



AT A
GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.6173

DEVON AUSTRALIAN FUND

\$1.3191

DEVON DIVIDEND YIELD FUND

\$1.9645

DEVON DIVERSIFIED INCOME FUND

\$1.5727

DEVON TRANS-TASMAN FUND

\$3.6329

GLOBAL THEMES FUND

\$2.1830

Prices as at 31 August 2016

MARKET COMMENTARY

Reporting Season Draws to a Close

Now the reporting season is behind us we thought it would be useful to recap on how New Zealand and Australian companies performed during the past month, as they delivered their profit outcomes and guided the market as to their expectations of future performance.

The earnings season in New Zealand saw our local companies report profits broadly in-line with analyst forecasts. This was an important milestone for the NZX to have met because, after delivering a return of greater than 120% over the past 5-years, the tolerance for any disappointment here would have been low. In summary, market earnings growth achieved by the S&P/NZX50G for the year to June 2016 was up 12.6% versus what was produced in the prior comparable period. Included in this were notably impressive results from companies Fletcher Building and Metlifecare. The outlook statements released as part of these results typically described the domestic operating environment in constructive terms, although any business with exposure to the Australian economy generally caveated their assessment by highlighting that conditions there have been more challenging. Subsequent to the receipt of all the information during August, the market is now forecasting 10% earnings growth for the S&P/NZX50G in Australia also saw the majority of its companies deliver results which were broadly in-line with expectations but it is important to highlight that many of these expectations had been lowered in the months prior. The results that were reported demonstrate that the June half was a challenging time for Australian corporates. The most significant drag on the markets came from the Resources sector. Subsequent to a decline in commodity demand from China and an over-supplied market in key materials such as iron ore, Resource sector earnings in the June-half were down around 20% year-on-year. Bank earnings also fell as they dealt with a mild rise in bad debts, pressure on their net-interest-margins and softer non-interest income. The Industrials, which are the final major sector category, reported a mixed set of results. Domestic cyclical businesses such as those operating in Retail and Construction benefited from ongoing strength in their...[Read More](#)

MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	0.7%	30.8%
S&P/ASX200G	AUSTRALIA	-1.6%	9.3%
MSCI World Index	GLOBAL	0.1%	7.3%
S&P500	USA	0.1%	12.6%
FTSE100	UK	1.7%	13.0%
NIKKEI 225	JP	2.0%	-8.9%
NZ 90 Day Bank Bill	NZ	0.2%	2.8%

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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

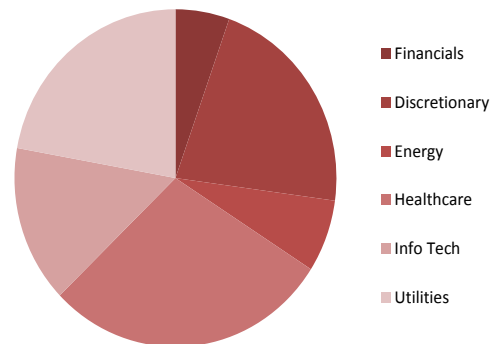
The reporting season was broadly successful for the Alpha strategy with a number of our companies delivering strong results. Stocks that performed particularly well included GTN Limited which finished the month up over 13% (and has risen again significantly post the month-end) and Metlifecare which rallied over 8% during August.

Another very satisfactory outcome came from our recent investment into iSentia Group, whose share price jumped over 21% after management reported that during the last financial year the company enjoyed a 23% improvement in group revenue and a 20% lift in EBITDA. This business is now the largest media monitoring company in Australia and New Zealand and they are successfully developing a presence across the Asian markets. Private hospital operator Healthscope also delivered a strong result and investor confidence has improved regarding margin opportunities in FY17. Offsetting these positive contributors was weakness in oOh!Media, Contact Energy and Spark Infrastructure.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	35.8%
Australian Equities	38.0%
Cash	26.2%
Currency Hedge	100.0%

