

MONTHLY REPORT: APRIL 2021

The changing landscape in China and its implications for iron ore

This month's commentary has been written by Devon Portfolio Manager, Tama Willis.

Recently I attended a UBS hosted virtual China Commodity Tour. In light of the observations that I had made back in a research note to you all in December 2020, I thought it would be useful to provide an update to those views given recent positive trends.

China is not only the world's second largest economy, it is also Australia's and New Zealand's largest trading partner (c. 30-40% of both countries' exports) and its economic performance influences investor sentiment in both economies. In recent times navigating a more assertive China under President Xi Jinping has been a key factor to monitor for investors in Australasian equities. China in particular has proven itself to be very effective at managing COVID-19, which allowed a strong recovery to develop. More recently the pace of vaccinations in China has picked up reaching 200 million shots with the government targeting 40% of the population by July...
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MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	1.4%	20.9%
S&P/ASX200G	AUSTRALIA	3.5%	30.8%
MSCI World Index	GLOBAL	4.7%	46.0%
S&P500	USA	5.3%	46.0%
FTSE100	UK	4.1%	22.2%
NIKKEI 225	JP	-1.3%	44.9%
NZ 90 Day Bank Bill NZ		0.0%	0.3%

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AT A GLANCE

Prices as at 30 April 2021

DEVON
ALPHA
FUND

\$2.0151

DEVON
AUSTRALIAN
FUND

\$1.5295

DEVON
DIVERSIFIED
INCOME
FUND

\$1.5479

DEVON
DIVIDEND
YIELD
FUND

\$1.8896

DEVON
TRANS-
TASMAN
FUND

\$4.4680

DEVON
SUSTAINABILITY
FUND

\$3.3291

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DEVON ALPHA FUND

FUND OUTLINE

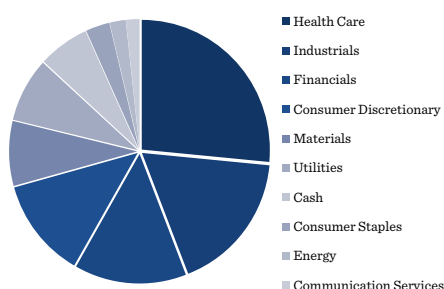
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	42.9%
Australian Equities	50.7%
Currency Hedge	66.7%

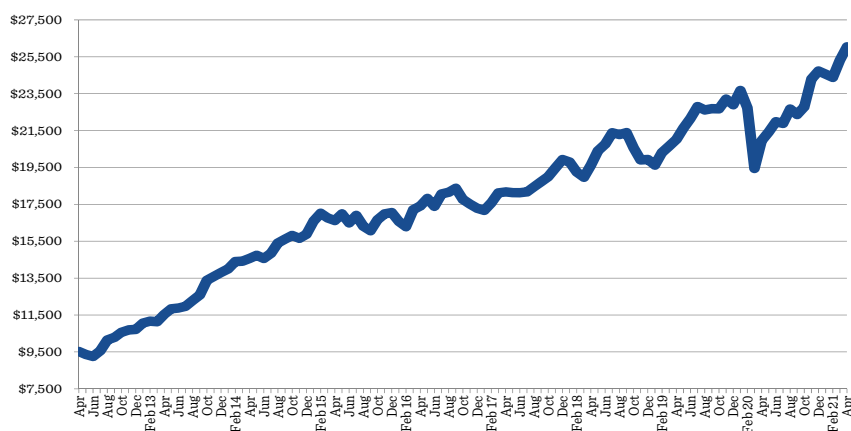
Cash	6.4%
Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Alpha Fund	2.8%	6.0%	24.3%	9.9%	8.2%	8.5%
OCR	0.0%	0.1%	0.3%	1.0%	1.3%	1.8%

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



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](#)

COMMENTARY

The Alpha strategy delivered strong positive returns during the month. Although this portfolio is managed with a focus on generating absolute performance, it is also worth noting that during April it also outperformed the S&P/NZX50 Index and the Trans-Tasman benchmark (a blend of both the S&P/NZX50 Index and the Australian S&P/ASX200 Index). There were a number of important contributors including Vista Group which rallied 11.4% and Macquarie Group whose share price rallied 5.0% but of particular note was our stake in Insurance Australia Group which finished 4.7% higher. This investment is a strong representation of our valuation style at Devon. We have monitored this business closely over the past 12-months while it faced a number of operational challenges surrounding their exposure to Covid-related Business Interruption claims, and additional margin pressures. The consequence of these issues was a period of underperformance which has resulted in good valuation support becoming evident. We believe many of their recent challenges have been resolved and the risk-return profile is now looking attractive.

