

MONTHLY REPORT

Keeping you up to date with Devon Funds and the markets

February 2017

MARKET COMMENTARY

A window into how our companies are doing

The past 12-months has seen a range of challenges thrown at equity markets globally. These have been well recorded by financial commentators and include unexpected outcomes with Brexit and the US Presidential election. Despite the widely held view that these outcomes would have been negatively received by investors, global stock markets have continued to push significantly higher. The US market is now up 13% from the Trump election and trading at record highs. A contributing factor has been low interest rates but the other very important influence has been corporate earnings.

During February each year the New Zealand and Australian markets have the first of their semi-annual major reporting seasons. This is the time where those companies that manage to a June or December balance date report their interim and full-year financial results to the market. It is an important time for investors as they are given a more definitive insight into the recent performance of the companies they own and are also typically provided guidance by management as to their forward looking expectations. Going into this reporting season the importance of companies meeting expectations was high, particularly given the strong run in equity prices over recent years and the elevated... [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	1.7%	15.0%
S&P/ASX200G	AUSTRALIA	2.3%	22.1%
MSCI World Index	GLOBAL	2.8%	22.0%
S&P500	USA	4.0%	25.0%
FTSE100	UK	3.1%	24.1%
NIKKEI 225	JP	0.5%	21.6%
NZ 90 Day Bank Bill	NZ	0.2%	2.4%



AT A
GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.5448

DEVON AUSTRALIAN FUND

\$1.3650

DEVON DIVIDEND YIELD FUND

\$1.8467

DEVON DIVERSIFIED INCOME FUND

\$1.5244

DEVON TRANS-TASMAN FUND

\$3.5922

GLOBAL THEMES FUND

\$2.4734

Prices as at 28 February 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

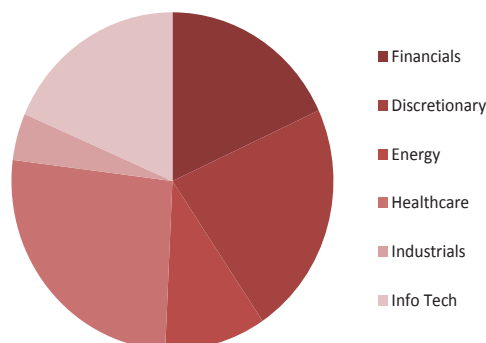
The February reporting season saw some of the Alpha Fund's key holdings report financial results. Metlifecare (MET) rose 8.2% as saw its net tangible asset value increase significantly – a consequence of the rapid rise in residential house prices in Auckland over recent years. Other holdings reported very pleasing results (including Vista Group and Trade Me) but had only modest share price reactions. GTN also fell into that category despite reporting a strong operating performance. The company has established businesses in 4 countries (Australia, Canada, the UK and Brazil) and all of them performed well – particularly the main earnings engine Australia, which saw revenue rise 8%, and Canada, the main driver of near term growth, where revenue rose 36%. GTN's future share price movement will be largely shaped by the outcome of its expansion into the US market, which is in its very early stages, but the ongoing strength of its core business is important and underpins our valuation.

KEY HOLDINGS



GTN

ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	34.3%
Australian Equities	29.9%
Cash	35.8%
	100.0%
Currency Hedge	30.3%

PERFORMANCE

As at 28/02/17

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	2.4%	0.5%	6.9%	6.6%	13.8%
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.

