

## MONTHLY REPORT: FEBRUARY 2021

### One of the best Reporting Seasons in decades

2020 will always be remembered for the COVID-19 pandemic. It was a year defined by massive uncertainties around our health, the social implications of shutdowns and distancing, and ultimately whether many businesses and sectors would survive at all. What must also be considered when we look back over the past 12-months though, is the manner with which many governments and central banks dealt with the crisis. In a world where lockdowns, masks and hand sanitizers are still the norm, major global economic policy initiatives have generally done their job. In light of record low interest rates and broad fiscal policy, growth has not only stabilised but is now recovering strongly. The International Monetary Fund recently updated their economic forecasts and expect the global economy to grow by 5.5% in 2021 and by a further 4.2% in 2022. Confidence levels across households and businesses continue to improve and asset prices are in many cases at all-time-highs. Equities certainly fall into this camp, with the US S&P500 Index having rallied by almost 50% since 31 March last year and locally, the NZX50 Index and Australia's ASX200 are up 25% and 34% respectively over the same time period....[READ MORE](#)

## Devon Online Investor Portal

Visit [devonfunds.co.nz](http://devonfunds.co.nz)

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

**NOW LIVE**

### MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	-6.9%	8.6%
S&P/ASX200G	AUSTRALIA	1.5%	6.5%
MSCI World Index	GLOBAL	2.6%	30.0%
S&P500	USA	2.8%	31.3%
FTSE100	UK	1.6%	1.3%
NIKKEI 225	JP	4.8%	39.6%
NZ 90 Day Bank Bill NZ		0.0%	0.4%

**Devon Funds Management Limited**  
Level 10, 2 Commerce Street, Auckland 1010  
PO Box 105 609, Auckland 1143  
Telephone: 0800 944 049 (free call) or +649 925 3990  
[enquiries@devonfunds.co.nz](mailto:enquiries@devonfunds.co.nz)

Devon Funds Management Limited, its directors, employees and agents believe that the information herein is correct at the time of compilation; however they do not warrant the accuracy of that information. Save for any statutory liability which cannot be excluded, Devon Funds Management Limited further disclaims all responsibility or liability for any loss or damage which may be suffered by any person relying upon such information or any opinions, conclusions or recommendations herein whether that loss or damage is caused by any fault or negligence on the part of Devon Funds Management Limited, or otherwise. This disclaimer extends to any entity which may distribute this publication and in which Devon Funds Management Limited or its related companies have an interest. We do not disclaim liability under the Fair Trading Act 1986, nor the Consumer Guarantees Act 1993, to the extent these Acts apply. This document is issued by Devon Funds Management Limited. It is not intended to be an offer of units in any of the Devon Funds (the "Funds"). Anyone wishing to apply for units will need to complete the application form attached to the current Product Disclosure Statement (PDS) which is available at [www.devonfunds.co.nz](http://www.devonfunds.co.nz). Devon Funds Management Limited, a related company of Investment Services Group Limited, manages the Funds and will receive management fees as set out in the PDS. This document contains general securities advice only. In preparing this document, Devon Funds Management Limited did not take into account the investment objectives, financial situation and particular needs ("financial circumstances") of any particular person. Accordingly, before acting on any advice contained in this document, you should assess whether the advice is appropriate in light of your own financial circumstances or contact your financial adviser. No part of this document may be reproduced without the permission of Investment Services Group.

### AT A GLANCE

Prices as at 28 February 2021

DEVON  
ALPHA  
FUND

**\$1.9092**

DEVON  
AUSTRALIAN  
FUND

**\$1.4507**

DEVON  
DIVERSIFIED  
INCOME  
FUND

**\$1.5431**

DEVON  
DIVIDEND  
YIELD  
FUND

**\$1.8416**

DEVON  
TRANS-  
TASMAN  
FUND

**\$4.2707**

DEVON  
SUSTAINABILITY  
FUND

**\$3.2321**

### IN THIS REPORT

Market Commentary	Page 1
At a Glance	Page 1
<b>Devon Fund Summaries</b>	
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

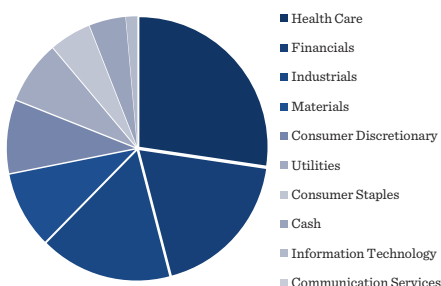
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	43.9%
Australian Equities	51.6%
Currency Hedge	71.1%

