

MARKET COMMENTARY

Dumb Growth

Following the surprise announcement by John Key that he is stepping down as Prime Minister, the National Party will appoint a new leader to fight the 2017 election. After enjoying many years of stable government under the able leadership of Helen Clark and then John Key, the political scene in New Zealand is likely to become more uncertain. While there are few short term investment implications, the new leader will need to set out clear long term policies on growth, immigration and infrastructure. One of the big issues that needs to be debated is what type of economic growth we want in New Zealand.

New Zealand is in a unique position globally in that we have a small population, a naturally stunning country and the opportunity to shape it how we'd like. Much of the rest of the world faces very significant challenges including extreme poverty, high youth unemployment, pollution, terrorism, religious conflict, flat real wages (middle income earners in the US and UK have had flat real wages for three decades now), increasing inequality and limited or no access to things that we take for granted like clean water, beaches, parks and low cost but good quality health and education services. While we definitely have some of these issues developing in New Zealand we're still at an early stage compared with many other nations.

Many of the world's challenges have been caused by the explosive, almost virus like, growth of the human population. Just over 200 years ago, which is the blink of an eye in evolutionary terms, there were fewer than 1 billion people on the earth. Today there are 7.4 billion and the United Nations estimates there will be over 11 billion by the year 2100. Anyone travelling the world today can testify to the sheer volume of humanity which is changing the way we live and its effect on our planet. The increasing mass of humanity, combined with the falling cost of travel, is changing cultures at a basic level. It is also overwhelming many tourist attractions with access now being controlled or restricted.

From a New Zealand perspective, a low population is one of the factors that make us special and an attractive place to live and raise a family... [Read More](#)

MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	-0.9%	13.1%
S&P/ASX200G	AUSTRALIA	3.0%	10.0%
MSCI World Index	GLOBAL	1.7%	4.0%
S&P500	USA	4.0%	8.3%
FTSE100	UK	-2.0%	11.1%
NIKKEI 225	JP	5.1%	-5.5%



AT A GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.5377

DEVON AUSTRALIAN FUND

\$1.3187

DEVON DIVIDEND YIELD FUND

\$1.8644

DEVON DIVERSIFIED INCOME FUND

\$1.5307

DEVON TRANS-TASMAN FUND

\$3.4841

GLOBAL THEMES FUND

\$2.3080

Prices as at 30 November 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

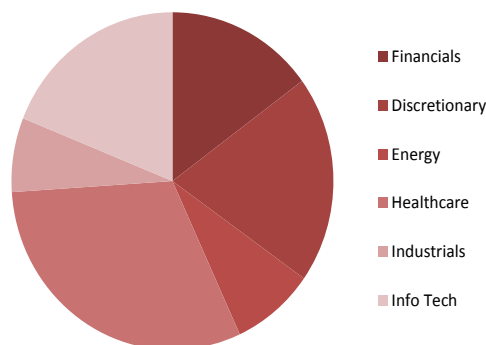
The Devon Alpha Fund's performance over November was largely driven by a number of stocks seeing a reversal in their recent performance. Both Crown Resorts and Resmed recovered a significant amount of the ground they lost in October. Crown (discussed further on in the Dividend Yield Fund commentary) rose 7.8% and Resmed 6.3%. Resmed benefitted from the sharp rally in US stocks after the resolution of the US Presidential election and strikingly outperformed its NZ headquartered competitor Fisher and Paykel Healthcare which fell -7.7%. GTN, the Australian listed radio advertising network saw its recent performance stall, falling 10.8% to \$3.38. The company's share price has had a very strong run since listing (on June 1 at \$1.90) and a "breather" of some sort is unsurprising. We remain confident that the business's current valuation fails to reflect the opportunities it has in front of it, particularly the earnings it may be able to extract from the US market if it exercises its option to purchase Radiate Media.