PORTFOLIO MANAGER

Nick Dravitzki

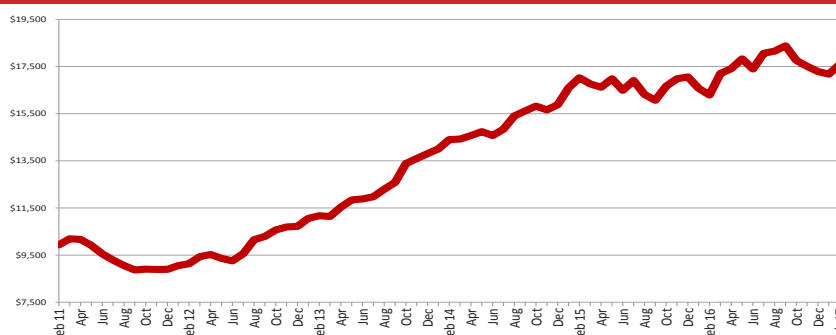


Over the last decade Nick has specialised in investing in high yield equities and is Portfolio manager for the Devon Dividend Yield Fund. At Devon, Nick has responsibility for the analysis of consumer staples, IT, consumer discretionary and property sectors. Nick is also responsible for our quantitative screen-

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

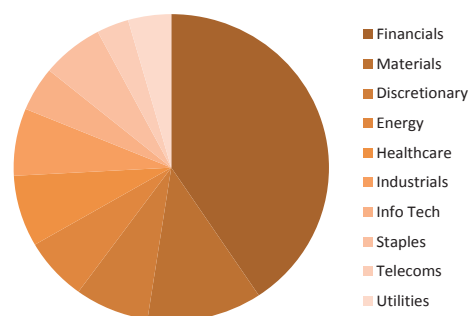
The Australian Fund rose 3.6% over the month but underperformed the S&P/ASX200 index in NZ dollar terms. Overall results season in Australia came in above expectations with market forecasts for FY17 lifted by over 1% due to better results from resources, banks and industrials. Key contributors to the Fund's performance included CSL, Stockland, ANZ and NAB while Vista Group, Fletcher Building while Brambles detracted.

With upgrades to the resources sector over reporting season, the outlook and stock positioning in this sector is one of the key decisions for an ASX 200 portfolio. The iron ore price is currently trading at US\$90 per tonne, the highest level in over three years, and compares to production costs for the major miners of closer US\$20. Other commodities have also responded to better global manufacturing data, in particular from China, although in some cases price rises look to have run too far. Devon will be participating in a Commodities Tour to China next week to assess the 2017 outlook. The portfolio remains slightly underweight the resources sector but has holdings in BHP Billiton, Rio Tinto, Sandfire, Oil Search, Woodside and Aurizon.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

Dual Listed	4.6%
Australian Equities	93.5%
Cash	1.9%
	100.0%
Currency Hedge	0.0%

PERFORMANCE

As at 28/02/17

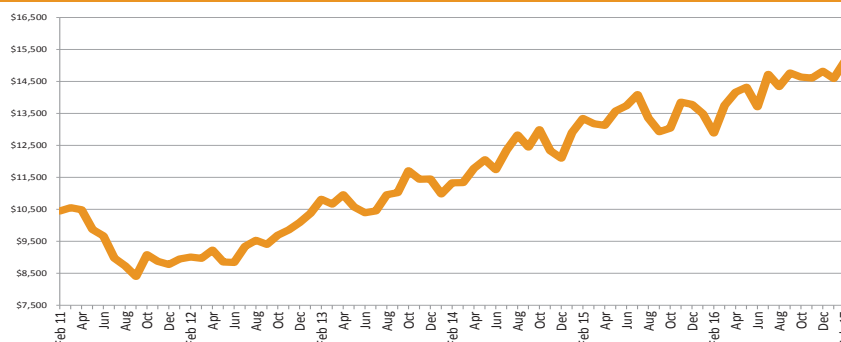
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	3.6%	3.5%	17.3%	10.1%	10.9%
S&P/ASX200 Index Gross (NZD)	5.0%	8.0%	19.9%	6.4%	6.6%

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.