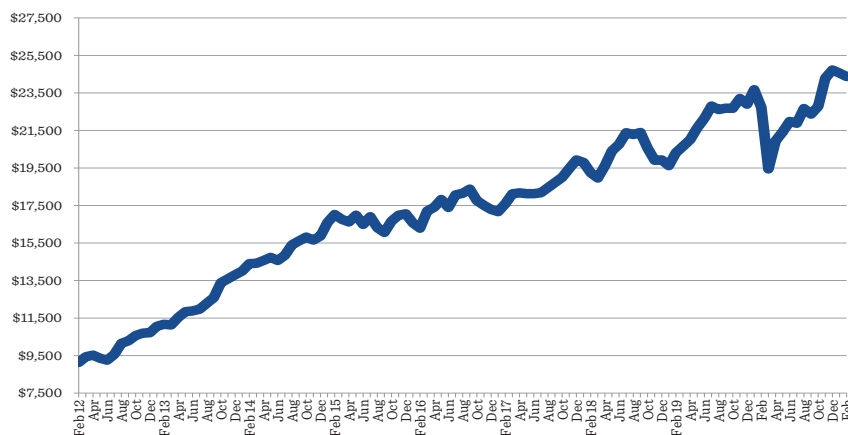
Cash	4.4%
Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Alpha Fund	-0.7%	0.4%	7.3%	8.2%	8.2%	7.7%
OCR	0.0%	0.1%	0.3%	1.1%	1.4%	1.9%

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 slightly negative absolute return for its investors during February, but it substantially outperformed New Zealand's NZX50 Index which fell sharply over the same period (-6.9%). We were very encouraged by the earnings results that were reported by a number of our companies. A good example of this was EBOS Group which reported earnings growth of 9% for their first-half, which was 4% ahead of consensus expectations. Highlights within their result included Institutional Healthcare which continues to leverage off their dominant market share in hospital drug supply, and strong demand being evident across their Animal Care brands. Revenues for Animal Care grew by 15% as pet ownership grew substantially during the Covid lockdowns. The platform that EBOS have achieved in this sector should sponsor ongoing positive momentum over the medium-term. Other highlights across the Alpha portfolio during the month included Macquarie (+8.4%) and Fletcher Building (+5.8%).

## 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.

## Devon Funds Management Limited

Level 10, 2 Commerce Street, Auckland 1010

PO Box 105 609, Auckland 1143

Telephone: 0800 944 049 (free call) or +649 925 3990

enquiries@devonfunds.co.nz

**DEVON  
FUNDS.**

[www.devonfunds.co.nz](http://www.devonfunds.co.nz)



## DEVON AUSTRALIAN FUND

## FUND OUTLINE

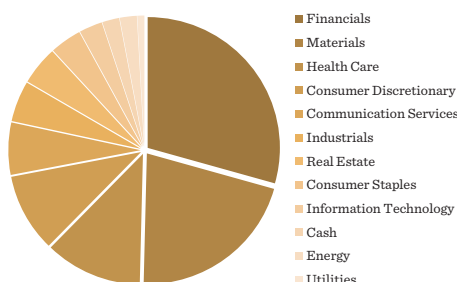
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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	0.0%	Cash	2.1%
Australian Equities	97.9%	Total	100.0%

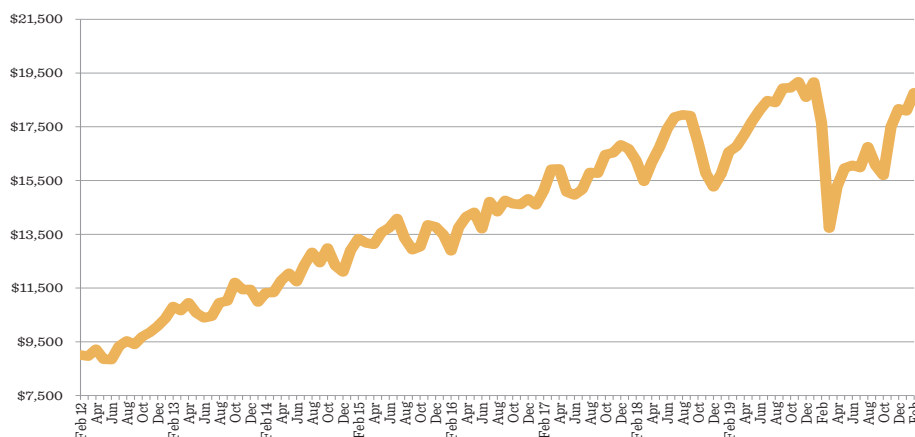
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Australian Fund	3.7%	7.2%	6.4%	4.9%	7.8%	7.5%
ASX200 Index Gross (NZD)	1.5%	4.6%	9.1%	6.9%	10.4%	7.4%

