

MARKET COMMENTARY

Reporting Season

The recent reporting season in New Zealand provided investors with plenty of food for thought. While the reporting season was mildly positive (over half of our local stocks reported earnings that slightly exceeded analyst expectations), the market moved up by a remarkable 4.4% to record its monthly best performance in 18 years!

As has been the pattern of late, it doesn't appear that earnings growth was the key driver of these returns. Instead, we continue to see external events, predominantly investment flows, playing a significant role in determining the overall valuation of the market and indeed pushing many companies further into expensive territory.

Among the best performing stocks over the month were a2Milk (+20.7%), Synlait Milk (+17.36%) Ryman Healthcare (15.8%) and Fisher & Paykel Healthcare (10.7%). Interestingly a2Milk was the only one of these companies to release a result during the month, and it had already been pre-announced so there were no surprises. These companies are examples of what analysts refer to as "growth" stocks... [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	4.4%	19.1%
S&P/ASX200G	AUSTRALIA	1.4%	15.4%
MSCI World Index	GLOBAL	1.3%	13.7%
S&P500	USA	3.3%	19.7%
FTSE100	UK	-3.3%	4.1%
NIKKEI 225	JP	1.4%	18.6%
NZ 90 Day Bank Bill	NZ	0.2%	1.9%



AT A GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.7876

DEVON AUSTRALIAN FUND

\$1.5263

DEVON DIVIDEND YIELD FUND

\$1.8745

DEVON DIVERSIFIED INCOME FUND

\$1.5603

DEVON TRANS-TASMAN FUND

\$4.0156

GLOBAL THEMES FUND

\$3.0324

Prices as at 31 August 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 mixed performances generated by our investments during August. With the reporting season providing us valuable insights into the operating outcomes being experienced by the businesses that we own, we saw an elevated level of price volatility across the portfolio. Scottish Pacific rallied 14% after delivering a full-year result which exceeded market expectations. This Australian based Debtor Financing business reported solid net revenue growth which supported their Cashflow from Operations to lift by 18% to \$49.8m. This enabled management to declare a final dividend of 10 cents and with the major banks continuing to limit the scope of their lending to small and medium sized enterprises in Australia, the company believes they are in a good position to again grow earnings in FY19 by over 10%. Offsetting these returns were disappointing results by GTN (a small revenue miss in 2H18) and Janus Henderson, which produced a reasonable financial result but fell by 11% after announcing that co-CEO Andrew Formica had resigned.

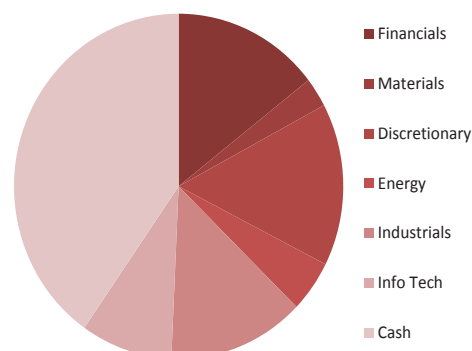
KEY HOLDINGS

Brambles



Super Retail Group

ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	14.5%
Australian Equities	45.2%
Cash	40.3%
Total	100.0%
Currency Hedge	30.25%

PERFORMANCE

As At 31/08/2018

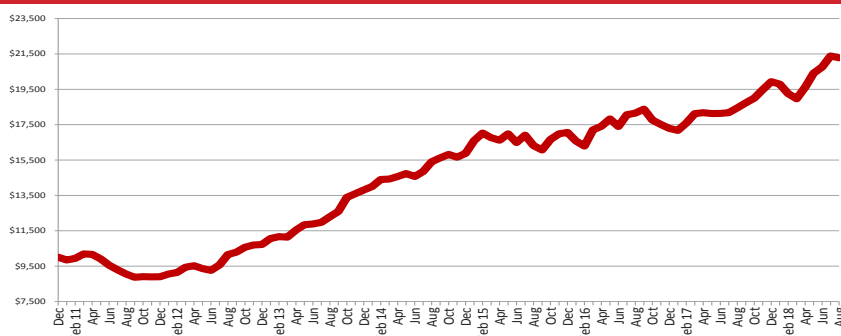
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	-0.5%	4.3%	15.4%	8.9%	11.4%
OCR	0.1%	0.4%	1.7%	2.0%	2.4%

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.

