

MONTHLY REPORT: MAY 2020

Where to from here?

Over the past two months, we have written a number of commentaries with a view that equity markets would likely rally. They have. This has been an extraordinary time for everyone with respect to both concerns over the health implications from COVID and also the enormous disruptions to our everyday life and commerce. The consensus view was that investment markets would face a challenging future but, ultimately, they have behaved, with an efficiency that should give investors confidence. The question, as always, is where to from here?

On March 23rd, equity markets around the world completed their one month COVID crash. In what was amongst the most violent price corrections that we have ever seen, the NZX50 Index found itself 30% lower whilst in Australia the ASX200 plummeted 36% from its recent high on February 21st. The explanation for such panic was understandable. In the face of the coronavirus, governments, businesses and households were all faced with an extreme level of fear and uncertainty. The social response to this, as introduced by governments everywhere, was one of containment...[READ MORE](#)

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MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	3.3%	7.6%
S&P/ASX200G	AUSTRALIA	4.4%	-6.7%
MSCI World Index	GLOBAL	4.9%	7.4%
S&P500	USA	4.8%	12.8%
FTSE100	UK	3.3%	-11.8%
NIKKEI 225	JP	8.3%	8.6%
NZ 90 Day Bank Bill NZ		0.0%	1.1%

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AT A GLANCE

Prices as at 31 May 2020

DEVON ALPHA FUND	\$1.7005
DEVON AUSTRALIAN FUND	\$1.2592
DEVON DIVERSIFIED INCOME FUND	\$1.5086
DEVON DIVIDEND YIELD FUND	\$1.6193
DEVON TRANS-TASMAN FUND	\$ 3.7804
GLOBAL THEMES FUND	\$2.8118

IN THIS REPORT

Market Commentary	Page 1
At a Glance	Page 1
Devon Fund Summaries	
Alpha Fund	Page 2
Australian Fund	Page 3
Diversified Income Fund	Page 4
Dividend Yield Fund	Page 5
Trans-Tasman Fund	Page 6
Global Themes Fund	Page 7



DEVON ALPHA FUND

FUND OUTLINE

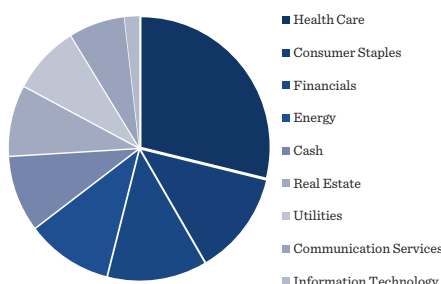
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	46.2%
Australian Equities	44.5%
Currency Hedge	30.3%

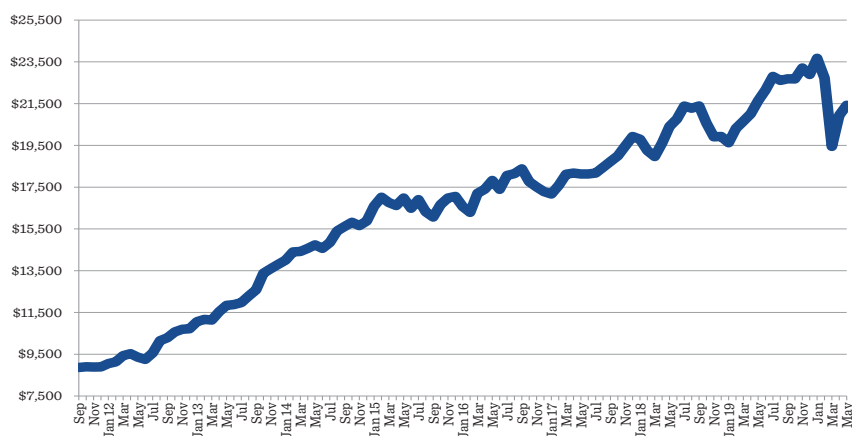
Cash	9.4%
Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Alpha Fund	2.3%	-5.7%	-1.0%	5.7%	4.6%	8.7%
OCR	0.0%	0.1%	0.9%	1.5%	1.8%	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

The Alpha strategy generated a solid absolute return during the month. Over the past 6-weeks we have invested a large portion of the cash holding that we were previously carrying within this portfolio. This reflected our view that after the COVID-related crash in markets, there were a considerable number of high-quality New Zealand and Australian stocks trading at large discounts to their long-term fair value. This approach has been productive as markets have subsequently rallied. One of the most successful investments made during the past month was our purchase of James Hardie (up 18% during May). This company is listed on the ASX, but it is the largest manufacturer and supplier of fibre cement sidings into the US construction market. In recent years management have done a great job implementing improved manufacturing and sales processes across their business. This has, and will continue, to support their profit margins.

