

## MARKET COMMENTARY

### A Review of 2017

For investors globally, 2017 has been a strikingly positive year. The US S&P500 Index finished the year up over 20%, its best performance in 4-years, while in New Zealand, our S&P/NZX50 Index rallied 22%. Some of the Emerging Markets are also worth mentioning with Brazil up 27%, Hong Kong up 36% and Vietnam's Hanoi 30 rallying a massive 47%! Central banks around the world will look with satisfaction at the positive impact that their accommodative monetary policy have had as share market strength was driven by a backdrop of synchronised economic growth and rising confidence. The shadow of the GFC has certainly receded.

The year also had its fair share of challenges, with the world carefully following the machinations of the North Korean regime and the re-emergence of global populism. Manifestations of the latter included Trump's first year at the helm of US politics, Britain's ongoing deliberations around Brexit, and a number of Eurosceptic election results. Despite these distractions the US S&P500 Index, for the first time in history... [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](http://www.devonfunds.co.nz)

## MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	2.6%	22.0%
S&P/ASX200G	AUSTRALIA	1.8%	11.8%
MSCI World Index	GLOBAL	1.4%	23.1%
S&P500	USA	1.1%	21.8%
FTSE100	UK	5.0%	11.9%
NIKKEI 225	JP	0.3%	21.3%
NZ 90 Day Bank Bill	NZ	0.2%	2.0%



AT A  
GLANCE

## UNIT PRICES

DEVON ALPHA FUND

**\$1.7009**

DEVON AUSTRALIAN FUND

**\$1.4624**

DEVON DIVIDEND YIELD FUND

**\$1.8792**

DEVON DIVERSIFIED INCOME FUND

**\$1.5696**

DEVON TRANS-TASMAN FUND

**\$3.8369**

GLOBAL THEMES FUND

**\$2.7857**

Prices as at 31 December 2017

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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.

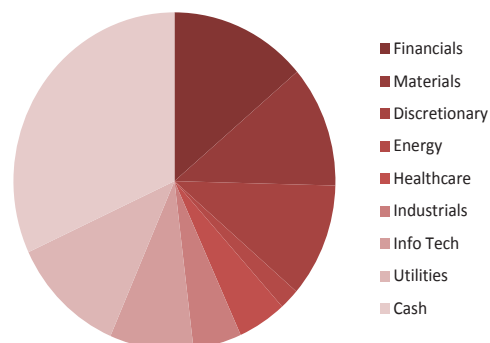
### DEVON ALPHA FUND

The Alpha strategy generated solid absolute returns for investors over the month. There were a number of key positive contributors including Westfield, Serko and Fletcher Building. Westfield rallied strongly after the company received a takeover bid from European shopping centre giant, Unibail-Rodmanco. We own Westfield within this strategy because we believe it is a very high quality business that provides its shareholders with exposure to premium global retailing properties. The company has done an excellent job in recent years of selling its lower quality malls and re-deploying these proceeds back into their flagship assets to drive long-term value. This is the largest takeover of an Australian business on record and the Westfield board have recommended the offer. Fletcher Building finished the month up almost 10% after new Chief Executive, Ross Taylor joined the company.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

New Zealand Equities	27.1%
Australian Equities	41.0%
Cash	31.9%
Total	100.0%
Currency Hedge	29.8%

### PERFORMANCE

As At 31/12/2017

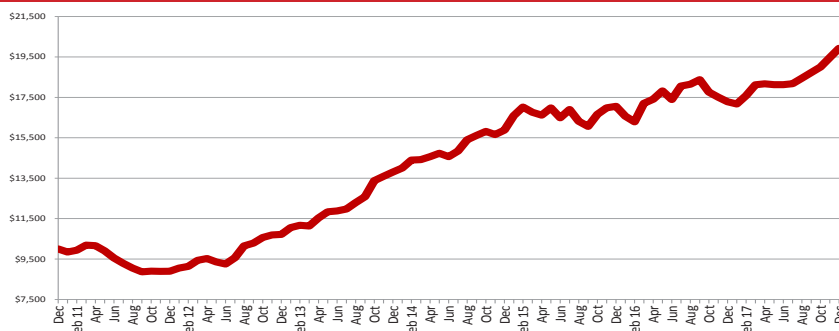
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	2.4%	6.4%	15.3%	7.5%	13.0%
OCR	0.2%	0.5%	2.0%	2.4%	2.6%

