

MONTHLY REPORT

Keeping you up to date with Devon Funds and the markets

August 2017

MARKET COMMENTARY

A Year in Review

At Devon our focus on generating attractive risk-adjusted returns for our clients is absolute. Unfortunately recent performance hasn't been up to the standards that we set ourselves so we thought it would be useful this month to elaborate on what has been the cause of our underperformance and, most importantly, how we are positioned to address it. We are conscious of the dangers in focussing on short-term returns but we are very aware of the valuable lessons that have been taken from every investment decision we make, good and bad. Keep in mind that even Warren Buffett doesn't get it right all of the time. As highlighted recently by MFS, between December 1987 and December 2015 shares in Buffett's investment company, Berkshire Hathaway, impressively generated an average annualised return of 16.4% p.a, compared to the S&P 500 Index which generated 10.6% p.a. But even he underperformed the S&P for a one year period 38% of the time, for three year periods 36% of the time, and for five year periods 23% of the time. The role of active investors can occasionally be very challenging over the short-term but our view has always been that one of the most rewarding factors in investing is patience. [Read More](#).



Devon is delighted to have won the Fund Manager of the Year: Domestic Equities Category, New Zealand 2017.

Thanks to all our clients for your on-going support.

Morningstar Awards 2017©. Morningstar, Inc. All Rights Reserved. Awarded to Devon Funds Management for Morningstar Fund Manager of the Year 2017, Domestic Equities Category, New Zealand. Further details on the Devon Investment Funds can be found in the Devon Product Disclosure Statement available at www.devonfunds.co.nz

MARKET INDICES

| Index | Region | Monthly Return | 1 Yr. Return |
|---------------------|-----------|----------------|--------------|
| S&P/NZX50G | NZ | 1.6% | 5.7% |
| S&P/ASX200G | AUSTRALIA | 0.7% | 9.8% |
| MSCI World Index | GLOBAL | 0.2% | 16.8% |
| S&P500 | USA | 0.3% | 16.2% |
| FTSE100 | UK | 1.6% | 14.0% |
| NIKKEI 225 | JP | -1.3% | 18.5% |
| NZ 90 Day Bank Bill | NZD | 0.2% | 2.1% |



AT A
GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.5971

DEVON AUSTRALIAN FUND

\$1.3997

DEVON DIVIDEND YIELD FUND

\$1.8601

DEVON DIVERSIFIED INCOME FUND

\$1.5515

DEVON TRANS-TASMAN FUND

\$3.7183

GLOBAL THEMES FUND

\$2.5650

Prices as at 31 August 2017

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 |

Level 10, Rabobank Tower, 2 Commerce Street, Auckland 1010
PO Box 105609, Auckland 1143, New Zealand
Phone: 0800 944 049 | +64 9 925 3990 | Fax: +64 9 307 7088

Client Services: admin@devonfunds.co.nz Website: DevonFunds.co.nz

Devon Funds Management Limited, its directors, employees and agents believe that the information herein is correct at the time of compilation; however they do not warrant the accuracy of that information. Save for any statutory liability which cannot be excluded, Devon Funds Management Limited further disclaims all responsibility or liability for any loss or damage which may be suffered by any person relying upon such information or any opinions, conclusions or recommendations herein whether that loss or damage is caused by any fault or negligence on the part of Devon Funds Management Limited, or otherwise. This disclaimer extends to any entity which may distribute this publication and in which Devon Funds Management Limited or its related companies have an interest. We do not disclaim liability under the Fair Trading Act 1986, nor the Consumer Guarantees Act 1993, to the extent these Acts apply. This document is issued by Devon Funds Management Limited. It is not intended to be an offer of units in any of the Devon Funds (the 'Funds'). Anyone wishing to apply for units will need to complete the application form attached to the current Product Disclosure Statement (PDS) which is available at www.devonfunds.co.nz. Devon Funds Management Limited, a related company of Investment Services Group Limited, manages the Funds and will receive management fees as set out in the PDS. This document contains general securities advice only. In preparing this document, Devon Funds Management Limited did not take into account the investment objectives, financial situation and particular needs ('financial circumstances') of any particular person. Accordingly, before acting on any advice contained in this document, you should assess whether the advice is appropriate in light of your own financial circumstances or contact your financial adviser. No part of this document may be reproduced without the permission of Investment Services Group.



