

### MARKET COMMENTARY

## What does 2017 hold in store for investors?

What an extraordinary year 2016 was. Over a 12-month period in which British citizens voted to exit the European Union and American citizens voted in Donald Trump as Commander-in-Chief, who would have imagined that global equity markets would in many cases be trading at, or near to, all-time-highs. But as we look to rule off 2016 we thought it would be useful to cast our thoughts towards next year and look at what some of the key investment themes are likely to be. To best achieve this we have drawn upon parts of commentary by strategist Bernard Doyle who is responsible for managing our Global Themes Fund.

### Theme 1: More growth = more inflation:

Whatever else is going on in the world, the growth backdrop remains critical. In that respect, 2017 should provide a relatively supportive foundation. We expect global growth in the mid 3%'s next year, which will represent a pick-up from 2016. This would take us back to the pace of growth seen in 2013-2015, with one important distinction: less reliance on China. Back in 2013 China was growing at almost 8%, providing a crutch for weak growth in the US and Europe. In 2017 we expect Chinese growth to slow to a little over 6%, but the slack is being taken up by the advanced economies, particularly the US. So while global growth in aggregate is printing the same number, the balance and therefore the quality, is superior.

Donald Trump's victory in the US Presidential election presents another twist to the growth dynamic: substantial fiscal easing. Markets have already moved quickly to anticipate the impact of tax cuts and infrastructure spending in the US. The President-elect's first speech of substance promised to "rebuild our highways, bridges, tunnels, airports, schools, hospitals", which fuelled enthusiasm for anything with a shovel attached. Caterpillar rallied substantially since Election Day. Others have cautioned that the Republican Party will prove a handbrake on Trump's ambitions to loosen the purse-strings. We see... [Read More](#)

### MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	-0.2%	8.8%
S&P/ASX200G	AUSTRALIA	4.4%	11.8%
MSCI World Index	GLOBAL	2.4%	8.2%
S&P500	USA	2.0%	12.0%
FTSE100	UK	5.4%	19.1%
NIKKEI 225	JP	4.5%	2.4%
NZ 90 Day Bank Bill	NZ	0.2%	2.5%



AT A  
GLANCE

### UNIT PRICES

DEVON ALPHA FUND

**\$1.5182**

DEVON AUSTRALIAN FUND

**\$1.3380**

DEVON DIVIDEND YIELD FUND

**\$1.8656**

DEVON DIVERSIFIED INCOME FUND

**\$1.5308**

DEVON TRANS-TASMAN FUND

**\$3.4931**

GLOBAL THEMES FUND

**\$2.4032**

Prices as at 31 December 2016

### IN THIS REPORT

Market Commentary	Page 1
At a Glance	Page 1
Devon Fund Summaries	
Alpha Fund	Page 2
Australian Fund	Page 3
Diversified Income Fund	Page 4
Dividend Yield Fund	Page 5
Trans-Tasman Fund	Page 6
Global Themes Fund	Page 7



### 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.

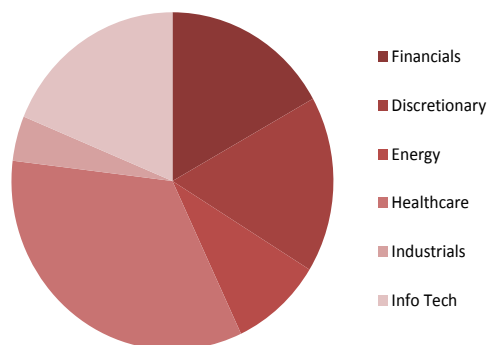
### DEVON ALPHA FUND

Amongst the best performing stocks during the month were Spark Infrastructure and National Australia Bank. Spark rallied almost 6% after investors were encouraged by corporate activity occurring within the Australian listed Infrastructure sector. Although the valuation of Spark is sensitive to rising bond yields this remains a very high quality business and we believe it continues to be priced at a discount to its fair value. National Australia Bank also returned close to 6% after they increased pricing on their investor loans and confidence is building that capital requirements for this sector globally are likely to be less onerous than expected. The largest detractors to the Fund's performance in December came from GTN and Vista Group. Performance for the Alpha strategy was negatively impacted last year by its conservative positioning, as reflected in its high cash weighting. We are very excited though by some of the stocks within this portfolio and believe that this strategy is well positioned for markets in 2017.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