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

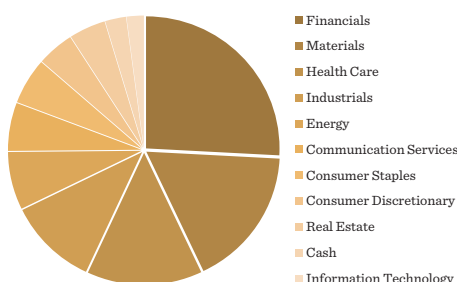
The **Australian Fund** is actively managed and invests in a select portfolio of approximately 25 to 35 companies which are primarily Australian listed companies

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	2.1%	Cash	2.5%
Australian Equities	95.4%	Total	100.0%

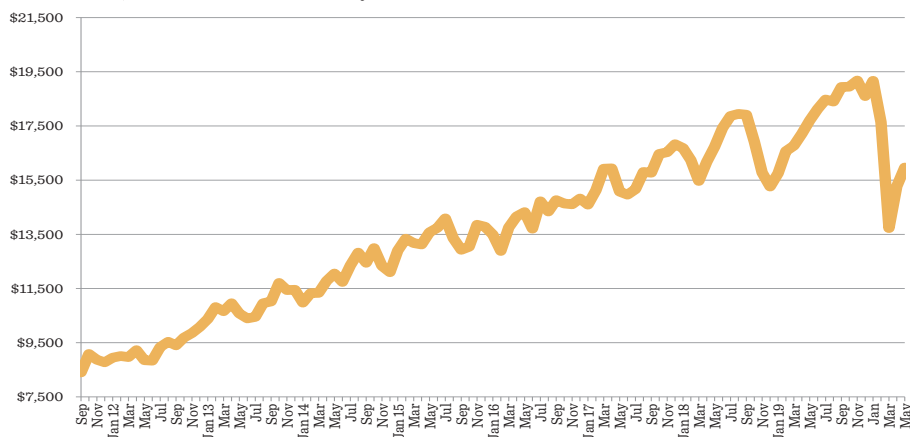
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Australian Fund	4.5%	-9.5%	-9.8%	1.9%	3.3%	6.1%
ASX200 Index Gross (NZD)	5.4%	-7.1%	-5.9%	5.1%	4.2%	5.0%

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

The Australian portfolio delivered a strong absolute return over the month. The recovery in the oil market gathered pace during the period benefiting our portfolio positions in Oil Search, Origin Energy and Woodside. The acute demand shock in oil markets from the drastic reduction in vehicle use, due to COVID-19 restrictions, looks to be easing globally with traffic congestion in a number of economies picking up towards normal levels (China has returned to this point already). In addition, the sharp fall in the oil price has led to large scale supply cuts from OPEC, Russia and US shale producers. An expected, continuation of these two factors leads us to look for a further recovery in the oil price above US\$50/bbl and a continued re-rating of the energy sector. In terms of changes we added Spark Infrastructure to the portfolio. This business is exposed to the regulated Australian transmission networks with a dividend yield of 6.5% per annum.

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

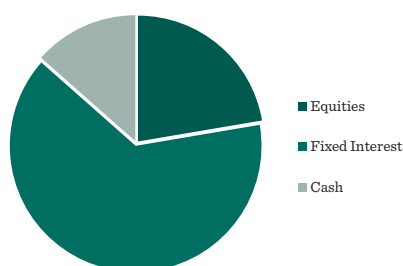
FUND OUTLINE

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	12.1%
Australian Equities	9.9%

Bonds	64.2%
Cash	13.8%

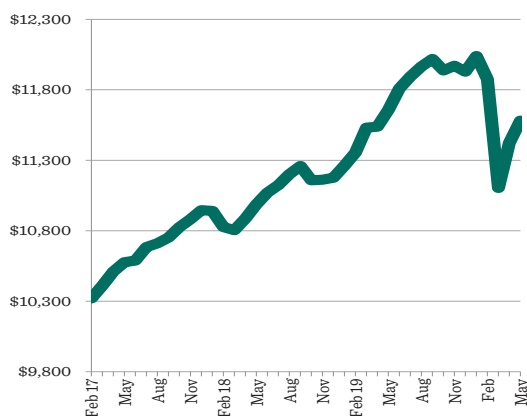
PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Diversified Income Fund	1.4%	-2.5%	-0.6%	2.7%	3.1%
OCR + 1.5%	0.1%	0.5%	2.5%	2.9%	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

Global interest rates were notably more stable during May, after the heightened volatility of the previous two months. The yield on the US 10-year Treasuries finished the month at 0.67%. The major topic for investors was again COVID-19 with particular attention given to the policy responses seen by governments and central banks, and the process of countries relaxing their social distancing rules. Notwithstanding the dramatic challenges which exist in short-term employment levels and incomes, there have been credible signals that activity levels are starting to recover. In New Zealand, our government announced their 2020 Budget. The headline numbers were significant with Finance Minister Grant Robertson unveiling a \$50bn fund to save jobs and restore growth. This together with commitments by the RBNZ to expand their asset purchase programme and potentially cut interest rates further, demonstrates the level of coordination by our key policy makers to provide support.

