

### MARKET COMMENTARY

## The Future Is Bright for Our Renewable Electricity Sector

Energy demand and consumption is one of the most interesting investment areas globally. There are a number of aspects to energy that mean it is important to have a clear investment view on trends. Energy issues are at the forefront of technological disruptions, carbon emissions, climate change, regulatory and consumer behaviour. In New Zealand the listed electricity sector is also a big part of our stock market, comprising 15.3% of the S&P/NZX50 index.

The new New Zealand coalition government has announced that it intends to conduct a "full scale review into power pricing". In 2014 the Labour party strongly promoted a centralised model for the New Zealand electricity market but appears to have backed away from this stance, although their current preferred model is unclear. On a recent trip to the US, to look at a number of different sectors (including healthcare, building, media and technology), one of our portfolio managers spent a week in Silicon Valley focussing on...

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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	0.5%	18.7%
S&P/ASX200G	AUSTRALIA	1.6%	14.6%
MSCI World Index	GLOBAL	1.6%	23.6%
S&P500	USA	2.2%	21.8%
FTSE100	UK	-1.8%	12.3%
NIKKEI 225	JP	3.3%	26.4%
NZ 90 Day Bank Bill	NZ	0.2%	2.0%



AT A  
GLANCE

### UNIT PRICES

DEVON ALPHA FUND

**\$1.6618**

DEVON AUSTRALIAN FUND

**\$1.4366**

DEVON DIVIDEND YIELD FUND

**\$1.8564**

DEVON DIVERSIFIED INCOME FUND

**\$1.5604**

DEVON TRANS-TASMAN FUND

**\$3.7651**

GLOBAL THEMES FUND

**\$2.8217**

Prices as at 30 November 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



### 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.

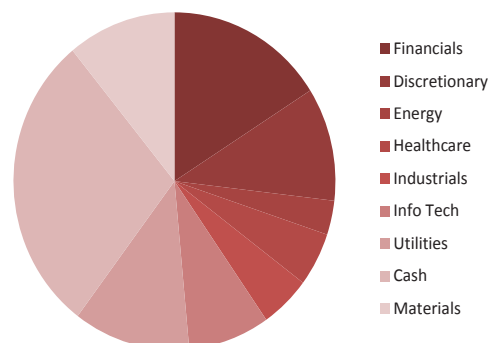
### DEVON ALPHA FUND

The Alpha strategy generated solid performance during the November as a number of our key investment ideas rallied strongly. The most impressive of these was Serko, whose share price finished the month up almost 80%. Management released the first-half FY18 financial results for this online travel business which saw the company report a maiden profit of \$1.2m. This was a big improvement from the same period last year where they generated a loss of \$2m. Investor confidence in Serko is improving on evidence of growth in new customers and demand for travel related content such as hotels and airport transfers. Other investments that worked well for this strategy included Brambles and Westfield whose shares closed the month up 8.4% and 8.0% respectively. The most significant change to the portfolio during November was the purchase of additional shares in Scottish Pacific Group.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

New Zealand Equities	27.7%
Australian Equities	43.5%
Cash	28.8%
Total	100.0%
Currency Hedge	29.2%

### PERFORMANCE

As At 30/11/2017

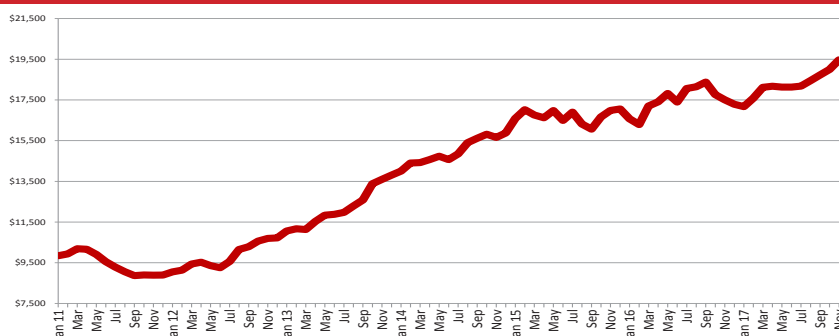
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	2.5%	5.5%	11.2%	7.2%	12.5%
OCR	0.2%	0.5%	2.0%	2.5%	2.6%

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.