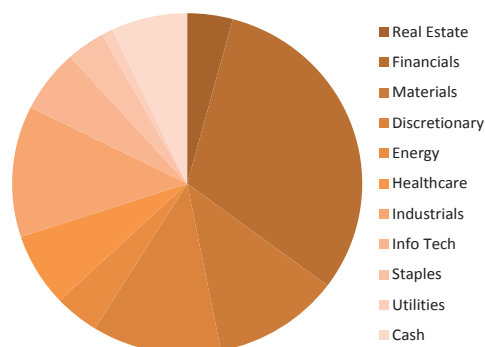
DEVON AUSTRALIAN FUND

Our investment in Resmed was a particular highlight for this strategy during August with shares in the company rallying 10%. This performance was driven by the delivery of another strong full-year result which saw revenues grow by 13% to \$2.34bn and profits rise by 8% to US\$316m. Pleasing for shareholders was the continued improvement in their operating leverage with selling, general and administrative expenses (SG&A) as a percentage of revenue falling to 25.1% down from 26.6% last year. The operating environment globally for Resmed remains competitive but the long-term favourable tailwinds remain intact for this sector as sleep apnoea awareness and diagnosis continue to grow. Investments that did not perform as well during the month included BHP and Rio Tinto which suffered from uncertainty as to the implications of the trade policies being proposed by Donald Trump. Despite the recent political upheaval in Australia we remain upbeat over the investment prospects in this market.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

Australian	88.0%
New Zealand	4.9%
Cash	7.0%
Total	100.0%
Currency Hedge	0.0%

PERFORMANCE As At 31/08/2018

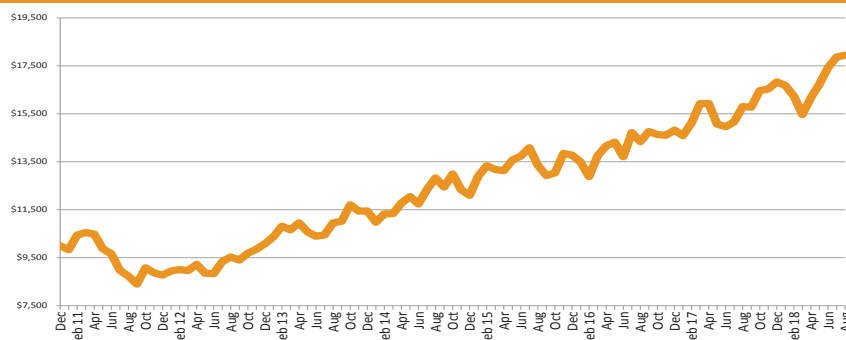
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	0.4%	7.2%	13.5%	10.3%	10.4%
ASX200 Index Gross (NZD)	1.2%	7.3%	13.6%	10.5%	7.8%

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.

