

MONTHLY REPORT: MARCH 2021

Investing in a Sustainable World

This month's interest piece has been written by Victoria Harris, Portfolio Manager of the Devon Australian and Sustainability fund. The integration of Environmental, Social and Governance (ESG) factors continues to grow in importance as a key component of the investment process. As a consequence, ESG-focused funds are attracting significant inflows. Underpinning this rising importance of ESG for investors is a number of drivers. Firstly, there is a continued regulatory transition from voluntary disclosures to binding legislation. Secondly, there have been fundamental societal shifts in consumer behaviour, amplified by the events seen in 2020. And finally, ESG factors can now be more effectively tracked given improvements in technology and data.

We are at an important inflection point as ESG considerations reshape the investment management industry. While trends supportive of ESG have been occurring for some years now (an increasing focus on board oversight and accountability as one example), we believe several more recent events are now providing a catalyst for even stronger support; these include the global COVID pandemic, China's commitment to a net zero emissions target and the strengthening pro-environmental policies of US President Joe Biden...[READ MORE](#)

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MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	2.7%	28.2%
S&P/ASX200G	AUSTRALIA	2.4%	37.5%
MSCI World Index	GLOBAL	3.1%	54.4%
S&P500	USA	4.0%	55.8%
FTSE100	UK	4.2%	21.9%
NIKKEI 225	JP	1.4%	56.7%
NZ 90 Day Bank Bill NZ		0.0%	0.3%

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AT A GLANCE

Prices as at 31 March 2021

DEVON ALPHA FUND	\$1.9833
DEVON AUSTRALIAN FUND	\$1.5227
DEVON DIVERSIFIED INCOME FUND	\$1.5530
DEVON DIVIDEND YIELD FUND	\$1.8870
DEVON TRANS-TASMAN FUND	\$4.4534
DEVON SUSTAINABILITY FUND	\$3.3370

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DEVON ALPHA FUND

FUND OUTLINE

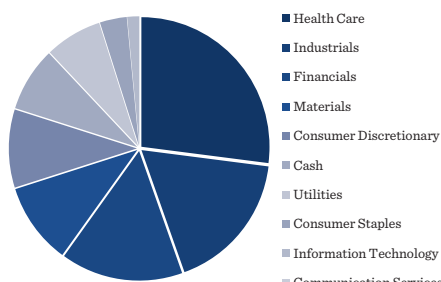
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	45.0%
Australian Equities	47.2%
Currency Hedge	70.0%

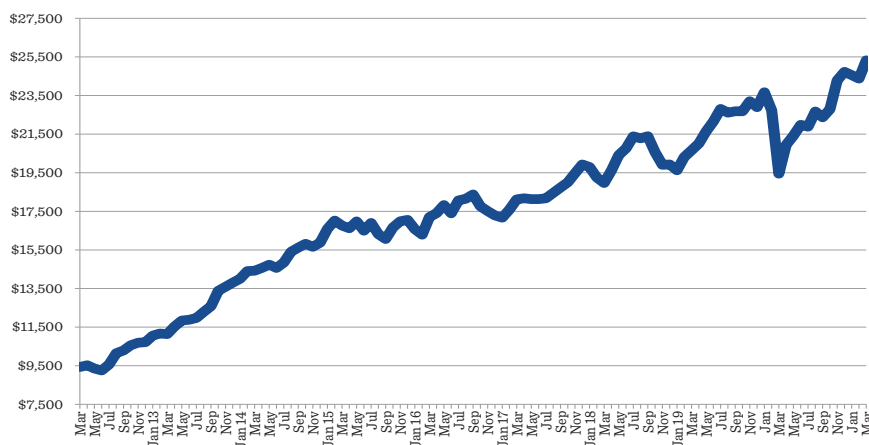
Cash	7.8%
Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Alpha Fund	3.9%	2.4%	30.2%	10.1%	7.8%	8.2%
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 strong absolute return during the month, which also exceeded the performance of local equity markets. Over the past 12-months we have been pleased with the portfolio structure of this strategy as it has provided our investors with high quality exposure to a world that is navigating the challenges of Covid. A good example of this has been our investment in Sydney Airport, which rallied by 5.6% during March. Investor optimism for this business has improved recently as expectations around the timing of a travel bubble between Australia and New Zealand have accelerated. The benefits of progress around such an agreement are obvious for companies operating in the travel area, with Sydney Airport particularly well leveraged through their higher-value retail offerings such as duty free. Other investments that also made important contributions during the month were Macquarie Group (+7.3%) and Freightways (+8.6%).