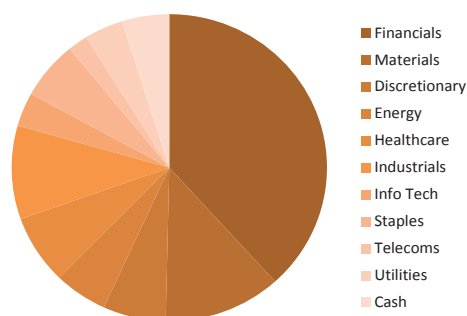
### DEVON AUSTRALIAN FUND

Amongst the best performing investments within this strategy during the month were Origin Energy and Scottish Pacific. Origin rallied over 12% as investors continue to reward this business for the progress it has made in repairing its balance sheet and simplifying its operating model. The strong recovery in the oil price also supported investor sentiment and a recent positive announcement around cost guidance resulted in earnings upgrades by analysts of the stock. Shares in Scottish Pacific closed up more than 15% after management gave a trading update at their AGM. This announcement highlighted that momentum across the business remains strong. In the four months to 31 October, their loan book has grown by 17% and Bad & Doubtful debt levels have remained well managed. The most significant change to the portfolio was our participation in the IPO of People Infrastructure. Detractors to the performance during November included GTN and National Australia Bank.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

Dual Listed	3.5%
Australian Equities	91.6%
Cash	4.9%
Total	100.0%
Currency Hedge	0.0%

### PERFORMANCE As At 30/11/2017

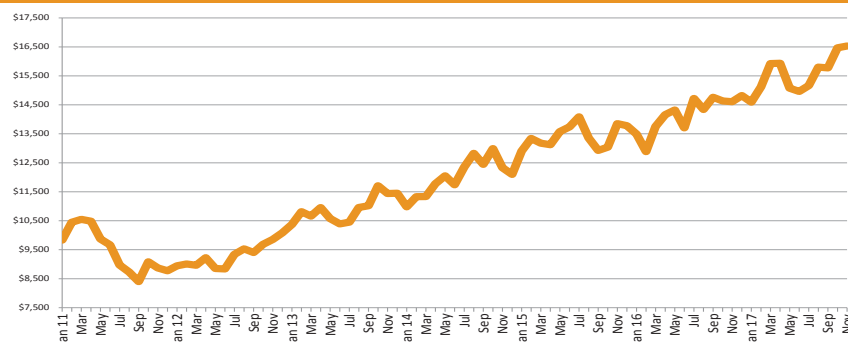
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	0.4%	4.6%	13.2%	10.3%	10.9%
ASX200 Index Gross (NZD)	0.5%	5.6%	21.6%	9.3%	7.5%

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.

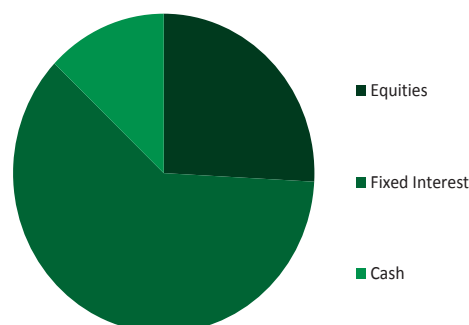
### DEVON DIVERSIFIED INCOME FUND

Global bond yields drifted higher during November with the US 10-year Treasury rate finishing the month at 2.41%. Although global growth remains positive there continues to be a great deal of uncertainty as to when the inflation rate will pick up. US Federal Reserve Chair Janet Yellen highlighted this fact during the month when she questioned whether prices could remain low for years to come. Despite this the market currently expects the Fed to implement their next rate hike on 14<sup>th</sup> December, followed by another 3 to 4 hikes in 2018. This is consistent with a number of other Central Banks who are also beginning the normalisation of their monetary policies. The RBNZ left the Official Cash Rate unchanged at 1.75% but they have outlined changes to its forecasts after incorporating the estimated impact of a number of new government policies which are likely to be inflationary.

### KEY HOLDINGS



### ASSET ALLOCATION



### GROWTH

NZ Equities	14.1%
AU Equities	10.4%

### DEFENSIVE

Cash	14.3%
NZ Corporate Bonds	61.2%
NZ Government Bonds	0.0%

### PERFORMANCE

As At 30/11/2017

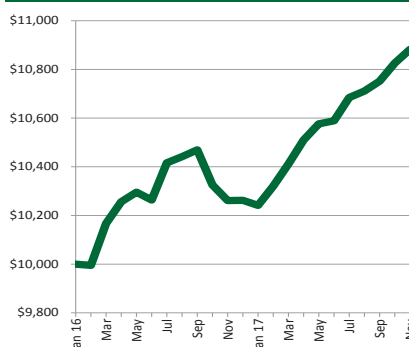
	1 Mth	3 Mth	1 Yr
Devon Diversified Income Fund	0.5%	1.5%	6.0%
OCR + 1.5%	0.3%	0.9%	3.5%

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](#)

### PORTFOLIO MANAGER

Nick Dravitzki



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Nick has responsibility for the analysis of consumer staples, IT, consumer discretionary and property sectors. Nick is also responsible for our quantitative screening process.

