

MARKET COMMENTARY

Pocket Bubble?

Over the past 30 years we have seen extreme asset pricing bubbles occur on a number of occasions. In the late 1980's it was NZ equities and Japanese property. In the 1990's it was Asian property and anything to do with technology shares while in the 2000's it was US property and financial assets. When we look at broad equity markets today, there are some commentators who believe that 10 years of historically low interest rates and central banks flooding the system with money has resulted in investor exuberance which has led to irrational pricing across the board. While we do not subscribe to this view, we do believe that increased caution by investors is sensible. The current bull market in global stocks is now into its ninth year (the second longest in history) and what concerns us is that we are seeing some clear signs of "bubble-type behaviour".

To demonstrate this point, one of the most interesting illustrations that we can see today of extreme investor behaviour is in the world of cryptocurrencies. Recently, it appears that almost every day the financial press has been highlighting the fact that the price of Bitcoin has hit a new high.... [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	2.7%	17.0%
S&P/ASX200G	AUSTRALIA	4.0%	16.1%
MSCI World Index	GLOBAL	1.9%	23.5%
S&P500	USA	2.3%	23.6%
FTSE100	UK	1.8%	12.1%
NIKKEI 225	JP	8.2%	28.7%
NZ 90 Day Bank Bill	NZ	0.2%	2.0%



AT A GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.6216

DEVON AUSTRALIAN FUND

\$1.4312

DEVON DIVIDEND YIELD FUND

\$1.8413

DEVON DIVERSIFIED INCOME FUND

\$1.5524

DEVON TRANS-TASMAN FUND

\$3.7560

GLOBAL THEMES FUND

\$2.8013

Prices as at 31 October 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.

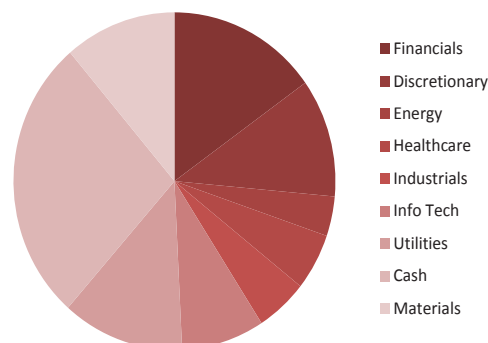
DEVON ALPHA FUND

There were a number of strong positive contributors to portfolio performance over the month. These included Resmed and Serko which rallied 11% and 63% respectively. Resmed reported their first-quarter results during the month which saw company revenue increase by 13% compared to the same period last year. This success was principally attributed to strong demand for their new sleep apnea masks. Serko upgraded their earnings guidance during October as their online transaction volumes increased in excess of expectations. Company management also commented that the business was benefitting from growth in hotel bookings and airport transfers. Poor performing stocks in the portfolio included Vista, which came out of the NZ50 index due to low liquidity and Fletcher Building which reported further construction losses. The Vista business is performing very well but it is struggling to be recognised by the market.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	28.8%
Australian Equities	43.9%
Cash	27.3%
Total	100.0%
Currency Hedge	29.5%

PERFORMANCE

As At 31/10/2017

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	1.5%	4.5%	7.0%	6.0%	12.2%
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.

PORTFOLIO MANAGER

Nick Dravitzki

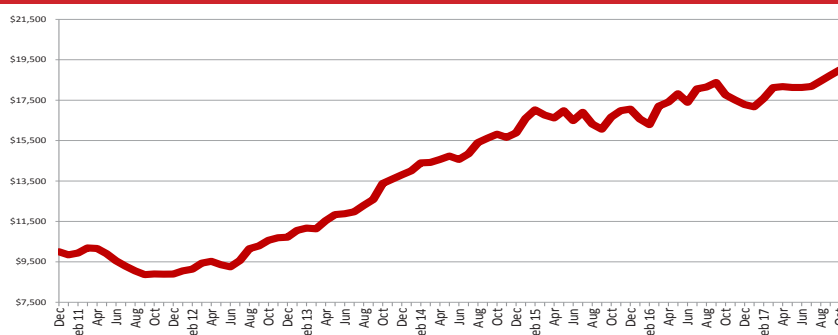


Over the last decade Nick has specialised in investing in high yield equities and is Portfolio manager for the Devon Alpha, Diversified Income and Dividend Yield Funds. At Devon, Nick has responsibility for the analysis of consumer staples, IT, consumer discretionary and property sectors. Nick is also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