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

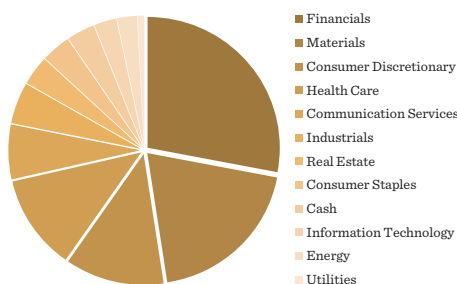
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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	0.0%	Cash	3.4%
Australian Equities	96.6%	Total	100.0%

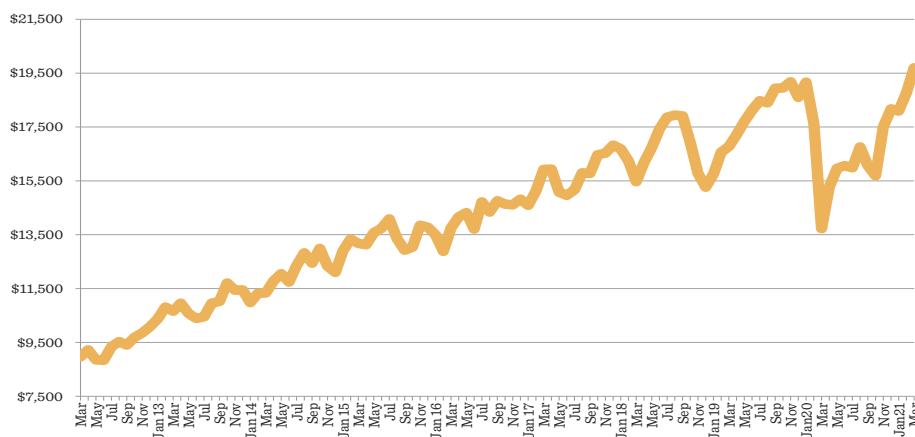
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Australian Fund	5.0%	8.4%	43.5%	8.4%	7.4%	8.2%
ASX200 Index Gross (NZD)	4.6%	5.8%	44.8%	10.5%	9.8%	8.0%

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 5% this month, outperforming its benchmark by 0.4%. The positive contributors to the performance were Aristocrat Leisure, Vista and Collins Foods which all outperformed the broader market. Aristocrat Leisure (+13%) is a slot machine manufacturer with operations in Australia, New Zealand and the Americas as well as having a fast-growing Digital division. Its revenue and earnings were impacted by the closure of casinos and social distancing measures due to COVID-19. However, the re-opening and return to normalisation seems to be tracking ahead of expectations. Over 90% of US casinos have re-opened and recent discussions suggest that the company has managed to gain market share which should support a strong earnings recovery. The main detractors to performance for the month were from the resource names (BHP, Rio Tinto and Fortescue Metals). However, we have strategically taken profits on these names across the last few months.

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

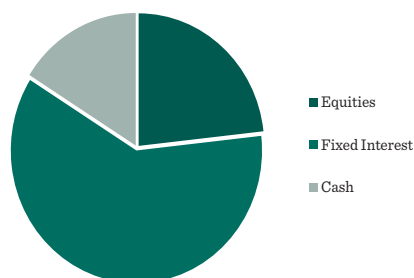
FUND OUTLINE

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	13.7%	Bonds	60.7%
Australian Equities	9.3%	Cash	16.3%

