

MARKET COMMENTARY

2016 Budget – A Missed Opportunity.

While the Government's 2016 Budget must be rated highly for prudent fiscal management, it again fails to address a number of the key and increasingly pressing issues facing New Zealand. On the positive side, our country's accounts are in good shape and we will move into a strong fiscal surplus over the next 5 years based on the Treasury's optimistic growth forecasts. The important Government net debt to GDP ratio is forecast to fall below 20% by 2021, which will put our Government's accounts amongst the least indebted globally, which has to be a good thing given our highly indebted household sector. Unemployment is expected to fall below 5% and 170,000 jobs are expected to be created by 2020.

On the negative side, this is very much a status quo Budget and does nothing to address some of our major problems. With a staggering 45% of houses being bought by investors or speculators we need some serious reform of the current tax system that removes the advantage investors have over owner occupiers. In some Auckland suburbs over 80% of homes are being bought by investors or speculators. The favourable

tax status afforded to property investors, coupled with rampant immigration and cheap money, has led to an explosive bubble forming in property values which may well have serious financial and social implications in the not too distant future.

Auckland is grinding to a halt and we need sensible solutions to the congestion problem, like a congestion tax. We also need a more visionary focus on infrastructure expenditure to fund our massive infrastructure deficit. For example, the Irish government has been able to issue 100 year bonds at 2.35% and NZ should also be taking advantage of these record low interest rates globally to significantly lift our infrastructure. Ideally this should be done through PPP's (Public Private Partnerships) so that the Government balance sheet remains strong. The Government is currently relying on councils to fund much of the infrastructure needed for growth, which simply moves debt off the government's balance sheet and onto that of ratepayers. It could also be reasonably argued that...[Read More](#)

MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P NZX50 Gross	NZ	3.2%	20.4%
S&P ASX200	AUSTRALIA	3.1%	-2.4%
MSCI World Index	GLOBAL	0.7%	-3.4%
S&P500	USA	1.8%	1.7%
FTSE100	UK	0.3%	-7.2%
NIKKEI 225	JP	3.4%	-14.6%
NZ 90 Day Bank Bill	NZ	0.3%	3.2%



AT A
GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.6034

DEVON AUSTRALIAN FUND

\$1.3172

DEVON DIVIDEND YIELD FUND

\$1.8789

DEVON DIVERSIFIED INCOME FUND

\$1.5508

DEVON TRANS-TASMAN FUND

\$3.5646

GLOBAL THEMES FUND

\$2.2610

Prices as at 31 May 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

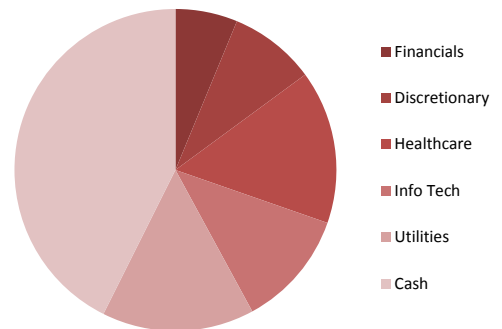
The Alpha strategy generated a solid positive return during the month. There were a number of key contributors to this outcome including Metlifecare which rallied almost 15% and Healthscope which finished the month up over 10%. Another investment of note was Contact Energy whose shares appreciated in value after the New Zealand Electricity Authority released its Transmission Pricing Methodology decision. This decision is still subject to consultation and appeal but in its current form Contact appears to be a beneficiary relative to prior expectations.