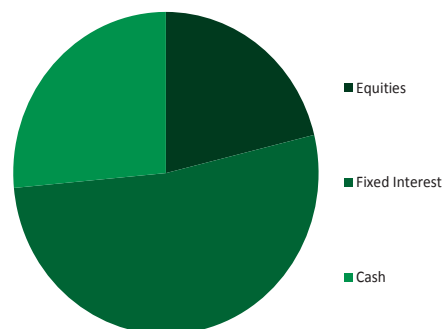
DEVON DIVERSIFIED IN- COME FUND

Global bond yields were generally weaker during the month with the US 10-year bond yield falling to 2.86%. Investors closely monitored news coming from the Jackson Hole Symposium where central bankers and finance ministers gathered for their annual event to evaluate the economic state of the world and discuss their policy options. Of particular interest was the presentation given by US Federal Reserve Chairman, Jerome Powell, where he talked about his expectation that interest rates would only be lifted gradually and observed that the Fed does not see conditions overheating. Both the bond market and equity market rallied on these comments. In New Zealand the RBNZ left interest rates on hold but their accompanying statement was perceived as being more dovish than expected with Governor Adrian Orr highlighting an expectation that the OCR will remain at 1.75% for the rest of the decade. There was no change to rates in Australia by the RBA but employment conditions across the Tasman continue to improve.

KEY HOLDINGS



ASSET ALLOCATION



GROWTH

NZ Equities	13.1%
AU Equities	7.8%

DEFENSIVE

Cash	26.5%
NZ Corporate Bonds	52.3%
NZ Government Bonds	0.0%

PERFORMANCE

As At 31/08/2018

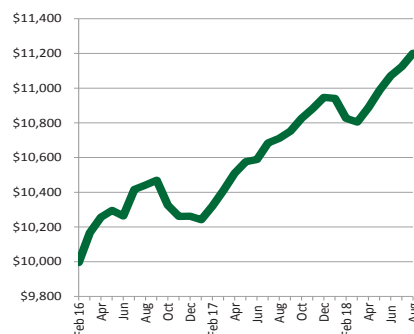
	1 Mth	3 Mth	1 Yr	2 Yr p.a
Devon Diversified Income Fund	0.7%	1.9%	4.5%	3.5%
OCR + 1.5%	0.3%	0.8%	3.3%	3.3%

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

Devon Diversified Income Fund*



*Fund commenced on 1 January 2016

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](#)

PORTFOLIO MANAGER

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AT A GLANCE

Targeted Portfolio Yield	5.0%
Commenced	January 2016
Total strategy	\$6.34m
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

Highlights for this strategy during the month included good returns being generated by Telstra and Vector, with these stocks rallying 9% and 5% respectively. Telstra reported a decline in their earnings but investors were encouraged by strong growth in their mobile customers and an impressive performance in the operating margins of this business. The company declared a final dividend of 11 cents per share and has guided investors to expect their network to be ready for 5G in the first-half of 2019. The announcement of a merger between TPG and Vodafone Australia also helped Telstra's share price as it may indicate a less competitive mobile market in the future. Vector was similarly well received by investors after reporting their twelfth consecutive year of dividend growth. Although earnings were down slightly over the year, this business continues to see good growth in electricity and gas connections. Their installed metering numbers also improved, finishing the period up by an additional 85,000. Offsetting the positive contributions from these investments were negative returns from our exposures in Contact Energy and Genesis Energy.

PORTFOLIO MANAGER

Nick Dravitzki



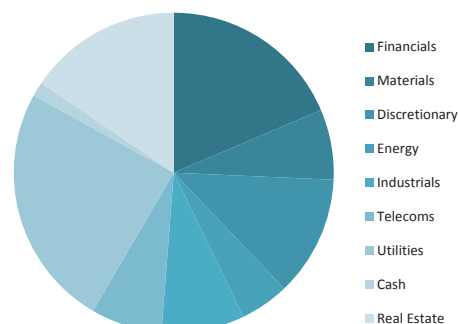
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KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	61.7%
Australian Equities	36.8%
Cash	1.4%
Total	100.0%
Currency Hedge	98.4%
Yield	7.06%

