

## MARKET COMMENTARY

### Research Trip to China

The Devon investment process is based upon fundamental research that requires us to spend a great deal of time away from the office visiting many companies, and sectors and across a range of countries. We believe this is the very best way for us to understand and manage investment risk. As part of this research program we have recently had a number of our investment team members in China on different research trips.

When managing NZ and Australian investments, it is critical to understand what is happening in this market. China is not only the world's second largest economy but it is also New Zealand and Australia's largest trading partner and its economic performance is very important to investor sentiment in local share markets. While our stock picking is very much based on "bottom up" analysis, the China visit allows us to learn first-hand about trends, risks and opportunities in this country. After a period of strong growth in China and volatile, but generally rising commodity prices, Portfolio Manager Tama Willis recently spent a week in Beijing, Shanghai and Tangshan attending presentations, talking to companies and ... [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](http://www.devonfunds.co.nz)

## MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	1.5%	14.4%
S&P/ASX200G	AUSTRALIA	3.9%	5.5%
MSCI World Index	GLOBAL	1.7%	14.3%
S&P500	USA	1.2%	14.2%
FTSE100	UK	6.8%	8.5%
NIKKEI 225	JP	4.7%	19.3%
NZ 90 Day Bank Bill	NZ	0.1%	1.7%



## AT A GLANCE

### UNIT PRICES

#### DEVON ALPHA FUND

**\$1.6477**

#### DEVON AUSTRALIAN FUND

**\$1.3759**

#### DEVON DIVIDEND YIELD FUND

**\$1.7622**

#### DEVON DIVERSIFIED INCOME FUND

**\$1.5313**

#### DEVON TRANS-TASMAN FUND

**\$3.6196**

#### GLOBAL THEMES FUND

**\$2.8572**

Prices as at 30 April 2018

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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

There were a number of changes made to this portfolio during the month. These included the purchase of shares in Macquarie Atlas Roads. This stock had a positive impact on this strategy's performance during April as did our investments in BHP Billiton, Wesfarmers and Fletcher Building. Fletcher Building closed the month up 9% after the company announced a \$750m rights issue. These funds will be used to restructure and strengthen their balance sheet and management also highlighted that, as part of an ongoing strategic review, divestment processes are under way for their Formica and Roof Tile businesses. Also worth highlighting for the month was the solid performance of Resmed after the company announced a better-than-expected third-quarter result. Revenue was reported as US\$592 which was supported by strong sales volumes in sleep apnoea devices and masks from markets outside the US. The result was also notable for the company's successful cost management.

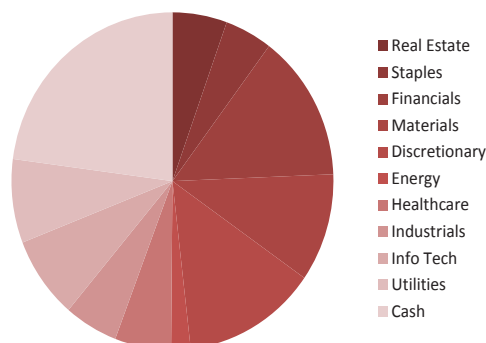
### KEY HOLDINGS

ARISTOCRAT

VISTA  
GROUP

Brambles

### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

New Zealand Equities	14.3%
Australian Equities	55.3%
Cash	30.4%
Total	100.0%
Currency Hedge	29.0%

### PERFORMANCE

As At 30/04/2018

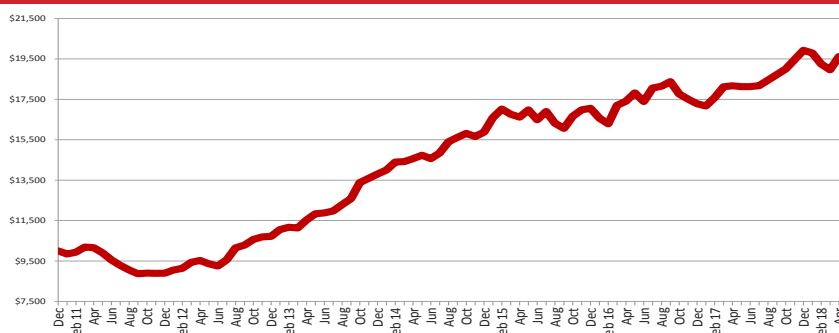
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	3.4%	-0.9%	7.9%	5.3%	11.0%
OCR	0.1%	0.4%	1.7%	2.2%	2.5%