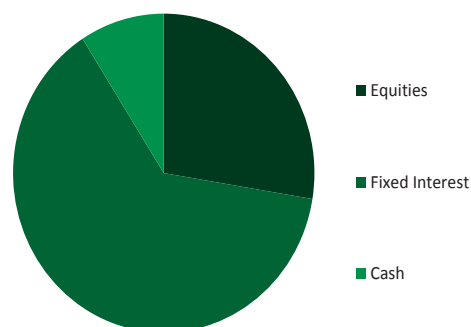
DEVON DIVERSIFIED IN- COME FUND

February saw global and local bond market yields fall slightly (which is positive for the carrying values of bonds). The most important global interest rate, the United States 10 year bond, moved from 2.457% to 2.394% on uncertainty around the outlook for economic policy and its implications for inflation. In New Zealand the Reserve Bank left overnight interest rates unchanged as expected at their meeting in early February, but the accompanying commentary surprised the market by suggesting that the next interest rate rise will be "a considerable period" away. The reason given was that although inflation has returned to its target band of 1% to 3% the Bank sees little risk of it rising much more over the medium to long term. The statement also saw the New Zealand dollar sell off and interest rates fall – over the month the NZ 5 year swap rate fell from 3.085% to 2.96%.

KEY HOLDINGS



ASSET ALLOCATION



GROWTH

NZ Equities	14.2%
AU Equities	11.7%

DEFENSIVE

Cash	10.8%
NZ Corporate Bonds	63.3%
NZ Government Bonds	0.0%

PERFORMANCE

As at 28/02/17

	1 Mth	3 Mth	1 Yr
Devon Diversified Income Fund	0.8%	0.6%	4.2%
OCR + 1.5%	0.3%	0.8%	3.6%

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.

PORTFOLIO MANAGER

Nick Dravitzki



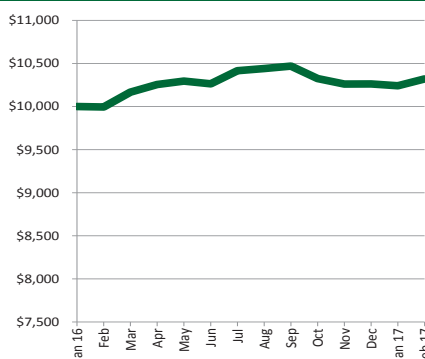
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NET PERFORMANCE

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



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

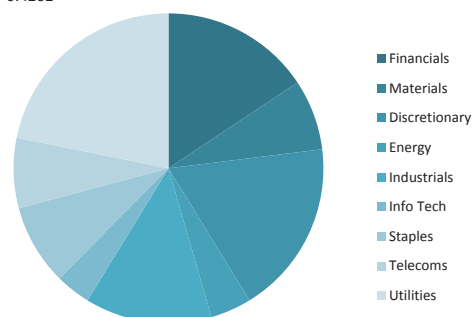
In February the Dividend Yield Fund produced a positive return but slightly lagged its benchmark. Positive contributors to performance included Contact Energy (CEN) and Wesfarmers (WES) – both companies reported well received financial results during the month. CEN's result saw only modest earnings growth with their experience impacted by declining retail volumes and a low cost of production (due to wet conditions resulting in a high level of hydro generation). WES's share price (which was up 6.1% over the month) benefitted both from a solid result and from its major competitor Woolworths reporting a good performance with lower-than-expected discounting. A significant negative contributor was Fletcher Building (FBU) which reported a result that was marred by a provision taken in a large construction project. Outside of that issue, FBU reported very solid earnings growth across its other divisions driven by exposure to the buoyant New Zealand building cycle.

KEY HOLDINGS



ASSET ALLOCATION

0.4262



GEOGRAPHIC ALLOCATION

New Zealand Equities	51.5%
Australian Equities	42.3%
Cash	6.2%
Currency Hedge	100.0%
Yield	6.3%