PERFORMANCE

As At 31/08/2018

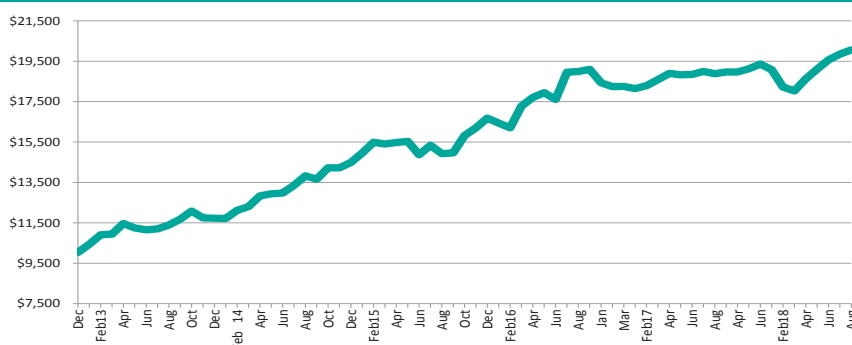
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	1.0%	5.0%	6.0%	10.3%	12.2%
TT Index (Hedged)	2.9%	6.9%	17.3%	14.8%	12.2%

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](#)



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

Although we were disappointed that this strategy underperformed its benchmark over the month we were encouraged by the performance of a number of our key holdings. These included great returns from CSL which finished 16% higher and TradeMe that closed up 11%. CSL has now rallied 77% over the past year and the financial result that they delivered during August once again highlighted the strong competitive position that they hold in the collection of blood in the US and their ability to monetise this plasma into a range of innovative therapies. Cashflow from Operations grew in FY18 by 53% and their dividend per share lifted by 26%. Looking forward into FY19 management expects this business to grow their earnings by over 10% and capex is forecast in the range of \$1.2bn - \$1.3bn. Contributing to our relative underperformance was our underweight position in a2Milk which closed the month higher and our investment in Rio Tinto which was weak on the back of Trump's trade policies.

PORTFOLIO MANAGER

Tama Willis



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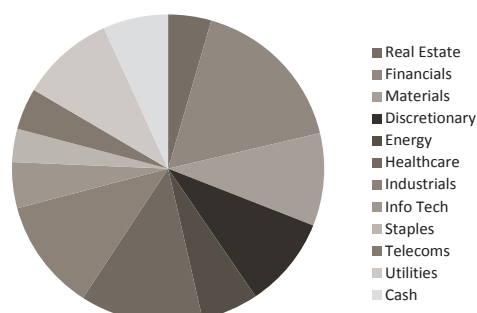
KEY HOLDINGS

trademe

CSL

Brambles

ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	45.8%
Australian Equities	47.5%
Cash	6.7%
Total	100.0%

PERFORMANCE

As At 31/08/2018

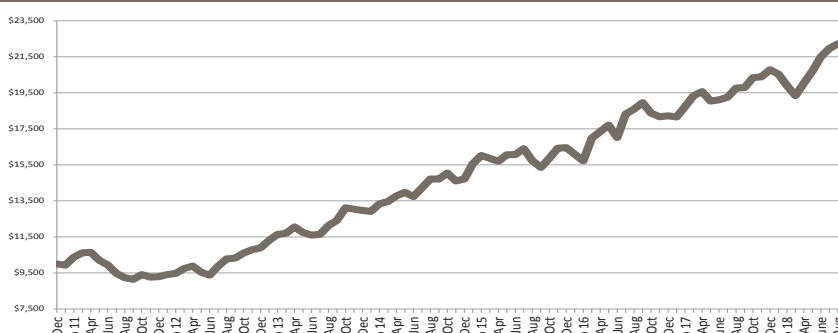
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	1.2%	7.3%	12.4%	11.1%	12.2%
Trans-Tasman Index Gross	2.8%	7.4%	16.4%	14.3%	11.6%

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](#)



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

There was plenty going on under the hood of global equity markets during August. On the 23rd, the bull market became the longest in US postwar history, only three weeks after Apple won the race to become the first ever '\$1 trillion company'. An exceptional second quarter earnings season in the US, alongside recovering earnings elsewhere, helped solidify these records, as did the resumption of corporate buybacks following the end of blackout periods.

