

MONTHLY REPORT: JANUARY 2021

2021 Likely another strong year for Equities

This month's interest piece was written by our Chief Investment Officer, Mark Brown. Whilst anyone could be forgiven for superficially predicting that after 10-years of unrelenting strength global equity markets were due for a correction, this would not be our view. Whilst we have sympathy for the "reversion to mean" argument we don't believe that it is a valid thesis for 2021. In fact, our view is that 2021 will probably be another strong year for equity investments and that there are numerous good reasons to support this positive view. In a somewhat perverse way, the phenomenal rebound of equity markets in the face of the COVID-19 pandemic gives us an insight into the global appetite for equities over other forms of investment. Clearly, there are always risks but a combination of low bond returns, improving global trade, fiscal stimulus, vaccines and corporate earnings improvement supports our view. This synchronicity in global stimulus and recovery could mean that our moderately positive outlook for 2021 may well be too conservative.

Monetary policy, largely the responsibility of central banks around the world has been the most influential driver of economic growth..[READ MORE](#)

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MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	0.3%	12.0%
S&P/ASX200G	AUSTRALIA	0.3%	-3.1%
MSCI World Index	GLOBAL	-1.0%	16.0%
S&P500	USA	-1.0%	17.2%
FTSE100	UK	-0.8%	-9.2%
NIKKEI 225	JP	0.8%	21.5%
NZ 90 Day Bank Bill NZ		0.0%	0.6%

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AT A GLANCE

Prices as at 31 January 2021

DEVON ALPHA FUND	\$1.9233
DEVON AUSTRALIAN FUND	\$1.3984
DEVON DIVERSIFIED INCOME FUND	\$1.5609
DEVON DIVIDEND YIELD FUND	\$1.8954
DEVON TRANS-TASMAN FUND	\$4.3215
DEVON SUSTAINABILITY FUND	\$3.3175

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DEVON ALPHA FUND

FUND OUTLINE

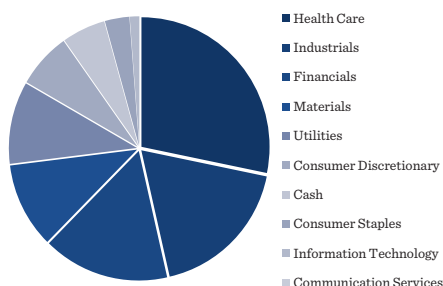
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	50.6%
Australian Equities	43.9%
Currency Hedge	72.0%

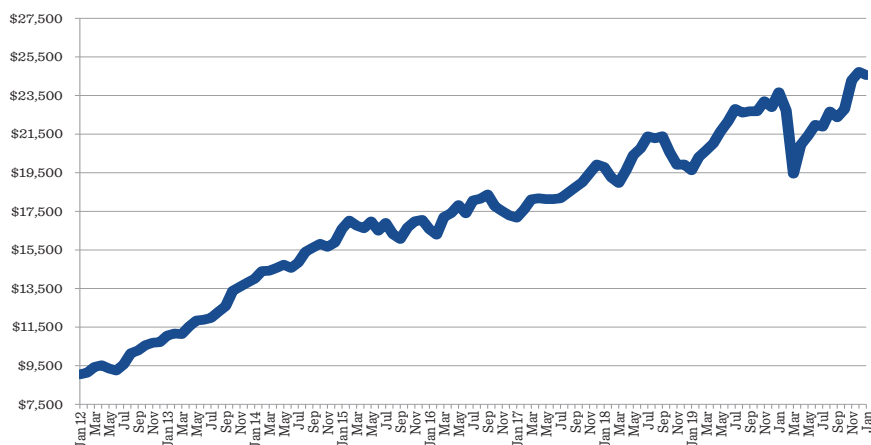
Cash	5.5%
Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Alpha Fund	-0.7%	7.8%	3.7%	7.5%	8.0%	8.2%
OCR	0.0%	0.1%	0.3%	1.1%	1.5%	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

After a strong period of performance during the second-half of 2020, this strategy disappointingly generated a slightly negative return for January. This was largely a consequence of profit taking which occurred across a number of our investments. Despite this we remain confident in our portfolio which has a bias towards those businesses which will benefit from an economic recovery and those supported by fundamental valuation. Amongst the strongest contributors during the month were Freightways and Fletcher Building which generated returns of 9.3% and 5.4% respectively. We also increased our exposure to Fletcher Building as we believe that the current recovery evident in housing and construction across New Zealand and Australia is providing a strong backdrop to their medium-term earnings profile. Other changes that occurred included the purchase of shares in Woolworths and the removal of Fortescue Metals after its stock price had rallied strongly late last year.