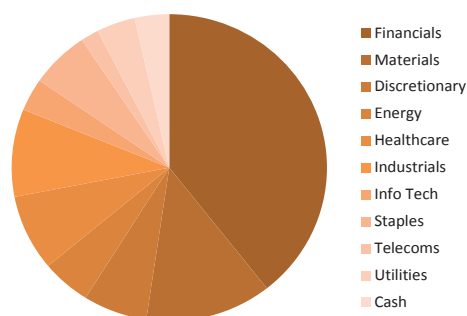
DEVON AUSTRALIAN FUND

This strategy enjoyed strong contributions during the month from stocks including Resmed, Caltex, Origin Energy and PWR Holdings. PWR is an Australian based business which is involved in the design and production of customised cooling systems for the motorsports and automotive industry. They work closely with racing teams involved in Formula One, NASCAR and the World Rally Championship. We purchased shares in this business during the month after they recently delivered a strong FY17 result which saw their underlying profit grow by 22%. Key to their success during the month was their Motorsports division which grew constant currency sales by 15% after winning new customers in Formula One. Hurting the portfolio were Xenith IP and Vista Group and our underweight position in CBA. Another change to the portfolio was the sale of shares in Cybg Plc. This business is listed in Australia but its operations are predominantly exposed to the banking industry in the UK. We reduced our position in this investment after its shares had rallied strongly in recent months.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

Dual Listed	3.4%
Australian Equities	93.0%
Cash	3.6%
Total	100.0%
Currency Hedge	0.0%

PERFORMANCE

As At 31/10/2017

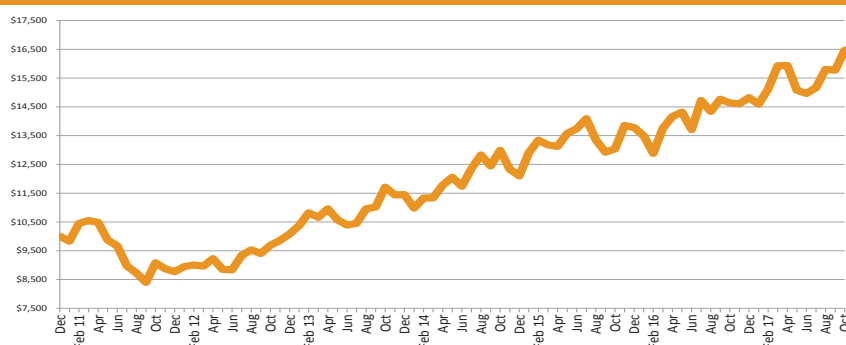
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	4.4%	8.6%	12.5%	8.2%	11.2%
ASX200 Index Gross (NZD)	7.3%	10.1%	22.2%	6.6%	7.7%

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

There were no major changes to global interest rates during the month. In the US Federal Reserve Chair Janet Yellen continues to suggest that gradual increases to the Fed Funds rate are necessary despite the fact that domestic inflation remains below their 2% target level. In New Zealand the major focus was on the election and it appears that investors have been more accepting of a centralist Labour government than had been expected. But there is still a great deal of uncertainty for investors as to what the policy landscape will finally look like or what the implications on GDP growth and inflation will be from targeted strategies around immigration and housing. The challenge for fixed interest investors in New Zealand remains a lack of new corporate issuance but we continue to take a conservative and patient approach to building this portfolio.

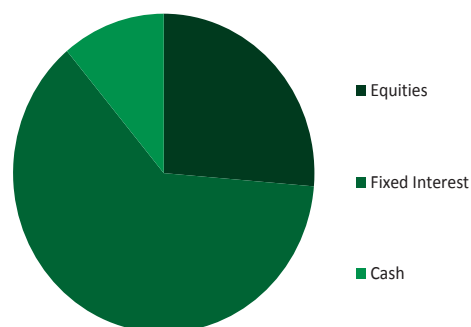
KEY HOLDINGS



GROWTH

NZ Equities	14.1%
AU Equities	11.2%

ASSET ALLOCATION



DEFENSIVE

Cash	12.1%
NZ Corporate Bonds	62.6%
NZ Government Bonds	0.0%

PERFORMANCE

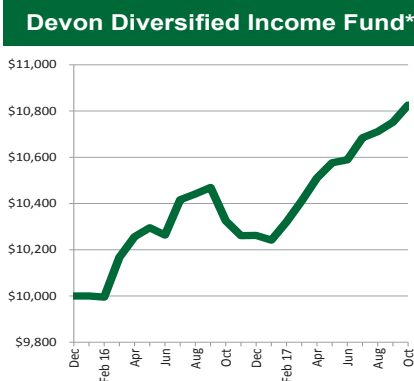
As At 31/10/2017

	1 Mth	3 Mth	1 Yr
Devon Diversified Income Fund	0.6%	1.3%	4.8%
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



*Fund commenced on 1 January 2016

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.