Please note from 8 June 2020, Slade Robertson has taken over as portfolio manager for the Fund.

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

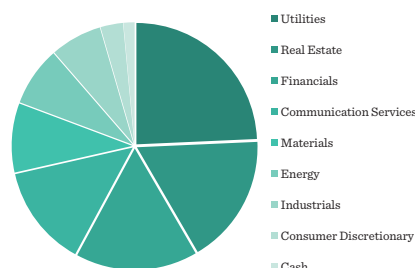
The **Devon Dividend Yield Fund** consists of a select group of up to 25-35 New Zealand and Australian listed companies.

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	54.3%
Australian Equities	44.2%
Currency Hedge	96.3%

Cash	1.5%
Total	100.0%
Yield	5.6%

PERFORMANCE

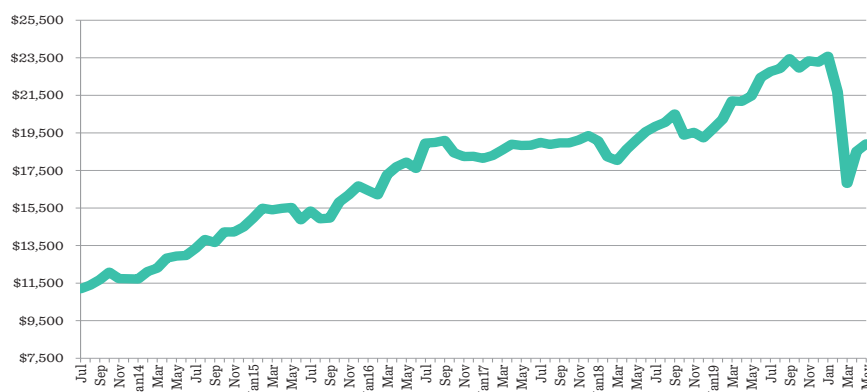
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Dividend Yield Fund	2.1%	-12.8%	-11.9%	0.1%	4.0%	7.9%
TT Index (Hedged)	3.8%	-6.6%	0.4%	9.0%	8.8%	10.1%
Australasian Dividend Yield Index*	2.7%	-11.7%	-11.7%	1.9%	3.6%	6.7%

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 provided another solidly positive return over May as markets continued to recover from the ferocious Covid-19 sell-off. The strongest performer over the month was Fortescue Metals Group, which rose 16.2%. Fortescue's share price saw weakness in the early stages of the Coronavirus outbreak but recovered much more quickly than most of the market as it became apparent that China had effectively controlled the virus' spread. With a pristine balance sheet and an extremely strong dividend yield (even at today's price, 70% above its early March low, it is forecast to yield nearly 6%) it saw significant buying and has materially outperformed the market through the whole period. Other strong performers in May included Spark Infrastructure, Amcor and National Australia Bank. Z Energy was again a disappointing performer, despite improving fuel sales. The company raised capital during the month, a sensible move that should have provided a positive catalyst for the share price but appeared to confuse the market with their communication around strategy. The company's share price remains compellingly cheap.

Please note from 8 June 2020, Mark Brown, has taken over as portfolio manager for the Fund.

PORTFOLIO MANAGER

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DEVON TRANS-TASMAN FUND

FUND OUTLINE

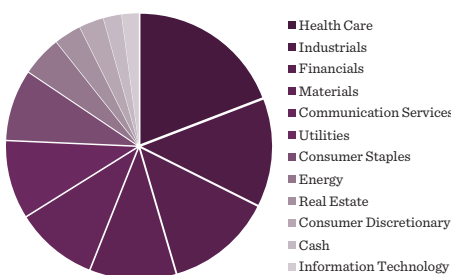
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the NZ and Australian equity markets.

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	49.9%
Australian Equities	47.8%

Cash	2.2%
Total	100.0%

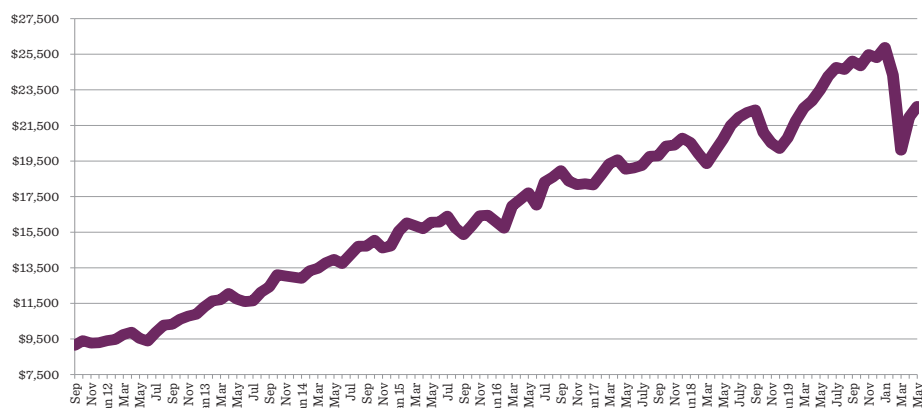
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Trans-Tasman Fund	2.8%	-7.2%	-3.9%	5.8%	6.4%	9.3%
Trans-Tasman Index Gross	4.4%	-5.2%	0.8%	9.4%	8.7%	9.2%