PERFORMANCE

As at 28/02/17

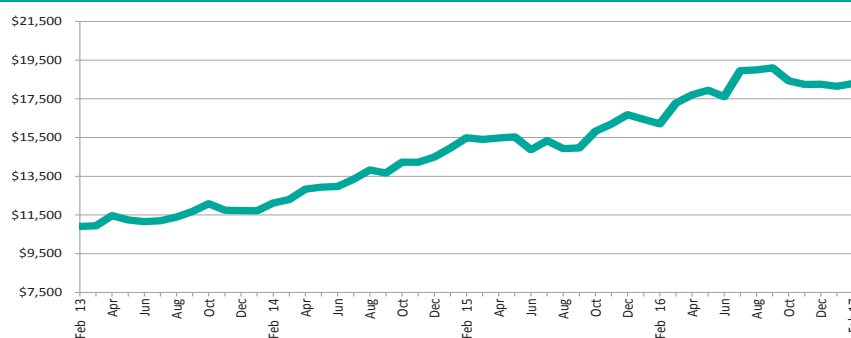
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	0.8%	0.3%	12.9%	15.2%	-
TT Index (Hedged)	2.0%	4.9%	18.6%	9.6%	-

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



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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

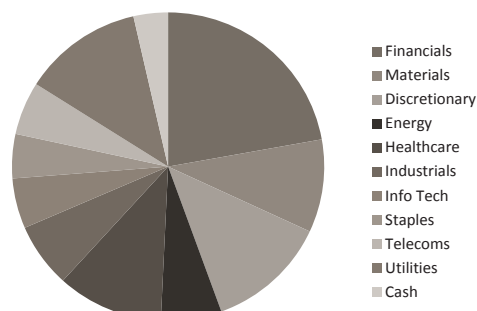
The Trans-Tasman Fund rose 3.2% over the month and performed broadly in line with its TT benchmark. Both the New Zealand and Australian markets delivered a positive performance with returns also boosted by a retrace in the NZD/AUD cross rate. The Fund remains unhedged. Positive contributors to performance included Metlifecare, Trademe, Spark, Resmed and Crown. Detractors were Fletcher Building, Vista Group and Auckland Airport.

Fund holding Vista Group (VGL) reported a solid CY2016 result with revenue and profit growth of 37% and 17% respectively after a year of significant investment. VGL's movie software modules were deployed in another 847 sites during the year to bring their total to 5,557 which equates to a 38% global market share. VGL sold its Chinese distribution business into a JV with Tencent subsidiary WePaio during 2016. The JV generated annualised revenues in China of \$10m in the last four months of 2016 versus revenues of \$2m in 2015. China is the world's second largest cinema market after the US and this presents a large opportunity for the JV.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	47.3%
Australian Equities	49.1%
Cash	3.6%
	100.0%
Currency Hedge	0.0%

PERFORMANCE

As at 28/02/17

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	3.2%	3.1%	15.7%	10.9%	13.9%
Trans-Tasman Index Gross	3.3%	6.0%	17.4%	9.6%	11.6%

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

PORTFOLIO MANAGER

Tama Willis

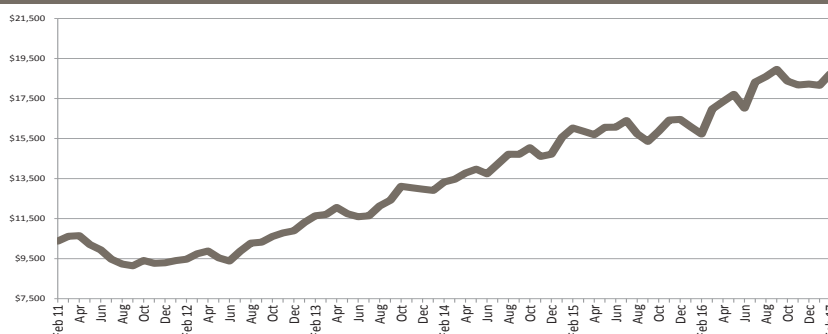


After a long period in international investment markets, Tama returned to NZ after a very successful career in London and Singapore to join Devon's investment team and holds responsibility for Devon's Australian and Trans Tasman Funds. Tama is widely regarded as a leading expert on resource and mining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

NET PERFORMANCE

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

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

February was yet another positive month for global stocks as we saw a continuation of the post-US election rally. While we remain broadly constructive on equities for 2017 given the macroeconomic and earnings backdrop, we are conscious that there are risks (such as China's debt levels) and uncertainties (US policy and a long list of European elections) on the horizon. Given this, and particularly against a backdrop of elevated multiples, a breather in equity markets would not surprise us. We would look to deploy some of our cash holding if that were to occur.

