

MONTHLY REPORT: OCTOBER 2020

The appeal of high yielding equities for income investors

2020 will be remembered for one thing: COVID-19. The pandemic has created a set of global challenges that have at times felt insurmountable and there is still enormous uncertainty as to how the next 12-months will play out for businesses, travel and everyday life. Against this backdrop though there are other major difficulties being created in the area of wealth and, more specifically, in the production of income. As the world's population grows older, the need for income derived from savings to support retirement and broader lifestyles has increased dramatically. And yet the opportunity set for investors to meet these income requirements has declined significantly. Internationally over a third of government bonds now offer a negative interest rate and many central banks, including the European Central Bank and those of Japan, Sweden and Switzerland have negative rates. New Zealand's interest rate structure is now offering close to zero yields and the Reserve Bank of New Zealand has indicated it may move to negative rates from March 2021. With New Zealand banks now offering 12-month deposit rates below 1%, and with the potential to go lower, savers are being forced to reconsider what they do....[READ MORE](#)

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MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	2.9%	12.0%
S&P/ASX200G	AUSTRALIA	1.9%	-8.1%
MSCI World Index	GLOBAL	-3.0%	4.9%
S&P500	USA	-2.7%	9.7%
FTSE100	UK	-4.7%	-20.5%
NIKKEI 225	JP	-0.9%	2.2%
NZ 90 Day Bank Bill NZ		0.0%	0.8%

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AT A GLANCE

Prices as at 31 October 2020

DEVON ALPHA FUND	\$1.7846
DEVON AUSTRALIAN FUND	\$1.2128
DEVON DIVERSIFIED INCOME FUND	\$1.5309
DEVON DIVIDEND YIELD FUND	\$1.6749
DEVON TRANS-TASMAN FUND	\$ 3.8433
DEVON SUSTAINABILITY FUND	\$2.9533

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DEVON ALPHA FUND

FUND OUTLINE

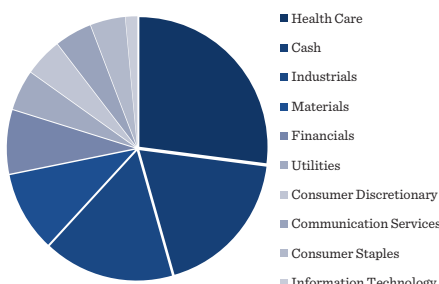
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	58.6%
Australian Equities	22.8%
Currency Hedge	99.5%

Cash	18.5%
Total	100.0%

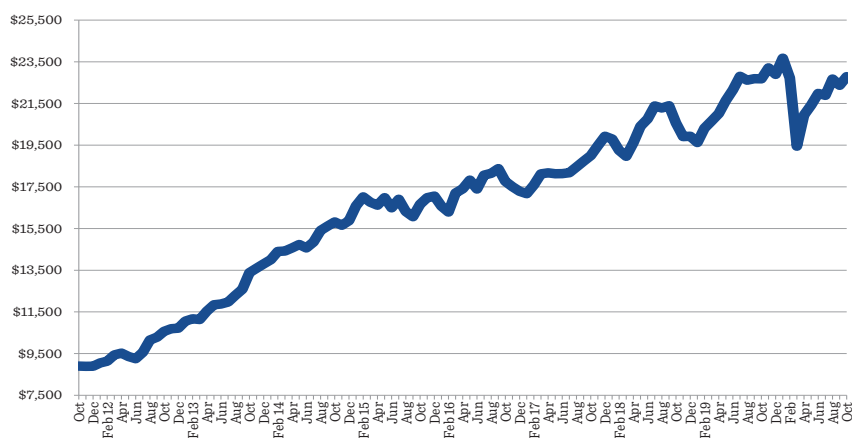
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Alpha Fund	1.9%	4.1%	0.5%	6.3%	6.3%	7.8%
OCR	0.0%	0.1%	0.5%	1.3%	1.6%	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

This strategy generated a good positive return during the month. We have enjoyed a strong recovery in markets over the past 6-months but have been conscious of the potential for an increase in volatility as we navigate the US elections. As such we have lifted the cash weighting in the portfolio towards 20%, although we expect to have this money reinvested before year-end. There were a number of strong contributions during October although the standout was Mainfreight, whose shares finished up 17%. Company management recently provided an upbeat presentation to investors which included preliminary estimates of their first-half revenues, which have grown by more than 7%. Their profit-before-tax is up 23% compared to the same period last year. This performance exceeded expectations with their Australian business a particular highlight, although trading in New Zealand and Europe were also strong. Other positive contributions to the portfolio came from Freightways (up 8%) and Macquarie Group (up 6%).

