

MARKET COMMENTARY

A Look into Local Markets

After what has been a very good month for the Devon Funds we thought it would be useful to acknowledge how well the local market has done over recent years and indicate where we see the potential opportunities in the future.

Since the end of the GFC the New Zealand equity market has delivered extraordinary returns to investors with the S&P/NZX50 Gross Index up almost 250% in that time (over 14% p.a.). This performance has been sponsored by a range of factors including accommodative global monetary policies, a recovery in economic growth, the support of Kiwisaver, a near insatiable appetite for our high-yielding stocks by offshore investors, and in more recent times the performance of growth stocks. Given these returns, some people could be forgiven for assuming that the opportunity set in our market was exhausted. While we acknowledge the length and strength of the bull market, we believe the reality is different to this.

Stock markets in general move in cycles, and within each cycle there are stages. These stages can be considered in a range of ways including how different investment philosophies and styles perform, but they can also simply be defined by the changing nature of where investment opportunities exist ... [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	2.5%	16.7%
S&P/ASX200G	AUSTRALIA	1.1%	9.6%
MSCI World Index	GLOBAL	1.1%	12.6%
S&P500	USA	3.1%	15.2%
FTSE100	UK	2.8%	6.3%
NIKKEI 225	JP	-1.2%	15.2%
NZ 90 Day Bank Bill	NZ	0.20%	2.0%



AT A
GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.7142

DEVON AUSTRALIAN FUND

\$1.4235

DEVON DIVIDEND YIELD FUND

\$1.8078

DEVON DIVERSIFIED INCOME FUND

\$1.5454

DEVON TRANS-TASMAN FUND

\$3.7428

GLOBAL THEMES FUND

\$2.8937

Prices as at 31 May 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.

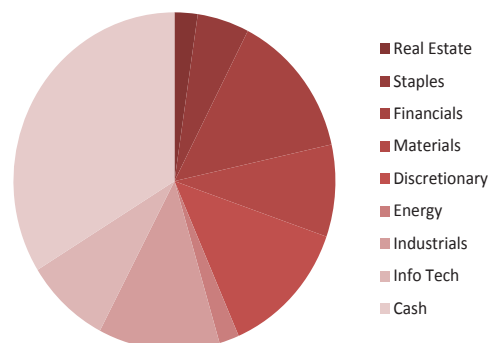
DEVON ALPHA FUND

We were very pleased with the performance of the Alpha strategy during May. Despite holding a large amount of cash, we were able to generate a strong absolute return and one that was also well in excess of what the Australasian markets achieved. There were a number of very positive contributors to this result including GTN which finished up 21.1% and Vista Group which closed the month 16.7% higher. Aristocrat Leisure was also a highlight, with its shares rallying 12.9% after the company announced a strong first-half result. Revenue for this business grew by 33.6% while its operating profit increased by 28.9%. This success was driven by record performances in their North American and ANZ operations while their Digital earnings were also notably impressive. We travelled to Australia a number of times during the month and are excited by some of the opportunities that we are currently researching.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	14.6%
Australian Equities	51.6%
Cash	33.8%
Total	100.0%
Currency Hedge	30.3%

PERFORMANCE

As At 31/05/2018

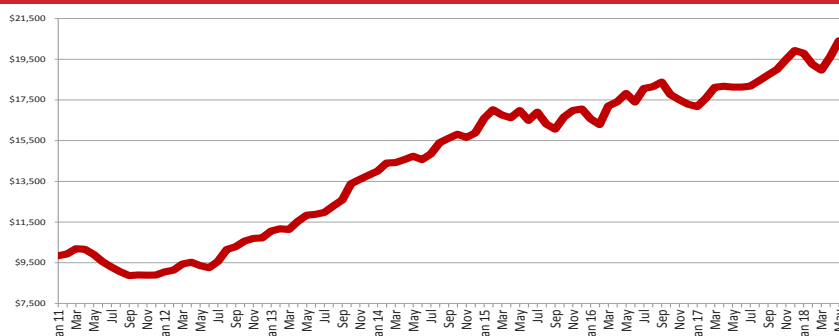
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	4.0%	6.0%	12.6%	6.0%	11.3%
OCR	0.1%	0.4%	1.7%	2.1%	2.5%

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.

