

MARKET COMMENTARY

Executive Remuneration – A Runaway Train?

Of all the shareholder governance issues, executive remuneration is the one that arouses the most passion but is often the hardest to evaluate or deal with. News that Fonterra's CEO (Chief Executive Officer) received over \$8.32m, or \$160,000 per week, for the year ended July 2017 has sparked a number of headlines and even some political comment. This particular payment was comprised of a mix of base salary (\$2.46m), benefits (\$170k) and short and long term incentive payments (\$1.83m and \$3.86m respectively). While Fonterra is a cooperative and not a listed company (the Fonterra Shareholders Fund is a separate entity) their justification has followed the well-trodden route of employing consultants to conduct a benchmarking exercise and providing some vague commentary around performance targets. Objective measures that can be viewed by external parties, like the FSF share price or the Milk Price paid to farmers don't show any positive multi-year trends so it is hard externally to ascertain if the payment is justified or not... [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	1.4%	7.7%
S&P/ASX200G	AUSTRALIA	-0.0%	9.2%
MSCI World Index	GLOBAL	2.3%	18.8%
S&P500	USA	2.1%	18.6%
FTSE100	UK	-0.7%	11.2%
NIKKEI 225	JP	4.3%	26.0%
NZ 90 Day Bank Bill	NZ	0.20%	2.0%



AT A
GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.6212

DEVON AUSTRALIAN FUND

\$1.3973

DEVON DIVIDEND YIELD FUND

\$1.8682

DEVON DIVERSIFIED INCOME FUND

\$1.5574

DEVON TRANS-TASMAN FUND

\$3.7227

GLOBAL THEMES FUND

\$2.6482

Prices as at 30 September 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.

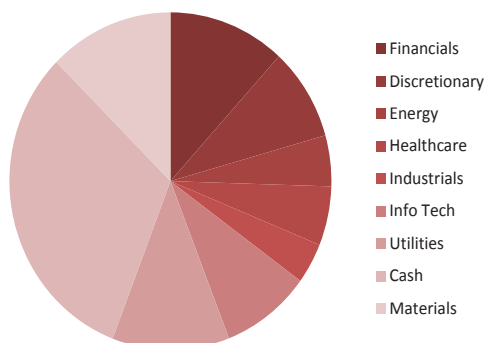
DEVON ALPHA FUND

This portfolio performed well over the month with a number of our key holdings delivering strong returns. GTN rallied 27% after the company delivered an FY17 result which gave investors confidence that the strategy to lift their chargeable spot rates in the US is working. Management have invested heavily in developing a local US salesforce team over the past year and it is encouraging to see this investment is yielding results. Pushpay and Vista also performed strongly finishing the month up 25% and 9% respectively. Pushpay has been a great investment for this strategy after we participated in a capital raising by the company in July. This raising was to accelerate its growth in the US church market. Vista has recovered well post the stock selling off in August after it was removed from the NZX50 Index due to the tightly held nature of the stock.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	29.8%
Australian Equities	38.6%
Cash	31.6%
Total	100.0%
Currency Hedge	12.4%

PERFORMANCE	1 Mth	3 Mth	Y.T.D	3 Yr p.a	5 Yr p.a
As at 30/09/17					
Devon Alpha Fund	1.5%	3.3%	8.4%	5.9%	12.5%
OCR	0.2%	0.5%	1.5%	2.6%	2.6%

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

PORTFOLIO MANAGER

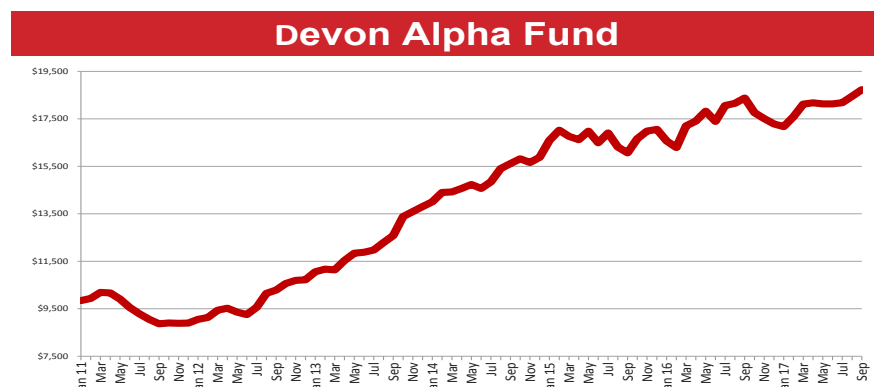
Nick Dravitzki



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 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 delivered good outperformance of its benchmark during the month. There were a number of key contributors to this including our investments in GTN, CYBG and Super Retail Group. We visited Australia a number of times during September to catch up with companies post the Reporting Season. Subsequent to these visits we increased our exposure in CSL, Brambles and Suncorp and also reintroduced oOh!media to the portfolio. oOh!media delivered a strong 1H17 result which saw their underlying profit rise by over 30%. Management are successfully executing on their Digital strategy and the acquisitions the company made in 2016 are being integrated with cost synergies and revenue benefits accruing as expected. CSL has been a portfolio holding for some time but we have purchased more shares after meeting with company management and developing increased confidence in their ability to leverage off their globally competitive position in plasma and immunoglobulin.

