

MARKET COMMENTARY

Australia's Time to Shine?

At Devon we focus a significant amount of time and energy on the Australian stock market and we have a heavy investment weighting to it across many of our funds. In recent months our Australian exposure has performed well and has helped drive the good returns we have achieved, however over the past five years the Australian market has notably underperformed the New Zealand market. As we look to the future we are of the view that valuations in Australia are looking increasingly attractive and we are currently identifying a range of very interesting investment opportunities over there. The most direct exposure we offer to the Australian market is the Devon Australian Fund - many of the Devon funds invest into Australia but the Australian Fund is solely focused there with a diversified portfolio of around 35 listed Australian companies.

The Australian market offers significant attractions for NZ equity investors – it is much larger than the New Zealand market (A\$1.8 trillion versus NZ\$100bn) and offers exposure to a number of sectors that are not available in New Zealand. It is also much more representative of the underlying economy with a large exposure to banks and materials in particular... [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 | 3.3% | 17.5% |
| S&P/ASX200G | AUSTRALIA | 3.3% | 13.0% |
| MSCI World Index | GLOBAL | -0.0% | 11.7% |
| S&P500 | USA | 0.6% | 14.4% |
| FTSE100 | UK | -0.2% | 8.7% |
| NIKKEI 225 | JP | 0.6% | 13.5% |
| NZ 90 Day Bank Bill | NZ | 0.20% | 2.0% |



AT A GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.7437

DEVON AUSTRALIAN FUND

\$1.4823

DEVON DIVIDEND YIELD FUND

\$1.8509

DEVON DIVERSIFIED INCOME FUND

\$1.5571

DEVON TRANS-TASMAN FUND

\$3.8860

GLOBAL THEMES FUND

\$2.8989

Prices as at 30 June 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.

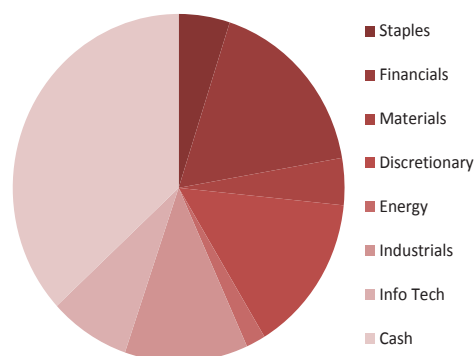
DEVON ALPHA FUND

This Fund generated a good absolute return during the month with a number of our stocks enjoying strong performances. These included Vista and National Tyre & Wheel whose share prices rallied 9.4% and 7.4% respectively, but it was our investment in Wesfarmers that we were most impressed with. In early June this company hosted a Strategy Day in Sydney where investors were presented with an update on the direction that this company is taking. Wesfarmers is currently undergoing a repositioning of the businesses within their portfolio which has resulted in the divestment of Homebase in the UK and the sale of their Curragh coal mine. The objective of these transactions, together with the ongoing process of demerging Coles, is to redeploy capital towards higher growth opportunities. This has contributed to strong investor support for Wesfarmers and their share price finished the month up over 8.3%. Management also confirmed that the store rollout program for Bunnings remains on track.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

| | |
|----------------------|--------|
| New Zealand Equities | 12.8% |
| Australian Equities | 50.3% |
| Cash | 36.9% |
| Total | 100.0% |
| Currency Hedge | 29.7% |

PERFORMANCE

As At 30/06/2018

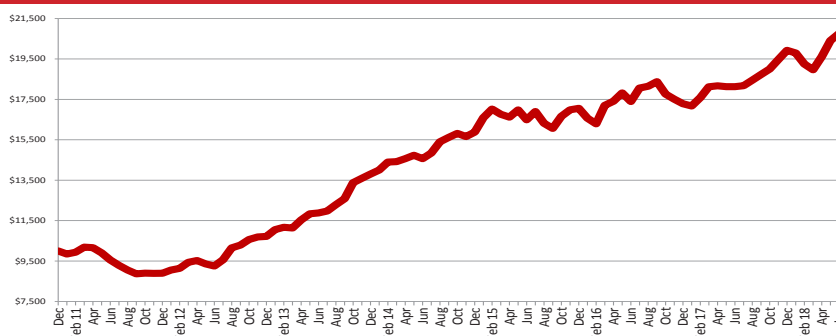
| | 1 Mth | 3 Mth | 1 Yr | 3 Yr p.a | 5 Yr p.a |
|------------------|-------|-------|-------|----------|----------|
| Devon Alpha Fund | 1.7% | 9.5% | 14.5% | 7.6% | 11.6% |
| OCR | 0.1% | 0.4% | 1.7% | 2.1% | 2.5% |

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.

