

## MONTHLY REPORT: AUGUST 2020

### Insights into corporate earnings in a COVID world

August proved to be a huge month for global equities. For the major US indices, the S&P500 and the Dow Jones Industrial Average, it was in fact their best August performances since 1984, rallying 7.0% and 7.6% respectively. The tech heavy Nasdaq was up an extraordinary 9.6%! In Australia, the ASX200 Index finished up 2.8%, their best August return for 11-years, and the NZ market rose 1.8%. Driving this performance is policy. Central banks and governments have flooded the system with massive liquidity, economic growth is recovering, and capital is being diverted into risk assets such as equities. Although some commentators are frustrated by the apparent disconnect between the pricing of shares and the struggles that are currently besieging the real economy, the reality is that markets are very much following the same patterns that they have historically. When confidence builds around a view that economic and business outcomes will improve in the foreseeable future, investors will look forward and price shares on the basis of a more "normal" environment. If the current momentum in activity continues, that could be as early as second-half 2021...[READ MORE](#)

### AT A GLANCE

Prices as at 31 August 2020

DEVON  
ALPHA  
FUND

**\$1.7996**

DEVON  
AUSTRALIAN  
FUND

**\$1.3218**

DEVON  
DIVERSIFIED  
INCOME  
FUND

**\$1.5359**

DEVON  
DIVIDEND  
YIELD  
FUND

**\$1.6694**

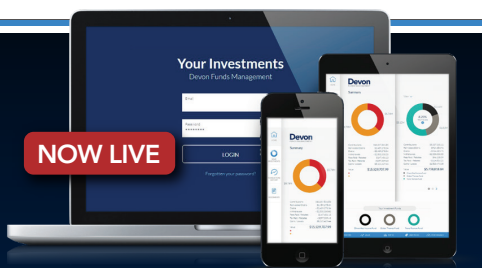
DEVON  
TRANS-  
TASMAN  
FUND

**\$ 4.0053**

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



### MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	1.8%	11.0%
S&P/ASX200G	AUSTRALIA	2.8%	-5.1%
MSCI World Index	GLOBAL	6.7%	17.4%
S&P500	USA	7.2%	21.9%
FTSE100	UK	1.8%	-14.3%
NIKKEI 225	JP	6.6%	14.1%
NZ 90 Day Bank Bill NZ		0.0%	1.0%

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## DEVON ALPHA FUND

### FUND OUTLINE

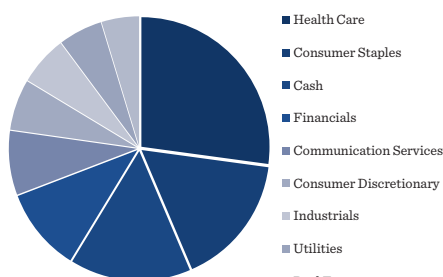
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	53.3%
Australian Equities	37.4%
Currency Hedge	83.6%

Cash	9.3%
Total	100.0%

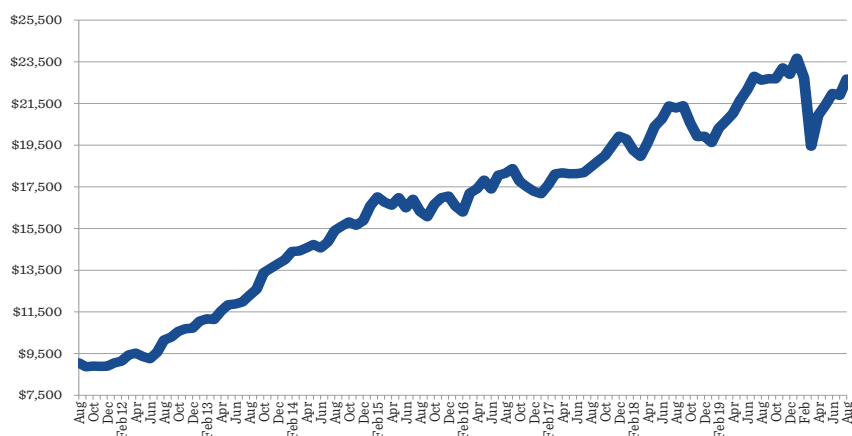
### PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Alpha Fund	3.6%	5.8%	0.3%	7.1%	6.6%	9.0%
OCR	0.0%	0.1%	0.7%	1.3%	1.7%	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