### 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



### 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 November this portfolio benefited from strong contributions from our investments in Z Energy, Suncorp and Trade Me. Trade Me finished the month up over 5% with investor sentiment being supported by some broadly positive comments from the company's Annual Shareholder Meeting. Although management highlighted that revenue within their TM Property division will be negatively impacted by declining activity in the real estate market, overall business profit guidance remained unchanged. In the 4-months to the 31<sup>st</sup> October, revenue growth for their Classifieds businesses have grown by 13% with Motors and Jobs particularly strong. Suncorp rallied over 5% as investors are getting increasingly confident in the economic benefits that will accrue to that business from the improving pricing cycle that is occurring in Australian general insurance. The biggest detractors to performance were our investments in GTN, Metro Performance Glass and National Australia Bank. There were no major changes made to this portfolio during the month.

### PORTFOLIO MANAGER

Nick Dravitzki



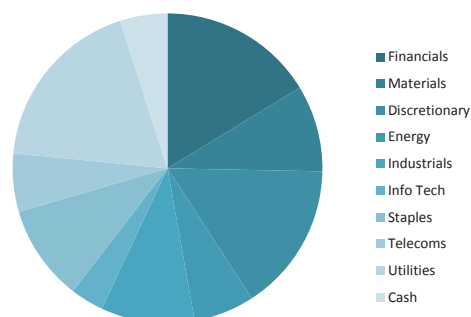
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### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

New Zealand Equities	54.6%
Australian Equities	40.4%
Cash	5.0%
Total	100.0%
Currency Hedge	99.0%
Yield	6.39%

### PERFORMANCE

As At 30/11/2017

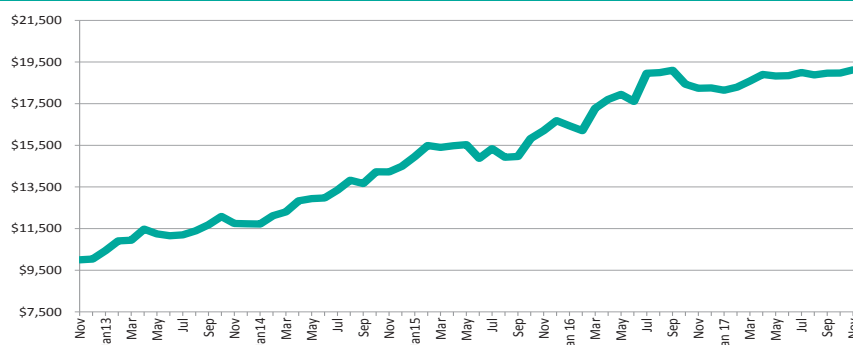
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	0.8%	1.3%	4.8%	10.8%	-
TT Index (Hedged)	1.1%	5.2%	16.7%	11.7%	-

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\*



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](#)



### 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.

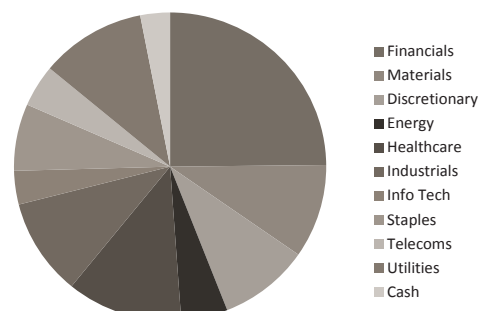
### DEVON TRANS-TASMAN FUND

A number of our highest conviction investments performed well during November. Amongst these were Janus Henderson, Brambles, Trade Me and Vista Group. Westfield also rallied strongly closing the month up almost 8% as investors have started to appreciate the lift in asset value that this company will enjoy as their development activity progresses. Currently they have US\$3.8bn of projects underway including Century City in Los Angeles and the Westfield World Trade Centre in New York. Recent merger and acquisition activity in the US REIT sector was also viewed positively for the company. Resmed also performed well, finishing the month up 4%. A senior member of our investment team recently visited the Resmed head office in California and we continue to have confidence that the recent positive operating momentum in this business will continue. Changes that occurred to the portfolio included the purchase of shares in Scottish Pacific and some profit taking in CSL.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

New Zealand Equities	46.4%
Australian Equities	50.5%
Cash	3.1%
<b>Total</b>	<b>100.0%</b>

### PERFORMANCE As At 30/11/2017

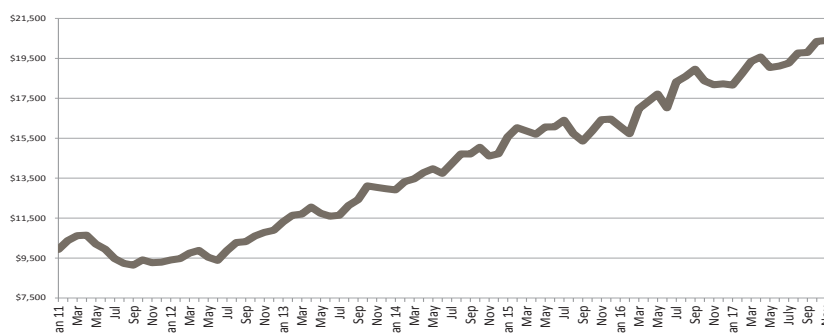
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	0.2%	3.2%	12.2%	10.6%	12.9%
Trans-Tasman Index Gross	0.5%	5.2%	20.2%	12.0%	11.3%

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



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.





