

MONTHLY REPORT: JUNE 2021

A world in recovery

As we rule off another quarter, the experience for equity investors remains a positive one. The US S&P500 Index closed on June 30 at a record high, having rallied more than 8% since March. Closer to home the returns have also been good, albeit recently it has been the Australian market which has been more productive than New Zealand. Over the past 3-months the S&P/ASX200 closed up 8.3%, whilst the S&P/NZX50 Index only managed to grind out an 0.8% return. Critical to the tone for equities has and continues to be a number of important macro drivers. As described below, COVID remains relevant although, at this stage, the newer variants are unlikely to have major repercussions for developed markets given the success of vaccination programs and the efficacy of vaccines. The other major concern remains inflation and its implications for policy settings. We make some observations on this below also.

When we examine recent economic data points from around the world, the positive momentum is clear and very robust. Mobility trends are improving, and confidence levels have substantially progressed (in fact, during June US consumer confidence hit its highest level since pre-pandemic February 2020)... [READ MORE](#)

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MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	2.7%	10.5%
S&P/ASX200G	AUSTRALIA	2.3%	27.8%
MSCI World Index	GLOBAL	1.8%	40.0%
S&P500	USA	2.2%	40.6%
FTSE100	UK	0.4%	18.0%
NIKKEI 225	JP	-0.1%	31.3%
NZ 90 Day Bank Bill NZ		0.0%	0.3%

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AT A GLANCE

Prices as at 30 JUNE 2021

DEVON
ALPHA
FUND

\$2.0666

DEVON
AUSTRALIAN
FUND

\$1.5767

DEVON
DIVERSIFIED
INCOME
FUND

\$1.5563

DEVON
DIVIDEND
YIELD
FUND

\$1.9348

DEVON
TRANS-
TASMAN
FUND

\$4.5616

DEVON
SUSTAINABILITY
FUND

\$3.4428

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DEVON ALPHA FUND

FUND OUTLINE

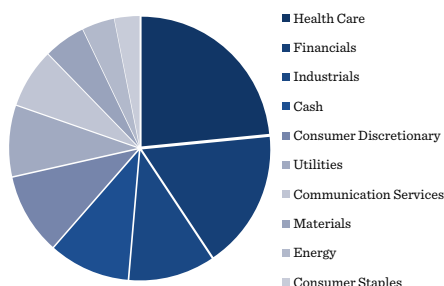
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	41.2%
Australian Equities	49.0%
Currency Hedge	71.1%

Cash	9.8%
Total	100.0%

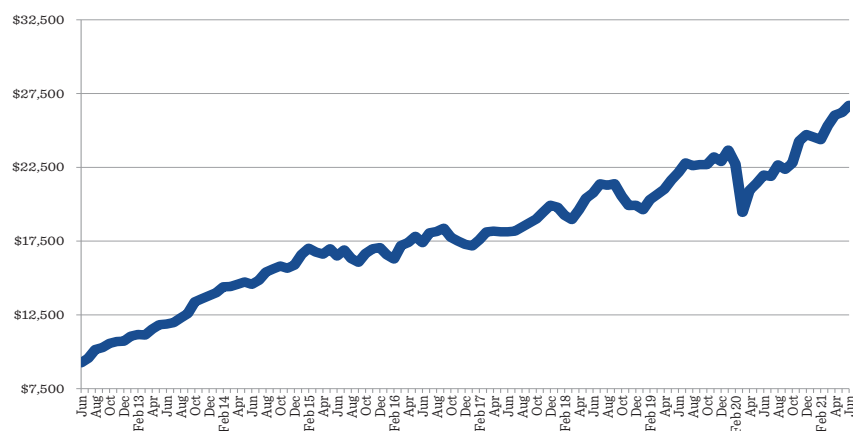
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Alpha Fund	1.9%	5.5%	21.5%	8.8%	8.7%	8.9%
OCR	0.0%	0.1%	0.3%	0.9%	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 generated another positive absolute return this month. Across the portfolio there were a number of strong contributors including Freightways which rallied 6.8% and Vista Group, which closed up 10.1%. We also made a number of changes to our investments during June. Included amongst these was the reduction in our exposure to the EBOS Group after this company has enjoyed a substantial rally in their share price over the past 12-months (up 53.7%). We also purchased shares in Seek Limited. Seek is an online employment business with strong market positions across the Asia Pacific and Americas. This company is very well positioned to leverage off the continuing improvement in employment activity across their major geographies. They are also currently benefitting from the introduction of a new pricing strategy which removes discounts previously offered to recruiters and dynamically recognising different aspects of their offering such as salaries and locations. The impact of this new approach should lead to a lift in their potential earnings.

