

MONTHLY REPORT: NOVEMBER 2021

Navigating familiar themes

This month's interest piece has been written by Devon's Head of Retail, Greg Smith.

As we enter December and the final stanza of 2021, the year will be remembered as anything but dull. Markets have generally coped with a number of bolts from the blue, as economies have continued to rebound from the pandemic against the backdrop of the global reopening. Vaccine rollouts have provided cause for optimism, amidst a year still punctuated by lockdowns here and in various other parts of the globe.

Corporate earnings have been generally strong for not only pandemic beneficiaries but also companies that have been able to 'pivot' successfully within a COVID world. Governments have broadly remained supportive of their economies through significant stimulus programs, as have central banks, with only a handful (the RBNZ included) choosing to tighten monetary policy.

Bull markets climb "a wall of worry" as the saying goes, and there have been plenty of potential catalysts for investor angst. These have ranged from rising bond yields to concerns over a property-led downturn in China, pandemic-induced supply bottlenecks and surging inflation, which have all served to keep investors on their toes in 2021... [READ MORE](#)



MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	-2.9%	-0.4%
S&P/ASX200G	AUSTRALIA	-0.5%	15.5%
MSCI World Index	GLOBAL	-0.5%	24.4%
S&P500	USA	1.2%	30.4%
FTSE100	UK	-2.2%	16.8%
NIKKEI 225	JP	-3.7%	7.0%
NZ 90 Day Bank Bill NZ		0.1%	0.4%

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AT A GLANCE

Prices as at 30 November 2021

DEVON
ALPHA
FUND

\$2.0832

DEVON
AUSTRALIAN
FUND

\$1.5075

DEVON
DIVERSIFIED
INCOME
FUND

\$1.5051

DEVON
DIVIDEND
YIELD
FUND

\$1.9068

DEVON
TRANS-
TASMAN
FUND

\$4.4884

DEVON
SUSTAINABILITY
FUND

\$3.3898

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DEVON ALPHA FUND

FUND OUTLINE

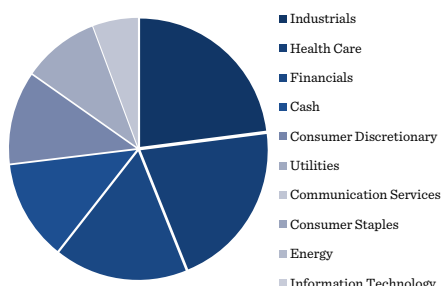
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	27.1%
Australian Equities	58.6%
Currency Hedge	46.3%

Cash	14.3%
Total	100.0%

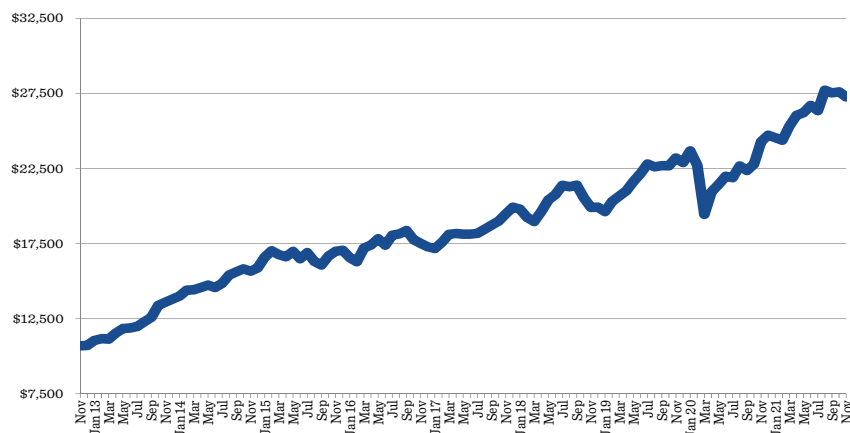
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Alpha Fund	-1.2%	-1.6%	12.4%	11.1%	9.3%	9.5%
OCR	0.0%	0.1%	0.3%	0.7%	1.1%	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 a slightly negative absolute return during the month, although it did outperform local share indices. After the strong run in equities over the past 18-months we have also slightly increased the cash weighting in this portfolio, on the expectation that any increase in market volatility will produce exciting new opportunities for investment.

Although there were a number of positive contributors during November, we were particularly pleased with the rally that occurred in Cleanaway. Its share price finished up almost 8.2% as investor confidence was sponsored by Mark Schubert's (CEO) strategy which he articulated at the company's AGM in late October. Cleanaway is also currently awaiting ACCC approval of their proposed acquisition of the Sydney landfills and transfer stations which currently belong to Suez Recycling.

