

MONTHLY REPORT: MAY 2021

Keeping companies accountable

This month's commentary has been written by Devon's Chief Investment Officer and Portfolio Manager, Mark Brown.

At Devon the integration of Environmental, Social and Governance (ESG) factors into our investment decisions has always made common sense and, we believe, has led to enhanced risk-adjusted returns for our clients. Whilst the ESG acronym may be a relatively new concept to some investors, the idea of investing in companies which operate in an ethical and sustainable way with due consideration to other stakeholder interests is not. Including broader non-accounting issues within an investment framework has always made for better long-term investment outcomes and less volatility. In simple terms, being a good corporate citizen has usually been good for business. What has changed in more recent times is the broader acceptance by the wider investment community that these issues matter

This acceptance has been driven by a number of factors ranging from an altruistic view that investors can make a change for good in broader society, to a more mercenary position that you want to avoid companies which are likely to have a higher cost of capital going forward...[READ MORE](#)

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MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	-3.2%	13.2%
S&P/ASX200G	AUSTRALIA	2.3%	28.2%
MSCI World Index	GLOBAL	1.5%	41.3%
S&P500	USA	0.7%	40.3%
FTSE100	UK	1.1%	19.5%
NIKKEI 225	JP	0.2%	34.0%
NZ 90 Day Bank Bill NZ		0.0%	0.3%

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AT A GLANCE

Prices as at 31 May 2021

DEVON ALPHA FUND	\$2.0290
DEVON AUSTRALIAN FUND	\$1.5500
DEVON DIVERSIFIED INCOME FUND	\$1.5474
DEVON DIVIDEND YIELD FUND	\$1.9040
DEVON TRANS- TASMAN FUND	\$4.4557
DEVON SUSTAINABILITY FUND	\$3.3875

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
Sustainability Fund	Page 6
Trans-Tasman Fund	Page 7



DEVON ALPHA FUND

FUND OUTLINE

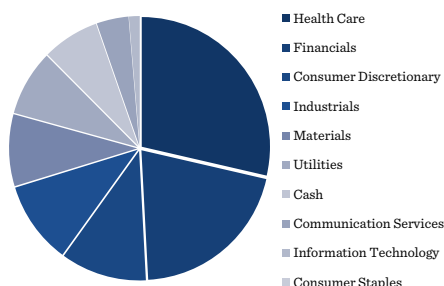
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	42.5%
Australian Equities	50.3%
Currency Hedge	69.9%

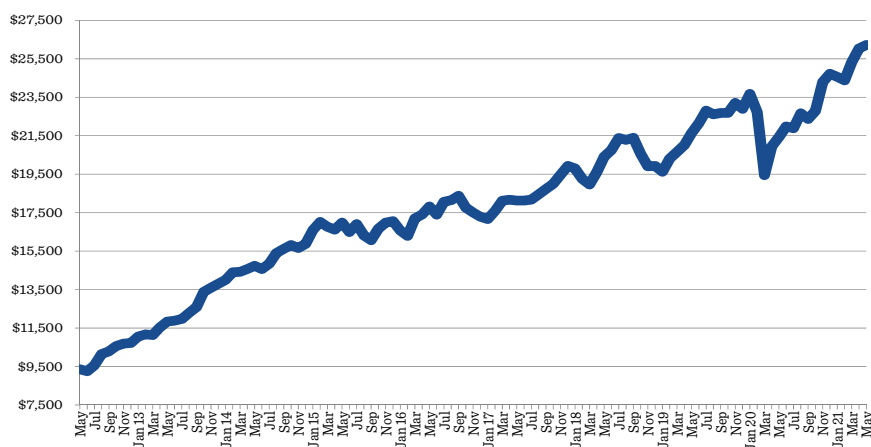
Cash	7.2%
Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Alpha Fund	0.7%	7.6%	22.4%	8.7%	7.8%	8.4%
OCR	0.0%	0.1%	0.3%	1.0%	1.3%	1.8%

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 performed well during May recording a positive absolute return despite local equity markets, such as the S&P/NZX50 Index falling during the same period. There were a number of important positive contributors to the portfolio including CSL which rallied 7.0%, EBOS Group which closed the month up 11.6%, but the most significant benefit came from our investment in Aristocrat Leisure. Shares in this company jumped by 10.8% after the company pre-released their half-year earnings due to an unexpectedly strong operating performance.

In their land-based gaming division, management highlighted that in the US and across Australia and New Zealand, profit growth has been driven higher by the strength of their product set and the positive economic conditions. They have also gained market share in this area. Their digital business has also been particularly strong and Group profit margins have lifted. Aristocrat's balance sheet is very healthy, and we believe the business is well placed to consider potential acquisitions.

