

MARKET COMMENTARY

Lessons from China

Although we wouldn't typically write on the same topic in concurrent months, we have just conducted some extensive proprietary research on a2Milk (ATM) in China and we believe it is important to highlight our observations. This document also demonstrates the Devon commitment to developing our own investment views, based on our own fundamental research.

Is it possible that the newly crowned emperor of the New Zealand equity market, ATM has, as Hans Christian Anderson so eloquently put it, "no clothes" when it comes to intellectual property protection? As the company name would suggest, ATM's entire business model is based on supplying milk based products that only contain the A2 protein. Since inception ATM has been adamant that its suite of patents were sufficiently robust to give it significant competitive barriers to entry against other similar products. In fact as recently as this month ATM dedicated an entire slide in its presentation to investors on this exact subject. More specifically the line reads "The IP (Intellectual Property) portfolio continues to provide barriers to entry". However the recent announcement by Nestle that they...

[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	-0.7%	15.6%
S&P/ASX200G	AUSTRALIA	-3.8%	2.5%
MSCI World Index	GLOBAL	-2.1%	14.2%
S&P500	USA	-2.5%	14.0%
FTSE100	UK	-2.0%	0.2%
NIKKEI 225	JP	-2.0%	15.7%
NZ 90 Day Bank Bill	NZ	0.20%	1.9%



AT A
GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.6187

DEVON AUSTRALIAN FUND

\$1.3443

DEVON DIVIDEND YIELD FUND

\$1.7286

DEVON DIVERSIFIED INCOME FUND

\$1.5345

DEVON TRANS-TASMAN FUND

\$3.5719

GLOBAL THEMES FUND

\$2.7584

Prices as at 31 March 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

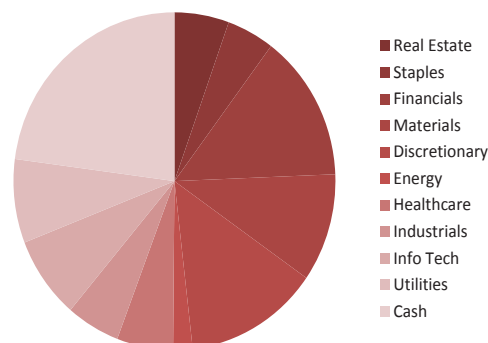
The highlight for this strategy during the month was the sale of our shares in a2Milk. After building a position in this stock during February at an average entry price of \$9.12 we exited all our shares in March at \$13.52. This decision was arrived at after two of our analysts separately visited China during March to research both the direct and on-line sales channels for a2Milk. This business is now the largest listed company in New Zealand and at one stage recently its market capitalisation exceeded \$10bn. Captured in this valuation is expectations that the company can continue to increase its market share in China while maintaining its margins. We believe that this proposition is at serious risk due to a deteriorating competitive position with Nestle, the worlds largest branded dairy company, launching their own infant formula in China called "Atwo" under their Illuma Wyeth brand.

KEY HOLDINGS



Brambles

ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	22.4%
Australian Equities	54.7%
Cash	22.9%
Total	100.0%
Currency Hedge	30.0%

PERFORMANCE

As At 31/03/2018

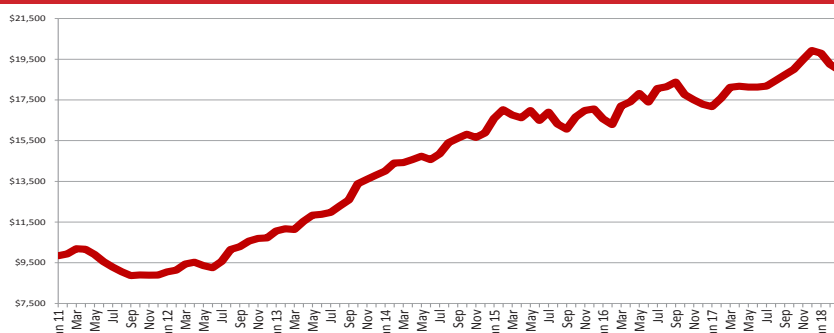
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	-1.5%	-4.8%	4.7%	3.9%	11.0%
OCR	0.2%	0.5%	2.0%	2.3%	2.6%

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.

