

MONTHLY REPORT: SEPTEMBER 2021

ESG - More Than a Buzz Word

Over the past few years environmental, social and governance – commonly termed ESG – factors have risen to prominence within the local and global investing landscape. At Devon Funds we support many collaborations and initiatives so we can continue to be at the forefront of this positive change. We are signatories of the globally recognized Principles for Responsible Investment, a collaborator within Climate Action 100+, an active contributor within the New Zealand Governance Forum and a member of the Responsible Investment Association Australasia (RIAA). Recently RIAA recognized Devon Funds as a Top Three Responsible Investment Leader in its landmark 2021 NZ study, due to our responsible investing practices. Last year we launched the Climate Related Financial Disclosure survey of all companies within the S&P/NZX50.

We did this for a number of reasons, but primarily because we believe improving disclosures in this area vastly improves the framework for making investment decisions. This year the survey focused on the 34 companies who currently don't have disclosures in line with the Task Force on Climate-Related Financial Disclosures (TCFD) guidelines. Below we discuss why we desire better climate related disclosures, along with changes we'd like to see after analysing the survey results... [READ MORE](#)



MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	0.4%	13.0%
S&P/ASX200G	AUSTRALIA	-1.9%	30.6%
MSCI World Index	GLOBAL	-4.1%	29.4%
S&P500	USA	-4.7%	30.0%
FTSE100	UK	-0.2%	25.4%
NIKKEI 225	JP	5.5%	29.1%
NZ 90 Day Bank Bill NZ		0.0%	0.3%

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AT A GLANCE

Prices as at 30 September 2021

DEVON
ALPHA
FUND

\$2.1327

DEVON
AUSTRALIAN
FUND

\$1.5588

DEVON
DIVERSIFIED
INCOME
FUND

\$1.5429

DEVON
DIVIDEND
YIELD
FUND

\$1.9705

DEVON
TRANS-
TASMAN
FUND

\$4.6674

DEVON
SUSTAINABILITY
FUND

\$3.5573

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DEVON ALPHA FUND

FUND OUTLINE

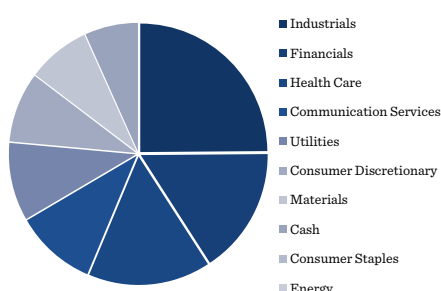
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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

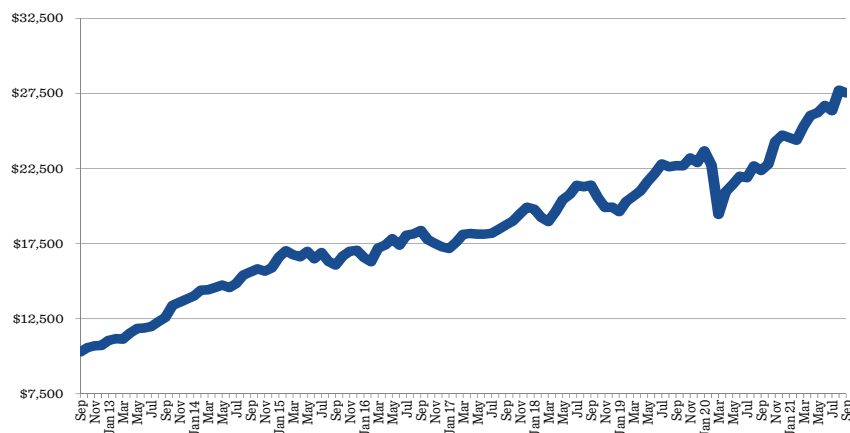
New Zealand Equities	27.8%	Cash	6.8%
Australian Equities	65.4%	Total	100.0%
Currency Hedge	49.7%		

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Alpha Fund	-0.7%	3.2%	23.2%	8.8%	8.4%	9.7%
OCR	0.0%	0.1%	0.3%	0.8%	1.2%	2.1%

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

After enjoying a strong period of absolute returns over the past year, the Alpha strategy slightly underperformed during September.

Amongst the reasons for this result was weakness across the Australian share market. In recent months we have built up a bias in the portfolio towards Australia, based on our view that operating conditions will be superior across the Tasman and that their valuations were more attractive. Although this was not rewarded last month, we remain confident in this positioning. Representative of this view was our recent investment in Qantas.

