

MONTHLY REPORT: MARCH 2020

Eye on the Market: A COVID-19 Update

Markets such as these can be incredibly challenging for investors to navigate. To give you just one example from our local exchange in March, the broad S&P/NZX50 index returned -13%, but that return falls quite significantly to -20.6% if you take out the returns of just two stocks (Fisher & Paykel and a2 Milk). In this month's interest piece, our Managing Director Slade Robertson revisits other major market events from his career to see what lessons can be applied to the current situation:

I remember clearly where I was the day that the World Trade Centre was attacked in September 2001. It was one of those days that you never forget, particularly as the graphic images screened live on TV sets all over the world. At the time I was working in Sydney for a funds management firm. Common consensus at the time was that the world as we knew it would never be the same again. Media headlines questioned whether we were destined for war, asked if people would fly again, and raised concerns about trade and the global economy. Planes were grounded in many places, borders were being shut and financial markets went into a tailspin because we simply did not have the answers to those questions...[READ MORE](#)

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MARKET INDICES

| Index | Region | Monthly Return | 1 Yr. Return |
|------------------------|-----------|----------------|--------------|
| S&P/NZX50G | NZ | -13.0% | -0.5% |
| S&P/ASX200G | AUSTRALIA | -20.7% | -14.4% |
| MSCI World Index | GLOBAL | -12.3% | -9.0% |
| S&P500 | USA | -12.4% | -7.0% |
| FTSE100 | UK | -13.4% | -18.4% |
| NIKKEI 225 | JP | -9.7% | -8.8% |
| NZ 90 Day Bank Bill NZ | | 0.1% | 1.3% |

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AT A GLANCE

Prices as at 31 March 2020

| | |
|-------------------------------|-----------|
| DEVON ALPHA FUND | \$1.5671 |
| DEVON AUSTRALIAN FUND | \$1.1065 |
| DEVON DIVERSIFIED INCOME FUND | \$1.4611 |
| DEVON DIVIDEND YIELD FUND | \$1.4638 |
| DEVON TRANS-TASMAN FUND | \$ 3.4371 |
| GLOBAL THEMES FUND | \$2.4936 |

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DEVON ALPHA FUND

FUND OUTLINE

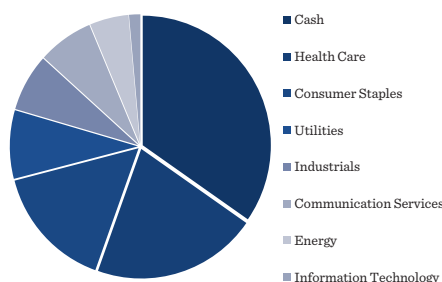
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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 | 35.7% |
| Australian Equities | 29.6% |
| Currency Hedge | 30.7% |

| | |
|-------|--------|
| Cash | 34.7% |
| Total | 100.0% |

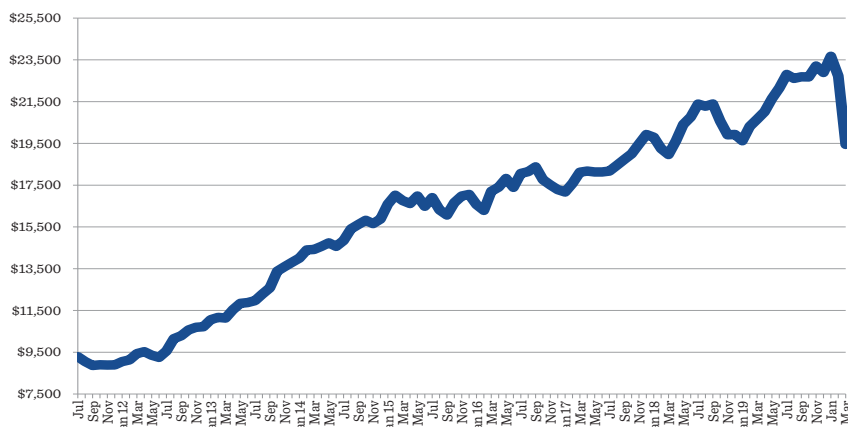
PERFORMANCE

| | 1 Mth | 3 Mth | 1 Yr | 3 Yr p.a | 5 Yr p.a | 7 Yr p.a |
|------------------|--------|--------|-------|----------|----------|----------|
| Devon Alpha Fund | -14.4% | -15.1% | -5.8% | 2.4% | 2.8% | 8.1% |
| OCR | 0.1% | 0.2% | 1.2% | 1.6% | 1.9% | 2.2% |

