

## MONTHLY REPORT: APRIL 2020

### What a month it was

The strength of the recovery in equity markets over the past 5-weeks has been extraordinary. In fact, for the US S&P500, April was the strongest month of returns since January 1987. This has occurred at a time when governments, central banks and businesses are navigating the myriad of challenges associated with COVID-19, and yet investors have essentially been looking through the short-term economic uncertainty and have been actively buying stocks. The recent low in markets occurred on March 23rd. Since that date, both the New Zealand NZX50 Index and Australia's ASX200 have rallied more than 20%. These performances have confounded many financial commentators because of the apparent disconnect between our listed stocks and the undeniable challenges being felt in the real economy

As we commented on regularly during April, investor confidence has been buoyed by the massive fiscal and monetary stimulus that has been pumped into the market. Interest rates have been slashed and policy makers have committed to do whatever is necessary to ensure that economies survive. This is no small task. Numerous companies have recently presented their assessments of the economic and operating challenges that lie before them... [READ MORE](#)

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### MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	7.5%	5.2%
S&P/ASX200G	AUSTRALIA	8.8%	-9.1%
MSCI World Index	GLOBAL	11.0%	-3.5%
S&P500	USA	12.8%	0.9%
FTSE100	UK	3.9%	-17.1%
NIKKEI 225	JP	6.7%	-7.2%
NZ 90 Day Bank Bill NZ		0.0%	1.2%

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### AT A GLANCE

Prices as at 30 April 2020

DEVON ALPHA FUND	\$1.6624
DEVON AUSTRALIAN FUND	\$1.2046
DEVON DIVERSIFIED INCOME FUND	\$1.4880
DEVON DIVIDEND YIELD FUND	\$1.5855
DEVON TRANS-TASMAN FUND	\$ 3.6792
GLOBAL THEMES FUND	\$2.7070

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## DEVON ALPHA FUND

### FUND OUTLINE

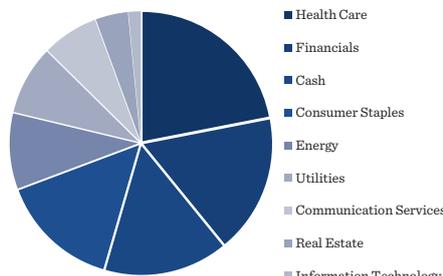
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	37.5%
Australian Equities	47.1%
Currency Hedge	28.9%

Cash	15.4%
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	7.7%	-11.5%	-0.3%	4.8%	4.5%	8.8%
OCR	0.0%	0.2%	1.1%	1.5%	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

This strategy participated in the recovery in markets during April. We were determined though to ensure that the risk levels within the portfolio were carefully managed as the underlying operating conditions for many of the listed companies in NZ and Australia remain challenging. As such we limited our exposure to sectors such as Discretionary Retail, Gaming and Tourism. We did invest in a number of exciting opportunities where the recent price volatility afforded us with attractive entry points. This included Ramsay Healthcare which owns and operates private hospitals in Australia, Asia and Europe. Its share price fell in March due to the deferral of elective surgeries across their facilities, to provide capacity for dealing with any COVID related issues. After meeting with the management of this company, we took the view that the postponement of category 2 and 3 surgeries will be temporary and that occupancy levels will quickly return to normal. It's share price has rallied strongly since our investment.



#### 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

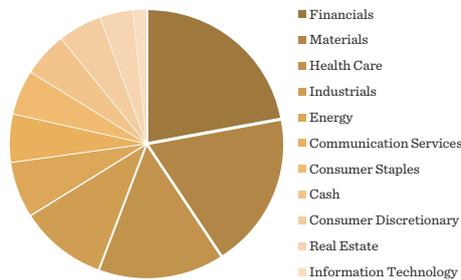
The **Australian Fund** is actively managed and invests in a select portfolio of approximately 25 to 35 companies which are primarily Australian listed companies

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	1.6%	Cash	5.3%
Australian Equities	93.1%	Total	100.0%

