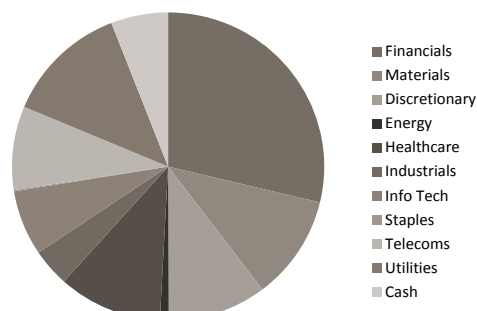
The Trans-Tasman Fund rose 7.97% over the month with strong performances from the New Zealand (+8.4%) and Australian (+4.7%) equity markets. Key contributors to performance were Sky City, Tower, Vista, Fletcher Building, Metlifecare and Spark. Metlifecare (+11.2%) delivered a solid first half result showing good leverage to the strong Auckland housing market. FY16 NPAT guidance of \$62 - \$64m was above expectations and NTA increased 13% to \$4.85.

Meanwhile, key Fund holding Vista announced a landmark transaction selling a controlling stake in Vista China to WePiao (affiliate of Tencent - US\$186bn market cap). Vista China will have long-term exclusivity over the distribution of Vista Cinema, Movio, Veezi and VGL's other products in the China market. VGL realising upfront cash proceeds of \$30m+ in Year 1 and a further undisclosed amount of upfront license payment in Year 2. Management also successfully completed a sell-down of stock during the month.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	50.7%
Australian Equities	43.4%
Cash	5.9%
	100.0%
Currency Hedge	0.0%

PERFORMANCE

As at 31/03/16

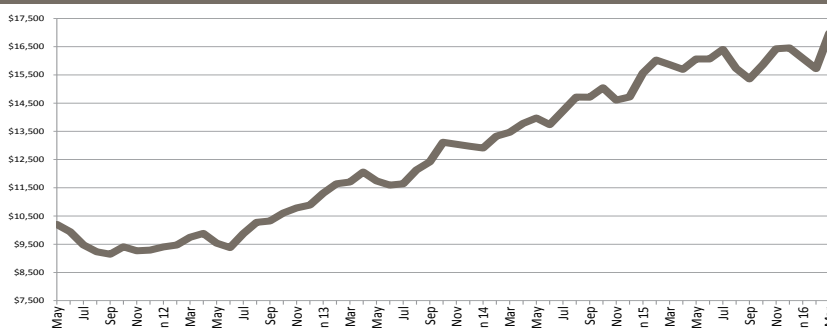
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	8.0%	3.2%	7.0%	13.2%	9.8%
Trans-Tasman Index Gross	7.7%	4.1%	7.0%	8.3%	8.0%

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

The Fund remains set up to benefit from a world where the US continues to steadily grow, assisted by continued labour market strength, and in turn leading to US interest rate hikes and rising bond yields. We are also positioned to benefit from the ongoing attempts of the European and Japanese central banks to support their economies. This theme of "policy divergence", with Federal Reserve tightening and ongoing easing in Europe and Japan is a central plank in our portfolio construction.

The challenging start to the quarter has reflected two strong counter arguments to our stance: firstly, investors are questioning the extent to which the Federal Reserve will raise rates this year. Secondly, many see the move to negative interest rates in both Europe and Japan as something akin to a "last roll of the dice". The consequence of these views gaining credence has been US bank underperformance as bond yields decline; and weakness in both European and Japanese equities. We remain confident that our patience will be rewarded as the year progresses. In particular, economic news in the US argues that the need for ultra-low interest rates is fast diminishing.

The Fund has been reasonably settled for a number of months. We are likely to reduce our European Bank stake in favour of a broad Euro-

pean exposure and adding to our Japanese holdings.

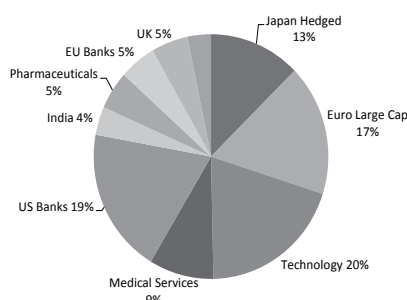
Returns

The Fund rose 3.3% in March. This compared with a 5.0% increase in our global equity benchmark. The Fund has also risen 7.2% since inception in October 2014, against a 9.0% increase in the I-Share All Country Exchange Traded Fund 50% hedged to NZD.

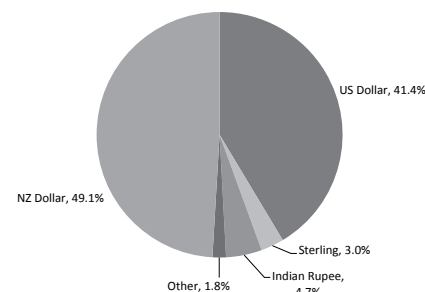
Currency exposures

We further reduced our NZD hedge to ~50% during the month. We continue to believe the NZD has been artificially propped up by an expectation that the Federal Reserve is on hold for an extended period. Coming months will be critical in resolving that tension. We are also conscious that the New Zealand dollar is now doing significant damage to dairy sector profitability, with NZD dairy prices ~33% below their five year average. Further NZD strength from here will likely see us reduce our hedging again.

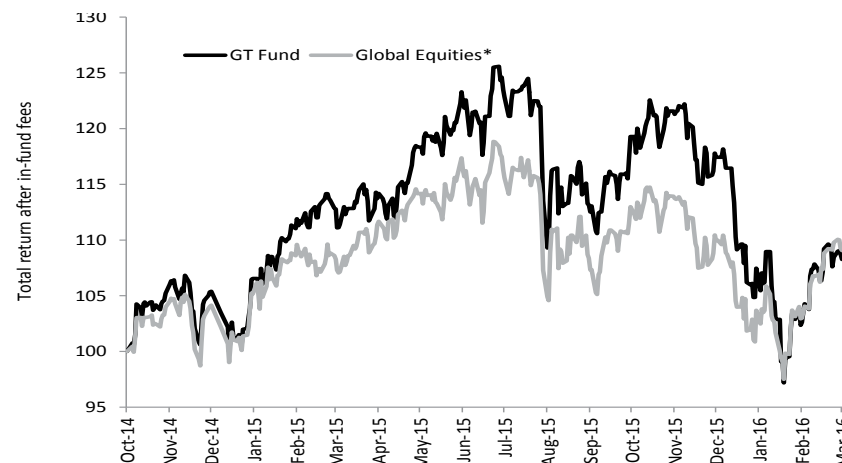
SECTOR ALLOCATION



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 INFIZ 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.