

MARKET COMMENTARY

A Trip to the USA

The United States political environment is rarely without interest but the sheer volume of surprising news in recent times has been staggering. In contrast, economic news has been generally pedestrian and market movements have been so limited that the VIX index (which measures the expected volatility of the S&P500 over the next 30 days) recently touched its lowest level since 1993! Perhaps most surprisingly, against a backdrop of extreme polarisation, and following an election campaign notable for its combativeness, surveys of consumer and business confidence in the US noticed a sharp and unusually large increase. Despite a seemingly endless series of embarrassing leaks from the White House and almost daily predictions of impending impeachment these confidence levels have largely been maintained.

Two of the Devon portfolio managers recently travelled up to the US. The main purpose of the journey was to undertake some in-depth due diligence on the US businesses of two of our largest holdings, Vista Group and GTN Ltd. However, while we were there, we had many other meetings with other companies, strategists and economists to help us better understand the broader situation in the US ... [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	0.5%	5.4%
S&P/ASX200G	AUSTRALIA	-2.8%	11.1%
MSCI World Index	GLOBAL	2.2%	17.1%
S&P500	USA	1.4%	17.5%
FTSE100	UK	4.9%	25.5%
NIKKEI 225	JP	2.4%	16.2%
NZ 90 Day Bank Bill	NZ	0.2%	2.1%



AT A
GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.5695

DEVON AUSTRALIAN FUND

\$1.3354

DEVON DIVIDEND YIELD FUND

\$1.8778

DEVON DIVERSIFIED INCOME FUND

\$1.5470

DEVON TRANS-TASMAN FUND

\$3.5819

GLOBAL THEMES FUND

\$2.5671

Prices as at 31 May 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

During the month the performance of this strategy was supported by our investments in Aurizon Holdings, Spark Infrastructure and Serko. Serko rallied almost 60% during the month after the company delivered an FY17 result which exceeded the market's expectations. This online travel management company has frustrated investors since its listing in 2014 due to disappointing financial results but it would appear that the hard work of their board and management is finally paying off. The company now expects to be cash flow breakeven during FY18 due to both ongoing strong revenue growth but also, more importantly, a higher level of costs discipline. During the month we sold shares in Metlifecare from the portfolio. This business offers the best value within the sector but we are concerned over its exposure to a potential deterioration in the housing market in Auckland.

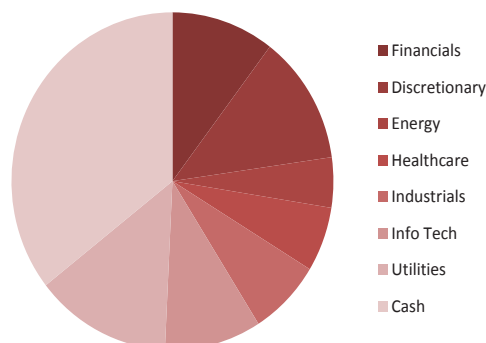
KEY HOLDINGS

Henderson
GROUP PLC

S serko

sparkinfrastructure

ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	28.6%
Australian Equities	35.8%
Cash	35.6%
Total	100.0%
Currency Hedge	10.7%

PERFORMANCE

As At 31/05/2017

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	-0.2%	3.1%	0.8%	6.8%	13.9%
OCR	0.2%	0.5%	2.0%	2.7%	2.7%

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

PORTFOLIO MANAGER

Nick Dravitzki

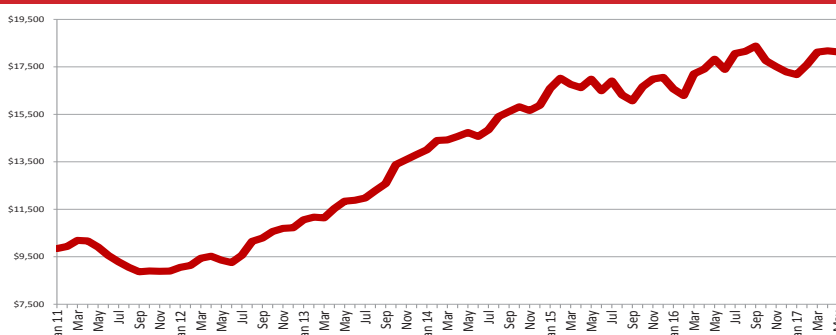


Over the last decade Nick has specialised in investing in high yield equities and is Portfolio manager for the Devon Alpha, Diversified Income and Dividend Yield Funds. At Devon, Nick has responsibility for the analysis of consumer staples, IT, consumer discretionary and property sectors. Nick is also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

