

## MONTHLY REPORT: SEPTEMBER 2020

### Better reporting by New Zealand companies needed on climate change

During the past month we were very excited by the launch of our Sustainability Fund. Although we have always been recognized for integrating Environmental, Social and Governance considerations into our investment process, this new Fund is an explicit representation of our expertise in this area. This is evidenced by us being a signatory to the globally recognized Principles for Responsible Investment, a signatory to Climate Action 100+ and a member of the Responsible Investment Association Australasia (and acknowledged in their latest Benchmark Report as one of the top performing New Zealand-based managers in applying a leading approach to responsible investment). In our determination to lead the New Zealand industry in this area, we are continually looking for initiatives that will contribute to better sustainable practices by the business community. Recently this has included a proprietary survey being conducted by Devon of all the major listed companies on the NZX50 Index, to help us understand their views on climate-related risks. This is an area that we take very seriously and believe will have a material impact on investment returns in the years ahead....[READ MORE](#)

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### MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	-1.6%	7.5%
S&P/ASX200G	AUSTRALIA	-3.7%	-10.2%
MSCI World Index	GLOBAL	-3.4%	11.0%
S&P500	USA	-3.8%	15.1%
FTSE100	UK	-1.5%	-18.1%
NIKKEI 225	JP	0.8%	8.7%
NZ 90 Day Bank Bill NZ		0.0%	0.7%

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### AT A GLANCE

Prices as at 30 September 2020

DEVON ALPHA FUND	\$1.7758
DEVON AUSTRALIAN FUND	\$1.2669
DEVON DIVERSIFIED INCOME FUND	\$1.5371
DEVON DIVIDEND YIELD FUND	\$1.6646
DEVON TRANS-TASMAN FUND	\$ 3.9127
DEVON SUSTAINABILITY FUND	\$2.9227

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## DEVON ALPHA FUND

## FUND OUTLINE

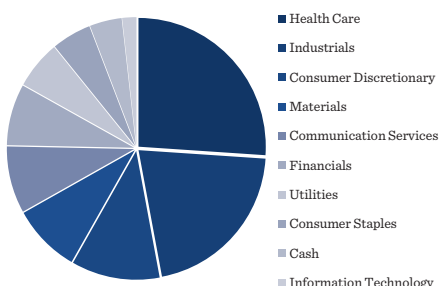
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	56.9%
Australian Equities	39.0%
Currency Hedge	97.6%

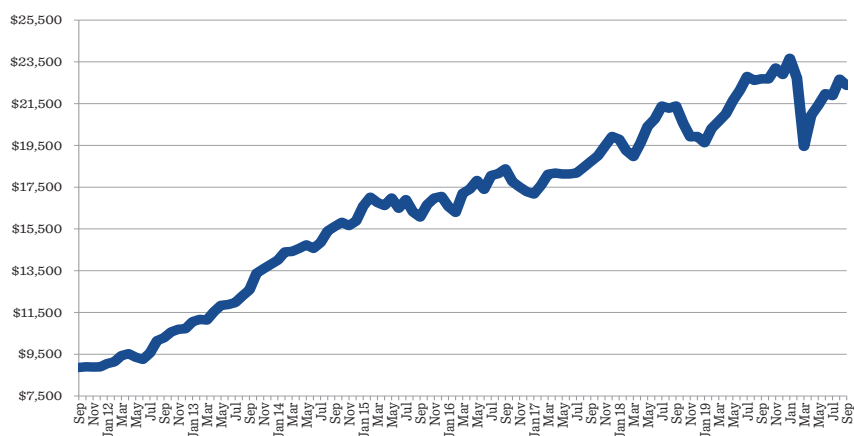
Cash	4.1%
Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Alpha Fund	-1.3%	1.8%	-1.4%	6.1%	6.6%	8.4%
OCR	0.0%	0.1%	0.6%	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

The Alpha strategy generated a negative absolute return during the month, but notably outperformed the underlying markets in New Zealand and Australia. There was a wide range of contributions made by the different investments that we have, with companies such as Ebos and Aristocrat Leisure rallying 7.6% and 5.6% respectively, whilst a2Milk fell by more than 17%. We have been very careful in our portfolio construction to ensure that we have a strong representation of businesses that are leveraged to a likely recovery in economic conditions next year. This has resulted in us acquiring shares in Freightways, Mainfreight and Ooh!Media. Ooh!Media finished the month up 17.5% as investors recognized how well positioned this business is in the Australasian out of home media industry. Despite operating conditions being very challenged currently due to COVID, successful cost management initiatives and an improving forward order book suggest that its fair value is substantially higher than its current share price.

