

MARKET COMMENTARY

January Interest Piece

At Devon we consider investments using a “bottom up” approach – that is, we focus on individual stocks and take views on their individual attributes and earnings to decide whether to invest in them. Our portfolios are constructed by aggregating together our preferred stocks. We use this approach because we take the view that ultimately quality and value will win out. This approach is considered “active” portfolio management and as such our portfolios typically do not follow the performance of underlying indexes. This means that there will be periods where we outperform and periods where we underperform our benchmarks. While we are strongly of the view that this is the appropriate investment method over the medium to long-term, it would be naïve to assume that financial markets are always driven by company fundamentals on a short-term basis. Very frequently significant macro economic and political events will drive markets as a whole in one direction or another, often when the potential implications of such events are very unclear. Usually the impact of these events is reasonably short lived but it behoves us to nevertheless be aware of potential risks.

After a tumultuous year in politics in 2016 one could be forgiven for hoping that 2017 would offer a more benign outlook. While it is true that there is (thankfully) no US presidential election on the calendar, or a referendum with implications as large as the UK’s decision on whether or not to remain in the European Union, there are 3 elections that each have the potential to significantly impact financial markets.

Europe is the scene for two of them – the French presidential election and the German federal election.

The French election is the nearest with the first round being held on the 23rd April. The focus of much of the attention has been on the strong showing in opinion polls of the candidate from the far-right, anti-immigration, anti- EU National Front, Marine Le Pen. As at the end of January she was the highest polling candidate, though with the field reasonably crowded in the first-round, only 25% of respondents have indicated their intention to vote for her. Their election follows a multi round process until one of... [Read More](#)

MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	2.5%	14.3%
S&P/ASX200G	AUSTRALIA	-0.8%	17.3%
MSCI World Index	GLOBAL	2.4%	17.8%
S&P500	USA	1.9%	20.0%
FTSE100	UK	-0.6%	21.4%
NIKKEI 225	JP	-0.4%	10.8%
NZ 90 Day Bank Bill	NZ	0.2%	2.5%



AT A GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.5083

DEVON AUSTRALIAN FUND

\$1.3175

DEVON DIVIDEND YIELD FUND

\$1.8318

DEVON DIVERSIFIED INCOME FUND

\$1.5127

DEVON TRANS-TASMAN FUND

\$3.4812

GLOBAL THEMES FUND

\$2.3879

Prices as at 31 January 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

Key positive contributors to the performance of the Alpha Fund in January were Resmed (RMD) and Contact Energy (CEN). RMD rose 4.1% following a modestly better than expected result for the 2nd quarter of FY17. The US manufacturer of medical devices has been under pressure recently due to margin decline but the recent result saw a modest improvement. Much hinges on the success of its new sleep apnea mask and although it was only released late in the quarter, and so contributed very little to this result, early signs of adoption are positive. CEN also rose during the month despite releasing weak December operational numbers. The company continues to look outstanding value on a multiple to free cash flow basis and remains a core holding. Negative contributors included GTN (down 4.4%), which is still seeing the market digest its December capital raising, and Healthscope (down 4.4% also) which retraced recent gains on the back of disappointing health insurance growth.

KEY HOLDINGS

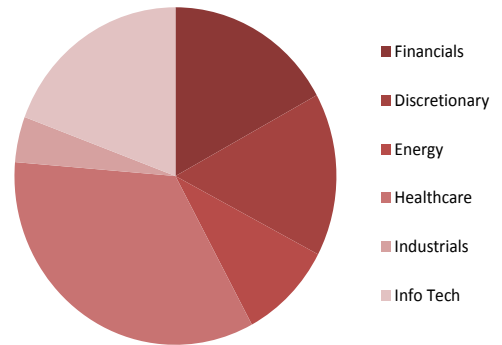
RESMED



GTN

Contact

ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	30.4%
Australian Equities	33.2%
Cash	36.4%
Currency Hedge	100.0%
	30.7%

