

## MARKET COMMENTARY

### Active vs. Passive Investing

In recent years one of the most commonly discussed investment topics is whether or not investors are better served by Passive or Active investment strategies. A couple of weeks ago Slade Robertson, from Devon, presented his views at a conference on this issue. Slade was asked to represent the Active side of the debate and we thought our clients would find it useful this month to read some of his views from that conference.

"I recall starting in this industry back in the early 1990's. It was a great time for investing and in many respects it all felt a lot simpler then, than it does today. The objective of generating strong risk-adjusted returns for our clients has remained a constant but the options available for investors to achieve this goal have certainly become more complex.

My role back then was that of an International Equity Analyst and one of my earliest memories was of being asked to analyse the Japanese market to determine if we should increase our exposure to that region. I was reminded of this a number of years ago while presenting on the topic of 'Timing the Market vs Time in the Market'... [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%           | 10.4%        |
| S&P/ASX200G         | AUSTRALIA | 0.2%           | 14.1%        |
| MSCI World Index    | GLOBAL    | 0.4%           | 18.9%        |
| S&P500              | USA       | 0.6%           | 17.9%        |
| FTSE100             | UK        | -2.4%          | 16.9%        |
| NIKKEI 225          | JP        | 2.1%           | 31.1%        |
| NZ 90 Day Bank Bill | NZD       | 0.2%           | 2.1%         |



## AT A GLANCE

### UNIT PRICES

#### DEVON ALPHA FUND

**\$1.5696**

#### DEVON AUSTRALIAN FUND

**\$1.3254**

#### DEVON DIVIDEND YIELD FUND

**\$1.8794**

#### DEVON DIVERSIFIED INCOME FUND

**\$1.5488**

#### DEVON TRANS-TASMAN FUND

**\$3.5954**

#### GLOBAL THEMES FUND

**\$2.5313**

Prices as at 30 June 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

There were mixed contributions from our key investments during the month. Notable positive returns were generated by Janus Henderson, Super Retail Group, Resmed and Z Energy, but unfortunately these were offset by weaker performances in Westfield and Vista Group. With market volatility increasing we are identifying an increasing range of opportunities for investment. Subsequent to a number of research trips to Australia and around New Zealand over the past couple of months we have seen the introduction of stocks such as Brambles and Super Retail Group into the portfolio. Price volatility has enabled us to acquire these businesses at valuation levels which are more attractive than they have been for some time. The most significant portfolio sale during June was the disposal of our shares in Aurizon Group. This Australian rail freight operator has been a very strong performer for us since we acquired it last year.

### KEY HOLDINGS



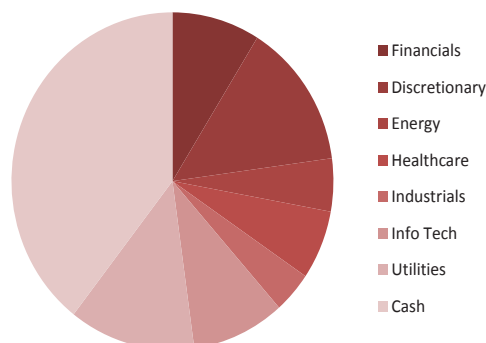
JANUS CAPITAL  
Group



GTN



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

|                      |        |
|----------------------|--------|
| New Zealand Equities | 28.1%  |
| Australian Equities  | 32.4%  |
| Cash                 | 39.5%  |
| Total                | 100.0% |
| Currency Hedge       | 11.4%  |

### PERFORMANCE

As At 30/06/2017

|                  | 1 Mth | 3 Mth | 1 Yr | 3 Yr p.a | 5 Yr p.a |
|------------------|-------|-------|------|----------|----------|
| Devon Alpha Fund | 0.01% | 0.1%  | 3.3% | 7.2%     | 14.2%    |
| OCR              | 0.2%  | 0.5%  | 2.0% | 2.7%     | 2.6%     |

