

MARKET COMMENTARY

A window into how companies are really feeling

2016 has already been a year of big surprises. It is a year in which we have seen an unexpected majority of British voter's support an exit of the European Union, terrorist activity has grown in prominence and regularity and there is now a real chance that the previously incomprehensible may in fact become a reality with the US presidential election. Despite all these apparent challenges to global harmony, equity markets around the world have continued to rally. Year-to-date the US S&P500 is up over 6%, Australia's S&P/ASX200 has returned 7.5% and New Zealand has delivered a whopping 16%. This performance is remarkable given that globally economic growth remains laboured and basic assessments of equity valuations appear stretched.

Compounding the dilemma for investors is that over the past 12-months reported company earnings in general have been disappointing. The Australian market for example, in aggregate, now looks set to report its second consecutive year of negative earnings-per-share growth. Confirmation of this will be made apparent over the next 4-weeks as we embark on the company Reporting Season. This is a time of great interest for investors as listed companies, that have their financial year-end occurring at either the end of December or June, are required to release their operating financial results (note the same obligation also occurs in February of each year). It is also a time when management teams comment on their recent past performance and provide the market with feedback as to their expectations of operating conditions and outcomes looking forward. This same process of disclosure occurs in all developed equity markets including New Zealand.

The reason that this next month will be especially interesting to investors is because stock markets have performed so well. The key issue that the market will look to get clarity on during August is whether or not the bull-market that is currently being enjoyed is one that is reflective of improving company fundamentals, and is therefore more likely to be sustainable, or is the "rubber band" of valuations simply being stretched too far.

Although economic and business conditions do... [Read More](#)

MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P NZX50 Gross	NZ	6.5%	24.1%
S&P ASX200	AUSTRALIA	6.3%	2.4%
MSCI World Index	GLOBAL	4.3%	0.1%
S&P500	USA	3.7%	5.6%
FTSE100	UK	3.4%	4.5%
NIKKEI 225	JP	6.4%	-18.0%
NZ 90 Day Bank Bill	NZ	0.2%	2.8%



AT A GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.6251

DEVON AUSTRALIAN FUND

\$1.3540

DEVON DIVIDEND YIELD FUND

\$1.9610

DEVON DIVERSIFIED INCOME FUND

\$1.5690

DEVON TRANS-TASMAN FUND

\$3.6878

GLOBAL THEMES FUND

\$2.1424

Prices as at 31 July 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.

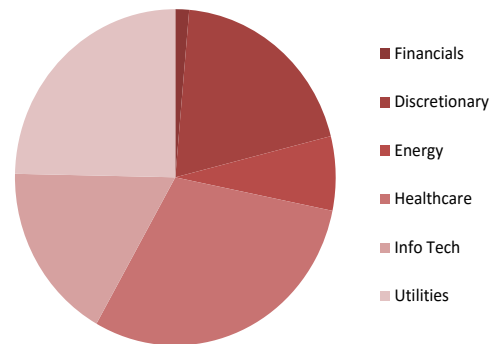
DEVON ALPHA FUND

The Alpha Fund benefited from a strong performance across a number of its key holdings during the month. Both Resmed and oOh!Media rallied more than 10% while other investments such as GTN and Spark Infrastructure closed the month up 9% and 7% respectively. Resmed is a medical devices company that specialises in the address of sleep apnoea and their shares responded positively to the release of the company's fourth-quarter result. One of their major highlights was Group revenue which grew by 14% over the period. We were pleased with strong contributions coming from both their Masks and Flow Generator divisions. We expect this positive momentum to continue with management announcing that at least one new mask will be released by the end of this calendar year and additional products are due in 2017. The cash weighting in the Alpha strategy remains close to 30%.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	38.2%
Australian Equities	34.2%
Cash	27.6%
Currency Hedge	100.0%
	28.3%