The major detractor from the portfolio's performance was Tower whose stock price fell after the company delivered a disappointing HY16 result. Although we continue to have confidence in the quality of Tower's executive team we have reduced our exposure to this company. The cash weighting in this strategy remains at over 40% and we will look to invest these funds when the appropriate risk adjusted opportunities present themselves.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	31.3%
Australian Equities	26.1%
Cash	42.6%
Currency Hedge	30.3%

PERFORMANCE

As at 31/05/16

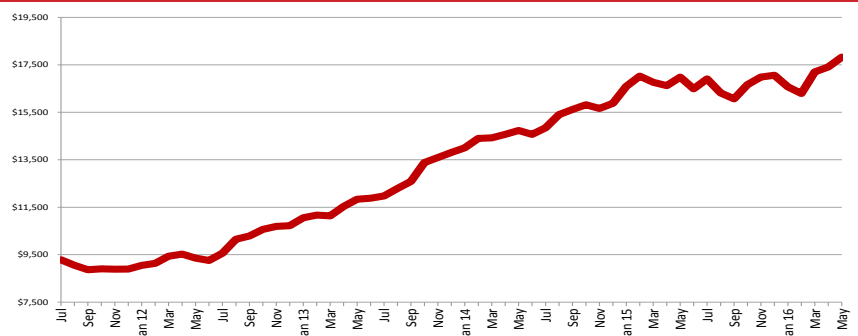
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	2.4%	9.4%	5.0%	14.6%	12.5%
OCR	0.2%	0.6%	2.7%	2.9%	2.8%

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 1.1% in NZD over the month, largely in-line with the S&P ASX200. Shares in Clydesdale Bank, which demerged from National Australia Bank earlier this year, rallied 35% (up 59% since demerg-er) after the group reported a strong interim result with the main driver the significant cost-out efforts which more than offset top line pressures. CSL (+10%) also announced a number of FDA approvals for new treatments including long-lasting haemophilia A therapy Afstyla.

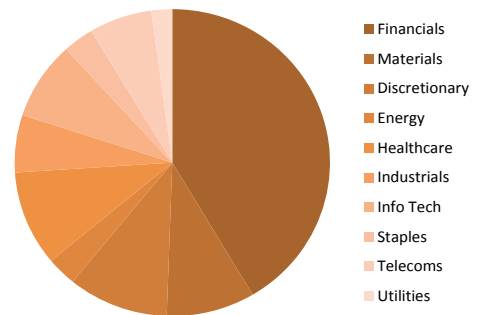
In terms of key portfolio changes, the Fund exited a position in IAG after a period of strong performance. The Fund also participated in the GTN IPO (GTN). GTN is one of the largest broadcast media advertising platforms, by audience reach, in Australia, Canada and the UK, with emerging operations in Brazil. GTN obtains commercial advertising spots adjacent to traffic, news and information reports from its large network of mainly radio affiliates. In exchange it supplies traffic information reports free of charge and also sometimes provides cash compensation. GTN has attractive growth options across its key geographies.

KEY HOLDINGS

RESMED



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

Dual Listed	6.5%
Australian Equities	88.6%
Cash	4.9%
	100.0%
Currency Hedge	0.0%

PERFORMANCE

As at 31/05/16

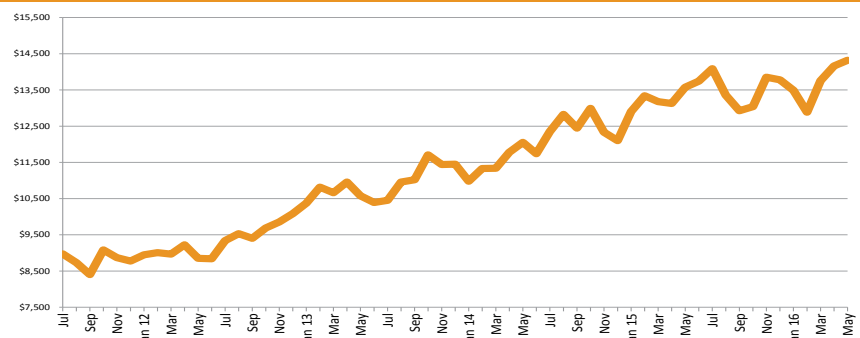
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	1.1%	11.1%	5.5%	10.6%	7.7%
ASX200 Index Gross (NZD)	1.1%	10.3%	-2.8%	3.6%	3.5%

