

MONTHLY REPORT: AUGUST 2021

Reporting Season Reflections

August was truly a fascinating month for investors. Despite the extraordinary backdrop of social and economic closures being enforced across both New Zealand and Australia, our local markets rallied strongly. The S&P/NZX50 Index closed 5.0% higher, whilst the S&P/ASX200 rallied 2.5%. On the face of it, this outcome appears contrary to what many commentators would have expected, given the COVID responses being employed, but there was a number of other important events influencing investors and the broader markets. A key focus was the corporate earnings season which provided valuable insights into the health and prospects of our local stocks, whilst at a macro level it was again the central banks which played a pivotal role.

The reporting season is a biannual event, occurring each February and August. During this time the vast majority of companies listed in New Zealand and Australia announce their financial results, articulate their views as to the operating conditions currently being faced and provide guidance as to how their businesses are expected to perform over the next 12-months. Leading into the recent season, market expectations were optimistic. In fact, since September last year, market analysts in Australia had been lifting their expectations of corporate earnings (relative to downgrades) with a consistency greater than anything seen in the past 30-years. This reflected the unexpected speed with which businesses were able to navigate the COVID challenges of last year... READ MORE



MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	5.0%	10.7%
S&P/ASX200G	AUSTRALIA	2.5%	28.1%
MSCI World Index	GLOBAL	2.7%	30.5%
S&P500	USA	3.2%	31.3%
FTSE100	UK	2.1%	23.6%
NIKKEI 225	JP	3.0%	23.4%
NZ 90 Day Bank Bill NZ		0.1%	0.3%

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AT A GLANCE

Prices as at 31 August 2021

DEVON
ALPHA
FUND

\$2.1468

DEVON
AUSTRALIAN
FUND

\$1.5813

DEVON
DIVERSIFIED
INCOME
FUND

\$1.5469

DEVON
DIVIDEND
YIELD
FUND

\$1.9841

DEVON
TRANS-
TASMAN
FUND

\$4.6775

DEVON
SUSTAINABILITY
FUND

\$3.5772

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DEVON ALPHA FUND

FUND OUTLINE

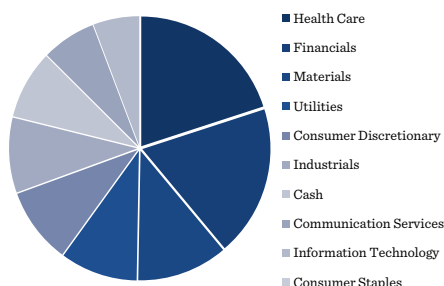
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	31.6%
Australian Equities	57.7%
Currency Hedge	70.5%

Cash	10.7%
Total	100.0%

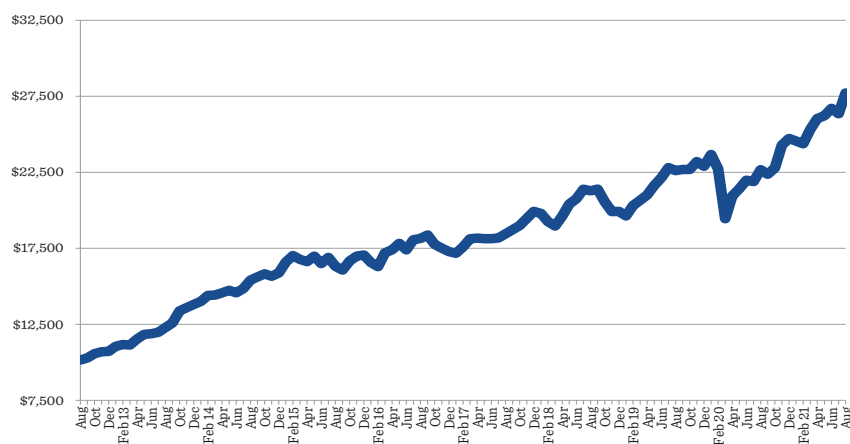
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Alpha Fund	5.2%	5.8%	22.4%	9.2%	8.9%	9.9%
OCR	0.0%	0.1%	0.3%	0.8%	1.2%	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 a strong absolute return during the month. We also performed ahead of the S&P/NZX50 Index and the S&P/ASX200 Index, although this is highlighted purely for interest as it is not an objective of this strategy. Positive contributions came from our investments in Macquarie Group (+6.3%) and Ramsay Healthcare (+7.4%). There were also a number of portfolio changes made. These included the sale of our shares in Resmed and Aristocrat Leisure. Both of these businesses have been fantastic portfolio holdings for us in recent months and it was simply because of how well they have performed that we had to divest, given our disciplined approach to valuation.