PORTFOLIO MANAGER

Slade Robertson



Slade has primary responsibility for stock selection and portfolio construction for the Alpha and Diversified Income funds. Slade is also the Managing

Director at Devon and has overall responsibility for the business. Slade has over 20 years' industry experience.

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DEVON AUSTRALIAN FUND

FUND OUTLINE

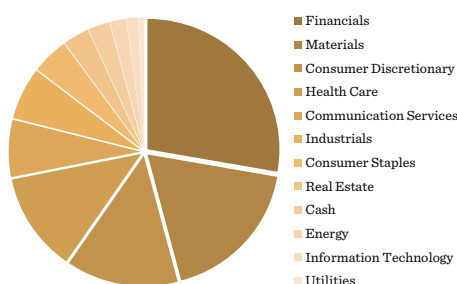
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

The Australian market is much larger than the New Zealand market and offers exposure to a number of sectors that are not available in New Zealand. The Australian dollar currency exposure of this Fund is typically unhedged.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	0.0%	Cash	2.7%
Australian Equities	97.3%	Total	100.0%

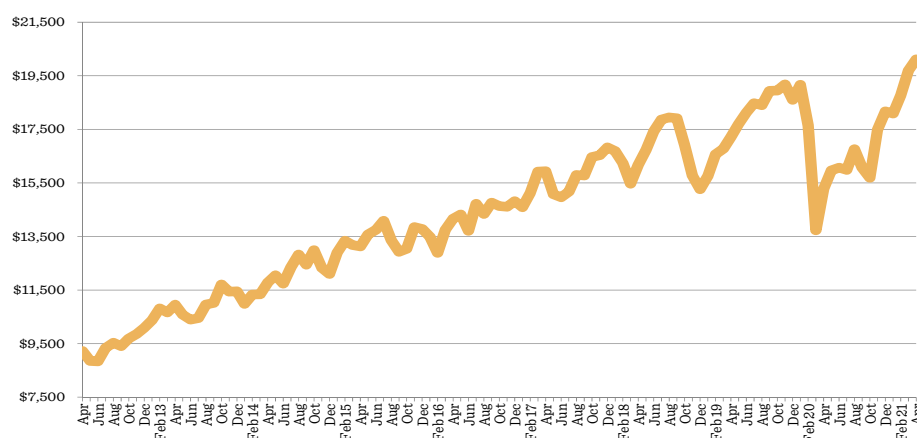
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Australian Fund	2.1%	11.2%	31.7%	7.5%	7.3%	7.9%
ASX200 Index Gross (NZD)	2.4%	8.8%	32.7%	9.7%	10.0%	7.9%

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



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](#)

COMMENTARY

The Australian Fund delivered a pleasing 2.1% return for the month. The positive contributors to the performance were the Resources names (Rio Tinto and Fortescue Metals), Seek and Sealink Travel which all outperformed. Seek (+9%) was a position we initiated in the Fund in March and since adding this position, it has delivered a 30% return. Seek is a leading online platform, providing a marketplace that connect employees and employers. It is benefitting from a recovering job market in Australia and a firming in their pricing strategy which is leading to yield improvement. Seek recently announced that they had reduced their stake in subsidiary, Zhoopin, and have changed their CEO which created a buying opportunity in the stock. Seek has multiple strategy levers to pull over the medium-to-long term which should support earnings growth. The Resource businesses that we own also continue to do well as commodity prices trend higher.

PORTFOLIO MANAGER

Victoria Harris



Victoria has primary responsibility for stock selection and portfolio construction for the Australian and Sustainability funds.

Victoria has over 10 years' experience in the industry across a broad range of markets, including ESG.