Shares in this company rallied strongly during the month, finishing up 11.4% as investors were buoyed by the recent operational improvements made by the airline (\$1bn of cost savings have been targeted by FY23). This business is also very well positioned to leverage off a "post-COVID" recovery in travel, with expectations that flights between NSW and Victoria will resume in November and international operations will recommence in December.

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

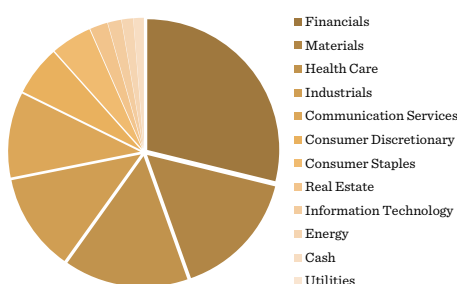
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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	1.3%
Australian Equities	98.7%	Total	100.0%

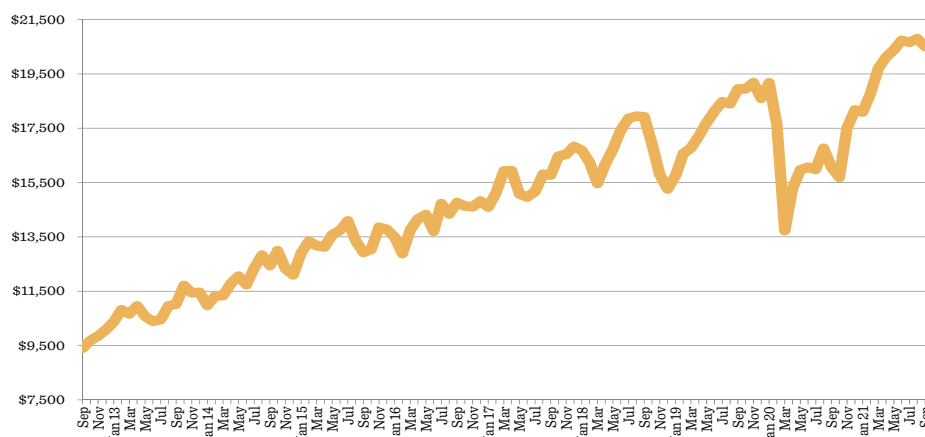
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Australian Fund	-1.4%	-1.1%	27.6%	4.6%	6.8%	7.7%
ASX200 Index Gross (NZD)	-1.0%	-0.9%	26.4%	8.1%	10.3%	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 delivered a return of -1.4% this month. Despite the Australian market falling for the month, it outperformed global equity markets which were affected by a larger correction in September. Energy was the best performing sector as shortages drove up gas, coal and oil prices and Mining was the worst performer as iron ore prices declined in response to the risks surrounding the financial challenges of Chinese property developer, Evergrande.

The most noteworthy contributors to our performance were News Corp (+8.8%), Oil Search (+17.4%) and South 32 (+13.9%). News Corp announced an on-market buyback program of up to US\$1bn (the new program replacing the previous share buyback program of US\$500m). This represents around 7% of their market capitalization and accordingly the announcement was taken positively by investors. Operationally, momentum in the business remains strong and appears to be continuing into FY22.

Management also highlighted that despite the buyback, the company remains a buyer of assets, so M&A will continue to be on the agenda for the foreseeable future.

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

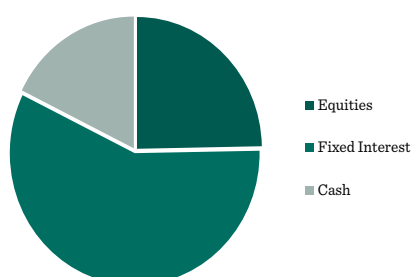
FUND OUTLINE

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	15.1%	Bonds	57.6%
Australian Equities	8.6%	Cash	18.7%

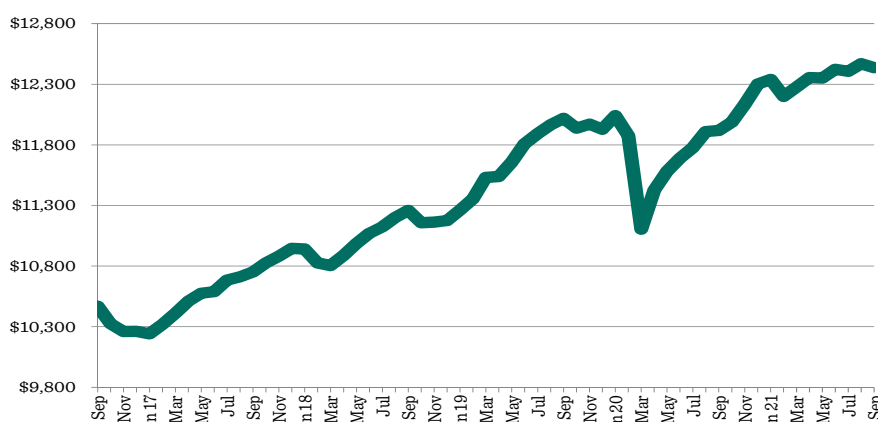
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Diversified Income Fund	-0.3%	0.1%	4.3%	3.4%	3.5%	4.1%
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 rallied strongly over the month with the US 10-year finishing September at 1.52% (its yield at the beginning of the month was 1.28%).

