

## MARKET COMMENTARY

### No real political will to tackle the housing crisis

The only sensible conclusion an observer can come to is that there is no real political will to address the Auckland housing crisis. While a number of serious solutions are self-evident, the level of the debate is bogged down in headline grabbing but relatively ineffective proposals like registration and a potential land tax on foreigners. Foreign property taxes have been relatively ineffective in other countries.

The term crisis applies quite correctly to the housing situation. Stratospheric house price appreciation, particularly in Auckland, has all the hallmarks of a financial bubble which will at some point collapse. Although many of us may enjoy the apparent wealth effect of ever increasing house prices, there are two main areas of concern. The first is that when prices do adjust they might inflict significant damage on the banking system. The amount of bank debt lent against NZ houses has doubled over the last decade and now represents over half of all bank lending. When measured against house-hold income, Auckland houses are now

are valued at over twice their long run average and have recently surpassed Sydney.

The second area of concern is to do with social cohesion and equality. It is commonly accepted that high rates of home ownership are desirable for a stable and prosperous society. Home ownership has morphed from providing a stable environment in which to house families to an investment framework which most closely resembles a leveraged Ponzi scheme.

Economically there are two ways to address the housing crisis which can both play an important role. The first relates to the supply of property and much has been written about the Government and Auckland Council's bungled attempts to tackle intensification or the release of additional land. The supply side issues are complicated by the poor state of Auckland's physical infrastructure, particularly roading, and lack of effective public transport.

The second approach is to look at the demand side for...[Read more](#)

## MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P NZX50 Gross	NZ	1.0%	17.8%
S&P ASX200	AUSTRALIA	3.4%	-4.9%
MSCI World Index	GLOBAL	1.6%	-3.6%
S&P500	USA	0.4%	1.2%
FTSE100	UK	1.4%	-6.8%
NIKKEI 225	JP	-0.6%	-13.0%
NZ 90 Day Bank Bill	NZ	0.2%	3.1%



## AT A GLANCE

### UNIT PRICES

DEVON ALPHA FUND

**\$1.5661**

DEVON AUSTRALIAN FUND

**\$1.3027**

DEVON DIVIDEND YIELD FUND

**\$1.8539**

DEVON DIVERSIFIED INCOME FUND

**\$1.5449**

DEVON TRANS-TASMAN FUND

**\$3.4911**

GLOBAL THEMES FUND

**\$2.1475**

Prices as at 30 April 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

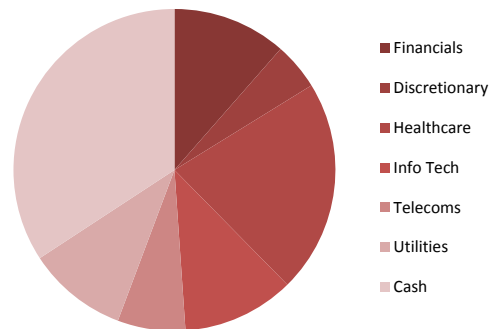
The Alpha Fund generated a positive return during the month with solid contributions from most of our investments. Shares in Vista Group rallied almost 10% as the market grows in confidence over the value in this business and management announced the acquisitions of Powster and Flicks.co.nz. Other notable performers included CSL and Healthscope Limited which delivered returns of 3.7% and 2.3% respectively.

The portfolio continues to be conservatively positioned and currently has a cash weighting of 35%. This reflects the fact that after the very positive experience for broader equity markets in recent years that general valuation levels appear full. This does not mean that we expect markets to necessarily fall but we do believe that their ability to tolerate any negative shocks is reduced. In managing the Alpha strategy we are focussed on preserving your capital in times of market volatility and only making investments where we have sufficiently high conviction levels.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

New Zealand Equities	32.4%
Australian Equities	33.4%
Cash	34.2%
Currency Hedge	100.0%
	30.9%