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

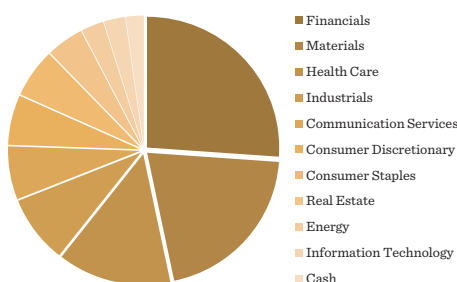
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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	2.2%
Australian Equities	96.5%	Total	100.0%

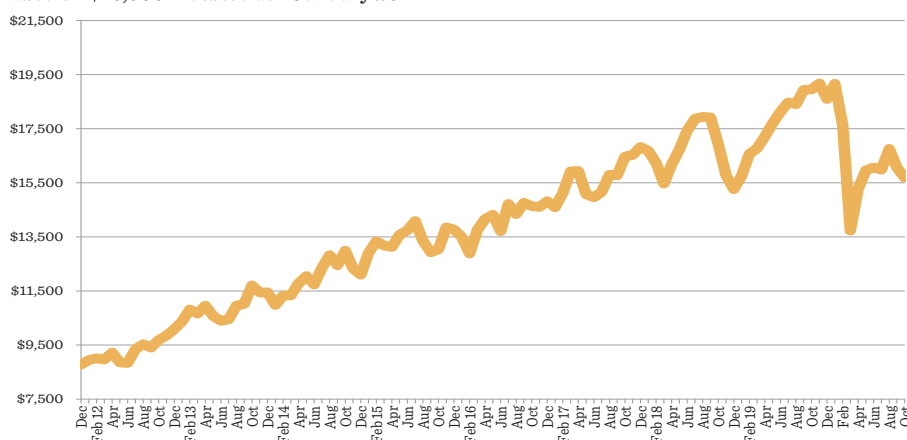
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Australian Fund	-2.3%	-1.8%	-17.2%	-1.6%	3.8%	4.3%
ASX200 Index Gross (NZD)	0.2%	-0.3%	-9.2%	2.3%	7.0%	4.5%

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

There was a mixed set of performance contributions to this strategy during the month. On the positive side of the ledger, ANZ delivered a reasonable result against a challenging backdrop, reporting a second-half underlying cash profit of \$3.5bn. While overall volumes were subdued, ANZ reported a lower than expected impairment charge. This was largely attributable to the large government fiscal stimulus programme that has been provided by the Australian Federal Government and the economy (outside of Victoria) performing better than expected. Cost performance was good with the \$8bn long-term target maintained. Amongst the detractors from performance for the Australian Fund were Sydney Airport and Ramsay Healthcare. In terms of portfolio changes, our exposure to Woolworths was increased. This decision was driven by our confidence in recent sales momentum for the business and after some recent price weakness, there is currently solid valuation support for this stock.

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

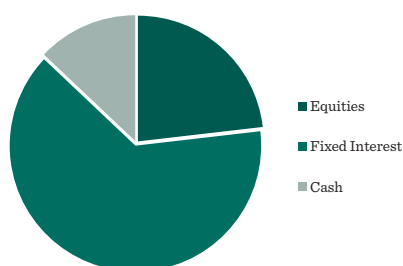
FUND OUTLINE

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	14.0%
Australian Equities	8.8%