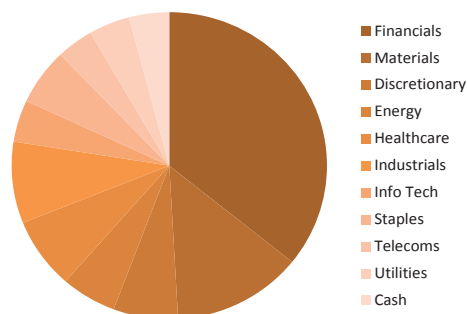
DEVON AUSTRALIAN FUND

This strategy performed well during the month relative to its benchmark. The Australian stock market was weaker during May with the Banks and Retailing stocks under particular pressure. We remain underweight in the Banking sector given concerns over valuations while the Retailers have been sold down recently due to the emerging threat of Amazon establishing a network in Australia. We have limited exposure to this sector but are conscious that valuations are beginning to look increasingly interesting at current levels. One of the positive contributors to the portfolio's performance during the month came from our investment in Suncorp. The General Insurance Industry in Australia is currently enjoying price increases in both Commercial and Personal lines of business. Suncorp is well positioned to leverage off this and with the stock still trading below our internal valuation, we continue to believe this remains an interesting investment opportunity.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

Dual Listed	4.4%
Australian Equities	91.5%
Cash	4.1%
Total	100.0%
Currency Hedge	0.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
As At 31/05/2017					
Devon Australian Fund	-5.4%	-0.3%	5.3%	7.8%	11.2%
ASX200 Index Gross (NZD)	-6.4%	0.2%	8.8%	4.5%	7.4%

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

PORTFOLIO MANAGER

Tama Willis

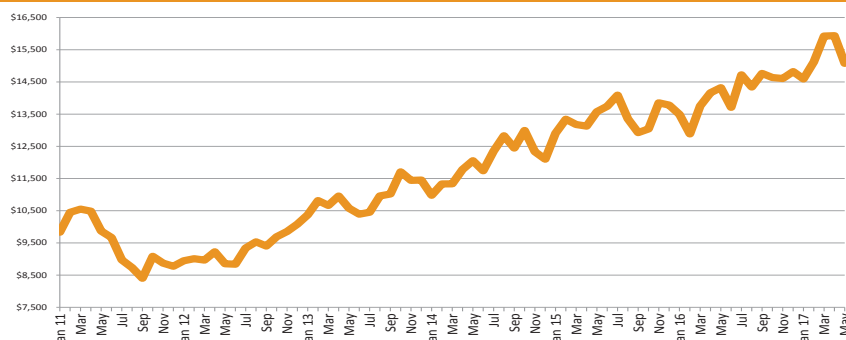


After a long period in international investment markets, Tama returned to NZ after a very successful career in London and Singapore to join Devon's investment team and holds responsibility for Devon's Australian and Trans Tasman Funds. Tama is widely regarded as a leading expert on resource and mining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

Global bond markets were reasonably stable during the month. Investors expect the US Federal Reserve to lift their interest rate by 0.25% at their next meeting in June followed by another hike in December. In New Zealand, the RBNZ delivered a more dovish monetary policy statement than the market had expected. Governor Wheeler highlighted that the central bank has confidence in New Zealand's growth profile, that there has been some easing in house prices for Auckland and that recent inflation pressures have abated. Also during the month, Finance Minister Steven Joyce delivered his first budget which saw a range of changes including adjustments to tax thresholds, a large commitment to infrastructure spending and a forecast that the operating surplus will grow to \$7.2bn by 2020-21. Portfolio changes during the month included the reduction of our exposure to Infratil bonds and the purchase of Genesis bonds.

