

MARKET COMMENTARY

What we learnt in China

In managing our clients' NZ and Australian investments it is critical to have a clear view on what is happening in China. China is not only the world's second largest economy, Australia's largest and NZ's second largest trading partner, its economic performance is also very important to investor sentiment around the NZ and Australian share markets. We send a member of our investment team to China annually, as there is no substitute for being on the ground to gain a detailed understanding of what is actually happening.

While our stock picking is very much based on "bottom up" analysis, the China visit allows us to learn more, first hand, about trends, risks and opportunities in this economy. After a period of resurgent growth in China and volatile but generally rising commodity prices, Portfolio Manager Tama Willis recently spent a week in Beijing, Shanghai and Taiyuan attending presentations, talking to companies and commodity experts and meeting with other investors from the US, Hong Kong, the UK and Australia. In contrast to the current market backdrop, our last visit to China in January 2016 came at a time of significant weakness in the Chinese equity market, concerns around capital outflows, and fears of rising risks to the financial system ... [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	0.4%	6.6%
S&P/ASX200G	AUSTRALIA	3.3%	20.5%
MSCI World Index	GLOBAL	1.1%	15.4%
S&P500	USA	0.1%	17.2%
FTSE100	UK	1.1%	23.3%
NIKKEI 225	JP	-0.4%	15.0%
NZ 90 Day Bank Bill	NZ	0.2%	2.2%



AT A GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.5918

DEVON AUSTRALIAN FUND

\$1.4375

DEVON DIVIDEND YIELD FUND

\$1.8765

DEVON DIVERSIFIED INCOME FUND

\$1.5378

DEVON TRANS-TASMAN FUND

\$3.7088

GLOBAL THEMES FUND

\$2.5385

Prices as at 31 March 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.

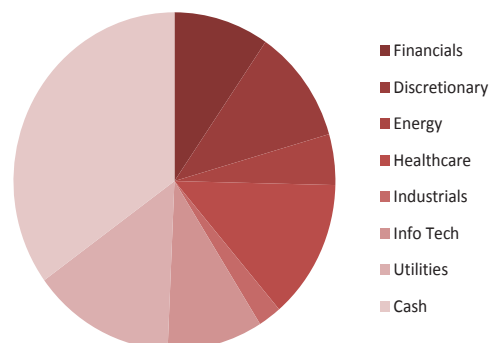
DEVON ALPHA FUND

The Alpha strategy performed very well over the month as equity market volatility increased. Despite this strategy continuing to hold a large allocation to cash, our carefully selected portfolio of stocks generally delivered good returns. There were a number of highlights within the Fund including strong share price appreciation by Spark Infrastructure, Vista Group, Aurizon Holdings and Pacific Edge. GTN Limited also rallied during March with their shares closing up over 5%. This followed what we considered to be an impressive first-half result, reported by the company in late February. This Fund significantly outperformed New Zealand's S&P/NZX50G Index during the month due to both positive returns from our investments and also because we had no exposure to companies such as Fletcher Building, Auckland Airport and Ryman Healthcare whose share prices all declined. We will continue to adopt a patient approach to deploying the cash within the Fund and will not act until compelling opportunities present themselves.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	34.6%
Australian Equities	30.4%
Cash	35.0%
Total	100.0%
Currency Hedge	29.5%

PERFORMANCE

As At 31/03/2017

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	3.0%	4.9%	4.4%	7.6%	13.7%
OCR	0.2%	0.5%	2.1%	2.8%	2.7%