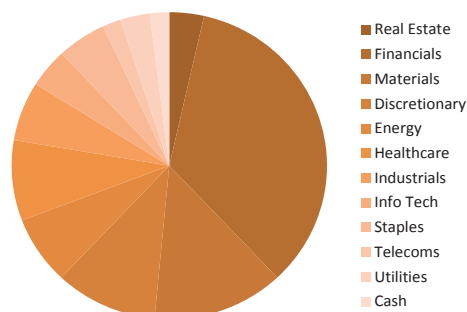
DEVON AUSTRALIAN FUND

We were pleased that the Australian Fund outperformed its benchmark over the month but the Australian market itself was notably weak after the US market led major indices lower. The best performing stocks within this strategy included Scottish Pacific Group, Brambles and Vista while detractors included Caltex, GTN and Rio Tinto. The most significant change that was made to the portfolio was the purchase of shares in OZ Minerals (OZL). This business is an Australian based mining company with a focus on copper. Its major operations include the Prominent Hill copper and gold mine and the Carrapateena copper project in South Australia. We believe this is an attractive investment due to the fact that OZL is growing its copper production, currently has over \$700m of net cash on its balance sheet and is priced at a discount to what we believe is fair value. We currently believe that copper is one of the most attractive commodities to be exposed to.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

Australian	93.9%
New Zealand	4.1%
Cash	2.0%
Total	100.0%
Currency Hedge	0.0%

PERFORMANCE

As At 31/03/2018

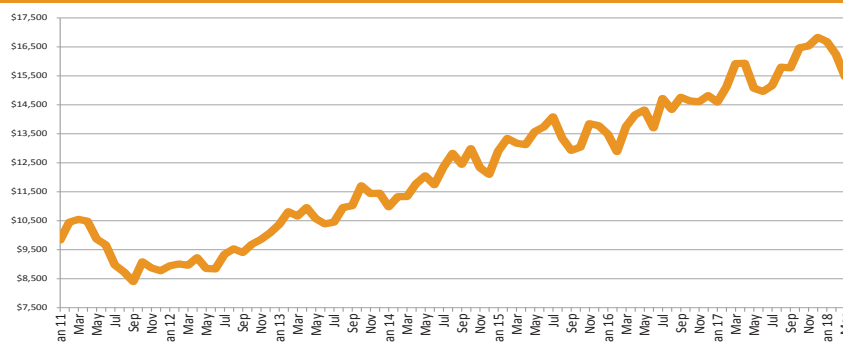
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	-4.7%	-8.1%	-2.9%	5.5%	7.7%
ASX200 Index Gross (NZD)	-5.2%	-7.1%	-0.1%	5.2%	4.3%

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 long-bond rates all moved significantly lower during the month with the US 10-year finishing March at 2.74%. The focus for many fixed interest investors was the actions and comments coming from a range of Central Bank meetings. The US Federal Reserve lifted the Fed Funds Rate by 0.25%. This was expected by the market and it resulted in US interest rates being the same as New Zealand and higher than those in Australia for the first time in 20-years. The Fed observed that growth was surprising on the upside but inflation remains benign. The RBNZ left the Overnight Cash Rate unchanged at 1.75% but also during the month Finance Minister Grant Robertson and RBNZ Governor Adrian Orr signed new Policy Target Agreements which will ensure that, going forward, employment outcomes will also be considered by the RBNZ and Monetary Policy decisions will now be made by an RBNZ committee.

PORTFOLIO MANAGER

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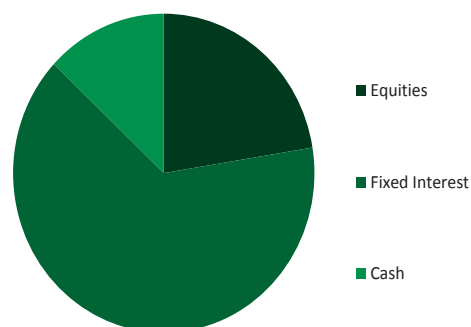
KEY HOLDINGS



GROWTH

NZ Equities	8.3%
AU Equities	13.2%

ASSET ALLOCATION



DEFENSIVE

Cash	13.9%
NZ Corporate Bonds	64.6%
NZ Government Bonds	0.0%

PERFORMANCE

As At 31/03/2018

	1 Mth	3 Mth	1 Yr	2 Yr p.a
Devon Diversified Income Fund	-0.2%	-1.3%	3.7%	3.6%
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

Devon Diversified Income Fund*



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

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

There were no major changes made to this portfolio during the month but we were pleased with its performance relative to the underlying benchmark. The investments that had the most significant positive impact on returns included Kathmandu, Meridian and Freightways while the most detrimental impact came from our exposure to Tegel Group Holdings, whose share price fell over 22%. Tegel is approximately only 1% of the portfolio's total holdings. We are disappointed with the performance of Tegel and are frustrated that its operating outcomes are not significantly better, given the duopoly that exists in New Zealand with Inghams and themselves as the only major suppliers of chicken. We believe that at current prices though there is large valuation support for this investment. Our holding in the NZX was more productive for us with its share price closing up 6% after announcing that the NZ Exchange and the Singapore Exchange have signed an Memorandum of Understanding to expand co-operation in the Asia-Pacific markets.