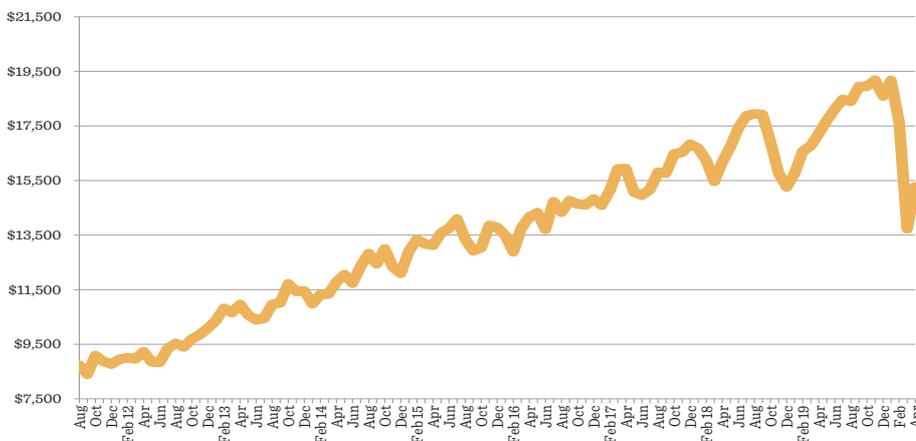
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Australian Fund	11.3%	-20.3%	-11.3%	-1.4%	3.1%	4.9%
ASX200 Index Gross (NZD)	11.8%	-18.3%	-8.6%	1.0%	4.0%	3.4%

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



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

A number of our highest conviction investments performed well during April, recovering some of their March losses. Amongst these were Star Entertainment, Oz Minerals, Origin Energy and Aristocrat Leisure. Oz Minerals (OZL) rallied over 20% as the company maintained copper and gold production guidance at its key Australian operations while many global producers in Latin American are reducing supply due to COVID-19 issues. So far Australian commodity producers have proved adept at managing social distancing at their operations. OZL is also benefiting from the ongoing strength in the gold price with gold being a key by-product produced alongside copper. The portfolio also participated in a number of capital raisings during the month including National Australian Bank (NAB). While this portfolio remains underweight the Banks sector relative to benchmark the raising was undertaken to strengthen the NAB's capital position and puts the business in a good position to withstand any further economic weakness.

## 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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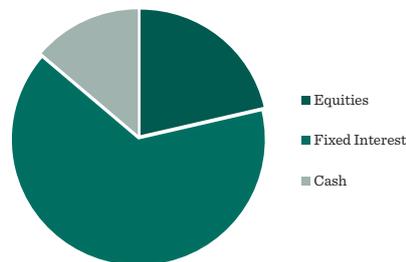
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**DEVON DIVERSIFIED INCOME FUND****FUND OUTLINE**

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	12.0%	Bonds	64.9%
Australian Equities	9.1%	Cash	14.0%

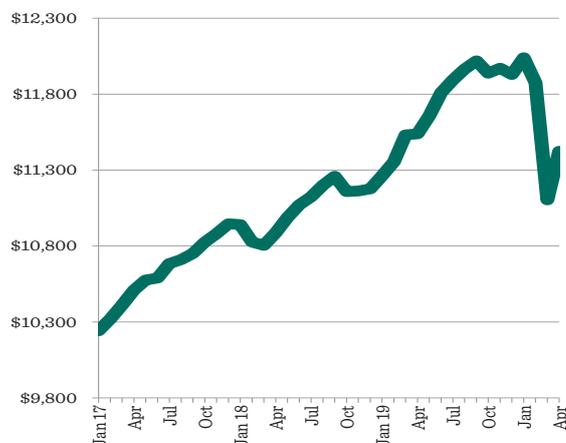
**PERFORMANCE**

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Diversified Income Fund	2.9%	-5.1%	-1.0%	2.4%	2.8%
OCR + 1.5%	0.1%	0.5%	2.6%	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 continued their recent declines during the month. The yield on the US 10-year Treasuries finished at 0.63%, whilst in New Zealand our 10-year Government Bond is now trading at 0.76%. The level of central bank stimulus currently being provided in support of the financial system is at an unprecedented level. In the US, the Federal Reserve has already cut their interest rate to almost zero % and has purchased \$2 trillion in Treasuries and mortgage securities. They are also now providing loans directly to businesses, as would a traditional commercial bank. In New Zealand the overnight cash rate is currently set at 0.25% but given the challenging economic climate there is speculation within the market that there is scope for this to be cut further. The possibility of negative rates is being considered by some commentators.