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.

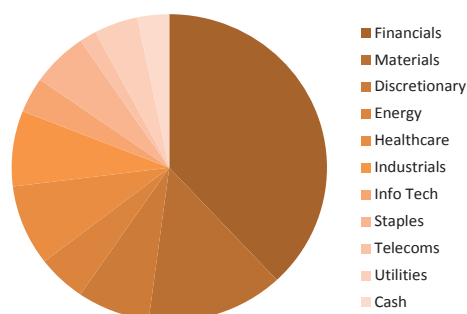
KEY HOLDINGS



GTN



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

Dual Listed	3.7%
Australian Equities	93.0%
Cash	3.3%
Total	100.0%
Currency Hedge	0.0%

PERFORMANCE As at 30/09/17

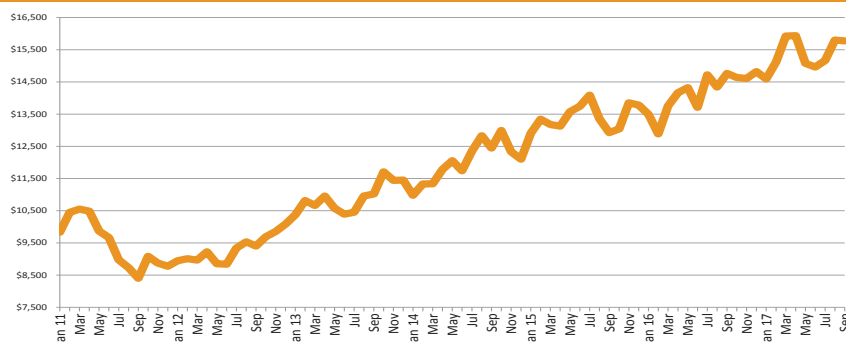
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	-0.2%	5.4%	6.8%	8.2%	10.9%
ASX200 Index Gross (NZD)	-2.0%	4.3%	12.7%	5.9%	7.0%

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





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

Globally fixed interest rates moved higher during the month. There were a number of reasons for this including a more hawkish tone being taken by the US Federal Reserve. Although the Fed left rates unchanged at their policy meeting, they did confirm that their Quantitative Easing program will continue to unwind and that their expectations are for an additional four interest rates hikes to be implemented by the end of 2018. Also in the international markets Moody's downgraded the credit rating of the UK and S&P downgraded China on concerns over their rising debt levels. In New Zealand the focus was on the election result and although, at the time of writing this report, we are no closer to having confirmation of the final government make-up, investors will be very aware of the potential shift in our level of political stability. The RBNZ left interest rates unchanged at their meeting during the month.

PORTFOLIO MANAGER

Nick Dravitzki



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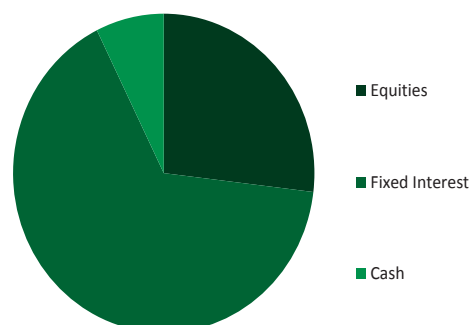
KEY HOLDINGS



GROWTH

NZ Equities	14.2%
AU Equities	11.3%

ASSET ALLOCATION



DEFENSIVE

Cash	8.7%
NZ Corporate Bonds	65.8%
NZ Government Bonds	0.0%

PERFORMANCE

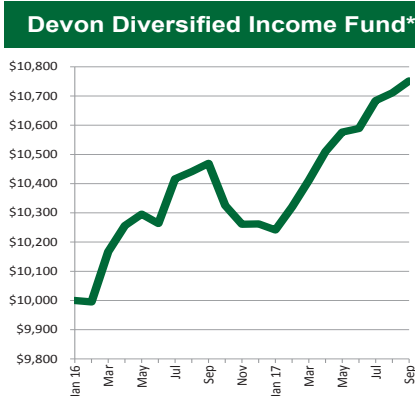
As at 30/09/17

	1 Mth	3 Mth	1 Yr
Devon Diversified Income Fund	0.4%	1.5%	2.7%
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

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

Despite the fact that long-dated global interest rates rose during the month this strategy delivered positive absolute returns for its investors. There were a number of key contributors including GTN, Tegel and Vector. Vector rallied during September after its share price had recently fallen due to the stock being removed from some of the FTSE indices. When this occurs there are a number of passive funds that are required to sell the shares but this remains a solid business that continues to offer a dividend yield in excess of 5%. There were no major changes made to the portfolio although we did increase our stake in Suncorp after meeting with company management. This meeting gave us increased confidence in the current insurance premium cycle and the company's "Business Improvement Program" which is expected to generate gross cost savings of \$391m by 2020.