The Alpha strategy generated strong returns during the month with a number of stocks performing particularly well. Goodman Group rallied 8.3% whilst Contact Energy finished up almost 12.0%. EBOS Group was also an important contributor after the company delivered a FY20 earnings result which exceeded expectations. EBOS is a high-quality healthcare business that distributes medical related products and pharmaceuticals to healthcare providers and pharmacies. After winning the Chemist Warehouse contract in 2018, EBOS is now the largest player in their core market segment and this was evidenced by Group revenue increasing by 26.5% and underlying profit growing by 13.5%. Company management did not provide future earnings guidance, but they highlight their ongoing appetite for acquisitions. The Alpha portfolio is currently constructed across a diversified set of investments, some which provide high quality leverage to recovering economic growth and others which continue to generate strong free cashflow and pay an attractive and sustainable dividend yield.

## 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

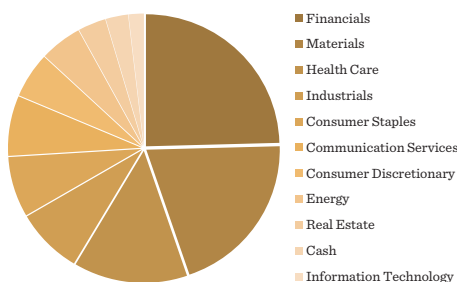
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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	2.5%	Cash	3.1%
Australian Equities	94.4%	Total	100.0%

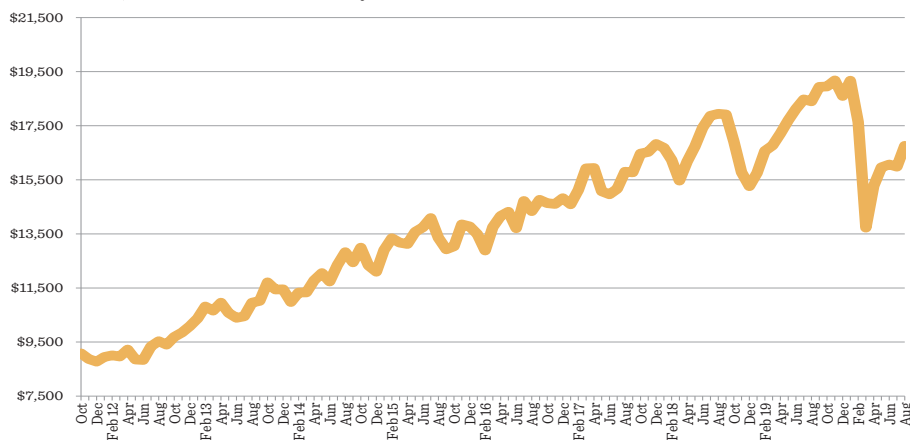
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Australian Fund	4.8%	5.0%	-8.9%	2.0%	4.6%	6.3%
ASX200 Index Gross (NZD)	4.5%	8.2%	-2.8%	5.7%	7.0%	6.1%

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 rose 4.8% over the month and outperformed the S&P / ASX200G index in New Zealand dollar terms. Key positive contributors to the portfolio included Vista, oOh!media, Star Group, Oil Search and Suncorp while detractors included Telstra and Newcrest Mining. Suncorp (+9%) delivered a reasonable result in a challenging environment for insurance companies. Highlights included premium rate momentum in Australian commercial insurance, good cost management, natural hazards costs in line with allowance and a strong capital position with excess capital of \$821m. Medium-term there remains scope for cost out to support an improvement in margins and earnings across the Group. The New Zealand business delivered profit after tax of NZ\$259m, another very strong result, highlighting the supportive rate and claims environment in New Zealand more recently.