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

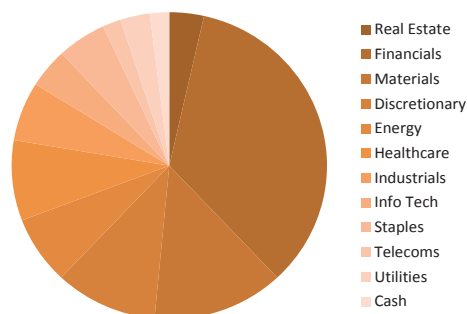
We were pleased with the performance of this Fund over the month with a number of key sectors and stocks delivering good returns for us. Energy related companies such as Oil Search, Woodside and BHP Billiton rallied on the strengthening oil price which in turn is being driven by strong global demand for the commodity and tightening supply. The Healthcare sector was also well supported by investors with CSL and Resmed rallying 9.6% and 2.6% respectively. The most significant change to the portfolio was the purchase of shares in Aristocrat Leisure. This business is primarily a manufacturer and seller of slot machines to casinos and has around 70% share of the Australasian market and also a large market share in the US, Latin America and Asia. Subsequent to our investment in this company its share price rallied strongly as investors have become increasingly confident in the medium-term earnings momentum for this business.

### KEY HOLDINGS



## Brambles

### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

Australian	94.0%
New Zealand	4.1%
Cash	1.9%
Total	100.0%
Currency Hedge	0.0%

### PERFORMANCE As At 30/04/2018

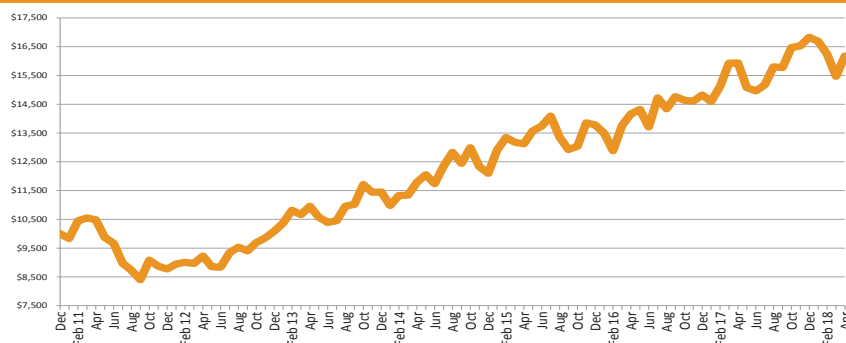
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	4.6%	-3.1%	1.5%	7.2%	8.1%
ASX200 Index Gross (NZD)	4.7%	-1.7%	3.7%	6.9%	4.9%

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 rates rallied significantly during the month with the US 10-year at one point trading above 3%. Although it closed the month below this level it was the first time that these US bonds have traded above this rate in over 4-years. Despite this price action there continues to be a notable difference in view between investors and the US Federal Reserve with the central bank forecasting that their domestic economy is continuing to grow and that inflation pressures are building, whilst the markets are implying that the outlook is likely to be softer than this. This is reflected in the flat shape of the US yield curve with the spread between the 2-year yield and the 10-year yield, at one point during the month, being only 0.5%, the lowest in more than ten years. Recent inflation data in economies including New Zealand continue to be very benign with our annual rate running at just 1.1%, down from 1.6% at the end of December.

