

MONTHLY REPORT: DECEMBER 2020

Tail winds for Resources

In managing our clients' New Zealand and Australian investments, it is critically important to have a clear view on what is happening in China. China is not only the world's second largest economy, it is also Australia's and New Zealand's largest trading partner (c. 30-40% of both countries' exports) and its economic performance influences investor sentiment in both the New Zealand and Australian share markets. In recent times navigating the more fractious China/Australia trading relationship has also been an important focus for investors in Australian equities.

Portfolio Manager Tama Willis, who has researched China for over 20 years, is responsible for the analysis and stock selection of the Australian commodities sector at Devon. Normally this entails an annual on-the-ground research trip to gauge the macro environment and commodities backdrop first hand. However, due to COVID-19 restrictions, members of the Devon team will join the UBS Greater China Conference virtually in mid-January. In this brief summary we highlight the recent positive macro trends in China and the very supportive demand environment for commodities as we enter 2021, with a particular focus on the key steel-making raw material iron ore, which recently touched 10-year highs...[READ MORE](#)

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MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	2.5%	13.9%
S&P/ASX200G	AUSTRALIA	1.2%	1.4%
MSCI World Index	GLOBAL	4.3%	16.5%
S&P500	USA	3.8%	18.4%
FTSE100	UK	3.3%	-11.5%
NIKKEI 225	JP	4.0%	18.3%
NZ 90 Day Bank Bill NZ		0.0%	0.6%

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AT A GLANCE

Prices as at 31 December 2020

DEVON ALPHA FUND	\$1.9365
DEVON AUSTRALIAN FUND	\$1.4047
DEVON DIVERSIFIED INCOME FUND	\$1.5710
DEVON DIVIDEND YIELD FUND	\$1.8971
DEVON TRANS-TASMAN FUND	\$4.3224
DEVON SUSTAINABILITY FUND	\$3.2724

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DEVON ALPHA FUND

FUND OUTLINE

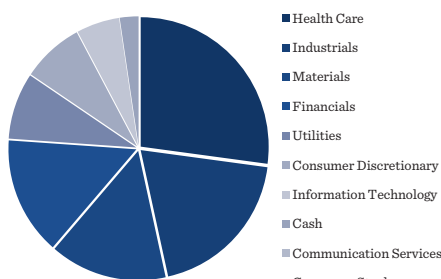
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	47.0%
Australian Equities	50.6%
Currency Hedge	70.3%

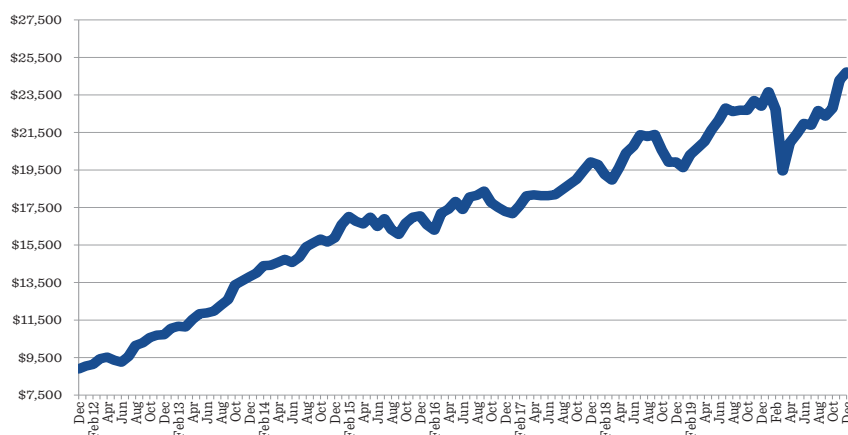
Cash	2.4%
Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Alpha Fund	1.8%	10.5%	8.0%	7.5%	7.5%	8.5%
OCR	0.0%	0.1%	0.4%	1.2%	1.5%	2.0%

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 positive return during the month, benefitting from our investments which are leveraged to a world enjoying an economic recovery. Although some of the largest return contributions came from our exposures to BHP Group (+11.5%) and Fortescue Metals (+28.5%), we were particularly pleased with the ongoing strength in the domestic logistics businesses Freightways and Mainfreight, which finished up 8.2% and 12.1% respectively. As we have written on previously during the year, both of these companies have done a fantastic job in response to the challenges created by COVID-19, and investors are now benefitting from improved operating efficiencies and competitive positioning. Evidence of this was presented by Mainfreight at their first-half results in November where management reported profit-before-tax up 23.4%. There were no major changes made to this portfolio during December although we did increase our investment in Fisher and Paykel Healthcare after recent weakness in its share price.