## 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

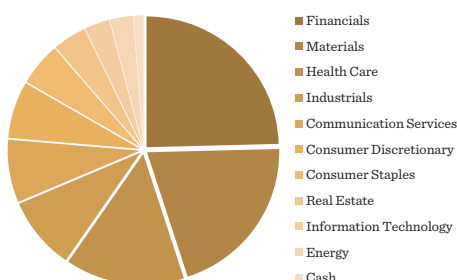
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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	1.5%	Cash	1.2%
Australian Equities	97.2%	Total	100.0%

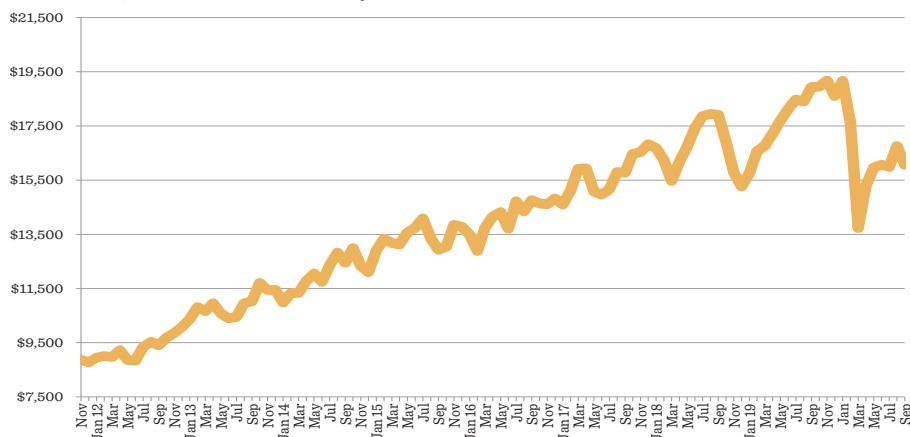
### PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Australian Fund	-4.2%	0.0%	-15.2%	0.6%	4.4%	5.5%
ASX200 Index Gross (NZD)	-4.8%	0.7%	-9.7%	4.7%	7.0%	5.4%

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

A number of our highest conviction investments performed well during September, recovering some of their August losses. Amongst these were Ramsay Healthcare, CSL and oOh!Media. CSL traded positively as evidence continues to build of recovering plasma collections in the US. During the month we listened to a range of industry calls which suggested that European collections have largely recovered and US collections have also improved. We see a range of positive catalysts ahead for this business over the next 12-months, including the continued recovery in plasma collections, strong flu vaccination deliveries and any participation in COVID-19 vaccine manufacturing and development. In terms of portfolio changes, Downer was added to the Fund over the month. Downer's plans to divest its capital-intensive Mining and Laundries operations, while also winding down its problematic construction operations, should result in improved investor sentiment surrounding this business.

### 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

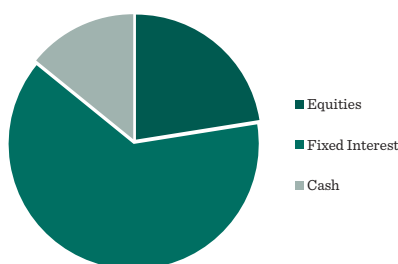
## FUND OUTLINE

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	13.3%
Australian Equities	8.9%

Bonds	63.4%
Cash	14.4%

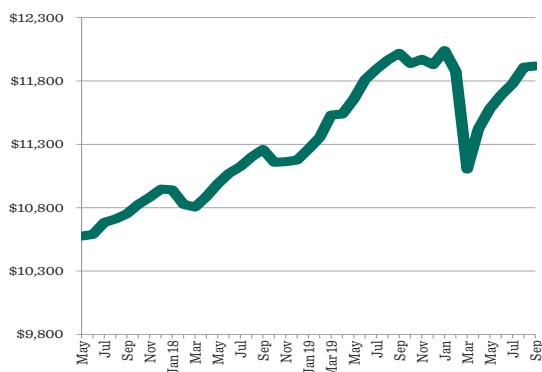
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Diversified Income Fund	0.1%	1.9%	-0.8%	2.9%	3.5%
OCR + 1.5%	0.1%	0.4%	2.1%	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

The global fixed income markets were reasonably stable during the month with the yield on US 10-year Treasuries closing at 0.69% (relative to 0.71% at the start of the month). Despite this fact, there was a lot of information for investors to focus on. These included comments by the US Federal Reserve Chairman Jerome Powell at their September policy meeting, where he highlighted the bank's undertaking to keep interest rates near zero for at least the next three years. Powell also stressed the need for additional fiscal support, but this is looking unlikely before the US presidential election due to an impasse between the Democrats and Republicans over the level of support required. In New Zealand, the RBNZ reiterated their commitment to the provision of support through a continuation of their Large-Scale Asset Purchase Programme (up to \$100bn). There is also a great deal of focus by local investors on the fiscal positions of both National and the Labour Party as we progress towards the general election on 17 October.