### PERFORMANCE

As at 30/04/16

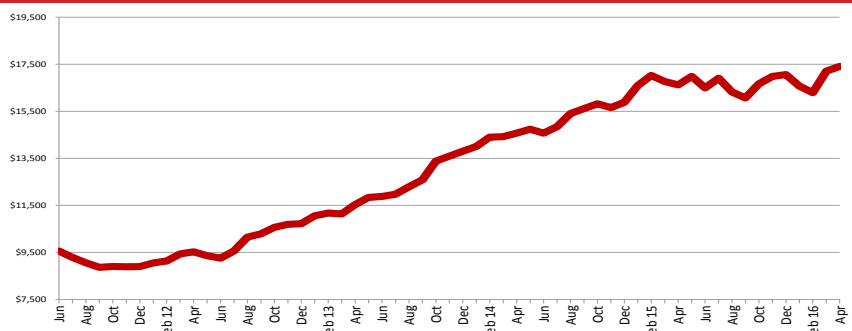
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	1.2%	5.1%	4.7%	14.7%	11.4%
OCR	0.2%	0.6%	2.8%	2.9%	2.8%

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.

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### 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

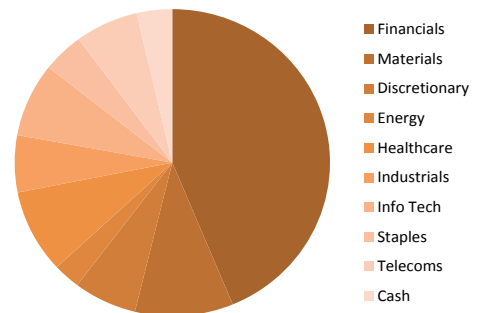
The Devon Australian Fund rose 3% in NZD over the month, outperforming the S&P ASX200 index (+1.8%). Performance at the sector level in Australia was mixed with Metals (+16.6%) and Gold (+14%) rising strongly and Transport (-5.4%), Media (-4.6%) and Gaming (-3.9%) falling. The heavy position Banks sector fell 1.5%. Mining companies continue to benefit from a recent improvement in Chinese economic growth although strength in raw materials prices is in part due to restocking which we believe will dissipate in the second half of 2016 given underlying demand trends.

Earlier this year we reduced our position in the mining sector by lifting our holding in Rio Tinto given its strong balance sheet and low cost position. Key contributors to relative performance over the month included Rio Tinto, Vista and Clydesdale. In terms of key portfolio changes, the Fund exited a position in Sonic Healthcare after a period of strong performance and added Resmed to the Portfolio following the release of its Q3 financial results. The Fund also participated in the Motor Cycle Holdings IPO (MTO). MTO is the largest Motor-cycle dealer group in Australia with a strong market position and good growth potential.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

Dual Listed	6.3%
Australian Equities	90.1%
Cash	3.6%
	100.0%
Currency Hedge	0.0%

### PERFORMANCE

As at 30/04/16

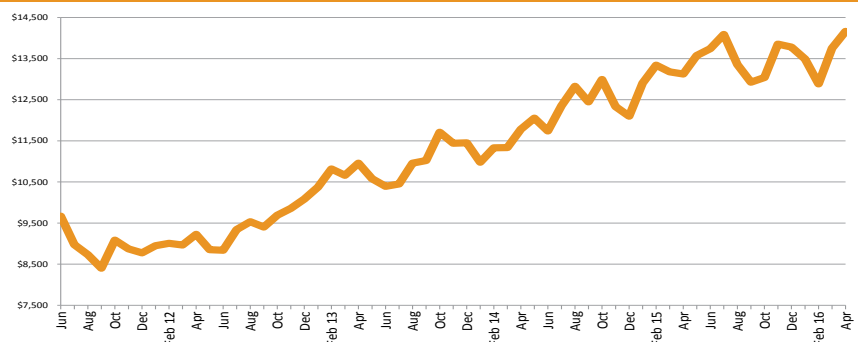
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	3.0%	5.0%	7.9%	8.9%	6.2%
ASX200 Index Gross (NZD)	1.8%	6.2%	0.2%	1.4%	2.0%

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

Fixed interest markets were volatile during the month with central bank meetings having major influence. The US Federal Reserve left their rates unchanged but in the accompanying commentary they acknowledged that recent domestic economic performance had been weaker than expected, specifically identifying business investment and exports as areas of concern. Financial markets still expect the Fed to hike during 2016 but current expectations are that this move is likely to occur later in the year.