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

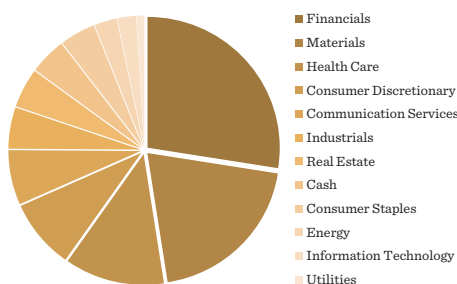
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

The Australian market is much larger than the 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	1.1%	Cash	4.5%
Australian Equities	94.4%	Total	100.0%

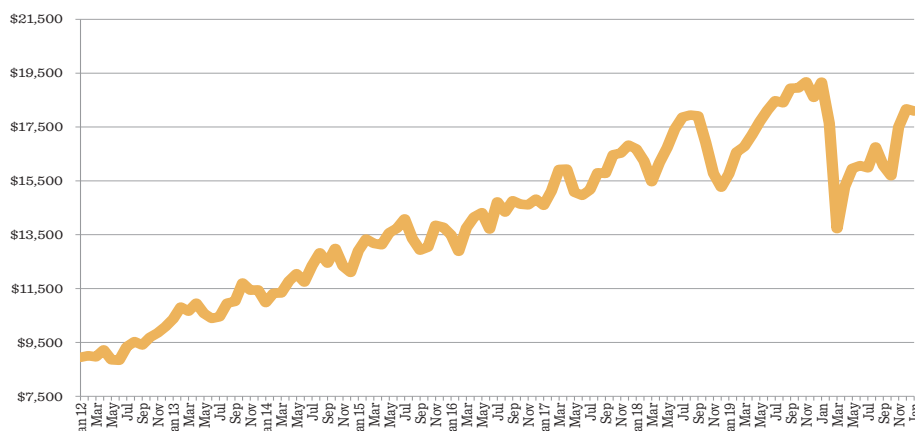
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Australian Fund	-0.4%	15.3%	-5.6%	2.7%	6.0%	7.4%
ASX200 Index Gross (NZD)	-0.4%	12.1%	-0.3%	6.0%	9.4%	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 finished flat for the month of January. The positive contributors to the performance were BHP, ANZ and NAB which all outperformed. Telstra announced at its recent Investor Day a new company structure which sets the company up well to monetise its infrastructure assets over the next few years. As well as this, the competitive environment in mobile looks more favourable, the company is well ahead in terms of its 5G roll out and fixed line economics continue to improve. All these incrementally positive data points lead us to maintain our overweight position. The detractors to performance for the month were CSL, Macquarie, and Sydney Airport. The rally we saw in the Resources companies in December reversed slightly in January as investors took profits and upgrades in the spot iron ore price started to be reflected. We strategically took profits throughout the month on these names.

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

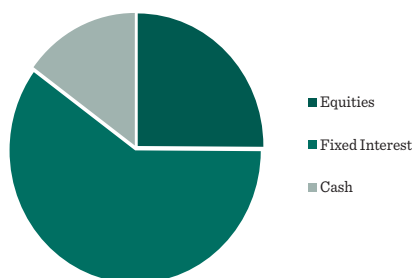
FUND OUTLINE

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	15.4%	Bonds	60.0%
Australian Equities	9.1%	Cash	15.5%