February's performance was generally strong across the board, with all themes except Oil Services ending the month in positive territory. Medical Devices again proved the strongest performer. Despite the potential for volatility ahead in markets we remain confident with the investments we have in this Fund. Our focus, as always, is on ensuring that we have the appropriate exposure for the macro and earnings environment that we expect. For example as we see further upside in bond yields, solid US economic growth and financial sector deregulation, we maintain our US Banks exposure (though we are wary of the impact of recent price strength on valuations). We also expect further Japanese Yen weakness

which supports our exposure to Japanese equities and our Technology theme should benefit from expected US tax policy changes. Furthermore, Europe remains attractive to us given generally solid earnings growth from that region and valuation support.

We made no changes to the Fund in February, and maintain our 7.5% exposure to cash. That said, we are watchful of opportunities to add to equity exposure in March, should there be any market volatility around the US FOMC meeting and in the lead up to April's first round of the French election.

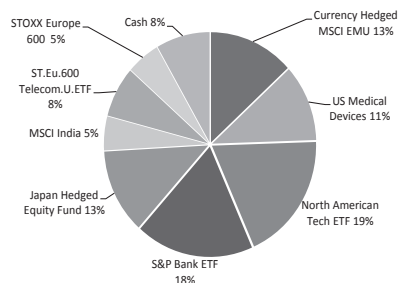
Returns

The Global Themes Fund rose 3.6% in February to a unit price of \$2.4734. This compares with a 3.4% rise in our global equity benchmark. The Fund has risen 24.0% since inception in October 2014, versus a 22.6% increase in the iShares MSCI All Country World Index Exchange Traded Fund (50% hedged to NZD).

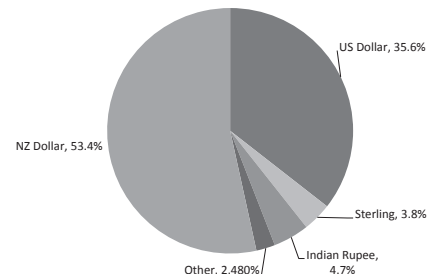
Currency exposures

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

SECTOR ALLOCATION



CURRENCY EXPOSURE



NET PERFORMANCE SINCE INCEPTION Returns versus Benchmark

SENIOR INVESTMENT ADVISER

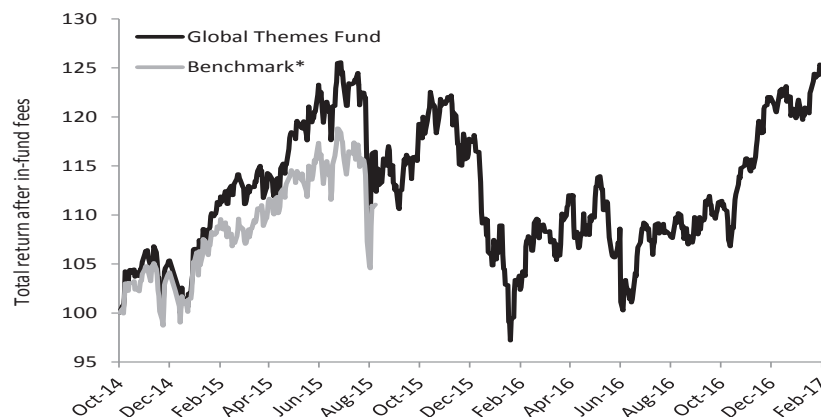
Bernard Doyle



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



* iShares MSCI All Country World Index ETF, 50% hedged to NZD
Source: Datastream, IRESS, JBWere Investment Strategy Group