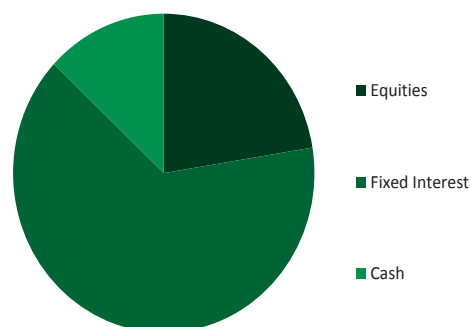
### KEY HOLDINGS



### GROWTH

NZ Equities	14.3%
AU Equities	7.7%

### ASSET ALLOCATION



### DEFENSIVE

Cash	19.0%
NZ Corporate Bonds	59.0%
NZ Government Bonds	0.0%

### PERFORMANCE

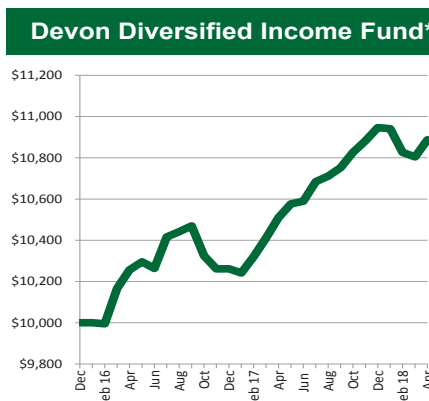
As At 30/04/2018

	1 Mth	3 Mth	1 Yr	2 Yr p.a
Devon Diversified Income Fund	0.8%	-0.5%	3.5%	3.5%
OCR + 1.5%	0.3%	0.8%	3.3%	3.4%

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	\$5.04m
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.

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](#)



### 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.

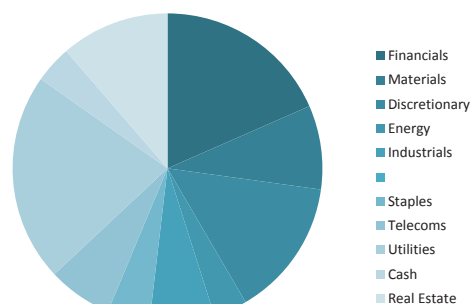
### DEVON DIVIDEND YIELD FUND

Although global interest rates rallied during the month, this portfolio delivered strong returns for its investors. There were a number of important positive contributors including Tegel, which received a takeover bid by the Bounty Fresh Group at a 50% premium to its share price prior to the announcement. Other strong performers included Metro Performance Glass, Fletcher Building and Kathmandu. Kathmandu finished the month up over 8% with the stock continuing to rally after it acquired US based Oboz Footwear in March this year. At this time of this announcement the company raised over \$50m from its shareholders and delivered a strong first-half result which saw their sales grow by over 4% and their earnings before interest and tax improve by 22% to \$18m. The most significant changes that were made to the portfolio in April were the purchase of shares in Macquarie Atlas Roads and the reduction of our exposure to the Spark Infrastructure Group.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

New Zealand Equities	64.1%
Australian Equities	34.5%
Cash	1.4%
Total	100.0%
Currency Hedge	97.8%
Yield	7.12%

### PERFORMANCE

As At 30/04/2018

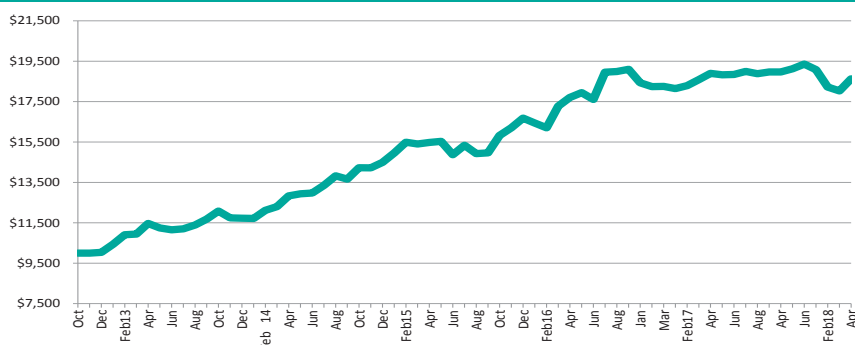
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	3.3%	-2.4%	-1.7%	6.3%	10.4%
TT Index (Hedged)	2.7%	0.2%	9.9%	9.5%	10.2%

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\*



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](#)

### PORTFOLIO MANAGER

Nick Dravitzki



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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.