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



NOTE: Further information on the Devon Alpha Fund can be found in our Quarterly Fund Updates by visiting <https://devonfunds.co.nz/alpha-fund> or by clicking [HERE](#)

### 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 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 its benchmark during December after a number of its investments rallied strongly. Included amongst these were Oil Search, BHP Billiton, Woodside Petroleum and Telstra. Oil Search finished the month up 11% after recently announcing that they had struck a deal to operate, what is potentially one of the largest US onshore oil discoveries in decades. Oil Search have paid \$400m for interests in Alaska's North Slope. Within these assets is the Nanushuk oil field, where reserve estimates are for up to 1.2 billion barrels of recoverable light oil. Although this transaction increases the risk profile for this business it does provide diversification for the company away from its currently concentrated exposure to Papua New Guinea. Management have stated that they believe they will not require a change to dividend policy or additional equity funding to pay for this deal.

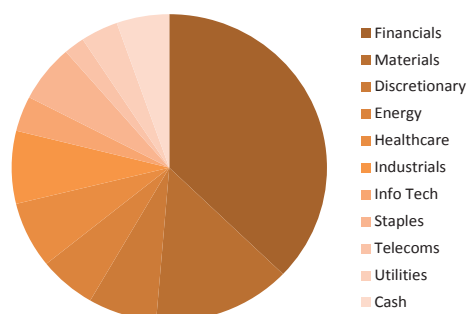
### KEY HOLDINGS

**Brambles**



**Oil Search**

### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

Dual Listed	3.7%
Australian Equities	90.9%
Cash	5.4%
Total	100.0%
Currency Hedge	0.0%

### PERFORMANCE As At 31/12/2017

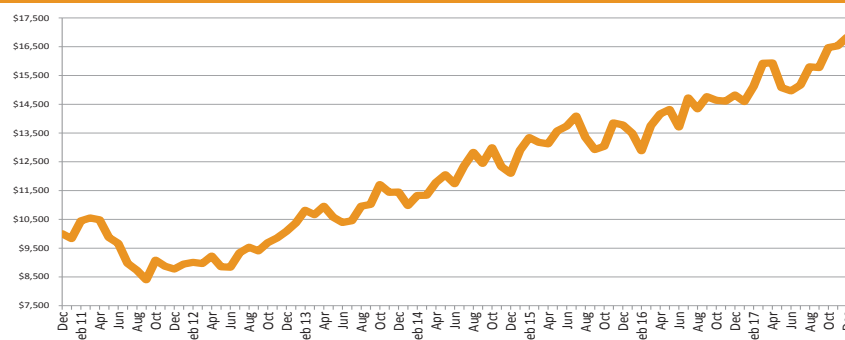
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	1.8%	6.7%	13.5%	11.6%	10.8%
ASX200 Index Gross (NZD)	1.2%	9.1%	18.4%	10.4%	7.3%

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



NOTE: Further information on the Devon Australian Fund can be found in our Quarterly Fund Updates by visiting <https://devonfunds.co.nz/australian-fund> or by clicking [HERE](#)

### 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 interest rates generally moved higher during December with the US 10-year finishing the month at 2.41%. The US Federal Reserve raised its benchmark interest rate by 0.25% although this move was expected by investors. Its decision was supported by a strong labour market and a lift in expectations around economic growth for 2018. Inflation remains frustratingly low but Janet Yellen, in her last press conference as Chair of the Fed, again highlighted that the central bank still expects an additional three hikes to the fed funds rate next year. In New Zealand, the RBNZ made comments during the month around their similar frustrations with persistently low non-tradeable inflation and even suggested that additional monetary policy support could be required at some point. This is unlikely though given that elevated pricing that still exists across our property market. Adrian Orr was also announced as the new RBNZ Governor.