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

PORTFOLIO MANAGER

Nick Dravitzki

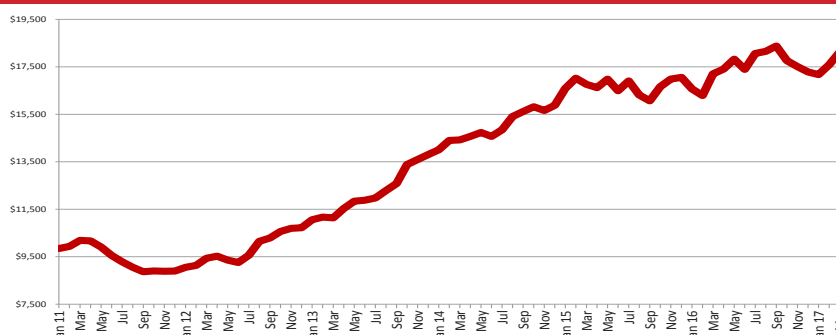


Over the last decade Nick has specialised in investing in high yield equities and is Portfolio manager for the Devon Dividend Yield Fund. At Devon, Nick has responsibility for the analysis of consumer staples, IT, consumer discretionary and property sectors. Nick is also responsible for our quantitative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

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.

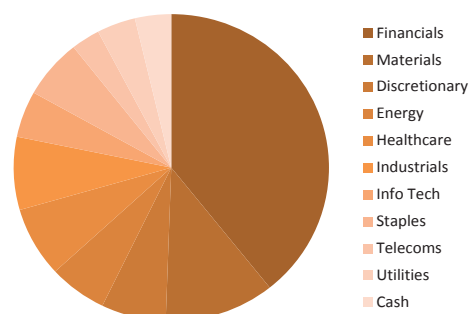
DEVON AUSTRALIAN FUND

The Australian Fund generated good absolute returns over the month as the S&P/ASX200G Index pushed notably higher. Amongst the best performing stocks in the Australian market were the listed Banks which have benefitted from a recent round of repricing initiatives across their mortgage books. Within our Fund we have a large position in National Australia Bank but given that we don't own any shares in Commonwealth Bank our overall exposure to this sector is slightly below the Index weight. Amongst our other holdings during March the best performers included CSL, Henderson Group and Spark Infrastructure. Shares in Henderson have started to rally after investors received greater clarity around the potential benefits of the proposed merger between Janus Capital and Henderson Group. During the month management articulated the complimentary nature of the two businesses and US\$110m of recurring annual synergies. Also of note was GTN whose shares appreciated by over 5%.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

Dual Listed	4.9%
Australian Equities	91.4%
Cash	3.7%
Total	100.0%
Currency Hedge	0.0%

PERFORMANCE

As At 31/03/2017

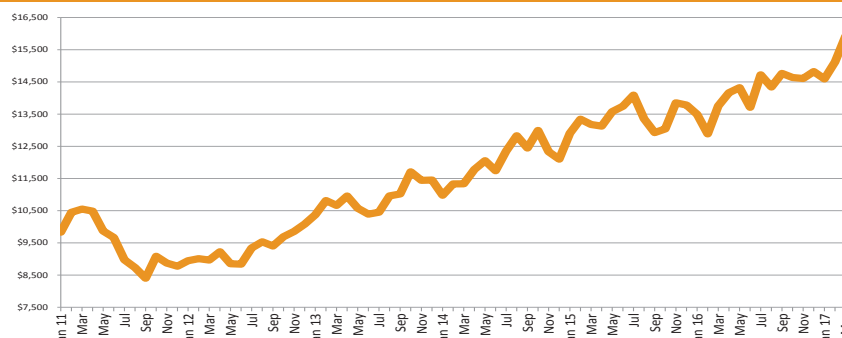
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	5.3%	7.4%	15.8%	12.0%	12.2%
S&P/ASX200 Index Gross (NZD)	6.06%	10.14%	18.7%	8.30%	7.88%

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 IN- COME FUND

The US Federal Reserve lifted their benchmark interest rate by 0.25% during the month. This was their second increase in the past 3-months and was accompanied by a statement where they indicated an expectation that rates are likely to be lifted another 3 times this year. Although the Fed highlighted that the US labour market is strengthening and that economic activity continues to expand, the tone of statement was not as hawkish as some investors had expected. This resulted in long-term interest rates in the US, and globally, drifting slightly lower during the month. Over the balance of this year though, the bond market will be considerably aware of how effective, or not, Trump is in implementing his fiscal initiatives due to the potential consequences of these policies on growth and inflation. In New Zealand the Reserve Bank left the overnight cash rate unchanged at 1.75% and reiterated that monetary policy will remain accommodative for a considerable period.