Against this, however, trade remains the key driver of short-term market sentiment. China and the US lobbed tariffs on another \$16b of each other's goods while at the same time negotiators from both sides were sitting down for peace talks. Further tariffs look likely, in our view. However, it was NAFTA that carried equities into the end of the month, with the US announcing it had agreed a surprise deal with Mexico (yet to be ratified by Congress), and that Canada would need to move fast if it wanted to be part of it. Despite these negotiations remaining ongoing as at the time of writing, we expect that NAFTA gets resolved – be it in the form of a revised three-party agreement, or by way of separate bilateral agreements. There is a timeline to follow, however, regarding notice periods and congressional approval, so we are most likely still looking well to 2019 for a final resolution.

Rising US interest rates, Turkey's political-cum-economic crisis, hyperinflation in Venezuela, and Argentina knocking on the IMF's door, have all spilled over more broadly into emerging markets (EM). This has helped push EM into bear market

territory. However, in EM investing, timing has a heightened level of importance, and history tells us that these are the times when future return prospects are at their best. Accordingly, and following a number of months watching from the sidelines, we have initiated a small position in Brazil. Brazil is in the midst of an economic recovery following a deep recession, and equity valuations are attractive. To fund this, we have reduced our broad European exposure. That said, we remain overweight European equities and see the weaker Euro as a likely source of relief.

Returns

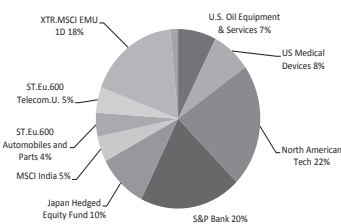
The Global Themes Fund rose 2.1% in August,

finishing the month at a unit price of \$3.0324. This compares with a 2.2% rise in our global equity benchmark. Our fund has risen 11.5% per annum since inception net of fees, versus 12.4% per annum growth in the iShares MSCI All Country World Index Exchange Traded Fund (50% hedged to NZD).

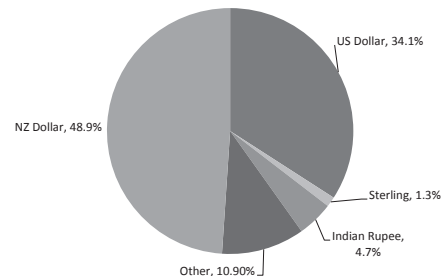
Currency exposures

The currency hedge level in the fund remains around its benchmark weight of 50%, which we are comfortable with for now. However, we continue to keep a close eye on local economic data and movements in the currencies of our key trading partners.

SECTOR ALLOCATION

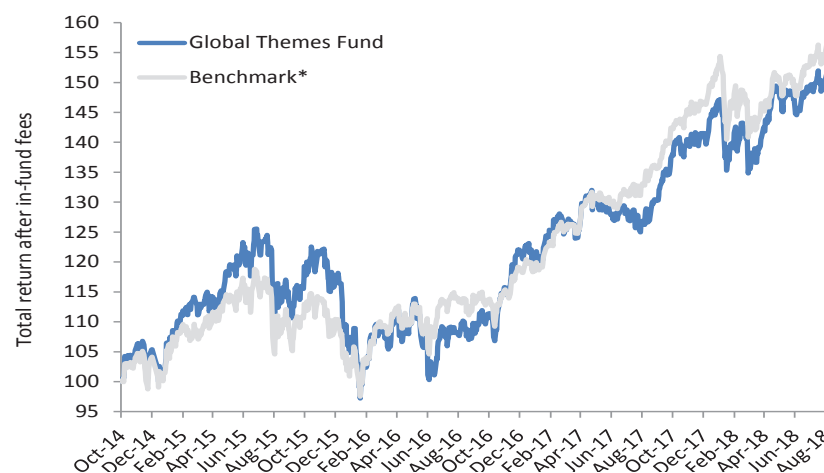


CURRENCY EXPOSURE



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.