Bonds	63.9%
Cash	13.3%

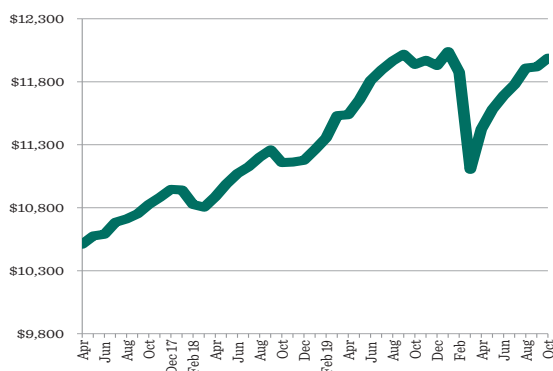
PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Diversified Income Fund	0.6%	1.8%	0.4%	3.6%	3.5%
OCR + 1.5%	0.1%	0.4%	2.0%	2.5%	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 bond yields drifted higher during the month with the US 10-year finishing at 0.88%. Much of this move has been attributed to an increase in the polling advantage of Democratic presidential nominee Joe Biden and the possibility of a “clean sweep” by the Democrats in the US elections. Such a result would almost certainly lead to a larger fiscal package being announced in the next 3-6 months. Economic data has been mixed recently as activity levels have moderated due to a lift in COVID infections around the world. In the final week of the month there were almost 500,000 new cases recorded in the US, whilst new lockdown measures were being considered in Britain and Europe. In New Zealand, a major focus during October was the general election which saw a dominant victory by the Labour party. This was largely expected by the market.

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

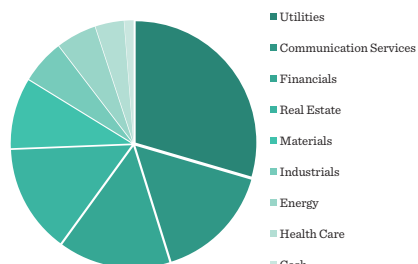
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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	60.6%
Australian Equities	38.1%
Currency Hedge	100.7%

Cash	1.3%
Total	100.0%
Yield	5.6%

PERFORMANCE

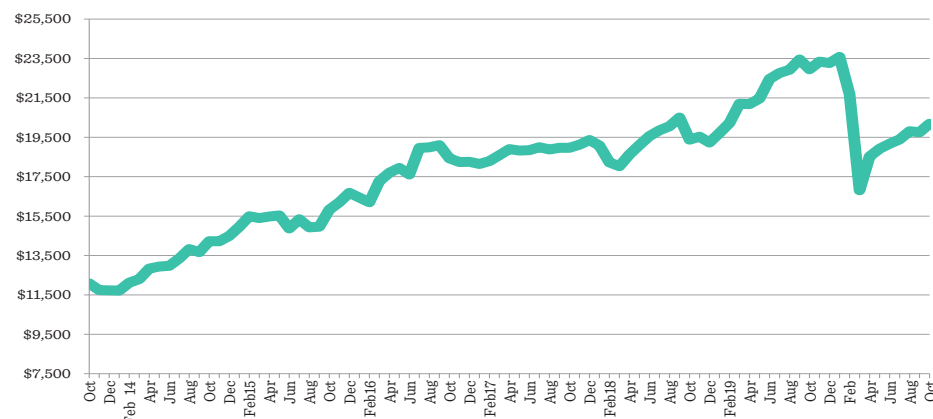
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Dividend Yield Fund	2.2%	4.1%	-12.0%	2.1%	4.9%	7.8%
TT Index (Hedged)	2.4%	2.0%	1.9%	9.1%	10.9%	9.7%
Australasian Dividend Yield Index*	3.4%	5.4%	-8.5%	3.6%	6.5%	6.4%

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 Freightways performed exceptionally well, after the company announced a good start to the year with first quarter EBITDA of \$49m, a 47% improvement on the same period last year. Adjusting for an extra trading week and the inclusion of its Big Chill acquisition, the result was still ahead by 20%. The core business of Express packing continued to benefit from improved market conditions and better pricing outcomes with margins for the quarter up strongly. Of significance was the comment by management that the company would resume dividend payments in this financial year. A payout policy based on previous distributions suggests a gross yield of approximately 5.5%. The market reacted positively to the news with the stock up 8.4% for the month. Solid performance contributions also came from our investments in ANZ Bank, which rallied 9%, and EBOS which closed 5.4% stronger.

