

MONTHLY REPORT: JUNE 2020

The Hunt for Yield

I have recently taken over the portfolio management responsibilities for the Devon Dividend Yield strategy. As Devon's Chief Investment Officer, I have always closely monitored the investment opportunities that existed in this space, but during the past month I have enjoyed the challenges that exist in building a portfolio of stocks which offers our investors a superior and sustainable income stream.

Financial markets around the world are at a fascinating juncture. As governments and businesses navigate the challenges of surviving COVID-19, stock markets have recovered strongly. Interestingly, at this point, "growth" stocks have substantially outperformed both "value" and "high dividend" stocks. Usually during a market correction value (cheaper) stocks and defensive high yielding stocks will perform better than low dividend but higher growth stocks (which tend to be more expensive). This cycle, so far, has been entirely different with large growth company stock prices materially outperforming. The reasons for this are less clear but may have something to do with the amount of retail interest in shares (where investors tend to buy good investment stories rather than worrying about valuations) and also passive index buying which favours larger companies...[READ MORE](#)

Devon Online Investor Portal

Visit devonfunds.co.nz

Track your portfolio's value, download historical data & access documentation.

MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	5.2%	9.0%
S&P/ASX200G	AUSTRALIA	2.6%	-7.7%
MSCI World Index	GLOBAL	2.7%	3.4%
S&P500	USA	2.0%	7.5%
FTSE100	UK	1.7%	-13.8%
NIKKEI 225	JP	2.0%	7.0%
NZ 90 Day Bank Bill NZ		0.0%	1.0%

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AT A GLANCE

Prices as at 30 June 2020

DEVON
ALPHA
FUND

\$1.7449

DEVON
AUSTRALIAN
FUND

\$1.2673

DEVON
DIVERSIFIED
INCOME
FUND

\$1.5228

DEVON
DIVIDEND
YIELD
FUND

\$1.6411

DEVON
TRANS-
TASMAN
FUND

\$ 3.8803

GLOBAL
THEMES
FUND

\$2.8325

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DEVON ALPHA FUND

FUND OUTLINE

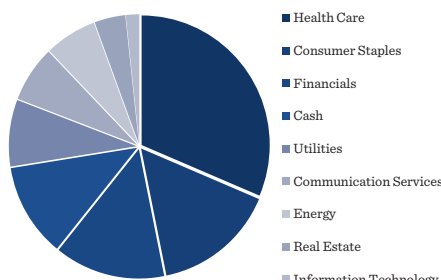
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	48.6%
Australian Equities	39.7%
Currency Hedge	29.9%

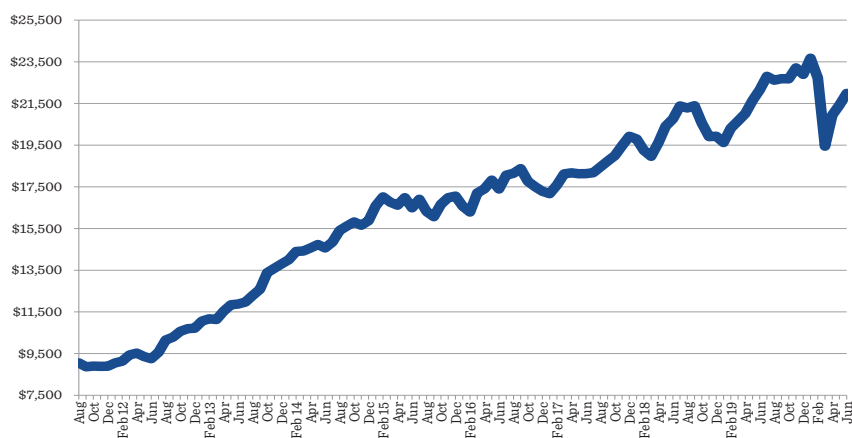
Cash	11.7%
Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Alpha Fund	2.6%	13.0%	-0.8%	6.6%	5.7%	9.0%
OCR	0.0%	0.1%	0.8%	1.4%	1.8%	2.1%

