

MONTHLY REPORT: JULY 2020

Value Matters

Global equity markets have surged since late March. Against a backdrop of improving economic outcomes and unprecedented levels of policy support, the US S&P500 Index has rallied almost 46%, whilst the markets in New Zealand and Australia are up 38% and 31% respectively. Market cycles are always definable by specific factors and influences, but the current experience for investors has a number of particularly unique features. There are none less so than the backdrop of the novel coronavirus, but what is also fascinating about the environment today is the dominance of “growth” stocks relative to “value” stocks and the very narrow set of shares that are ultimately driving overall market returns.

Traditionally “growth” stocks are considered as those companies that can grow their earnings at a superior rate due to factors which are specific to their own enterprises and the sectors in which they operate. Technology companies are a good example of this. Profits earned, are typically invested back into their operations and shareholder dividends are not considered a priority. Value stocks on the other hand are those investments where the opportunity to generate a return is a function of the share price trading below fair value...[READ MORE](#)

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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	2.4%	8.0%
S&P/ASX200G	AUSTRALIA	0.5%	-9.9%
MSCI World Index	GLOBAL	4.8%	7.8%
S&P500	USA	5.6%	12.0%
FTSE100	UK	-4.2%	-19.2%
NIKKEI 225	JP	-2.6%	3.0%
NZ 90 Day Bank Bill NZ		0.0%	0.9%

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AT A GLANCE

Prices as at 31 July 2020

DEVON
ALPHA
FUND

\$1.7376

DEVON
AUSTRALIAN
FUND

\$1.2607

DEVON
DIVERSIFIED
INCOME
FUND

\$1.5191

DEVON
DIVIDEND
YIELD
FUND

\$1.6338

DEVON
TRANS-
TASMAN
FUND

\$ 3.8761

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DEVON ALPHA FUND

FUND OUTLINE

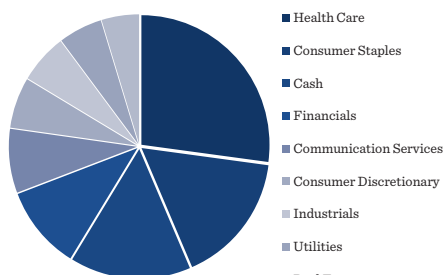
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	47.5%
Australian Equities	38.2%
Currency Hedge	89.9%

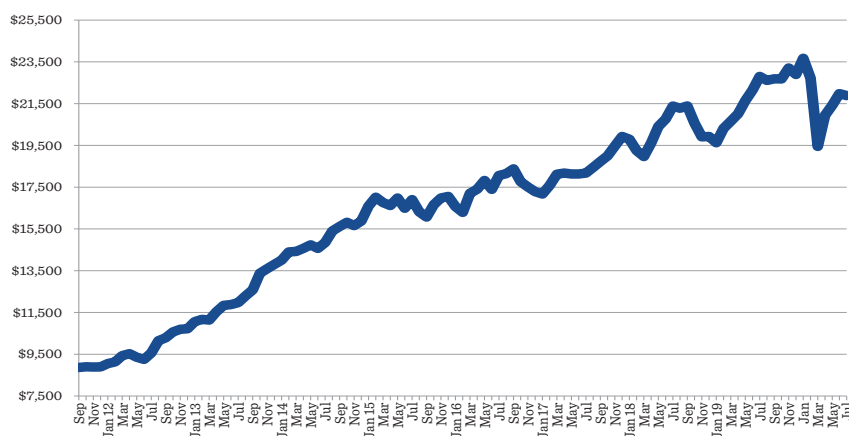
Cash	14.3%
Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Alpha Fund	-0.4%	4.5%	-4.0%	6.4%	5.1%	8.9%
OCR	0.0%	0.1%	0.7%	1.4%	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

