

## MARKET COMMENTARY

### The Power of Collaboration

As professional investors our objective is to achieve the best risk adjusted returns for our clients. This objective is clear and enduring but the framework that we operate in is constantly evolving. The rules and regulations around investing are dynamic as are the economies and companies that we consider for investment.

What is also currently undergoing a change is the level of momentum behind people's desire for their investments not to just generate financial returns but also to make a positive impact on the future. Sustainable investing has become best practice and sustainable economic and business models have become the obligation of governments and company boards alike.

At Devon we are very proud of the commitments that we have made in this area, both in terms of the way that we integrate Environmental, Social and Governance considerations into our investment process and in the way that we engage with the companies that we own to motivate positive change in the area of sustainability. In today's world the consideration of such issues no longer comes at the expense of achieving superior investment performance, but rather over the long-term, depends upon it... [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	-0.2%	16.0%
S&P/ASX200G	AUSTRALIA	1.4%	14.6%
MSCI World Index	GLOBAL	2.9%	12.2%
S&P500	USA	3.2%	15.7%
FTSE100	UK	1.5%	9.4%
NIKKEI 225	JP	1.1%	15.4%
NZ 90 Day Bank Bill	NZ	0.2%	1.9%



AT A  
GLANCE

## UNIT PRICES

DEVON ALPHA FUND

**\$1.7960**

DEVON AUSTRALIAN FUND

**\$1.5199**

DEVON DIVIDEND YIELD FUND

**\$1.8551**

DEVON DIVERSIFIED INCOME FUND

**\$1.5496**

DEVON TRANS-TASMAN FUND

**\$3.9683**

GLOBAL THEMES FUND

**\$2.9699**

Prices as at 31 July 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

We were very pleased with the performance of this strategy during July. Despite an uncertain backdrop with the New Zealand equity market falling during the month, this fund still generated a strong absolute return. There were a number of highlights including Vista Group and Brambles, whose share prices rallied 9.7% and 11.3% respectively. Vista has been a major holding for us over the past 3-years and we continue to rate this business and its management very highly. Investor interest in the company has recently been sparked by increased broking firm research highlighting the positive attributes of the business combined with the increased possibility of an S&P/NZX50 index re-inclusion. The Brambles share price was positively supported by investors as evidence emerged that the operating environment for their US pallet business is looking increasingly productive. We continue to have a high cash weighting in this strategy and will look to the upcoming reporting season for new investment opportunities to emerge.

### 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.

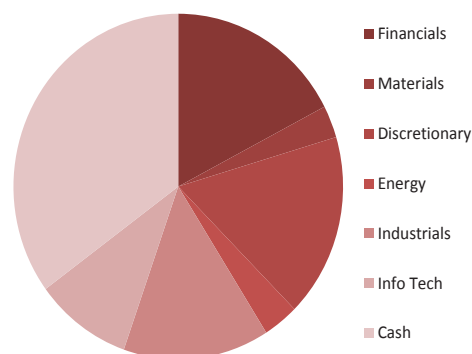
### KEY HOLDINGS

**Brambles**



**ARISTOCRAT**

### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

New Zealand Equities	14.1%
Australian Equities	50.8%
Cash	35.1%
Total	100.0%
Currency Hedge	29.6%

### PERFORMANCE

As At 31/07/2018

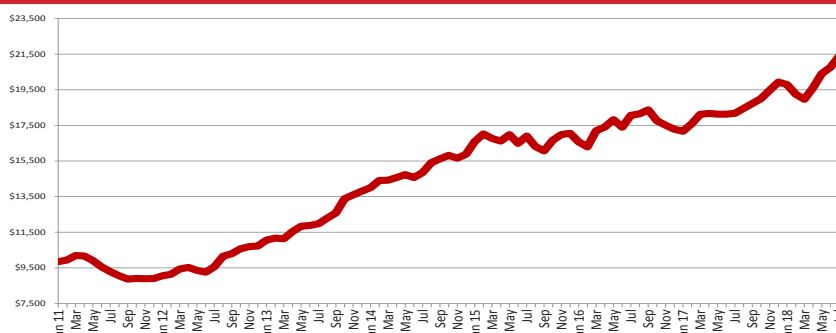
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	3.0%	9.0%	17.6%	7.8%	12.1%
OCR	0.1%	0.4%	1.7%	2.0%	2.5%

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](#)