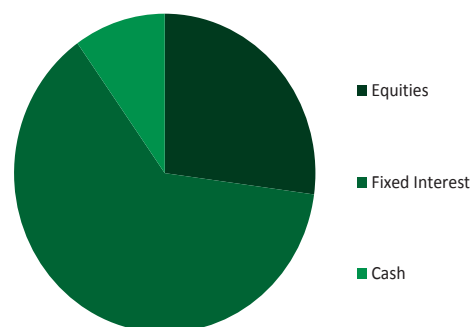
KEY HOLDINGS



GROWTH

NZ Equities	13.4%
AU Equities	11.3%

ASSET ALLOCATION



DEFENSIVE

Cash	12.3%
NZ Corporate Bonds	63.0%
NZ Government Bonds	0.0%

PERFORMANCE

As At 31/05/2017

	1 Mth	3 Mth	1 Yr
Devon Diversified Income Fund	0.6%	2.5%	3.7%
OCR + 1.5%	0.3%	0.9%	3.5%

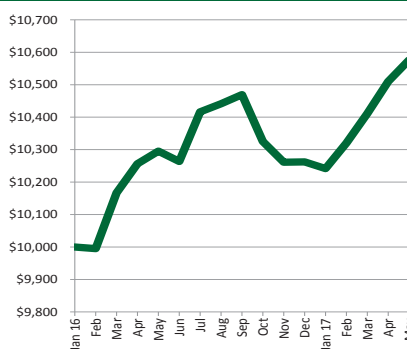
Devon Diversified Income Fund returns are after all fees and expenses, but before tax which varies by investor. Inception date for the Fund is 1 January 2016.

NET PERFORMANCE

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

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 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

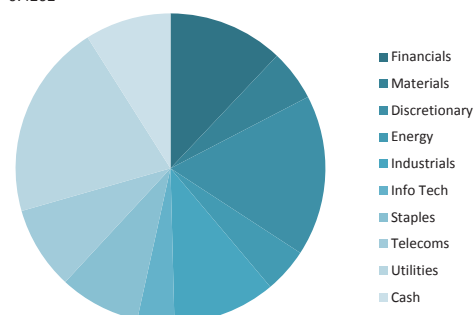
This strategy performed well against its benchmark during the month. There were a number of notable contributors to this including Z Energy, Aurizon Holdings and Spark Infrastructure. Z Energy delivered a solid FY17 result during the month and although the company does face structural challenges as we move into a world of electric vehicles, we believe that the market has undervalued the synergy and scale potential that exists from the recent acquisition of Caltex New Zealand. Spark Infrastructure also rallied, finishing the month up over 8% and is now trading at all-time highs. This is an investment that we initially acquired over a year ago and although its price has experienced volatility in recent months due to rising interest rates, we are very pleased to see that our view on the intrinsic value within this business is now being more appropriately priced by the market.

KEY HOLDINGS



ASSET ALLOCATION

0.4262



GEOGRAPHIC ALLOCATION

New Zealand Equities	49.5%
Australian Equities	41.5%
Cash	9.0%
Total	100.0%
Currency Hedge	100.0%
Yield	6.2%

PERFORMANCE

As At 31/05/2017

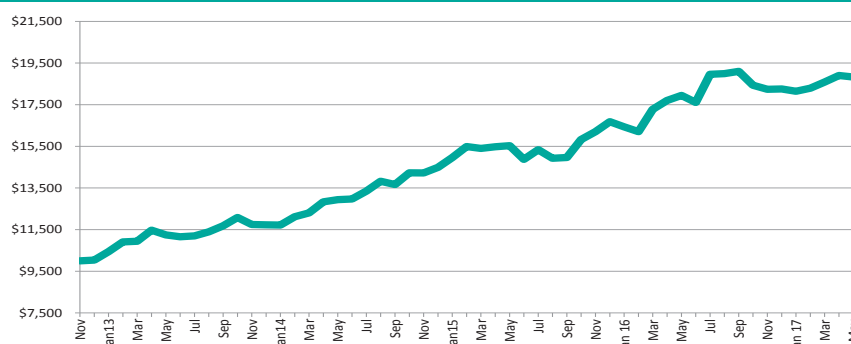
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	-0.4%	2.9%	4.9%	13.8%	-
TT Index (Hedged)	-1.1%	2.5%	8.2%	9.4%	-

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.

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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 May this strategy outperformed its benchmark with a number of stocks making positive contributions. Amongst these were our investments in Spark Infrastructure, Vista Group and Fisher and Paykel Healthcare. Fisher and Paykel announced their FY17 result during the month and reported a net profit of \$169.2m which was ahead of the market's expectations and prior company guidance. The company's Hospital division benefited from a strong flu season while their Home Care division is currently enjoying increasing market share in sleep apnea masks. There were not any major changes made to the portfolio but we did reduce our exposure to the Banking sector on account of concerns over sector valuations and we recycled this capital by increasing our investments in Westfield and Brambles. The recent volatility in markets, especially in Australia, is presenting an increasingly attractive set of opportunities for this portfolio.