PERFORMANCE

As at 31/01/17

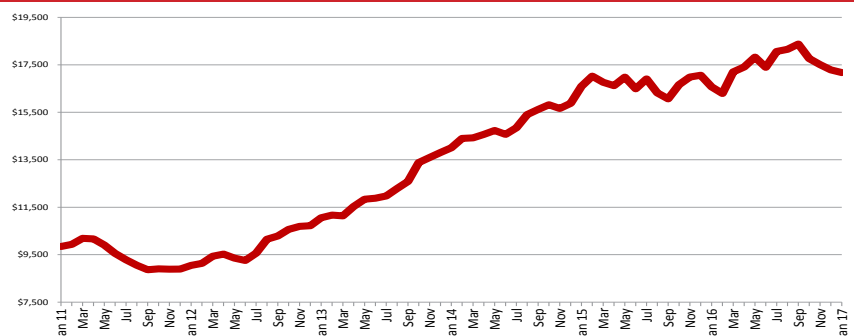
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	-0.7%	-3.3%	2.7%	6.7%	13.4%
OCR	0.2%	0.5%	2.1%	2.8%	2.7%

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

NET PERFORMANCE

Based on \$10,000 invested at 1 January 2011

Devon Alpha Fund



PORTFOLIO MANAGER

Slade Robertson



Slade has a long and successful career in investment management. With over 20 years experience in both the New Zealand and Australian investment industries, Slade's excellent track record is proof of his determination to pursue the best investment opportunities for his clients.



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

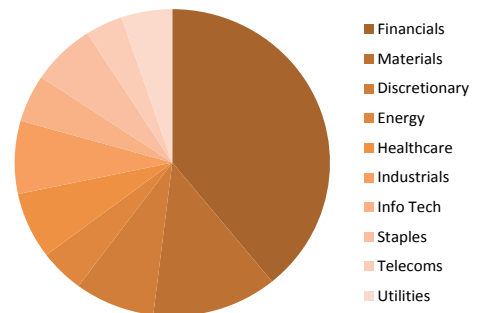
The Australian S&P/ASX200G declined 1.1% over the month (NZD) with strength early in the month giving way to profit taking. The Australian Fund slightly underperformed its benchmark over the period. Commodity prices were generally stronger, continuing a trend of the past year and resource equities outperformed as a result. The Fund retains good exposure to this sector with positions in BHP Billiton, Rio Tinto, Aurizon, Oil Search and Woodside. Resmed, CSL and the miners positively contributed to performance over the month, while Brambles, Henderson and GTN detracted. CSL, a global speciality biotech company that manufactures blood plasma products to treat medical conditions upgraded its FY17 earnings outlook in January. CSL is now forecasting adjusted FY17 NPAT growth of 18-20% from 11% due to a strong sales performance and is benefiting from competitor supply issues. The ability of CSL to source blood plasma from its growing number of collection centres remains a key competitive advantage.

KEY HOLDINGS



OIL SEARCH LIMITED

ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

Dual Listed	4.8%
Australian Equities	91.9%
Cash	3.3%
	100.0%
Currency Hedge	0.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
As at 31/01/17					
Devon Australian Fund	-1.5%	-0.3%	8.2%	10.0%	10.3%
ASX200 Index Gross (NZD)	-1.1%	3.8%	11.1%	5.9%	5.9%