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

There are a number of advantages that exist within this strategy, but the most important is its ability to react quickly to investment opportunities. During the month as evidence began to mount of a significant economic disruption from the coronavirus, steps were taken to minimise the level of direct exposure that we had to those sectors which were most likely to be impacted. Stocks such as Aristocrat Leisure and James Hardie were sold. This resulted in an increase in our cash weighting. Returns were not insulated from the fall in the New Zealand and Australian stock markets given that the selling was somewhat indiscriminate, but we are very happy with the current portfolio. We expect market volatility to continue over the next few months and believe we are well positioned to invest our cash when opportunities present themselves. These will come through good quality companies being priced below their long-term value and via capital raisings, as businesses strengthen their balance sheets.

Please note from 1 April 2020, Slade Robertson, the Devon Managing Director, has taken over as portfolio manager for the Alpha Fund.

PORTFOLIO MANAGER

Mark Brown



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

Prior to joining Devon, Mark was the Australasian Head of Equities at ANZ New Zealand Investments.

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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

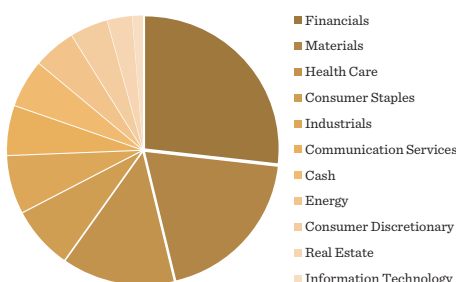
The Australian market is much larger than the NZ market and offers exposure to a number of sectors that are not available in NZ. The Australian dollar currency exposure of this Fund is typically unhedged.

KEY HOLDINGS

Brambles



ASSET ALLOCATION



ALLOCATION

| | | | |
|----------------------|-------|-------|--------|
| New Zealand Equities | 1.3% | Cash | 5.8% |
| Australian Equities | 92.9% | Total | 100.0% |

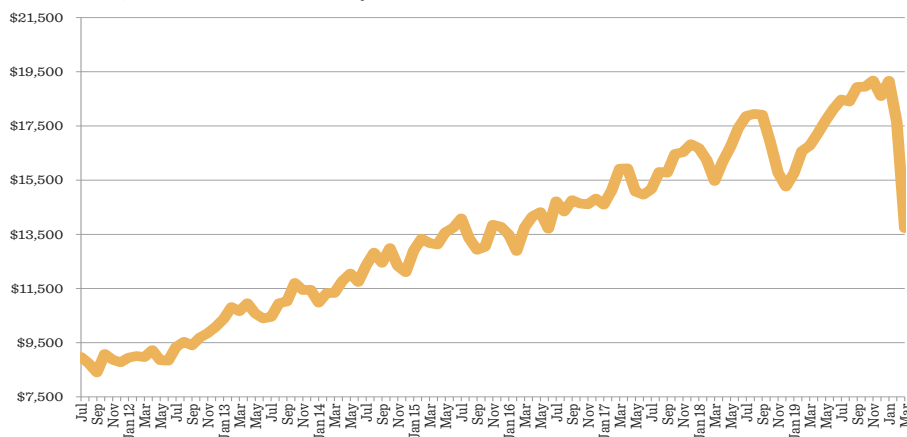
PERFORMANCE

| | 1 Mth | 3 Mth | 1 Yr | 3 Yr p.a | 5 Yr p.a | 7 Yr p.a |
|--------------------------|--------|--------|--------|----------|----------|----------|
| Devon Australian Fund | -22.2% | -26.2% | -18.2% | -4.8% | 0.8% | 3.7% |
| ASX200 Index Gross (NZD) | -21.2% | -23.8% | -15.2% | -2.4% | 1.7% | 2.0% |