New Zealand Equities	27.5%
Australian Equities	35.3%
Cash	37.2%
Currency Hedge	100.0%
	30.4%

### PERFORMANCE

As at 31/12/16

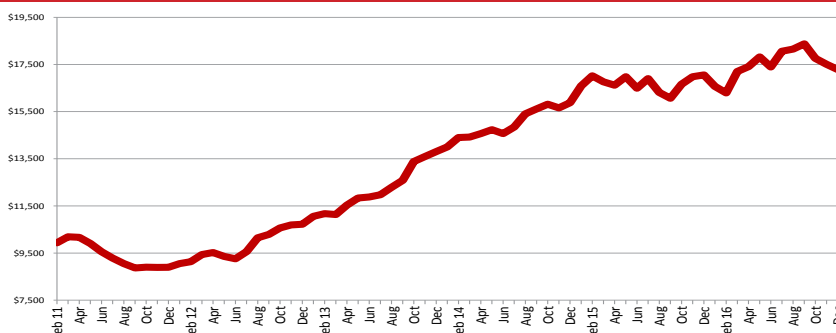
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	-1.3%	-5.9%	0.4%	7.5%	14.0%
OCR	0.1%	0.5%	2.2%	2.8%	2.7%

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 underperformed the S&P/ASX200G over the month following weakness from key overweight positions GTN and Vista Group. GTN retraced after it launched a capital raising and exercised an option to acquire Radiate, providing an entry into the US traffic reporting market to compliment positions in Australia, Canada, the UK and Brazil. Radiate will have around 50% share of the US market with 3.3M radio spots and a significant opportunity to grow and monetise this position – GTN currently achieves A\$133/spot in Australia versus Radiate's A\$20/spot in the US.

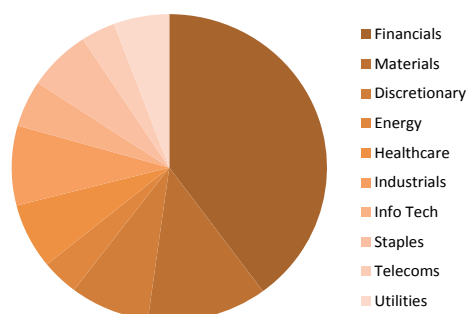
The Fund increased its holding in Oil Search (OSH) over the month. OPEC's decision to reduce oil production is a positive for the oil price although upside will likely be capped by increased supply from the US. OSH continues to develop its globally competitive suite of LNG projects and with ongoing exploration in PNG strong growth potential exists for this business.

### KEY HOLDINGS

Henderson  
GROUP PLC



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

Dual Listed	4.7%
Australian Equities	91.8%
Cash	3.5%
	100.0%
Currency Hedge	0.0%

### PERFORMANCE

As at 31/12/16

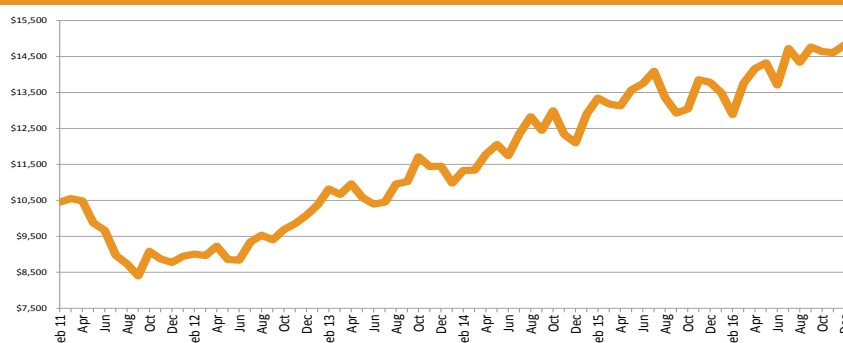
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	1.5%	0.4%	7.6%	9.0%	11.1%
S&P/ASX200 Index Gross (NZD)	4.0%	3.8%	9.2%	5.0%	6.7%

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



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.





