

MONTHLY REPORT: NOVEMBER 2020

Value Roars

November's rally in global equity markets was almost without parallel. For European stocks it was the strongest month ever recorded, while for the US Dow Jones Index, it was the largest gain achieved since 1987. Similar records were broken in this part of the world with the ASX200 finishing up more than 10%, its best return for 32-years. Domestically the NZX50 closed 5.7% higher. In a year which has been defined by uncertainty, these positive outcomes are a clear representation that the world is recovering. Positive vaccine news and the removal of uncertainty surrounding the US election has created a platform for optimism. The past month though will also be remembered for something similarly dramatic - the massive rotation of investor support back into Value stocks.

Value based investing is typically defined as the purchase of shares which are trading at a discount to their intrinsic value. This sits in contrast to the traditional alternative, Growth, which involves investment into those businesses which exhibit signs of above-average growth, despite their stock prices at times looking expensive...[READ MORE](#)

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MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	5.7%	12.8%
S&P/ASX200G	AUSTRALIA	10.2%	-2.0%
MSCI World Index	GLOBAL	12.8%	15.1%
S&P500	USA	10.9%	17.5%
FTSE100	UK	12.7%	-12.0%
NIKKEI 225	JP	15.1%	15.7%
NZ 90 Day Bank Bill NZ		0.0%	0.7%

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AT A GLANCE

Prices as at 30 November 2020

DEVON
ALPHA
FUND

\$1.9022

DEVON
AUSTRALIAN
FUND

\$1.3530

DEVON
DIVERSIFIED
INCOME
FUND

\$1.5497

DEVON
DIVIDEND
YIELD
FUND

\$1.8014

DEVON
TRANS-
TASMAN
FUND

\$4.1933

DEVON
SUSTAINABILITY
FUND

\$3.2167

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DEVON ALPHA FUND

FUND OUTLINE

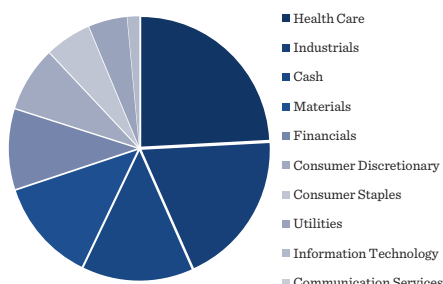
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	51.1%
Australian Equities	35.0%
Currency Hedge	91.9%

Cash	13.9%
Total	100.0%

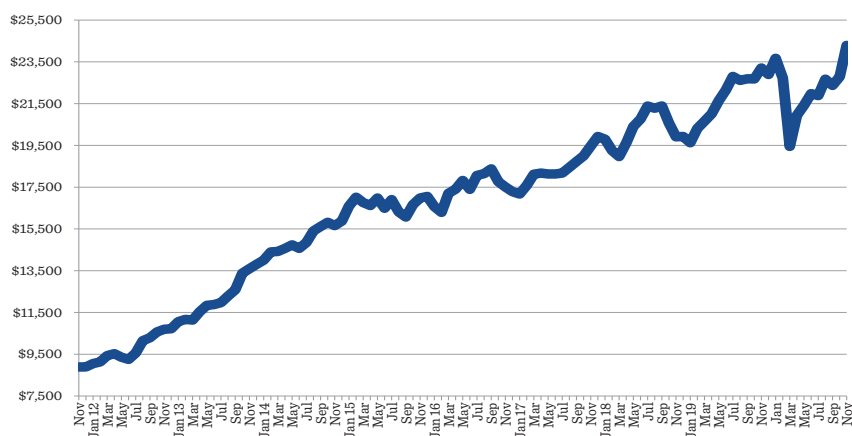
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Alpha Fund	6.6%	7.1%	4.7%	7.7%	7.2%	8.5%
OCR	0.0%	0.1%	0.5%	1.2%	1.5%	2.0%

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 strong absolute returns during the month. There were a number of important contributors to this outcome with our Australian investments in particular all rallying strongly. Included amongst these companies were Sydney Airport (+23.1%), Aristocrat Leisure (+12%) and BHP (+12.7%). Our valuation approach in New Zealand was also rewarded though with investor support for Fletcher Building which lifted materially (+36.6%) after Chief Executive, Ross Taylor, updated first-half 2021 guidance at their Annual Shareholders Meeting. Their earnings are now expected to be in the range of \$305-\$320m, which is higher than analysts had previously expected. This has resulted in material upgrades to consensus forecasts with operating conditions remaining buoyant and management confirming ongoing investment into their residential development business. It also appears that the Board has a desire to pay an interim dividend if their balance sheet allows it. We believe Fletcher Building is very well positioned to leverage off improving economic conditions in 2021.