### PORTFOLIO MANAGER

Nick Dravitzki



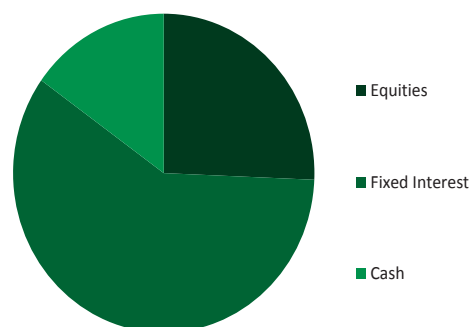
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### KEY HOLDINGS



### ASSET ALLOCATION



### GROWTH

NZ Equities	14.2%
AU Equities	10.6%

### DEFENSIVE

Cash	16.0%
NZ Corporate Bonds	59.2%
NZ Government Bonds	0.0%

### PERFORMANCE

As At 31/12/2017

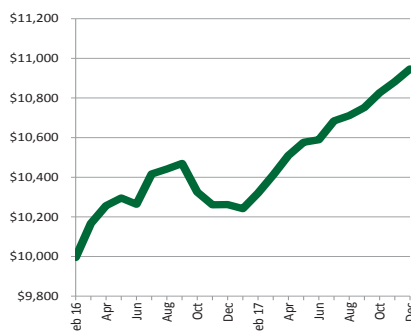
	1 Mth	3 Mth	1 Yr
Devon Diversified Income Fund	0.6%	1.8%	6.6%
OCR + 1.5%	0.3%	0.9%	3.5%

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

NOTE: Further information on the Devon Diversified Income Fund can be found in our Quarterly Fund Updates by visiting <https://devonfunds.co.nz/diversified-income-fund> or by clicking [HERE](#)

### AT A GLANCE

Targeted Portfolio Yield	5.0%
Commenced	January 2016
Total strategy	\$5.04m
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.

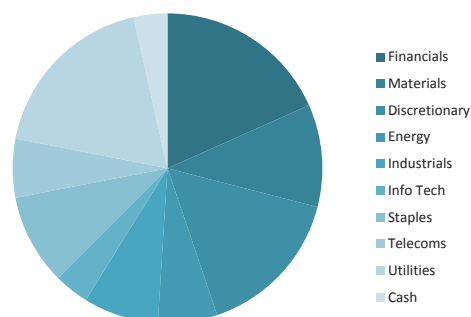
### DEVON DIVIDEND YIELD FUND

During December the key contributors to the performance of this portfolio included Kiwi Property Group, Contact Energy, Telstra and Metro Performance Glass. Kiwi Property rallied 5% after posting a solid first-half profit result in November. The company reported that their property portfolio is performing well with rental income growing 9.4% and the Group's after-tax profit lifting by 5% compared to the same period last year. Telstra closed the month up 6% despite issuing an earnings warning. Company management have announced that they expect their FY18 revenue and profitability to be negatively impacted as payments from the government's national broadband service are delayed. Tegel was the largest detractor from the performance of this strategy last month with its share price falling almost 15%. This occurred after the company released their first-half financial results where profitability was lower than expected due to price competition across New Zealand's chicken market. Tegel was only a 2% position in the Dividend Yield fund.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

New Zealand Equities	55.2%
Australian Equities	41.3%
Cash	3.5%
Total	100.0%
Currency Hedge	98.0%
Yield	6.35%

### PERFORMANCE

As At 31/12/2017

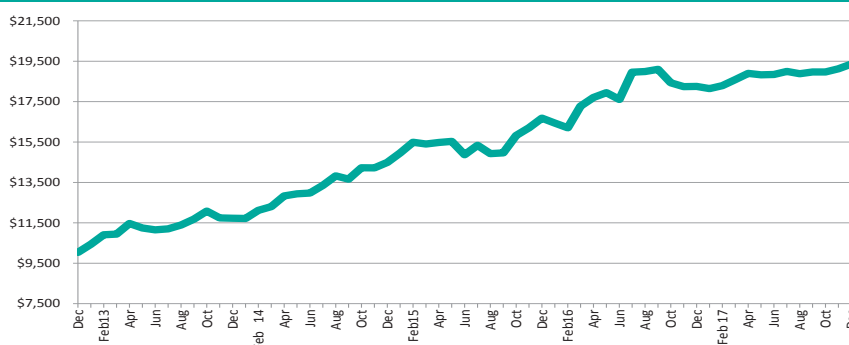
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	1.2%	2.1%	6.0%	10.6%	14.3%
TT Index (Hedged)	2.2%	6.8%	16.9%	11.7%	12.8%