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DEVON DIVERSIFIED INCOME FUND

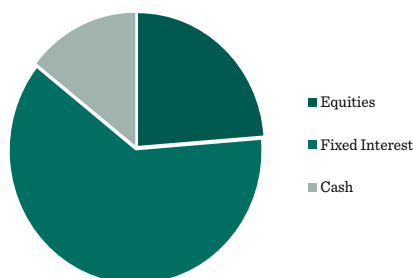
FUND OUTLINE

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.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	14.0%
Australian Equities	9.6%

Bonds	61.9%
Cash	14.5%

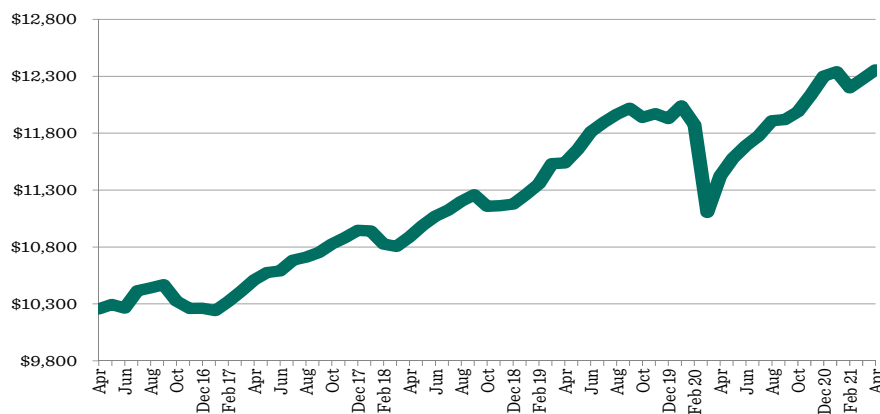
PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a	5 Yr p.a
Devon Diversified Income Fund	0.6%	0.1%	8.2%	3.5%	4.3%	4.0%
OCR + 1.5%	0.1%	0.4%	1.8%	2.2%	2.5%	2.9%

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



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](#)

COMMENTARY

Global bonds well relatively stable during the month with the yield on the US 10-year Treasury closing April at 1.6%. The US Federal Reserve announced their decision to maintain their supportive monetary policy settings by keeping short-term interest rates anchored at close to zero percent and continuing to buy at least \$120bn of bonds each month. Federal Reserve Chairman, Jerome Powell, noted that the US recovery is “uneven and far from complete”. He also acknowledged that inflation pressures could be evident in the coming months but felt that much of this will come from “one-time increases in prices but that these are likely to only have transitory effects on inflation”. In New Zealand the RBNZ follow the global lead and also left the Official Cash Rate unchanged at 0.25%. Although domestic activity levels are recovering, policy makers remain concerned over the volatility in the data and remain committed to their current stimulatory settings until local inflation can be sustained at above 2%.

PORTFOLIO MANAGER

Slade Robertson



Slade has primary responsibility for stock selection and portfolio construction for the Alpha and Diversified Income funds. Slade is also the Managing Director at Devon and has overall responsibility for the business. Slade has over 20 years' industry experience.

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DEVON DIVIDEND YIELD FUND

FUND OUTLINE

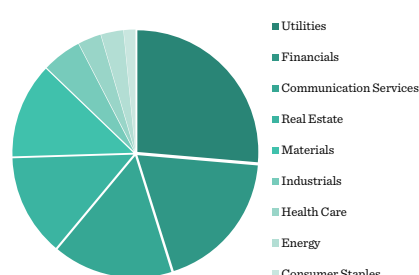
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	58.8%
Australian Equities	40.4%
Currency Hedge	95.6%