**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

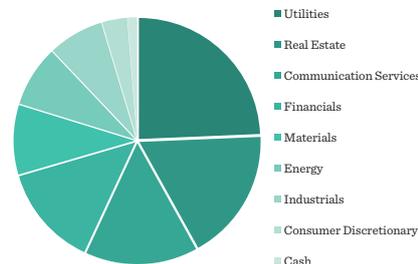
The **Devon Dividend Yield Fund** consists of a select group of up to 25-35 New Zealand and Australian listed companies.

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	56.0%	Cash	1.3%
Australian Equities	42.7%	Total	100.0%
Currency Hedge	95.4%	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	10.2%	-21.5%	-12.6%	-0.8%	3.6%	7.2%
TT Index (Hedged)	8.1%	-15.2%	-1.9%	7.3%	8.1%	8.9%
Australasian Dividend Yield Index*	9.2%	-20.7%	-11.6%	0.7%	3.3%	5.6%

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

The Dividend Yield Fund bounced sharply over April, helped by the very strong performance of a number of traditionally higher yielding stocks that have been directly impacted by the COVID-19 restrictions. The two largest positive movers were Scentre Group (the owner of the Westfield shopping malls across Australia and New Zealand) and Sky City, rising respectively 49% and 42% over the month. Both companies have seen their core assets explicitly or effectively closed to the public during the month and the market has wrestled with the impact of these closures on value. Despite the rally, both stocks remain well below their pre-COVID prices and, notwithstanding ongoing uncertainty surrounding their operating environment, both are still supported by their valuations. Another strong performer was Freightways (up 21%), which began to rally after updating the market on trading conditions and disclosing that its acquisition of Big Chill Distribution would be partially completed by issuing shares.

## PORTFOLIO MANAGER

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**DEVON TRANS-TASMAN FUND**

**FUND OUTLINE**

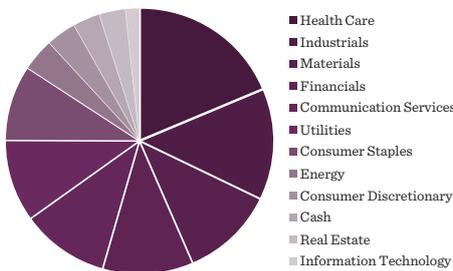
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the NZ and Australian equity markets.

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	50.1%	Cash	3.3%
Australian Equities	46.7%	Total	100.0%

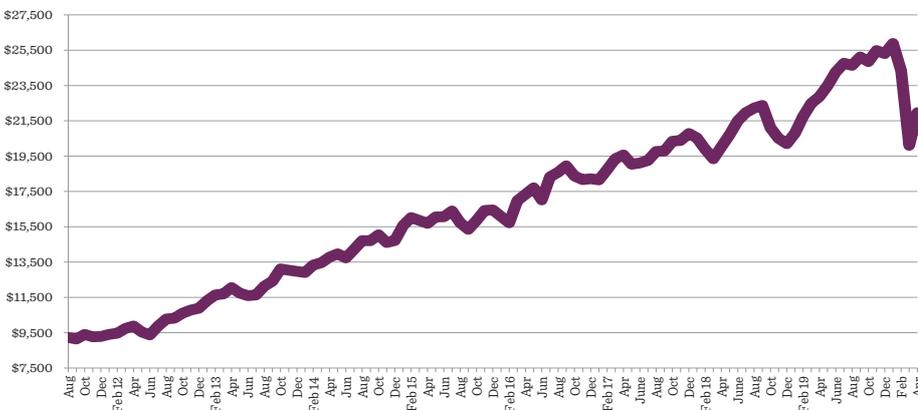
**PERFORMANCE**

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Trans-Tasman Fund	9.2%	-15.1%	-4.0%	3.9%	6.3%	8.5%
Trans-Tasman Index Gross	9.7%	-14.2%	-1.7%	6.8%	8.3%	8.0%