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

Although we continue to hold a large cash weighting in this strategy we are excited by the return opportunities that exist across many of our stock holdings. Our confidence in a number of these have lifted materially after the recent reporting season with the investment thesis in companies such as GTN looking increasingly robust. We did not make any major changes to the portfolio during the month although we did increase our weighting in Fletcher Building. We initially built a position in this company after they downgraded market earnings expectations in July due to ongoing challenges in their Construction division. After meeting with the Chairman and senior executives post their FY17 result though we are increasingly confident that the risk of further deterioration in this division, over the near-term, are low and that the stock is offering attractive value at current prices.

KEY HOLDINGS

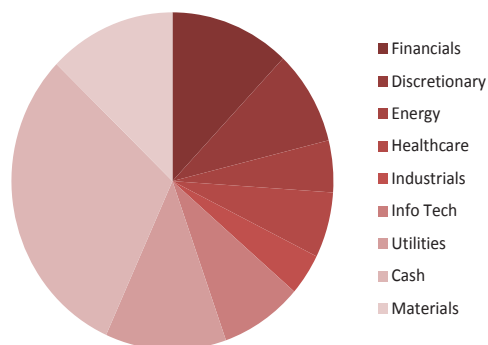
Westfield



GTN



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

| | |
|----------------------|--------|
| New Zealand Equities | 28.7% |
| Australian Equities | 40.9% |
| Cash | 30.4% |
| Total | 100.0% |
| Currency Hedge | 12.3% |

PERFORMANCE

As At 31/08/2017

| | 1 Mth | 3 Mth | 1 Yr | 3 Yr p.a | 5 Yr p.a |
|------------------|-------|-------|------|----------|----------|
| Devon Alpha Fund | 1.5% | 1.8% | 1.7% | 5.9% | 12.5% |
| OCR | 0.2% | 0.5% | 2.0% | 2.6% | 2.6% |

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

PORTFOLIO MANAGER

Nick Dravitzki

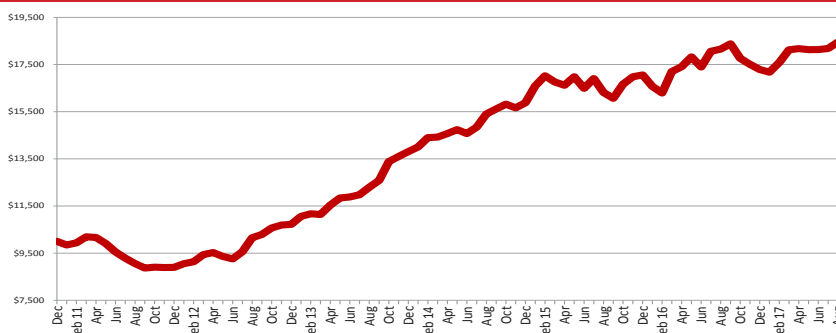


Over the last decade Nick has specialised in investing in high yield equities and is Portfolio manager for the Devon Alpha, Diversified Income and Dividend Yield Funds. At Devon, Nick has responsibility for the analysis of consumer staples, IT, consumer discretionary and property sectors. Nick is also responsible for our quantitative screening process.

NET PERFORMANCE

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

Devon Alpha Fund





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 S&P/ASX 200 Index rallied strongly over the month despite what we felt was a marginally challenging backdrop. Many companies reported results that were below market expectations but we were pleased with the operating performances from most of our portfolio holdings. In particular we were encouraged by good results from Spark Infrastructure, CYBG Group and BHP Billiton. The Resource sector was a standout during August and our investments in BHP and Rio Tinto generated solid returns after announcing results that were characterized by strong cash-flow generation and capital management initiatives. Other major news for the market included charges being levied against the Commonwealth Bank that it had breached anti-money laundering laws on almost 5,400 cases. We are pleased to highlight that we are not shareholders in this bank, although we believe the implications of this investigation will be felt across their industry. We remain underweight the Banking sector.