PERFORMANCE

As at 31/07/16

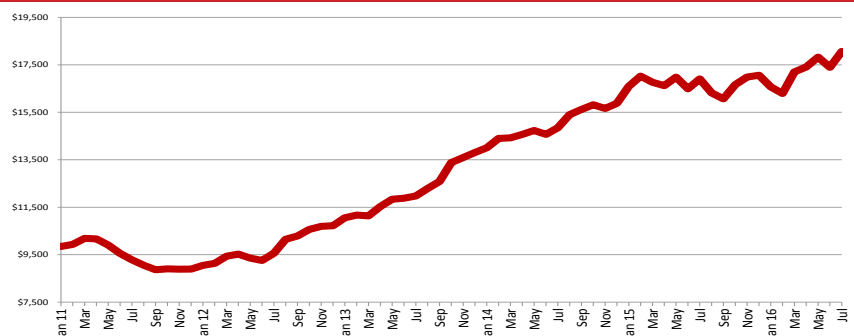
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	3.8%	3.8%	6.9%	14.7%	14.2%
OCR	0.2%	0.6%	2.5%	2.9%	2.7%

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

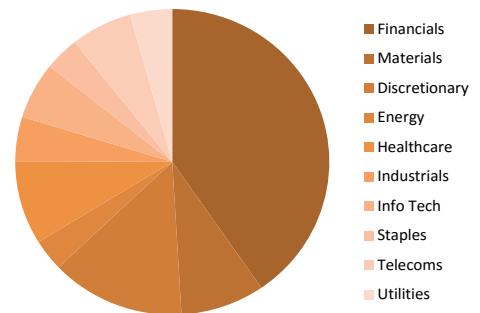
The Australian Fund outperformed the S&P/ASX200 in July with the market posting a strong recovery as Brexit concerns dissipated. In Australia, the market also took the recent election in its stride as the Coalition secured a narrow victory at the polls winning 76 seats. A number of conviction ideas delivered over the month including Motorcycle Holdings, oOh!media, AMP, Resmed, Fletcher Building and GTN. Xenith and Westfield Group both detracted from performance.

Motorcycle Holdings (MTO) rallied 25% in April after a strong trading update and is up 68% since its April IPO. MTO is Australia's largest motorcycle dealership operator with 34 franchises across Australia and is well placed to consolidate the fragmented industry. In terms of portfolio changes, the Fund added a position in Woolworths after a long period of not owning the company in the Portfolio. Our view, confirmed by the recent trading update, is that the business is beginning to stabilise after a long period of underperformance. Significant risks remain in the turnaround in a very competitive supermarket sector so we maintain only modest exposure at this time.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

Dual Listed	5.7%
Australian Equities	90.2%
Cash	4.1%
	100.0%
Currency Hedge	0.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
As at 31/07/16					
Devon Australian Fund	7.4%	3.9%	4.5%	12.1%	10.4%
ASX200 Index Gross (NZD)	7.1%	3.2%	-2.4%	5.6%	5.8%

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

PORTFOLIO MANAGER

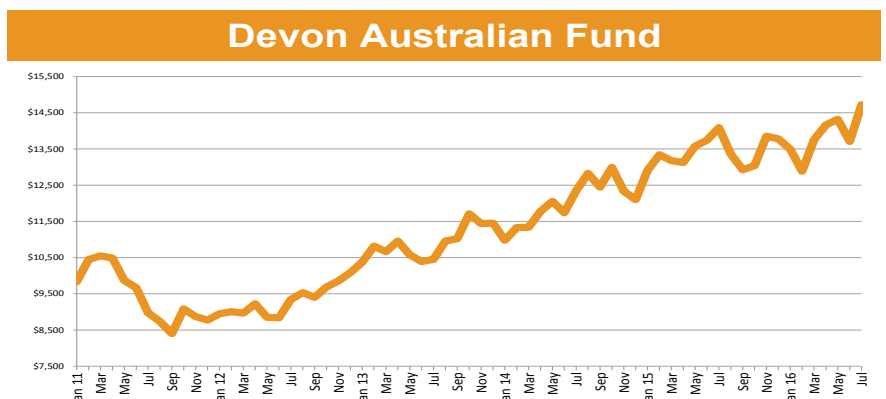
Tama Willis



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.

NET PERFORMANCE

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





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

The Diversified Income strategy performed well over the month with a particularly strong contribution being made by our investment in the Devon Dividend Yield Fund. It was an interesting month for fixed interest investing with a range of factors influencing interest rates. Post the Brexit vote, global central banks have responded in a very accommodative way. This has contributed to the borrowing costs for many companies around the world being driven down to record lows.