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

This strategy generated a solid positive return for its investors during the month. The most significant highlight was the performance of our investment in Fisher and Paykel Healthcare. This stock rallied more the 17% in June after it reported an extremely strong FY20 result. The company generated a profit of \$287m during the year, which was comfortably ahead of their recent guidance and the consensus expectations within the market. This business has been, and continues to be, well positioned to leverage off the COVID-19 pandemic as demand for their respiratory therapies increases at an unprecedented rate. Hospital demand for their Optiflow nasal high flow therapy, in particular, supported revenue growth as practitioners identified the benefits of its use in reducing patient intubation rates. The current cash weighting in this strategy is almost 10%, but we would anticipate this money being invested over the next month as opportunities present themselves.

PORTFOLIO MANAGER

Slade Robertson



Slade has primary responsibility for stock selection and portfolio construction for the Alpha fund. 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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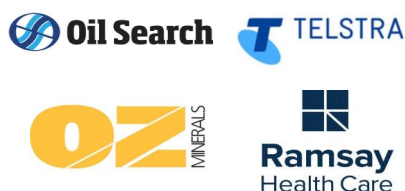
DEVON AUSTRALIAN FUND

FUND OUTLINE

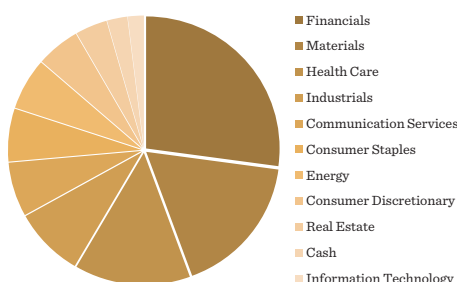
The **Australian Fund** is actively managed and invests in a select portfolio of approximately 25 to 35 companies which are primarily Australian listed companies

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.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	1.9%	Cash	2.4%
Australian Equities	95.6%	Total	100.0%

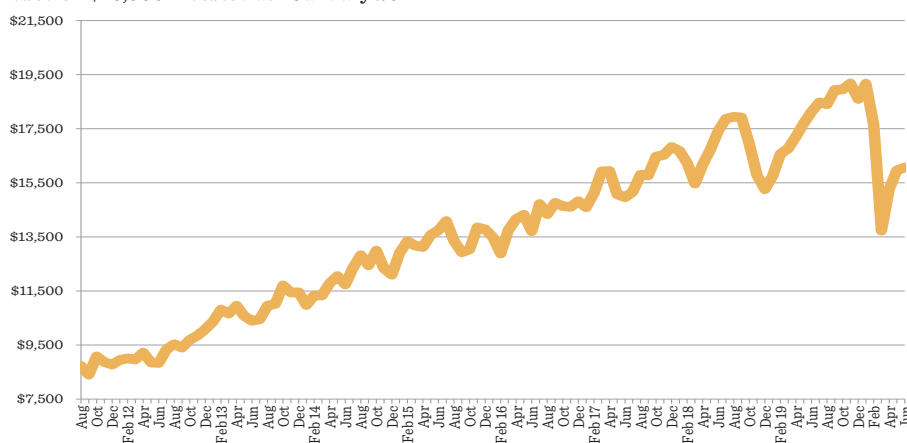
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Australian Fund	0.6%	17.0%	-11.3%	2.4%	3.2%	6.4%
ASX200 Index Gross (NZD)	2.4%	20.7%	-5.5%	5.9%	4.7%	5.9%

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

We recently reduced the Portfolio's underweight position in the Australian Banks as valuations became increasingly attractive and signs continue to suggest that the policy stimulus in Australia is helping to avoid "worse case" scenarios for the housing markets and business conditions. Our preferred exposure in this sector is National Australia Bank (NAB). After raising A\$4.25bn through a recent equity raise NAB has moved to the top of the pack in terms of bank capital ratios while reports of a potential sale of their wealth business (as highlighted in the AFR) could add further to this position. NAB management quality has improved in recent years under CEO, Ross McEwan. The Fund underperformed its benchmark over the month due to the continued underperformance of Value stocks relative to Growth stocks and due to our overweight position in the Energy sector.

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.