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.

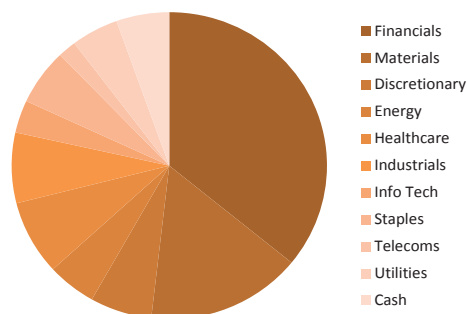
KEY HOLDINGS



Rio Tinto

Super Retail Group

ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

| | |
|---------------------|--------|
| Dual Listed | 3.4% |
| Australian Equities | 91.1% |
| Cash | 5.5% |
| Total | 100.0% |
| Currency Hedge | 0.0% |

PERFORMANCE

As At 31/08/2017

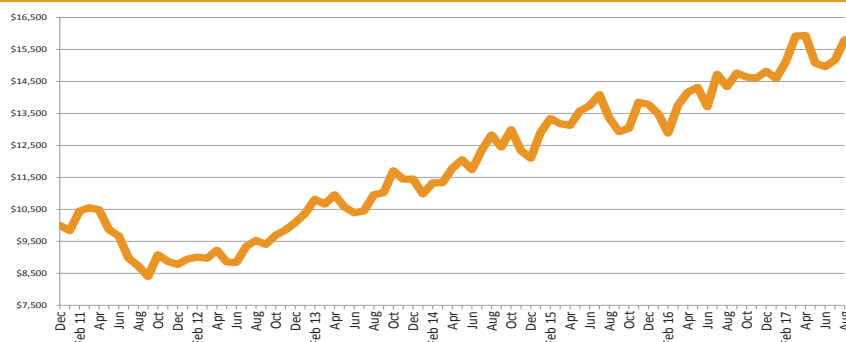
| | 1 Mth | 3 Mth | 1 Yr | 3 Yr p.a | 5 Yr p.a |
|--------------------------|-------|-------|-------|----------|----------|
| Devon Australian Fund | 4.2% | 4.8% | 10.2% | 7.2% | 10.6% |
| ASX200 Index Gross (NZD) | 4.7% | 6.5% | 17.4% | 4.8% | 7.3% |

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





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.

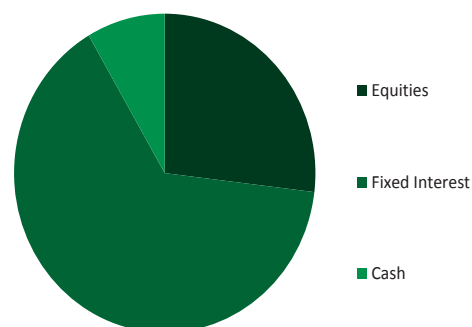
DEVON DIVERSIFIED INCOME FUND

Global fixed interest markets were reasonably strong during the month with long-dated interest rates falling. The US 10-year rate, for example, fell from 2.3% at the beginning of August to finish the month at 2.11%. The US Federal Reserve released minutes from their recent policy which highlighted concerns over the weak levels of inflation that continue to persist. Market expectations of when the Fed will next lift interest rates have been pushed back with many now forecasting no further policy tightening until 2018. In its early August Monetary Policy Statement the RBNZ left the Official Cash Rate unchanged at 1.75%, in line with market expectations. The Bank's outlook remains dovish as it forecasts that monetary policy will "remain accommodative for a considerable period", though with the caveat that numerous uncertainties exist and policy may have to adjust in line with the course of events.