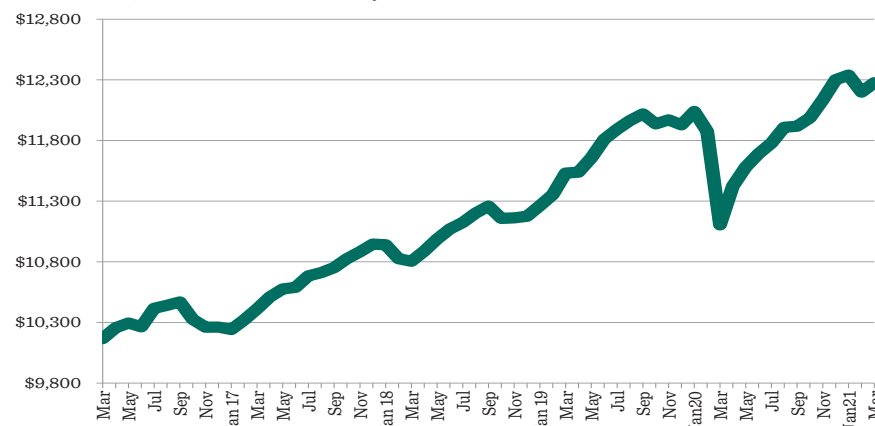
PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a	5 Yr p.a
Devon Diversified Income Fund	0.6%	-0.2%	10.6%	3.2%	4.4%	4.0%
OCR + 1.5%	0.1%	0.4%	1.8%	2.2%	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 markets were particularly volatile during the month with the yield on US 10-year Treasury bonds increasing from 1.44% in late February to close March at 1.74%. Underlying this move is an increasing level of confidence in the speed and magnitude of the world's economic recovery. Against a backdrop of ongoing monetary policy support through record low interest rates and quantitative easing programs, fiscal policy initiatives are now adding massive weight to this prognosis. An important example of this during March was President Biden's \$1.9tn coronavirus relief package. This initiative includes a new round of means-tested payments of up to \$1,400 for most American adults and \$350bn of additional aid to state and local governments. In New Zealand, the most economic significant news was a set of government policy announcements targeted at the housing market. These included an extension of the bright-line test to 10-years and an end to interest deductibility on residential property incomes.

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

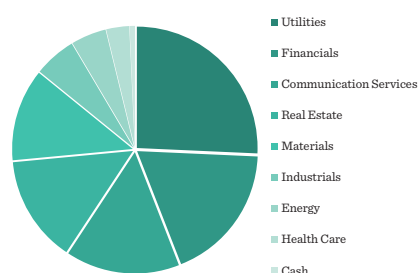
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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	59.0%	Cash	0.7%
Australian Equities	40.2%	Total	100.0%
Currency Hedge	96.7%	Yield	5.8%

PERFORMANCE

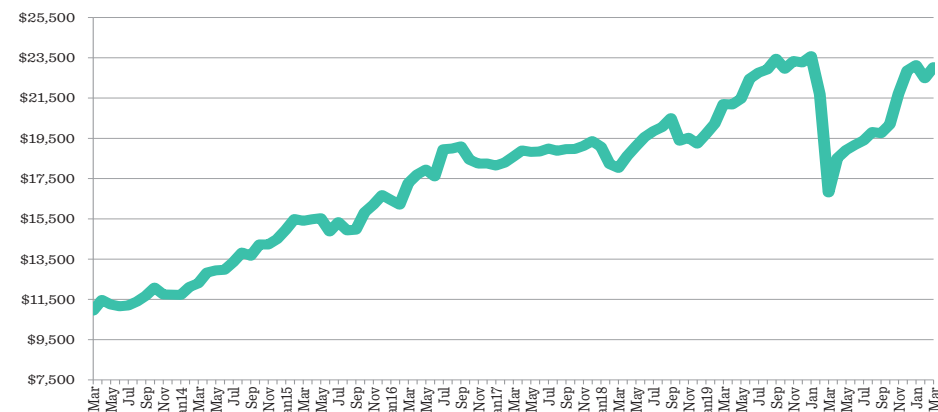
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Dividend Yield Fund	2.5%	0.7%	37.1%	8.5%	5.9%	9.5%
50:50 NZX50 & ASX200 Index Gross	2.6%	0.1%	32.8%	12.2%	11.7%	10.7%
Australasian Dividend Yield Index*	1.1%	0.6%	40.9%	10.1%	8.7%	8.5%

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



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 volatility in the New Zealand energy generation sector continued into March as funds transacted in anticipation of significant changes to the S&P Clean Energy Index. These changes should see Contact and Meridian become much smaller constituents in this index, creating substantial volatility as offshore investors readjust their holdings. This period of abnormal price movement should stabilize once the index changes are completed in April. Notwithstanding this Contact and Mercury were up 5% and 9% respectively whilst Meridian was down 4%. Our investment in NZX continued to perform well into March, up 11%. Although 2020 was a challenging period for the economy, capital markets remained resilient with full year NPAT up 20%. Unsurprisingly securities trading and clearing revenues were up strongly with listing and data revenues showing good growth. The solid result translated into an increased free cash flow position underpinning the company's excellent dividend profile.