Cash	0.8%
Total	100.0%
Yield	5.6%

PERFORMANCE

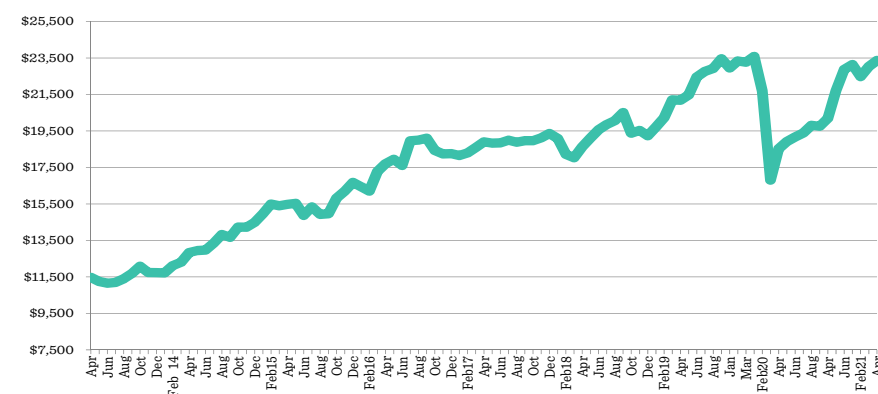
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Dividend Yield Fund	1.4%	1.0%	26.2%	7.8%	5.7%	9.1%
50:50 NZX50 & ASX200 Index Gross	2.4%	2.3%	25.8%	12.1%	11.8%	10.7%
Australasian Dividend Yield Index*	2.1%	1.9%	32.0%	10.0%	8.4%	8.3%

Devon Dividend Yield Fund returns are after all fees and expenses, but before tax which varies by investor.

*The Australasian Dividend Yield Index is provided for reference purposes only and is a composite yield index comprised of 50:50 S&P/NZX 50 High Dividend Index and the FTSE Australia High Dividend Yield Index.

NET PERFORMANCE

Based on \$10,000 invested at 1 January 2011



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](#)

COMMENTARY

Our investment in Suncorp performed well during the month (+6.2%) underpinned by firming bond rates and a consensus view that insurance trading margins will begin improving in the new year. The announcement that the company had sold its Australian Wealth business to LGIA super for an estimated \$45m, whilst small in its financial impact, generated further confidence that the company was continuing to simplify and focus on its core operations of banking and insurance.

The mining sector rebounded as iron ore prices strengthened with supply constraints and economic growth pushing prices to all-time highs. Our investments in RIO and FMG also rallied, finishing the month up 9.4% and 13.0% respectively. The mining sectors dividend projections continue to be upgraded with cash flows from higher commodity prices feeding through to increased yield expectations and the possibility of share buy backs.

The performance of the banking sector was mixed after a very strong performance period. Our investments in MQG (+5.0%) outperformed whilst NAB and ANZ underperformed for the month.

PORTFOLIO MANAGER

Mark Brown



Mark has primary responsibility for stock selection and portfolio construction for the Dividend Yield Fund and the New Zealand Equity fund. Mark is also responsible for overseeing the overall research and investment process at Devon.

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DEVON SUSTAINABILITY FUND

FUND OUTLINE

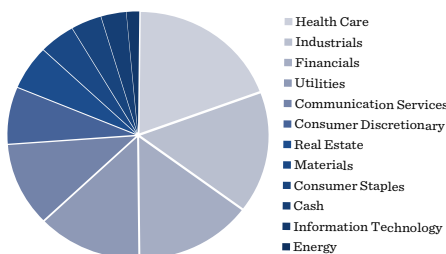
The **Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

The Fund looks to invest in companies that exhibit sustainable characteristics and those which demonstrate credible strategies to improve their outcomes with respect to ESG factors. The Fund also employs an ethical screen which will prohibit investment into certain companies and sectors.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	52.2%	Cash	3.2%
Australian Equities	44.7%	Total	100.0%

PERFORMANCE

	1 Mth	3 Mth	6Mth	1 Yr p.a	2 Yr p.a
Devon Sustainability Fund	1.7%	2.3%	14.9%	-	-
50:50 NZX50 Portfolio Index & ASX200 Index*	2.1%	2.6%	15.0%	-	-

*The Sustainability Index is provided for reference purposes only and is a composite index comprised of 50:50 S&P/NZX50 Portfolio Index & S&P/ASX200 Index.

Devon Sustainability Fund returns are after all fees and expenses, but before tax which varies by investor.