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

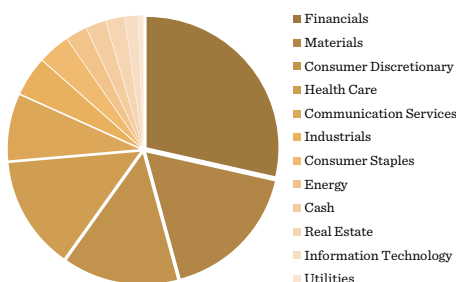
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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	2.4%
Australian Equities	97.6%	Total	100.0%

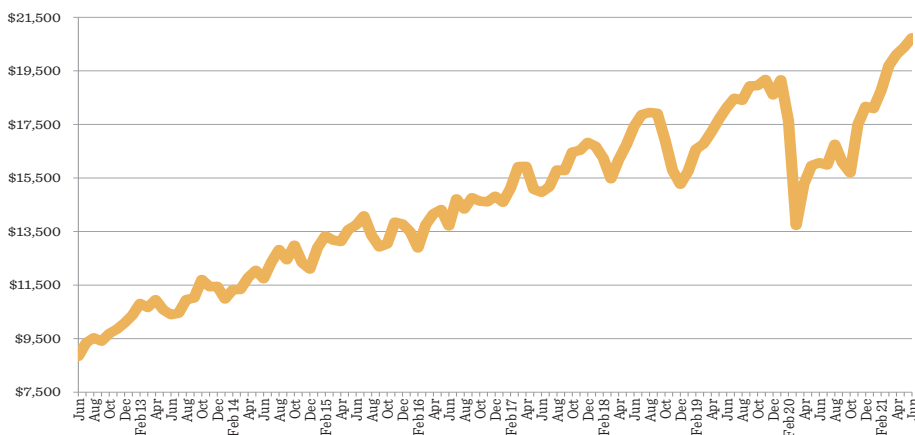
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Australian Fund	1.7%	5.3%	29.0%	6.0%	8.6%	8.5%
ASX200 Index Gross (NZD)	3.3%	7.0%	28.4%	9.0%	11.8%	8.7%

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 1.7% this month. The main positive contributors to the performance were Seek, Telstra and ResMed, which all outperformed. During June, global medical device company Phillips Respironics announced a large recall of its respiratory devices (approximately four million devices). The prospect of customers changing to alternative brands as a consequence is a significant benefit to ASX-listed competitor ResMed (which appreciated by 21% during the month). On the back of this news, we initiated a position in ResMed.

We believe that there will be a notable market share shift towards ResMed products, which will lead to a significant step-up in earnings growth for the company. The potential brand damage that could result from this recall, as well as the way that Phillips Respironics has handled the issue, has led to many industry contacts suggesting this could lead to a \$300m+ opportunity for ResMed. Despite the share price reacting strongly, we still believe this investment looks attractive. Telstra (+7%) announced that it has sold a significant stake in its infrastructure towers. The price it received was well above expectations and because the mobile market remains rational, we continue to remain positive.

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

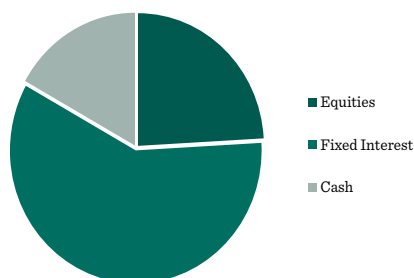
FUND OUTLINE

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	14.1%
Australian Equities	9.7%