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

March was a particularly challenging month for the S&P/ASX 200 Accumulation Index which fell sharply as the Australian economy gradually went into lock-down. Within our portfolio positive contributions were made by our investments in Coles, Rio Tinto and CSL while Oil Search, Scentre Group and Aristocrat Leisure were detractors. This recent correction in the market has opened up a range of opportunities for us to invest, including adding to our key holdings such as CSL, Atlas Arteria, Brambles and Macquarie. Despite this we are retaining a reasonable cash weighting in order for us to participate in potential capital raisings over the coming months. CSL substantially outperformed the Australian market in March and is up 55% over the past 12 months. This business is continuing to see strong demand for their products during the current health crisis, with potential upside to their flu vaccination business as one example.

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

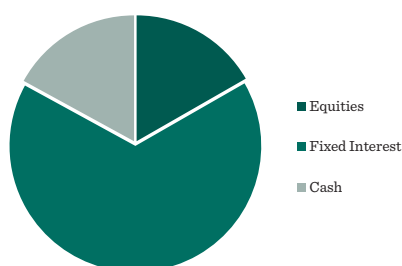
FUND OUTLINE

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 | 10.1% | Bonds | 65.9% |
| Australian Equities | 6.4% | Cash | 17.6% |

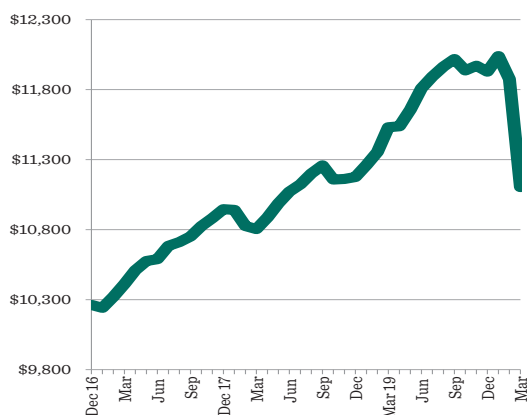
PERFORMANCE

| | 1 Mth | 3 Mth | 1 Yr | 2 Yr p.a | 3 Yr p.a |
|-------------------------------|-------|-------|-------|----------|----------|
| Devon Diversified Income Fund | -6.5% | -6.9% | -3.7% | 1.4% | 2.2% |
| OCR + 1.5% | 0.2% | 0.6% | 2.7% | 3.0% | 3.1% |

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

During the month interest rates were extremely volatile. As governments looked to control the spread of COVID-19, central banks engaged in a co-ordinated strategy to provide liquidity and confidence to the global financial system. Most central banks slashed their interest rates, and many also restarted their quantitative easing programs. This included the US Federal Reserve who essentially committed to providing as much support as needed to prevent a global credit crunch. This program is being called QE Infinity and it will ensure that, together with the massive government spending initiatives also announced over the past few weeks, the global economy will survive its current challenges. This portfolio suffered negative returns during the month, which will happen during significant market downturns due to the exposure that we have to high dividend yielding stocks. We remain confident in the longer-term fundamentals of these companies.

PORTFOLIO MANAGER

Nick Dravitzki



Over the last decade Nick has specialised in investing in high yield equities and is Portfolio manager for the Devon 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.

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DEVON DIVIDEND YIELD FUND

FUND OUTLINE

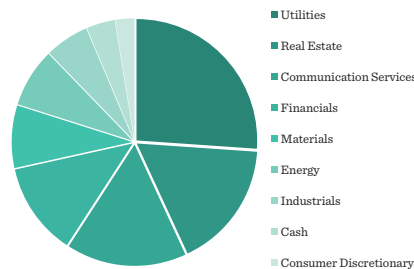
The **Devon Dividend Yield Fund** consists of a select group of up to 25-35 New Zealand and Australian listed companies.