The RBNZ also met during April and left the cash rate on hold at 2.25% but they did highlight that "further policy easing" may be required during the course of this year. New Zealand economic data remains mixed although the recent ANZ Business survey recognized that confidence levels have recently improved. In summary it does not appear their interest rate levels, domestically or globally, are likely to change markedly in the near-term. As such, this strategy will continue to search for good risk adjusted alternative opportunities to generate income for our clients.

### PORTFOLIO MANAGER

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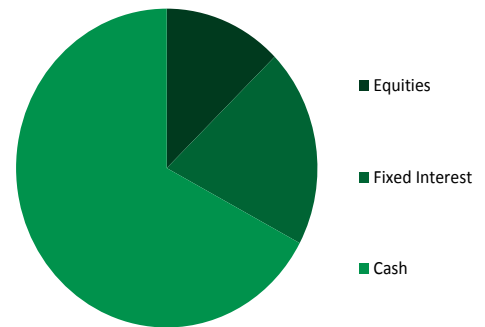
### KEY HOLDINGS



### GROWTH

NZ Equities	13.6%
AU Equities	8.9%

### ASSET ALLOCATION



### DEFENSIVE

Cash	41.2%
NZ Corporate Bonds	36.3%
NZ Government Bonds	0.0%
CURRENCY HEDGE	100.0%

### PERFORMANCE

As at 30/04/16

	1 Mth	3 Mth	Inception
Diversified Income Fund	0.9%	2.6%	2.7%
OCR +1.5%	0.3%	0.9%	1.3%

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.

### AT A GLANCE

Targeted Portfolio Yield	5.5%
Commenced	January 2016
Total strategy	\$2.8m
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 provided a solid return over April, up 2.47%. This was modestly ahead of its benchmark, a 50/50 blend of the S&P ASX200 Accumulation Index (in Australian dollars) and the S&P NZX50 Gross Index, which rose 2.19%.

Key contributors over the month included Fletcher Building (FBU), and Vista Group (VGL). FBU continued on from its very strong recovery in March, rising another 5.7%. The company held an investor day in Sydney in early April that focused on its Distribution division. Although Distribution only accounts for less than 17% of earnings, the willingness of management to articulate multi-year stretch targets suggested that their confidence in their ability to improve efficiency across the business is growing.

VGL rose 9.6% in April, in late March management sold down approximately 20% of the company's stock but the strong performance since then shows the market has had no problem digesting the placement.

### 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.

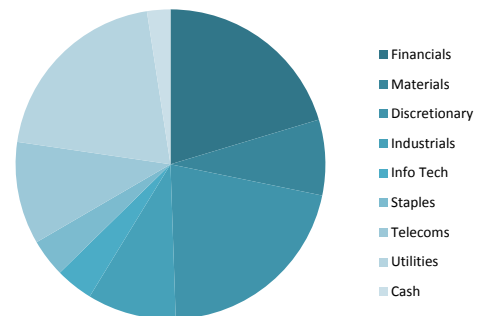
### KEY HOLDINGS



meridian



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

New Zealand Equities	58.9%
Australian Equities	38.7%
Cash	2.4%
Currency Hedge	100.0%
Yield	6.4%