## 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

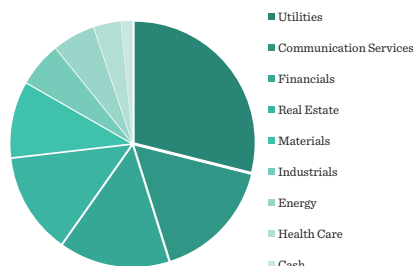
Contact

EBOS  
HEALTHCARE

STRIDE

Chorus

## ASSET ALLOCATION



## ALLOCATION

New Zealand Equities	59.0%
Australian Equities	39.5%
Currency Hedge	101.4%

Cash	1.5%
Total	100.0%
Yield	5.5%

## PERFORMANCE

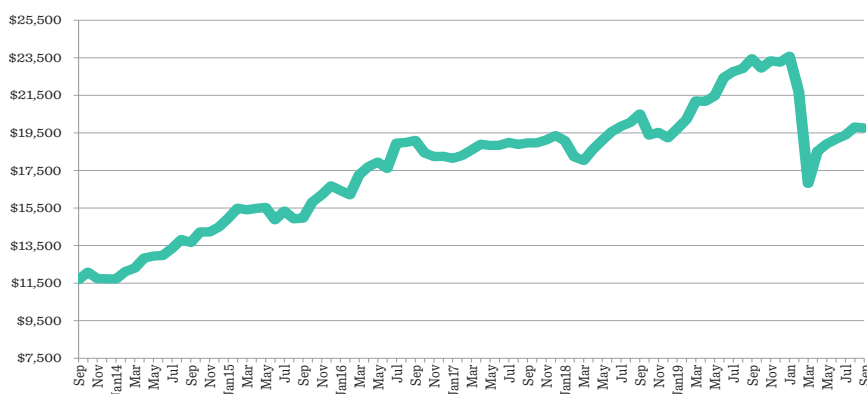
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	7 Yr p.a
Devon Dividend Yield Fund	-0.3%	3.1%	-15.8%	1.3%	5.7%	7.9%
TT Index (Hedged)	-2.6%	1.1%	-1.3%	9.4%	11.7%	9.9%
Australasian Dividend Yield Index*	-1.1%	3.0%	-13.8%	2.8%	6.9%	6.3%

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

Profit taking post result season saw both the New Zealand and Australian equity markets struggle in September, with the NZX50 once again highlighting its defensive qualities by outperforming the ASX200 by 2.5%. Corporate commentary around dividend payments continues to improve, alongside management confidence, as the impacts of Covid-19 become more apparent and manageable.

The New Zealand electricity sector continued its outperformance with our positions in Mercury, Meridian and Contact doing exceptionally well. Statements of support from the major political parties suggest that a deal with Rio Tinto, on the continued operation of the Tiwai smelter, seems highly probable post the election. This is significant, not only to the people of Southland from an economic perspective, but also to the electricity generators who now face a more balanced market in the medium-term. A deal would allow Transpower time to upgrade the grid, and the listed generators the time to find alternative customers, all of which will support better long run electricity price stability. This should underpin the sector's dividends, making yields once again attractive in a low interest rate environment.

## 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

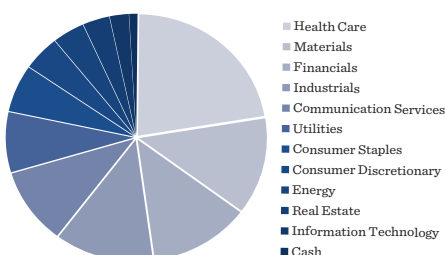
The **Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	55.1%
Australian Equities	38.7%

Cash	6.3%
Total	100.0%

## PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Sustainability Fund	0.3%	-	-	-	-
Sustainability Index*	-1.4%	-	-	-	-

\*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 enjoyed solid outperformance over its benchmark during September. This was the first month that this strategy has been available to retail investors and we are very excited about the prospects that this Fund offers. As a strong representation of our views across Environmental, Societal and Governance issues, this portfolio has a number of unique characteristics to it. There were many stocks which contributed to the overall return, but of interest was Kathmandu. They released their FY20 result during the month and comfortably exceeded their own previous guidance and analyst expectations. Underlying earnings for the year were reported at \$83m as the company benefited from a surge in activity post the Covid lockdown. Successful cost management was also a feature, resulting in an expansion in their operating margin. Last year Kathmandu acquired Rip Curl and although operating conditions have been challenging for this business during 2020, we are optimistic for its future.

## 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

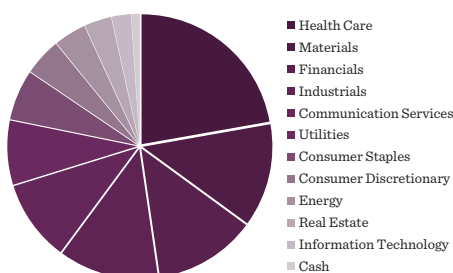
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the NZ and Australian equity markets.

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	52.1%
Australian Equities	46.9%

Cash	1.1%
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	-2.3%	0.8%	-7.0%	5.6%	8.1%	9.0%
Trans-Tasman Index Gross	-3.2%	1.6%	-1.1%	9.3%	11.5%	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