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



ASSET ALLOCATION



ALLOCATION

| | |
|----------------------|-------|
| New Zealand Equities | 58.8% |
| Australian Equities | 37.4% |
| Currency Hedge | 99.8% |

| | |
|-------|--------|
| Cash | 3.8% |
| Total | 100.0% |
| Yield | 5.1% |

PERFORMANCE

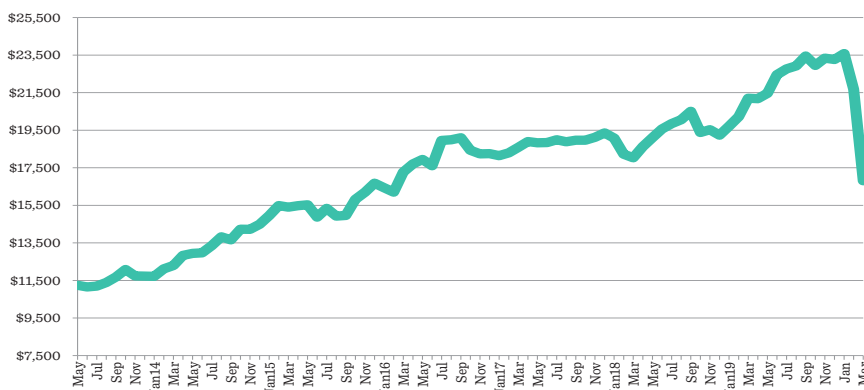
| | 1 Mth | 3 Mth | 1 Yr | 3 Yr p.a | 5 Yr p.a | 7 Yr p.a |
|------------------------------------|--------|--------|--------|----------|----------|----------|
| Devon Dividend Yield Fund | -22.5% | -27.7% | -20.7% | -3.4% | 1.7% | 6.5% |
| TT Index (Hedged) | -16.8% | -18.9% | -7.5% | 5.1% | 6.2% | 8.4% |
| Australasian Dividend Yield Index* | -21.2% | -25.2% | -18.1% | -1.8% | 1.2% | 4.9% |

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

March was a very challenging month for the Dividend Yield Fund. Markets generally fell sharply but the strong performance of a2 Milk and Fisher & Paykel Healthcare (companies that do not pay meaningful dividends) meant that the higher yielding portion of the market materially underperformed. While the New Zealand market overall was down -13%, its performance excluding Fisher & Paykel Healthcare and a2 Milk was -20.6%. The aggressive action taken by Governments to control COVID-19 has seen business revenues fall sharply (often near to zero), and management and boards have reacted to preserve cash as quickly as they can. Already we have seen many companies across New Zealand and Australia withdraw guidance and suspend or cancel dividends. The vast majority of the holdings in the Dividend Yield Fund will continue to pay dividends in line with prior expectations, but some have reduced or postponed dividends, and others are likely to in the near future. Nevertheless, the portfolio will continue to generate a very attractive dividend stream. Solid performers over the month included Chorus and Spark.

PORTFOLIO MANAGER

Nick Dravitzki



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DEVON TRANS-TASMAN FUND

FUND OUTLINE

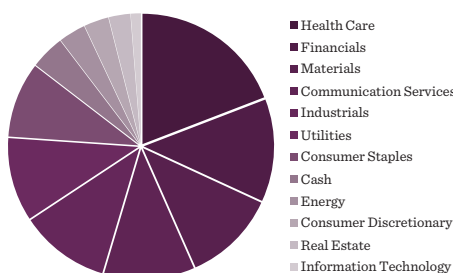
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the NZ and Australian equity markets.

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 | 50.9% |
| Australian Equities | 44.9% |

| | |
|-------|--------|
| Cash | 4.2% |
| 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 | -17.4% | -20.5% | -10.6% | 1.3% | 4.2% | 7.6% |
| Trans-Tasman Index Gross | -17.1% | -19.3% | -7.8% | 4.2% | 6.3% | 7.0% |

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

The Trans-Tasman Fund performed broadly in line with its underlying benchmark in March in what was one of the most volatile months in recent memory. Fund holdings Fisher & Paykel Healthcare, Coles, a2 Milk and Chorus generated positive performances, while businesses including Vista Group and Scentre Group were particularly hard hit. In recent months we've exited a number of investments that would have faced material risks from COVID-19, including Kathmandu and Air New Zealand, and we expect that our current portfolio holdings will recover well as economies re-open. During the month Ramsay Healthcare (RHC) was added to the portfolio. Ramsay is a private hospital provider with facilities in Australia, Europe, the UK and Asia. Recent share price weakness was linked to concerns around elective surgery volumes during the shutdowns, and this has created an opportunity for us to buy this high-quality business at a discount to its fair value.

