

MARKET COMMENTARY

## Sustainable Investing

Over the past 20-years significant progress has been made in the provision of opportunities for investors to access strategies which recognise environmental, social and governance issues (ESG). More than ever people are looking to ensure that their investments more closely reflect their values on everything from good corporate citizenship, workforce and governance diversity, paying fair taxes to environmental practices and limits on carbon footprints. This has been driven by a number of factors with investor education, climate change, population growth and longevity all contributing to this focus. This type of investing goes by many names although it is often referred to as socially responsible (SRI), sustainable and ethical investing but underlying all these different titles, are processes designed to incorporate ESG factors into investment decisions, to better manage risk and generate sustainable, long-term returns.

As ethical, environmental and social issues become increasingly prominent in global dialogue, interest in sustainable investing is growing rapidly. Last year a report by the Global Sustainable Investment Alliance ... [Read More](#)



AT A GLANCE

UNIT PRICES

DEVON ALPHA FUND

**\$1.6895**

DEVON AUSTRALIAN FUND

**\$1.4500**

DEVON DIVIDEND YIELD FUND

**\$1.8296**

DEVON DIVERSIFIED INCOME FUND

**\$1.5538**

DEVON TRANS-TASMAN FUND

**\$3.7912**

GLOBAL THEMES FUND

**\$2.8823**

Prices as at 31 January 2018



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	0.5%	19.7%
S&P/ASX200G	AUSTRALIA	-0.4%	12.2%
MSCI World Index	GLOBAL	5.3%	26.6%
S&P500	USA	5.7%	26.3%
FTSE100	UK	-2.0%	10.4%
NIKKEI 225	JP	1.5%	23.6%
NZ 90 Day Bank Bill	NZ	0.2%	2.0%

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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.

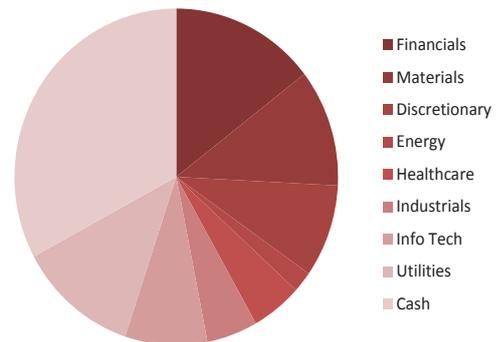
### DEVON ALPHA FUND

The Alpha strategy was supported during the month by positive returns from our investments in Resmed and BHP Billiton. Super Retail Group also contributed well to the Fund, rallying by over 6.0%. The Super Retail share price has recovered strongly over the past couple of months after it, and many other Retail stocks, were sold down by investors in anticipation of the launch of an Amazon operation in Australia in late 2017. Although Amazon has globally challenged the traditional retailing model, we have continued to own this business due to its strong brands, excellent management and valuation support. We last caught up with the company late last year and were particularly impressed with the like-for-like growth in their Auto and Leisure divisions, the store development programme across the Group and the focus of management to grow their click-and-collect capability and Digital presence.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

New Zealand Equities	25.2%
Australian Equities	41.9%
Cash	32.9%
Total	100.0%
Currency Hedge	30.6%

### PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
As At 31/01/2018					
Devon Alpha Fund	-0.7%	4.2%	15.3%	5.7%	12.1%
OCR	0.2%	0.5%	2.0%	2.4%	2.6%

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

The Australian Fund performed broadly in line with its benchmark during the month. Performance was supported by our investments in National Tyre & Wheel and People Infrastructure Limited which rallied 4.8% and 3.7% respectively. National Tyre & Wheel is a recent IPO that we participated in. The company is a tyre and wheel wholesaler to customers in Australia, New Zealand and South Africa under a range of brands including Cooper and Mickey Thompson. This business has a successful history of growth, organically and through acquisition, which we expect to continue over the medium-term. People Infrastructure is an Australasian workforce management company that provides businesses with staff to support their employment requirements. There has been a significant lift in part-time and casual work hours over the past 20-years which is driving demand for the services of People Infrastructure as is their exposure to growing industries such as childcare and hospitality.