KEY HOLDINGS



ASSET ALLOCATION



GROWTH

| | |
|-------------|-------|
| NZ Equities | 14.0% |
| AU Equities | 11.4% |

DEFENSIVE

| | |
|---------------------|-------|
| Cash | 9.9% |
| NZ Corporate Bonds | 64.7% |
| NZ Government Bonds | 0.0% |

PERFORMANCE

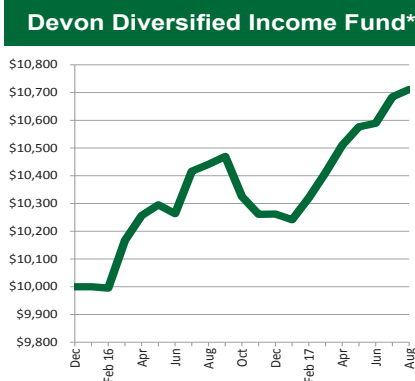
As At 31/08/2017

| | 1 Mth | 3 Mth | 1 Yr |
|-------------------------------|-------|-------|------|
| Devon Diversified Income Fund | 0.2% | 1.3% | 2.6% |
| OCR + 1.5% | 0.2% | 0.8% | 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



*Fund commenced on 1 January 2016

AT A GLANCE

| | |
|--------------------------|---|
| Targeted Portfolio Yield | 5.0% |
| Commenced | January 2016 |
| Total strategy | \$5.4m |
| Distributions | Target distributions of 1.5 cents per unit after tax paid quarterly |

PORTFOLIO MANAGER

Nick Dravitzki



Over the last decade Nick has specialised in investing in high yield equities and is Portfolio manager for the Devon Alpha, Diversified Income and Dividend Yield Funds. 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 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

There were a number of positive stock contributors to this portfolio over the month including Contact Energy and Spark Infrastructure Group. The Spark share price rallied over 8% after the company released their first-half results which saw their EBITDA grow by 3% to \$390.7m and their 2017 distribution guidance grow by 5.2% to 15.25 cents per share. Investors were also encouraged by comments from the company that opportunities are being created as a higher proportion of electricity generation in Australia is coming from renewable sources and that management continue to achieve success from their cost-out programs. Offsetting our positive contributors were a number of negative returns generated by certain investments including Metro Performance Glass. This company's share price fell heavily after their management announced an earnings downgrade at their Annual Shareholders' Meeting on activity levels in New Zealand being softer than expected over the past couple of months.

PORTFOLIO MANAGER

Nick Dravitzki



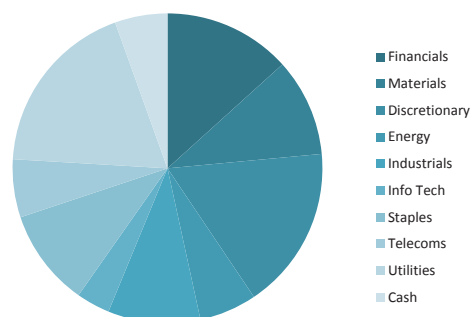
Over the last decade Nick has specialised in investing in high yield equities and is Portfolio manager for the Devon Alpha, Dividend Yield and Diversified Income Funds. At

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.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

| | |
|----------------------|--------|
| New Zealand Equities | 51.9% |
| Australian Equities | 42.6% |
| Cash | 5.5% |
| Total | 100.0% |
| Currency Hedge | 100.0% |
| Current Yield | 6.25% |