PORTFOLIO MANAGER

Slade Robertson



Slade has primary responsibility for stock selection and portfolio construction for the Alpha and Diversified Income funds. 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

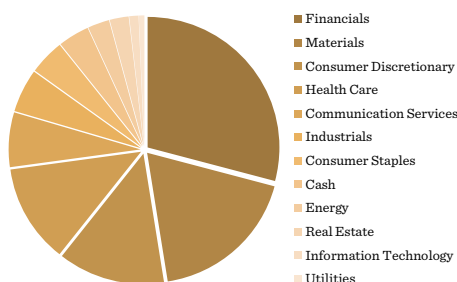
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

The Australian market is much larger than the New Zealand market and offers exposure to a number of sectors that are not available in New Zealand. The Australian dollar currency exposure of this Fund is typically unhedged.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	0.0%	Cash	3.8%
Australian Equities	96.2%	Total	100.0%

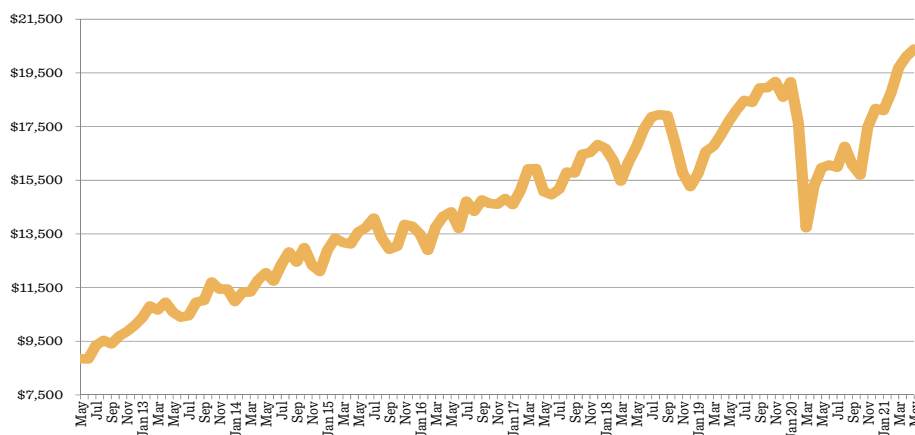
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Australian Fund	1.3%	8.6%	27.7%	6.8%	7.3%	7.8%
ASX200 Index Gross (NZD)	1.1%	8.3%	27.2%	9.4%	10.0%	7.7%

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 delivered a positive return of 0.5% this month. Included amongst the main positive contributors to the performance were Collins Foods (+10.8%), Corporate Travel (+12.7%) and the Super Retail Group (+7.9%). Corporate Travel saw its share price rise strongly on continued signs of a strengthening recovery in travel, especially in the US, Australia and New Zealand. This is despite recent announcements that Australia will not open its international borders until mid-2022.

With over 70% of Corporate Travel's revenue coming from countries well advanced with their vaccine roll-out (e.g. the US and UK), the company is far better positioned than other ASX-listed travel stocks. It also made a significant acquisition to increase its exposure to the US market during the pandemic, which should position it well for an accelerated earnings recovery. Aristocrat Leisure, one of the top overweight's in the fund, delivered a very strong result during the month which was well received by the market.

PORTFOLIO MANAGER

Victoria Harris



Victoria has primary responsibility for stock selection and portfolio construction for the Australian and Sustainability funds.

Victoria has over 10 years' experience in the industry across a broad range of markets, including ESG.

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DEVON DIVERSIFIED INCOME FUND

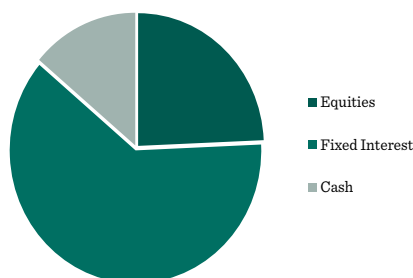
FUND OUTLINE

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	14.0%
Australian Equities	9.6%

Bonds	61.9%
Cash	14.5%

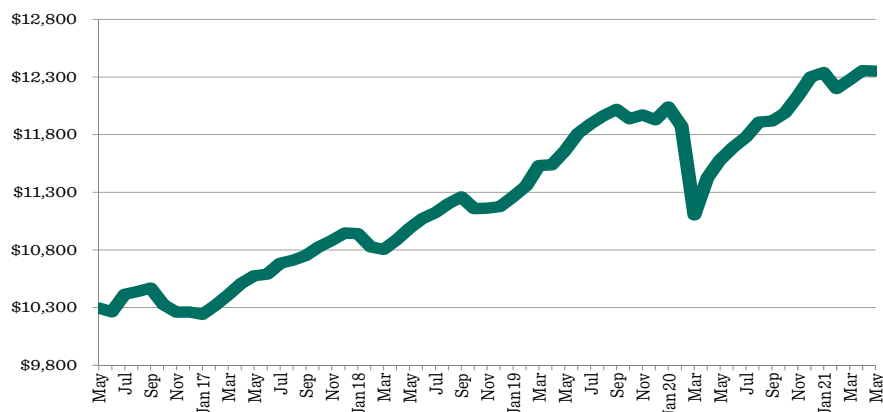
PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a	5 Yr p.a
Devon Diversified Income Fund	-0.0%	1.3%	6.6%	2.9%	4.0%	3.9%
OCR + 1.5%	0.1%	0.4%	1.8%	2.1%	2.5%	2.8%