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 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

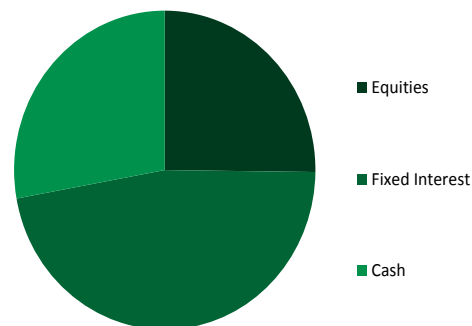
While interest rates remain at historically low levels the environment for companies to raise debt funding is very favourable. Globally the recent level of fixed income issuance is at record highs as non-financial corporates leverage off the cheap cost-of-capital and an almost insatiable appetite from investors for yield. Reflecting this demand is the fact that there is currently almost US\$9 trillion of bonds trading at yields below 0%.

There remains an ongoing divergence in views between the market and the US Federal Reserve as to the future profile of the Federal funds rate, with Yellen guiding to a possible 7 hikes by the end of 2017. Investors are currently only pricing in 2 changes. The next RBNZ meeting is in mid-June and expectations are that they will leave rates on hold at that time but the yield curve is still suggesting one further cut by the end of 2016.

KEY HOLDINGS



ASSET ALLOCATION



GROWTH

NZ Equities	14.3%
AU Equities	10.2%

DEFENSIVE

Cash	28.6%
NZ Corporate Bonds	46.9%
NZ Government Bonds	0.0%

PERFORMANCE

As at 31/05/16

	1 Mth	3 Mth	Inception
Diversified Income Fund	0.4%	3.0%	3.1%
OCR +1.5%	0.3%	0.9%	1.6%

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



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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	\$3m
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

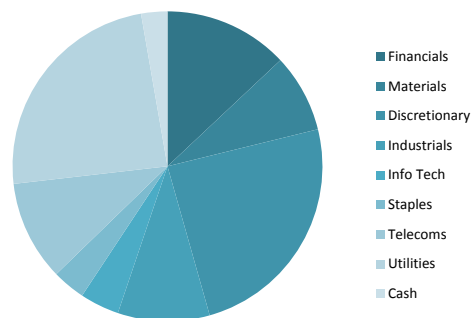
The Dividend Yield Fund provided another positive return over the month, rising 1.3%. Positive contributors included Trade Me (TME) and Sydney Airport. (SYD). TME presented at the Macquarie conference in early May where it confirmed that momentum in its General Items business (the goods auction site that was the company's initial basis of success) is continuing to improve. SYD continues to post very strong traffic growth – during the month it released its April statistics which showed international passenger growth of nearly 11% on the same month last year.

Key detractors from performance included Sky Network Television Ltd, which reported a surprisingly high loss of subscribers and Wesfarmers, which wrote down the value of Target (the discount department store is one of its smaller assets). The Fund also exited its position in Tower Limited.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	56.9%
Australian Equities	40.4%
Cash	2.7%
Currency Hedge	100.0%
Yield	6.3%

PERFORMANCE

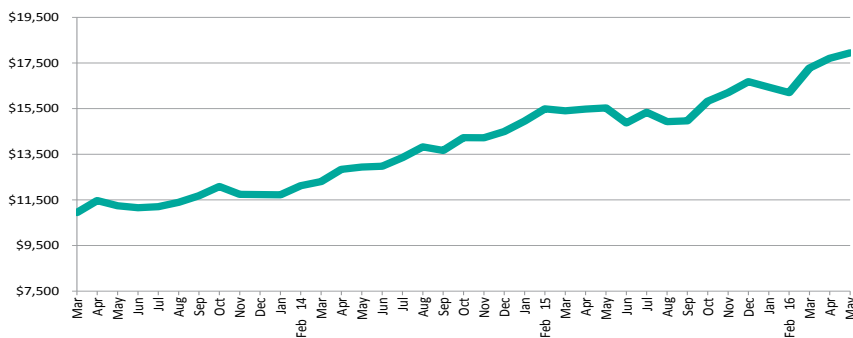
As at 31/05/16	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	1.3%	10.7%	15.5%	17.3%	-
TT Index (Hedged)	3.1%	12.3%	9.0%	9.1%	-