Bonds	59.0%
Cash	17.2%

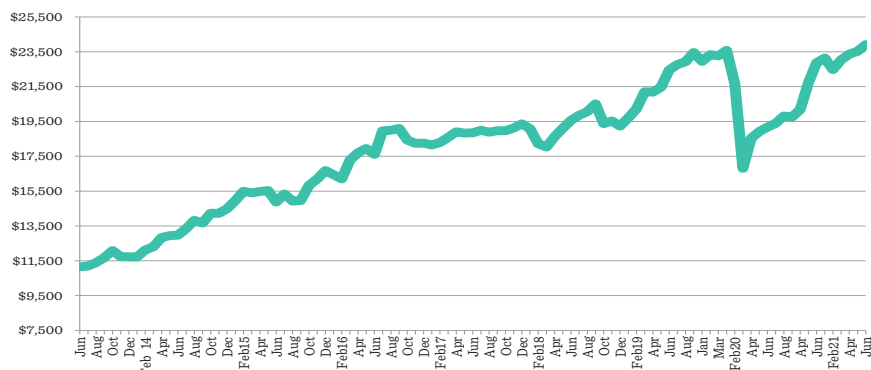
PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a	5 Yr p.a
Devon Diversified Income Fund	0.6%	1.2%	6.3%	2.6%	3.9%	4.1%
OCR + 1.5%	0.1%	0.4%	1.8%	2.1%	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



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 bonds rallied during the month, with the yield on US 10-year Treasuries finishing at 1.47% (having started June at 1.58%). A major focus for investors was the Federal Reserve's policy meeting where officials signalled that they now expect to raise interest rates by late 2023, which is sooner than the guidance that they had given back in March. This is a reflection of how well the US and global economy is recovering and indicative of inflationary concerns beginning to appear. Closer to home, the Reserve Bank Governor in Australia delivered a speech on their domestic economic trends and made the observation that although Australia has enjoyed a strong "V-shaped" recovery, leveraging off strong commodity prices, it remains unlikely that their cash rate will increase until at least 2024 due to subdued wage growth. In New Zealand the strength of our recovery was also evident with our first quarter GDP reported at +2.4% (compared to 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 DIVIDEND YIELD FUND

FUND OUTLINE

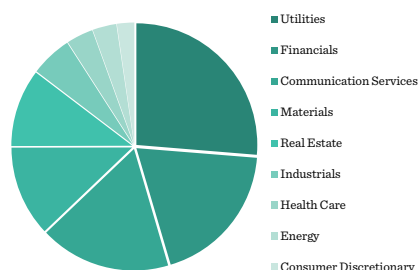
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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	58.4%	Cash	1.3%
Australian Equities	40.3%	Total	100.0%
Currency Hedge	95.8%	Yield	5.7%

PERFORMANCE

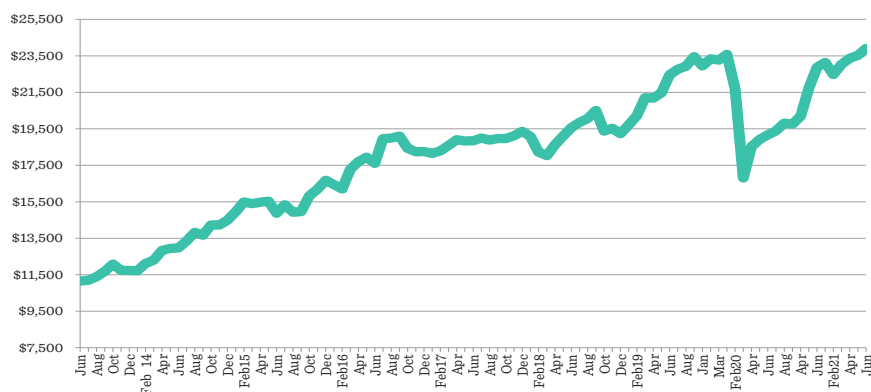
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Dividend Yield Fund	1.6%	3.8%	24.8%	6.9%	6.3%	9.3%
50:50 NZX50 & ASX200 Index Gross	2.5%	4.5%	19.2%	10.9%	12.0%	11.3%
Australasian Dividend Yield Index*	2.0%	6.1%	30.3%	10.1%	9.6%	9.0%

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

The previously announced strategic review of Telstra's infrastructure assets saw early signs of its realization with the announcement that the company had entered into an agreement with a consortium to sell 49% of its mobile tower infrastructure assets for \$2.8 billion. The Australian consortium managed by Morrison & Co comprises the Future Fund, Commonwealth Super and Sunsuper. The further announcement that the company would return 50% of these proceeds to investors underpinned a strong equity price performance from our investment. The company is yet to decide on the manner of return but have indicated the possibility of a share buyback which if done in full equates to 3% of its issued capital. The majority of the remaining proceeds will be used to retire debt obligations further improving the risk profile for equity investors. Interestingly Spark New Zealand has announced a similar review of its much smaller asset base which has seen the stock outperform the New Zealand market.