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DEVON DIVERSIFIED INCOME FUND

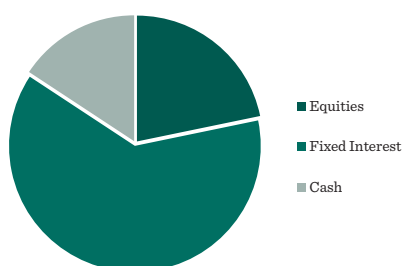
FUND OUTLINE

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	12.2%
Australian Equities	9.2%

Bonds	62.5%
Cash	16.1%

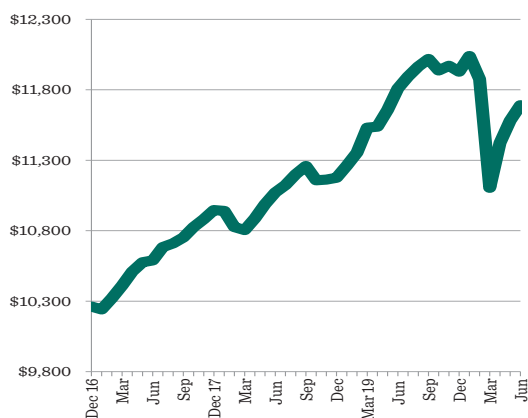
PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Diversified Income Fund	0.9%	5.3%	-1.0%	2.8%	3.3%
OCR + 1.5%	0.1%	0.4%	2.4%	2.8%	3.0%

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

Although global bond rates finished the month broadly in-line with where they were in late May, there was a high level of pricing volatility during June. There were a number of economic data releases which were surprisingly strong as consumers and businesses looked to normalise their activities more quickly than expected. A good example of this was the US May unemployment rate which fell to 13.3% as more new jobs were created, than had been anticipated. Unfortunately, despite this positive news there has also been a notable lift in the US COVID infection numbers, with states such as California, Texas and Florida reporting record numbers. In New Zealand the RBNZ left the Official Cash Rate (0.25%), and their quantitative easing programme, unchanged. Governor Orr identified that domestic activity had resumed more quickly than had been anticipated but highlighted that economic challenges remain.

PORTFOLIO MANAGER

Slade Robertson



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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.

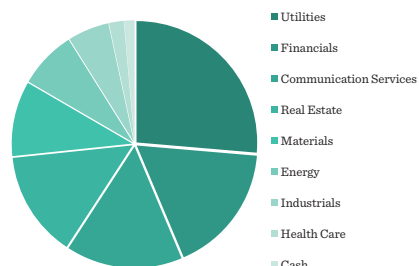
These stocks are chosen for their attractive dividend yields and growth prospects with the aim of maintaining the dividend yield and capital value in real terms. The Australian dollar currency exposure is typically fully hedged.

KEY HOLDINGS



Incitec Pivot Limited

ASSET ALLOCATION



ALLOCATION

New Zealand Equities	56.2%
Australian Equities	42.4%
Currency Hedge	96.6%

Cash	1.4%
Total	100.0%
Yield	3.0%

PERFORMANCE

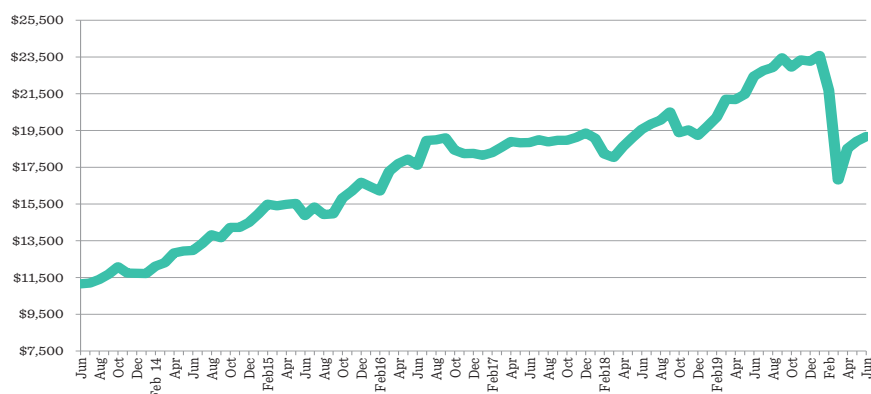
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Dividend Yield Fund	1.3%	14.0%	-14.6%	0.5%	5.2%	8.2%
TT Index (Hedged)	3.9%	16.7%	0.7%	9.9%	10.4%	11.0%
Australasian Dividend Yield Index*	2.4%	14.8%	-14.0%	2.1%	5.0%	7.2%