Portfolio changes during the month included our purchase of shares in BHP Billiton and the sale of our investment in National Australia Bank.

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

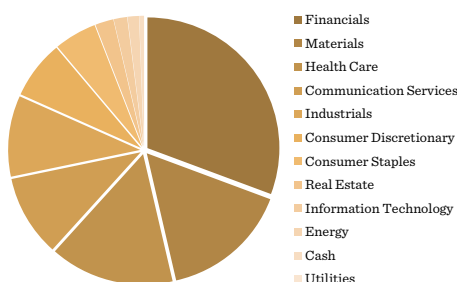
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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%

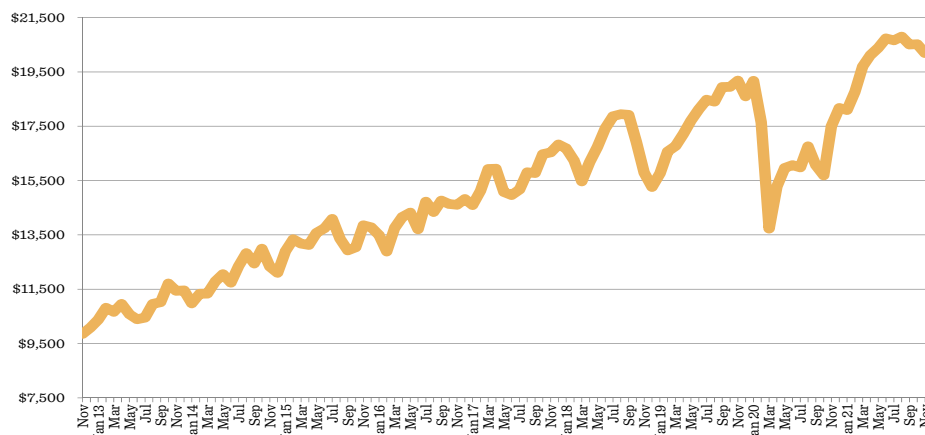
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Australian Fund	-1.6%	-2.9%	15.3%	8.6%	6.7%	7.4%
ASX200 Index Gross (NZD)	-1.0%	-1.9%	15.1%	11.9%	10.2%	7.1%

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 return of -1.6% this month. Collins Foods (+10.2%), Goodman Group (+12.7%) and BHP (+7.6%) were top contributors for the month, while Ooh!Media (-10.7%), CBA (-11.7%) and Kathmandu (-4.7%) were the top detractors. Collins Food (CKF) delivered a very strong FY22 result driven by a solid margin performance in KFC Australia and a strong turnaround in its European business. When compared to their performance 12 months ago, Australian stores slowed through the half to finish flat but are being compared to an exceptionally strong period last year.

In Europe, the same comparison indicates that activity has recovered strongly with the margin also improving significantly, with the region achieving its best result in three years. Margins were a concern heading into the result, but they held up well showing the strength of the KFC brand and good execution by the management team. CKF's valuation remains attractive too, trading at a discount to its NZ-peer, Restaurant Brands.

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

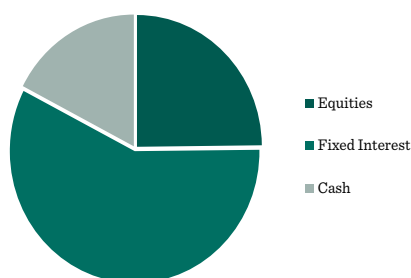
FUND OUTLINE

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	14.7%
Australian Equities	8.7%

Bonds	55.5%
Cash	21.1%

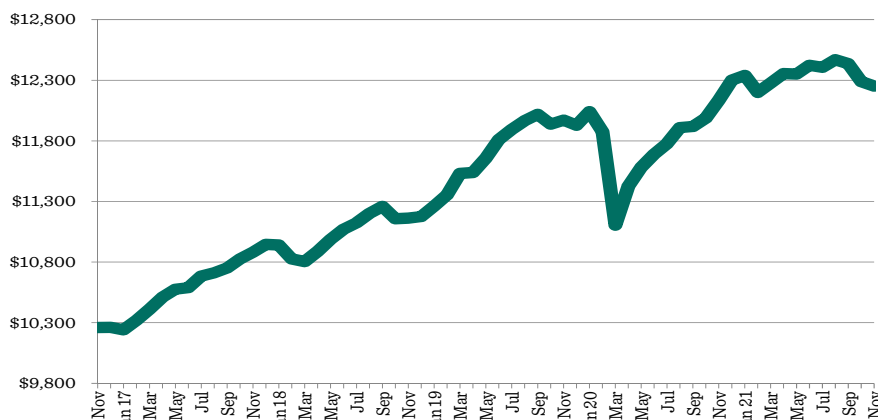
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Diversified Income Fund	-0.3%	-1.7%	1.0%	3.1%	3.6%	3.7%
OCR + 1.5%	0.1%	0.4%	1.8%	2.2%	2.6%	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 1.46% (having begun the month at 1.61%). The primary reason for this was the emergence of the latest Covid variant, Omicron. This quickly resulted in investors taking a more conservative view to forecasting economic growth for 2022. It will still be a few weeks though before we have sufficient data on Omicron to make any strong judgements as to its health and economic impacts. Despite this development, Fed Chairman Jerome Powell highlighted in a presentation to Congress that although he expects inflation to move down significantly next year, there is a credible risk that the factors which have driven prices higher recently, may remain in place for longer than was previously thought.

