

MONTHLY REPORT: OCTOBER 2021

The Great IPO Rush

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

While the initial public offering market has been subdued again this year in New Zealand, the same cannot be said across the Tasman. IPO activity has run red hot in Australia, with a steady wave of new companies of all shapes and sizes coming to market so far in 2021. This trend has shown no sign of letting up, with the December quarter likely to be one for the record books. The final three months of the year will likely have seen at least seven floats of A\$1 billion or more, raising a total of more than A\$10 billion.

Rampant IPO activity has not just been confined to Australia and has very much been a global theme this year. While the majority of capital raisings in 2020 were about strengthening balance sheets in the wake of the pandemic, this year has been much more about companies raising new capital through IPOs to fund growth.

Buoyant equity markets, investor optimism around the post-COVID economy and earnings outlook, and elevated valuations along with low bond yields have all conspired to ensure that this 'IPO rush' has been a global phenomenon. Global accounting firm EY reports that the number of global public offerings had already exceeded last year's total by the end of the third quarter, and in fact reached a 20-year high.... [READ MORE](#)



MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	-1.3%	8.4%
S&P/ASX200G	AUSTRALIA	-0.1%	28.0%
MSCI World Index	GLOBAL	5.7%	41.0%
S&P500	USA	7.0%	42.9%
FTSE100	UK	2.2%	34.5%
NIKKEI 225	JP	-1.9%	27.8%
NZ 90 Day Bank Bill NZ		0.0%	0.3%

Devon Funds Management Limited

Level 3, 28 Customs Street East, Auckland 1010

PO Box 105 609, Auckland 1143

Telephone: 0800 944 049 (free call) or +649 925 3990

enquiries@devonfunds.co.nz

AT A GLANCE

Prices as at 31 October 2021

DEVON
ALPHA
FUND

\$2.1091

DEVON
AUSTRALIAN
FUND

\$1.5319

DEVON
DIVERSIFIED
INCOME
FUND

\$1.5097

DEVON
DIVIDEND
YIELD
FUND

\$1.9280

DEVON
TRANS-
TASMAN
FUND

\$4.5618

DEVON
SUSTAINABILITY
FUND

\$3.4620

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DEVON ALPHA FUND

FUND OUTLINE

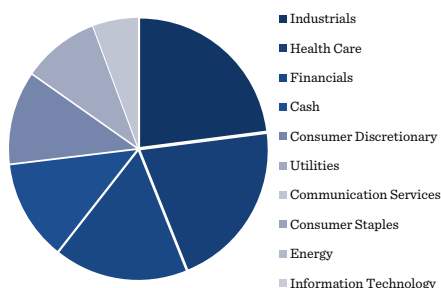
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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

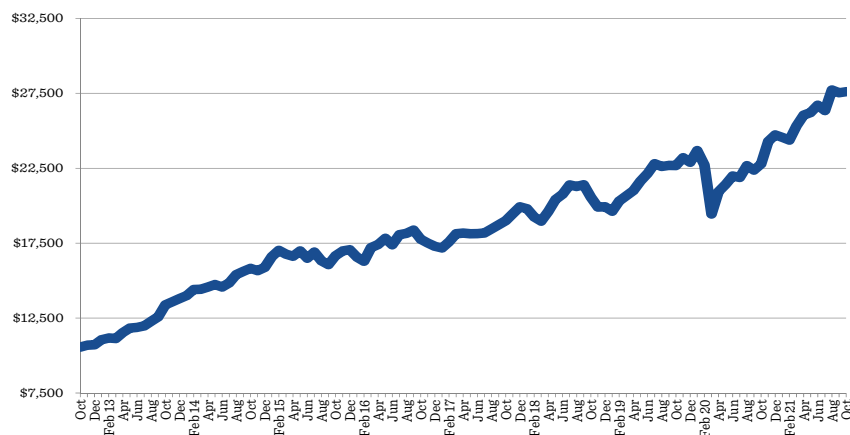
New Zealand Equities	29.5%	Cash	12.5%
Australian Equities	58.1%	Total	100.0%
Currency Hedge	51.0%		

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Alpha Fund	0.3%	4.8%	21.3%	10.4%	9.2%	9.7%
OCR	0.0%	0.1%	0.3%	0.8%	1.2%	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

Pleasingly the Alpha portfolio generated a positive absolute return despite local equity indexes falling in value. There were a number of important contributors, with those businesses leveraged to a re-opening of the Australian economy doing well. These included our investments in Seek which rallied 5.1% and Ramsay Healthcare, up 1.2%.