A new addition to the portfolio was Cleanaway. Cleanaway is poised to benefit from the positive industry trends occurring in the Australian waste management industry. This business was recently sold off due to COVID lockdowns and we believe the market is being overly conservative in pricing in the potential value uplift from the recently announced acquisition of the prized Sydney assets of French company Suez.

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

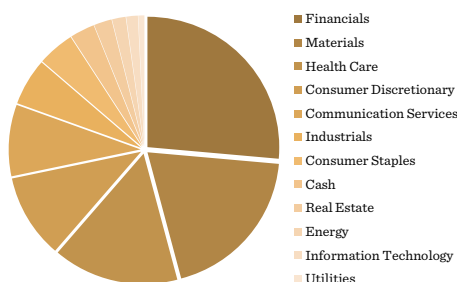
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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	2.6%
Australian Equities	97.4%	Total	100.0%

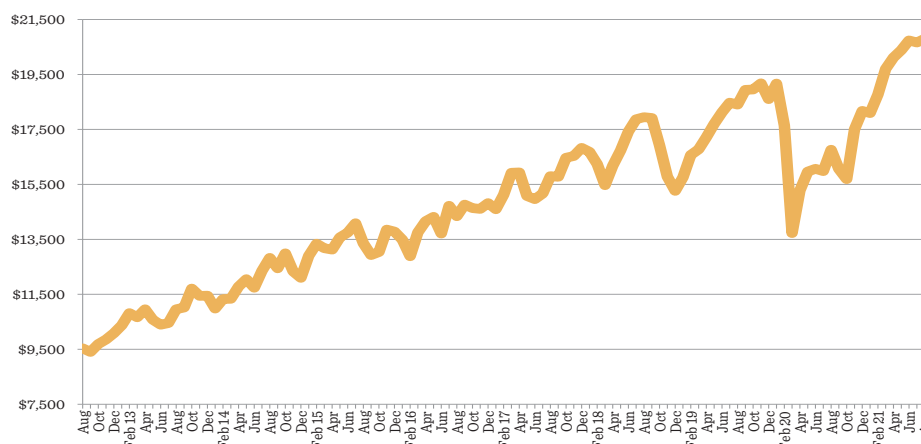
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Australian Fund	0.7%	2.0%	24.1%	5.0%	7.7%	7.9%
ASX200 Index Gross (NZD)	1.1%	3.5%	21.6%	8.1%	11.0%	7.5%

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 0.7% this month. The main positive contributors to the performance were Carsales, Collins Foods and EBOS which all outperformed. August was a busy month for the Fund with majority of companies reporting results for the financial year ended 30 June. Overall, results season finished with more earnings misses than beats. The good news is vaccination rates are rising, re-opening momentum is building, and investors are again rotating toward vaccine beneficiary stocks.

At the beginning of the month, we initiated a position in online classifieds company Carsales (+14.7% return for August). The company is laying the foundations for sustained growth, both domestically and internationally, whilst fortifying the moat around their business by enabling dealers to execute more of their transactions online. Despite the strong recent share price run, we are still attracted to the company's longer-term growth opportunities and current business resilience. The resources names (BHP, RIO and FMG) were detractors to monthly performance due to the correction in the iron ore price.