Meanwhile, here in New Zealand, the Reserve Bank announced the introducing of new loan-to-value restrictions in an attempt to curb local house price inflation. In a separate release they also highlighted their specific concerns over the value of New Zealand Dollar and its negative effect on inflation. The outcome of these comments is that the market now expects the Reserve Bank to cut the overnight cash rate at least once more through this current cycle.

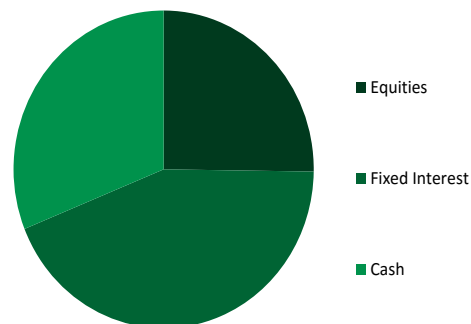
KEY HOLDINGS



Rabobank



ASSET ALLOCATION



GROWTH

NZ Equities	13.5%
AU Equities	10.6%

DEFENSIVE

Cash	32.2%
NZ Corporate Bonds	43.7%
NZ Government Bonds	0.0%

PERFORMANCE

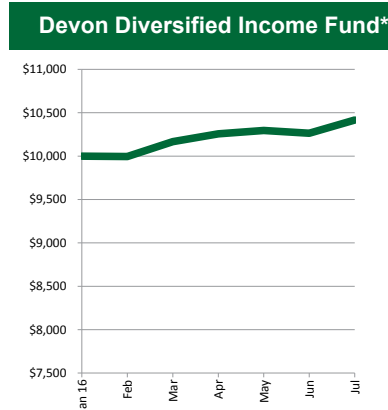
As at 31/07/16

	1 Mth	3 Mth	Inception
Diversified Income Fund	1.5%	1.6%	4.3%
OCR +1.5%	0.3%	0.9%	2.2%

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.

NET PERFORMANCE

Based on \$10,000 invested at 1 January 2016



*Fund commenced on 1 January 2016

AT A GLANCE

Targeted Portfolio Yield	5.5%
Commenced	January 2016
Total strategy	\$4.2m
Distributions	Target distributions of 1.5 cents per unit after tax paid quarterly

PORTFOLIO MANAGER

Slade Robertson



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DEVON DIVIDEND YIELD FUND

FUND OUTLINE

The Devon Dividend Yield Fund consists of a select group of up to 25-35 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

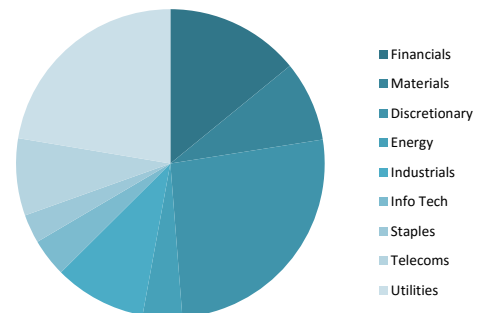
In a very strong month for local markets it was gratifying to see the Dividend Yield Fund outperform. Almost every holding in the portfolio was up, some very strongly. The biggest mover was Motorcycle Holdings (MTO), an Australian owner of motorcycle dealerships. The Fund invested in MTO on listing due to its attractive valuation and strong growth profile – the company is very well positioned to acquire smaller dealerships in what is a very fragmented market.

In late July the company announced that profits would be 10% to 15% higher than forecast - an outcome driven not by acquisitions but by strong performance in the existing business. MTO rose 24.5% over the month. Another strong performer was Kathmandu (KMD) which was up 17.7%. KMD had steadily weakened over May and June as abnormally warm weather caused investors to worry that its crucial winter sale would disappoint. The company relieved concerns with an earnings upgrade in late June and the stock price has continued to rise since then.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	53.5%
Australian Equities	41.8%
Cash	4.7%
Yield	6.2%
Currency Hedge	100.0%