KEY HOLDINGS

RESMED



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	27.6%
Australian Equities	37.6%
Cash	34.8%
TOTAL	100.0%
Currency Hedge	30.0%

PERFORMANCE

As at 30/11/16

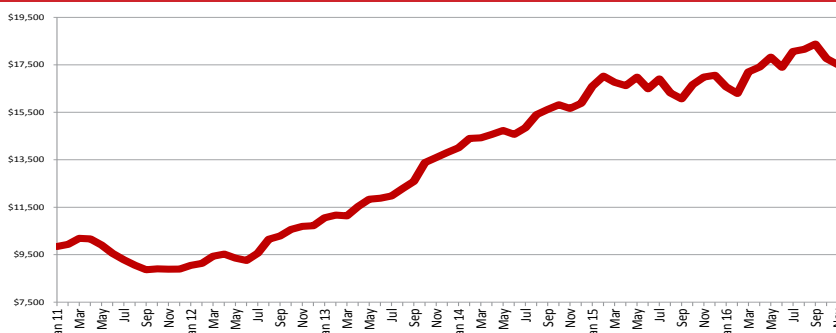
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	-1.4%	-3.5%	2.1%	8.5%	14.3%
OCR	0.1%	0.5%	2.2%	2.8%	2.7%

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

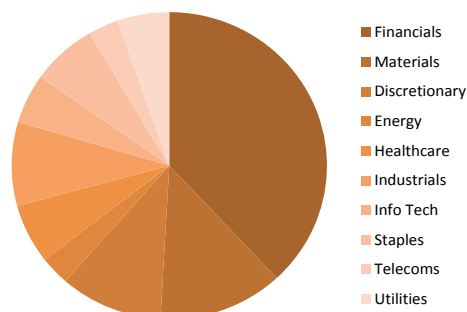
The Australian Fund fell marginally over the month, underperforming the S&P/ASX200 in NZD (+0.9%). Resources and Banks drove the S&P/ASX200 index higher with NAB, Westpac, BHP Billiton, Rio Tinto and Aurizon positive contributors to Fund performance. Detractors included GTN, Westfield and Xenith IP. The Fund added to NAB after a solid and relatively clean financial result. Key positives from the result were the stronger than expected capital generation, a stabilisation in business margins and guidance of ongoing cost savings.

In terms of other portfolio changes, Henderson (HGG) was added to the Portfolio. The company has been under pressure since the UK's Brexit vote. However, since Brexit HGG has seen funds under management improve (+6% in Q3 to GBP100.9bn) and the business is trading at a valuation discount to listed peers. In October 2016 Henderson announced it intends to merge with US listed asset manager Janus Capital. The combined group will manage in excess of US\$320bn with US\$100m pa of cost synergies targeted within 3 years.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

Dual Listed	5.0%
Australian Equities	92.3%
Cash	2.7%
TOTAL	100%
Currency Hedge	0.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
As at 30/11/16					
Devon Australian Fund	-0.2%	1.9%	5.5%	8.5%	10.5%
ASX200 Index Gross (NZD)	0.9%	1.9%	4.3%	2.9%	5.5%

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

PORTFOLIO MANAGER

Tama Willis

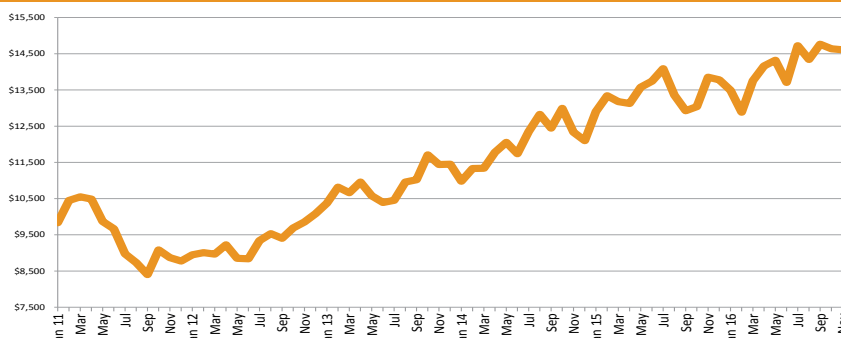


After a long period in international investment markets, Tama returned to NZ after a very successful career in London and Singapore to join Devon's investment team and holds responsibility for Devon's Australian and Trans Tasman Funds. Tama is widely regarded as a leading expert on resource and mining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

NET PERFORMANCE

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

Devon Australian Fund





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.