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 global bond market was reasonably stable during the month with the US 10-year Treasury Yield closing at 1.58%. Economic data in the US has recently been mixed with their Labour Department reporting that hiring intentions unexpectedly slowed during April whilst at the same time consumer prices increased at a rate in excess of the Federal Reserve's target.

There will be a lot of interest in upcoming employment data with economists forecasting that 674,000 additional jobs have been added in May. Deviations from this number will influence the narrative around when the Federal Reserve will begin to consider ending their stimulatory policies. In New Zealand the Reserve Bank left their policy settings unchanged with the Official Cash Rate remaining at 0.25%. The tone of their commentary was slightly more hawkish though, with the Reserve Bank highlighting that their confidence in the outlook is rising.

PORTFOLIO MANAGER

Slade Robertson



Slade has primary responsibility for stock selection and portfolio construction for the Alpha and Diversified Income funds. 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

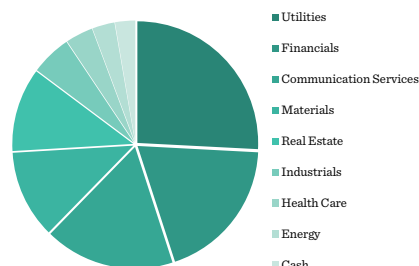
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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	57.7%	Cash	2.6%
Australian Equities	39.7%	Total	100.0%
Currency Hedge	97.3%	Yield	5.7%

PERFORMANCE

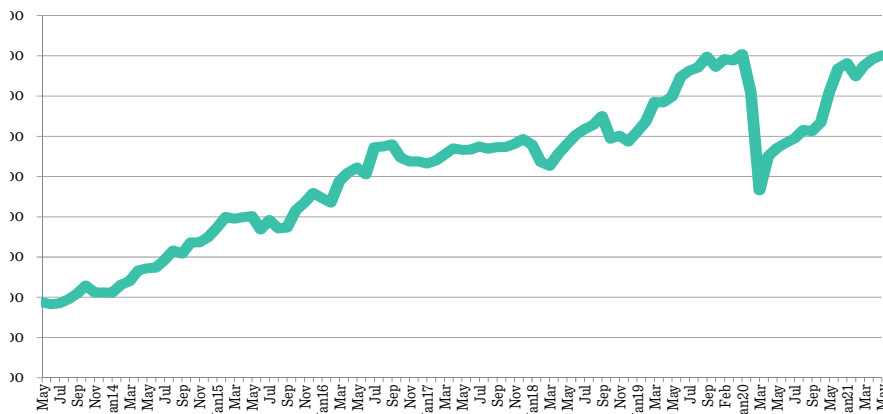
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Dividend Yield Fund	0.8%	4.7%	24.5%	7.2%	5.5%	9.1%
50:50 NZX50 & ASX200 Index Gross	-0.4%	4.6%	20.7%	11.2%	11.0%	10.7%
Australasian Dividend Yield Index*	1.8%	5.2%	30.8%	10.3%	8.7%	8.6%

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

Infratil performed exceptionally well during the month, up 6.9%. Following settlement of the Pacific Radiology acquisition and the Tilt sale, we estimate net debt will fall to approximately \$200m which will leave a war chest of circa \$1bn with which to pursue further reinvestment opportunities. The purchase of Pacific Radiology follows the acquisition of Q Scan Australia, partially repositioning the company's assets towards the healthcare sector. Additional asset sales have been signaled with the electricity retailing portion of the Trustpower's business potentially entering the final stages of a sale process. Trustpower's 265,000 electricity customers will be of significant value to some market participants, resulting in further valuation uplifts for Infratil shareholders. Upgraded earnings guidance combined with the announcement of a possible on market share buyback also helped the stock outperform.

Our investment in Freightways continued to do well (+6.0%), buoyed by a strong earnings result from its transport sector peer Mainfreight. Freightways continues to benefit from a strong tailwind of online shopping, improved pricing and a strong resurgence in its business to business delivery segment.