PORTFOLIO MANAGER

Tama Willis



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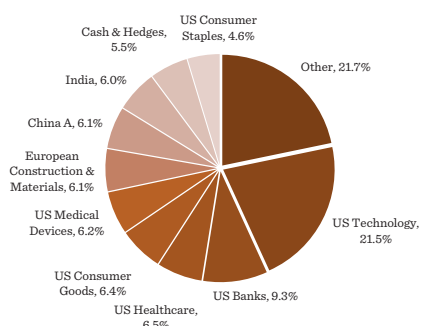


DEVON GLOBAL THEMES FUND

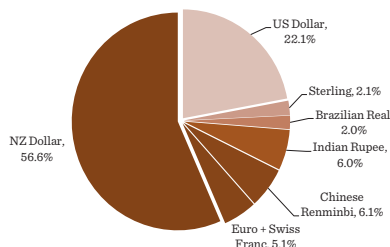
FUND OUTLINE

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

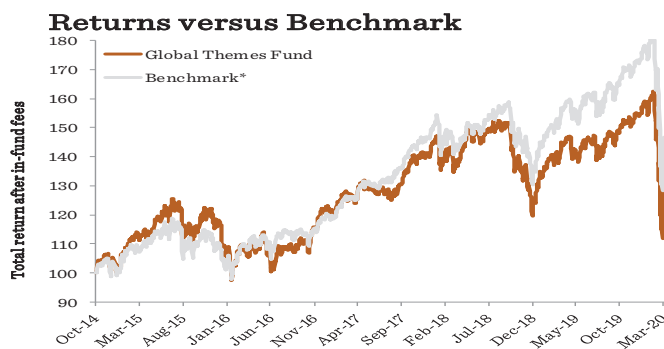
| | 1 Mth | 3 Mth | 1 Yr | 3 Yr p.a |
|-------------------------|--------|--------|--------|----------|
| Global Themes Fund | -14.2% | -18.8% | -11.1% | -0.6% |
| I-Shares All Country WI | -11.2% | -16.0% | -5.2% | 4.7% |

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

A staggering month for not just global equities, but for financial markets in general, and our thoughts go out to all of our readers impacted by the current crisis. March saw the fastest bear market in history, and some of the highest levels of volatility ever recorded, as investors around the world sought cash, seemingly at any cost. Our view remains, however, that this will be a temporary, albeit deep, shock. The level of stimulus (both fiscal and monetary) coming online globally is unprecedented and, combined with positive news we are starting to see out of China and our expectation of an eventual medical solution, leaves us of the view that the rebound from this could be as fierce as the downside. This is not another GFC, in our view, which represented systemic imbalances in the global economy, but rather an event-driven halt to global activity in an otherwise reasonably healthy global economy. All of this leaves us with the view that it is critical to remain invested – selling out of equities at this point leaves investors highly vulnerable to missing a good portion of the upside when it comes.

Very few investments globally ended March up in absolute terms, however our relatively defensive positions outperformed as expected – US Healthcare and Medical Devices, US Consumer Staples and US Consumer Goods. These sectors broadly saw pockets of increases in demand for their respective products and services, given the nature of this crisis. China also performed relatively well on stimulus and data showing that the Chinese economy is “getting back to work”. US Technology also held up well relative to the broader market. On the other hand, Brazil (an economically vulnerable emerging market) and US Banks (on sharply lower bond yields) dragged on monthly performance.

Our currency exposures

The currency hedge level in the fund remains at its benchmark weight of 50%, however at levels around 0.60 versus the US dollar, increasing the level of the hedge is becoming more interesting. As such, we continue to keep a close eye on local economic data as it comes in, and movements in the currencies of our key trading partners, and would look to alter the hedging level if appropriate.

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