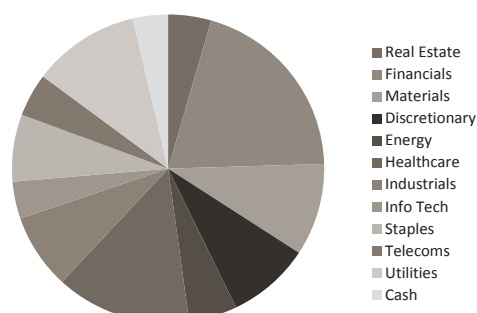
### DEVON TRANS-TASMAN FUND

We were pleased with the performance of many of our investments during April. Amongst the most significant positive contributors were Oil Search, CSL and Fletcher Building. Tegel Group Holding was also an important driver of returns with its share price rallying almost 40% after the company received a takeover bid by the Bounty Fresh Group at \$1.23 a share. Bounty Fresh is a Philippines based company with diversified operations including the production and processing of chicken. At Devon we were one of the largest shareholders in Tegel prior to this corporate action which reflected our view of the intrinsic value in this business. During the month we also purchased shares in Macquarie Atlas Roads which is a listed infrastructure company who develops and operates toll roads around the world. We believe that disciplined capital management and an internalisation of the management structure in this business will support shareholder returns going forward.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

New Zealand Equities	47.2%
Australian Equities	49.9%
Cash	2.9%
Total	100.0%

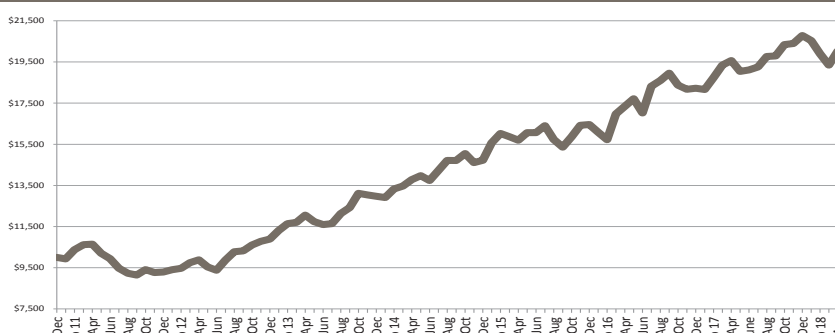
PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
As At 30/04/2018					
Devon Trans-Tasman Fund	3.5%	-2.5%	2.4%	7.4%	10.0%
Trans-Tasman Index Gross	3.1%	-0.9%	9.1%	10.1%	8.9%

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



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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

Quarterly earnings season in both the US and Europe is now in full swing. At this stage of the market cycle, earnings delivery becomes increasingly important each quarter to entice investors to keep adding to equity positions. However, this earnings season has had the added task of calming fears that have been unnerving global investors over the past few months – potential peaking of global growth, rising interest rates and the risk of central bank policy error, tech sector regulation – and helping put things back into perspective. We are therefore watching closely – and we like what we see so far. At the time of writing, the US is over half way through its earnings season, and Europe around a third of the way. In the US, around three-quarters of companies that have reported so far have beaten analysts' expectations. Though too early to draw conclusions, European results have been a touch softer. However, over 60% have beaten expectations so far. Similar to last quarter, technology and health care are proving to be standout performers in the US, alongside industrials.