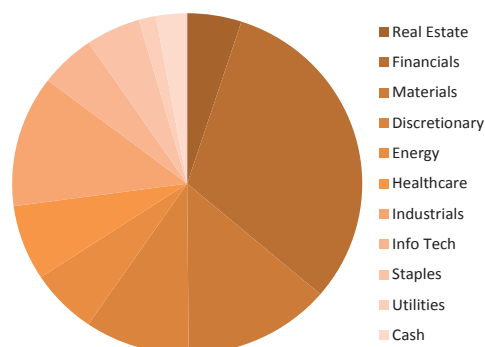
DEVON AUSTRALIAN FUND

We completed a number of research trips to Australia during June and were very encouraged by the operating performances of many of our current portfolio companies. Also during these visits we identified a number of exciting new investment opportunities, which are now under review by our team. During the month the Australian Fund generated a strong absolute return and there were a number of our key holdings which made impressive contributions to this. Amongst these were Woolworths, Oil Search and PWR Holdings. Woolworths finished the month up 7.2% and was up over 16% for the quarter. This business enjoys a very strong competitive position across New Zealand and Australia and although their recent attempt to sell their petrol retailing assets to BP failed due to ACCC opposition, we continue to view Woolworths as an investment that will generate good returns for shareholders over the medium-term.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

| | |
|----------------|--------|
| Australian | 92.0% |
| New Zealand | 5.1% |
| Cash | 2.9% |
| Total | 100.0% |
| Currency Hedge | 0.0% |

PERFORMANCE

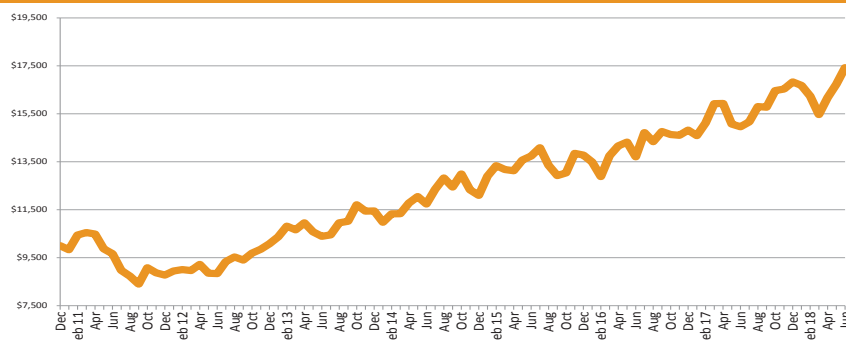
| As At 30/06/2018 | 1 Mth | 3 Mth | 1 Yr | 3 Yr p.a | 5 Yr p.a |
|--------------------------|-------|-------|-------|----------|----------|
| Devon Australian Fund | 4.1% | 12.7% | 16.5% | 8.2% | 10.9% |
| ASX200 Index Gross (NZD) | 4.5% | 11.3% | 17.7% | 7.6% | 8.2% |

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

Despite some volatility in long-dated bond prices during June, interest rates finished the month broadly in line with where they were in May. Global central banks were active with the ECB communicating that they will phase out their quantitative easing program, whilst the US Federal Reserve lifted its benchmark short-term interest rate by 0.25% after observing that their economy is growing at a solid rate. These policy tightening measures were announced despite rising concerns surrounding trade prospects between the US and the rest of world. In New Zealand, first quarter GDP growth numbers were released which highlighted that the state of our domestic economy is currently softer than had been expected. Business confidence in particular remains subdued. The RBNZ kept interest rates at 1.75% and maintained their neutral view of the outlook, waiting to see what the impact of proposed government spending will be on growth.