The primary reason for this change in interest rates was a shift towards more hawkish policy settings by central banks. During the month the US Federal Reserve announced that despite keeping their overnight lending rate near zero for the time being, Chairman Powell did make it clear that the conditions required for a reduction (tapering) in quantitative easing had largely been met.

It is also expected that the first lift in US interest rates will occur in 2022, as economic growth and inflation have surprised on the upside. In Australia the RBA is also reducing their level of asset purchases and have identified the possibility of introducing macro-prudential tightening to control the risks around their perception of excessive debt levels.

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

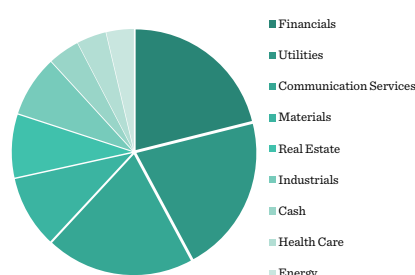
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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	61.3%	Cash	4.0%
Australian Equities	34.7%	Total	100.0%
Currency Hedge	98.3%	Yield	5.6%

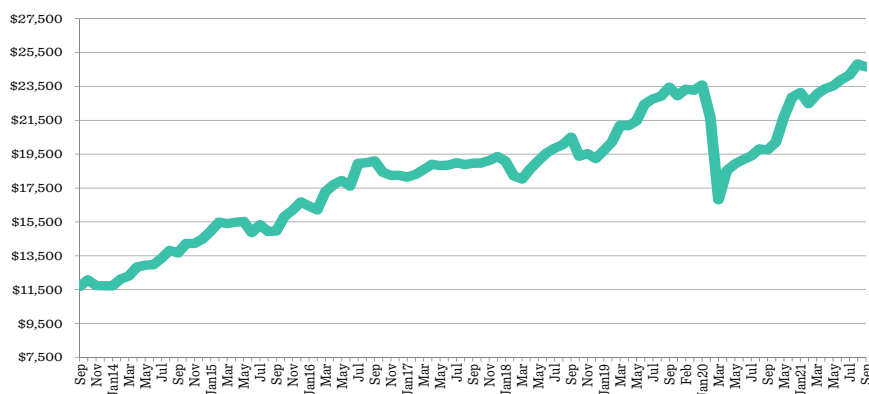
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Dividend Yield Fund	-0.7%	3.1%	24.9%	6.4%	5.2%	10.9%
50:50 NZX50 & ASX200 Index Gross	-0.7%	3.3%	21.8%	11.0%	11.5%	12.9%

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

Corporate action continued unabated in the Australian infrastructure space, with our investment in Ausnet Services (AST) being the target of a competitive bidding process during the month. AST owns and operates electricity transmission and distribution networks as well as gas pipelines within Victoria.

An initial non-binding, conditional offer by Brookfield Asset Management of \$2.50 per share was received positively by the board which granted an exclusive due diligence period of 7-weeks. The offer by Brookfield precipitated an improved competitive bid from APA, the Australian listed gas pipeline business, at \$2.60 per share. Whilst the Brookfield offer is all cash, the proposal from APA is a scheme of arrangement that will bring two large infrastructure companies together on the ASX in a bid which is both cash and scrip.

Currently AST is controlled by two large shareholders, Singapore Power (32.3%) and China State Grid (19.9%). The share price of AST rallied 30.2% during September.