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 finished up 3.7% for the month of February, outperforming the S&P/ASX200G Index in New Zealand dollar terms by 2.27%. February was a busy month for the ASX with companies reporting their results for the six months ended December 2020. Overall, it was a very strong reporting season – the best in years – despite COVID. Nine Entertainment delivered an exceptionally strong interim result and its shares finished up nearly 30% for the month. This was driven mainly by its strong subscriber growth in its subscription video on demand platform, Stan. All Nine's business units are experiencing good momentum and the company's outlook and valuation continue to look favourable. Other stocks that we own which performed well included Scentre Group (+8.1%) and Corporate Travel Management (+21.7%). Both of these businesses are well positioned to benefit from a resumption of normal activity once vaccines have been widely administered.

## 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 Funds Management Limited

Level 10, 2 Commerce Street, Auckland 1010

PO Box 105 609, Auckland 1143

Telephone: 0800 944 049 (free call) or +649 925 3990

[enquiries@devonfunds.co.nz](mailto:enquiries@devonfunds.co.nz)

**DEVON  
FUNDS.**

[www.devonfunds.co.nz](http://www.devonfunds.co.nz)



## DEVON DIVERSIFIED INCOME FUND

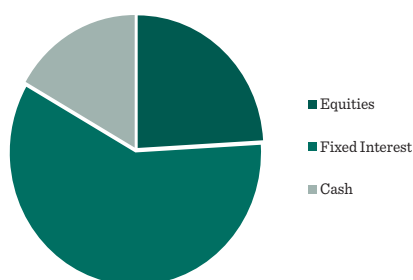
## FUND OUTLINE

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	14.3%	Bonds	59.2%
Australian Equities	9.6%	Cash	16.9%

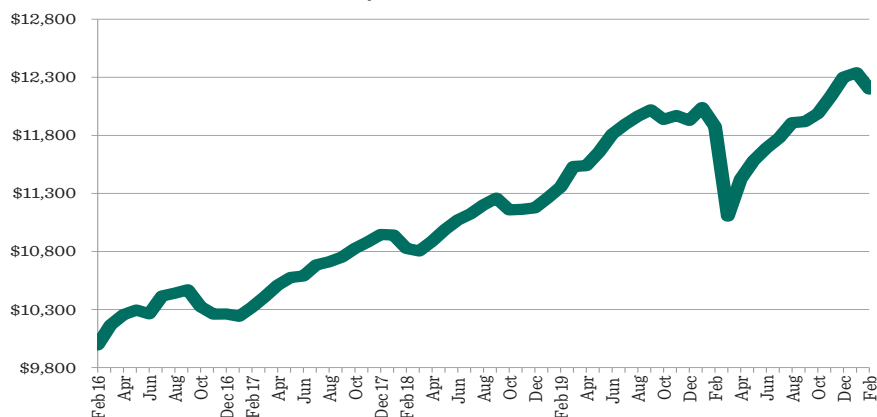
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a	5 Yr p.a
Devon Diversified Income Fund	-1.1%	0.5%	2.7%	3.6%	4.1%	4.3%
OCR + 1.5%	0.1%	0.4%	1.8%	2.3%	2.6%	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 bond yields moved notably higher during the month with the US 10-year Treasury yield closing the month at 1.41% (this yield started the month at 1.06%). This pricing change reflected a growing sense of optimism that economic growth will continue to recover in 2021. In recent weeks confidence has been buoyed by progress with the international Covid vaccination program and with evidence that policy initiatives will remain supportive. This is particularly the case with President Biden's commitment to pass his next \$1.9tn fiscal stimulus bill. In New Zealand the RBNZ announced their decision to keep the Official Cash Rate on hold at 0.25% and committed to maintain their support through monetary policy until they are confident that domestic inflation will be sustained around their 2% target. The economic rebound that has occurred in New Zealand has been stronger than expected but the RBNZ did highlight that ongoing uncertainty remained.