***The two year performance figure for the Diversified Income Fund was incorrectly stated in the 2018 January through to May monthly investor reports. Performance was correctly shown in the line graph, and in the Fund update linked to the report, and all other historical information was correct. Correct details are shown in this investor report**

If you are an investor in the Fund wanting to discuss this further, please contact Slade Robertson on 0800 944 049

PORTFOLIO MANAGER

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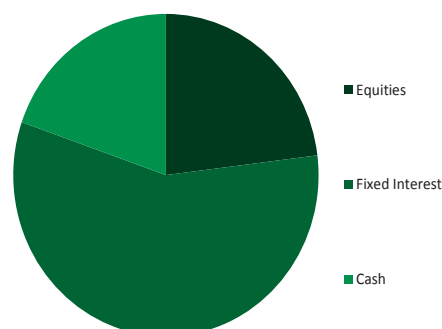
KEY HOLDINGS



GROWTH

| | |
|-------------|-------|
| NZ Equities | 14.0% |
| AU Equities | 8.7% |

ASSET ALLOCATION



DEFENSIVE

| | |
|---------------------|-------|
| Cash | 20.0% |
| NZ Corporate Bonds | 57.3% |
| NZ Government Bonds | 0.0% |

PERFORMANCE

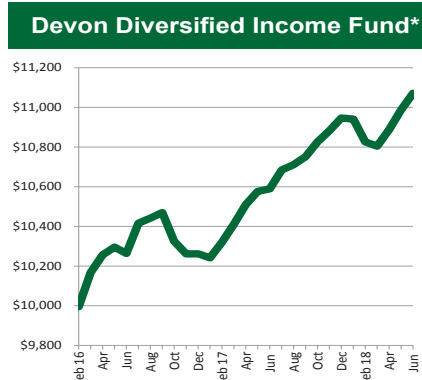
As At 30/06/2018

| | 1 Mth | 3 Mth | 1 Yr | 2 Yr p.a* |
|-------------------------------|-------|-------|------|-----------|
| Devon Diversified Income Fund | 0.8% | 2.5% | 4.5% | 4.3% |
| 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



*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](#)

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 |



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.

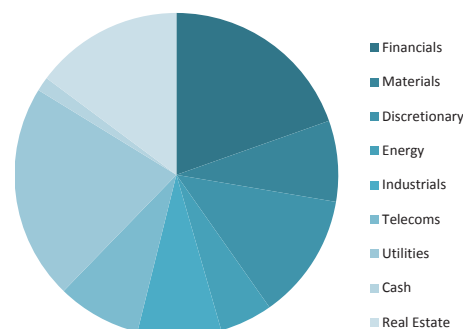
DEVON DIVIDEND YIELD FUND

This Fund has generated good returns in recent months and again during June, a number of our key investments contributed well. The most notable of these was Kathmandu whose share price increased by 19.8%. The major catalyst for this lift in value was a trading update provided by the company which highlighted that both sales and earnings for the current year are tracking higher than expected. For the year ending 31 July 2018, Earnings before Interest and Tax is now forecast to be between \$72 to \$77m which compares to the \$57m that was earned last year. Kathmandu's CEO, Xavier Simonet, who started in the role in June 2015, has done a very good job and the company is now enjoying the benefits of their new product range and strategy to improve in-store customer experience. Other investments that also contributed positively included Suncorp, Meridian Energy and Precinct Properties.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

| | |
|----------------------|--------|
| New Zealand Equities | 61.0% |
| Australian Equities | 37.6% |
| Cash | 1.4% |
| Total | 100.0% |
| Currency Hedge | 98.0% |
| Yield | 6.84% |