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

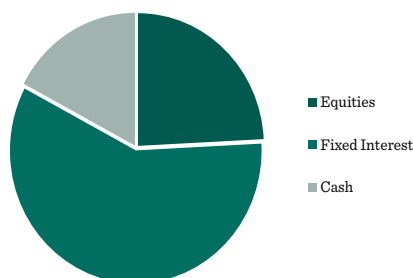
FUND OUTLINE

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	14.4%
Australian Equities	9.8%

Bonds	58.2%
Cash	17.6%

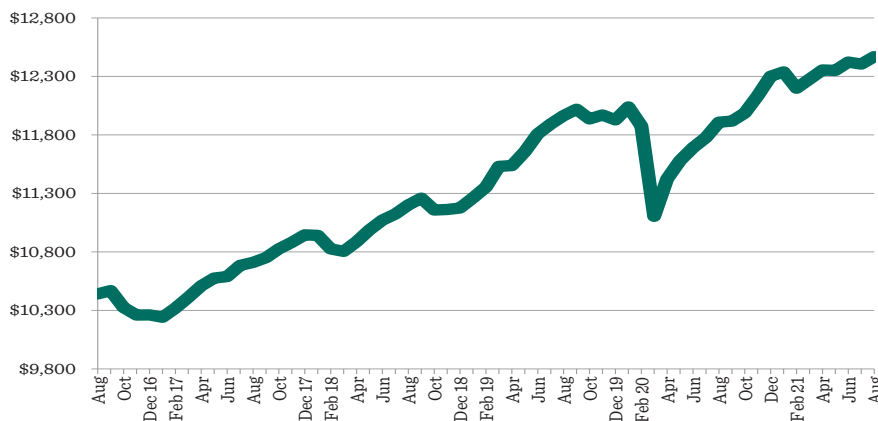
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Diversified Income Fund	0.5%	0.9%	4.7%	3.6%	3.6%	4.2%
OCR + 1.5%	0.1%	0.4%	1.8%	2.4%	2.7%	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

Global bond rates were reasonably stable during the month with the yield on the US 10-year Treasury finishing the month at 1.27%. Despite this apparent lack of volatility, there was actually a lot of information for investors to digest. Of particular relevance was the annual economic symposium that occurred at Jackson Hole. This forum is an opportunity for central bankers and financiers from around the world to discuss key economic issues.

Federal Reserve Chairman, Jerome Powell, began proceedings on a positive note by recognising that substantial economic progress has been made and that consequently the Fed will begin tapering their asset purchases before year end. He did also note that despite this initiative, any interest rates hikes are still some way off. In New Zealand, the RBNZ did not make any change to the overnight cash rate at their meeting due to the recently introduced COVID restrictions but the central bank is expected to move on rates before year-end.

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

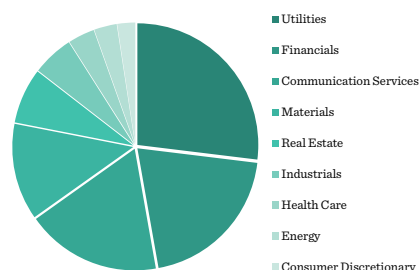
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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	58.1%	Cash	2.2%
Australian Equities	39.7%	Total	100.0%
Currency Hedge	99.6%	Yield	5.7%

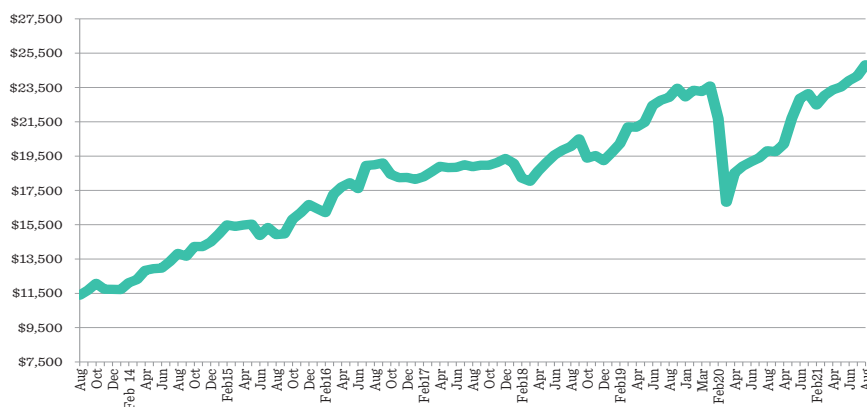
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Dividend Yield Fund	2.7%	5.5%	25.4%	7.4%	5.5%	11.1%
50:50 NZX50 & ASX200 Index Gross	3.7%	6.6%	19.4%	11.1%	11.6%	13.0%