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



<https://devonfunds.co.nz/dividend-yield-fund> or by clicking [HERE](#)

COMMENTARY

The Dividend Yield Fund continued to improve over June, helped by the strong performance of a number of our more growth orientated stocks which have been less directly impacted by the Covid-19 restrictions. Notwithstanding this point, Stride Property was our best performing investment over the month. Key to this performance rested with the company's deleveraged balance sheet and its affirmation of FY21's dividend at 9.91cps, which is consistent with FY20. The company continues to reduce gearing and develop its funds management business, with its latest fund seeded by JP Morgan helping to reduce gearing to a 17%. Another strong performer was Macquarie Group, a global investment bank with an extensive range of operations. A key attraction is the Group's ability to switch its emphasis between annuity-style and market-facing operations to suit changing financial conditions and optimise returns.

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 TRANS-TASMAN FUND

FUND OUTLINE

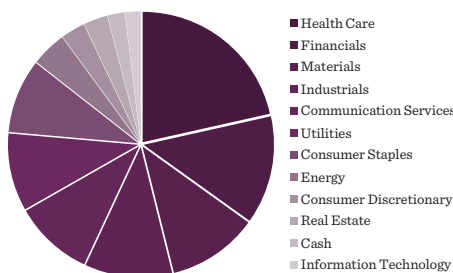
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the NZ and Australian equity markets.

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.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	52.3%	Cash	2.2%
Australian Equities	45.5%	Total	100.0%

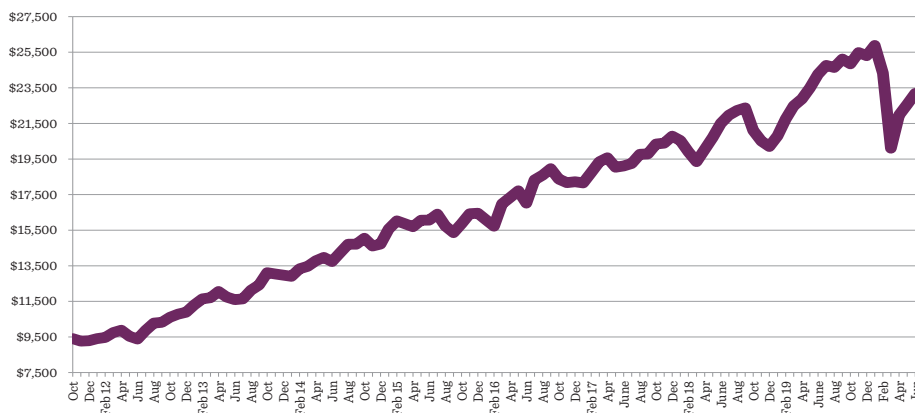
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Trans-Tasman Fund	2.6%	15.2%	-4.5%	6.6%	6.9%	9.9%
Trans-Tasman Index Gross	3.8%	18.8%	1.8%	10.3%	9.8%	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



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

Metlifecare, Fisher & Paykel Healthcare, Coles and Genesis Energy were key contributors to performance over the month. Metlifecare closed up 23% after their Board called on shareholders to support the commencement of litigation aimed at forcing Asia Pacific Village Group Limited (APVG) to follow through with their original \$7 per share offer. Fisher & Paykel Healthcare also rallied after reporting profit up 37% in FY20 due to robust demand for their hospital products. This trend continued in the first quarter of FY21 with revenue growth of +55%. The key detractors for this portfolio over the month included the continued underperformance of Value stocks relative to Growth stocks and our investment in Oil Search which retraced due to weakness in crude oil markets. We continue to see a higher Brent oil price over the next 12-months as economies reopen supporting oil demand.