## 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

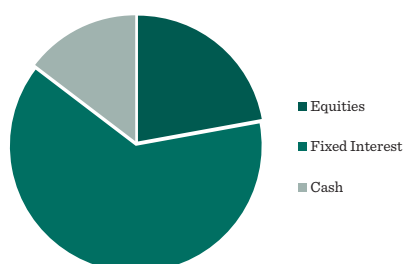
## FUND OUTLINE

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	13.3%	Bonds	62.8%
Australian Equities	9.1%	Cash	14.8%

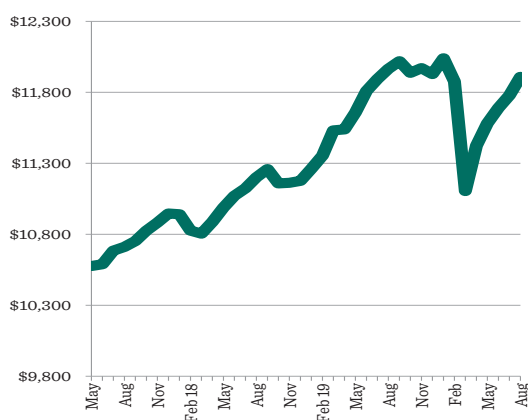
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Diversified Income Fund	1.1%	2.8%	-0.5%	3.1%	3.6%
OCR + 1.5%	0.1%	0.4%	2.2%	2.7%	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

It was a volatile month for global fixed interest. The US 10-year bond yield finished August at 0.70%, having ended July at 0.53%. Although the global macro environment currently remains very challenged by the coronavirus, there is strong evidence that the massive policy response from governments and central banks is starting to sponsor an economic recovery. Also of significance to the bond market was an announcement by the US Federal Reserve around their approach to inflation and employment at their yearly economic symposium in Jackson Hole. Fed Chairman, Jerome Powell, emphasized their goal of reaching maximum employment and that over the medium-term they won't look to respond to falling unemployment rates by hiking rates. This is a more dovish approach by the Fed and ultimately should be a positive for growth outcomes. In New Zealand, the RBNZ agreed to expand their quantitative easing programme from \$60bn to \$100bn so as to further lower retail interest rates.

## PORTFOLIO MANAGER

Slade Robertson



Slade has primary responsibility for stock selection and portfolio construction for the Diversified Income 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 DIVIDEND YIELD FUND

## FUND OUTLINE

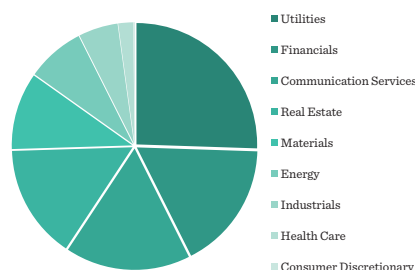
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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	58.9%	Cash	0.7%
Australian Equities	40.4%	Total	100.0%
Currency Hedge	98.4%	Yield	5.3%

## PERFORMANCE

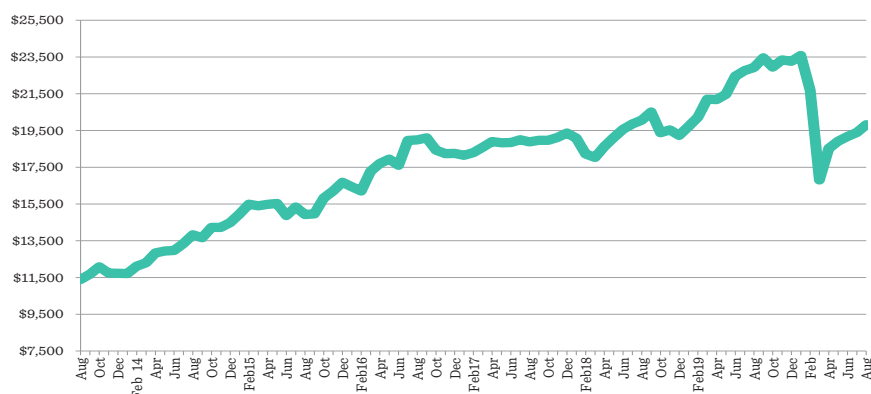
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Dividend Yield Fund	2.2%	4.7%	-13.6%	1.5%	5.8%	8.4%
TT Index (Hedged)	2.3%	7.9%	2.9%	10.6%	11.8%	10.8%
Australasian Dividend Yield Index*	2.9%	6.5%	-10.8%	2.9%	6.6%	7.0%