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

### PORTFOLIO MANAGER

Nick Dravitzki

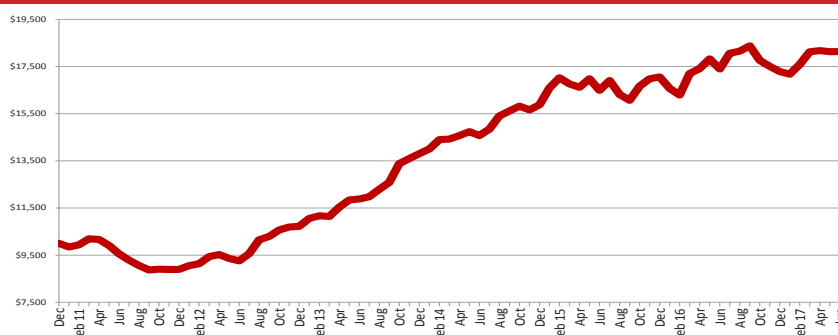


Over the last decade Nick has specialised in investing in high yield equities and is Portfolio manager for the Devon Alpha, Diversified Income and Dividend Yield Funds. At Devon, Nick has responsibility for the analysis of consumer staples, IT, consumer discretionary and property sectors. Nick is also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

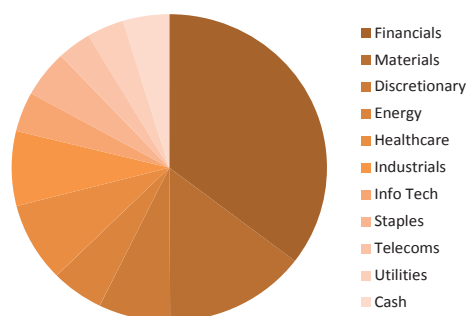
### DEVON AUSTRALIAN FUND

During the month there were a number of our investments that made strong positive contributions to this strategy. Included amongst these were CSL, Super Retail Group and Janus Henderson. Investor confidence in Janus Henderson has continued to build post the merger of the two businesses and the market is taking a positive view towards signals of improving funds flow in Europe. This business is also trading at a discount to its key US peers and there are significant synergies to be realised over the next 18-months. There were a few small changes made to the portfolio including the purchase of shares in CYBG Group. Although there is uncertainty in the UK due to the recent election and Brexit, this business (previously known as Clydesdale) is undergoing a significant restructuring that will reduce costs and improve returns. CYBG trades at a discount to other stocks in its sector.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

|                     |        |
|---------------------|--------|
| Dual Listed         | 4.2%   |
| Australian Equities | 91.1%  |
| Cash                | 4.8%   |
| Total               | 100.0% |
| Currency Hedge      | 0.0%   |

| PERFORMANCE              | 1 Mth | 3 Mth | 1 Yr  | 3 Yr p.a | 5 Yr p.a |
|--------------------------|-------|-------|-------|----------|----------|
| As At 30/06/2017         |       |       |       |          |          |
| Devon Australian Fund    | -0.7% | -6.0% | 9.2%  | 8.4%     | 11.1%    |
| ASX200 Index Gross (NZD) | 0.1%  | -5.5% | 14.3% | 5.6%     | 7.5%     |

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

### PORTFOLIO MANAGER

Tama Willis

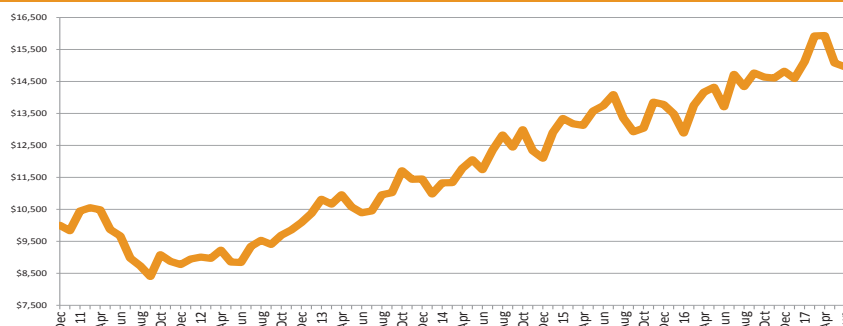


After a long period in international investment markets, Tama returned to NZ after a very successful career in London and Singapore to join Devon's investment team and holds responsibility for Devon's Australian and Trans Tasman Funds. Tama is widely regarded as a leading expert on resource and mining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

Fixed interest investors had a lot of information to digest during June. In the US, the Federal Reserve increased the Fed Funds rate by an additional 0.25%. This is the third increase in the past 3-months despite the fact that their domestic inflation data continues to be much weaker than the Central Bank is targeting. Closer to home, the Moody's rating agency downgraded its credit rating for the big four Australian banks due to concerns over the increasing level of household debt at a time when wage growth remains low. In New Zealand, the RBNZ left rates on hold and commented that they believe monetary policy will remain accommodative for a considerable period. The most significant portfolio changes during the month included the sale of Genesis Energy bonds and the purchase of Mercury and ANZ bonds.