## 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.

## Devon Funds Management Limited

Level 10, 2 Commerce Street, Auckland 1010

PO Box 105 609, Auckland 1143

Telephone: 0800 944 049 (free call) or +649 925 3990

[enquiries@devonfunds.co.nz](mailto:enquiries@devonfunds.co.nz)

**DEVON  
FUNDS.**

[www.devonfunds.co.nz](http://www.devonfunds.co.nz)



## DEVON DIVIDEND YIELD FUND

## FUND OUTLINE

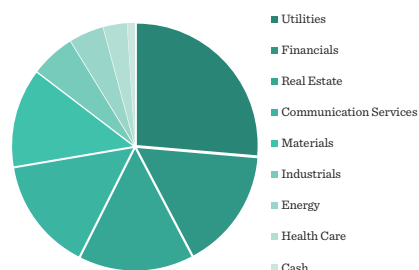
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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	59.3%	Cash	1.0%
Australian Equities	39.7%	Total	100.0%
Currency Hedge	98.6%	Yield	5.8%

## PERFORMANCE

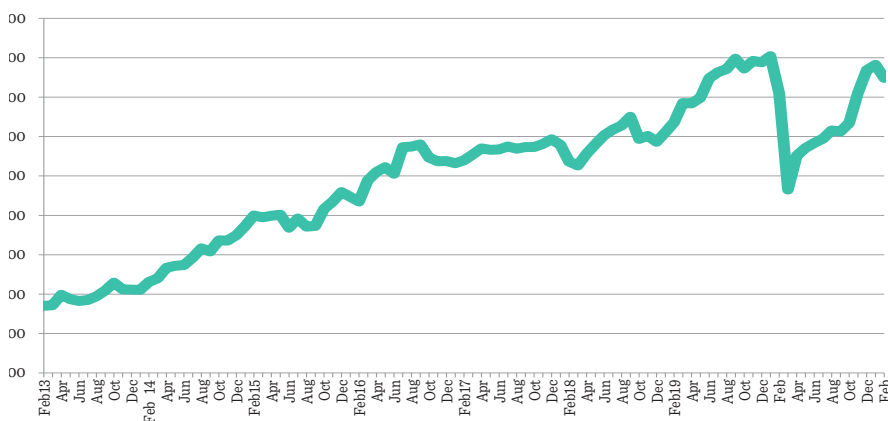
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Dividend Yield Fund	-2.8%	3.5%	3.7%	7.2%	6.7%	9.4%
50:50 NZX50 & ASX200 Index Gross	-2.7%	-0.6%	7.5%	10.4%	12.6%	10.5%
Australasian Dividend Yield Index*	-1.5%	5.0%	9.8%	9.0%	10.1%	8.7%

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

Rio Tinto was one of our top performing stocks for the month, up 15.3%. Whilst the Net Profit After Tax result of US \$12.4bn was slightly ahead of consensus, it was the size of the dividend that caught the market by surprise. Rio's decision to pay out 100% of free cash flow resulted in a declared final dividend of US\$4.02 per share, 24% ahead of market estimates which included a US\$0.93 special dividend. Additionally, the company continued to reduce debt with total debt now at US\$700m, a gearing ratio of less than 1%. Our other investments in the mining sector (BHP and FMG) both produced exceptional performance during the period alongside substantial improvements in dividends. Other investments that also made strong contributions were in the Financials sector with National Australia Bank rallying 4.7% and Macquarie Bank closing 8.4% higher.

## 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.

## Devon Funds Management Limited

Level 10, 2 Commerce Street, Auckland 1010

PO Box 105 609, Auckland 1143

Telephone: 0800 944 049 (free call) or +649 925 3990

[enquiries@devonfunds.co.nz](mailto:enquiries@devonfunds.co.nz)

**DEVON  
FUNDS.**

[www.devonfunds.co.nz](http://www.devonfunds.co.nz)





## DEVON SUSTAINABILITY FUND

## FUND OUTLINE

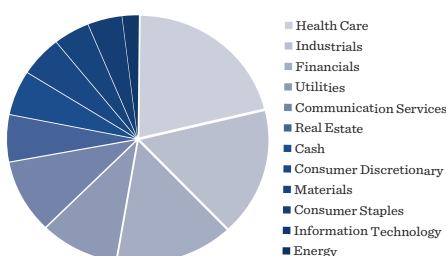
The **Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	50.5%
Australian Equities	43.6%