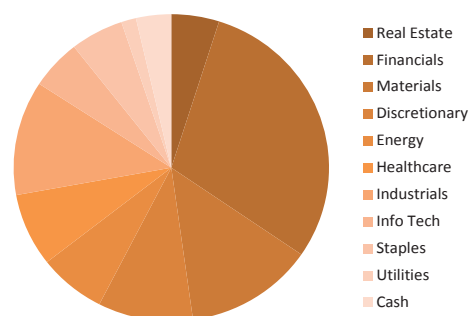
DEVON AUSTRALIAN FUND

May proved to be a very positive month for our Australian Fund with its returns comfortably above the performance of the Australian market. Across the Devon team there is a strong level of experience from investing in Australia over many years and we are pleased with the returns being delivered by many of our key holdings. Specifically during the month, this included great contributions from companies such as GTN whose shares rallied 21.1% and PWR Holdings, which continues to enjoy strong demand for its customised automotive cooling systems. Our exposure to BHP Billiton has also proven to be particularly favourable over the past couple of months as investors have recognised the positive impact that the recent rise in the oil price will have for the company. Expectations also remain high for a successful sale of BHP's US Shale assets and CEO, Andrew Mackenzie continues to highlight the productivity targets that the company is working to.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

Australian	91.2%
New Zealand	5.2%
Cash	3.6%
Total	100.0%
Currency Hedge	0.0%

PERFORMANCE

As At 31/05/2018

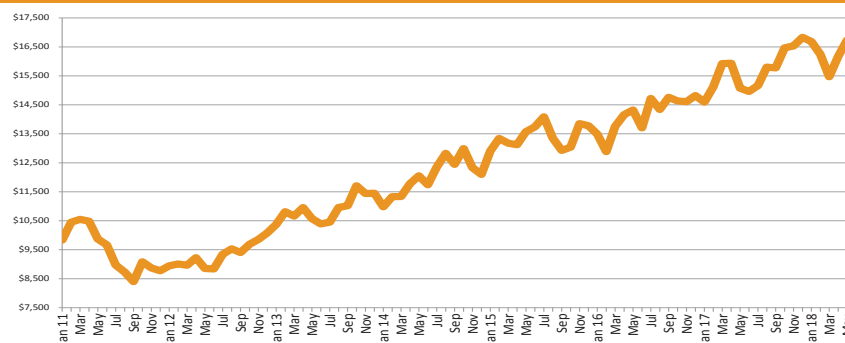
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	3.5%	3.0%	11.0%	7.2%	9.6%
ASX200 Index Gross (NZD)	1.8%	1.0%	12.7%	6.0%	6.4%

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



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 interest rates were volatile during the month with the yield on US 10-year Treasuries at one stage rallying to over 3.11%. They closed the month significantly lower than this, at 2.86%. This level of erratic pricing was a consequence of a range of international macro factors. The US Federal Reserve appears on track to lift the Fed Funds rate another three times this year in the face of improving economic conditions (note: their unemployment rate now sits at 3.9%) and yet elevated levels of geopolitical uncertainty (Italy, Spain and North Korea) have meant that demand for the perceived safety of US and German bonds have increased. This resulted in bond rates in these key markets falling towards month-end. In New Zealand the RBNZ delivered a reasonably dovish policy statement during May and kept interest rates on hold. Although domestic growth remains positive, inflation is still elusive.

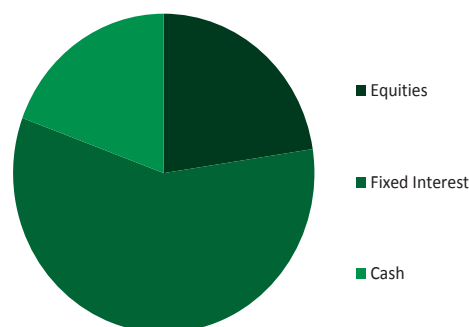
KEY HOLDINGS



GROWTH

NZ Equities	14.0%
AU Equities	8.5%

ASSET ALLOCATION



DEFENSIVE

Cash	19.5%
NZ Corporate Bonds	58.0%
NZ Government Bonds	0.0%

PERFORMANCE

As At 31/05/2018

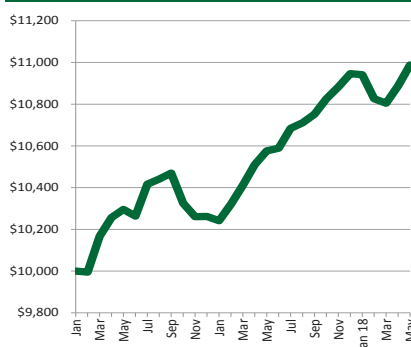
	1 Mth	3 Mth	1 Yr	2 Yr p.a
Devon Diversified Income Fund	0.9%	1.5%	3.8%	3.7%
OCR + 1.5%	0.3%	0.8%	3.3%	3.4%

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	\$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

In an environment where long-dated interest rates are moving in an erratic fashion, we continue to see strong demand for those stocks that offer investors a high and sustainable dividend yield. On the back of this, our Dividend Yield strategy during the month delivered good absolute and relative returns for its investors. There were many stocks which contributed to this, but highlights included Contact Energy which rallied 7.1% and Spark New Zealand which closed the month up 5.8%. Perhaps the most pleasing result though was the performance of Super Retail Group. Shares in this company closed 17.8% higher after its management provided an earnings update to the market. Across their major business, Supercheap Auto continues to perform well and Rebel Sport is building momentum. The recent acquisition of Macpac is progressing according to expectations and should contribute circa \$5m to Group profit in the balance of FY18.