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

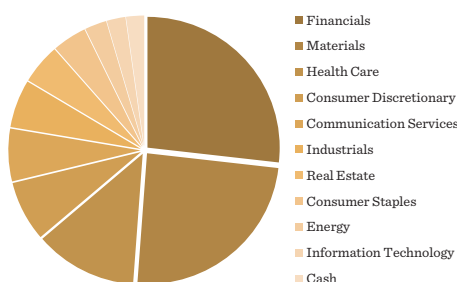
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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	1.2%	Cash	2.2%
Australian Equities	96.6%	Total	100.0%

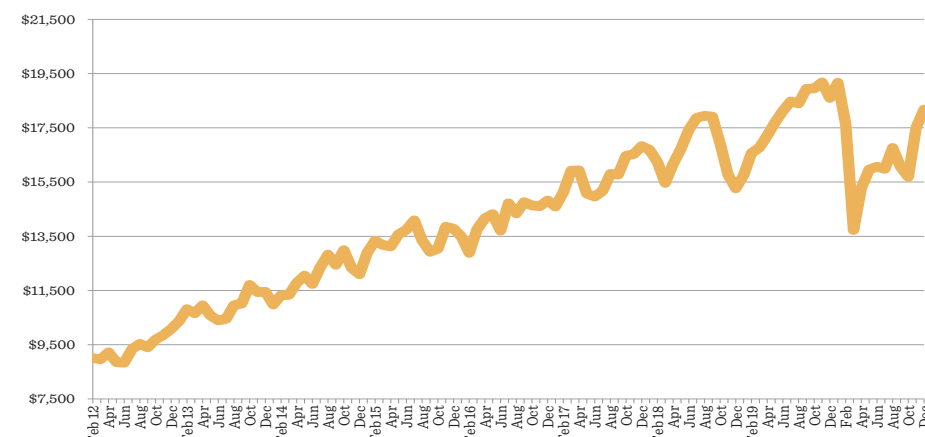
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Australian Fund	3.8%	13.1%	-2.3%	2.6%	5.7%	6.8%
ASX200 Index Gross (NZD)	3.5%	12.7%	4.3%	5.8%	8.9%	7.2%

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 3.8% over the month of December, outperforming the S&P/ASX200G Index in New Zealand dollar terms. This positive outperformance was driven by Woolworths, EBOS, Fortescue Metals, Rio Tinto and BHP. The detractors to performance were Aristocrat Leisure, CSL, Vista, Sydney Airport and Stockland. Woolworths continues to experience strong sales momentum after the initial COVID impacts, particularly in its online business, which suggests consumers are still preferring to dine at home. Woolworths has also managed to expand its market share in the current environment which should lead to a positive outlook for 2021 and beyond. At current levels, its valuation also remains undemanding. The rally we saw in the resource companies (BHP, Fortescue Metals and Rio Tinto) during the month was driven by stronger than expected demand from China and supply constraints from Brazil which has led to an increase in the iron ore price. The resource companies currently also have very attractive dividend yields contributing further to total shareholder return.

Please note from 1 January 2021, Victoria Harris has taken over as Portfolio Manager for the Australian Fund.

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

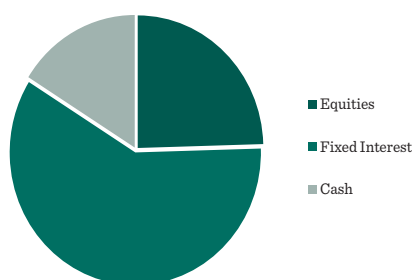
FUND OUTLINE

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	15.3%	Bonds	59.4%
Australian Equities	8.9%	Cash	16.4%

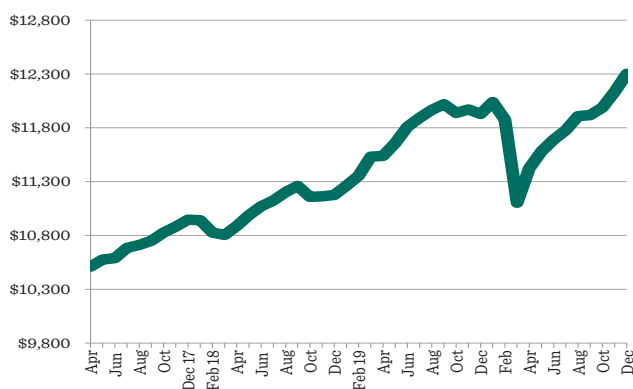
PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Diversified Income Fund	1.4%	3.2%	3.1%	4.9%	4.0%
OCR + 1.5%	0.1%	0.4%	1.9%	2.4%	2.7%