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

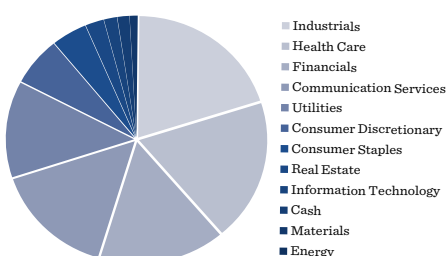
The **Devon Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	50.9%	Cash	1.5%
Australian Equities	47.6%	Total	100.0%

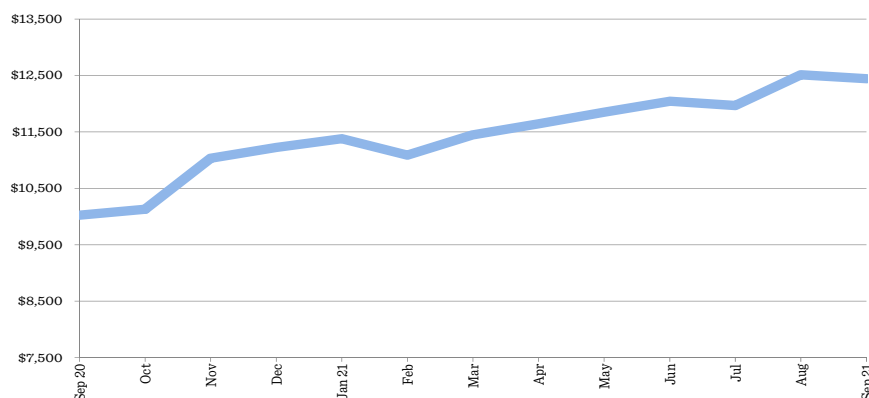
PERFORMANCE

	1 Mth	3 Mth	1 Yr p.a	Since Incep-
Devon Sustainability Fund	-0.6%	3.3%	24.1%	24.4%
50:50 NZX50 Portfolio Index & ASX200 Index*	-0.7%	3.4%	25.8%	24.0%

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/> or by clicking [HERE](#)

COMMENTARY

The Sustainability Fund returned -0.6% for the month, in line with its benchmark. The most noteworthy contributors to performance were Kathmandu (+16.9%), Vista Group (+12.0%) and Corporate Travel (+8.0%) as we saw continuing rotation towards re-opening names as vaccination rates continue to increase globally. Kathmandu released its financial result for the period ending 31 July 2021.

Market expectations had been reset lower in June after the company downgraded earnings expectations due to COVID-related store closures affecting operations during their key winter trading period. Key features in the result included strong contributions from Rip Curl and Oboz which combined to drive two thirds of group profit and helped offset weakness in the Kathmandu brand.

Guidance for the 2022 financial year was not given due to uncertainty, however management stated that they expect the first six-months of FY22 to be below the same period in the previous year. Despite the positive share price performance, Kathmandu still trades at a meaningful discount to peers with solid earnings growth expected to come through in the next few years from reopening and margin improvement.

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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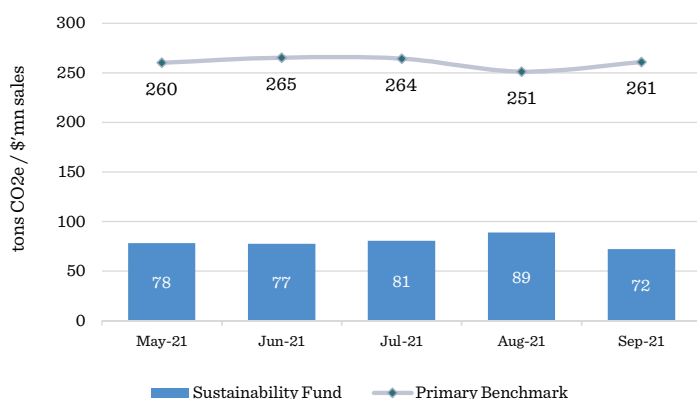
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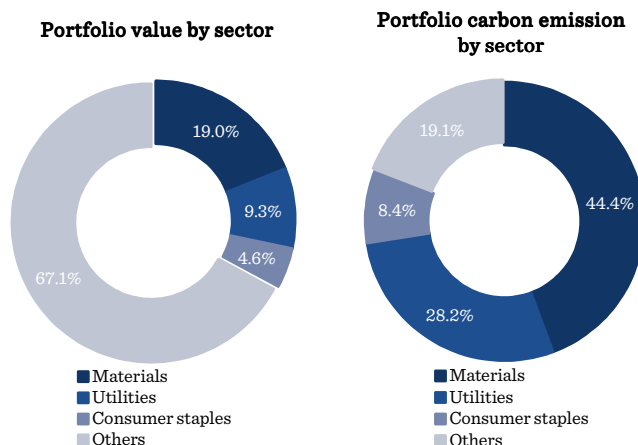


DEVON SUSTAINABILITY FUND - ESG INSIGHTS

CARBON INTENSITY - PORTFOLIO VS BENCHMARK



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.