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

The Trans-Tasman portfolio continued to benefit from the recovery in the Australian and New Zealand markets over the month. A highlight was the strong performance of resource-related investments due to the ongoing recovery in crude oil, as economies reopen, and the continued tightness in the iron ore market. The iron ore price is currently trading at over US\$100 per tonne, with strong demand from China evident due to the government stimulating infra structure investment as the economy recovers from COVID-19 closures. In addition, major producer Brazil has experienced supply issues due to challenges in handling the virus. Australian iron ore producers have seen no material supply issues to date and with production costs for iron ore at US\$20 per tonne, further earnings upgrades from analysts are likely in the near-term. Key resources holdings in the portfolio include BHP Billiton, Rio Tinto and Oil Search.

PORTFOLIO MANAGER

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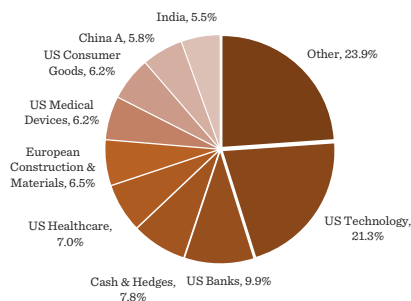


DEVON GLOBAL THEMES FUND

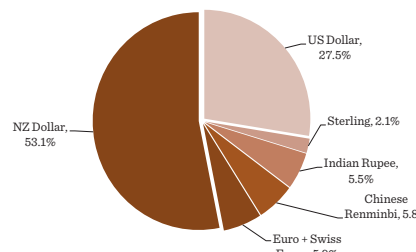
FUND OUTLINE

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

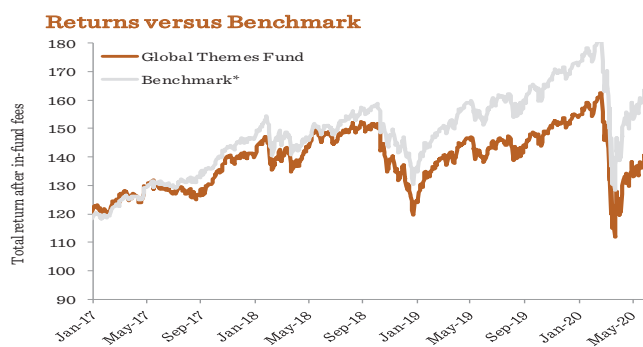
	1 Mth	3 Mth	1 Yr	3 Yr p.a
Global Themes Fund	3.9%	-3.2%	2.1%	3.1%
I-Shares All Country WI	4.5%	0.5%	8.3%	7.9%

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

May's market performance again leaves us (like most) scratching our heads. With the S&P 500 now comfortably back above 3,000 and global equities now only ~10% below their all-time highs, we remain cautious of a near-term pull-back. Given the deluge of both fiscal and monetary stimulus that has been injected into the global economy over recent months, combined with news around the virus and economic data becoming "less bad", we don't expect equities to re-test their late-March lows. However, we remain of the view that investors are currently viewing the world through an overly-optimistic lens, and ignoring the extent of the numerous potential risks out there ("second waves" of the virus, delays in treatments/vaccines, unemployment worse than expected, slower recovery than expected, escalating US-China tensions, a US election in November...). In saying that, we remain of the view that the recovery from this crisis will be quicker than that following the GFC (these are quite different types of events) and, as such, we remain reasonably constructive on a medium-term view, following an expected rebound in earnings in 2021.

Global Clean Energy and European Construction & Materials were the top-performing themes in the Fund during May. Both of these themes are well-placed to capture the benefits of increased global fiscal spending as governments look to accelerate their economic recoveries. US Technology also continued to perform well following a relatively solid earnings season (in the context of what was an unsurprisingly poor quarter for most with a lack of forward guidance offered), as well as many names continuing to be seen as relative beneficiaries of the pandemic.

Our currency exposures

The currency hedge level in the fund remains at its benchmark weight of 50%, however in the low-60s versus the US dollar, we continue to monitor for high-conviction opportunities to increase the level of the hedge. As such, we remain focused 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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