We have intentionally positioned this strategy with a bias towards those companies which are supported by fundamental valuation and economic normalization, and this view is being rewarded. Our most successful investment during October was Macquarie Group, whose shares jumped 8.7%. Macquarie reported their first-half 2022 results, with their net profit growing by 107% relative to the same period last year. This was also ahead of market expectations and their future looks positive with a strong pipeline of opportunities through their exposure to green energy, volatility across commodity markets and momentum in their mortgage business.

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

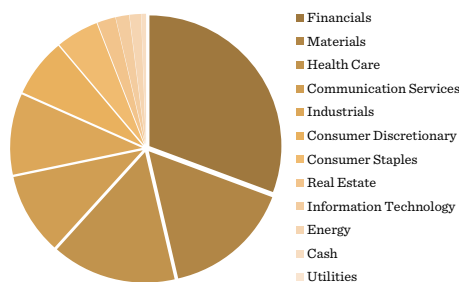
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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	0.6%
Australian Equities	99.4%	Total	100.0%

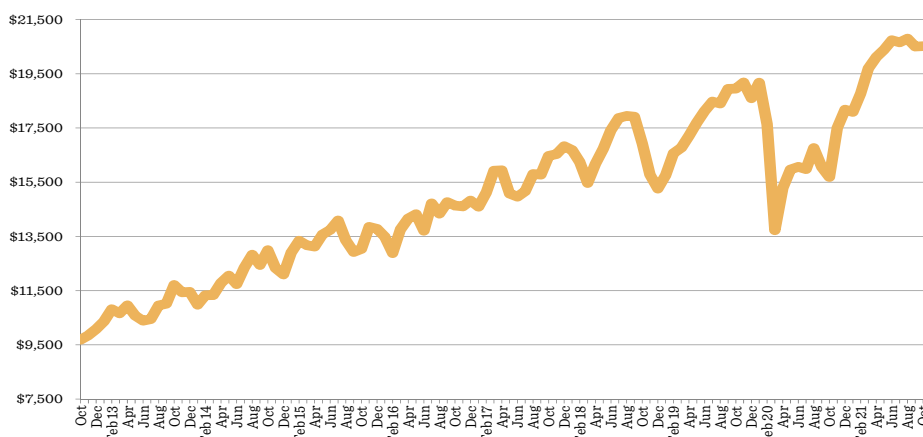
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Australian Fund	0.1%	-0.7%	30.7%	6.6%	7.0%	7.6%
ASX200 Index Gross (NZD)	0.1%	0.2%	26.4%	10.7%	10.6%	7.3%

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

The Australian Fund performed broadly in-line with its benchmark during the month and there was plenty of information for investors to digest with the AGM season in full swing. M&A was also relevant and during the month, Aristocrat Leisure announced the acquisition of UK-listed real money gaming operator Playtech for \$5bn, funded through a \$1.3bn rights issue to existing shareholders. The deal is expected to be high-single digit accretive in FY23-FY25 with possible upside in new markets. This was a transformational acquisition, considering the limited business overlap and upside opportunity of the combined Aristocrat/Playtech operations.

The Fund also participated in the IPO of GQG Partners. GQG is an attractively priced, US-based global fund manager that has an impressive leadership team and has experienced rapid growth in FUM since it began. Other stocks that positively contributed during October were Macquarie Group (+8.7%) and Metcash (+3.6%).

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

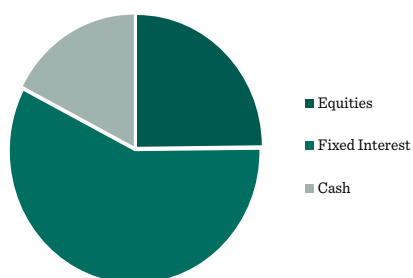
FUND OUTLINE

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	15.5%
Australian Equities	8.9%