### 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.

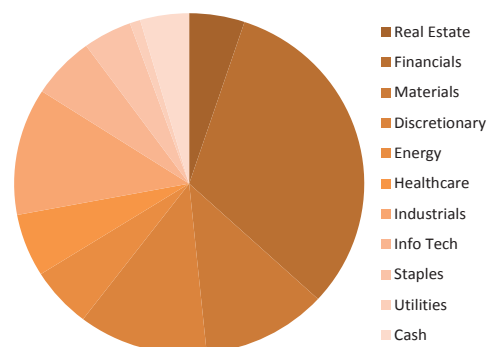
### DEVON AUSTRALIAN FUND

The Australian market performed well during the month and we were pleased to generate returns in this fund which were in excess of it. We have observed over the past few months that the opportunity set in Australia has become increasingly attractive as a result of valuations and improving business confidence, and subsequent to a number of recent research trips were able to identify some exciting opportunities for investment consideration. During the month the best positive contributors to this fund included GTN which rallied 11% and Brambles which rose by a similar amount as the business enjoyed a large fall in their lumber input cost. Other news that was relevant across our investments included the sale of BHP's US onshore shale assets to BP and Merit Energy for \$10.8bn. There were no major changes made to the portfolio although we did purchase shares in Redbubble Limited, which operates a global online marketplace.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

Australian	90.5%
New Zealand	5.0%
Cash	4.5%
Total	100.0%
Currency Hedge	0.0%

### PERFORMANCE

As At 31/07/2018

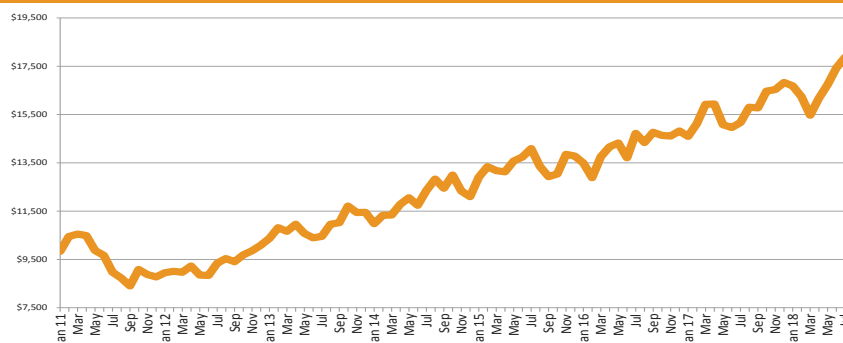
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	2.5%	10.5%	17.8%	8.2%	11.3%
ASX200 Index Gross (NZD)	1.4%	7.9%	17.5%	7.5%	8.5%

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.

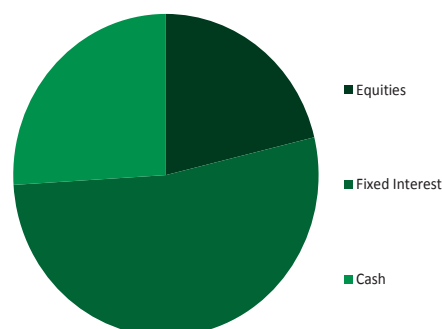
### DEVON DIVERSIFIED INCOME FUND

Global bond yields were broadly stronger during the month with the US 10-year interest rate rising from 2.87% in June to finish July over 2.96%. This performance was in contrast to New Zealand who saw their 10-year yield finish down at 2.71% due to increased demand from offshore investors. In terms of major news during the month, the ECB made no changes to policy at their July meeting but did observe that the Euro economy remains reasonably robust with business and consumer confidence high. Although investors will keep a close eye on any announcements around trade by Donald Trump, the ECB reiterated their commitment to end stimulatory monetary policies this year and highlighted that rates will likely move higher in mid-to-late 2019. Neither the RBNZ nor the Fed met on interest rate settings during July but both are expected to remain on hold at their next meetings.

### KEY HOLDINGS



### ASSET ALLOCATION



### GROWTH

NZ Equities	13.1%
AU Equities	8.1%

### DEFENSIVE

Cash	26.0%
NZ Corporate Bonds	52.8%
NZ Government Bonds	0.0%

### PERFORMANCE

As At 31/07/2018

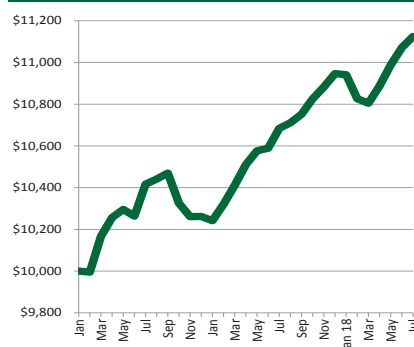
	1 Mth	3 Mth	1 Yr	2 Yr p.a
Devon Diversified Income Fund	0.5%	2.2%	4.1%	3.3%
OCR + 1.5%	0.3%	0.8%	3.3%	3.3%

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

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.