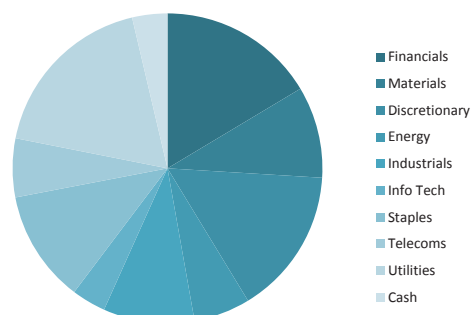
DEVON DIVIDEND YIELD FUND

The best performing stock in this portfolio during the month was Fliway. Although we only had a small exposure to it, our view surrounding the value inherent in this business was rewarded by a take-over bid for it by Yang Kee Logistics, one of Singapore's largest privately owned logistics companies. Subject to the offer price of NZ\$1.22 cash per share being within the independent advisers' valuation range and assuming no superior proposal arising the independent directors will recommend that shareholders accept the offer. Another stock that performed well for us was Tegel Group. We increased our exposure to this business during the month on confidence that Tegel can continue to grow their sales volumes and that the pricing dynamics in the New Zealand market are showing signs of stabilization. The most significant detractor from our performance against the benchmark came from not owning a2Milk which rallied 35% during October and Xero which was up 11.6%. Neither stocks pay a dividend and therefore cannot be purchased for this portfolio.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	53.6%
Australian Equities	42.7%
Cash	3.7%
Total	100.0%
Currency Hedge	100.0%
Yield	6.31%

PERFORMANCE

As At 31/10/2017

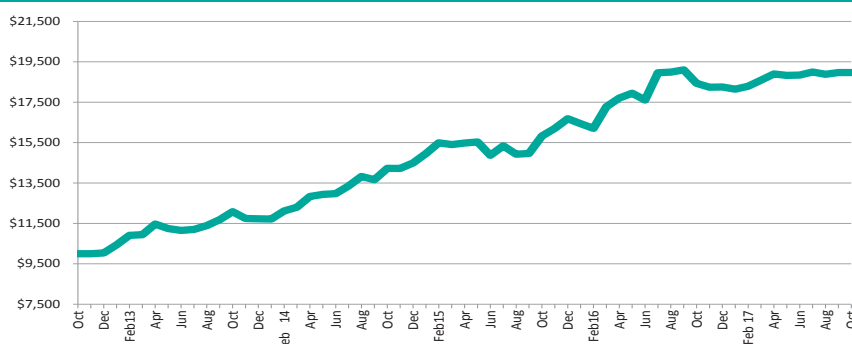
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	0.0%	-0.2%	2.9%	10.5%	-
TT Index (Hedged)	3.4%	5.3%	16.6%	10.9%	-

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.

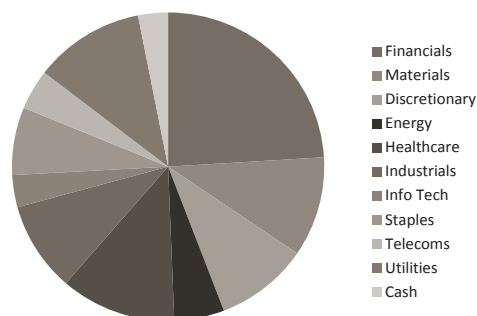
DEVON TRANS-TASMAN FUND

The most significant change to this portfolio during October was the purchase of shares in Aurizon Holdings. Aurizon is an Australian rail freight operator which operates a coal network of 2,670km of heavy haul infrastructure. We met with management in Brisbane during the month and believe that this company has the potential to win contestable coal contracts over the next year. This together with probable brownfield coal expansions across Australia should support earnings growth for Aurizon over the medium term. Investments which contributed positively to performance included Resmed, Port of Tauranga and Tegel. Unfortunately these performances were offset by negative returns from Vista Group, Fletcher Building and GTN. The most notable detractor to our relative performance came from the fact that we don't own any shares in a2Milk in this strategy. Almost 70% of the performance of the New Zealand market during October came from this one stock.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	45.3%
Australian Equities	51.6%
Cash	3.1%
Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
As At 31/10/2017					
Devon Trans-Tasman Fund	2.8%	5.7%	10.7%	9.5%	13.2%
Trans-Tasman Index Gross	5.0%	8.0%	19.6%	10.7%	11.6%