PERFORMANCE

As at 31/08/16

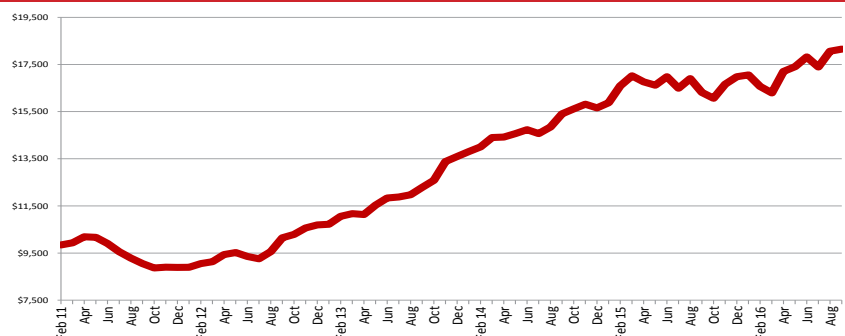
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	-0.5%	0.9%	10.2%	13.5%	14.7%
OCR	0.2%	0.6%	2.5%	2.9%	2.7%

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.

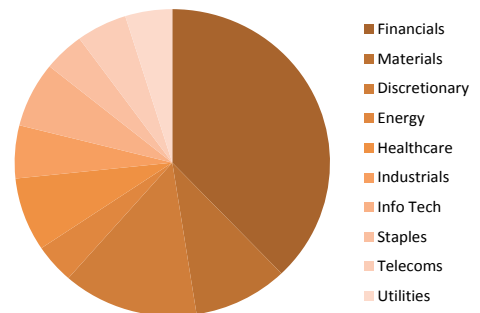
DEVON AUSTRALIAN FUND

The Australian Fund fell 2.6% over the month, outperforming the S&P/ASX200G in NZD (-3.2%). A stronger NZD/AUD cross rate impacted absolute performance over the month as the Fund is unhedged, although with the cross rate at close to record highs any retracement will benefit the Fund. Positive contributors included Woolworths, Health-scope, Fletcher Building and GTN. In late August, small-cap holding Xenith (XIP) reported a strong FY16 result. XIP holds a leading position in the fragmented Australian Intellectual Property (IP) market. XIP's revenue rose strongly and EBITDA was 23% above prospectus. XIP also recently acquired Watermark which currently has a 4% market share in the Australian IP market and this acquisition brings XIP's market share to **around 50%**. In the period of portfolio changes, the Fund removed Woolworths from the portfolio after the market rewarded the company for early signs of a turnaround in sales. We believe management are making the right changes to the business but a 24% rally since inclusion in the Portfolio was overdone given the turnaround is expected to take 3-5 years and the valuation became stretched.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

Dual Listed	5.9%
Australian Equities	87.8%
Cash	6.3%
	100.0%
Currency Hedge	0.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
As at 31/08/16					
Devon Australian Fund	-2.6%	0.1%	7.4%	9.4%	10.4%
ASX200 Index Gross (NZD)	-3.2%	-1.3%	1.1%	2.9%	5.6%