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

One of our best performing investments in the portfolio was Chorus up 13.5% for the month. Whilst the company noted \$10m of Covid-19 related costs and a delayed rollout of its network, it still met its recently upgraded EBITDA guidance of \$648m and pointed to July broadband installations of 16,000 which were back to pre Covid levels. Significantly the company guided to its new dividend policy which points to significant increases in dividend over time as the company transitions from a constructor to an operator of broadband networks and its capex profile falls. The Electricity sector also performed exceptionally well as the possibility of a staged Rio Tinto exit at the Tiwai Point smelter improved with rhetoric from government softening on the issue. A staged exit would allow for upgrades to the national grid to be completed, thereby increasing the ability for surplus electricity to be offered nationally.

## 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

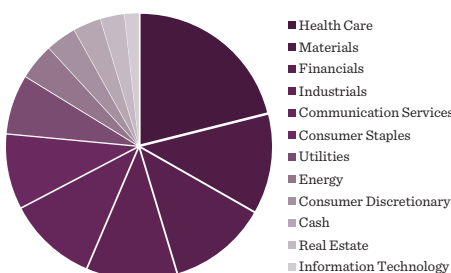
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the NZ and Australian equity markets.

This Fund 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	52.2%
Australian Equities	46.7%

Cash	1.2%
Total	100.0%

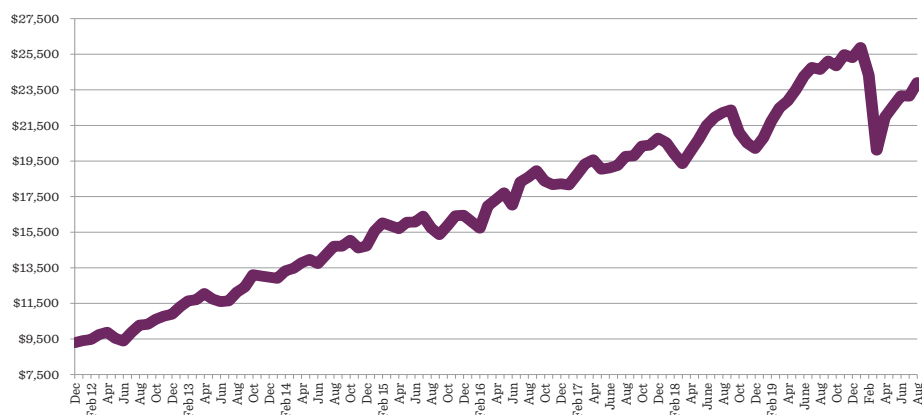
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Trans-Tasman Fund	3.3%	5.9%	-3.0%	6.5%	8.1%	9.7%
Trans-Tasman Index Gross	3.2%	9.0%	4.1%	10.4%	11.5%	10.4%

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 strategy performed slightly ahead of its benchmark during the month with a number of our investments making a positive contribution. Included amongst these were Vista Group, Oil Search, Mercury and Aristocrat Leisure. Vista rallied over 40% after reporting a better than expected interim financial result. While the group reported a challenging first half with revenue down 34%, this was well flagged at the time of the March capital raise. Importantly cashflow was positive in the period, with net cash of \$75m reported and Vista also reduced monthly cash burn guidance for 2H20 to \$3-4m per month. This guidance looks to be very conservative with 80% of cinemas globally now open and Christopher Nolan's Tenet, the first major blockbuster film released since the pandemic started, opening to a strong box office which is encouraging for future industry prospects.

## PORTFOLIO MANAGER

Tama Willis



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