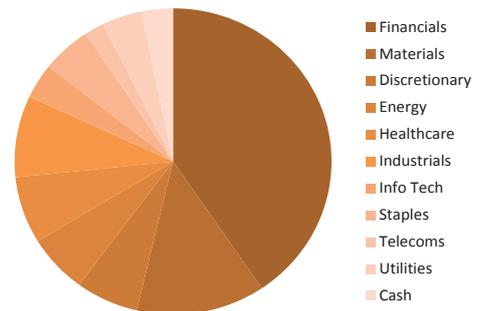
### KEY HOLDINGS

Janus Henderson  
INVESTORS

PEOPLE  
INFRASTRUCTURE

CSL™

### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

Dual Listed	3.7%
Australian Equities	93.1%
Cash	3.2%
Total	100.0%
Currency Hedge	0.0%

### PERFORMANCE

As At 31/01/2018

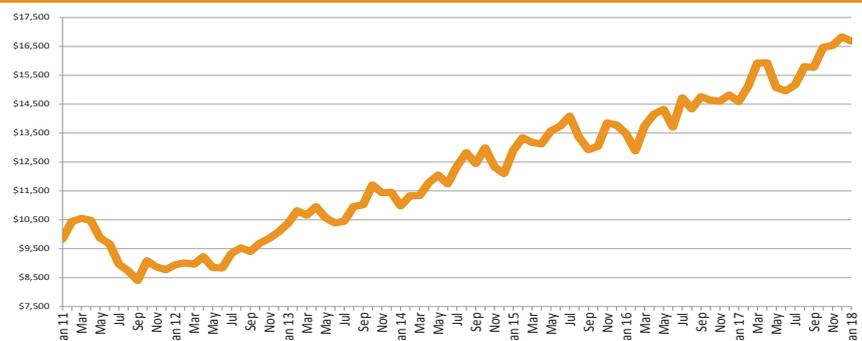
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	-0.8%	1.3%	14.3%	8.9%	10.0%
ASX200 Index Gross (NZD)	-1.0%	0.7%	18.5%	8.0%	6.4%

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.

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](#)



### 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.

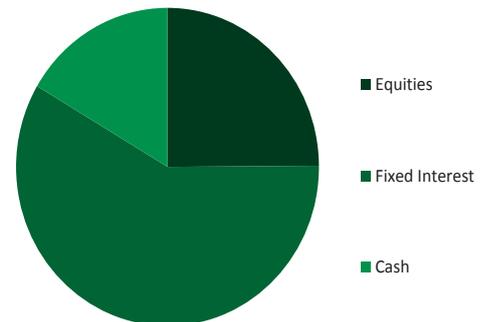
### DEVON DIVERSIFIED INCOME FUND

Global interest rates pushed higher during January with US 10-year rates particularly strong, closing the month at over 2.70%. Although the US Federal Reserve did not change interest rates at their meeting during the month, the expectation continues to be that 3 rate hikes will occur during 2018. Jerome Powell, Donald Trump's nomination as the new head of the US Federal Reserve, received Senate approval for his appointment and is expected to begin in this role in early February. New Zealand economic data continues to be reasonably mixed. The December quarter inflation print was reported at just 0.1% (much lower than the expected 0.4%) and therefore it was no surprise that the RBNZ left interest rates unchanged. In fact expectations are now building towards a view there will be no change to the Official Cash Rate until 2019. There were no changes made to this portfolio in January.

### KEY HOLDINGS



### ASSET ALLOCATION



### GROWTH

NZ Equities	13.7%
AU Equities	10.3%

### DEFENSIVE

Cash	17.4%
NZ Corporate Bonds	58.6%
NZ Government Bonds	0.0%

### PERFORMANCE

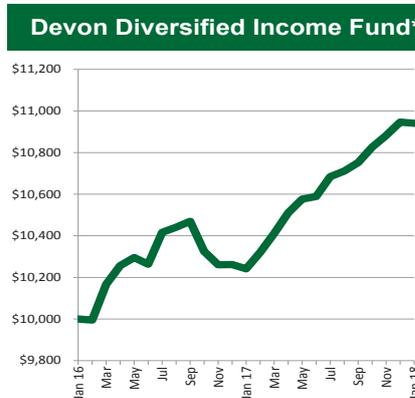
As At 31/01/2018

	1 Mth	3 Mth	1 Yr	2 Yr p.a
Devon Diversified Income Fund	-0.1%	1.1%	6.8%	5.1%
OCR + 1.5%	0.3%	0.9%	3.5%	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.