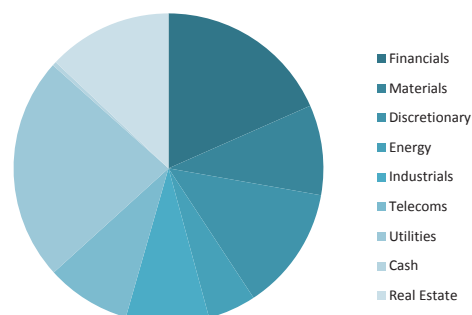
KEY HOLDINGS

Super Retail Group



Contact

ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	62.1%
Australian Equities	37.5%
Cash	0.4%
Total	100.0%
Currency Hedge	93.4%
Yield	7.05%

PERFORMANCE

As At 31/05/2018

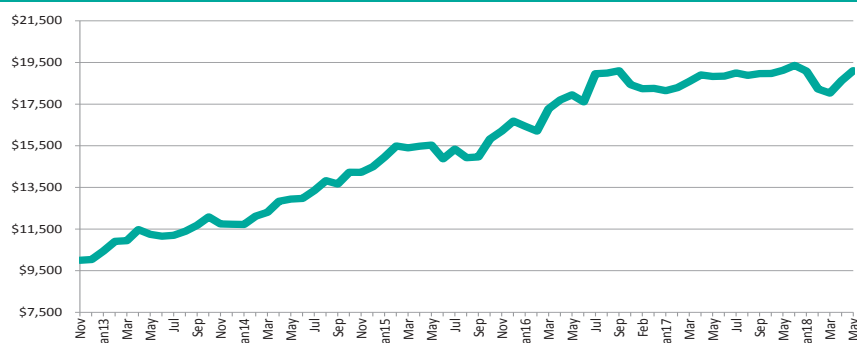
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	2.6%	4.9%	1.2%	7.1%	11.4%
TT Index (Hedged)	1.8%	2.2%	13.2%	10.0%	11.3%

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](#)

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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

This strategy generated strong returns for its investors during May and also pleasingly exceeded the performance of its benchmark. There were a number of important highlights which included some of our key overweight positions rallying strongly whilst we were also underweight a number of the worst performers, including a2Milk whose share price fell after the company downgraded their earnings. Impressive positive returns were generated by our investments in CSL and Vista Group whose shares closed up 9.1% and 16.7% respectively. CSL has been a great investment for the Trans-Tasman strategy over a number of years but recently its shares have been particularly strong given the success that the company is experiencing in the sales of its haemophilia product, Idelvion, and also due to the demand growth in its flu vaccine unit. On account of these positive drivers, CSL upgraded its earnings guidance during the month and now expects net profit in FY18 to be between US\$1.68 billion and US\$1.71 billion.

PORTFOLIO MANAGER

Tama Willis



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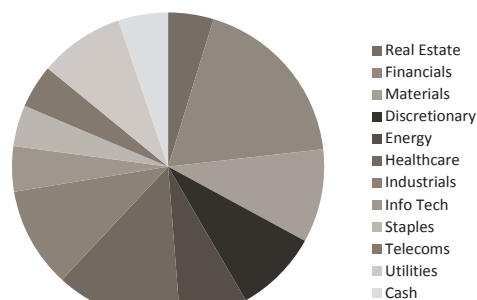
KEY HOLDINGS

VISTA
GROUP

bhpbilliton

CSL™

ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	45.0%
Australian Equities	49.8%
Cash	5.2%
Total	100.0%

PERFORMANCE

As At 31/05/2018

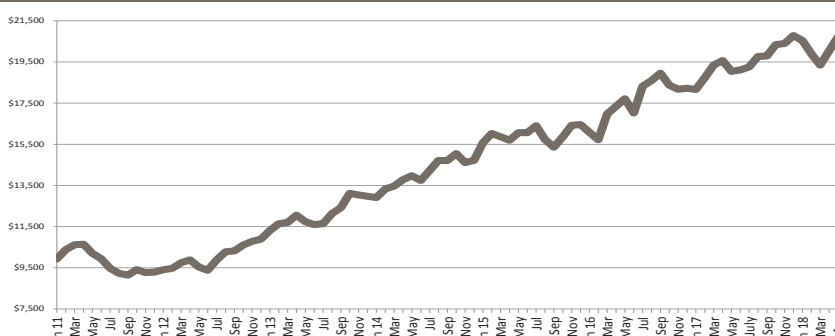
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	3.4%	4.1%	8.8%	7.8%	11.4%
Trans-Tasman Index Gross	2.2%	2.2%	14.7%	10.0%	10.2%

