

MONTHLY REPORT: JULY 2021

M & A Mania

This month's commentary has been written by Devon's Portfolio Manager, Victoria Harris.

Last year, as the COVID crisis accelerated, many listed companies across the globe quickly pivoted into balance sheet preservation mode by tapping equity markets for capital. Nowhere was this more evident than in Australia and New Zealand. At one point in 2020, more capital had been raised in the Australian market, in a relative sense, than across global markets combined. According to Bloomberg (a global provider of financial news and information), the scale of capital raised as a proportion of index capitalisation for Australia, from March 2020 to July 2020, was 0.80% whilst in the US this number was at less than 0.2%.

At the time, this defensive shift was eminently sensible; the scale, duration and impact of the COVID-19 crisis were deeply uncertain, casting a dark cloud over the global corporate landscape. It was this scale of uncertainty which also proved to be the trigger for central bank and government action, setting the platform for one of the fastest and most dramatic economic recoveries ever seen... [READ MORE](#)

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MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	-0.5%	7.4%
S&P/ASX200G	AUSTRALIA	1.1%	28.6%
MSCI World Index	GLOBAL	1.8%	35.7%
S&P500	USA	2.4%	36.4%
FTSE100	UK	0.1%	23.3%
NIKKEI 225	JP	-5.2%	27.7%
NZ 90 Day Bank Bill NZ		0.0%	0.3%

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AT A GLANCE

Prices as at 31 JULY 2021

DEVON
ALPHA
FUND

\$2.0411

DEVON
AUSTRALIAN
FUND

\$1.5710

DEVON
DIVERSIFIED
INCOME
FUND

\$1.5391

DEVON
DIVIDEND
YIELD
FUND

\$1.9320

DEVON
TRANS-
TASMAN
FUND

\$4.5260

DEVON
SUSTAINABILITY
FUND

\$3.4219

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DEVON ALPHA FUND

FUND OUTLINE

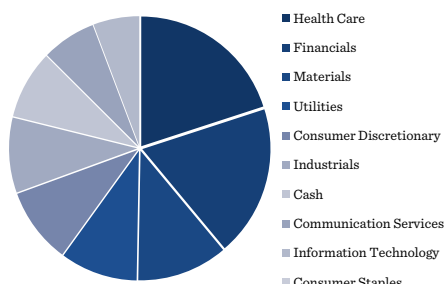
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	31.7%
Australian Equities	59.7%
Currency Hedge	69.8%

Cash	8.6%
Total	100.0%

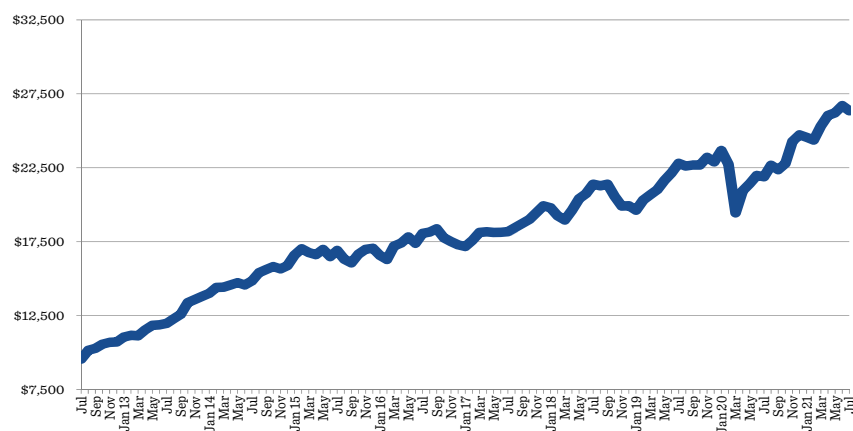
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Alpha Fund	-1.2%	1.3%	20.5%	7.3%	7.7%	8.4%
OCR	0.0%	0.1%	0.3%	0.9%	1.2%	1.7%

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 has enjoyed a strong period of performance over the past 15-months but during July it delivered a negative return. The key detractor during the month was our investment in the Australian payments business, Afterpay Limited. Despite its share price weakening during July, at the time of writing this commentary the company has just announced that they have received a takeover bid by US company, Square. Its share price has rallied substantially on this news. There were a number of positive contributors to the portfolio including ResMed which rallied more than 10% and Mainfreight which closed 7.4% higher. Shares in Mainfreight jumped after the company provided a trading update at their AGM. In the 4-months to the end of April, they generated revenue growth of 36% across their New Zealand business and 70% growth in the US. These outcomes were ahead of analyst expectations with transport volumes up across all of their networks.