The tech sector is key, given the recent sell-off these stocks have faced on fears of mass regulation. However, as we expected, earnings numbers have reminded investors that these are still rapidly-growing, high quality businesses that are showing little sign of slowing down. Against this backdrop, we added to our tech exposure during April to take advantage of what we saw as an overreaction. We also added to US banks as we prepare for bond yields to push sustainably through 3%, and a rebound in loan growth. We have been further encouraged by what we have seen from the banks this reporting season.

Alongside this, we have reduced our exposure to medical devices and European telcos – though the

fund remains overweight both. We continue to like the medical devices theme given its strong growth backdrop and quality earnings delivery, however we see valuation as less appealing now after such a strong run. We also retain our conviction in the European telcos investment case, with the sector delivering on what we expected in terms of revenue and earnings inflection. Unfortunately, however, its defensive nature and ongoing regulatory murkiness have prevented share prices responding to the turnaround story as quickly as we had hoped. In saying this, once we gain further regulatory clarity (which we expect) and bond yields move another leg higher (which we expect) – or when we determine a more defensive bias in the fund is warranted – we anticipate increasing our exposure to this sector once again.

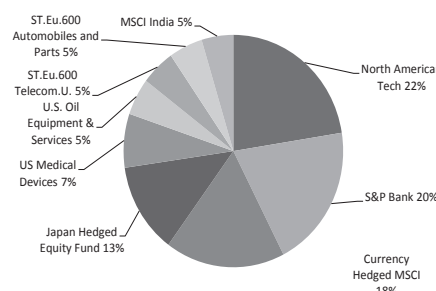
### Returns

The Global Themes Fund rose 3.6% in April, finishing the month at a unit price of \$2.8572. This compares with a 1.8% rise in our global equity benchmark. Our fund has risen 10.7% per annum since inception net of fees, versus 11.5% growth in the iShares MSCI All Country World Index Exchange Traded Fund (50% hedged to NZD).

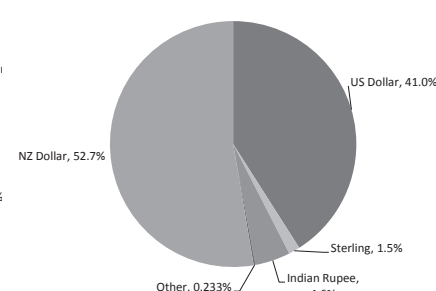
### Currency exposures

We continue to hold the currency hedge level in the fund at its benchmark weight of 50%. The Kiwi has remained relatively volatile within a narrow range over recent months. We remain long US dollars in our themes, which was a drag over 2017. However we still see some defensive appeal from the greenback in a rising interest rate environment.

### SECTOR ALLOCATION

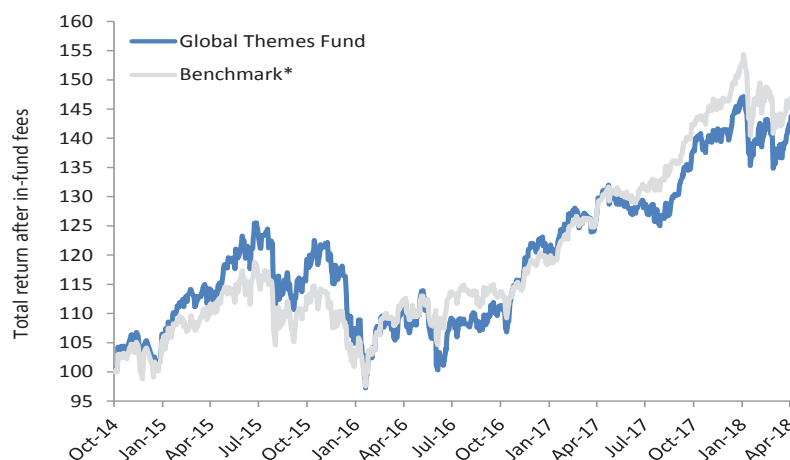


### CURRENCY EXPOSURE



### NET PERFORMANCE SINCE INCEPTION

#### 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.