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

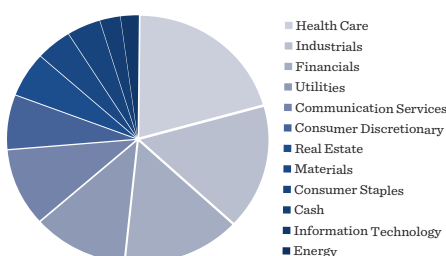
The **Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	51.9%	Cash	2.6%
Australian Equities	45.5%	Total	100.0%

PERFORMANCE

	1 Mth	3 Mth	6Mth	1 Yr p.a	2 Yr p.a
Devon Sustainability Fund	3.2%	2.0%	14.2%	-	-
50:50 NZX50 Portfolio Index & ASX200 Index*	2.5%	0.8%	15.9%	-	-

*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 3.2% return for the month, outperforming its benchmark by 0.7%. The most noteworthy contributors to performance were Telstra, Vista Group and Fletcher Building. Telstra (+10%) provided an update during the month on its new proposed corporate structure. This new structure is one of the planned steps to allow the company to realise more value from its existing assets. Telstra is one of the best placed companies in the Australian mobile market due to its head start in the 5G infrastructure roll out, which should lead to further market share gains. This positive outlook, together with an attractive valuation, makes Telstra an overweight in the Fund. Vista (+29%) benefited during the month as we continue to see investor demand for 'COVID recovery' or economy re-opening 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 TRANS-TASMAN FUND

FUND OUTLINE

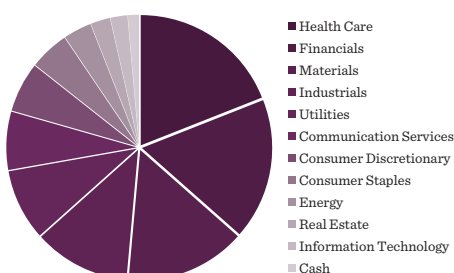
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the NZ and Australian equity markets.

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	47.1%	Cash	1.4%
Australian Equities	51.5%	Total	100.0%

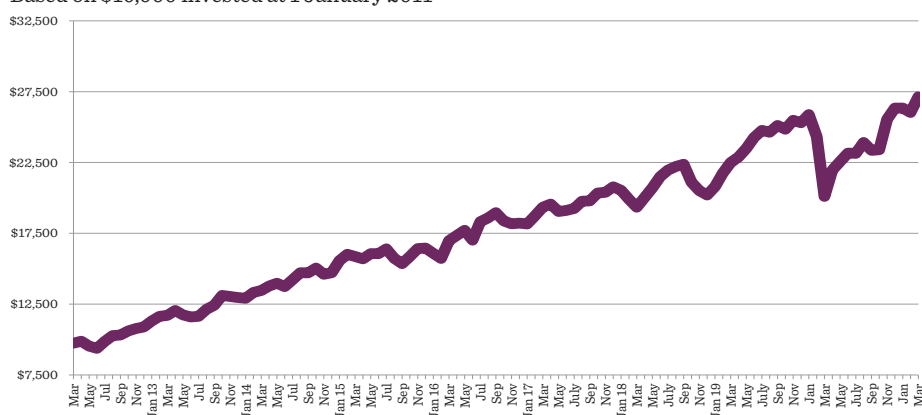
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Trans-Tasman Fund	4.28%	3.0%	34.7%	11.8%	9.1%	10.0%
Trans-Tasman Index Gross	3.68%	0.9%	36.5%	12.6%	11.5%	10.8%

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

This strategy performed ahead of its benchmark during the month with a number of our investments making good positive contributions. Included amongst these were Aristocrat Leisure and Fletcher Building which rallied 13.1% and 9.6% respectively. Vista Group was the stand-out though with its shares finishing the month up 29.4% as positive news flow surrounding US progress on vaccinations and cinema re-openings gathered pace. AMC Theatres, the largest US cinema operator, confirmed during March that over 98% of its cinema sites are now open. The second largest player, Regal, also confirmed a staged reopening of their US sites. United Kingdom cinemas, another key market for Vista, are allowed to reopen from May 17. In terms of key portfolio changes, we reduced our exposure to Virgin Money following a period of strong out-performance and added to Rio Tinto after a recent pullback.

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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