### PERFORMANCE

As at 30/04/16

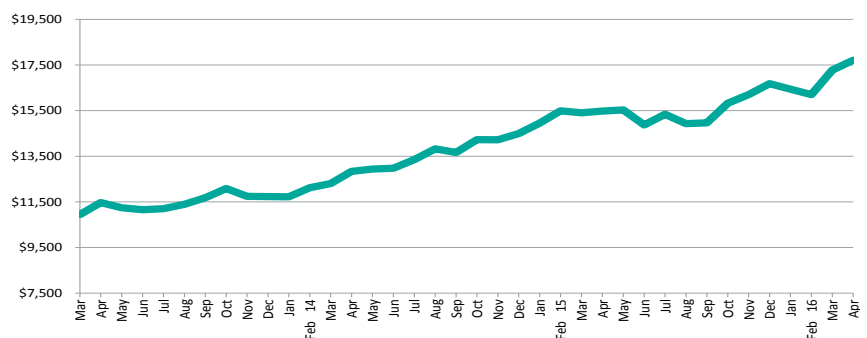
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	2.5%	7.7%	14.4%	16.0%	-
TT Index (Hedged)	2.2%	8.4%	6.4%	9.5%	-

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



### 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

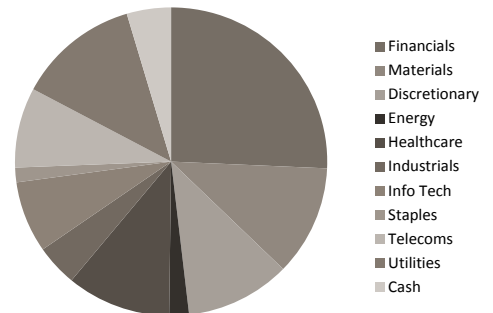
The Trans-Tasman Fund outperformed its benchmark over the month. Continued volatility across Australasian markets is rewarding bottom up stock-picking and during April key contributors to relative performance were Rio Tinto, Vista, Fletcher Building and Clydesdale. Earlier this year we increased our exposure to the mining sector by lifting our position in Rio Tinto given its strong balance sheet and low cost position (Rio Tinto +21% in April).

In terms of Portfolio changes, the Fund exited a long-standing position in Scentre Group (SCG) during the month. SCG is the owner of a portfolio of Australia's premium shopping centres but at 19.5x earnings and a 4.5% yield we believe this is fully reflected in the price. The Fund also exited a position in Sonic Healthcare after a period of strong performance and reinitiated a position in Resmed following the release of its Q3 financial results. The RMD result showed that in the US the group continues to gain share in flow generators and is holding share in respiratory masks. We see an improved margin outlook in FY17 and continued strong growth rates with RMD is trading at a significant dis-count to Fisher and Paykel Healthcare.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

New Zealand Equities	51.2%
Australian Equities	44.2%
Cash	4.6%
	100.0%
Currency Hedge	0.0%

### PERFORMANCE

As at 30/04/16

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	2.2%	7.8%	10.5%	12.9%	10.3%
Trans-Tasman Index Gross	1.4%	8.4%	9.0%	7.7%	8.1%

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

### PORTFOLIO MANAGER

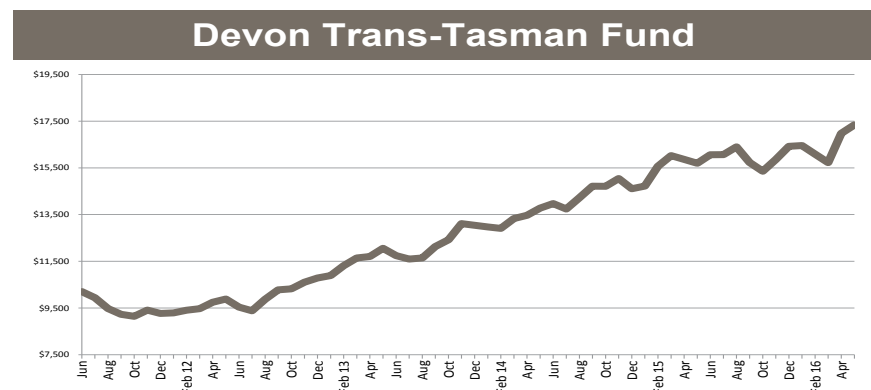
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### NET PERFORMANCE