### AT A GLANCE

Targeted Portfolio Yield	5.0%
Commenced	January 2016
Total strategy	\$6.26m
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

The Dividend Yield strategy enjoyed good relative performance during the month with a number of our key investments generating positive returns. Included amongst the top contributors was the Super Retail Group whose price rose by 14.1%. This investment has recovered impressively from lower levels earlier in the year when investors took a negative view on the broader retailing sector after the launch of Amazon in Australia. Although the competitive environment is continuing to evolve, we see the Super Retail business as being of sufficient quality that it should be able to compete effectively across its core categories. GTN and Trade Me also performed well during July, rallying by 11% and 4.1% respectively, whilst Z Energy fell after the company issued a downgrade to their FY19 earnings guidance. There were no major changes made to the portfolio although we did reduce our exposure to ANZ Bank and Spark New Zealand.

### 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.

### KEY HOLDINGS



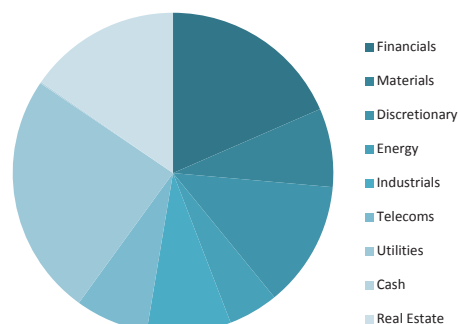
MACQUARIE

Freightways



genesis

### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

New Zealand Equities	61.8%
Australian Equities	38.3%
Cash	-0.1%
Total	100.0%
Currency Hedge	96.7%
Yield	7.24%

### PERFORMANCE

As At 31/07/2018

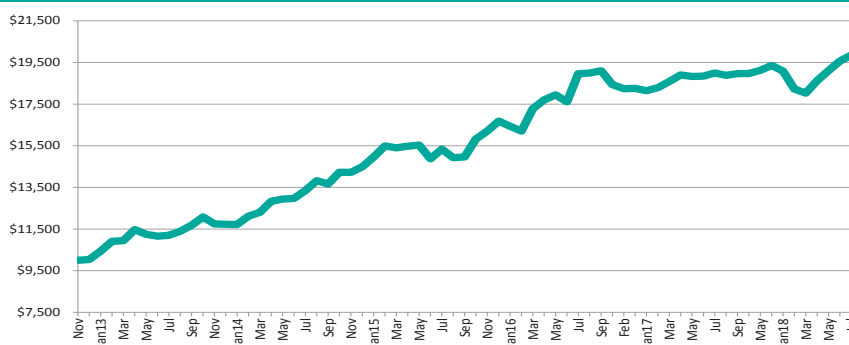
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	1.5%	6.6%	4.3%	8.9%	12.4%
TT Index (Hedged)	0.6%	5.8%	15.3%	11.3%	11.8%

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

July was a very good month for this strategy after it generated strong absolute and relative performance. As we highlighted in June's client update, we have grown increasingly confident around a number of investment opportunities in Australia and it is encouraging to report this month that a number of these have played out. Amongst these was GTN which rallied 11% and Aristocrat Leisure which finished up 4.2%. This portfolio is currently more heavily weighted to Australia than in New Zealand. Interestingly though the best returns in July came from our investment in the New Zealand listed, Ebos Group. Shares in this company jumped after they announced to the market that they had been successful in winning the tender to act as the third party distributor of pharmaceutical products to the Chemist Warehouse and My Chemist stores in Australia. This is a 5-year supply agreement with the potential to extend for a further 3-years.

### KEY HOLDINGS

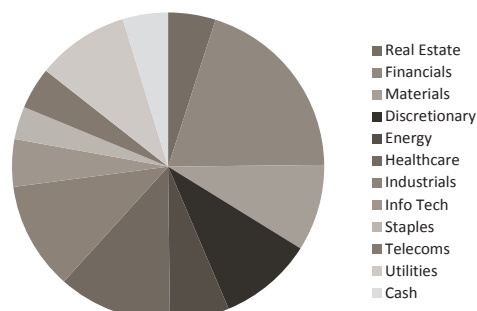
**Brambles**



**GTN**

**EBOS  
HEALTHCARE**

### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

New Zealand Equities	45.2%
Australian Equities	50.1%
Cash	4.7%
Total	100.0%

### PERFORMANCE

As At 31/07/2018

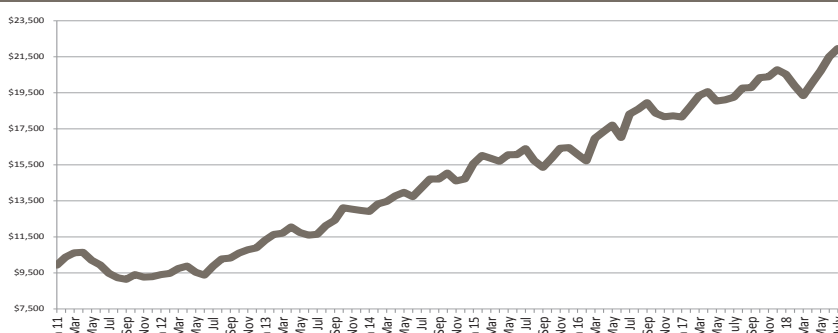
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	2.1%	9.6%	14.1%	9.1%	12.9%
Trans-Tasman Index Gross	0.6%	6.8%	16.7%	11.1%	11.5%