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

PORTFOLIO MANAGER

Tama Willis

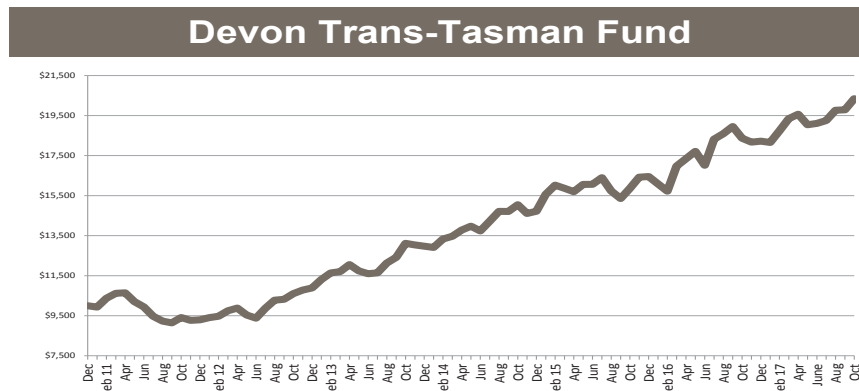


After a long period in international investment markets, Tama returned to NZ after a very successful career in London and Singapore to join Devon's investment team and holds responsibility for

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

Markets appear to be shifting toward our world-view. Of course to say this as an investor is invariably tempting fate. But we observe:

- Global growth is synchronised for the first time since the GFC.
- Earnings are growing at double digits in most markets.
- Inflation has been printing on the low side, but there are signs that the worm is turning.
- The US may yet deliver tax cuts despite the best efforts of its President.
- The Fed looks intent on delivering a rate hike in December which has supported the USD; while Draghi's ECB has stuck to a dovish script.
- Abe has secured his mandate in Japan, locking in "Abenomics" for the foreseeable future.

Our portfolio has benefited from many of these trends – as have global equities generally. On earnings, we are particularly pleased to see Technology, Medical Devices, Japan and Europe deliver excellent earnings growth. Improved tax cut sentiment has lifted US Banks. And both Europe and Japan enjoyed USD strength.

From here, we see the evolution of inflation as the next pivotal driver of markets. We remain adamant that owning protection against upward inflation surprises is prudent, and our holdings of US Banks and Japan are both instrumental in this respect. Conversely, and notwithstanding a stellar year, we

remain skeptical that Emerging Markets are well positioned to deal with rising US inflation, should it occur. Accordingly India is the only Emerging Market we are prepared to own. Aside from inflation, the greatest near term risk to markets is a failure of the GOP to pass tax cuts.

Returns

The Global Themes Fund rose 5.8% in October, finishing the month at a unit price of \$2.8013. This compares with a 4.8% rise in our global equity benchmark.

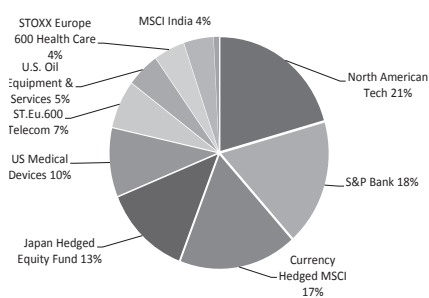
Our fund has risen 11.9% per annum since inception net of fees, versus 12.7% growth in the

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

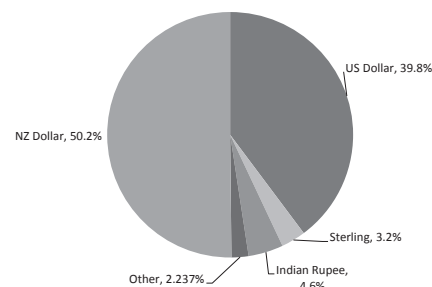
Currency exposures

We continue to hold the currency hedge level in the fund at its benchmark weight of 50%. As we expected the USD has staged a comeback, and the NZD has lost ground post the election. A higher hedge level becomes interesting to us should the NZD drop below 65c.

SECTOR ALLOCATION



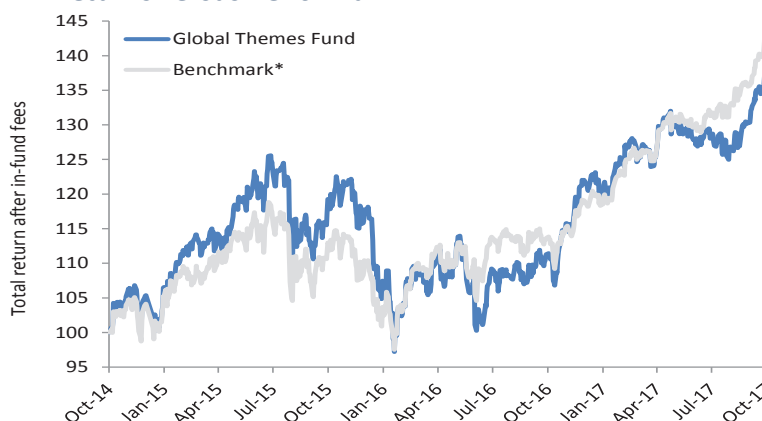
CURRENCY EXPOSURE



NET PERFORMANCE SINCE INCEPTION

Returns versus Benchmark

Returns versus Benchmark



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

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.