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

Geopolitics came back into the spotlight as the dominant theme during May. Markets found themselves having to contend with a fluid political situation in both Italy and Spain, an on again-off again meeting-to-end-all-meetings between President Trump and Kim Jong Un, the US backing out of the Iran nuclear deal, and last minute steel and aluminium tariffs imposed by the US on the EU, Canada and Mexico. Despite this, equities handled the month well, bar some late-month jitters over Italian political uncertainty (less interesting to us given our assessment of low EU break-up risk) and trade (more interesting to us insofar as it relates to the outcome of NAFTA negotiations).

Against this backdrop, we are happy with our current portfolio settings. Technology and medical devices were our best performing exposures during May, following a very strong earnings season for both sectors. Banks were volatile, benefitting from bond yields pushing through 3.1% earlier in the month but giving back much of this as bonds rallied back to ~2.8% on Italian political jitters. Banks still look particularly attractive to us given our rates view and further deregulation announced by the Trump administration.

European telcos gave back much of April's strong performance as bonds sold off. Our conviction remains and we continue to expect share prices to catch up to increasingly strong fundamentals. India also struggled during May – despite its strong growth profile, the fact that India is an emerging market in a rising rate/rising USD environment caught up with it. That said, our long-term conviction remains unchanged.

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.

tion remains unchanged.

Oil services' share prices continue to lag the rising oil price. Despite a challenging long-term outlook, we believe macro drivers will keep the oil price range-bound around current levels for some time yet. This bodes well for the ability of oil services companies to generate earnings growth, something we do not think is being adequately priced in. As such, we are looking at opportunities to increase our exposure to this sector.

Returns

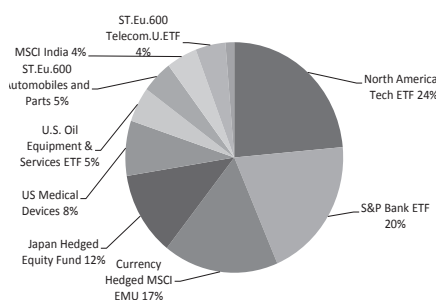
The Global Themes Fund rose 1.3% in May, finishing the month at a unit price of \$2.8937. This compares with a 0.8% rise in our global equity benchmark. Our fund has risen 10.9%

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).

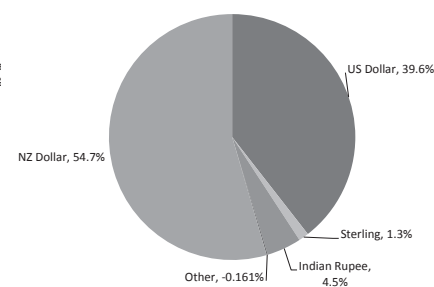
Currency exposures

The currency hedge level in the fund remains close to its benchmark weight of 50%. We have noted particular strength in the USD versus the EUR during the past month, which did not surprise us given monetary policy divergence between these two regions. We remain long US dollars in our themes, but may use current Euro weakness to lighten our USD exposure. Locally, we are keeping a close eye on immigration data as a leading indicator of any potential downturn and further NZD weakness.

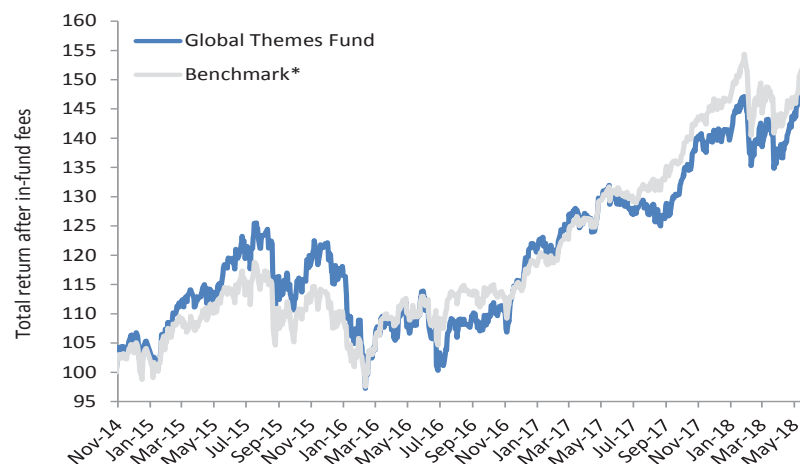
SECTOR ALLOCATION



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](#)