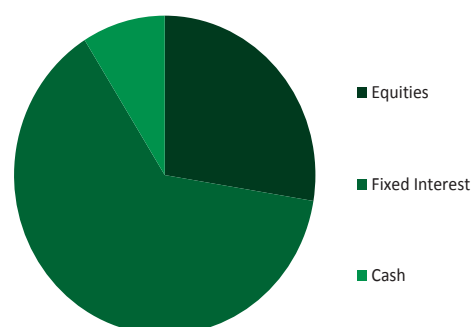
KEY HOLDINGS

Westpac

Contact

**National
Australia
Bank**

ASSET ALLOCATION



GROWTH

NZ Equities	14.2%
AU Equities	11.7%

DEFENSIVE

Cash	10.6%
NZ Corporate Bonds	63.5%
NZ Government Bonds	0.0%

PERFORMANCE

As At 31/03/2017

	1 Mth	3 Mth	1 Yr
Devon Diversified Income Fund	0.9%	1.5%	3.38%
OCR + 1.5%	0.3%	0.9%	3.58%

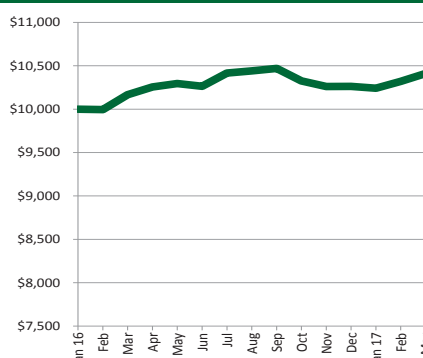
Devon Diversified Income Fund returns are after all fees and expenses, but before tax which varies by investor. Inception date for the Fund is 1 January 2016.

NET PERFORMANCE

Based on \$10,000 invested at 1 January 2016

AT A GLANCE

Devon Diversified Income Fund*



*Fund commenced on 1 January 2016

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 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



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.

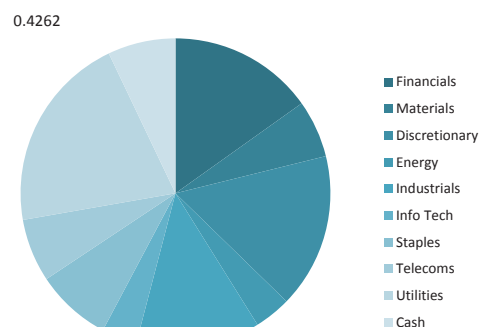
DEVON DIVIDEND YIELD FUND

During the month there were a number of notable positive contributors to performance for this strategy. Included among these were Meridian Energy and Freightways. The Meridian share price has continued to rally after its first-half results in February where the company reported a strong outcome from their International business and management provided the market with confidence that at current aluminium prices the risks of a negative change to their contract with the Tiwai Point Smelter are reduced. Investors also remain positive on the capital management program that Meridian is currently employing. Freightways has also continued to perform well after their recent results where management delivered solid revenue and profit growth. The most negative contribution came from our investment in Fletcher Building whose share price fell after the company lowered their FY17 profit guidance due to unexpected losses occurring in their Construction division.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	51.5%
Australian Equities	42.3%
Cash	6.2%
Total	100%
Currency Hedge	100%
Yield	6.3%