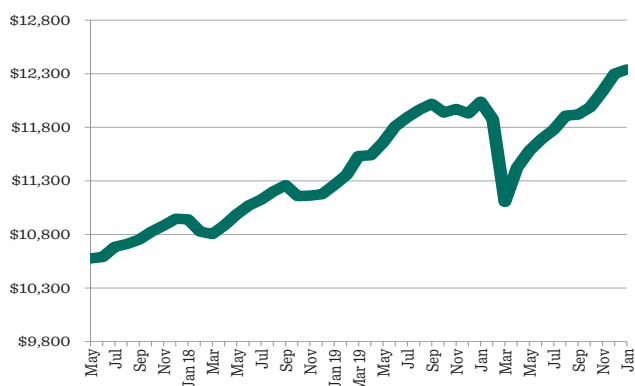
PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Diversified Income Fund	0.3%	2.9%	2.5%	4.7%	4.1%
OCR + 1.5%	0.1%	0.4%	1.9%	2.3%	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

Global bond yields increased during the month and the US Treasury curve steepened substantially, as investors priced in an expectation that the economic recovery will continue throughout 2021 amidst the rollout of COVID vaccines and ongoing policy support. The success of the Democratic Party in the Georgian runoff elections contributed to this thesis after the Republican Party lost control of the Senate, further supporting the ability for President Joe Biden to enact his policies through Congress. Consequently, we expect to see additional fiscal stimulus being introduced. The US Federal Reserve also met during January. They did note that growth had moderated recently and kept their benchmark interest rate anchored near zero percent. They also made commitments to continue buying \$120bn of bonds each month. In New Zealand our economy continues to improve with general business confidence recovering further in the December quarter.

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

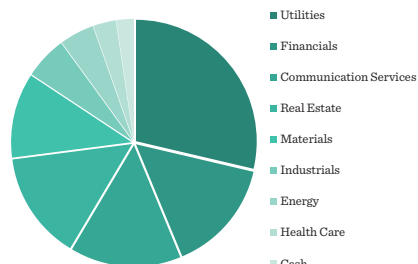
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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	61.5%	Cash	2.3%
Australian Equities	36.1%	Total	100.0%
Currency Hedge	98.8%	Yield	5.4%

PERFORMANCE

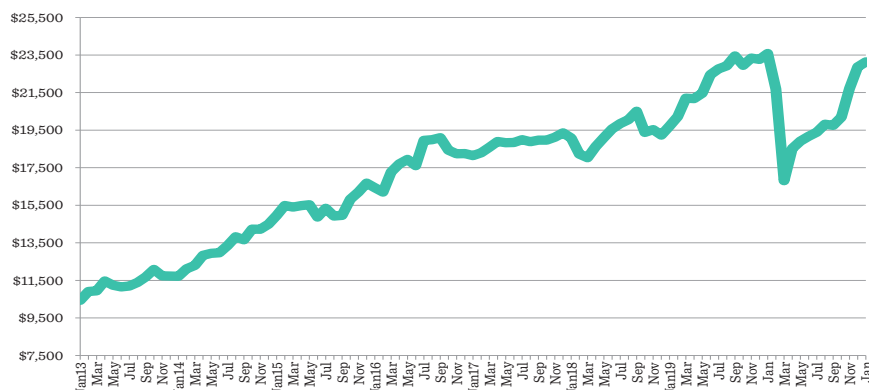
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Dividend Yield Fund	1.2%	14.6%	-1.9%	6.6%	7.0%	10.4%
50:50 NZX50 & ASX200 Index Gross	0.3%	10.3%	4.5%	11.4%	13.2%	11.6%
Australasian Dividend Yield Index*	0.9%	16.1%	2.9%	8.4%	10.3%	9.5%

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

The Dividend Yield strategy enjoyed strong performance during the month with underlying markets particularly volatile. The electricity sector was of particular interest to us with a wide range of performance outcomes being experienced by its constituent stocks. Mercury's quarterly hydro generation, whilst flat for the period, saw a strong lift in Taupo lake storage with levels increasing by 80%. These higher than expected inflows have allowed Mercury to increase their profit guidance for FY2021 by 6%. Additionally, confirmation from Rio Tinto that it had reached an agreement with Meridian Energy that allows it to remain in operation until 2024, removed the threat of imminent electricity oversupply. This news saw our investments in Mercury and Genesis up 9.1% and 8.1% respectively. Contact and Meridian disappointed during the month, affected in part by profit taking after their stellar performance during December. This sector also continues to be influenced by the investment flows going into, and out of, clean energy passive funds.