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



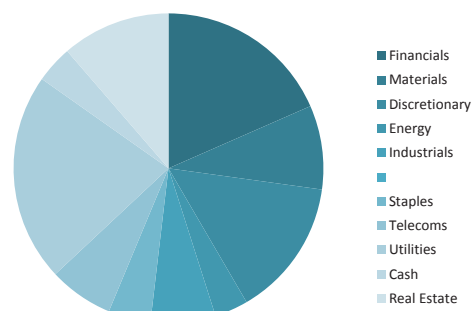
meridian



Kathmandu®



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	59.0%
Australian Equities	37.1%
Cash	3.9%
Total	100.0%
Currency Hedge	96.0%
Yield	7.12%

PERFORMANCE

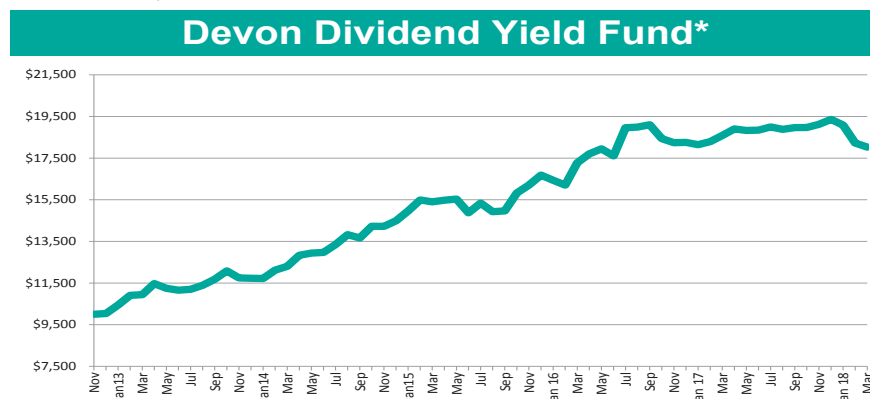
As At 31/03/2018

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	-1.1%	-6.9%	-3.2%	5.3%	10.7%
TT Index (Hedged)	-2.2%	-2.4%	9.1%	8.2%	10.6%

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](#)



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

This strategy performed slightly ahead of its benchmark during the month with a number of our investments making good positive contribution. Included amongst these were Brambles and Kathmandu which rallied 5.5% and 7.6% respectively. Scottish Pacific Group was the stand-out though with its shares finishing the month up 9.2% after the company released its first-half results in late February. As shareholders in this business we were pleased to see revenue grow by almost 9% and their earnings-per-share lift by 10%. Scottish Pacific is a provider of Debtor Finance in Australia, New Zealand, Hong Kong and the United Kingdom. Leveraging off their strong competitive position, management believe they can continue to drive ongoing profit improvement through strong growth in their core debtor finance loan book and successful management of their bad debts and operating costs. The only major change to this portfolio over the month was the purchase of shares in Super Retail Group.

PORTFOLIO MANAGER

Tama Willis



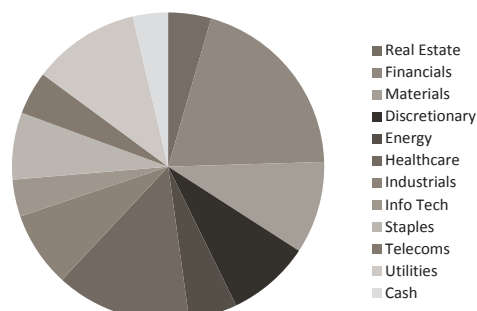
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Devon's Australian and Trans Tasman Funds. Tama is widely regarded as a leading expert on resource and mining stocks.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	48.1%
Australian Equities	48.3%
Cash	3.6%
Total	100.0%

PERFORMANCE

As At 31/03/2018

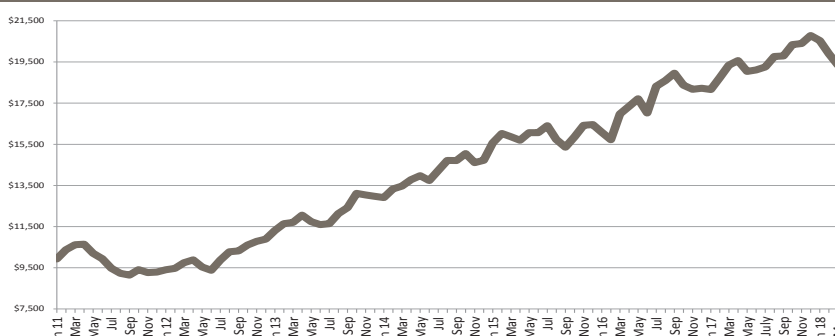
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	-2.8%	-6.9%	-0.0%	5.8%	9.9%
Trans-Tasman Index Gross	-2.9%	-4.0%	7.8%	8.9%	8.9%