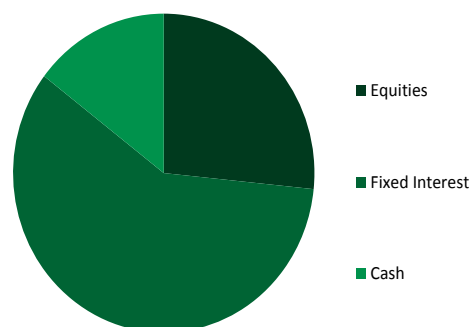
DEVON DIVERSIFIED INCOME FUND

November saw the recent trend of rising yields that had begun in July accelerate sharply following the election in early November of Donald Trump as US President. The US 10-year bond interest rate increased by another 0.56% to finish the month at 2.39%. It has now risen more than 1% off its ultra-low starting point. Interestingly the yield curve has also steepened significantly (longer dated interest rates moved higher than shorter dated rates) indicating that the move is not simply a reflection of the Federal Reserve's likely increase in overnight interest rates but rather reflects market expectations of higher interest rates as a result of more fiscal spending, lower corporate taxes and higher inflation. The outcome remains to be seen but deterioration in the fiscal position of the US Government as a result of these policies would suggest a higher coupon is required to compensate for higher risk, at the very least. Higher offshore funding costs are starting to flow through to New Zealand borrowers with local banks lifting mortgage rates. This may begin to have an impact on local retail bonds as corporates looking to borrow in that market may be forced to pay higher rates.

KEY HOLDINGS



ASSET ALLOCATION



GROWTH

NZ Equities	13.7%
AU Equities	12.2%

DEFENSIVE

Cash	15.3%
NZ Corporate Bonds	58.8%
NZ Government Bonds	0.0%

PERFORMANCE

As at 30/11/16

	1 Mth	3 Mth	Inception
Diversified Income Fund	-0.6%	-1.7%	3.8%
OCR +1.5%	0.3%	0.9%	3.4%

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

AT A GLANCE

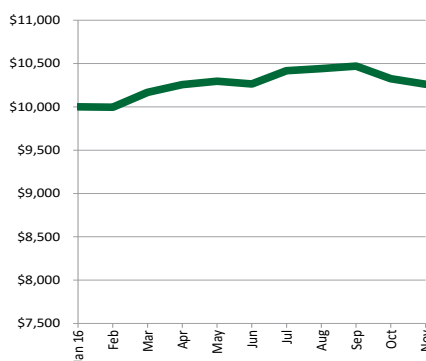
PORTFOLIO MANAGER

Slade Robertson



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Devon Diversified Income Fund*



*Fund commenced on 1 January 2016

Targeted Portfolio Yield	5.0%
Commenced	January 2016
Total strategy	\$5.6m
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 25-35 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

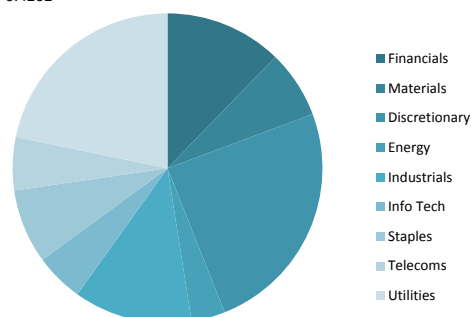
The Dividend Yield Fund performed in line with the New Zealand market but it struggled to keep up with a strong Australian market which returned nearly 3%. Much of that strength came from the continuation of a strong run in Resource sector companies (with the recent exception of gold miners) and Financials (the big 4 banks rose an average of 6.3% on the back of rising long dated interest rates). One holding which performed well was Crown Resorts Ltd which rose 7.8%. The Australian and international casino operator saw its price fall sharply in October after several of its staff were arrested in China for unlawfully promoting gambling. The market's reaction focused on the risk to the company's VIP business. We held the view that even if the VIP segment earned nothing the market's reaction was excessive and took the opportunity to add to our position. On the negative side, Metro Performance Glass (a small holding in the Fund) sold off 11.5% after reporting a modestly disappointing 1H17 result.