PERFORMANCE

As At 31/08/2017

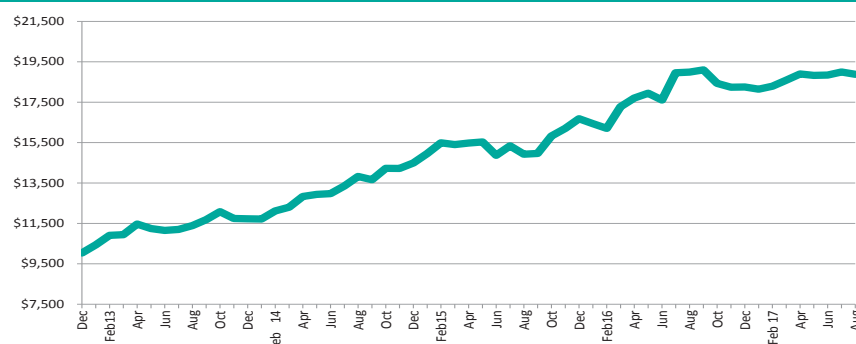
| | 1 Mth | 3 Mth | 1 Yr | 3 Yr p.a | 5 Yr p.a |
|---------------------------|-------|-------|-------|----------|----------|
| Devon Dividend Yield Fund | -0.6% | 0.3% | -0.6% | 11.4% | - |
| TT Index (Hedged) | 1.2% | 3.1% | 7.7% | 9.8% | - |

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



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

We were generally happy with the reporting season across New Zealand and Australia for this strategy. Included in the best results for the portfolio were Contact Energy, GTN, Rio Tinto and National Australia Bank. Where we were penalised during the month though was by not owning a2Milk and Comvita, which both performed very well. Our investment in Contact Energy has delivered strong returns for us during 2017 and the company confirmed progress in their full-year result with impressive cost control a highlight. Another result which we had particular interest in was GTN, whose share price has been disappointing in recent times. Pleasingly, company management announced FY17 EBITDA of AUD\$28.9m which was in-line with market expectations. Investors took particular comfort though in the confidence being shown by CEO, Bill Yde, in the company's growth strategy which is being executed in Brazil, Canada and the US. The GTN share price rallied strongly after the result.

PORTFOLIO MANAGER

Tama Willis



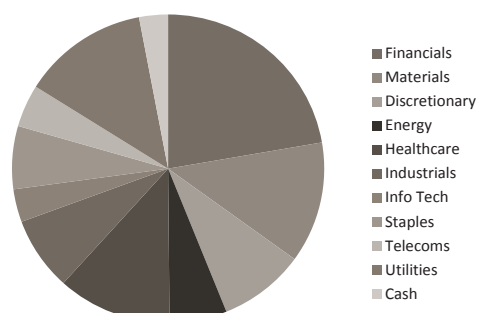
After a long period in international investment markets, Tama returned to NZ after a very successful career in London and Singapore to join Devon's investment team and holds responsibility for

Devon's Australian and Trans Tasman Funds. Tama is widely regarded as a leading expert on resource and mining stocks.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

| | |
|----------------------|---------------|
| New Zealand Equities | 46.9% |
| Australian Equities | 50.1% |
| Cash | 3.0% |
| Total | 100.0% |

PERFORMANCE

As At 31/08/2017

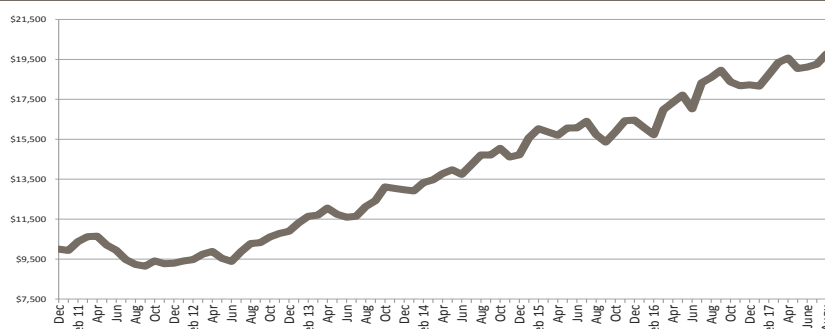
| | 1 Mth | 3 Mth | 1 Yr | 3 Yr p.a | 5 Yr p.a |
|--------------------------|-------|-------|-------|----------|----------|
| Devon Trans-Tasman Fund | 2.7% | 3.8% | 6.3% | 9.2% | 13.3% |
| Trans-Tasman Index Gross | 3.2% | 5.9% | 11.5% | 9.6% | 11.8% |

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





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

We believe markets are ill-prepared for any directional change in inflation, and see this as an important area of opportunity over coming months. Economic data continues to suggest synchronised global economic growth is under-way for the first time in a decade. This is soaking up spare labour in all the major advanced economies. Against that, wage inflation remains muted in official data, leaving many to assume the link between capacity pressure and inflation has structurally changed. Influences such as Amazon on retail, Artificial Intelligence, robotics, and globalisation are all cited as reasons why inflation no longer has a place in the modern economy.