PERFORMANCE

As At 31/03/2017

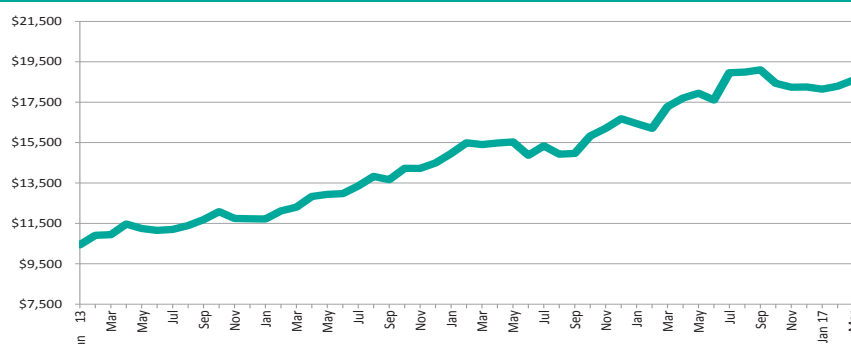
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	1.6%	1.8%	7.6%	15.2%	-
TT Index (Hedged)	1.9%	4.7%	13.5%	9.7%	-

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.

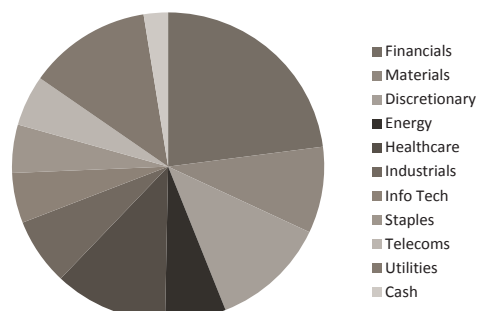
DEVON TRANS-TASMAN FUND

The Trans-Tasman strategy performed broadly in-line with its underlying benchmark during the month. This was achieved against a back-drop where the New Zealand S&P/NZX50G Index notably underperformed its Australian counterpart, the S&P/ASX200G Index. The Fund owned a number of stocks that rallied strongly over the month. These included our investments in Vista Group, Aurizon Holdings, GTN Limited and CSL. The competitive environment for CSL's plasma business appears to remain favourable with a number of other blood fractionators being challenged by difficulty in them collecting raw plasma and by plant delays and closures. This operating backdrop should support good volume and pricing conditions for CSL as they progress through the balance of 2017. Shares in Vista Group closed the month up over 6% after the company announced that their Movio division has signed a data licensing agreement with Screenvision Media, a large US cinema advertising business.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	47.3%
Australian Equities	49.1%
Cash	3.6%
Total	100%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
As At 31/03/2017					
Devon Trans-Tasman Fund	3.2%	6.2%	10.6%	11.7%	14.0%
Trans-Tasman Index Gross	3.2%	7.4%	12.6%	10.1%	11.7%