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**

Amongst the best performing investments within this strategy during the month were Scentre Group, Sky City, Freightways and Oil Search. Oil Search rallied over 15% as investors begin to look ahead to a recovery in the crude oil market in the months ahead. Global consumption of crude oil (90 million barrels per day) has dropped sharply due to the COVID-19 outbreak, resulting in a large inventory build. With low crude oil prices, demand beginning to recover and ongoing production cuts the oil market will re-balance in the near-term supporting this investment. In terms of changes we added Transurban (TCL) to the portfolio. TCL operates 17 toll roads in Sydney, Melbourne and Brisbane. A recent sell-off due to weaker COVID-19 related traffic volumes opened up an opportunity to buy this high-quality business. We expect traffic volumes to improve as the economy reopens with TCL being an early beneficiary of any recovery.

**PORTFOLIO MANAGER**

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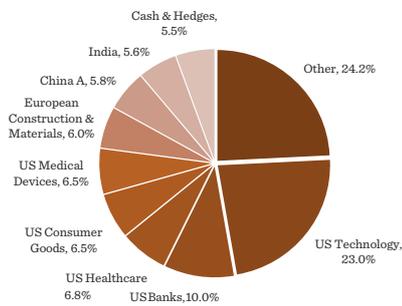


## DEVON GLOBAL THEMES FUND

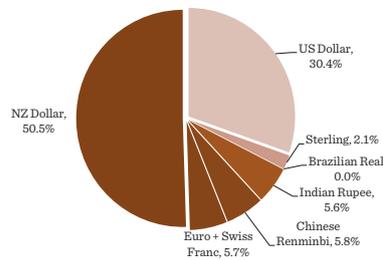
### FUND OUTLINE

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



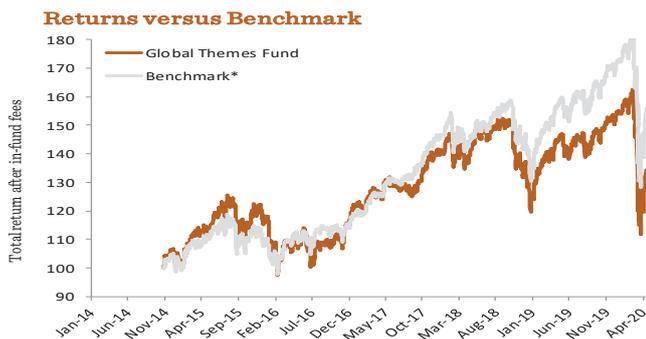
### PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a
Global Themes Fund	8.6%	-12.1%	-7.4%	1.6%
I-Shares All Country WI	8.3%	-9.6%	-1.6%	6.6%

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



### 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

Perhaps we spoke too soon...if March was a staggering month, then we need to find a new word for April! Global equities are now back to within 16% of their all time, pre-COVID highs – despite the globe being in the midst of the largest economic shock in nearly a century. We had previously highlighted how unpredictable this bear market would be, and that it could be short-lived and snap back up rather quickly, hence the criticality of remaining invested for fear of missing out. April proved this point – in spades. We maintain the view that this is a medical problem, and therefore will require a medical solution. Policy stimulus from governments and central banks can only help tide economies over until such time as a vaccine or adequate treatment arrives – and it will.

However, the equity market is behaving as though it already has, is looking through 2020 earnings (as expected, early Q1 results out of the US look woeful and forward guidance is lacking due to uncertainty), and pricing in a significant recovery into 2021. This may well be correct – however we are skeptical of how quickly markets have bounced back and see risk from here as somewhat asymmetrical to the downside. With genuine progress being made on the medical solution, and with unprecedented stimulus being thrown at the global economy, we see a re-testing of the lows as unlikely now. That said, the situation remains highly fluid and markets will be grappling with uncertainty for some time. As such, we are comfortable retaining a balanced approach between cyclicity and defensiveness in the fund.

### Our currency exposures

The currency hedge level in the fund remains at its benchmark weight of 50%, however at levels around 0.61 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.