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

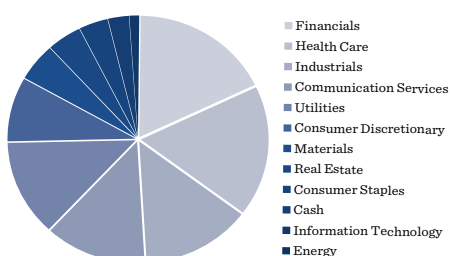
The **Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	53.0%	Cash	2.6%
Australian Equities	44.4%	Total	100.0%

PERFORMANCE

	1 Mth	3 Mth	6Mth	1 Yr p.a	2 Yr p.a
Devon Sustainability Fund	1.8%	6.9%	7.4%	-	-
50:50 NZX50 Portfolio Index & ASX200 Index*	0.6%	5.2%	6.9%	-	-

*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 1.8% return for the month, outperforming its benchmark by 0.5%. The most noteworthy contributors to the performance were Kathmandu (+11.7%), EBOS (+11.6%) and Corporate Travel (+12.7%). In news relevant for EBOS during the month, competitor Pfizer announced that they will transition back from a direct distribution model (using DHL for the logistics) to a wholesale distribution model from September 2021 (excluding the distribution of COVID-19 vaccines).

This move is expected to result in an uplift in revenue and profitability for all three Australian distributors. The benefit accruing to EBOS' earnings is forecast to be in high-single-digits. We continue to like EBOS's defensive growth outlook, track record on execution and solid valuation support. In other developments for the Fund, Vista gave back some of its strong gains from the previous month which had a slightly negative impact on performance.

PORTFOLIO MANAGER

Victoria Harris



Victoria has primary responsibility for stock selection and portfolio construction for the Australian and Sustainability funds.

Victoria has over 10 years' experience in the industry across a broad range of markets, including ESG.

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DEVON TRANS-TASMAN FUND

FUND OUTLINE

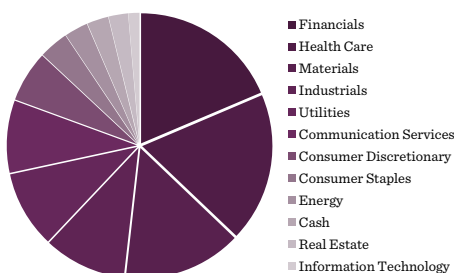
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

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	46.4%
Australian Equities	50.9%

Cash	2.7%
Total	100.0%

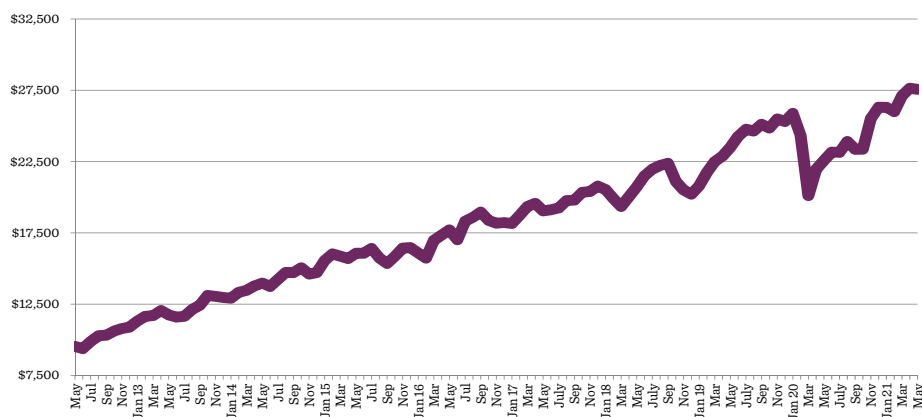
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Trans-Tasman Fund	-0.3%	6.0%	22.0%	9.9%	8.6%	9.7%
Trans-Tasman Index Gross	-1.1%	4.5%	20.2%	11.0%	10.9%	10.5%

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

This strategy enjoyed strong outperformance relative to its benchmark during the month. This follows on from what has been a very good period for the Trans-Tasman portfolio, and we have now outperformed for 7-months in a row. During May there were a large number of stocks which delivered good returns for us including Kathmandu (+11.7%) and Woolworths (+5.9%) but of particular note was CSL whose shares closed up 7.0%. This is a business that we have taken a meaningful position in and have strong confidence that their operating environment will continue to improve.

Driving investor support during May was evidence that as the number of new Covid cases in the US has declined and the level of government stimulus has declined, the number of people looking to donate plasma to CSL has increased. It is from this human plasma that CSL derives immunoglobulin, which it then uses in the treatment of a range of autoimmune conditions.

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. Tama holds co-responsibility for Devon's Trans-Tasman Funds. Tama is widely regarded as a leading expert on resource and mining stocks.

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