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

PORTFOLIO MANAGER

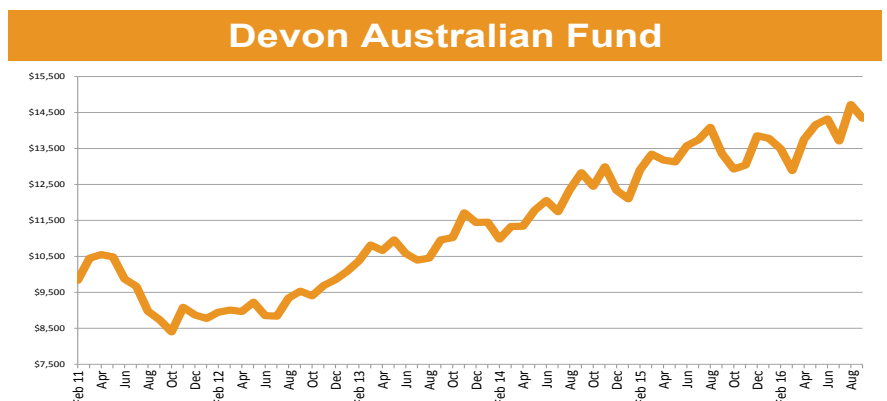
Tama Willis



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

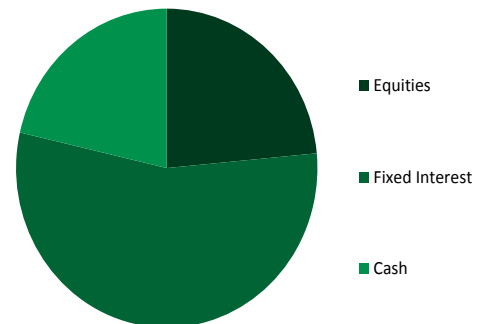
During the month Fixed Interest investors were focussed on the signals coming out of the US Federal Reserve in respect to their assessment of economic progress relative to their policy settings. Fed Chair Janet Yellen highlighted during her speech at the Jackson Hole economic symposium that their stated goals around employment and price stability were nearing success. This resulted in the markets increasing their expectations of an interest rate hike by the Fed before year-end.

In New Zealand the Reserve Bank reduced the Official Cash Rate during the month by 25 basis points to 2% citing global conditions and a frustration with the strong New Zealand Dollar as considerations in their decision. Despite this the New Zealand Dollar rallied during August. Also during the month we also saw activity in the domestic corporate debt market improve with offerings from Kiwi Income Property, ANZ and Spark coming to market.

KEY HOLDINGS



ASSET ALLOCATION



GROWTH

NZ Equities	12.7%
AU Equities	9.0%

DEFENSIVE

Cash	23.2%
NZ Corporate Bonds	55.1%
NZ Government Bonds	0.0%

PERFORMANCE

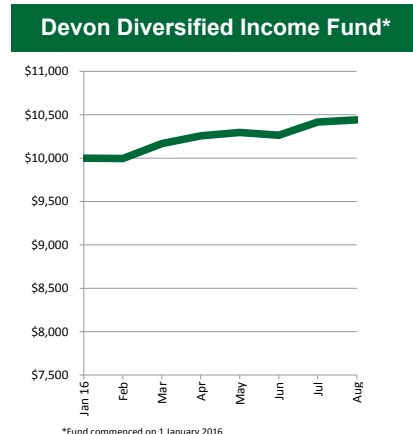
As at 31/08/16

	1 Mth	3 Mth	Inception
Diversified Income Fund	0.2%	1.41%	4.6%
OCR +1.5%	0.3%	0.9%	4.9%

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	\$5.1m
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

August is the busiest month of the year for companies to report financial results and the market's response to results was an important driver of performance for the Dividend Yield Fund. The standout contributor was GTN Limited which rose 13.2% in August. GTN has a large Australian operation based on a powerful business model – it sells advertising around traffic reports for radio and television stations and is highly profitable despite paying the stations for the service – and very large growth potential in large offshore markets including Canada, Brazil and the US.

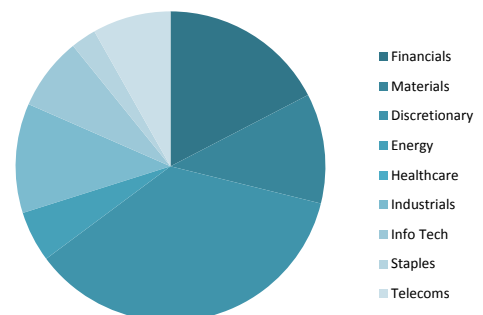
Trade Me (TME) was another strong contributor, rising 7.4%, including a bounce of 5% on the day it reported its FY16 earnings. The result was notable for material strength across not just its core classified businesses, but more importantly, in its general items business. This division, has seen very strong volume growth over the last 12 months as the company has moved to improve its technology and product management.