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

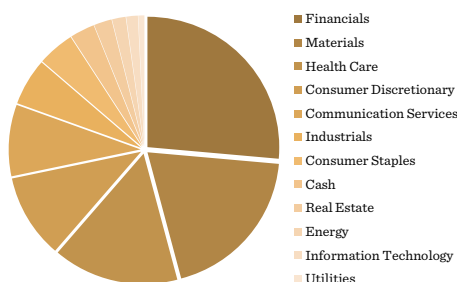
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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	3.0%
Australian Equities	97.0%	Total	100.0%

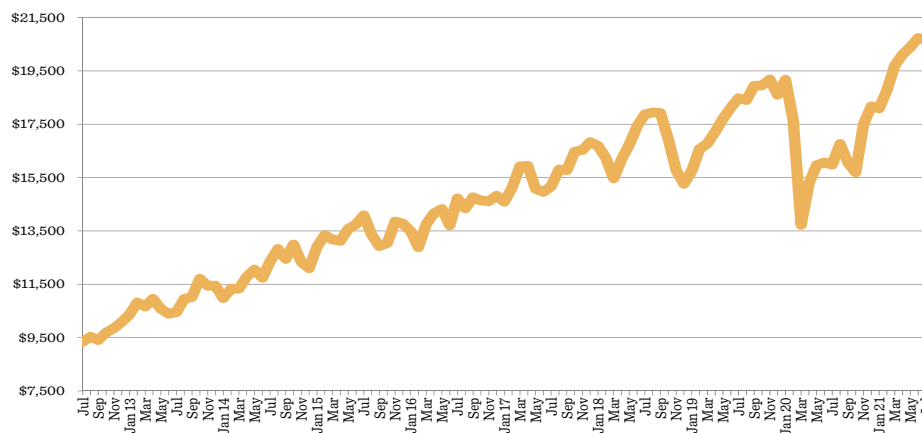
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Australian Fund	-0.4%	2.7%	29.3%	4.9%	7.0%	7.6%
ASX200 Index Gross (NZD)	-0.9%	3.5%	25.8%	8.2%	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 finished down 0.36% for the month, outperforming its benchmark which fell 0.9%. The main positive contributors to the performance were Spark Infrastructure, Sydney Airport and the Resources companies; BHP, Rio Tinto and Fortescue Metals. M&A activity was healthy in the market during the month with two companies in the portfolio getting takeover bids. One of those was Sydney Airport (+34%) where a consortium of superannuation funds bid \$8.25 per share for the company, a 42% premium to last close. This was an overweight position in the Fund.

The Board rejected this offer as they thought it did not accurately reflect the true value of the company. This will potentially lead to a higher bid from the consortium. A new position we added was Metcash. The company recently made an acquisition, increasing its exposure to the fast-growing hardware category of retail. Its independent supermarkets should continue to take share (particularly with the current NSW lockdowns) and versus other retailers, it has very good valuation support.

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

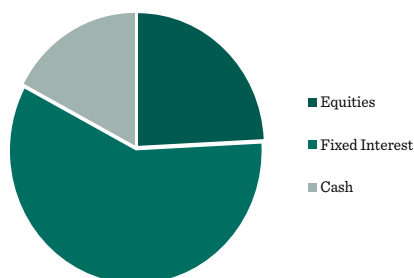
FUND OUTLINE

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	13.9%
Australian Equities	10.0%