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

PORTFOLIO MANAGER

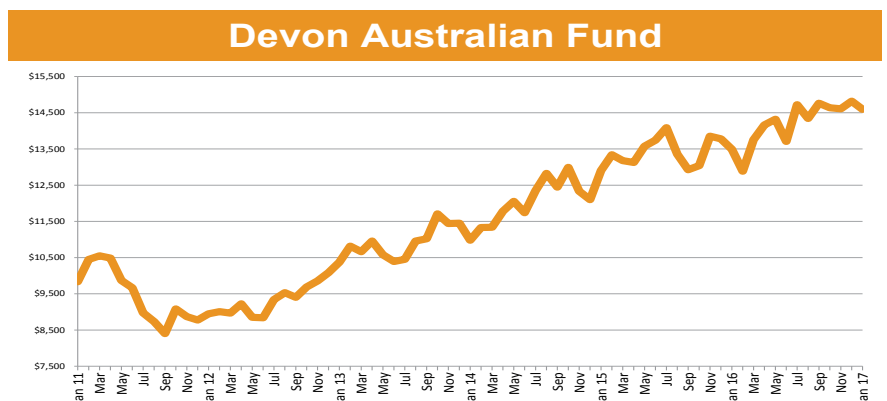
Tama Willis



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 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 interest rates were reasonably stable during January despite the uncertain political backdrop being created by the new Trump administration. The US Federal Reserve had their first meeting of the year in early February and left their overnight rates unchanged although they did flag their view that the US economy showing signs of strengthening. In New Zealand the Reserve Bank has its first scheduled meeting later this month and although annual headline inflation data in New Zealand finally moved back into the central bank's target range in the December quarter of 2016, the market is not expecting any additional interest rate hikes until later this year. Other recent economic data suggests that growth continues above trend domestically due mainly to the impact of the high immigration and tourism seen in recent years. There were no major changes made to the Portfolio during the month.

KEY HOLDINGS

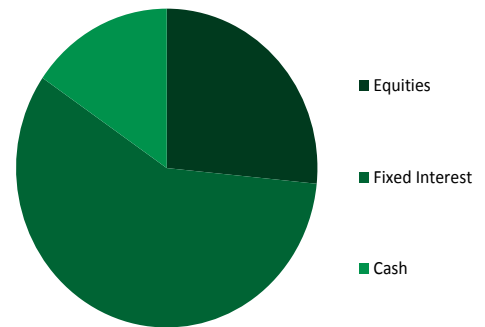


Chorus



meridian

ASSET ALLOCATION



GROWTH

NZ Equities	13.9%
AU Equities	10.5%

DEFENSIVE

Cash	17.6%
NZ Corporate Bonds	58.0%
NZ Government Bonds	0.0%

PERFORMANCE

As at 31/01/17

	1 Mth	3 Mth	1Yr
Diversified Income Fund	-0.2%	-0.8%	3.4%
OCR +1.5%	0.3%	0.8%	3.7%

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%
Commenced	January 2016
Total strategy	\$5.6m
Distributions	Target distributions of 1.5 cents per unit after tax paid quarterly

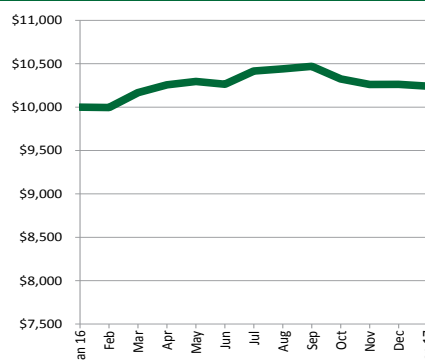
PORTFOLIO MANAGER

Slade Robertson



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Devon Diversified Income Fund*



*Fund commenced on 1 January 2016



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.

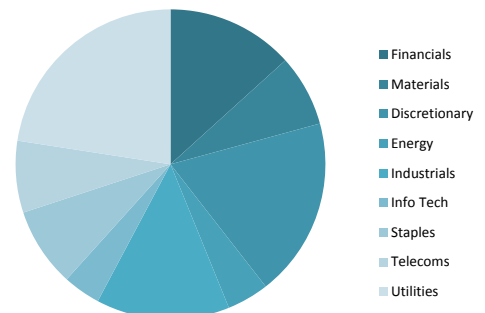
DEVON DIVIDEND YIELD FUND

January saw the Dividend Yield Fund lag a very strong New Zealand share market and its Trans-Tasman benchmark. The main driver of relative underperformance was from stocks not held, including Auckland International Airport which rose 9.4% and Xero, which was up 8%. Within the Fund there was a wide variation in price movements. Strong performance came from Tilt Renewables, the now separated Australian wind assets of Trustpower, rose 18.6% on the back of rising wholesale electricity prices. The company was spun out of Trustpower in October and initially saw a sharp price decline as those who didn't want or couldn't hold the Australian asset sold down their interests. Following January's rally it is now back above its initial price. A significant negative contributor was Wesfarmers which was weaker on the perception that its Coles supermarket business "lost" Christmas to a resurgent Woolworths. The Dividend Yield Fund also holds a position in Woolworths which was up 2.1% over the month.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	52.4%
Australian Equities	39.7%
Cash	7.9%
Currency Hedge	100.0%
Yield	6.4%