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 Devon Trans-Tasman Fund generated a positive return during the month (+2.1%), performing largely in-line with the Trans-Tasman index. Shares in Clydesdale Bank rallied 35% after the group reported a strong interim result with the main driver the significant cost-out efforts which more than offset top line pressures. In New Zealand, overweight positions in Fletcher Building, Metlifecare, Contact Energy and Vista Group also helped performance. In terms of key portfolio changes, the Fund exited a position in Tower after a disappointing interim result. The Fund also participated in the GTN IPO.

Metlifecare performed strongly over the month. Metlifecare is a retirement lifestyle company listed in New Zealand. A highlight of the reporting season was Metlifecare which reported a strong result driven by a lift in list prices of resale units across the portfolio, in particular in Auckland and Bay of Plenty, and increases in new sales. Although resale gains can be volatile over the short term (due to the uncertainty about when and where they will occur), what we are starting to see come through consistently in Metlifecare's cash generation is its strong position in the key Auckland market (which has seen very strong house price inflation). Metlifecare currently has 307 units under construction.

PORTFOLIO MANAGER

Tama Willis

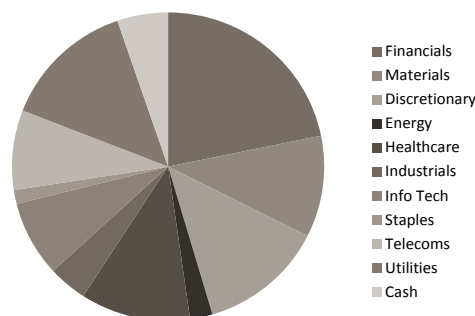


A 14-year veteran of international investment markets, Tama returned to NZ after a very successful career in London and Singapore to join Devon's investment team and holds responsibility for Devon's Australian and Trans Tasman Funds. Tama is widely regarded as a leading expert on resource and mining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

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	48.9%
Australian Equities	45.8%
Cash	5.3%
	100.0%
Currency Hedge	0.0%

PERFORMANCE

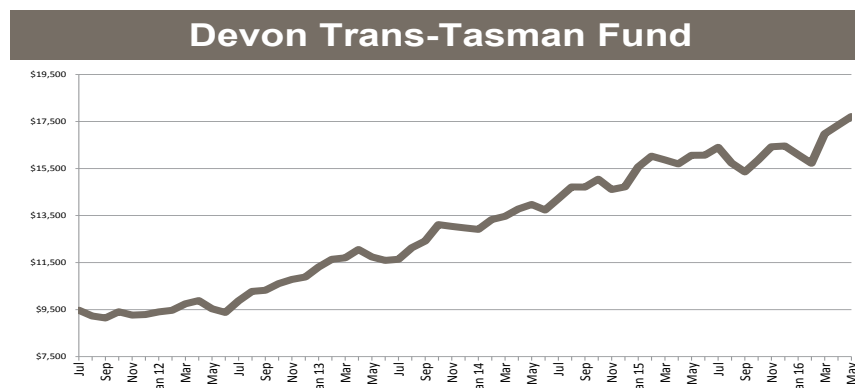
As at 31/05/16

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	2.1%	12.6%	10.3%	14.7%	11.7%
Trans-Tasman Index Gross	2.2%	11.6%	8.8%	9.8%	9.1%