KEY HOLDINGS



ASSET ALLOCATION

0.4262



GEOGRAPHIC ALLOCATION

New Zealand Equities	54.0%
Australian Equities	38.1%
Cash	7.9%
Yield	5.8%
Currency Hedge	100.0%

PERFORMANCE

As at 31/08/16

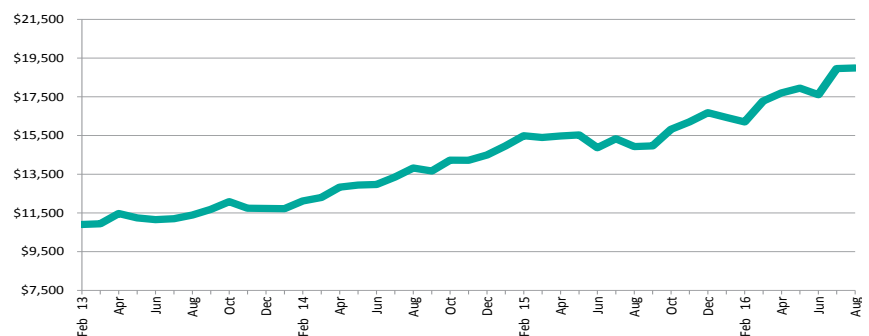
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	0.2%	5.8%	27.2%	19.1%	-
TT Index (Hedged)	-0.4%	3.6%	20.1%	12.1%	-

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 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

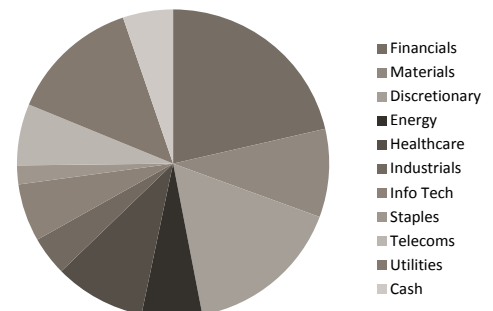
The Trans-Tasman Fund declined 1.5% over the month, broadly in line with the Trans-Tasman index. Fletcher Building, Metlifecare, Trademe and GTN were the key contributors to relative performance. Meanwhile, detractors included oOh!media (OML) and an underweight position in Auckland Airport. Outdoor player OML's share price fell as main competitor APN Outdoor downgraded guidance on signs of a more subdued Q4 market backdrop due to the Election and Olympics. In contrast, OML reported a strong interim result and reiterated guidance for the full year.

Vista Group (VGL) was flat over the month although a number of positives emerged, in our view. At the group's interim results management indicated revenue guidance at the higher end of 20-30% growth for CY2016 (pre acquisitions) even after taking into account a stronger NZD. Also, final regulatory approval was granted on the Vista China deal and WeiPiao will now make the final payment that will bring the total "in excess of \$38m" to VGL in the first year which increased the likelihood of a capital return. In terms of portfolio changes, the Fund removed Woolworths from the portfolio after the market rewarded the company for early signs of a turnaround in sales.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	48.4%
Australian Equities	46.4%
Cash	5.2%
Total	100.0%
Currency Hedge	0.0%

PERFORMANCE

As at 31/08/16

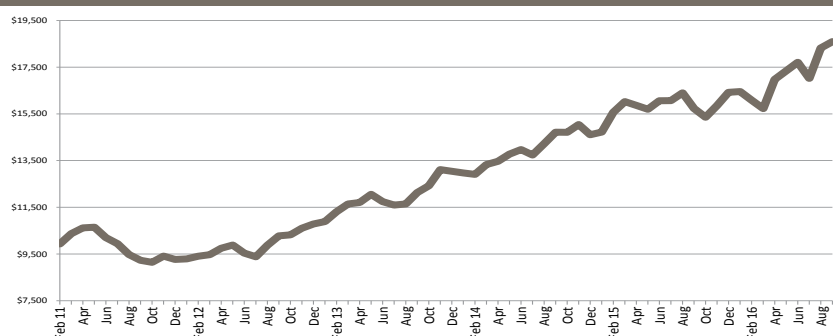
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	-1.5%	1.9%	14.7%	14.2%	14.3%
Trans-Tasman Index Gross	-1.3%	1.9%	16.0%	10.3%	11.5%

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 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

"Trench warfare" is how one of our research providers describe the current investment backdrop. This observation is not a reflection of returns, which have been remarkably well behaved given Brexit and the looming US Presidential election. The description more reflects the vast, intractable, divide between those that believe the lowest interest rates in modern financial market history are justified, and those that don't.