### 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.

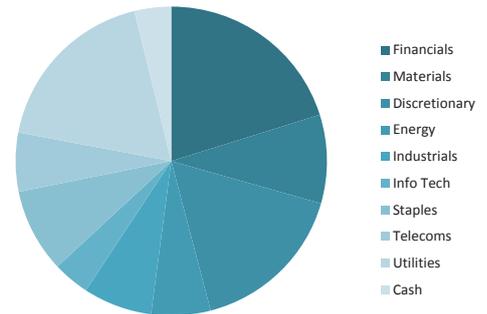
### DEVON DIVIDEND YIELD FUND

During January there was a mix of contributions to the performance of this strategy. Positive returns were generated by our investments in National Tyre and Wheel, Super Retail Group and BHP Billiton while detractors included Aurizon and Spark Infrastructure. BHP Billiton had another good month, rising more than 2%, and continuing its strong performance over the past 2-years. This has been driven by a demand-led recovery in commodity prices and by an increased focus by the BHP board and executive on improving the company's return-on-capital and developing their capital management programme. At the recent half-year operational review, CEO Andrew Mackenzie reported production and cost experiences that were broadly in-line with expectations although the Copper division was a highlight with strong volumes being achieved from their Escondida and Los Colorados projects. Aurizon and Spark Infrastructure saw weakness in their share prices as a result of sharply rising global bond rates.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

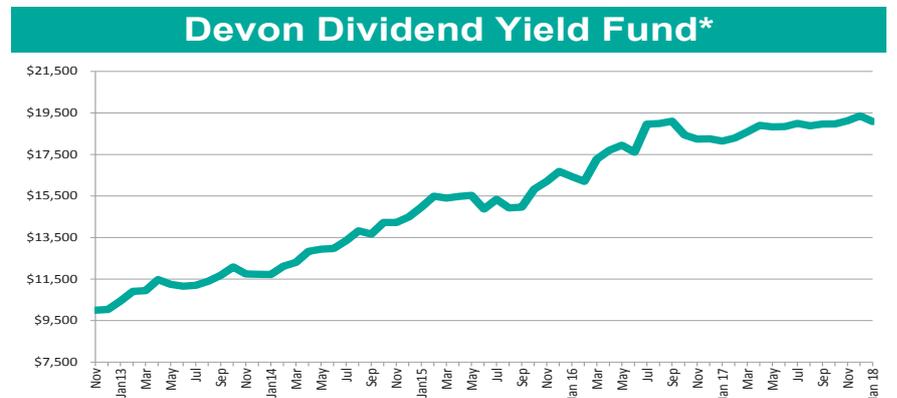
New Zealand Equities	53.8%
Australian Equities	42.4%
Cash	3.8%
Total	100.0%
Currency Hedge	100.0%
Yield	6.67%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
As At 31/01/2018					
Devon Dividend Yield Fund	-1.4%	0.6%	4.9%	8.4%	13.1%
TT Index (Hedged)	0.0%	3.3%	16.0%	10.5%	11.9%

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



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



Over the last decade Nick has specialised in investing in high yield equities and is Portfolio manager for the Devon Alpha, Dividend Yield and Diversified Income 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 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.

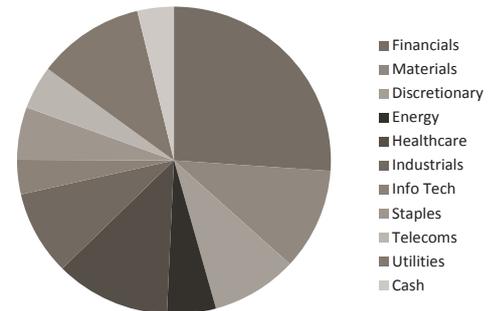
### DEVON TRANS-TASMAN FUND

The Trans-Tasman strategy underperformed its benchmark during the month but there were notable performances generated by some of our key investments. Amongst these were healthcare names CSL and Resmed which rallied 3.6% and 13.5% respectively. Resmed announced their 2Q18 result which highlighted strong customer support for their new range of masks. This has resulted in the company, for the second quarter in a row, reporting double-digit sales growth in their masks across both the US and Rest-of-World. The company also reported above market growth in their Devices and a solid performance from their software business, Brightree. Gross margins for the company were supported by improvements to manufacturing efficiencies. The performance of Resmed was in stark contrast to their competitor Fisher and Paykel Healthcare (FPH) which closed the month down almost 7% although FPH is still up 54% over the past 12 months.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

New Zealand Equities	46.4%
Australian Equities	49.8%
Cash	3.8%
<b>Total</b>	<b>100.0%</b>

### 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.

### PERFORMANCE

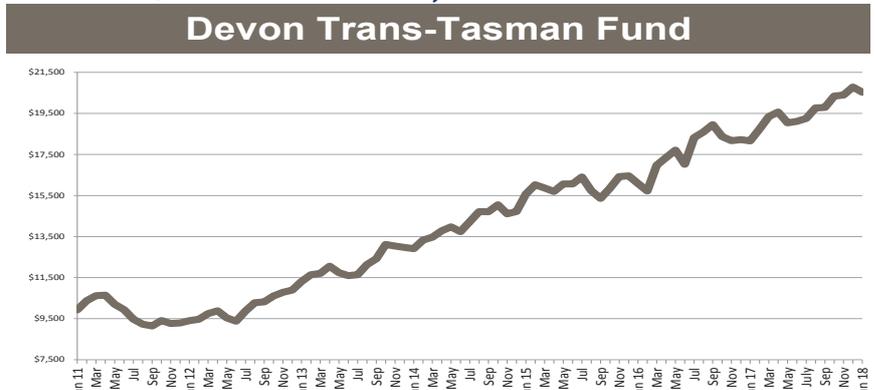
As At 31/01/2018

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	-1.2%	0.9%	13.1%	8.6%	12.0%
Trans-Tasman Index Gross	-0.2%	2.2%	19.1%	10.9%	10.5%