The RBNZ lifted the Official Cash Rate by a further 0.25% to 0.75%, highlighting that the New Zealand economy is operating "above its current potential".

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

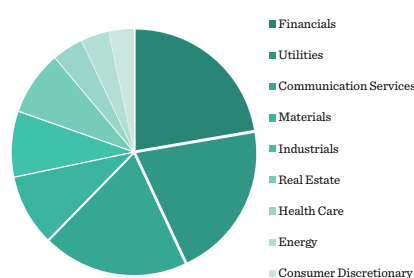
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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	62.0%	Cash	1.2%
Australian Equities	36.9%	Total	100.0%
Currency Hedge	99.7%	Yield	5.8%

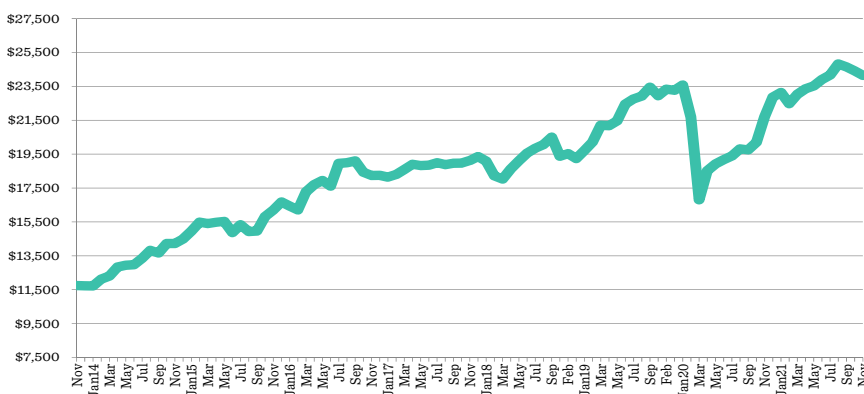
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Dividend Yield Fund	-1.1%	-2.7%	11.3%	7.4%	5.7%	10.5%
50:50 NZX50 & ASX200 Index Gross	-1.7%	-3.1%	7.5%	12.8%	11.6%	12.3%

Devon Dividend Yield 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 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

Telstra (+6.5%) outperformed the market substantially during the month with investors encouraged by their second investor day for the year. Their presentations focused primarily on the network, technology and new business segments which have also become an area of focus for its peer, Spark New Zealand, which also outperformed. Additionally, Telstra took the opportunity to reaffirm solid earnings growth for the next four years underpinned by improvements in their digital mobile services business.

The portfolio participated in the IPO of Ventia, the Australasian infrastructure provider which listed during the month. With \$4.6bn in total revenue across New Zealand and Australia the company is one of the leading providers of services to the telecommunications industry. In New Zealand the company has a 25-year working relationship with Transpower, supporting over 11,000 kilometers of transmission lines. A combination of strong underlying fundamentals and reasonable valuation at IPO meant an exceptional debut on the ASX, with the stock up 23.5%.

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

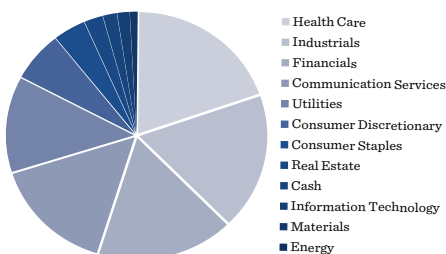
The **Devon Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

The Fund looks to invest in companies that score highly on overall environmental, social and corporate governance performance. The Fund also employs an ethical screen which will prohibit investment into certain companies and sectors.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	46.6%	Cash	3.9%
Australian Equities	49.5%	Total	100.0%