We remain firmly in the "don't" camp. Wage growth in the United States is now comfortably over 3%, a result of many years of robust jobs growth. The US is no longer an economy that needs interest rates close to zero. Indeed there is growing evidence, and debate, that the protracted period of low interest rates is harming financial stability.

We see US banks as an important source of potential positive return. Scenario testing suggests upside of ~30% if the Fed were to hike modestly faster than the market assumes.

As flagged last month, we have begun adding the European Telecommunication theme to our portfolio – names such as Vodafone, BT and Orange. We see these companies as on the cusp of double digit earnings growth as cheap new broadband technologies are rolled out through their copper networks.

We continue to hold an elevated level of cash. Whilst not outright bearish, we are suspicious at how easily equity markets have shrugged off Brexit and are rising into a contentious presidential election. Ideally, a Federal Reserve rate hike in either September or December will test the quality of this rally.

Returns

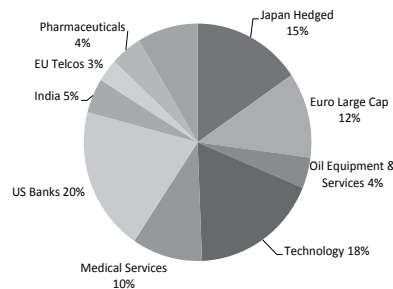
The Global Themes Fund rose 1.9% in August to a unit price of \$2.183. This compares with a 0.1% rise in our global equity benchmark. The Fund has risen 9.4% since inception in October 2014, versus a 13.1%

increase in the benchmark.

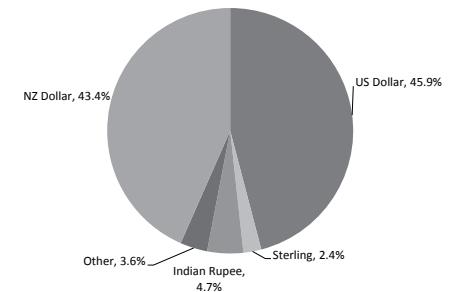
Currency exposures

We continue to maintain our NZD hedge relatively close to 50%. If the Fed emphatically moves back into the hike zone, then a window exists for the Kiwi to lose ground although we don't see much room for a large fall. The recovery in dairy prices now sits alongside a booming domestic economy in New Zealand. If we see any weakness in the NZD we will likely take the opportunity to build a larger hedge position in our portfolio.

SECTOR ALLOCATION



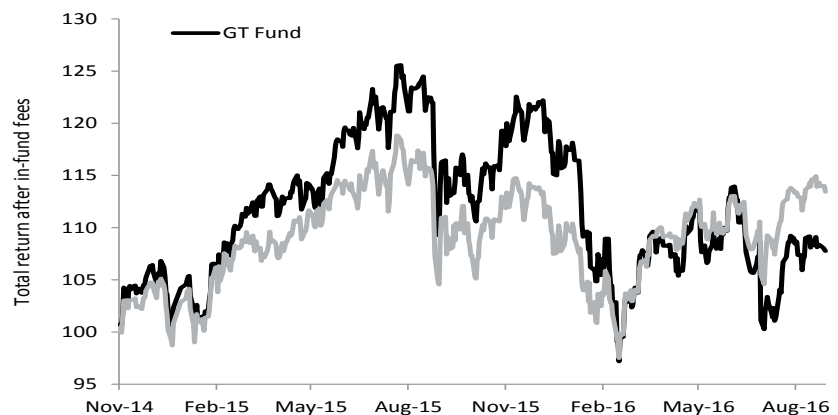
CURRENCY EXPOSURE



NET PERFORMANCE SINCE INCEPTION

Returns versus Benchmark

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.