Bonds	58.5%
Cash	17.6%

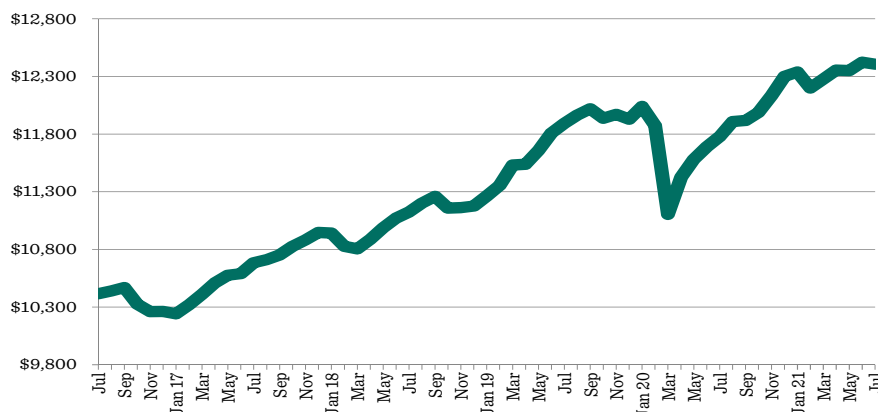
PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a	5 Yr p.a
Devon Diversified Income Fund	-0.1%	0.4%	5.3%	2.1%	3.7%	3.5%
OCR + 1.5%	0.1%	0.4%	1.8%	2.0%	2.4%	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



<https://devonfunds.co.nz/diversified-income-fund> or by clicking [HERE](#)

COMMENTARY

Global bonds rallied during July, with the yield on US 10-year Treasuries finishing the month at 1.25%. The US Federal Reserve kept their benchmark interest rate in a range of 0% to 0.25% and highlighted that their economy continues to expand despite the pandemic spread. Fed Chairman, Jerome Powell, also commented that despite the recovery, the central bank is a long way from considering an interest rate hike. In Australia the most significant news centered around the extended lockdowns being implemented in New South Wales. This will have a meaningful, albeit short-term, negative impact on GDP growth and will give the RBA cause to maintain their accommodative approach to policy. In New Zealand, the RBNZ's Monetary Policy Committee announced their intention to reduce monetary policy stimulus by halting any additional purchases under their quantitative easing program. This was justified on the grounds of improving domestic and international economic data.

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

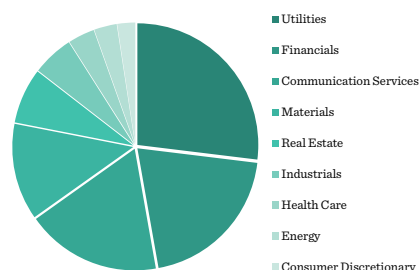
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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	57.6%	Cash	1.0%
Australian Equities	41.4%	Total	100.0%
Currency Hedge	97.1%	Yield	5.8%

PERFORMANCE

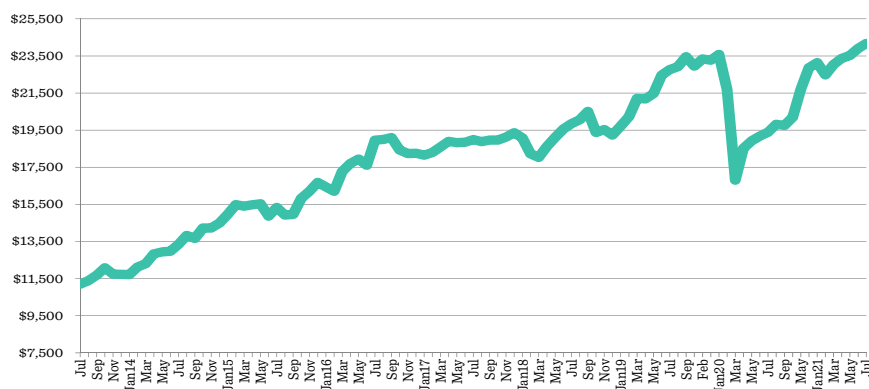
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Dividend Yield Fund	1.1%	3.5%	24.7%	6.8%	4.9%	9.0%
50:50 NZX50 & ASX200 Index Gross	0.3%	2.4%	18.0%	10.8%	10.7%	10.9%

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

Our investment in Z Energy had a strong month after the conclusion of their investor day which highlighted the business' strong cashflow and an intention to return surplus cash to investors. Company debt levels are expected to fall, which is due to both key initiatives such as the conversion of the New Zealand Refinery to an import terminal and the creation of a real estate trust with surplus land, as well as a return to post Covid normality. A commitment to a minimum dividend of 19c per share and the possible additional return of over \$300m underpinned a strong share price performance (+7.7%).