PERFORMANCE

As at 31/07/16

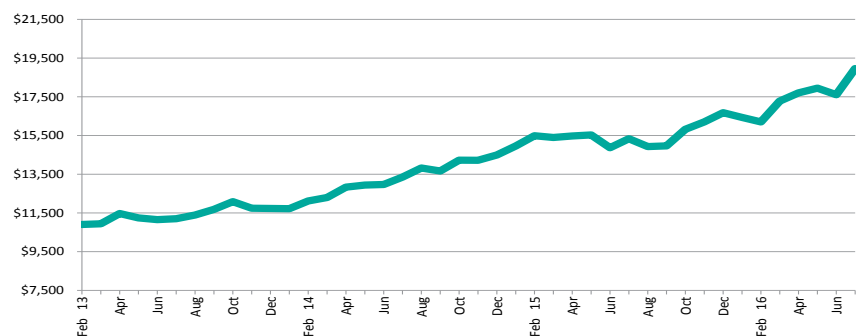
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	7.7%	7.1%	23.6%	19.7%	-
TT Index (Hedged)	6.4%	7.3%	13.2%	12.7%	-

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 Dividend Yield 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 delivered a positive performance in July and outperformed the Trans-Tasman index. Fund holdings Kathmandu, Fletcher Building, Vista, oOh!media, GTN and Resmed all delivered strong performances over the month. On 1 August, Vista (VGL) announced it received the first of two regulatory approvals required for the completion of its joint venture in China with Tencent affiliate WePiao and both parties are now confident of final approval in 20 days. VGL will have in excess of \$65m of net cash by the end of 2016 and will also retain a minority stake of up to 40% in an exciting JV with one of China's largest internet groups, providing another leg of growth.

In terms of portfolio changes, the Fund added to Kathmandu and Z Energy positions over the month. Kathmandu delivered a positive earnings update, despite warmer weather in New Zealand, as the new management team delivered a better than expected gross margin and cost performance. Meanwhile, Z Energy is well placed as it consolidates the recent Caltex acquisition. In August the group will provide market guidance for FY17 including the Caltex deal, synergy benefits, transition costs and divestment impacts. With strong fuel margins and a dominant market position there are positive earnings tailwinds for the business.

PORTFOLIO MANAGER

Tama Willis

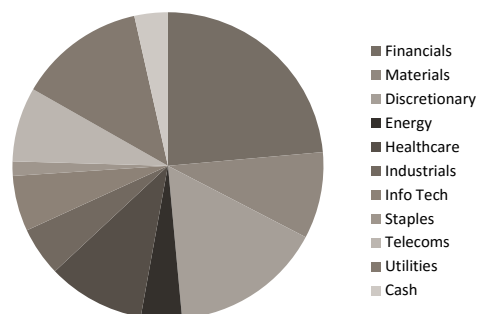


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KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	49.2%
Australian Equities	47.3%
Cash	3.5%
	100.0%
Currency Hedge	0.0%

PERFORMANCE

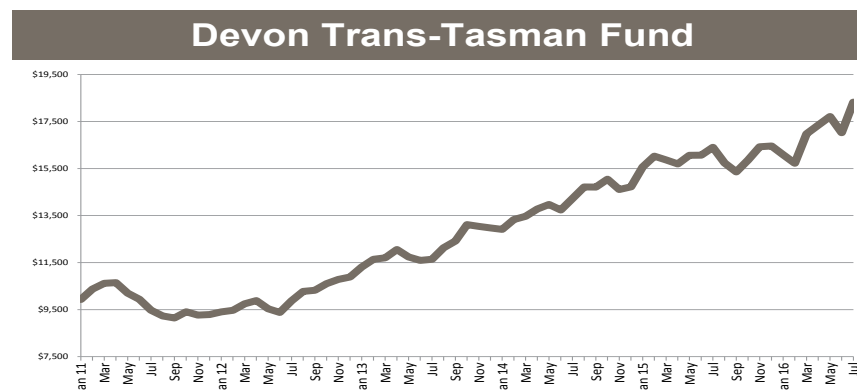
As at 31/07/16

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	7.6%	5.6%	11.7%	16.3%	14.1%
Trans-Tasman Index Gross	6.8%	5.5%	10.8%	11.5%	11.3%

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 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

Following a rather extraordinary June dominated by the shock outcome of the Brexit referendum, markets delivered another surprise in July in the form of a rapid rebound following the short-lived sell off. Despite this, however, bond yields remain very low, indicating that investors are trading cautiously.