PERFORMANCE

As At 30/06/2018

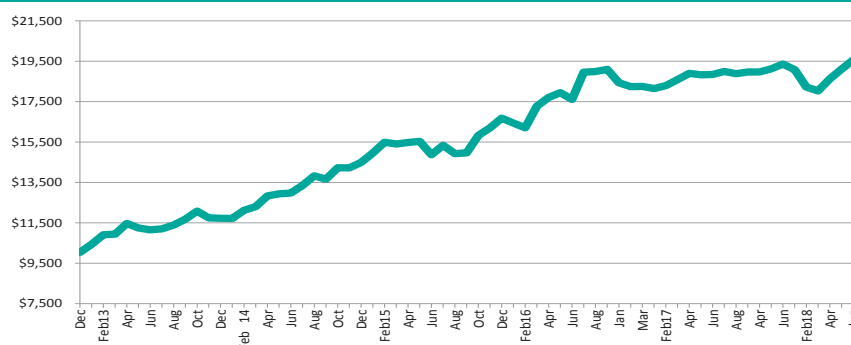
| | 1 Mth | 3 Mth | 1 Yr | 3 Yr p.a | 5 Yr p.a |
|---------------------------|-------|-------|-------|----------|----------|
| Devon Dividend Yield Fund | 2.4% | 8.5% | 3.6% | 9.5% | 12.1% |
| TT Index (Hedged) | 3.3% | 8.0% | 15.3% | 12.5% | 12.5% |

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

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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 strategy generated strong absolute returns during the month, broadly in line with its underlying benchmark. Notable contributions to the portfolio came from Cybg PLC and Woodside Petroleum whose shares rallied by 10.2% and 9.4% respectively. Cybg PLC, which was previously known as Clydesdale Bank, rallied on the news that they were making progress in their proposed acquisition of Richard Branson's, Virgin Money. If this transaction is successful, the combined entity would be the UK's 6th largest bank with 6 million personal and business customers. Cybg is listed in Australia after it was spun out from the National Australia Bank in 2016. Woodside also enjoyed investor support after the company announced that the second LNG train in their Wheatstone project (in Western Australia) had started production. This is a major milestone for Woodside to achieve and with the global oil price moving higher, confidence in their earnings profile is strengthening.

PORTFOLIO MANAGER

Tama Willis



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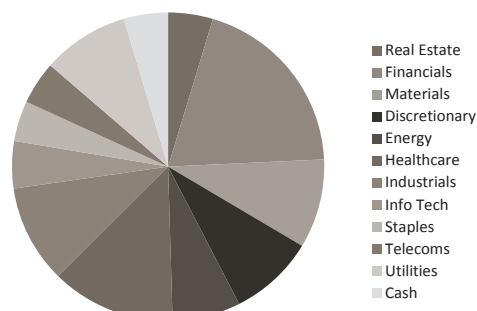
KEY HOLDINGS



SCENTRE
GROUP



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

| | |
|----------------------|---------------|
| New Zealand Equities | 44.9% |
| Australian Equities | 50.5% |
| Cash | 4.6% |
| Total | 100.0% |

PERFORMANCE

As At 30/06/2018

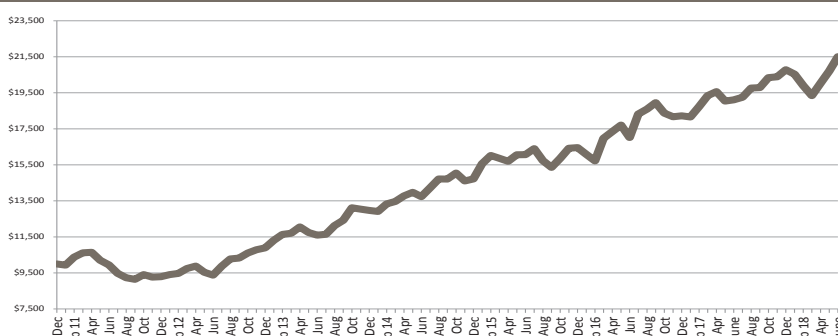
| | 1 Mth | 3 Mth | 1 Yr | 3 Yr p.a | 5 Yr p.a |
|--------------------------|-------|-------|-------|----------|----------|
| Devon Trans-Tasman Fund | 3.8% | 11.2% | 12.5% | 9.1% | 12.5% |
| Trans-Tasman Index Gross | 3.9% | 9.4% | 17.6% | 11.8% | 11.6% |

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

Markets are now taking the prospect of a multilateral trade war seriously, involving all major trading powers. Despite threat and counter-threat, we believe President Trump is essentially staking out negotiating positions. In that respect the swift transition of North Korean relations from the risk of military conflict last year to a peace summit this year may yet prove instructive. Nevertheless, at least until the mid-term elections in November, it is likely Trump will continue to play to his voter base, who generally approve of a tough stance on trade.