PORTFOLIO MANAGER

Tama Willis



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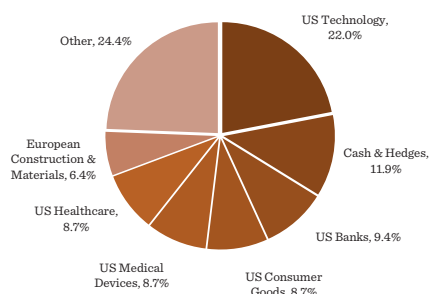


DEVON GLOBAL THEMES FUND

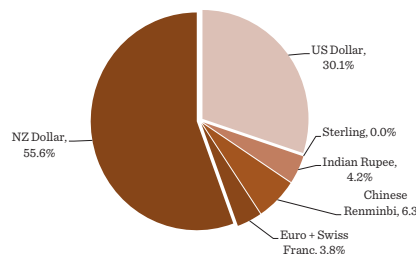
FUND OUTLINE

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.

SECTOR ALLOCATION



CURRENCY EXPOSURE



PERFORMANCE

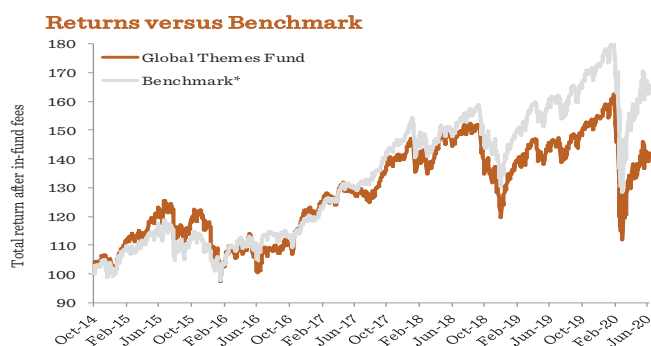
	1 Mth	3 Mth	1 Yr	3 Yr p.a
Global Themes Fund	0.7%	13.6%	-1.3%	3.8%
I-Shares All Country WI	0.9%	14.2%	4.1%	8.6%

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

*Benchmark is 50% hedged to NZD

NET PERFORMANCE

Based on \$10,000 invested at October 2014



* iShares MSCI All Country World Index ETF, 50% hedged to NZD
Source: Datastream, IRESS, JBWere Investment Strategy Group

PORTFOLIO MANAGERS Andrew Thompson, Philip Borkin & Hayden Griffiths.

Andrew joined JBWere's Investment Strategy Group at the start of 2016, with a focus on global strategy and global equity portfolio management.

Philip brings more than a decade worth of experience working alongside respected industry participants in roles which encompass economics and strategy.

Hayden joined JBWere in 1996 and has over 20 years experience working in financial markets as a quantitative analyst in investment research.

NOTE: Further information on the Global Themes Fund can be found in our Quarterly Fund Updates by visiting <https://devonfunds.co.nz/global-themes-fund> or by clicking [HERE](#)

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COMMENTARY

What we own and why we own it

As previously communicated, a review of Devon's investment offerings was commenced early this year and, as a consequence, the difficult decision was made to wind up the Global Themes Fund, by 31 July 2020 at the latest. We really appreciate your support of the Global Themes Fund, and would like to thank you again for choosing the Fund as part of your investment solution.

Inexplicably, despite everything going on in the world, the June quarter finished, at least in the US, as the best quarter since 1998 (S&P 500), and 1987 (Dow Jones). For Europe (Stoxx 600), it was the best quarter in five years. While obviously a good story for investors, it does leave a question mark over the path forward. With virus cases still rising in much of the world, geopolitical tensions and a looming US election, equity investors are clearing looking through it all and banking on a swift recovery. While we don't see GFC 2.0, we continue to suspect investors are being overly optimistic here, and believe an element of caution is still warranted in the short term. Longer term, however, we remain broadly constructive on equities.

Our currency exposures

The currency hedge level in the fund remains at its benchmark weight of 50%. We continue to closely monitor local economic data as it comes in, and movements in the currencies of our key trading partners, against the appropriateness of the currency hedge level.

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