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

PORTFOLIO MANAGER

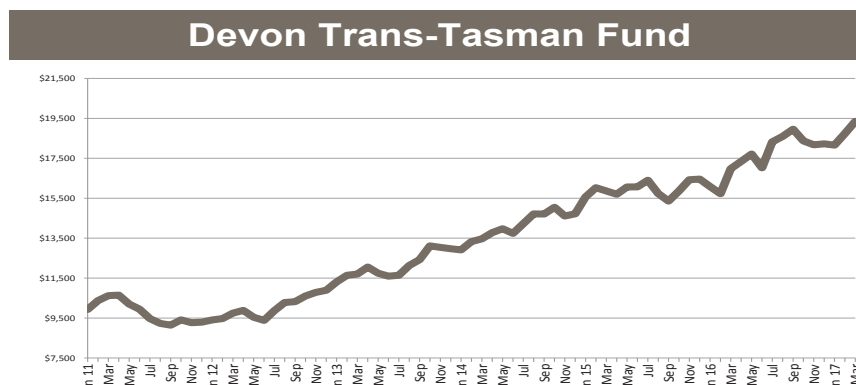
Tama Willis



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





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

March saw the first meaningful questioning of the "Trump Trade". Growing signs of infighting within the Republican Party culminated in the extraordinary failure of the Affordable Care Act "repeal and replace" efforts at the first hurdle. This provided investors with a meaningful reality check on the passage of legislation under the Trump administration. Accordingly, themes that had been erstwhile beneficiaries of the Republican policy agenda had a tough month. Our holding in US banks was amongst that group, falling around 5% through March. We remain sanguine. The failure of the ACA repeal, if anything, doubles down on the pressure for the Republicans to make substantive progress on tax cuts before mid-term elections in ~18 months. Moreover, our research contacts suggest the easing of regulatory pressure on banks is largely unaffected by the passage of legislation. This is another significant source of earnings upside for the theme. Finally, we note the lack of follow through in bond yields, which have essentially range-traded around 2.50% since December. This is despite a steady stream of strong economic data in the US. We expect yields to resume their march toward 3.00% later this year, something that has been a strong driver of Bank relative performance. Happy to hold.

Our European themes had a strong month. Recently, investors have been flocking to Europe, perhaps buoyed by reduced fears of right-wing populist movements gaining traction following the convincing re-election of Dutch Prime

Minister Mark Rutte, and a solid performance by Chancellor Merkel in German regional elections. However, we also note improving economic data and corporate earnings on the Continent. Elsewhere, India had a solid month following a strong performance by Prime Minister Modi in key regional elections, and further progress towards the implementation of GST.

During March we added to our US Technology theme, increasing our exposure to 20.0% from 17.5%. This continues to be our favourite US sector given valuation support, solid earnings performance, tax policy tailwinds, and the sector's general ability to outperform late in a bull market. We are actively seeking a home for our remaining ~5% cash holding.

Returns

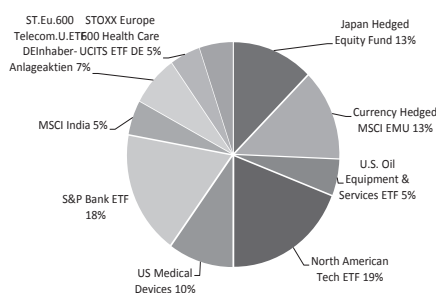
The Global Themes Fund rose 2.6% in March to a unit price of \$2.5385. This compares with a 2.7% rise in our global equity benchmark.

Our fund has risen 27.2% since inception in October 2014, versus a 26.0% increase in the iShares MSCI All Country World Index Exchange Traded Fund (50% hedged to NZD).

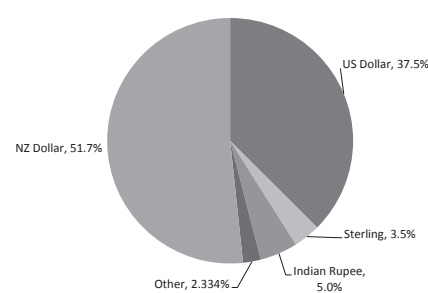
Currency exposures

We maintained the currency hedge level in the fund at its benchmark weight of 50% throughout the month, and do not expect material currency movement in the near term.

SECTOR ALLOCATION

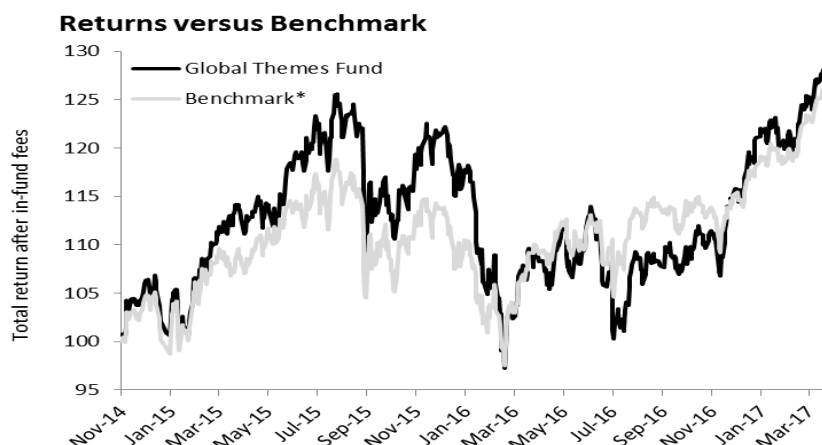


CURRENCY EXPOSURE



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.