COMMENTARY

The Sustainability Fund delivered a pleasing 1.7% return for the month. The most noteworthy contributors to the performance were the renewable electricity businesses (Contact Energy +7.6% and Mercury +6.8%), Fisher & Paykel Healthcare (+12.0%) and ResMed (+3.6%). Fisher & Paykel has benefitted from a significant pull-forward in demand for its ventilation hardware. It is expanding this strong core offering by driving the adoption of its therapies in the hospital and homecare markets, which should support solid medium-term growth. COVID-19 has significantly supported this dynamic and has ultimately resulted in a multi-year pull-forward in demand. Looking forward, earnings are expected to normalise as hospitalisation activity levels normalise, however, Fisher & Paykel is a high-quality company with strong long-term prospects. The Fund continues to be overweight the New Zealand renewable generation companies and we remain optimistic about their medium-term prospects.

PORTFOLIO MANAGER

Victoria Harris



Victoria has primary responsibility for stock selection and portfolio construction for the Australian and Sustainability funds.

Victoria has over 10 years' experience in the industry across a broad range of markets, including ESG.

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DEVON TRANS-TASMAN FUND

FUND OUTLINE

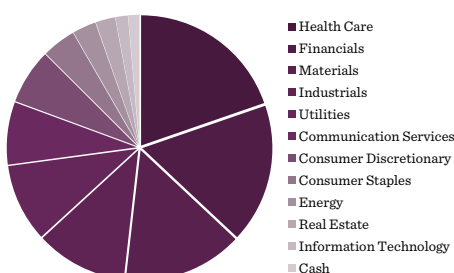
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

This Fund invests in a select portfolio of well researched companies, which are primarily New Zealand and Australian listed companies. The Australian dollar currency exposure is typically unhedged.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	48.1%
Australian Equities	50.5%

Cash	1.4%
Total	100.0%

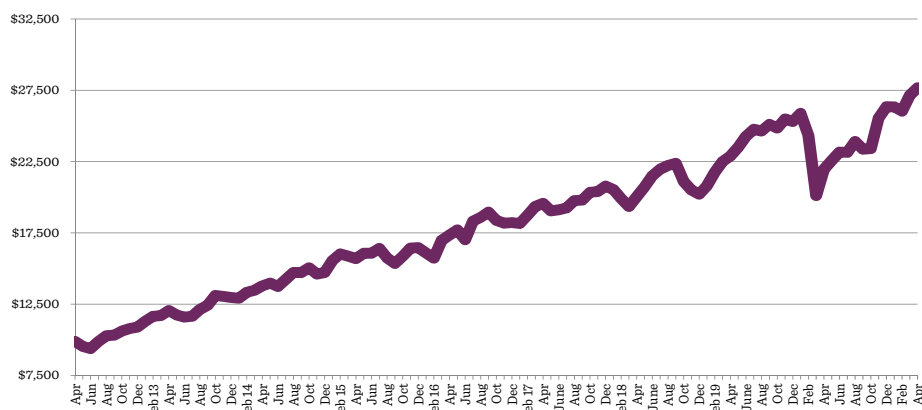
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Trans-Tasman Fund	2.0%	5.1%	25.7%	11.3%	9.1%	10.0%
Trans-Tasman Index Gross	1.9%	2.9%	26.8%	12.2%	11.6%	10.7%

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](#)

COMMENTARY

This strategy performed broadly in line with its benchmark over the month. Positive contributions came from our investments in the Mining sector with BHP Billiton and Rio Tinto rallying 6.2% and 9.4% respectively. The share prices of these companies progressed as the iron ore price touched a new record high of almost \$195/t on strong demand, robust steel prices and with pollution-based production controls in key producing regions in China.

Kathmandu also performed strongly over the month with the opening of the Trans-Tasman bubble, ahead of the key winter trading period, providing a positive boost for the business. Their recent full-year result highlighted a strong contribution from Rip Curl with the traditional Kathmandu business struggling due to lock-downs and a lack of travel-related spend. We believe that this investment is supported by an attractive valuation and a normalisation of travel should support earnings over the next 18-months.

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. Tama holds co-responsibility for Devon's Trans-Tasman Funds. Tama is widely regarded as a leading expert on resource and mining stocks.

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