Devon Dividend Yield 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 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

Our investment in Atlas Arteria, the owner and operator of European toll roads, positively surprised the market with a first half result that was better than expected. This upgrade to consensus estimates supported the share price and allowed our investment to perform well during the month, up 9.4% and outperforming the S&P/ASX200 by 6.9%. European summer traffic has been encouraging and in addition to improving truck volumes, we are starting to see the positive impacts of cross border travel under the EU health pass system. A preference for vehicle traffic over air and train travel, in addition to some pent-up tourist demand saw forecasts for the second half traffic recovery upgraded to 98% of pre-COVID levels. Distribution to shareholders was also encouraging with a payout ratio now representing 98% of concession cash flows.

Z Energy continued its strong price movement after the company announced that they had received a conditional takeover offer from Ampol Australia, valuing the company at NZ\$3.78 per share. Z Energy has agreed to a period of four-weeks exclusivity for due diligence with Ampol.

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

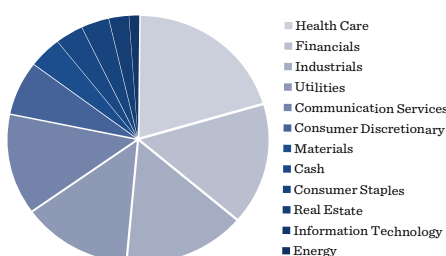
The **Devon Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

The Fund looks to invest in companies that score highly on overall environmental, social and corporate governance performance. The Fund also employs an ethical screen which will prohibit investment into certain companies and sectors.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	49.4%
Australian Equities	48.4%

Cash	2.2%
Total	100.0%

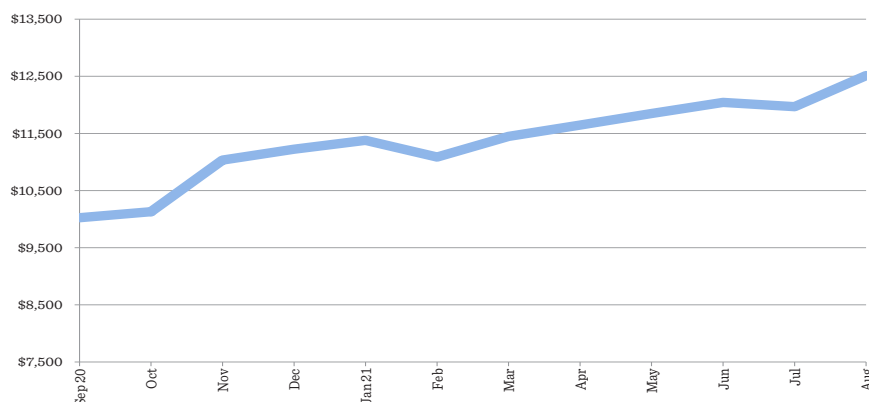
PERFORMANCE

	1 Mth	3 Mth	1 Yr p.a	Since Inception
Devon Sustainability Fund	4.5%	5.6%	25.1%	25.1%
50:50 NZX50 Portfolio Index & ASX200 Index	3.9%	6.4%	24.9%	24.9%

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

NET PERFORMANCE

Based on \$10,000 invested at 31 August 2020



NOTE: Further information on the Devon Sustainability Fund can be found in our Quarterly Fund Updates by visiting <https://devonfunds.co.nz/devon-sustainability-fund/> by clicking [HERE](#)

COMMENTARY

The Sustainability Fund delivered a 4.5% return for the month, outperforming its benchmark by 0.7%. The most noteworthy contributors to the performance were EBOS, Ryman Healthcare and Carsales.