KEY HOLDINGS



ASSET ALLOCATION

0.4262



GEOGRAPHIC ALLOCATION

New Zealand Equities	51.6%
Australian Equities	45.8%
Cash	2.7%
TOTAL	100.0%
Currency Hedge	100%
Yield	6.3%

PERFORMANCE

As at 30/11/16

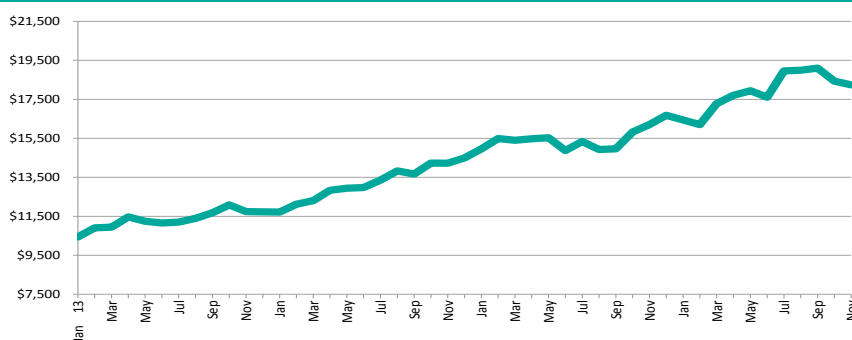
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	-1.0%	-4.0%	12.6%	16.3%	-
TT Index (Hedged)	1.0%	-2.8%	11.5%	9.1%	-

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 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 underperformed the index over the month. A pullback in GTN after recent strong performance offset good outcomes elsewhere in the Portfolio including BHP Billiton, Crown, NAB and Suncorp. We recently spent two days visiting companies in Brisbane including Suncorp management. This business remains in good shape with exposure to rising insurance premiums in Australian Home and Motor and improving investment returns due to a pickup in global bond yields. In addition, the business is well reinsured for the recent earthquake in New Zealand.

The Fund increased its holding in Fisher and Paykel Healthcare (FPH) over the month after the company's share price recently fell on concerns about a US patent dispute with their key competitor Resmed. We believe this dispute could take years to resolve but in the meantime FPH continues to report strong growth in revenue and profits.

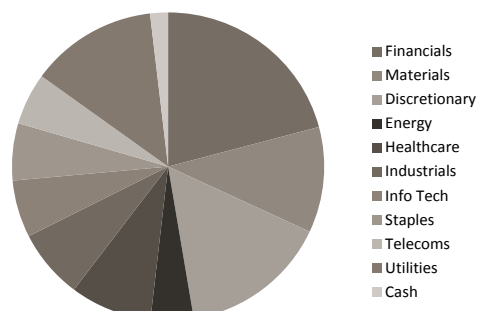
KEY HOLDINGS



VISTA
GROUP



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	47.2%
Australian Equities	51.0%
Cash	1.9%
TOTAL	100.0%
Currency Hedge	0.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
As at 30/11/16					
Devon Trans-Tasman Fund	-1.1%	-2.3%	7.4%	10.6%	13.7%
TT Index (Unhedged)	0.0%	-2.4%	8.7%	7.9%	10.8%

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

PORTFOLIO MANAGER

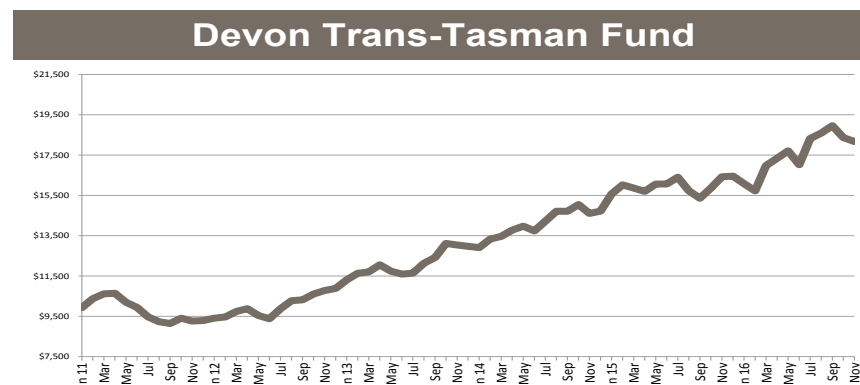
Tama Willis



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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 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