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\*



NOTE: Further information on the Devon Dividend Yield Fund can be found in our Quarterly Fund Updates by visiting <https://devonfunds.co.nz/dividend-yield-fund> or by clicking [HERE](#)

### PORTFOLIO MANAGER

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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.

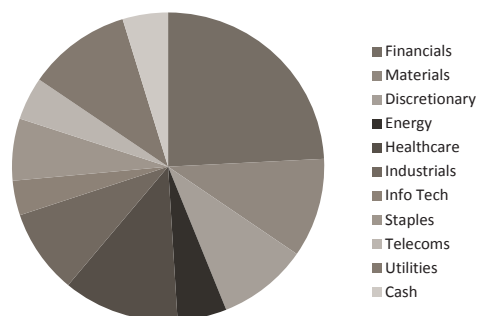
### DEVON TRANS-TASMAN FUND

The Trans-Tasman strategy generated positive returns during the month as the Australasian markets closed the year on a positive note. Strong contributions came from our investments in Westfield, which finished 13% higher, while Oil Search and Fisher and Paykel Healthcare rallied 11% and over 10% respectively. Detractors during December included Tegel and Freightways. Another of our investments, the Fonterra Shareholders Fund, announced during December that they had been ordered to pay Danone \$183m after an arbitration process in Singapore. This was in relation to a product recall that occurred in 2013 where Fonterra felt some of their whey protein concentrate may have exposed consumers to the harmful bacteria, botulism. This proved to be a false alarm but Danone cancelled supply contracts with Fonterra and sought damages of \$900m. Investors were positively surprised with the ultimate settlement.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

New Zealand Equities	46.7%
Australian Equities	48.6%
Cash	4.7%
<b>Total</b>	<b>100.0%</b>

### PERFORMANCE As At 31/12/2017

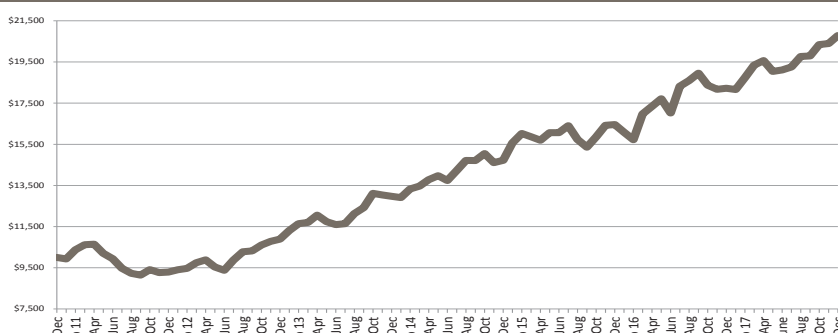
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	1.9%	5.0%	14.0%	11.1%	13.1%
Trans-Tasman Index Gross	1.9%	7.5%	20.2%	12.6%	11.5%

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



NOTE: Further information on the Devon Trans-Tasman Fund can be found in our Quarterly Fund Updates by visiting <https://devonfunds.co.nz/trans-tasman-fund> or by clicking [HERE](#)

### 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

December was an interesting month for investors, observing one of the fastest passages of major tax legislation ever seen. Clearly there is nothing like a looming mid-term election to encourage co-operation!

The tax cuts have significant implications for our portfolios, and reflect our expectations for 2018:

1. The tax cuts will stimulate the US economy at a time it is already beginning to run hot. This will underpin US bond yields which are already pushing on 2.5%;
2. The US dollar, which has been on the back foot for most of 2017, is set to enjoy some support versus the Euro and Yen; and
3. US earnings growth should continue to grow at a low double digit rate through this year.