PORTFOLIO MANAGER

Slade Robertson



Slade has primary responsibility for stock selection and portfolio construction for the Alpha fund. 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

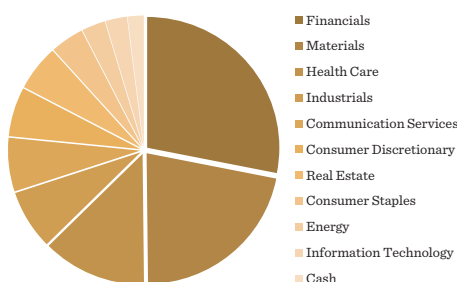
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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	1.3%	Cash	2.0%
Australian Equities	96.7%	Total	100.0%

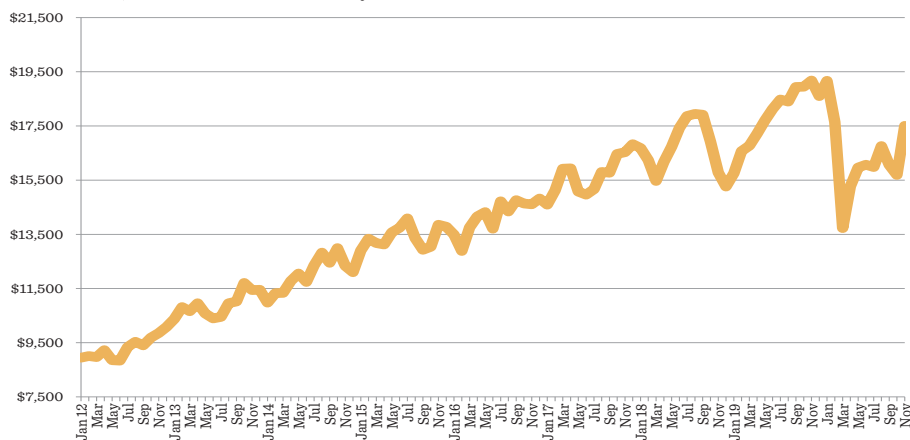
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Australian Fund	11.6%	4.4%	-8.7%	1.9%	4.8%	6.3%
ASX200 Index Gross (NZD)	8.7%	3.7%	-2.5%	5.0%	8.0%	6.3%

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

This Fund enjoyed strong outperformance of its benchmark during the month. Positive contributions were made from our investments in the Resources sector with Oil Search and Origin rallying 41.6% and 29.5% respectively. These companies, and others in the sector, were positively leveraged to a recovery in the crude oil price on the prospect of an improved demand environment in 2021 as COVID-19 vaccines become widely available. The Fund also benefited from a recovery in the Banking sector. Despite facing a range of operational challenges, the listed Banks were amongst the best performing stocks as investors were attracted to the prospect of a quicker economic recovery and a less severe bad debt cycle. NAB was the standout (rallying 24.7%) after delivering a solid pre-provision profit in FY20 and guiding to lower costs over the medium term.

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 and holds responsibility for Devon's Australian and Trans Tasman Funds. Tama is widely regarded as a leading expert on resource and mining stocks.

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DEVON DIVERSIFIED INCOME FUND

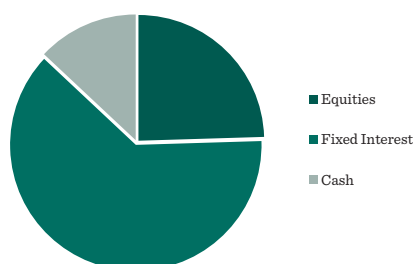
FUND OUTLINE

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	15.3%
Australian Equities	8.8%