Bonds	57.7%
Cash	17.9%

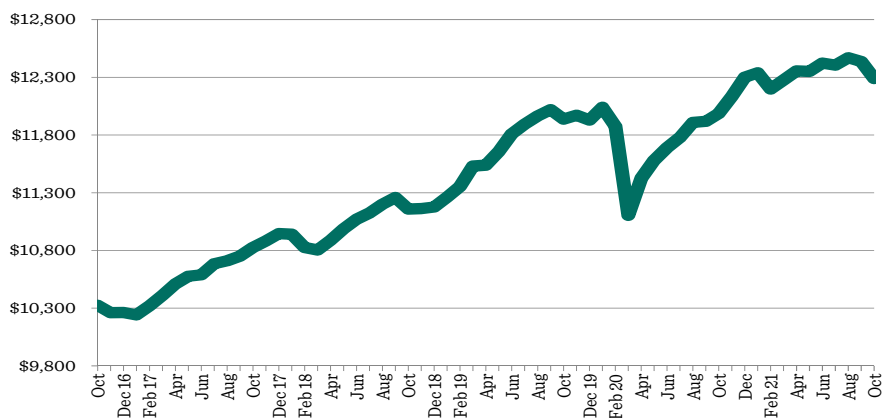
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Diversified Income Fund	-1.2%	-0.9%	2.5%	3.3%	3.5%	3.8%
OCR + 1.5%	0.1%	0.4%	1.8%	2.3%	2.7%	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 moved higher during the month with the US 10-year finishing at 1.56%. In New Zealand the move was even more dramatic with our 10-year bond increasing by 0.5% to 2.6%. Since 2000 we have only seen a move of this magnitude on three other occasions. This was a consequence of inflation rising faster than expected, by 4.9% in the September quarter.

In New Zealand the RBNZ has moved well ahead of many other central banks in their withdrawal of policy stimulus. Despite the COVID-related shutdowns that are particularly impacting activity in Auckland, our domestic inflation rates at now at levels that we haven't broadly seen since the late 1980's. Due to this, the overnight cash rate was lifted by 0.25% in early October and the market is now pricing in further rate hikes in the coming 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

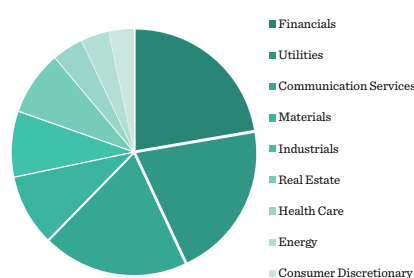
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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	62.6%	Cash	1.4%
Australian Equities	36.0%	Total	100.0%
Currency Hedge	100.5%	Yield	5.7%

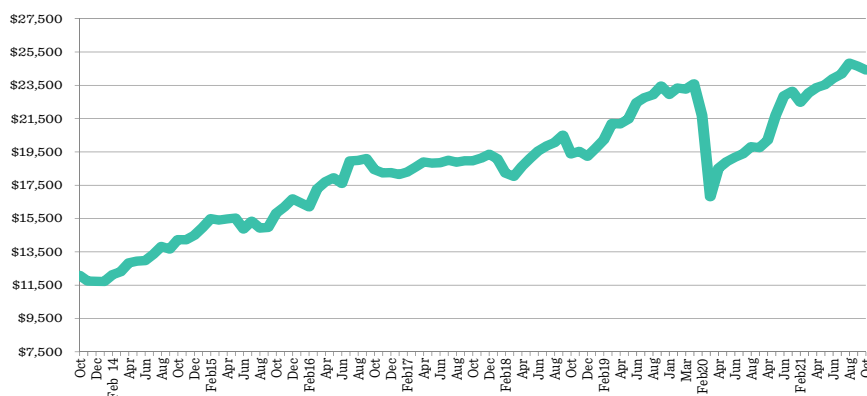
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Dividend Yield Fund	-0.9%	1.0%	21.0%	8.0%	5.8%	10.7%
50:50 NZX50 & ASX200 Index Gross	-0.7%	2.3%	18.2%	13.2%	12.2%	12.6%

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

Our investments in the banking sector continued their strong recovery, outperforming the market during October. Whilst the competitive landscape for the sector remains intense, a combination of tailwinds including share buybacks, rising bond yields and compelling relative valuations continue to support performance. The ANZ reported full year financials during the month, showing a persistence toward its cost-out strategy but balancing this intent with its commitment to future growth in a difficult revenue environment. With core equity capital ratios in excess of 12%, the bank has capital well in excess of its “unquestionable strong benchmark”, suggesting further capital management opportunities exist.

Ampol's extended due diligence with respect to its Z Energy bid period was finally concluded with a small improvement over the initial bid. Investors will now receive the initial \$3.78 per share cash offer plus an additional fully imputed dividend of 5cents per share. Z Energy shares (+5.3%) outperformed the market after the board unanimously agreed to accept the bid.