As signaled last month, oil services' share prices have lagged the rising oil price, with investors seemingly not convinced oil can remain at current levels. Despite long-term headwinds however, we believe macro drivers will keep the oil price around current levels for some time yet. Oil inventories have fallen significantly, and we suspect that at this stage of the economic cycle they may struggle to keep up with demand. Further, supply continues to be disrupted by geopolitical risk (think Venezuela and Iran). This environment is supportive of oil services' companies generating earnings growth. As such, we have increased our weighting in this theme. We have funded this by reducing our exposure to Japan. We continue to like Japan as a theme, however after significant positive returns, we see less compelling valuation, and a slightly softer earnings outlook.

A soft patch in European economic data year to date, combined with a resurgent US dollar, has seen the Euro fall. However, we see this weak patch in data as likely having bottomed and, combined with robust European fundamentals and a central bank in tapering mode, we see less scope for Euro weakness. Against this backdrop, we removed the USD hedge on our Europe

theme this month.

Technology and medical devices were our top performing themes this month, with European telcos close behind, showing their defensive hand during a volatile month. US Banks, on the other hand, underperformed on falling bond yields, despite the Federal Reserve's stress testing paving the way for a 25% increase in dividend payouts. European autos understandably fell on concerns over potential tariffs on imports into the US, as well as exports of their US-made vehicles to China.

Returns

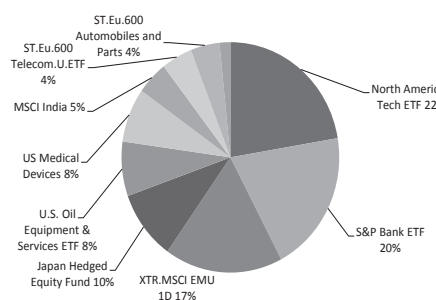
The Global Themes Fund rose 0.2% in June, finishing the month at a unit price of \$2.8989. This compares with a 1.1% rise in our global equity benchmark. Our

fund has risen 10.7% per annum since inception net of fees, versus 11.5% per annum growth in the iShares MSCI All Country World Index Exchange Traded Fund (50% hedged to NZD).

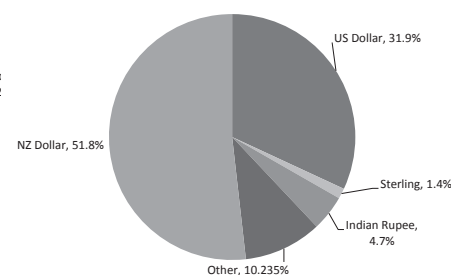
Currency exposures

The currency hedge level in the fund remains close to its benchmark weight of 50%. Given the recent strength in the USD versus the EUR, we removed the USD hedge on our Europe theme this month, lightening up on our USD exposure. Locally, we continue to keep a close eye on immigration data as a solid leading indicator of any potential downturn and further NZD weakness.

SECTOR ALLOCATION

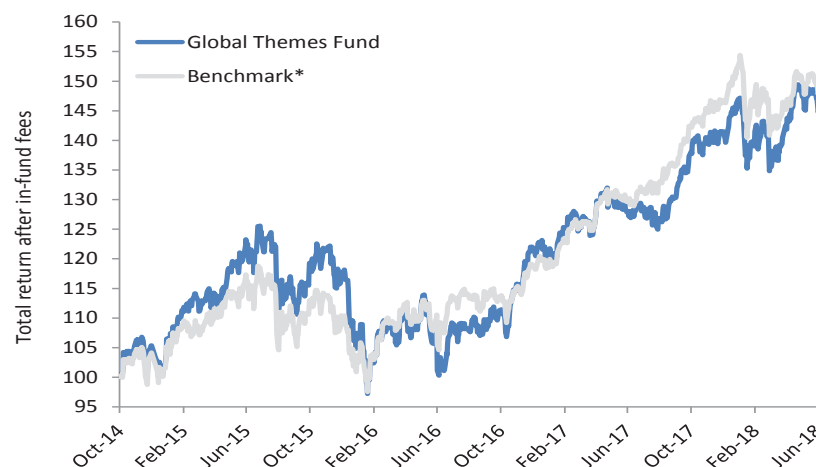


CURRENCY EXPOSURE



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.