### 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.

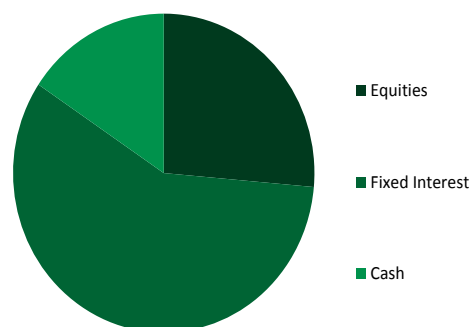
### DEVON DIVERSIFIED INCOME FUND

Global bond markets were relatively quiet during December after what had been a volatile period immediately post Donald Trump's presidential success. His proposed fiscal plan, incorporating significant tax cuts and major new investment in infrastructure saw a major lift in long-dated bonds in both the US and in other markets around the world. During the past month though, the focus was on the Federal Reserve who moved in accordance with market expectations by increasing their overnight cash rate by 0.25%. The Fed also guided towards an additional three hikes in 2017. The Reserve Bank of New Zealand will next meet to discuss our domestic monetary policy in February 2017. There were no major changes made to the Fund during December although we did increase portfolio duration in late November through the purchase of some Trustpower senior bonds. This occurred after the sharp increase in bond yields earlier that month.

### KEY HOLDINGS



### ASSET ALLOCATION



### GROWTH

NZ Equities	13.1%
AU Equities	11.1%

### DEFENSIVE

Cash	17.8%
NZ Corporate Bonds	58.0%
NZ Government Bonds	0.0%

### PERFORMANCE

As at 31/12/16

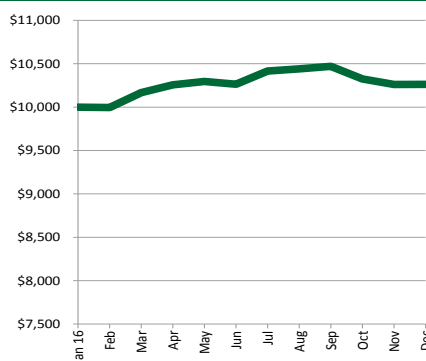
	1 Mth	3 Mth	Inception
Diversified Income Fund	0.0%	-2.0%	3.8%
OCR +1.5%	0.3%	0.8%	3.7%

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

#### Devon Diversified Income Fund\*



\*Fund commenced on 1 January 2016

### AT A GLANCE

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

### 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 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

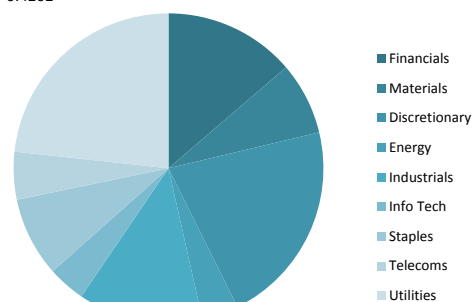
December again saw the Dividend Yield Fund perform better than the S&P/NZX50G index but it struggled to maintain pace with the Australian market which was supported by the Resource sector after commodity prices rose strongly. The Fund has no exposure to this sector as these companies tend not to pay large dividends. The Financial stocks were also strong performers as bank margins typically benefit from a steepening yield curve. The Fund does hold positions in three of the large banks (NAB, ANZ and Westpac) and these have contributed materially in recent times. Another good performer for the Fund was Woolworths. The company announced the sale of its fuel business to BP at an attractive price and this will significantly help improve the company's balance sheet. The largest detractor was GTN which raised equity to fund its entry into the US market. This announcement was expected and we maintain our confidence in their strategy.