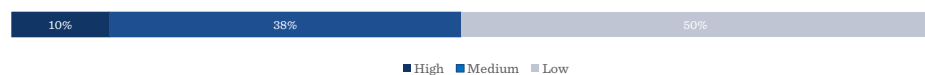
ESG PORTFOLIO SUMMARY

	MSCI ESG Ratings	MSCI ESG Quality score	
Portfolio	AA	7.63	Portfolio Sustainability Fund
Benchmark	AA	7.72	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	97.9%
% of companies reporting to TCFD standards	52.1%
% of companies with a modern slavery statement	43.8%
% of companies with carbon emission reduction targets	62.5%

CLIMATE CHANGE RISK BY PORTFOLIO HOLDINGS



COMMENTARY

Across the Tasman, the Reserve Bank of Australia (RBA) released a report highlighting the potential collapse in coal shipments as Australia's biggest customers pivot to 'net zero' GHG emissions by 2050. Officials identified that coal exports and, to some extent, gas shipments could plunge by as much as 80% if China, Japan and South Korea take an aggressive approach to decarbonising their economies by mid-century.

That figure would be consistent with keeping the planet's temperatures from heating by more than 1.5 degrees, the level at which scientists say the effects of climate change become irreversible and catastrophic. RBA economists estimate the collapse in fossil fuel exports would take about 0.1% from annual GDP after accounting for positive opportunities in other sectors they anticipate will emerge.

These include exports including green hydrogen and green steel, as well as rising global demand for Australian critical and rare earth minerals at the heart of electrification.

PORTFOLIO MANAGER

Victoria Harris



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Victoria has over 10 years' experience in the industry across a broad range of markets, including ESG.

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DEVON TRANS-TASMAN FUND

FUND OUTLINE

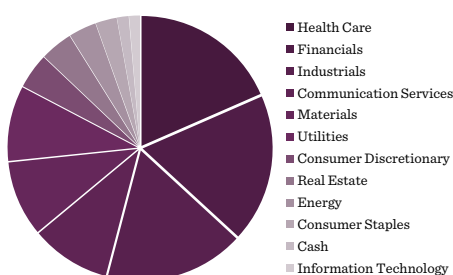
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

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	45.8%
Australian Equities	52.7%

Cash	1.5%
Total	100.0%

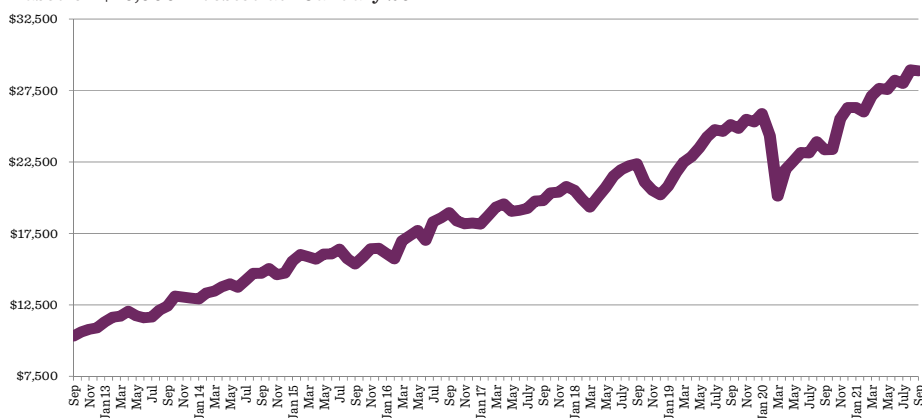
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Trans-Tasman Fund	-0.2%	2.3%	23.5%	8.8%	8.7%	8.8%
50:50 NZX50 Gross & ASX200 Index Unhedged	-0.3%	2.0%	19.7%	10.3%	11.4%	9.8%

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 to outperform our benchmark for this strategy in September. Amongst the best performing investments during the month were Oil Search, South32, Vista Group and Macquarie.

Oil Search rallied 17.4% as investors begin to focus on its merger with Santos, and the extreme tightness evident in gas and oil markets as the global economy continues to reopen. In terms of changes, we added Transurban (TCL) to the portfolio. TCL operates 17 toll roads in Sydney, Melbourne and Brisbane.

A recent sell-off due to weaker, COVID-19 related, traffic volumes and rising bond yields opened up an opportunity to buy this high-quality business at an attractive price. We built our position through a capital raising by the company to increase its interest in a key Sydney toll-road, WestConnex. We expect traffic volumes to improve as the economy re-opens with TCL being an early beneficiary of this dynamic.

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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