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

The performance of global bonds during the month was mixed. In the US, the yield on 10-year Treasuries increased from 0.84% to 0.92%, whilst in the UK, there was an elevated level of volatility. This was largely due to an 11th-hour Brexit trade deal being struck by the UK and EU. A key aspect of the deal was that British businesses will essentially still get tariff-free and quota-free access to the European market. Important concessions were also made in relation to Security and Travel. Other significant news which influenced the pricing of fixed interest around the world included evidence of a new variant of Covid-19 emerging in Britain, the first stages of rollout of the Pfizer and Moderna vaccines and ongoing legal challenges being pursued by US President Donald Trump. In New Zealand, investors were encouraged by stronger than expected economic growth in the third-quarter, with GDP surging 14% from the second-quarter.

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

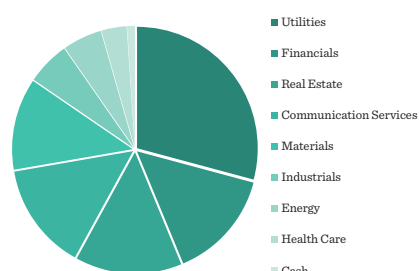
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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	62.5%
Australian Equities	36.4%
Currency Hedge	98.3%

Cash	1.1%
Total	100.0%
Yield	5.2%

PERFORMANCE

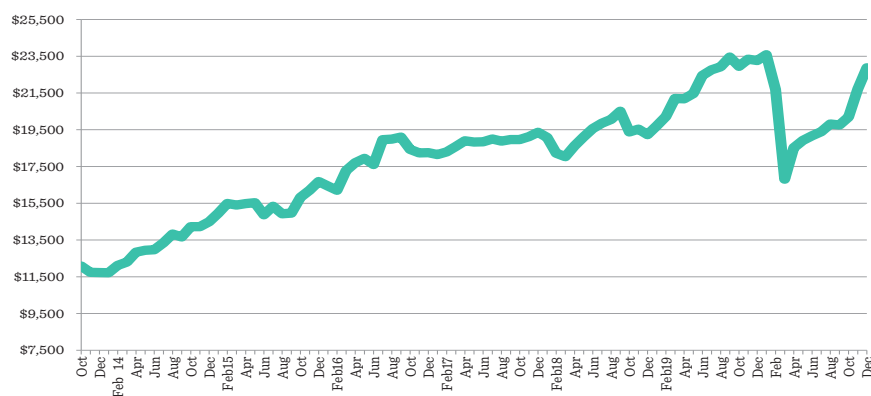
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Dividend Yield Fund	5.3%	15.8%	-1.7%	5.7%	6.5%	10.2%
50:50 NZX50 & ASX200 Index Gross	1.9%	12.6%	7.7%	11.3%	12.2%	11.5%
Australasian Dividend Yield Index*	5.8%	18.9%	5.0%	7.8%	9.1%	9.1%

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

Our position in Infratil was one of our top performing positions for the month after the Australian Superannuation Fund made a NZ\$5.4bn cash and shares bid for the company. This was the Fund's second offer for the company, both of which have been rejected by the Infratil board, on the grounds that they materially undervalue the company. Whilst the bids may never eventuate into a full takeover, they have prompted a flurry of value creating corporate action within the Group with the proposed Tilt divestment being the most significant. As a consequence of all this corporate activity the Infratil share price was up 22.7% for the month. The electricity sector continued its strong outperformance as global green energy funds (ETF's) continued to seek out New Zealand renewable power generators. Our significant positions in Contact (+14.2%), Meridian (+15.4%) and Mercury (+8.8%) benefitted enormously from this international interest.

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 SUSTAINABILITY FUND

FUND OUTLINE

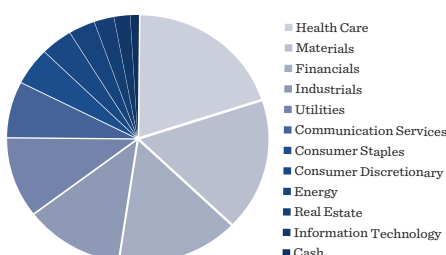
The **Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

The Fund looks to invest in companies that exhibit sustainable characteristics and those which demonstrate credible strategies to improve their outcomes with respect to ESG factors. The Fund also employs an ethical screen which will prohibit investment into certain companies and sectors.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	55.5%	Cash	1.0%
Australian Equities	43.6%	Total	100.0%

PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Sustainability Fund	1.7%	12.0%	-	-	-
50:50 NZX50 Portfolio Index & ASX200 Index*	3.4%	15.0%	-	-	-

*The Sustainability Index is provided for reference purposes only and is a composite index comprised of 50:50 S&P/NZX50 Portfolio Index & S&P/ASX200 Index.