It proved to be a month of mixed fortunes for the Alpha strategy. While the portfolio enjoyed strong performance contributions from our investments in Spark (+8.1%), Coles (+5.8%) and Macquarie Group (+4.1%), it also suffered from the short-term underperformance of our two Australian Healthcare companies, CSL and Ramsay Healthcare. We believe that the recent weakness in these share prices will prove temporary and remain confident that they will contribute positively in the next 12-months. The major change that we made during the month was the purchase of shares in Mainfreight. We have always had great confidence in the management team of this business and this view was supported by a very positive update from the company at their AGM. In the past 10-weeks Mainfreight have enjoyed pre-tax profit growth (year-to-date) up 20% relative to its experience last year. This has been driven by new customer success in Australia and margin expansion through improved line haul utilisation.

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

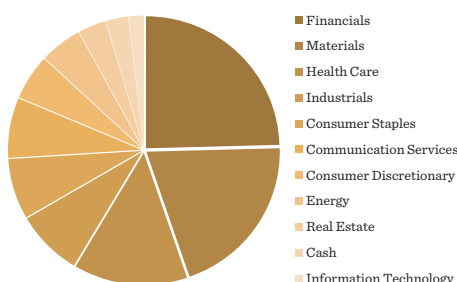
The **Australian Fund** is actively managed and invests in a select portfolio of approximately 25 to 35 companies which are primarily Australian listed companies

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	1.8%	Cash	2.7%
Australian Equities	95.5%	Total	100.0%

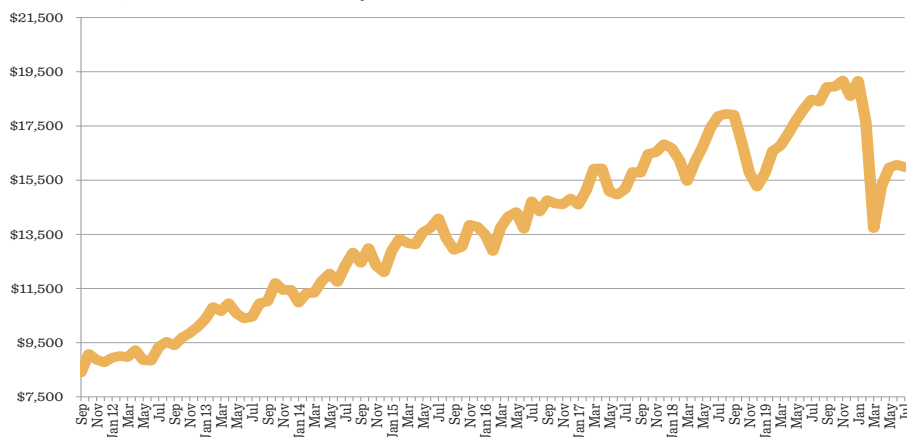
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Australian Fund	-0.5%	4.7%	-13.5%	1.8%	2.6%	6.3%
ASX200 Index Gross (NZD)	1.2%	9.2%	-7.1%	5.8%	4.6%	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

July was a challenging month for this strategy. Oz Minerals, QBE Insurance, Telstra and Coles were the main contributors to performance. Key detractors included NAB and ANZ and the strong performance of the high PE technology sector. Oz Minerals (OZL), a copper and gold producer with operations in South Australia, benefited from a strong recovery in gold and copper prices and an upgrade to their production guidance. OZL now expects to produce between 88 – 105Kt of copper in CY20 (from 83- 100Kt) and 227- 249Koz of gold (from 207- 234Koz). The company also continues to progress a number of exciting growth initiatives in Brazil and Australia. A detractor was the Energy sector which retraced despite a 5% increase in the oil price. Oil Search remains a key portfolio holding and is in a strong position to progress growth options in Canada and Papua New Guinea as the oil markets continues to rebalance.