Our investment in Spark Infrastructure (+22%) was well supported after receiving a revised conditional offer for the business. This revised offer from KKR and the Ontario Teacher's Pension Plan for \$2.95 per share was a 5% premium to the previous offer of \$2.80 and significant enough for the Spark board to allow the bidders to conduct a due diligence process.

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

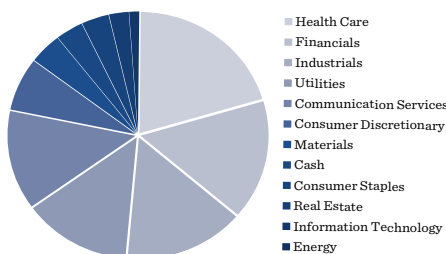
The **Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	48.7%	Cash	3.5%
Australian Equities	47.8%	Total	100.0%

PERFORMANCE

	1 Mth	3 Mth	6Mth	1 Yr p.a	2 Yr p.a
Devon Sustainability Fund	-0.6%	2.8%	5.2%	-	-
50:50 NZX50 Portfolio Index & ASX200 Index*	0.2%	3.0%	5.8%	-	-

*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 most noteworthy contributors to the Fund's performance during the month were ResMed (+10.3%), Mainfreight (+7.4%) and Sydney Airport (+34.9%). Virtus (+5.6%) also performed well and is a new addition to the portfolio. The company is the largest IVF player in Australia. We expect Virtus to benefit from 1) a pull forward in demand for IVF due to COVID as people are prioritising starting a family 2) Government stimulus adding to this demand, and 3) Doctors more willing and able to complete procedures due to travel restrictions.

This has led to a significant increase in IVF cycle volumes. Longer-term we expect it will benefit from the structural demographic changes of women delaying childbirth which should lead to elevated demand and underpin earnings growth. Sydney Airport was subject to a takeover offer at a 42% premium to its last close price by a consortium of Australian superannuation funds. We were overweight the stock at the time of this announcement.

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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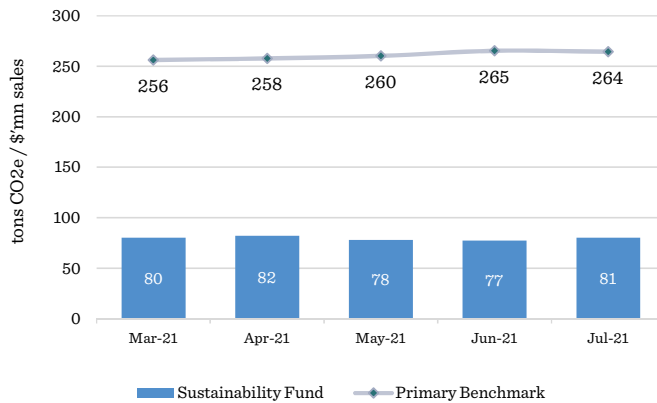
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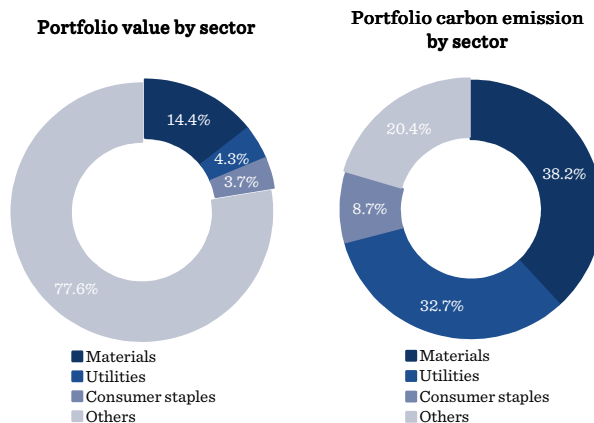


DEVON SUSTAINABILITY FUND - ESG INSIGHTS

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.