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

COMMENTARY

The Sustainability Fund delivered a positive absolute return for its investors during the month. The most noteworthy contributor was Infratil which rose 22.7%. In early December, Infratil announced that they had received a takeover offer from AustralianSuper for \$7.43 per share, a 22% premium to its share price. The Infratil board has rejected the offer as they believe it materially undervalued their assets. The Sustainability Fund was overweight the stock at the time of the takeover. EBOS was also a key outperformer (+15.2%) and we increased our position further as we expect it to continue to benefit from increased sales momentum. We remain overweight the Healthcare sector with other key investments outside EBOS including CSL, Resmed, Ramsay Healthcare and Fisher & Paykel Healthcare. Although the current outcomes for these businesses are being heavily influenced by Covid-19 developments, they are all high-quality companies with strong long-term prospects.

Please note from 1 January 2021, Victoria Harris has taken over as Portfolio Manager for the Sustainability Fund.

PORTFOLIO MANAGER

Slade Robertson



Slade has primary responsibility for stock selection and portfolio construction for the Sustainability 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 TRANS-TASMAN FUND

FUND OUTLINE

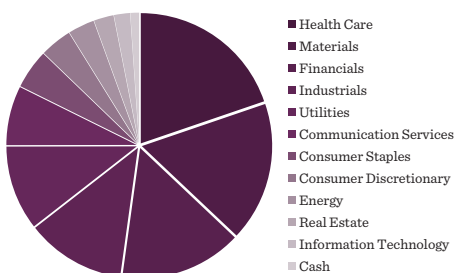
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the NZ and Australian equity markets.

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	50.8%
Australian Equities	48.1%

Cash	1.1%
Total	100.0%

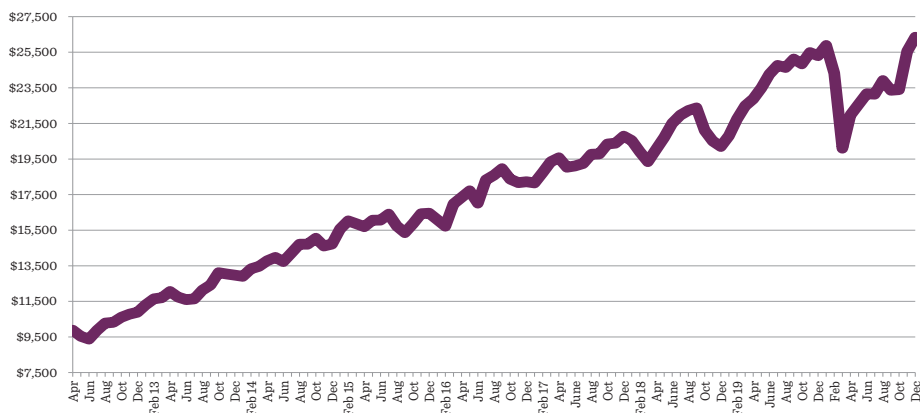
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Trans-Tasman Fund	3.1%	12.5%	3.9%	8.1%	9.1%	10.1%
Trans-Tasman Index Gross	3.0%	12.1%	9.1%	10.9%	12.3%	11.4%

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

Fortescue Minerals, Contact Energy and EBOS were key contributors to performance over the month. Fortescue Minerals closed up 28.5% after the iron ore price bounced from US\$130/t to US\$165/t. This followed news that Brazil's largest iron ore supplier, Vale, would reduce their guidance for iron ore shipments in 2020 and 2021. Vale is the world's third largest producer and current shipments are sitting over 100 million tons per annum, below guidance from 2-3 years ago due to a tragic 2019 dam failure. Portfolio holdings Rio Tinto (+12.3%) and BHP Billiton (+11.5) also benefited from the rising iron ore price. The outlook over the next 12-months looks favourable for these businesses with Chinese steel output expected to grow further on a stronger demand outlook with a number of economists projecting 8% GDP growth in China for 2021. Key detractors included CSL and Vista Group. CSL retraced after the company halted their COVID-19 vaccine trial, although this will have limited financial impact and we remain positive on this investment.

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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