PORTFOLIO MANAGER

Nick Dravitzki



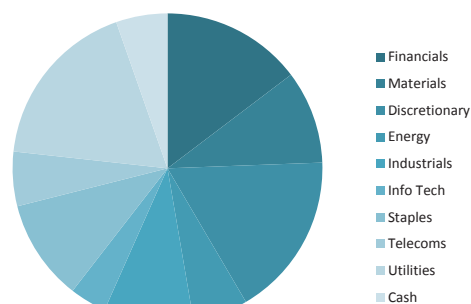
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KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	52.7%
Australian Equities	41.9%
Cash	5.4%
Total	100.0%
Currency Hedge	100.0%
Current Yield	6.3%

PERFORMANCE

As at 30/09/17

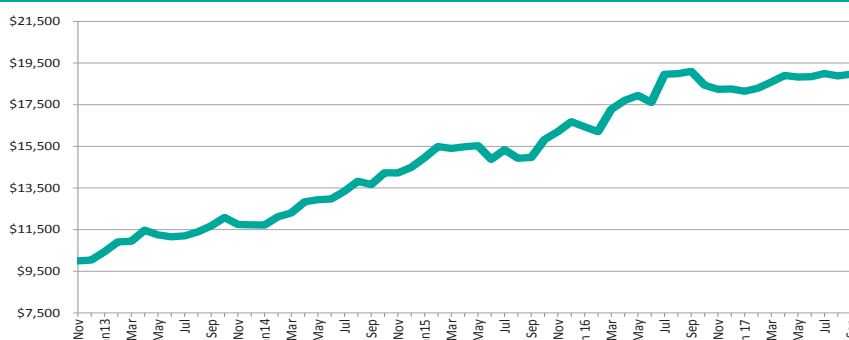
	1 Mth	3 Mth	1 Yr	3 Yr p.a
Devon Dividend Yield Fund	0.4%	0.6%	-0.7%	12.0%
TT Index (Hedged)	0.7%	2.4%	8.5%	10.9%

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



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

We were pleased with the performance of this strategy during the month. There were a number of stocks that performed well for us including GTN which rallied 27% and Vista Group which finished up 9%. We made a couple of changes to the portfolio including the purchase of shares in Brambles and Trade Me. We believe the opportunity in Brambles is an attractive one given its recent share price weakness on well documented challenges in their US business and higher corporate costs. Having met with a senior company executive during the month though we have confidence in the core franchise value of Brambles and believe that they will continue to drive strong sales growth and earnings across all their segments over the medium term. Trade Me has also sold off on concerns about the arrival of Amazon to Australia but this high quality business is now trading at a significant discount to the NZ market.

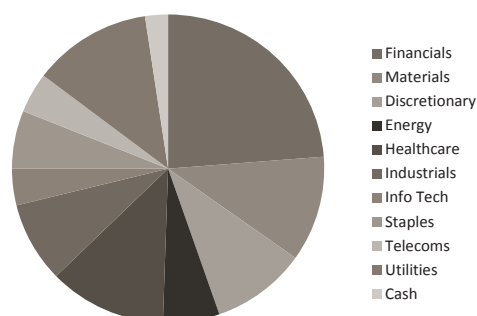
KEY HOLDINGS

Brambles

Contact

**VISTA
GROUP**

ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	47.2%
Australian Equities	50.4%
Cash	2.4%
Total	100.0%

PERFORMANCE

As at 30/09/17

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	0.1%	3.5%	4.4%	9.3%	13.2%
Trans-Tasman Index Gross	-0.3%	4.3%	10.2%	10.3%	11.3%

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

PORTFOLIO MANAGER

Tama Willis



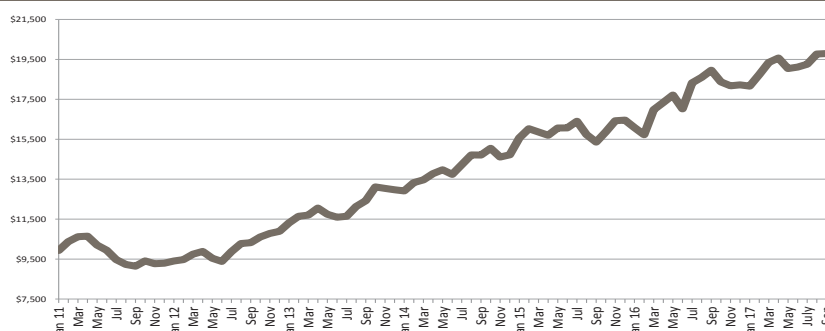
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NET PERFORMANCE