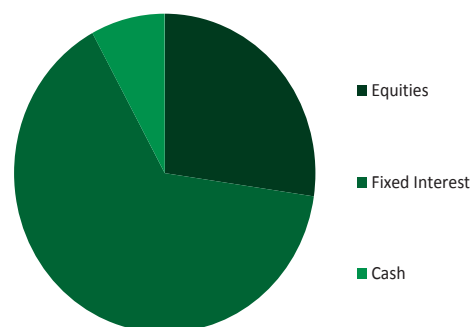
### KEY HOLDINGS



### GROWTH

|             |       |
|-------------|-------|
| NZ Equities | 13.8% |
| AU Equities | 12.0% |

### ASSET ALLOCATION



### DEFENSIVE

|                     |       |
|---------------------|-------|
| Cash                | 9.5%  |
| NZ Corporate Bonds  | 64.7% |
| NZ Government Bonds | 0.0%  |

### PERFORMANCE

As At 30/06/2017

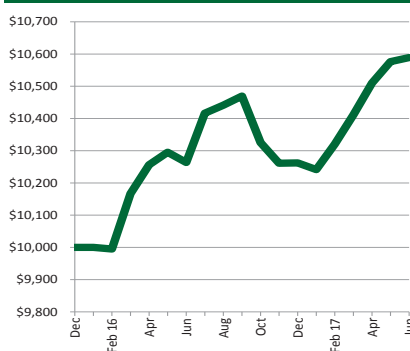
|                               | 1 Mth | 3 Mth | 1 Yr |
|-------------------------------|-------|-------|------|
| Devon Diversified Income Fund | 0.1%  | 1.7%  | 4.2% |
| OCR + 1.5%                    | 0.3%  | 0.9%  | 3.5% |

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\*



### 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.

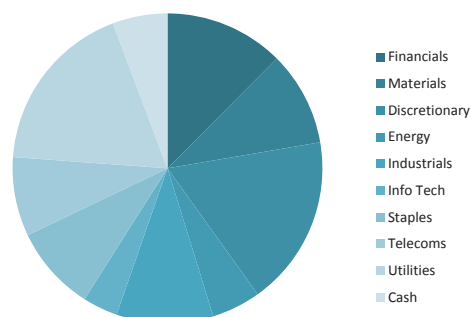
### DEVON DIVIDEND YIELD FUND

The Dividend Yield strategy had a wide range of performance contributors during the month. On the positive side of the ledger were our investments in Super Retail Group, Fletcher Building and Kathmandu which all generated strong positive returns while businesses such as Wesfarmers, Sydney Airport and Spark Infrastructure underperformed. The Kathmandu share price has performed well recently after the company announced in May that they had enjoyed strong trading in the third-quarter. This was well received by investors as Australian retail sales have been reasonably challenging this year. Kathmandu's success was attributed to the performance of new product releases and better execution of promotional initiatives. After research trips to Sydney and Melbourne we decided to reduce our exposure to Westpac Bank and allocate this capital to ANZ. Recent weakness in global bond yields has seen investors once again looking to dividend yields to support income requirements.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

|                      |        |
|----------------------|--------|
| New Zealand Equities | 50.5%  |
| Australian Equities  | 43.8%  |
| Cash                 | 5.7%   |
| Total                | 100.0% |
| Currency Hedge       | 100.0% |
| Yield                | 6.3%   |