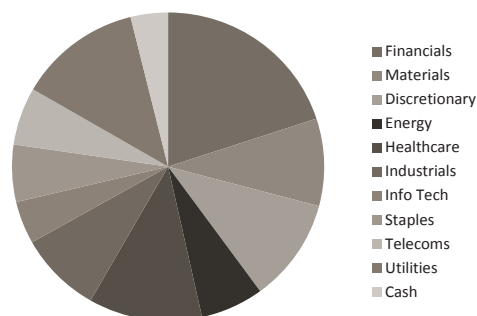
KEY HOLDINGS

Henderson
GROUP PLC

Contact

Brambles

ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	46.9%
Australian Equities	49.2%
Cash	3.9%
Total	100.0%

PERFORMANCE

As At 31/05/2017

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	-2.7%	1.6%	4.4%	9.8%	14.1%
Trans-Tasman Index Gross	-2.9%	1.8%	7.1%	8.6%	11.8%

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

PORTFOLIO MANAGER

Tama Willis

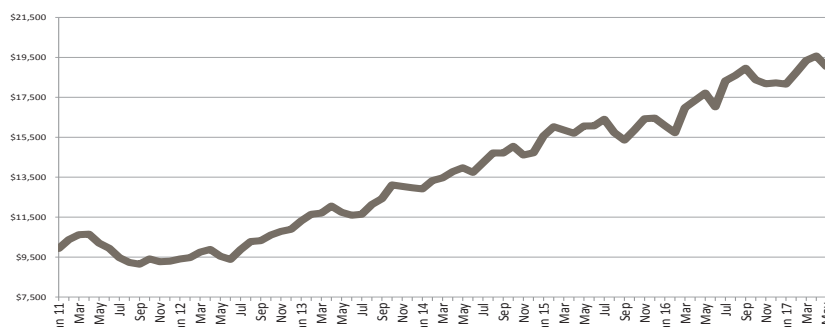


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NET PERFORMANCE

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

"Sell in May and go away"? Forget it! Despite arguably increased global political uncertainty (perhaps with the exception of Europe, for a change), and a slight softening in some US economic data points, global equities have continued their march higher. It was Europe out in front this month, with a favourable outcome in the French presidential election early in the month leading many investors to call the demise of the 'euroskeptic' movement. Add to this a (still) supportive central bank and a reporting season delivering the strongest positive earnings surprises in nearly a decade, and it's not hard to see why. Given this, our overweight to the region (which we further increased in late April) has served us well, particularly through our sector tilts in Telcos and Pharmaceuticals. We continue to see positive earnings growth ahead in Europe and, while acknowledging that some uncertainties remain, we are comfortable with our overweight.

While much of the inflow into Europe has been funded by investors selling holdings in US equities, our US sector tilts generally fared well during their recently-completed reporting season. We were particularly pleased with what we saw in the Technology and Medical Device names we own. In saying this, laggards this month were US Banks (after a very strong run) and Oil Services (uncertainty around recent OPEC production cut extensions). US Banks wore the brunt of the increased uncertainty around whether President Trump has enough remaining political capital to

implement reforms around tax and deregulation, as well as a resultant pull back in bond yields. We continue to see multiple tailwinds ahead for US Banks, however, and therefore remain happy holders.

Elsewhere, we remain positive with regards to reforms progress in India, with the short-term impact of demonetisation fading, and any economic hit resulting from the upcoming implementation of GST likely to be short term, paving the way for continued longer-term economic growth.

Returns

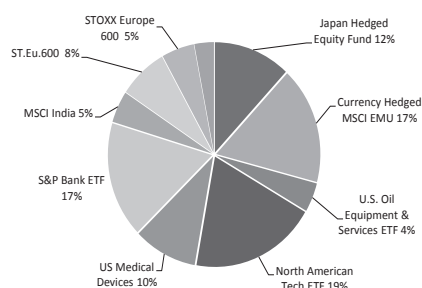
The Global Themes Fund fell 0.5% in May to a unit price of \$2.5671. This compares with a 0.7% rise in our global equity benchmark.

Our fund has risen 10.2% per annum since inception net of fees, versus 10.7% growth in the iShares MSCI All Country World Index Exchange Traded Fund (50% hedged to NZD).

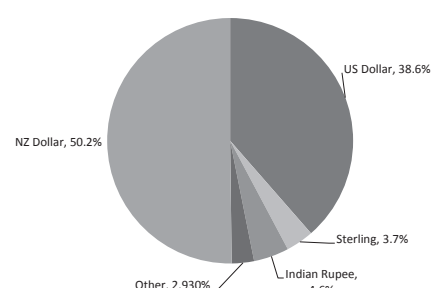
Currency exposures

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

SECTOR ALLOCATION



CURRENCY EXPOSURE



NET PERFORMANCE SINCE INCEPTION

Returns versus Benchmark

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.

Returns versus Benchmark