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

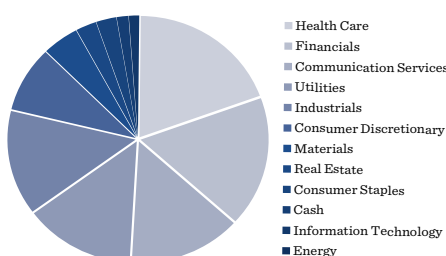
The **Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	54.5%	Cash	1.5%
Australian Equities	44.0%	Total	100.0%

PERFORMANCE

	1 Mth	3 Mth	6Mth	1 Yr p.a	2 Yr p.a
Devon Sustainability Fund	1.6%	5.2%	7.3%	-	-
50:50 NZX50 Portfolio Index & ASX200 Index*	2.3%	5.0%	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 Sustainability Fund delivered a 1.6% return for the month. The most noteworthy contributors to the performance were Vista, Freightways and ResMed. Vista (+13%) continues to benefit from the reopening of cinemas globally. During the month, the company confirmed its cashflow position continues to improve with 83% of cinemas (its customers) open and as such the company is targeting positive cashflow in the second half of financial year 2021.

Its transition to a software-as-a-service model could lead to some short-term earnings risk, however the opportunity is now far more advanced given key customers have lost all their on-premise IT staff during COVID-19, which has accelerated the move to the cloud. This could lead to additional contract wins which could result in further share price appreciation. ResMed is a position we added in the Fund during the month after a competitor announced a global recall of medical devices, which should lead to significant market share gains and multi-year 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.

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DEVON TRANS-TASMAN FUND

FUND OUTLINE

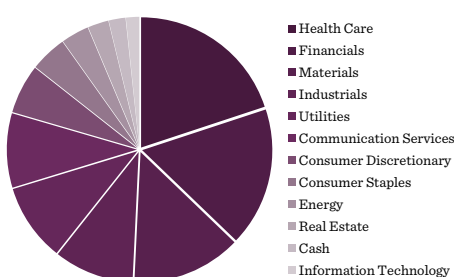
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

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	47.6%
Australian Equities	50.3%

Cash	2.1%
Total	100.0%

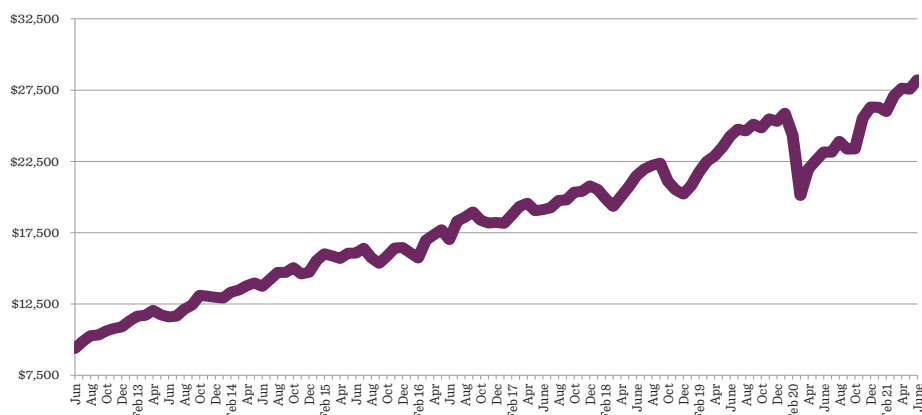
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Trans-Tasman Fund	2.4%	4.1%	21.7%	9.4%	9.9%	10.3%
Trans-Tasman Index Gross	3.0%	3.9%	19.4%	10.6%	12.3%	11.2%

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 strategy enjoyed another strong month of absolute returns during June, but it did underperform its benchmark slightly. The primary reason for this was the strong performance of “growth” stocks during the month. At Devon, we have a strong bias towards those businesses which are supported by fundamental valuations and as such we tend to be underweight the more expensive sectors in the market (often referred to as “growth” stocks).

There were a number of exciting positive contributors to our portfolio during the month including Summerset which finished up by more than 7%. This business continues to demonstrate strong operational execution which together with its large land bank and rising house prices has enabled this investment to work well for us. In New Zealand during May, median house prices rose by 1.9% to \$820k, and they are now up by 32% relative to this time last year.

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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