### PERFORMANCE

As At 30/06/2017

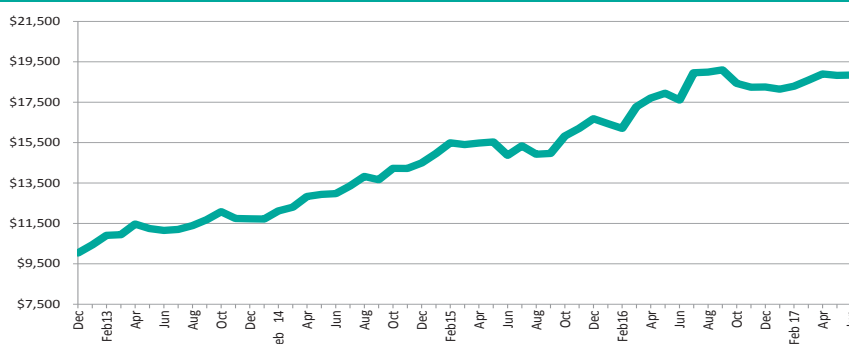
|                           | 1 Mth | 3 Mth | 1 Yr  | 3 Yr p.a | 5 Yr p.a |
|---------------------------|-------|-------|-------|----------|----------|
| Devon Dividend Yield Fund | 0.1%  | 1.4%  | 7.0%  | 13.7%    | -        |
| TT Index (Hedged)         | 1.4%  | 2.1%  | 12.2% | 10.3%    | -        |

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 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.



### 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.

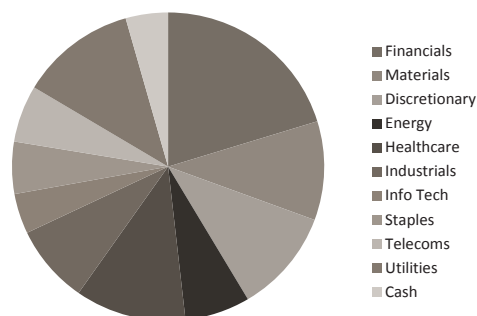
### DEVON TRANS-TASMAN FUND

During June there were a number of notable contributors to portfolio performance. Investments which delivered good absolute returns included Fisher and Paykel Healthcare and Suncorp while negative returns came from our exposure to Vista Group. The strategy was also penalized for not owning a2 Milk or Air New Zealand which both rallied strongly over the month. Suncorp rallied over 9% as general insurance businesses in both New Zealand and Australia continue to benefit from an improving pricing environment. A positive announcement by their competitor, IAG, around capital release also helped investor sentiment in this sector. Members of the Devon investment team conducted a number of research trips to Australia to review a range of businesses and industries. An outcome from this work has seen us switch a large part of our banking exposure from Westpac to ANZ which we believe offers better fundamental and valuation support. We do remain underweight this sector though.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

|                      |        |
|----------------------|--------|
| New Zealand Equities | 46.7%  |
| Australian Equities  | 48.9%  |
| Cash                 | 4.4%   |
| Total                | 100.0% |

| PERFORMANCE              | 1 Mth | 3 Mth | 1 Yr  | 3 Yr p.a | 5 Yr p.a |
|--------------------------|-------|-------|-------|----------|----------|
| As At 30/06/2017         |       |       |       |          |          |
| Devon Trans-Tasman Fund  | 0.4%  | -1.2% | 9.0%  | 10.5%    | 14.6%    |
| Trans-Tasman Index Gross | 1.3%  | 0.1%  | 12.3% | 9.8%     | 12.5%    |

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

### PORTFOLIO MANAGER

Tama Willis

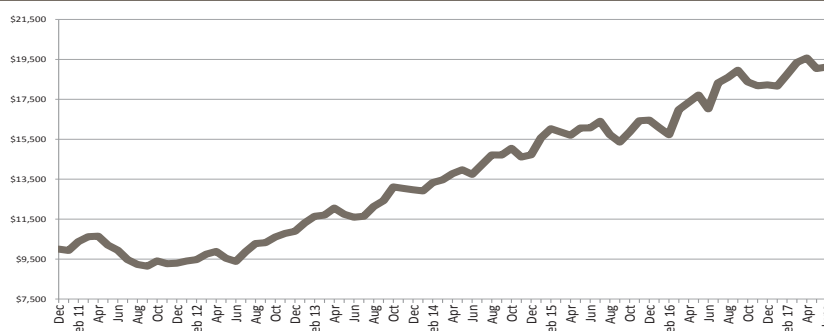


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### NET PERFORMANCE

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

### 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

June marked the first down month in global equities since October, and only the second in the last 12 months. That said, a ~0.3% sell-off proved a rounding error in an otherwise stellar year to date (in local currency terms, global equities are still up nearly 11% in 2017 to date). Europe weakened following comments from Mario Draghi that spooked investors into suspecting the ECB was about to make a dramatic hawkish turn – rhetoric later watered down by other ECB speakers. We remain happily overweight European equities, where we see attractive valuations, and ongoing macroeconomic and corporate earnings improvements. On the flipside however, a rapid bounce in bond yields into the end of the month, combined with small wins for the Trump administration in bank deregulation and a solid result in annual stress tests, meant US banks delivered this month. Likewise, some welcome Yen depreciation gave Japanese equities a shot in the arm, and Medical Devices rose following positive investor day conferences.