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

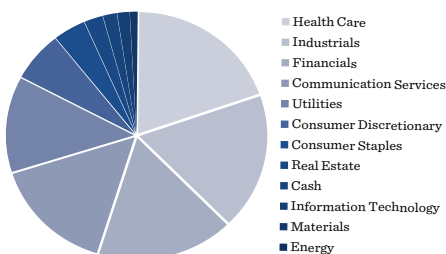
The **Devon Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	47.9%	Cash	1.8%
Australian Equities	50.3%	Total	100.0%

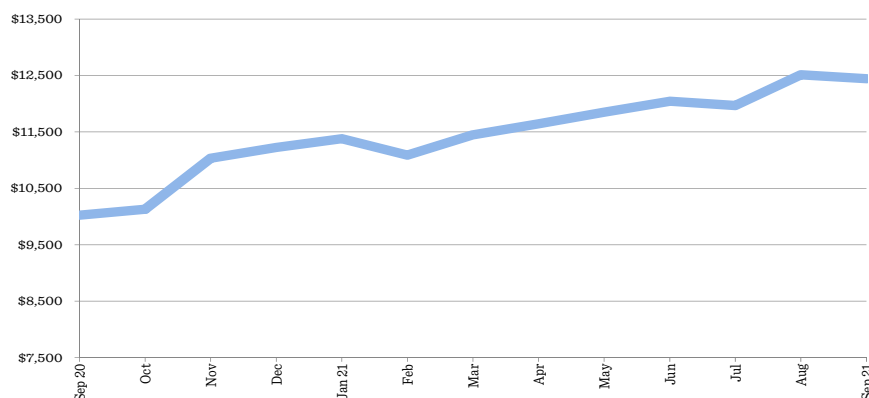
PERFORMANCE

	1 Mth	3 Mth	1 Yr p.a	Since Incep-
Devon Sustainability Fund	-0.9%	3.1%	21.8%	23.3%
50:50 NZX50 Portfolio Index & ASX200 Index*	-0.6%	2.6%	21.6%	23.3%

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 -0.9% for the month. October was a busy month for the Australian market with AGM's, broker conferences and a strong pipeline of IPO's. With a lack of trading updates given by companies during the August reporting season, this month provided a lot more colour around recent trading conditions. M&A activity also continues to be heightened.

During the month, Super Retail Group (which operates the brands Macpac, Super Cheap Auto, BCF and Rebel in Australia) delivered a trading update at its annual AGM. Sales have been strong (excluding lockdown states) and margins elevated. However, management did allude to the risk of margins possibly normalizing due to pressure from increased freight and logistics costs, associated with elevated levels of inventory. The company's valuation and dividend yield remain attractive, and the strong balance sheet leaves plenty of room to further add shareholder value.

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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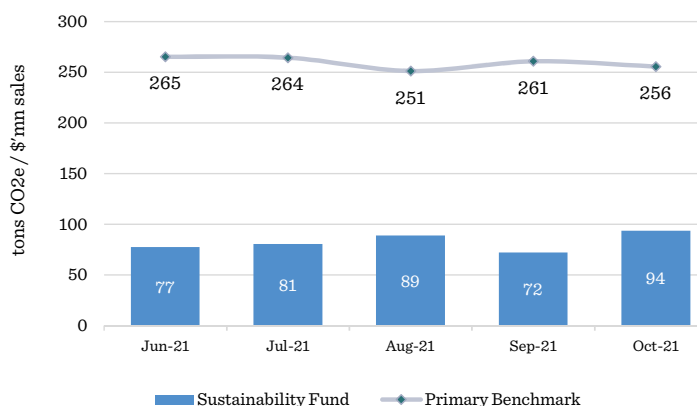
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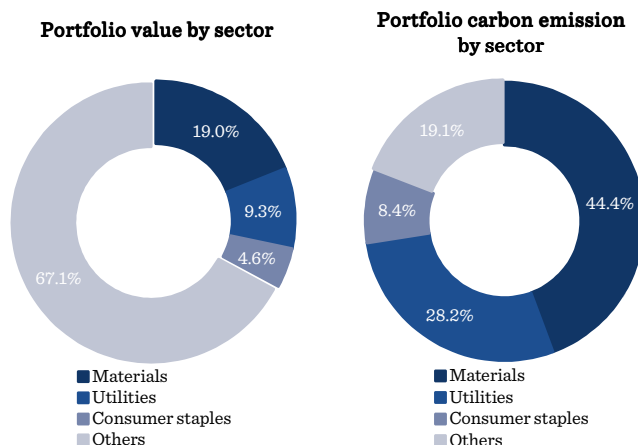
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DEVON SUSTAINABILITY FUND - ESG INSIGHTS

CARBON INTENSITY - PORTFOLIO VS BENCHMARK



PORTFOLIO CARBON EMISSIONS BY KEY SECTORS



The materials, utilities, and health care sectors make up 32.9% of the portfolio by value, but they account for 81.0% of the carbon emissions in the portfolio.