Bonds	62.5%
Cash	13.4%

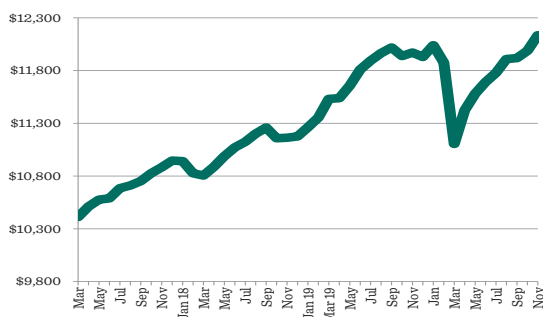
PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Diversified Income Fund	1.2%	1.9%	1.4%	4.3%	3.7%
OCR + 1.5%	0.1%	0.4%	2.0%	2.5%	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 fixed interest markets finished November broadly in-line with where they began the period, although during November there were some notably volatile days. Despite the fact that the global economic picture looks increasingly positive for 2021, some of the more recent data has been slightly softer due to the resurgence of Covid infections and the resulting implementation of distancing measures. There was also a lot of focus by investors during the month on the outcomes from the US elections. Although there remains plenty of noise surrounding the process, the results suggest a change in president and a continuation of the split Congress (although there are two runoff Senate elections in January which could affect this outcome). Currently market expectations are that with a divided government, fiscal initiatives will not be as large as they would have been under a Democrat sweep but also that the tax cuts that Trump introduced early in his presidency will not be reversed.

PORTFOLIO MANAGER

Slade Robertson



Slade has primary responsibility for stock selection and portfolio construction for the Diversified Income fund. 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

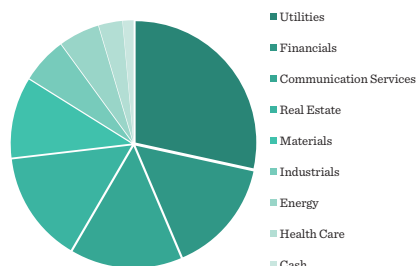
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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	62.5%
Australian Equities	36.0%
Currency Hedge	100.2%

Cash	1.5%
Total	100.0%
Yield	5.5%

PERFORMANCE

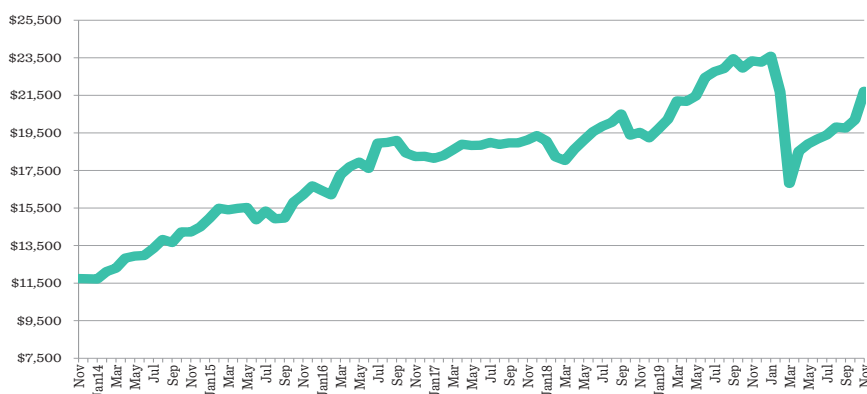
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Dividend Yield Fund	7.6%	9.6%	-7.0%	4.3%	6.0%	9.3%
TT Index (Hedged)	7.9%	7.6%	5.4%	11.5%	12.5%	11.2%
Australasian Dividend Yield Index*	8.8%	11.2%	-1.5%	6.4%	8.3%	8.3%

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 portfolio enjoyed a strong absolute return for November, but was slightly behind its benchmark for the month. Amongst our best performing investments were National Australia Bank (+24.7%) and ANZ (+20.6%). This sector has been under pressure for some time now due to increasing competition and regulatory oversight but more recently investor concerns have been targeted at the likely increase in bad debts arising from the recent economic headwinds. This has resulted in their share prices falling heavily during the year, but in November investors recognised the possibility of a more benign outcome. Due to the very supportive policies being announced by the Australian Government and the RBA, the actual experience for Australian banks looks likely to be significantly better than had been expected. As such it appears as if both earnings and dividends are at risk of surprising on the upside. Currently we believe that National Australia Bank and ANZ are offering us dividend yields of more than 4% for FY22.