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

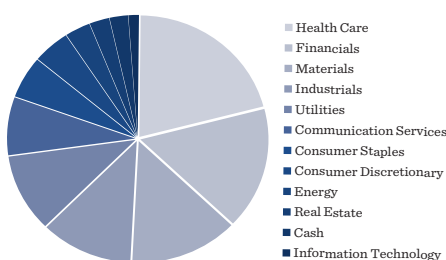
The **Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	55.0%	Cash	2.8%
Australian Equities	42.1%	Total	100.0%

PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Sustainability Fund	1.4%	12.3%	-	-	-
50:50 NZX50 Portfolio Index & ASX200 Index*	0.2%	12.1%	-	-	-

*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 1.4% return for the month, outperforming its benchmark. The most noteworthy contributors to the performance were Freightways, Mercury and ANZ. Freightways continues to go from strength-to-strength, finishing up 9.3% for the month, and up over 120% since its lows in March 2020. Whilst there was no new news that drove this month's performance, Freightways continues to benefit from increased online spending, leading to more packages needing to be delivered, as well as market share gains. This has led to strong revenue growth and improved margins. Freightways remains a large overweight in the Fund, as even at current share price levels the valuation of the company is undemanding. Global clean energy ETFs continue to put downward pressure on the New Zealand gentailers, with both Contact Energy and Meridian finishing down 25% from inter-month highs. We are underweight the combination of these 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.

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DEVON TRANS-TASMAN FUND

FUND OUTLINE

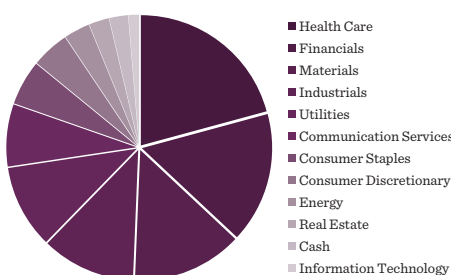
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the NZ and Australian equity markets.

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	51.7%
Australian Equities	45.9%

Cash	2.3%
Total	100.0%

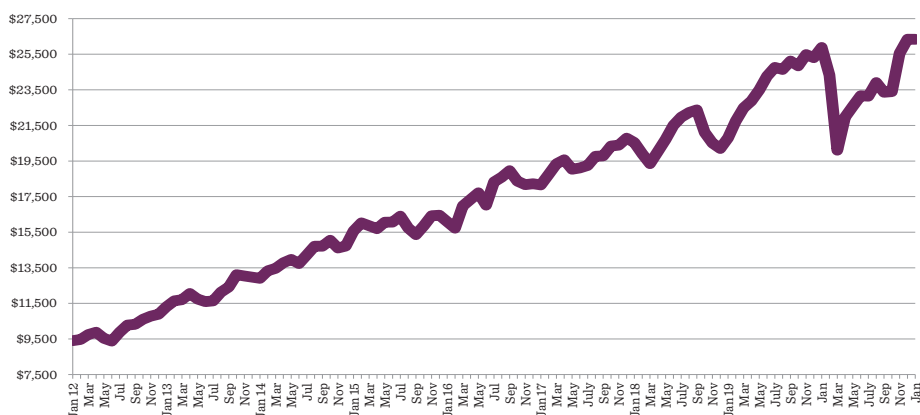
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Trans-Tasman Fund	-0.02%	12.4%	1.5%	8.5%	9.6%	10.2%
Trans-Tasman Index Gross	-0.04%	10.4%	5.9%	10.9%	12.9%	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

The Trans-Tasman Fund performed in line with its underlying benchmark in January. Key contributors to the absolute performance of this Fund included Freightways (+9.3%) and BHP Group (+2.7%) which are both benefiting from the strong global and domestic economic recovery evident in recent data. Key negative contributors included Contact Energy and Macquarie Group, although we remain positive on both of these names. In terms of portfolio changes, the Fund reduced its exposure to Fortescue Minerals (FMG), thereby reducing the size of the overweight in the mining sector after a strong run by this sector. From the point at which it was included in the portfolio, the Fortescue share price rallied over 30% on a stronger iron ore price due to supply issues at Vale, the world's second largest iron ore supplier. We continue to believe the outlook for the sector remains constructive in 2021, given economic growth trends in China, the sector's high free-cashflow yields and the potential for capital return.

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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