PERFORMANCE

As at 31/01/17

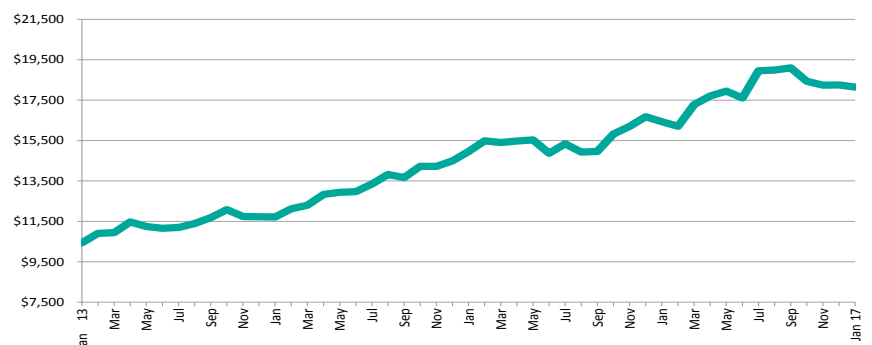
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	-0.6%	-1.5%	10.4%	16.2%	-
TT Index (Hedged)	0.8%	4.0%	15.8%	10.2%	-

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.

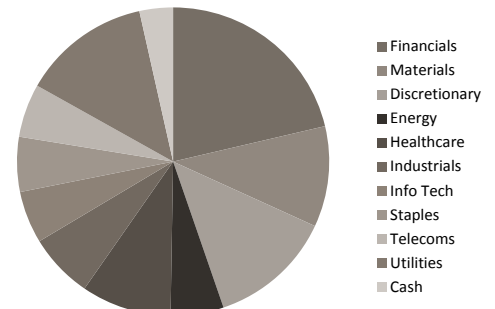
DEVON TRANS-TASMAN FUND

The New Zealand equity market outperformed Australia for the first time in four months during January and against this backdrop the Trans-Tasman Fund underperformed its benchmark index. Performance in New Zealand was negatively impacted by being underweight Auckland Airport, Ryman and Xero who all performed strongly. In Australia, commodity holdings in BHP Billiton and Rio Tinto added positively to absolute fund performance as iron ore and copper remained in an uptrend. Fund holding Resmed (RMD) reported a good Q2 result. RMD is a key competitor to Fisher and Paykel Healthcare and is a global manufacturer of CPAP masks, machines and other products for sleep and respiratory disorders. Double digit revenue growth was again driven by flow generators as the group ramps up production of its new mask offering. Good acceptance of the masks is resulting in demand exceeding supply which is a good sign for growth in future periods.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	48.1%
Australian Equities	48.4%
Cash	3.5%
Total	100.0%
Currency Hedge	0.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
As at 31/01/17					
Devon Trans-Tasman Fund	-0.3%	-1.2%	9.6%	10.9%	13.4%
Trans-Tasman Index Gross	0.7%	2.6%	12.7%	9.5%	11.2%

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

PORTFOLIO MANAGER

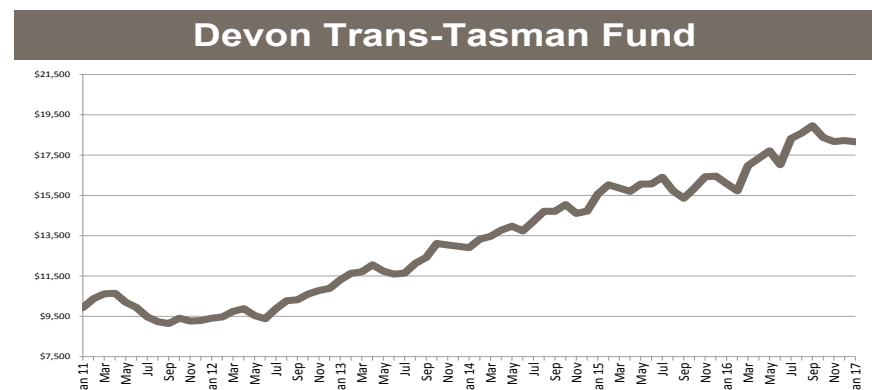
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NET PERFORMANCE

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

While January delivered another positive month for global equities, by month end investors could be forgiven for thinking the Trump honeymoon was drawing to a close. While the newly-elected US President played the pro-growth card on election night, which proceeded to fuel a two-month rally in equities (and sell-off in bonds), since his inauguration on January 20 it has been his anti-trade and anti-immigration rhetoric that has been in the spotlight. That said, we remain constructive on equities, and, despite any political and social unrest, we believe the macro environment remains broadly supportive.