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





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

May was a strong month for the Fund after a tough start to the year. Importantly, our core thesis that the Fed is not in a "one and done" mind-set garnered support in high places. A series of communications from various Federal Reserve decision-makers, including Janet Yellen, gave credence to our view that two rate hikes in 2016 is not an outlandish proposition. Indeed, market pricing for a June rate increase has gone from around 5% to ~30% at the time of writing. Provided economic news flow in the US remains reasonable over coming weeks, we expect a rate rise by June or July. We are positioned for higher rates directly via US banks, which rose ~5% in NZD over the month. We also indirectly benefit from rising rates via US dollar strength, which boosts themes such as Japan and Europe. Our hedged Japanese holding was our strongest performer over the month, rising ~10% in NZD.

Outside of some of our "macro" calls, we continue to see opportunities at the sector level in global equities. One example is medical devices, which we have owned since late 2014 and continues to be a strong performer in the portfolio. This sector trades at a modest (~10%) premium to US equities, but exhibits superior earnings potential, in our view. New products such as Transcatheter Aortic Valve

Replacement (TAVR) are showing exciting potential. TAVR, for example, turns heart valve replacement into a non-invasive procedure, and may eventually dominate the incumbent treatment (open-heart surgery), to become a >\$5bn market within a few years.

Returns

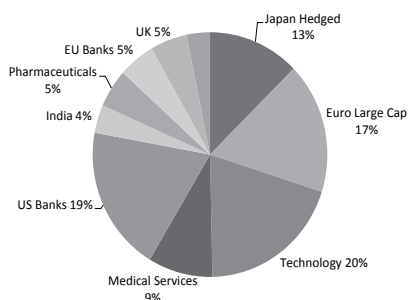
The Global Themes Fund rose 5.3% in May to a unit price of \$2.2610. This compares with a 2.0% increase in our global equity benchmark. The Fund has risen 13.3% since inception in October 2014, versus a

12.2% increase in the I-Share All Country Exchange Traded Fund 50% hedged to NZD.

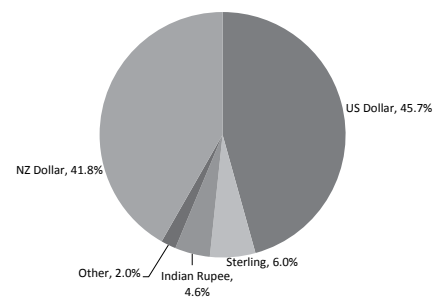
Currency exposures

Hedging remains in the 40-50% range. During the month we chose to remove our Great Britain Pound (GBP) hedges, reflecting our view that the "Brexit" referendum will likely result in a "remain" vote. This is a potentially fluid situation and we may adjust our hedges if the "leave" outcome gains the ascendancy.

SECTOR ALLOCATION



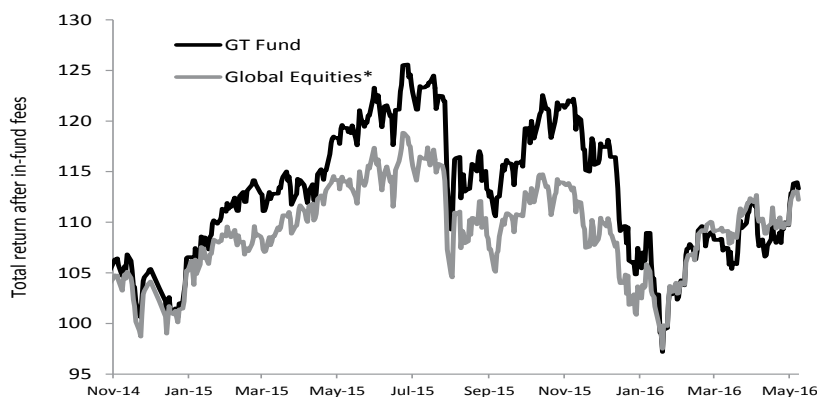
CURRENCY EXPOSURE



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 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.