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

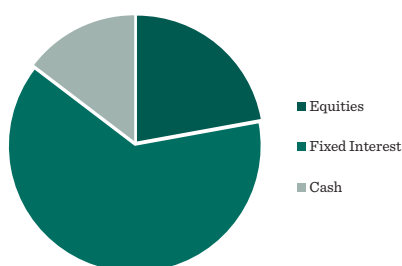
FUND OUTLINE

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	12.5%
Australian Equities	9.6%

Bonds	63.2%
Cash	14.7%

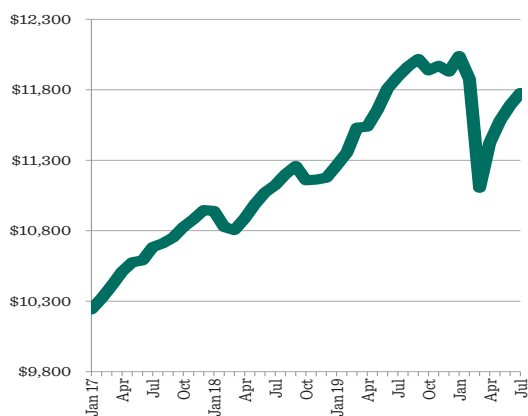
PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Diversified Income Fund	0.7%	3.1%	-1.0%	2.9%	3.3%
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

Global bonds were broadly stronger during the month with the yield on US 10-year Treasuries falling from 0.65% in late June to finish July at 0.53%. This reflected increasing concern by investors as to the speed and shape of the global economic recovery. US GDP for the second quarter was reported as having collapsed by 32.9%. Incredibly this outcome was better than had been anticipated by the market. Also, during the month the US Congress struggled to agree on the next coronavirus stimulus deal, despite July being America's worst month of COVID infections since the pandemic began. Compounding market fears was a deterioration in US - China relations after the Trump Administration ordered the Chinese Consulate in Houston to shut over concerns of economic espionage. In New Zealand, business confidence is showing some signs of improvement but conditions remain very challenging and unemployment levels are expected to rise further in the coming months.

PORTFOLIO MANAGER

Slade Robertson



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DEVON DIVIDEND YIELD FUND

FUND OUTLINE

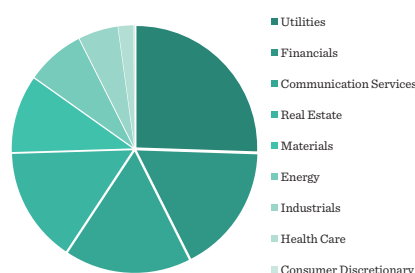
The **Devon Dividend Yield Fund** consists of a select group of up to 25-35 New Zealand and Australian listed companies.

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	56.6%	Cash	-0.1%
Australian Equities	43.5%	Total	100.0%
Currency Hedge	100.0%	Yield	4.8%

PERFORMANCE

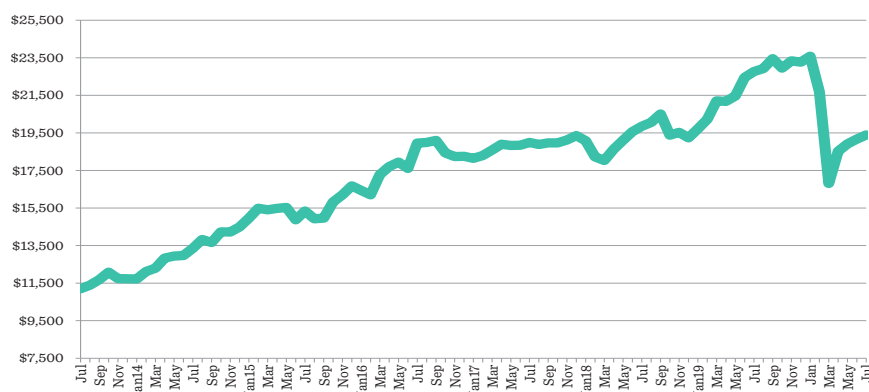
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Dividend Yield Fund	1.1%	4.7%	-14.8%	0.6%	4.7%	8.3%
TT Index (Hedged)	1.5%	9.5%	-0.9%	10.2%	9.9%	10.7%
Australasian Dividend Yield Index*	1.1%	6.3%	-13.9%	2.2%	4.8%	6.8%