### 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

November was a choppy month for thematic portfolios. The notable trend during the month was a return of Euro strength, rising from 1.16 to 1.19 versus the USD. Robust economic data out of Europe has supported the Euro, but is a headache for European equities which relish currency weakness.

We expect Europe to be an important theme in 2018. The region appears to be in a growth sweetspot, which is flowing through to double digit earnings growth. Notwithstanding the latest currency headwind, we expect the ECB will continue to lag the Federal Reserve on rate hikes, which will keep a lid on significant Euro strength next year. At the sector level, we continue to see some interesting ideas in European equities which we may implement into the portfolio over coming months.

Technology stocks had a volatile ride in November: this is not surprising given the run the sector has enjoyed this year (our Technology theme is 36% higher so far in 2017). Structurally, technology remains one of our most important long-term themes – having been a cornerstone in our portfolio since 2005. However, we will carefully monitor the valuation proposition through 2018 – we are happy to lower our weighting if the sector runs materially ahead of fundamentals. In the meantime we note earnings momentum remains strongly positive.

We head into 2018 seeing reasonable grounds for positive returns to continue – albeit at a slower pace. The key risk to equities is a sharp uptick in inflation which would cause central bankers to revisit their erstwhile generous attitude to funding costs.

### Returns

The Global Themes Fund rose 0.7% in November, finishing the month at a unit price of \$2.8217. This compares with a 2.2% rise in our global equity benchmark.

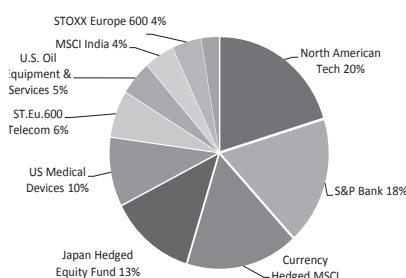
Our fund has risen 11.8% per annum since inception net of fees, versus 13.2% growth

in the iShares MSCI All Country World Index Exchange Traded Fund (50% hedged to NZD).

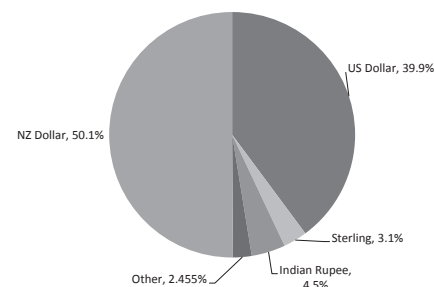
### Currency exposures

We continue to hold the currency hedge level in the fund at its benchmark weight of 50%. The USD has kept the Kiwi below 0.70 for now. A higher hedge level becomes interesting to us should the NZD drop below 65c. Immigration is the most important number to watch for NZ macro momentum in 2018.

### SECTOR ALLOCATION



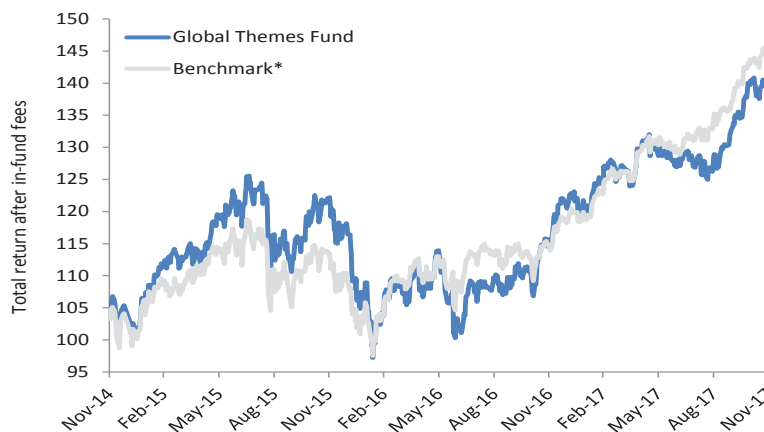
### CURRENCY EXPOSURE



### NET PERFORMANCE SINCE INCEPTION

Returns versus Benchmark

#### Returns versus Benchmark



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.