Cash	5.8%
Total	100.0%

## PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Sustainability Fund	-2.6%	0.5%	-	-	-
50:50 NZX50 Portfolio Index & ASX200 Index*	-1.8%	1.7%	-	-	-

\*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 returned -2.6% for the month. There was a stark divergence in performance across Australia and New Zealand in February with the S&P/ASX200G Index finishing up 1.5% versus the NZX50G Index finishing -6.9%. This was driven by the better-than-expected company results from Australian companies for the six months ended December 2020. Upgrades were seen across the board, especially in the Banks, with earnings beating market expectations due to better margins leading to better-than-expected EPS growth. In New Zealand, company results were still good but just slightly more lacklustre. Ramsay Healthcare delivered a better-than-expected result and its shares finished up 8% on the day it reported. The company is a beneficiary of the vaccine roll out as it benefits from the pent-up demand by patients for hospital procedures. This demand should lead to strong earnings growth.

## 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 Funds Management Limited

Level 10, 2 Commerce Street, Auckland 1010

PO Box 105 609, Auckland 1143

Telephone: 0800 944 049 (free call) or +649 925 3990

enquiries@devonfunds.co.nz

**DEVON  
FUNDS.**

[www.devonfunds.co.nz](http://www.devonfunds.co.nz)



## DEVON TRANS-TASMAN FUND

## FUND OUTLINE

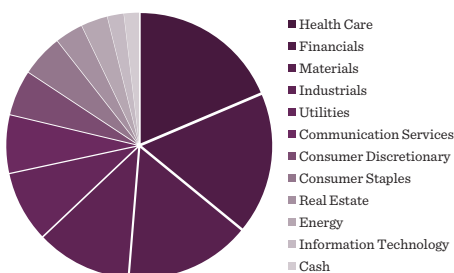
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the NZ and Australian equity markets.

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	46.7%
Australian Equities	51.4%

Cash	1.9%
Total	100.0%

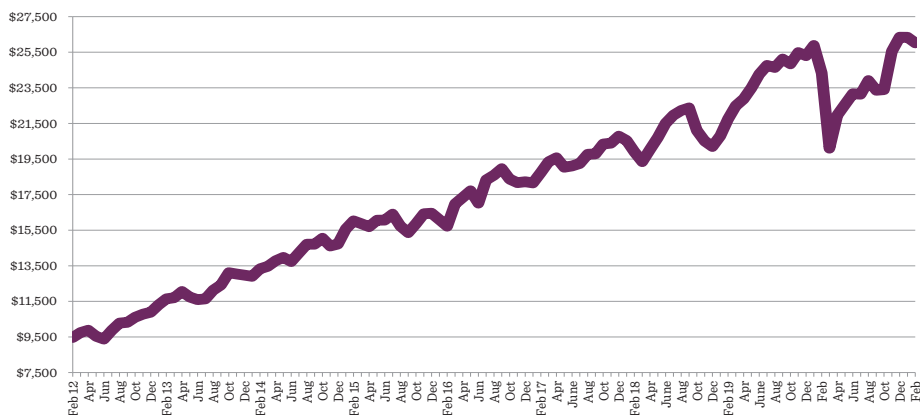
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Trans-Tasman Fund	-1.2%	1.8%	6.8%	9.2%	9.9%	9.5%
Trans-Tasman Index Gross	-2.7%	0.2%	8.8%	10.2%	12.4%	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

We were pleased with the returns that this portfolio generated during February with strong outperformance of the Trans-Tasman Index (+1.5%) as the global economic recovery gathered pace supporting our value bias. There were a number of investments which made positive contributions including BHP Billiton, Rio Tinto, Virgin Money (VUK) and Vista Group. Australian listed VUK, a recent addition to the portfolio, rallied over 30% following a strong interim result with good capital and bad debt trends. In addition, news flow from the UK around positive vaccination progress and lower virus numbers is increasing the likelihood of a strong UK macro recovery which is positive for the UK banks. In terms of portfolio changes, we exited Fortescue Minerals over the month. After a period of strong performance by this stock, we've become more concerned around capital allocation with approximately 20% of net profit now being allocated to areas outside their core iron ore business.

## 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.

## Devon Funds Management Limited

Level 10, 2 Commerce Street, Auckland 1010

PO Box 105 609, Auckland 1143

Telephone: 0800 944 049 (free call) or +649 925 3990

enquiries@devonfunds.co.nz

**DEVON  
FUNDS.**

[www.devonfunds.co.nz](http://www.devonfunds.co.nz)