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

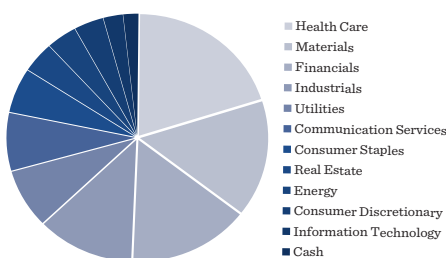
The **Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	55.9%
Australian Equities	39.8%

Cash	4.3%
Total	100.0%

PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Sustainability Fund	8.9%	10.3%	-	-	-
TT (Portfolio) Index	8.2%	9.7%	-	-	-

*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 delivered positive relative returns during November, exceeding its benchmark by 0.7%. There were a large number of our investments that enjoyed positive performances although our exposure to Scentre Group was particularly well rewarded. Shares in this company rallied 33.3% after the company provided a third-quarter operational update. Scentre highlighted that despite the challenges associated with the pandemic, all 42 of their Westfield Centres have remained open. Encouragingly, across the Australian states that exhibited no community transmission of Covid-19, they experienced strong sales relative to the same period last year. Customer visits during the September quarter were 90% of where they were at the same time a year ago, with the exception of Victoria and New Zealand which suffered due to the government shut-downs. Portfolio occupancy was reported at more than 98% which has alleviated some of the investor concerns around store closures. This is a very high-quality business that is well positioned for a world returning towards more normal shopping behaviours.

PORTFOLIO MANAGER

Slade Robertson



Slade has primary responsibility for stock selection and portfolio construction for the Sustainability fund. 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 TRANS-TASMAN FUND

FUND OUTLINE

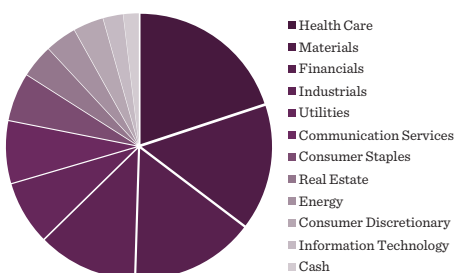
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the NZ and Australian equity markets.

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	51.4%
Australian Equities	46.7%

Cash	1.9%
Total	100.0%

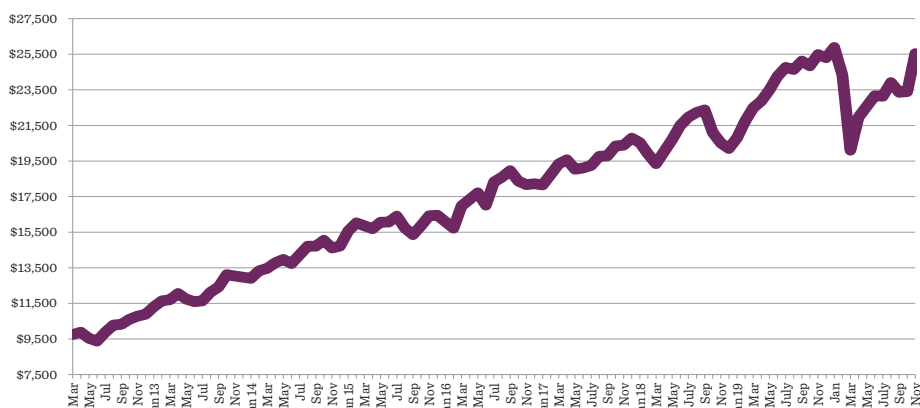
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Trans-Tasman Fund	9.1%	6.7%	0.1%	7.7%	8.5%	9.6%
Trans-Tasman Index Gross	7.2%	5.3%	5.2%	10.5%	12.0%	10.7%

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 that the Trans-Tasman Fund significantly outperformed its benchmark over the month with the Australian market notably strong (+10.2%) and a number of our investments making positive contributions. Included amongst these were Oil Search and Fletcher Building which rallied 41.6% and 36.6% respectively. BHP was also a stand-out (+12.7%) as commodity prices rallied on better than expected economic data from China. We remain optimistic on the demand backdrop for commodity markets in 2021 as the global economy recovers. BHP also remains in an earnings upgrade cycle with copper and iron ore prices hitting 7-year highs (80% of earnings) during November. Applying spot prices would see BHP's earnings upgraded by over 40% in calendar year 2021. In terms of portfolio changes the Newcrest position was reduced as the risk/reward for gold became less certain against the backdrop of an improving macro-economic environment.

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 and holds responsibility for Devon's Australian and Trans Tasman Funds. Tama is widely regarded as a leading expert on resource and mining stocks.

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