If the above holds true, we feel well positioned with our holdings in Japan, Europe and US banks. Elsewhere, we continue to like our biggest holding, technology, which should enjoy another year of strong earnings in 2018. However valuations are less supportive after last 2017's outstanding returns (+36%). In Emerging Markets, we are happy to stick with India, and monitor how the rest of the emerging world copes with higher interest rates in 2018.

We have added a new investment theme to our portfolio, in European Automobiles. The sector is cheap, trading on around 8x earnings. Against

that backdrop, earnings growth is tracking at around 20%. Furthermore, our deep dive into the sector showed a strong pipeline of Battery Electric Vehicles (BEV's), rolling out over the next 5 years. We expect this to assuage fears that the traditional automakers will struggle to transition to a new era of transportation.

### Returns

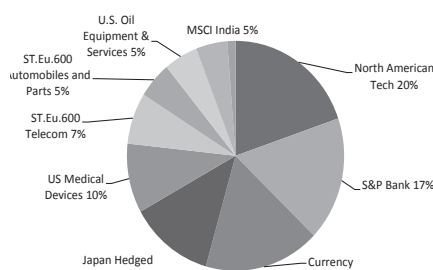
The Global Themes Fund fell 1.3% in December, finishing the month at a unit price of \$2.7857. This compares with a 0.4% decline in our global equity benchmark.

Our fund has risen 11.1% per annum since inception net of fees, versus 12.7% growth in the iShares MSCI All Country World Index Exchange Traded Fund (50% hedged to NZD).

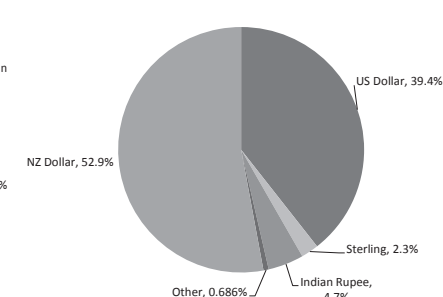
### Currency exposures

We continue to hold the currency hedge level in the fund at its benchmark weight of 50%. The Kiwi has rebounded to ~71 cents, amidst a "sell the fact" drop in the USD post tax cuts. We think the USD recovers a little from here. A higher hedge level becomes interesting to us should the NZD drop below 65c.

### SECTOR ALLOCATION

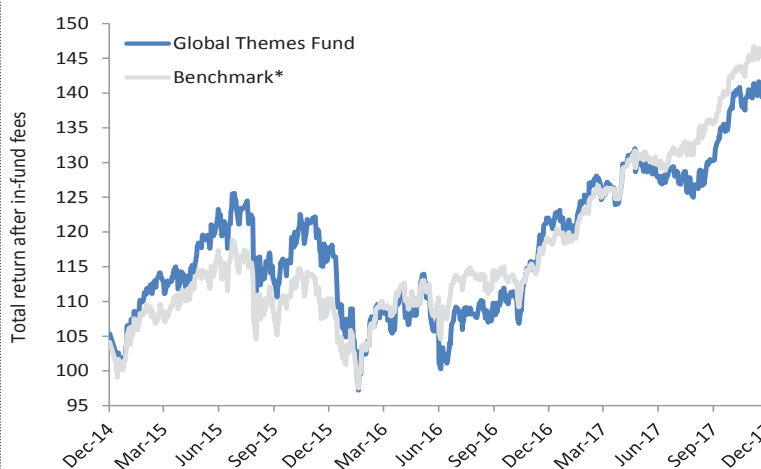


### CURRENCY EXPOSURE



### NET PERFORMANCE SINCE INCEPTION

Returns versus Benchmark



\* iShares MSCI All Country World Index ETF, 50% hedged to NZD

NOTE: Further information on the Devon Global Themes can be found in our Quarterly Fund Updates by visiting <https://devonfunds.co.nz/global-themes-fund> or by clicking [HERE](#)

### 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.