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





### 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

April was a quiet month on the face of it with global equities rising a little under 1%. However underneath the hood we are still seeing tension. Japan is a notable example, with the Topix rallying around 8% mid-month ahead of the Bank of Japan's (BoJ) policy meeting on the 28th of April. However these gains were given up as BoJ Governor Kuroda announced no further action, saying the BoJ were still monitoring the impact of negative interest rates. Notwithstanding the poor year to date (Topix -13% to 29 April), we still see Japan as an interesting theme, for three reasons: firstly, whilst the BoJ didn't ease last month, we still see further policy support as more likely than not. Indeed the BoJ meeting on June 15-16 strikes us as the most likely date (after Japan hosts the G7 summit) as a more likely moment for Kuroda to fire another bullet at deflation. Secondly, we expect the Abe Government to launch fresh fiscal stimulus in either May or June, to bolster support ahead of crucial Upper House elections in July. Thirdly, the Japanese market is cheap, now trading at a >20% discount to US equities on a Price to Earnings basis. This discount has emerged on two prior occasions over the past decade (September 2012 and March 2014). Year ahead returns from those starting points were +53% and +30%, respectively.

We believe the crowded narrative is that central bankers have run out of ammunition and inflation is nowhere to be seen. We are inclined to lean against both views, because we see good evidence to suggest otherwise. Wage growth acceleration in the US and further BoJ action by mid-year will be important tests of our counter-argument.

### Returns

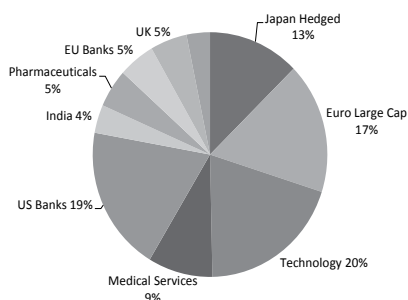
The Global Themes Fund rose 0.4% in April to a unit price of \$2.1475. This compared with a 0.9% increase in our global

equity benchmark. The Fund has risen 7.6% since inception in October 2014, versus a 10.0% increase in the I-Share All Country Exchange Traded Fund 50% hedged to NZD.

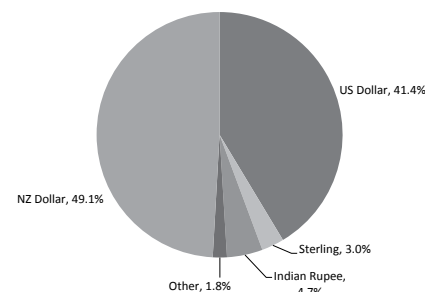
### Currency exposures

We have reduced our NZD hedge to ~50% 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. For a similar reason, we continue to fully hedge our European and Japanese holdings into USD.

### SECTOR ALLOCATION



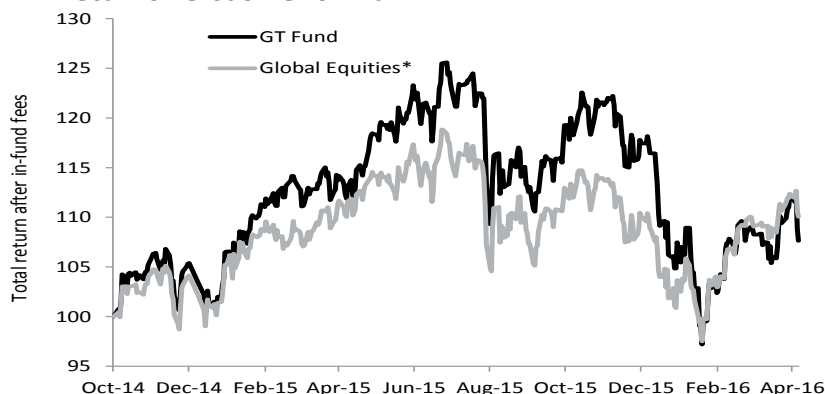
### CURRENCY EXPOSURE



### NET PERFORMANCE SINCE INCEPTION

Returns versus Benchmark

#### 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.