August was a busy month for the Fund with the majority of companies reporting results for the financial year ended 30 June. EBOS (+15.9%) has been a long-standing position in the Fund due to its defensive growth profile and it delivered a good result during the quarter. Within its Health-care division, community pharmacy momentum remained strong and it continues to make bolt-on acquisitions in its medical device division. This was offset by weakness in its Consumer Products divisions due to COVID-19. However, its Animal Care division was the standout due to increased pet ownership. Management are high quality and continue to execute well on their strategy in a sector that remains relatively defensive in uncertain times.

We are pleased to announce that Devon Funds has been recognised for its leading practice in responsible investment by the Responsible Investing Association Australasia (RIAA) for 2021. We are delighted to have been recognised by RIAA two years in a row.

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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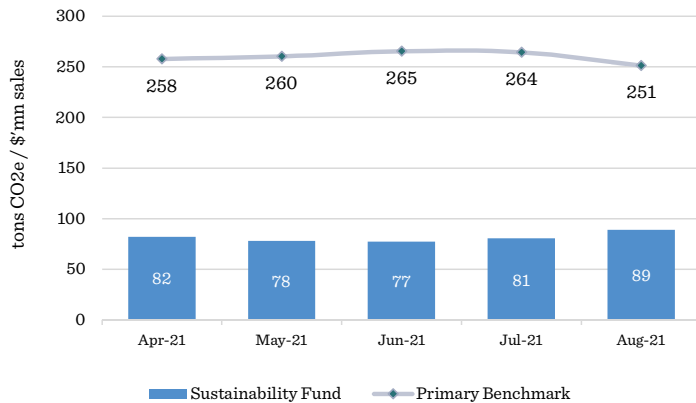
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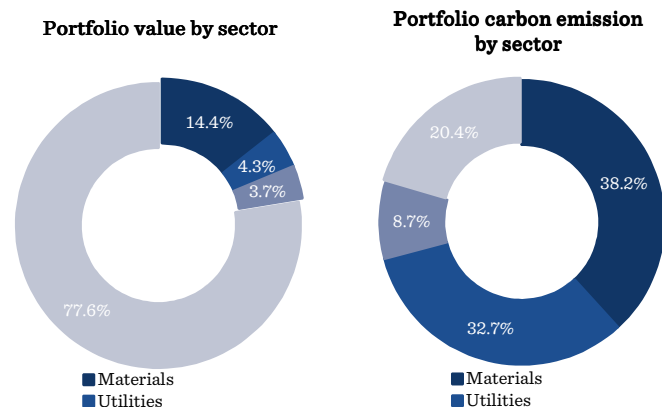


DEVON SUSTAINABILITY FUND - ESG INSIGHTS

CARBON INTENSITY - PORTFOLIO VS BENCHMARK



PORTFOLIO CARBON EMISSIONS BY KEY SECTORS



The materials, utilities, and health care sectors make up 22.4% of the portfolio by value, but they account for 79.6% of the carbon emissions in the portfolio.

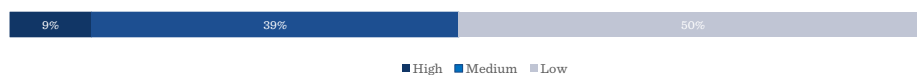
ESG PORTFOLIO SUMMARY

	MSCI ESG Ratings	MSCI ESG Quality score	
Portfolio	AA	7.53	Portfolio Sustainability Fund
Benchmark	AA	7.55	Primary Benchmark 50:50 composite S&P/NZX50 Portfolio Index & S&P/ASX200G Index

PORTFOLIO HOLDING'S DISCLOSURE SUMMARY

% of holding companies doing ESG reporting	97.8%
% of companies reporting to TCFD standards	52.2%
% of companies with a modern slavery statement	43.5%
% of companies with carbon emission reduction targets	60.9%

CLIMATE CHANGE RISK BY PORTFOLIO HOLDINGS



COMMENTARY

During the month, the highly anticipated report from the Intergovernmental Panel on Climate Change (IPCC) was released, highlighting the need for urgent action to tackle GHG emissions. The IPCC is a body of the United Nations which has been mandated to provide objective scientific information relevant to understanding human-induced climate change, its natural, political, and economic impacts and risks, and possible response options.