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

July was another positive month for the fund with New Zealand substantially outperforming Australia. The news that Rio was to close its Tiwai Point smelter rocked the market, undermining confidence in the medium-term cash flow profiles of the electricity utility sector. The Tiwai smelter consumes approximately 14% of New Zealand's energy supply and so it will take some time for the economy to grow into this excess capacity. However, the news proved positive for other yield sectors with both property and the telecommunication sector performing well, as investors scrambled to find more secure streams of dividend. Spark our largest overweight position in the fund performed exceptionally well during the month up 8%. Whilst international roaming revenues will be under significant pressure investors have taken solace in the re-affirmed 2020 guidance both for EBITDAI and dividends per share.

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

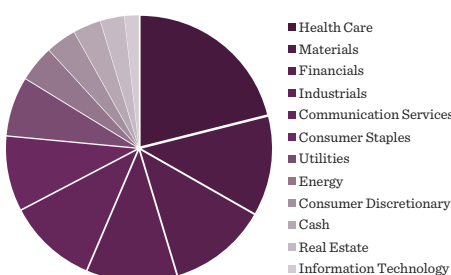
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the NZ and Australian equity markets.

This Fund 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	51.9%
Australian Equities	44.7%

Cash	3.4%
Total	100.0%

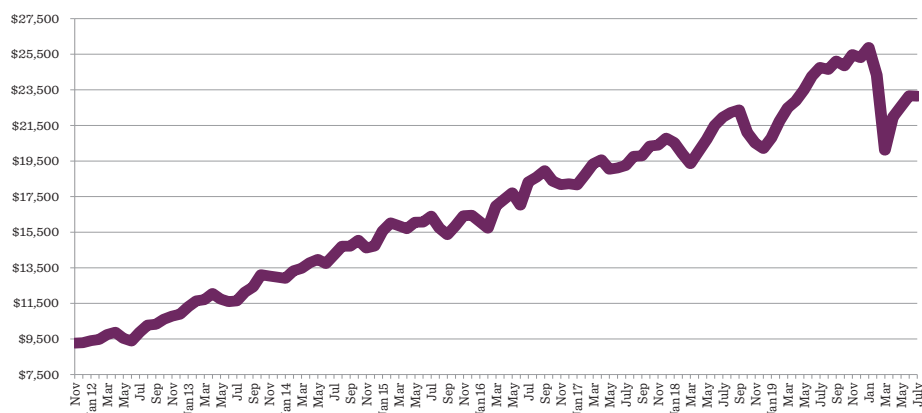
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Trans-Tasman Fund	-0.1%	5.4%	-6.6%	6.3%	6.5%	9.8%
Trans-Tasman Index Gross	1.8%	10.3%	0.5%	10.4%	9.6%	10.3%

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 portfolio underperformed its benchmark over the month in what was another difficult month for valuation based investors as high PE companies and technology stocks continued to perform exceptionally strongly. Key positive contributors were Spark (+8%) and Telstra (+7%) as investors rewarded the defensiveness of the telco sector ahead of reporting season. Contact Energy was a detractor to performance over the month as Rio Tinto, the majority owners of the NZ aluminium smelter (Tiwai), announced their intention to wind up operations in Southland by the 31st August 2021. The announcement of a "hard exit" (i.e. a short notice period) came as a surprise. A number of scenarios are possible in the near term including: 1/Rio Tinto and Meridian agree a 2-4 year staged exit at a discounted power price which allows time to support new demand initiatives and to invest in grid upgrades and 2/ Rio continues with its existing exit plan. We continue to see the sector as a core long-term holding with dividend yields remain attractive under either scenario.

PORTFOLIO MANAGER

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