We are respectful of these long-term structural trends, but see ample evidence that the cycle is still a force to be reckoned with. One example of this is coming through in consumer surveys, where the proportion of US households describing jobs as "plentiful" has reached a 16-year high. This is flowing through to wage growth expectations, which are also rising. It is also supporting a strong pace of consumer spending, which grew at 3.3% in the second quarter of 2017.

Markets aren't prepared for this to flow through to inflationary pressure or rising interest rates. Expectations of future Fed hikes remain extraordinarily muted – only one 0.25% increase per annum in 2018 and 2019 is currently priced in. We see scope for a reality check over the coming

months, especially if the Trump administration makes progress on tax cuts (a better than even chance in our view). Our US Bank theme would be a direct beneficiary of any lift in rate expectations. Banks have been a drag on our relative performance this year, but we continue to see plenty of scope for excess return from this sector. Japanese and European equities would also enjoy rising US rates, via a stronger US dollar.

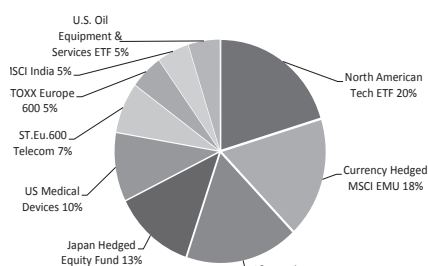
Returns

The Global Themes Fund rose 1.4% in August, finishing the month at a unit price of \$2.5650. This compares with a 2.8% rise in our global equity benchmark.

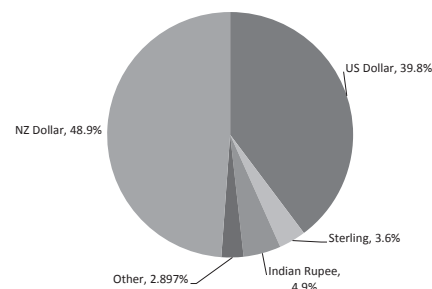
Currency exposures

We continue to hold the currency hedge in the fund at its benchmark level of 50%. The NZD has lost a little ground over August, and may weaken further depending on the outcome of the election later this month. A USD recovery against all-comers is a building likelihood in our opinion.

SECTOR ALLOCATION

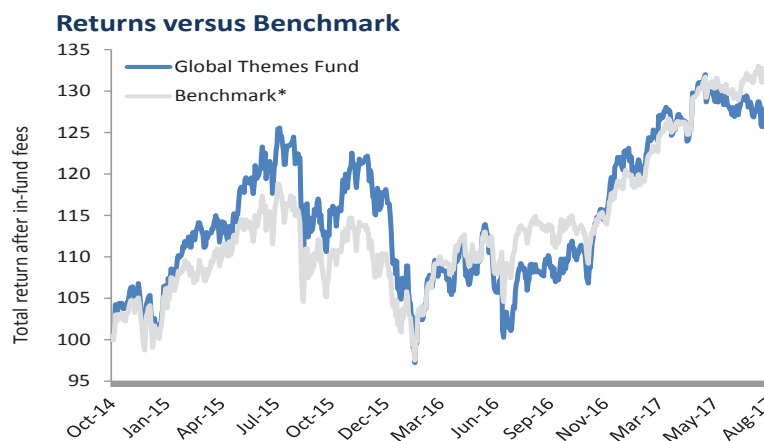


CURRENCY EXPOSURE



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.