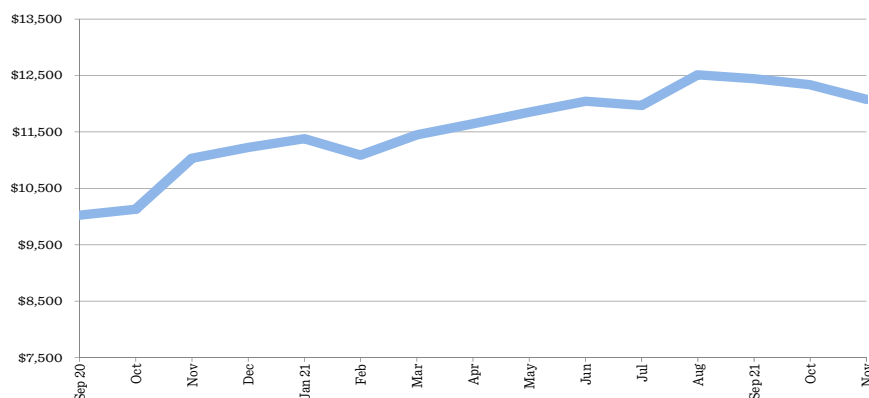
PERFORMANCE

	1 Mth	3 Mth	1 Yr p.a	Since Incep-
Devon Sustainability Fund	-2.1%	-3.5%	9.5%	15.3%
50:50 NZX50 Portfolio Index & ASX200 Index*	-2.4%	-3.6%	9.7%	16.0%

Devon Sustainability Fund returns are after all fees and expenses, but before tax which varies by investor.

NET PERFORMANCE

Based on \$10,000 invested at 31 August 2020



NOTE: Further information on the Devon Sustainability Fund can be found in our Quarterly Fund Updates by visiting <https://devonfunds.co.nz/devon-sustainability-fund/> by clicking [HERE](#)

COMMENTARY

The Sustainability Fund returned -2.1% for the month, outperforming its benchmark. During November we saw the resurgence of COVID uncertainty again after the news of a new variant, Omicron, was discovered. This led to a brief market sell off and a rotation back into 'COVID beneficiary' names. Collins Food Group (+10.2%), Nine Entertainment (+6.5%) and Woolworths (+7.2%) were top contributors, while Ooh!Media (-10.7%) and Kathmandu (-5.7%) were detractors.

Nine Entertainment continues to go from strength-to-strength and has been a core overweight in the Fund for a long time now. It held its AGM during the month and delivered a strong trading update. It indicated the ad market remains strong, it is doing better on cost control and that Stan subscriber growth is tracking better than expected (mainly due to lockdowns). It also upgraded its guidance for their Publishing and Digital divisions. Its diverse assets have proved to be beneficial and management continue to exceed market expectations, which has led to strong investor demand.

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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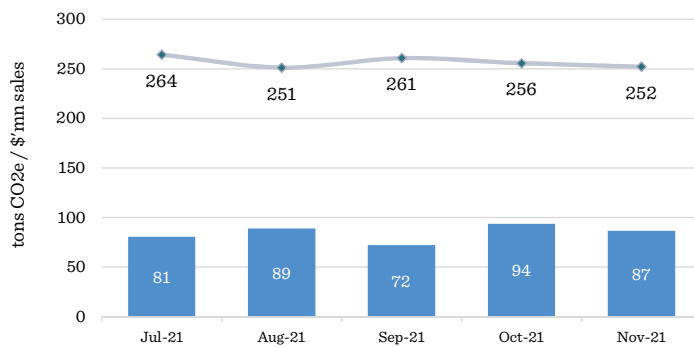
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DEVON SUSTAINABILITY FUND - ESG INSIGHTS

CARBON INTENSITY - PORTFOLIO VS BENCHMARK

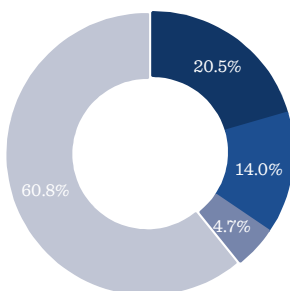
Carbon Intensity - Portfolio vs Benchmark



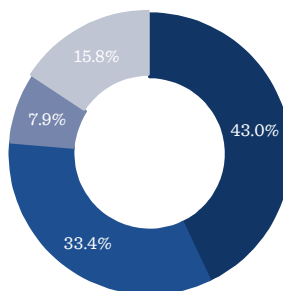
PORTFOLIO CARBON EMISSIONS BY KEY SECTORS

Portfolio Carbon Emissions by Key Sectors

Portfolio value by sector



Portfolio carbon emission by sector



The materials, utilities, and health care sectors make up 39.2% of the portfolio by value, but they account for 84.3% of the carbon emissions in the portfolio.