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

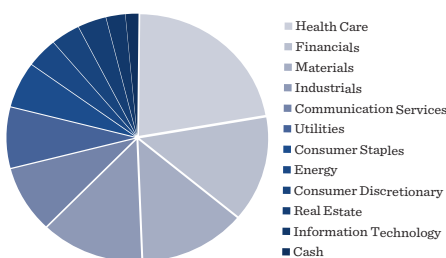
The **Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	54.4%
Australian Equities	35.1%

Cash	10.4%
Total	100.0%

PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Sustainability Fund	1.0%	-	-	-	-
TT (Portfolio) Index	2.9%	-	-	-	-

*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

During the month of October, we added the Australian supermarket operator Woolworths to the portfolio. Strong recent sales persisted as restaurants fully reopened in Western Australia, further suggesting the company will surpass their own earnings guidance. Moreover, Woolworths are continuing to improve their operating efficiency, resulting in profit margins increasing over-time. We expect this to be supportive for investors over time and pleasingly the market supported this thesis, with Woolworths finishing up 4.8% for the month. A second strong performer for this strategy was Freightways, up 8.4%. At their AGM the company published their operating earning from the first quarter. Encouragingly, they have enjoyed strong performance as the local economy reopened. We believe Freightways should be able to continue to claim market share and increase their prices. We are positive on both the near-term and medium-term prospects for these businesses.

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

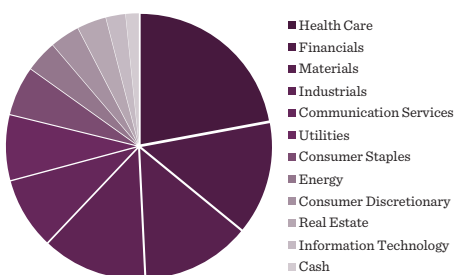
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the NZ and Australian equity markets.

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	53.2%
Australian Equities	45.2%

Cash	1.6%
Total	100.0%

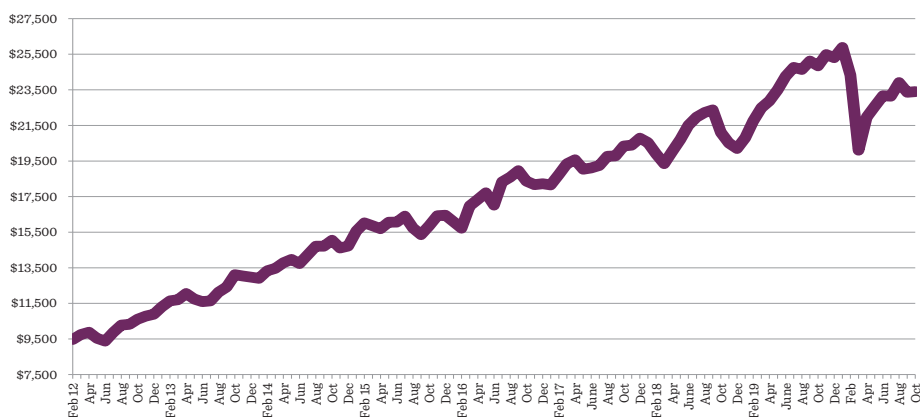
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Trans-Tasman Fund	0.2%	1.3%	-4.3%	6.3%	9.0%	9.9%
Trans-Tasman Index Gross	1.5%	1.4%	1.4%	8.2%	11.0%	9.1%

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 underperformed its benchmark during October. Despite this there were some strong positive contributions made from our investments in Mainfreight, Contact Energy, ANZ and Freightways while detractors included Ramsay Healthcare, BHP and Aristocrat Leisure. One of the more significant changes we have made to the portfolio was to increase our exposure in Fletcher Building. In May of this year, Fletcher's provided an update of how they perceived their operating environment and strategies they would undertake in response. This included a \$300m cost out programme given that management assumed, for FY21, a 30% decline in New Zealand residential consents to 25,000 and a 15% fall in Australian consents. Recent figures on housing market activity in both countries have been significantly more positive than these assumptions. For example, in September 2020 New Zealand residential consents rose 3.6%, to 3,605 new dwellings. As a consequence of this positive momentum we believe there is scope for earnings upgrades during 2020.

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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