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

Whilst our own election has no doubt been dominant in New Zealand investors' minds during September, plenty has been going on offshore, both in and out of politics. We finally saw life again in bond yields – something we have been positioned for, hence our outperformance this month. We see this as early days, with a comeback in inflation, interest rates and the US dollar being underpriced by markets in our view. Combined with a US economy that is growing well, supported by strong consumer spending, a solid labour market and positive sentiment, this leaves us strongly of the view that bond yields as low as they are make little sense. Elsewhere, despite delivering their poorest performance at the polls since 1949, Angela Merkel's CDU/CSU bloc has still won the right to build a governing coalition in Germany, though a weakened one at that. The major surprise, however, was the loss of ground to populists Alternative für Deutschland, meaning Germany has joined the rest of the Euro area in having a Euroskeptical representation in Parliament – albeit a small one. We see limited market impact here. Over in Japan, we are looking ahead to a snap election scheduled for October 22, with Prime Minister Shinzo Abe capitalising on recent North Korean tension and an opposition in disarray to seek a fresh mandate. Barring this being a Theresa May-style miscalculation (unlikely in our view), we continue to see the stars aligning for Japanese equities, and remain happy owners.

Given the recent sell-off in bonds, unsurprisingly our relative performance was driven by strong returns from our US Banks, Japanese and Europe

holdings, which provide strong leverage to our conviction view of rising bond yields and USD strength. Our India theme struggled, however, following an (albeit successful) implementation of GST. While this was always going to lead to a short-term dip in economic activity, we are seeing signs of this turning already, and view GST implementation as a positive long-term move. Rising US bond yields and USD strength also did not help. That said, we continue to have strong longer-term conviction in Indian equities, and it remains our favoured emerging markets exposure.

Returns

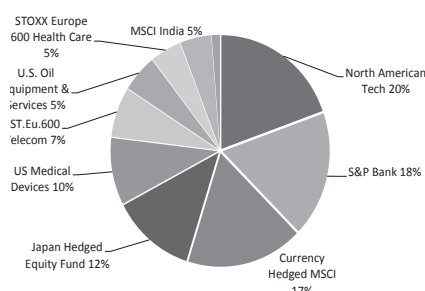
The Global Themes Fund rose 3.2% in Sep

tember, finishing the month at a unit price of \$2.6482. This compares with a 1.7% rise in our global equity benchmark. Our fund has risen 10.1% per annum since inception net of fees, versus 11.3% growth in the iShares MSCI All Country World Index Exchange Traded Fund (50% hedged to NZD).

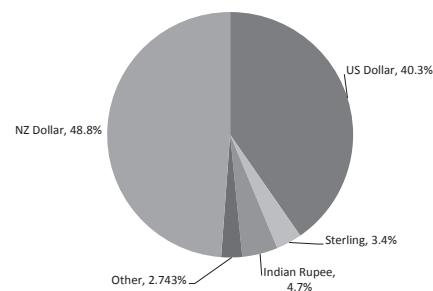
Currency exposures

We continue to hold the currency hedge in the fund at its benchmark level of 50%. The NZD, recovered some of its recent lost ground; however uncertainty remains given coalition talks to form the next government are still ongoing at the time of writing. We continue to see an increasing likelihood of further USD recovery.

SECTOR ALLOCATION

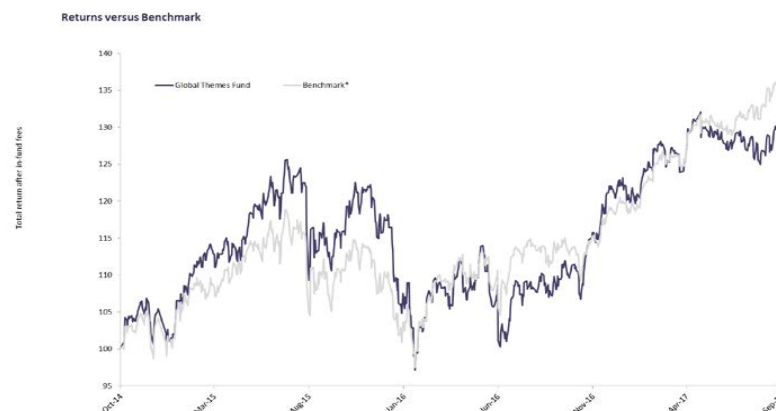


CURRENCY EXPOSURE



NET PERFORMANCE SINCE INCEPTION

Returns versus Benchmark



* iShares MSCI All Country World Index ETF, 50% hedged to NZD
Source: Datastream, BESS, 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.