### KEY HOLDINGS



### ASSET ALLOCATION

0.4262



### GEOGRAPHIC ALLOCATION

New Zealand Equities	49.5%
Australian Equities	42.1%
Cash	8.4%
	100.0%
Currency Hedge	98.6%
Yield	6.3%

### PERFORMANCE

As at 31/12/16

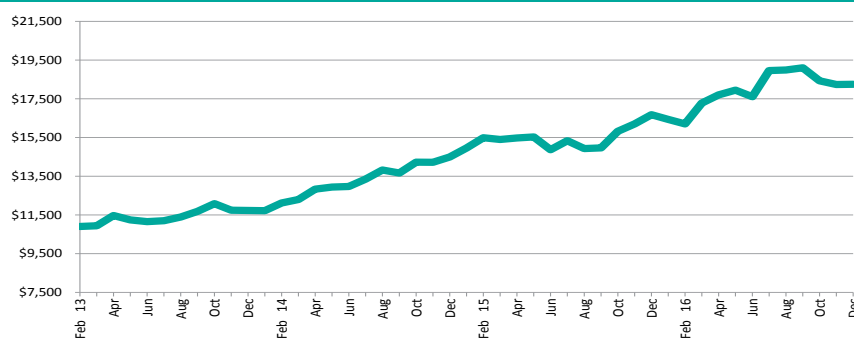
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	0.1%	-4.4%	9.4%	16.3%	-
TT Index (Hedged)	2.1%	-0.7%	10.3%	9.9%	-

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 (TT) Fund underperformed the TT Index over the month. There was a range of performance outcomes across key stock holdings within the Portfolio. A pull-back in the pricing of GTN and Vista offset good contributions from NAB, Spark Infrastructure, Suncorp and Oil Search.

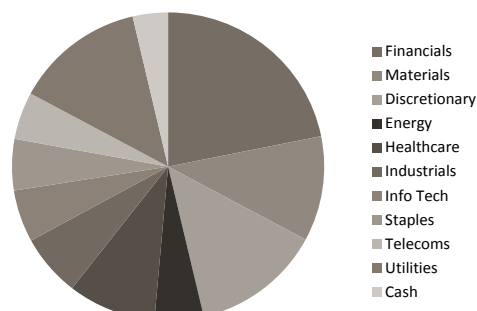
In late December Vista Group (VGL) announced it had completed the issue of 2% of new shares to its Chinese joint venture partner We-Piao. This represents a significant step in the joint venture and from this funds received will be repatriated back to New Zealand to further strengthen the company's balance sheet. VGL is currently investing for growth and we expect the business to grow revenues and profits strongly in 2017 and 2018.

Other corporate news that was relevant to the Portfolio was the announcement by Crown Resorts that it would reduce its exposure to the Chinese market by selling down its stake in the Macau casino operator, Melco Crown Entertainment.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

New Zealand Equities	46.9%
Australian Equities	49.4%
Cash	3.7%
	100.0%
Currency Hedge	0.0%

### PERFORMANCE

As at 31/12/16

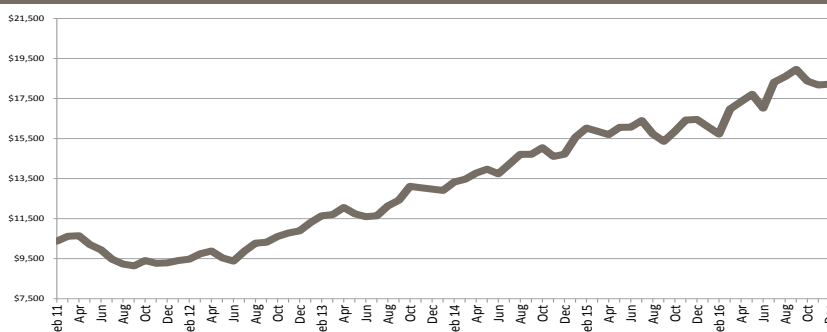
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	0.3%	-3.9%	7.5%	10.9%	13.7%
Trans-Tasman Index Gross	1.9%	-1.4%	9.0%	9.1%	11.4%

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



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.