November was yet another example of a Western democracy defying convention, pollsters and market expectations. We went into the November 8 election believing markets were under-pricing a Donald Trump win. Accordingly we held an elevated level of cash (~15% of our fund) in case a win by Mr. Trump drove a flight to safety. As the Trump victory unfolded this initially played out – US 10-year Treasury yields fell to a low of ~1.71%, and the US equity market looked poised to open down ~5%. However, this all turned around during President-elect Trump's market-friendly victory speech, and we quickly re-deployed our excess cash accordingly. Since the election, US 10-year Treasury yields are up ~0.55%, and equities have touched all-time highs. While this has all played out very quickly, we have long harboured a strong view that bond yields were unsustainably low, and have been positioned accordingly through our strongest-conviction sector tilt, US Banks, which has risen ~18% since the election. We have also seen strong performance from a number of our other high-conviction themes: Japan (+~10%) on a weaker Yen, and Oil Services (+~16%) on lower regulation fears and a last minute OPEC supply-cut deal at the end of the month.

While our highest conviction themes remain US Banks and Japan, we are conscious

of how quickly these have risen and, out of prudence, we expect to reduce our holdings in these themes on further strength. Whilst having underperformed since the election, we remain highly convicted on Technology, Medical Devices, India and European Telcos. Going forward, we remain modestly constructive on equities. That said, we remain cognisant of the fact that equities are not cheap, policy uncertainty remains in the US, and Europe is heading into a busy political calendar over the next year. In addition to this, we expect a December interest rate hike from the US Federal Reserve.

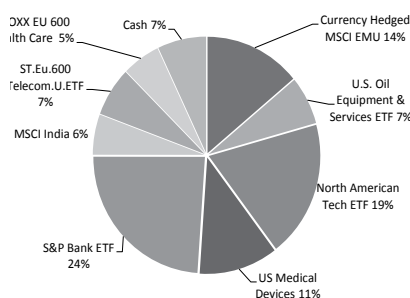
Returns

The Fund rose 4.7% in November to a unit price of \$2.308. This compares with a 1.6% rise in our global equity benchmark. The Fund has risen 15.7% since inception in October 2014, versus a 14.7% increase in the iShares MSCI All Country World Index Exchange Traded Fund 50% hedged to NZD.

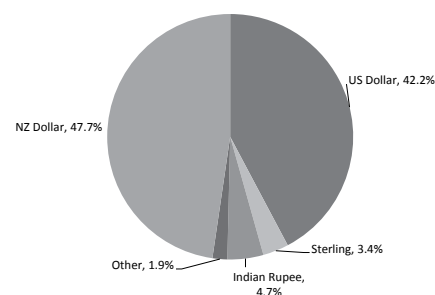
Currency exposures

We maintained the currency hedge level in the fund at its benchmark weight of 50% throughout the month.

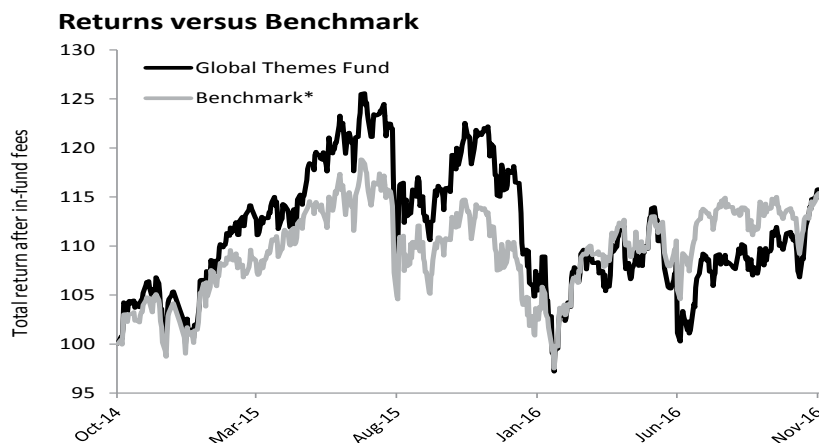
SECTOR ALLOCATION



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.