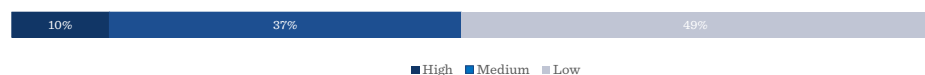
ESG PORTFOLIO SUMMARY

	MSCI ESG Ratings	MSCI ESG Quality score	
Portfolio	AA	8.43	Portfolio Sustainability Fund
Benchmark	AA	7.91	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	95.9%
% of companies reporting to TCFD standards	51.0%
% of companies with a modern slavery statement	42.9%
% of companies with carbon emission reduction targets	61.2%

CLIMATE CHANGE RISK BY PORTFOLIO HOLDINGS



COMMENTARY

Under the UN framework set out in the Paris accord, all signatories have to report actions underway to reduce emissions by 2030. According to a UN report released earlier in the month, prior to the Glasgow climate summit, current projections shows that the world is still headed for catastrophic levels of global warming, despite the slew of new national climate pledges.

If countries don't quickly set stronger emissions-reduction targets, the world will warm 2.7°C by 2100, according to the report. This increase will far exceed the goal of keeping global warming below 2°C, and preferably the 1.5°C that was laid out in the 2015 Paris Agreement signed by all countries. The report "contains a stark, scientific message for climate change negotiators," said Petteri Taalas, World Meteorological Organization secretary-general. "We are way off track."

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

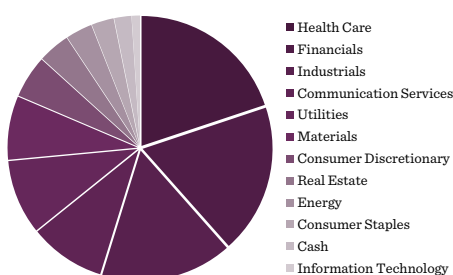
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

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	44.5%
Australian Equities	53.3%

Cash	2.1%
Total	100.0%

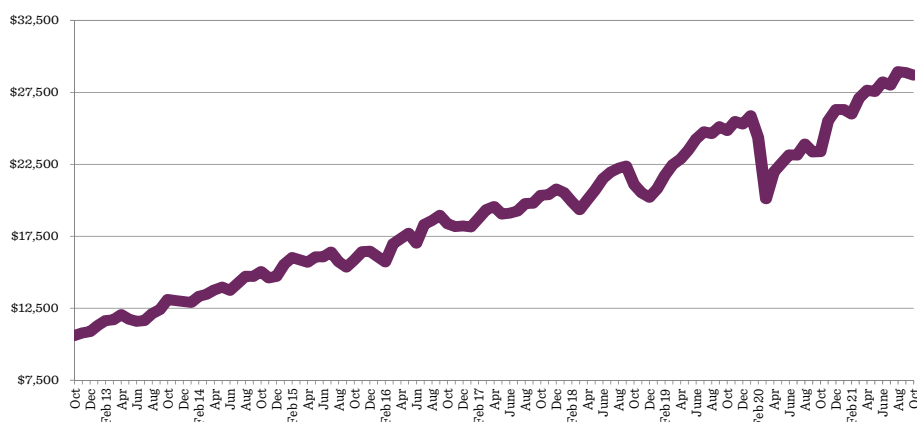
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Trans-Tasman Fund	-0.4%	2.7%	22.9%	10.8%	9.3%	8.7%
50:50 NZX50 Gross & ASX200 Index Unhedged	-0.6%	2.1%	17.4%	12.5%	12.0%	9.7%

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

The Trans-Tasman Fund outperformed its benchmark during the month. Key contributors included Macquarie (+8.7%), Z Energy (+5.3%), Seek (+5.1%) and Nine Entertainment (+4.6%), while Vista Group (-6.6%) and Mercury (-5.6%) detracted.

In terms of portfolio changes, we recently purchased shares in Tabcorp which provides gambling and entertainment services across Australia. Tabcorp operates lotteries and Kenos primarily under the Set for Life, Powerball, Lotto and Instant Scratch-It brands. The company's Wagering and Media segment offers betting on racing, sports, and other events.

While Covid-19 impacts were evident in their recent result, these are now abating with state re-openings. In addition, the company is targeting a demerger of its two divisions next year which we expect to unlock value with the prized lotteries division likely to trade at elevated earnings multiple. Overall, we continue to find a range of exciting new investment opportunities, particularly in Australia.

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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