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

### 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

Trade continues to dominate news flow. However, it appears that recently-implemented tariffs may be starting to hurt corporate America – and Trump's support base. We have previously maintained that the President will likely take a hard line on trade as long as it is helpful to the GOP mid-term election prospects in November. However, payments to US soybean and pork farmers to offset Chinese tariffs, the commencement of negotiations with the EU, and the delay in auto tariffs show that Trump is responding to the mood of his voter base. We continue to see the trade situation as highly fluid – and obviously can't rule out further escalation – but we remain of the view that Trump wants to negotiate and, as such, a multilateral trade war will be averted.

Elsewhere, our portfolio this month has been driven by the US and European quarterly earnings seasons: the US is over the halfway mark, and the story so far is good. Of those that have reported, around 80% have delivered earnings ahead of consensus analyst expectations. Earnings growth is tracking at close to 25% year on year, well ahead of the 20% we were expecting. While tax reform has helped, importantly revenue growth has also been strong. Materials, health care and technology are leading the pack so far and, as such, we have generally seen good results out of our technology and medical devices themes.

Europe is a little over a third of the way through reporting its earnings. Not all European companies report quarterly, so making comparisons can prove difficult, but so far over half have beaten analyst expectations on earnings. We have seen particular strength in technology and industrial goods companies, as well as banks and insurers. European equities look well positioned to begin closing the trans-Atlantic performance

gap that has emerged over recent years.

Interestingly, the magnitude of share price movements on the day of earnings announcements has hit its highest level in over a decade, with price reactions of well over 10% not uncommon (Facebook, Twitter, Fiat Chrysler, Peugeot to name a few). From our perspective, this is reflective of where we are in the investment cycle. Growth expectations are high, and investors are tolerating wafer-thin margins for error. We see this continuing.

### Returns

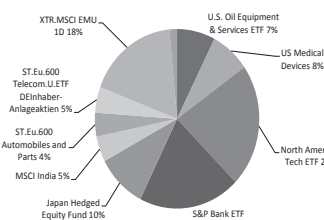
The Global Themes Fund rose 2.4% in July, finishing the month at a unit price of \$2.9699. This compares with a 2.7% rise in our global equity benchmark.

Our fund has risen 11.1% per annum since inception net of fees, versus 12.0% per annum growth in the iShares MSCI All Country World Index Exchange Traded Fund (50% hedged to NZD).

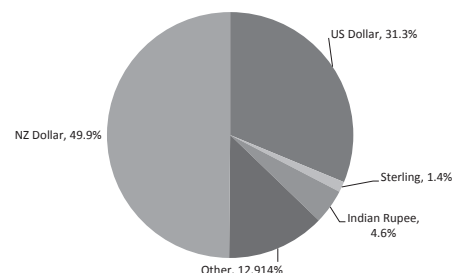
### Currency exposures

The currency hedge level in the fund remains around its benchmark weight of 50%, which we are comfortable with for now. However, we are keeping a close eye on local economic data, and any further weakness would see us closer to increasing our hedging ratio.

### SECTOR ALLOCATION

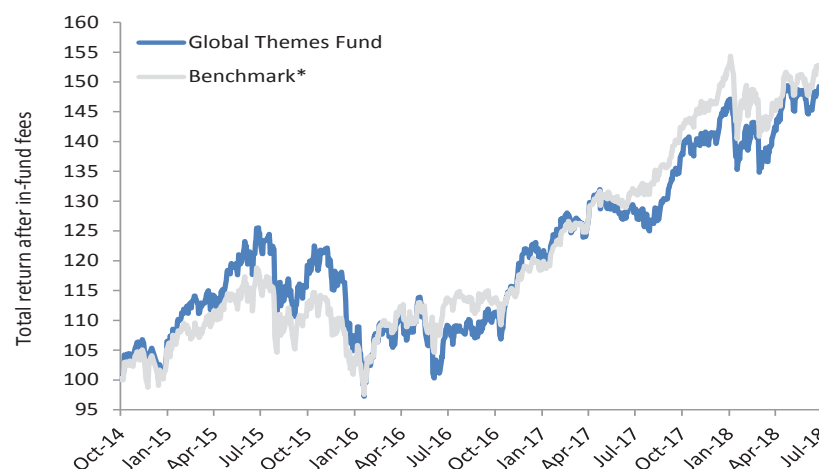


### CURRENCY EXPOSURE



### 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.