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](#)



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

The sell-off now appears to be backed by legitimate fears. Rather than the technical shake-out in February, newsflow during March has supported increased volatility in equity markets. A new Fed governor delivering a relatively hawkish message, the implementation of tariffs by the US and China, and a softening in GDP growth are all fair reasons for markets to fret. We remain relatively sanguine, however. Growth remains robust, earnings remain strong, and monetary policy remains accommodative. While the fact that we are in a late-stage bull market is certainly not lost on us, we don't see a recession on the near-term horizon and, without a recession or a flaring up of significant imbalances in the global economy, we don't see a material chance of a bear market.

Not surprisingly, our technology theme caused us the most headaches this month, with regulatory risks front of mind. We still like Technology as an investment theme – especially while economic growth remains healthy. Further, the sector is not expensive, and historically is a good one to own in a late-stage bull market when growth is strong and before interest rates become a headwind. While we don't ignore the risks of increased regulatory oversight – we believe these play out over the long-term, with the impact very much stock specific. As such, we expect volatility to remain high, but view this sell-off as overdone.

Our best performing themes during March, on the other hand, were oil services and medical devices. Crude oil rebounded by more than 5% on reports that top crude exporting countries were consider

ing extending OPEC output cuts beyond this year. Oil services stocks followed the path of oil upwards. Medical devices continued their strong run of earnings-led growth, and duly provided the benefit of their defensive characteristic to the fund. Our European holdings have also broadly benefitted the fund this month, outperforming our benchmark. In particular, autos have weathered the sell-off relatively well. Turning to emerging markets, our India theme outperformed during March as the US dollar fell.

Returns

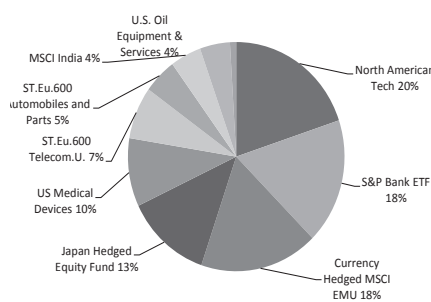
The Global Themes Fund fell 1.7% in March, finishing the month at a unit price of \$2.7584.

This compares with a 1.6% decline in our global equity benchmark. Our fund has risen 9.9% per annum since inception net of fees, versus 11.2% growth in the iShares MSCI All Country World Index Exchange Traded Fund (50% hedged to NZD).

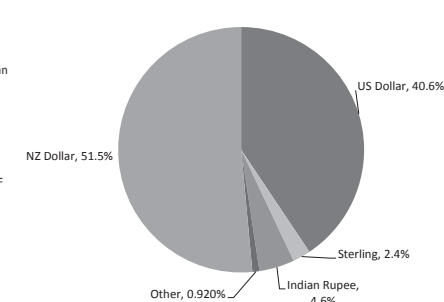
Currency exposures

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

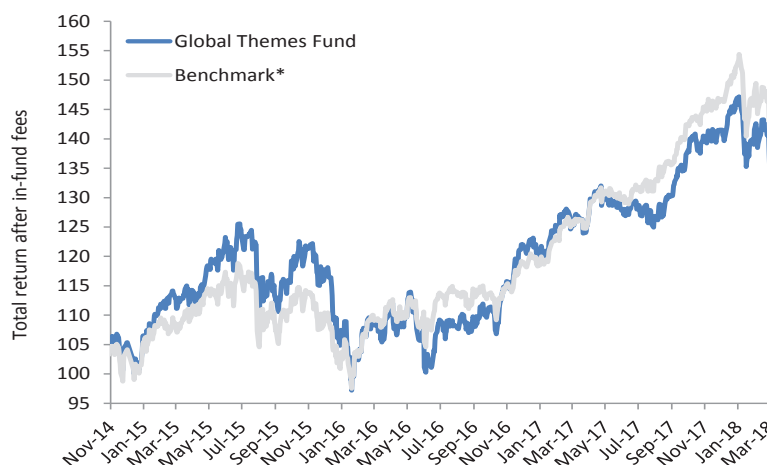


CURRENCY EXPOSURE



NET PERFORMANCE SINCE INCEPTION

Returns versus Benchmark



* 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.