Earlier in the month, a broker note caused ripples on the back of its finding that the 'FAANG' stocks (Facebook, Amazon, Apple, Netflix and Alphabet/Google – and Microsoft) had experienced much lower volatility than they deserved, and that valuations were starting to look stretched. An anti-trust fine for Google late in the month didn't help sentiment. We see nothing fundamentally that concerns us in the Tech sector. In our view, valuations are still attractive giv-

en growth potential, particularly for the large players. Trading at a little over 20x earnings, the sector is nowhere near bubble territory in our eyes (Technology got to ~60x earnings at the height of the 2000 Tech Bubble). We also continue to like Technology's "multiple ways to win" (market-beating revenue and earnings growth, exciting innovation pipeline, and tax reform tailwinds). We suspect that a major reason for the sector's underperformance this month was end of quarter profit taking following a very strong run, and we anticipate "buy the dip" behaviour over coming months.

### Returns

The Global Themes Fund fell 1.4% in June to a unit price of \$2.5313. This compares with a

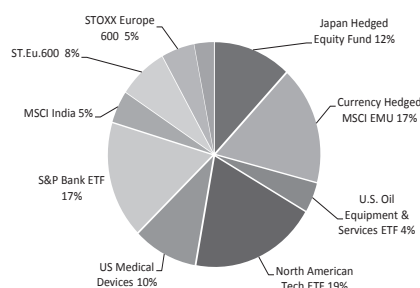
0.9% fall in our global equity benchmark.

Our fund has risen 9.3% per annum since inception net of fees, versus 10.0% growth in the iShares MSCI All Country World Index Exchange Traded Fund (50% hedged to NZD).

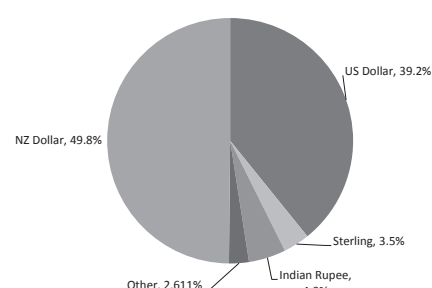
### Currency exposures

We continue to hold the currency hedge level in the fund at its benchmark weight of 50%. New Zealand house sales have yet to show signs of life after posting ~20% declines off their highs. Until we see a turn here, upside risk to the Kiwi dollar looks limited, particularly from current levels, as the RBNZ will feel reluctant to tighten policy quickly.

### SECTOR ALLOCATION

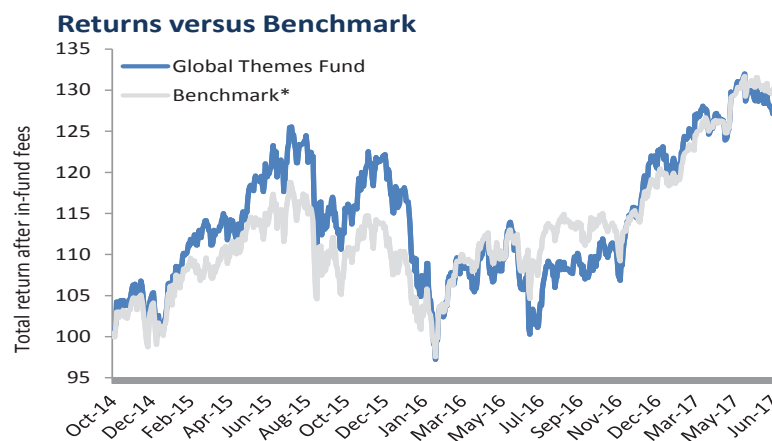


### CURRENCY EXPOSURE



### 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.