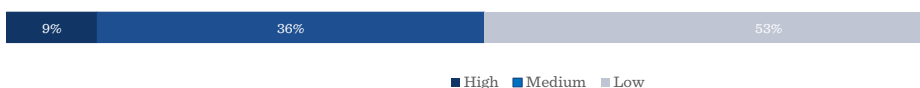
ESG PORTFOLIO SUMMARY

	MSCI ESG Ratings	MSCI ESG Quality score	
Portfolio	AA	7.50	Portfolio Sustainability Fund
Benchmark	AA	7.50	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	95.7%
% of companies reporting to TCFD standards	48.9%
% of companies with a modern slavery statement	38.3%
% of companies with carbon emission reduction targets	59.6%

CLIMATE CHANGE RISK BY PORTFOLIO HOLDINGS



COMMENTARY

New Zealand could become the world's first large-scale producer of green hydrogen if Contact Energy (CEN) and Meridian Energy's (MEL) plans are executed. During the month both companies announced their strategies to develop the world's largest green hydrogen plant in Southland. "New Zealand has a key competitive advantage, as the renewable electricity available from 1 January 2025 could produce green hydrogen at an internationally competitive price point," stated the report by global consultancy McKinsey & Co said.

Hydrogen is projected to remain more expensive than conventional fossil fuel energy sources in the medium term," the report says. "Bridging this cost differential will require significant government support through carbon pricing or other measures." The report suggests the plant would have the potential to earn hundreds of millions in export revenue and would help decarbonise economies here and overseas. This is great for New Zealand.

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

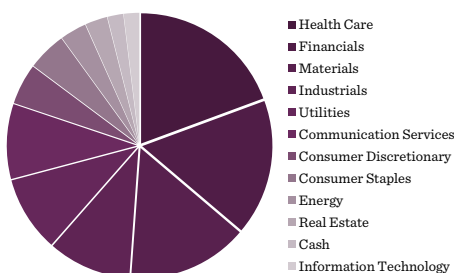
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

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	46.4%
Australian Equities	51.7%

Cash	2.0%
Total	100.0%

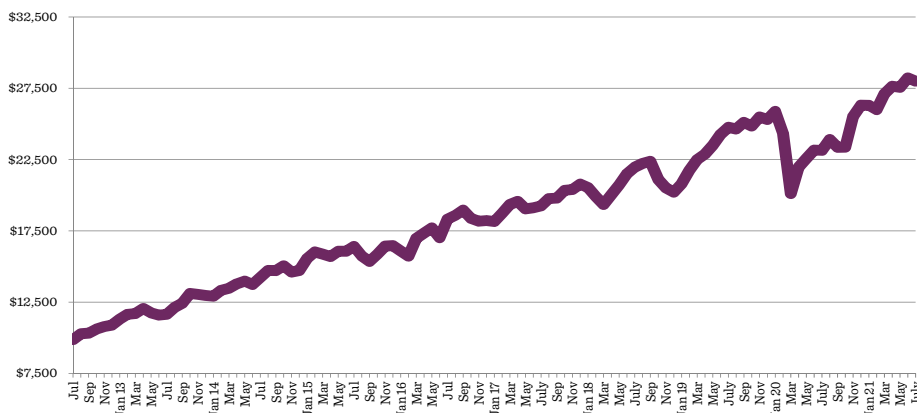
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Trans-Tasman Fund	-0.8%	1.3%	20.9%	8.4%	8.2%	9.7%
Trans-Tasman Index Gross	-0.7%	1.2%	16.6%	10.2%	10.7%	10.6%

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 broadly in line with its underlying benchmark in July with a number of our investments making positive contributions. Included amongst these were ResMed (RMD) and BHP Billiton (+10.1%). RMD was a stand-out (+10.3%) as the market continues to reassess the market share opportunity for the company as a result of the Philipps device recall and safety concerns. During the month Philipps confirmed they plan to be out of the market (no products for sale) for 12-months while they address their issues.

This clarification suggests that RMD will be unopposed in the market for approximately 15-months due to the lengthy regulatory approval process. This indicates that RMD is well placed to lift volume and capture share, supporting our positive thesis. In terms of corporate activity, we were pleased by the announcement that Oil Search have received an all-script bid for their company by Santos.

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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