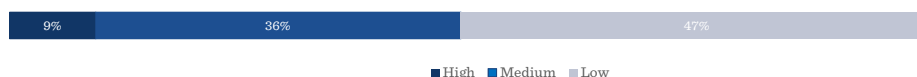
ESG PORTFOLIO SUMMARY

	MSCI ESG Ratings	MSCI ESG Quality score	
Portfolio	AA	8.30	Portfolio Sustainability Fund
Benchmark	AA	7.88	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	91.5%
% of companies reporting to TCFD standards	48.9%
% of companies with a modern slavery statement	42.6%
% of companies with carbon emission reduction targets	59.6%

CLIMATE CHANGE RISK BY PORTFOLIO HOLDINGS



COMMENTARY

During COP26, which was held during November, New Zealand announced its new Nationally Determined Contribution (NDC) to reduce emissions by 50% on 2005 levels by 2030. Prime Minister Jacinda Ardern described this as “our fair share” and it is indeed a significant step up on New Zealand’s previous pledge to cut emissions by 30%. It leaves the country with 571 Megatons of CO₂-equivalent emissions to “spend” between 2022 and 2030.

The New Zealand government stated its first priority was to reduce domestic emissions, but it acknowledged that alone could not meet the country’s new pledge. In fact, two thirds of the promised emissions reductions will have to come through overseas arrangements, especially with nations in the Asia-Pacific region. This would allow one country to buy credits from another country that has exceeded its NDC, or to carry out activities that reduce emissions in another (host) country and count those towards its own NDC. But these provisions have proved contentious, not least because they could result in double counting of emissions reductions, unless clear and robust operational rules are agreed. The COP26 summit has made some progress on this, but many finer details are yet to be resolved.

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

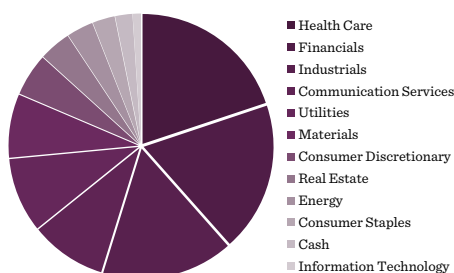
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

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	46.2%
Australian Equities	52.5%

Cash	1.4%
Total	100.0%

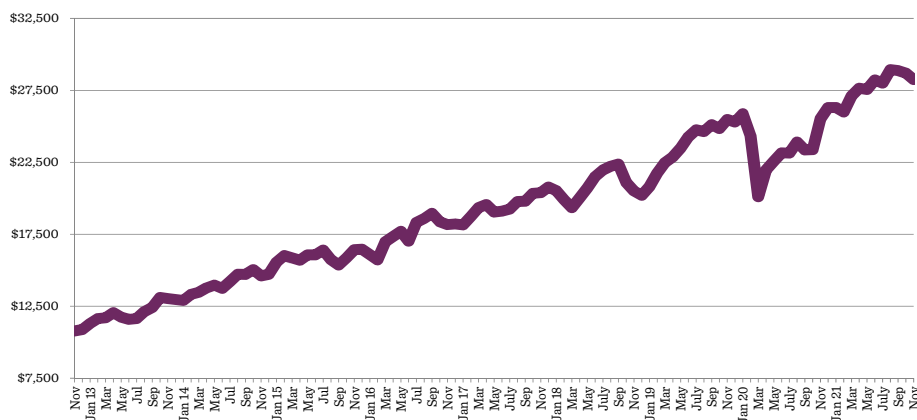
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Trans-Tasman Fund	-1.6%	-2.2%	10.8%	11.2%	9.2%	8.6%
50:50 NZX50 Gross & ASX200 Index Unhedged	-2.0%	-2.8%	7.3%	12.4%	11.6%	9.6%

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

This strategy enjoyed outperformance of its benchmark during the month. Positive contributions were made from our investments in Cleanaway and BHP rallying 8.2% and 7.6% respectively. BHP continued to bounce after recent weakness as iron ore prices recovered above US\$100/t. Construction activity has improved through November in China and we expect further stimulus to support a recovery in steel production early next year.

BHP also made a number of important announcements. Firstly, the company approved the merger of their Oil and Gas business with Woodside Petroleum, with completion expected in the second quarter of 2022. In early December, BHP also announced a final Board decision to unify BHP's corporate structure which will result in the sole primary listing being in Australia as opposed to a dual listing with the UK. We believe BHP shares are compelling value at current levels and it is one of the largest overweight positions in the portfolio.

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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