### 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

December saw a continuation of the post-US election rally, with President-elect Trump's stimulatory promises continuing to excite investors and keep equity markets buoyant around the world. While sector performance has continued to be mixed, all of the themes we currently own finished the month in positive territory. Bond yields continued to rise, with US 10-year Treasuries finishing the month at ~2.44%, and the Yen continued to weaken, with USD/JPY closing at ~117. This again proved positive for our US Banks and Japan exposures, respectively. Banks also received a shot in the arm from a US interest rate hike. While this was expected, the Fed's move to a three hike (from two) prediction for 2017 was less so. Our European exposures also benefited from central bank action, with the ECB extending its asset purchase program (albeit at a reduced rate). Oil Services continued to rally on the back of the OPEC supply cut deal, and European Telcos bounced as investors become more bullish about the sector's return to growth.

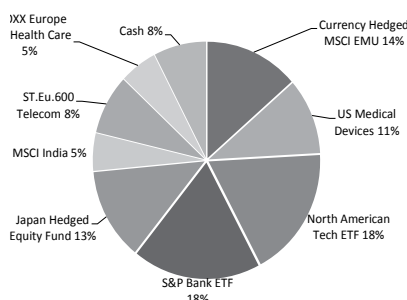
We remain comfortable with what we own, however given the speed and magnitude of market movements since the US election, we made some tweaks to the fund during the month. As signalled last month, we have reduced our holdings in US Banks and Japan.

US Banks have risen ~42% since 30 June, pushing valuations closer to fair, and the Yen has depreciated dramatically, driving strong performance from Japanese equities. On the other hand, we have increased our exposure to both Technology and European Telcos.

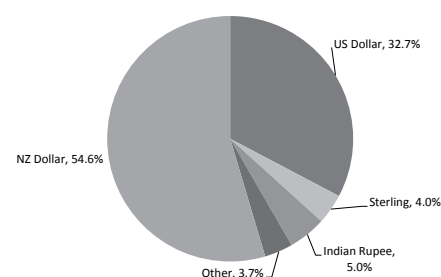
Whilst we generally expect equities to continue to grind higher in 2017, we note that they do become more challenging in the late stages of a bull market. Given this, we are in the early stages of due diligence on some new ideas in order to best position the fund for a changing market environment.

### Returns

### SECTOR ALLOCATION



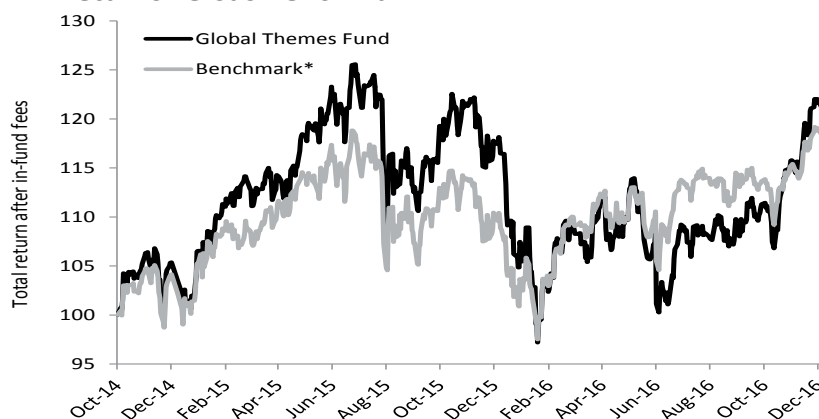
### CURRENCY EXPOSURE



### 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.