The report focuses on the physical aspects of climate change across four key topics; the current state of the climate, possible climate futures, climate information for risk assessment and regional adaptation, and limiting future climate change. The report painted a dire picture of the expected outcome should drastic action not be taken. One of those outcomes cited was an increase in frequency of extreme weather events, resulting in increased risks for many countries, economies and companies.

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.



DEVON TRANS-TASMAN FUND

FUND OUTLINE

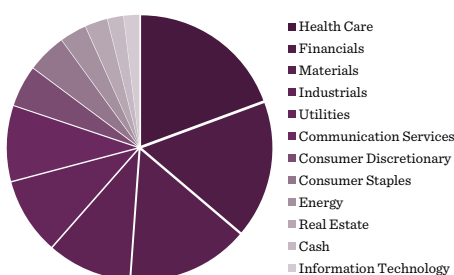
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

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	46.2%
Australian Equities	52.0%

Cash	1.8%
Total	100.0%

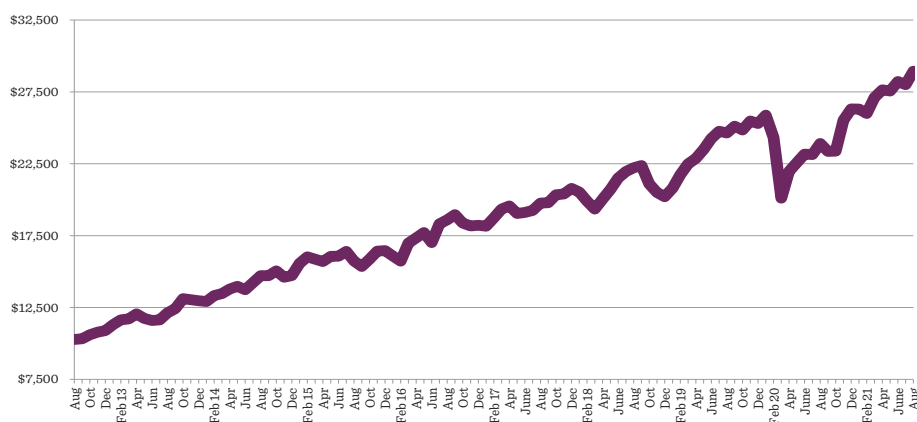
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Trans-Tasman Fund	3.3%	5.0%	20.9%	9.1%	9.2%	8.8%
50:50 NZX50 Gross & ASX200 Index Unhedged	3.0%	5.4%	16.2%	10.2%	11.7%	9.8%

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 Trans-Tasman Fund delivered a positive return of 3.3% this month, outperforming its underlying benchmark. The main positive contributors to the performance were Z Energy, EBOS, ResMed, Amcor and Atlas Arteria. Amcor, the largest global packaging company, delivered another very solid result with its FY21 earnings growing by 16%. This was ahead of its guidance of 14-15%, with growth underpinned by strong organic progress, merger synergies and share buy-back accretion. Looking ahead, the trends are positive with volume growth and a further buy-back to support FY22 guidance for earnings per share growth of 7-11%.

In terms of portfolio changes we continue to find new ideas in the Australian market, and we added Metcash to the portfolio during the month. Metcash operates through the Food, Liquor and Hardware segments in Australia. Its Food segment distributes a range of products and services to independent supermarkets that compete directly with Woolworths and Coles. Recently growth and acquisitions in the Hardware segment have positioned the business to benefit from the current building and renovation boom.

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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