Reflecting this heightened level of uncertainty, the fund remained ~15% in cash during July, a position we have been comfortable with. In saying this, we rebuilt most of our US Banks exposure as US economic data continued to paint a picture of a relatively healthy economy, and one that had largely shrugged off the events on the other side of the Atlantic.

On the last day of the month, the Bank of Japan delivered yet another surprise by committing to a smaller easing package than was widely expected. This unfortunately negatively impacted returns for the month, as Japan remains one of our highest conviction themes. Despite this, however, we were pleased to still deliver a strong return for the month, both in an absolute and a relative sense.

We continue to have strong conviction in our view that historically low interest rates, particularly in the US, will rise sooner than markets expect. We are still positioned for this view, which as mentioned last month has

been the primary driver of our underperformance this year. That said, we remain in capital preservation mode. In light of this, we are actively seeking investment opportunities that will help add a more defensive element to the fund, while still exhibiting attractive growth characteristics. One sector that we have been conducting extensive due diligence on is European Telecommunications. We expect to initiate a position in this theme during August.

Returns

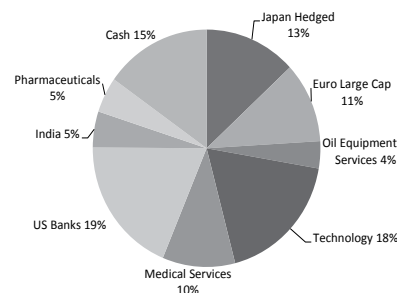
The Global Themes Fund rose 3.8% in July to a unit price of \$2.1424. This com-

pares with a 3.4% rise in our global equity benchmark. The Fund has risen 7.4% since inception in October 2014, versus a 13.0% increase in the iShares MSCI All Country World Index Exchange Traded Fund 50% hedged to NZD.

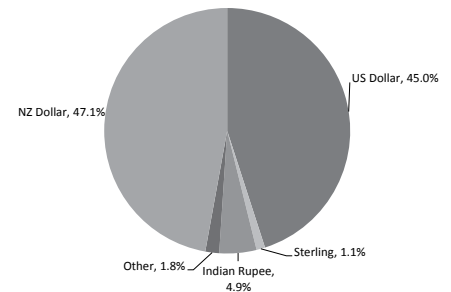
Currency exposures

Following the Brexit result we removed almost all of our currency hedging to help de-risk our portfolio, however this was only intended to be a short-term move. As a result, we took the opportunity to rebuild the currency hedge level back to our benchmark weight of 50%.

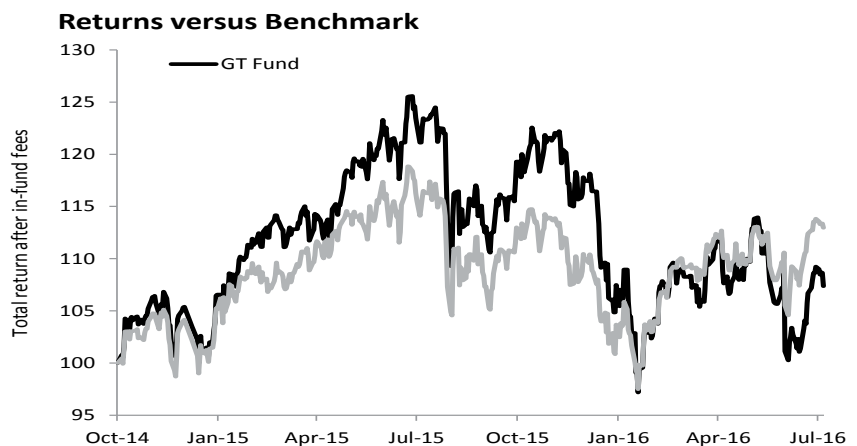
SECTOR ALLOCATION



CURRENCY EXPOSURE



NET PERFORMANCE SINCE INCEPTION
Returns versus Benchmark



* iShares MSCI 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.