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



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

January was an earnings-driven start to what we believe will be an earnings-driven year. In a late cycle bull market, investors are increasingly in a "show me the money" mindset. If they're not, they should be.

Against this backdrop, our themes were reasonably well served. The Trump tax cuts meant analysts have been busily upgrading earnings forecasts for US banks by 10-15% for 2018 and 2019. Our Bank theme rallied ~6% in USD terms over the month. We expect loan growth to pick up in the US in 2018, which should provide additional earnings uplift to regional banks.

Technology is in the beginning of its quarterly earnings season, which has been given a good start with better than expected results from Facebook and Microsoft.

Most pleasingly, Medical Devices have shown exactly the sort of earnings performance we are owning this theme for. Results from the likes of Intuitive Surgical are underpinning the impact of new technologies such as robotic surgery. The theme rallied 10% in USD over the month.

A weak USD is our only complaint for the year so far. This is a headwind for our country tilts into Europe and Japan which do not enjoy

strength in their own currencies. We believe the USD is oversold and expect to see at least a stabilisation over the coming weeks.

### Returns

The Global Themes Fund rose 3.5% in January, finishing the month at a unit price of \$2.8823. This compares with a 3.7% increase in our global equity benchmark.

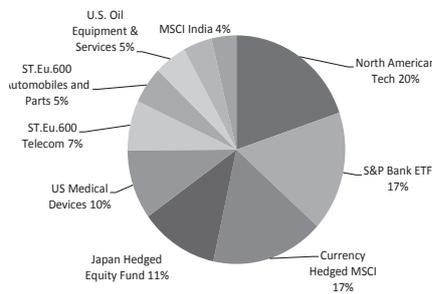
Our fund has risen 11.9% per annum since inception net of fees, versus 13.6% growth in the iShares MSCI All Country World Index Exchange Traded Fund (50% hedged

to NZD).

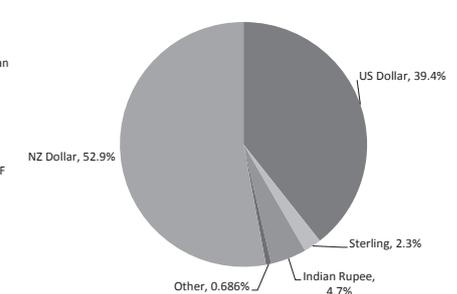
### Currency exposures

We continue to hold the currency hedge level in the fund at its benchmark weight of 50%. The Kiwi has rebounded to ~73 cents, amidst broad selling of the USD. However we see this as very much a range trade. We would need to see the Kiwi move closer to 80 cents before we felt a need to adjust our hedges.

### SECTOR ALLOCATION

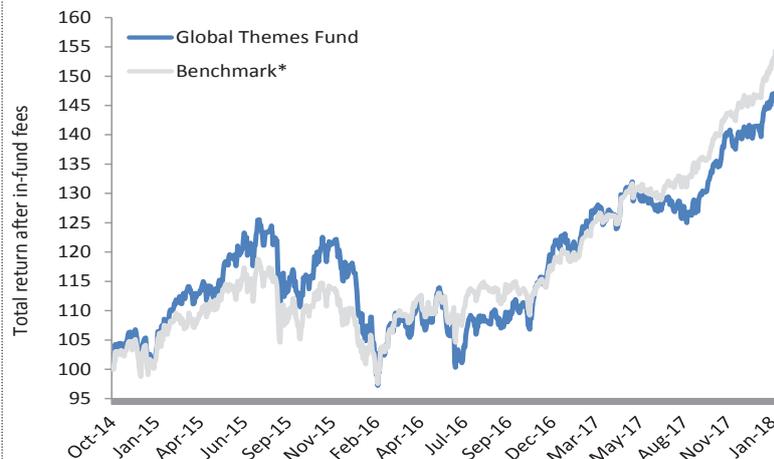


### CURRENCY EXPOSURE



### NET PERFORMANCE SINCE INCEPTION

#### Returns versus Benchmark



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

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.