Amongst the themes we own, performance was mixed, with European Telcos coming in last place following an earnings downgrade at BT Group. That said, we still remain highly convicted in the sector and are excited about its growth prospects. On the other hand, India, Technology and Medical Devices all performed well. India benefitted from a weaker US dollar and continued attractive long-term growth prospects, and both Technology and Medical Devices saw upside following a strong start to earnings season in the US, which saw many names in these sectors post positive surprises. That said, we remain watchful of policy uncertainty in the US, particularly around immigration, taxation and healthcare, which im-

pacts these sectors directly.

Following our December tweaks to the portfolio, we made no changes in January. We maintain a 7.5% exposure to cash, however we expect to deploy some of this over the coming months as opportunities emerge in themes we currently own, as well as new themes that we are currently performing due diligence on.

As mentioned last month, we expect equities to grind higher in 2017. That said, we are cognisant of risk, and we expect a higher level of volatility as markets work through a backdrop of rising interest rates, elevated multiples in many markets, continued US policy uncertainty, and a busy

2017 European political calendar.

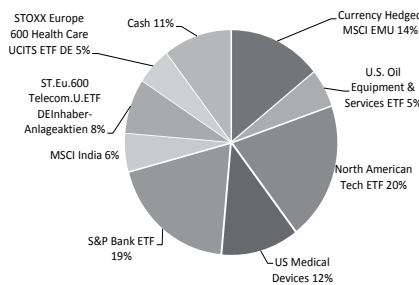
Returns

The Global Themes Fund fell 0.6% in January to a unit price of \$2.3879. This compares with a 0.4% rise in our global equity benchmark. The Fund has risen 19.7% since inception in October 2014, versus an 18.6% increase in the iShares MSCI All Country World Index Exchange Traded Fund 50% hedged to NZD.

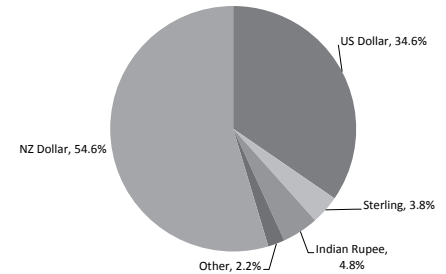
Currency exposures

We maintained the currency hedge level in the fund at its benchmark weight of 50%.

SECTOR ALLOCATION



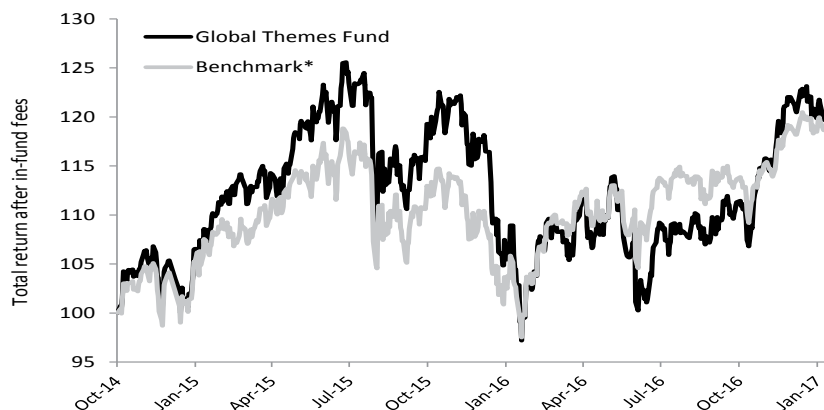
CURRENCY EXPOSURE



NET PERFORMANCE SINCE INCEPTION

Returns versus Benchmark

Returns versus Benchmark



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