

## MONTHLY REPORT: AUGUST 2022

### The latest results season has proven better-than-feared on both sides of the Tasman

What does this mean for the outlook for the New Zealand and Australian stock markets?

By Greg Smith, Head of Retail at Devon Funds.

The earnings season which has just concluded will be remembered as one of the more pivotal ones in recent years. It comes after a period of market volatility in 2022, during which a significant amount of “bad news” was priced in during the first six months of the year. Markets rebounded in July and through much of August, but investors have been seeking some vindication that this has been justified, as well as an assessment of how companies are currently placed from a valuation perspective.

With many commentators, analysts and economists talking up the prospects of a recession, there has been keen interest on the view from the “coal face” in terms of how the corporate sector is seeing the landscape. Investors have also been focussed on the ability of corporates to protect their margins given still elevated levels of inflation. Alongside this, a primary question has been to what extent supply chain pressures (including the scarcity of labour) are easing.

There has also been interest in how Covid beneficiaries and “reopeners” see the environment as pandemic effects dissipate.

Results have in most cases also been impacted by factors other than Covid. The war in the Ukraine has exacerbated inflationary and supply challenges, while labour shortages have remained prevalent.....[READ MORE](#)

### MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	0.9%	-12.2%
S&P/ASX200G	AUSTRALIA	1.2%	-3.4%
MSCI World Index	GLOBAL	-3.5%	-14.1%
S&P500	USA	-4.1%	-11.2%
FTSE100	UK	-1.1%	6.2%
NIKKEI 225	JP	1.1%	2.0%
NZ 90 Day Bank Bill	NZ	0.2%	1.7%
Bloomberg Global Aggregate Index (NZD)	GLOBAL	-2.7%	-9.7%

### AT A GLANCE

Prices as at 31 AUGUST 2022

DEVON ALPHA FUND	\$2.1664
DEVON AUSTRALIAN FUND	\$1.5952
DEVON DIVERSIFIED INCOME FUND	\$1.4561
DEVON DIVIDEND YIELD FUND	\$1.9150
DEVON GLOBAL IMPACT BOND FUND	\$1.4287
DEVON GLOBAL SUSTAINABILITY FUND	\$1.4187
DEVON TRANS-TASMAN FUND	\$4.5962
DEVON SUSTAINABILITY FUND	\$3.2641

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## DEVON ALPHA FUND

### FUND OUTLINE

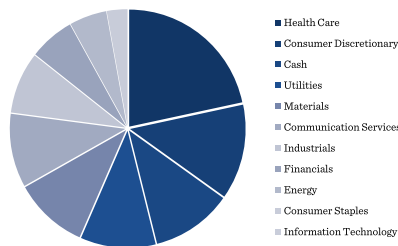
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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

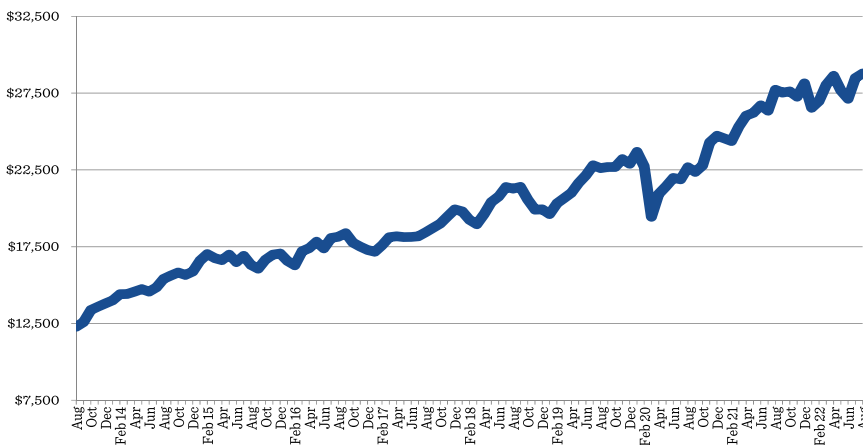
New Zealand Equities	29.5%	Cash	10.7%
Australian Equities	59.8%	Total	100.0%
Currency Hedge	72.8%		

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Alpha Fund	1.0%	4.0%	3.8%	8.4%	9.3%	9.4%
OCR	0.2%	0.6%	1.2%	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 navigated the reporting season reasonably well with a number of our key investments performing strongly. Included amongst these were a2Milk (+24.9%) and Cleanaway Waste (+2.6%). Pleasing also was the rebound in share price of Ooh!Media, which closed the month up 11.6%. This investment had struggled earlier this year on investor concern about the prospects for the Australian economy and the potential negative implications for advertising spending. Their first-half result though highlighted that whilst advertisers remain cautious, there is evidence that they are re-allocating their commitments into Outdoor, away from other media. Outdoor's share of the advertising market is currently 11% but encouragingly it is now taking more than 14% of the incremental advertising spend. This momentum is expected to continue over the next few years. Their Fly division, and its exposure to air travel, is also progressing at a quicker rate than anticipated as domestic passenger numbers recover.

### PORTFOLIO MANAGER

Slade Robertson



Slade has primary responsibility for stock selection and portfolio construction for the Alpha, Australian 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

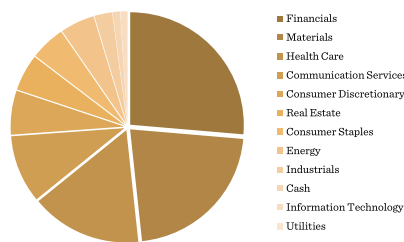
The Australian Fund invests in a select portfolio of companies, which are primarily Australian listed companies.

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

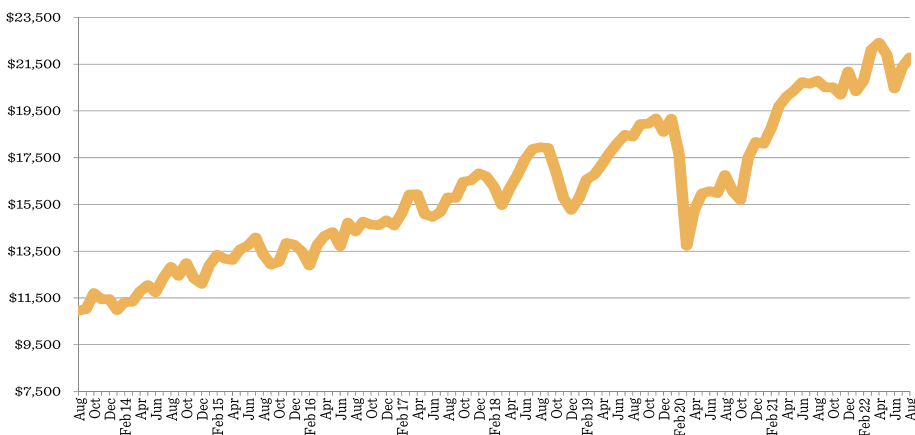
Table with 2 columns: Allocation Category and Percentage. Rows include New Zealand Equities (0.0%), Australian Equities (98.9%), Cash (1.1%), and Total (100.0%).

Table with 7 columns: Performance Metric, 1 Mth, 3 Mth, 1 Yr, 3 Yr p.a, 5 Yr p.a, and Since Inception. Rows include Devon Australian Fund and ASX200 Index Gross (NZD).

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 well in both an absolute and relative sense during the month. Of particular note was the Resources sector with our investments in Pilbara Minerals rallying 31.8% and Mineral Resources closing up 19.0%. The Oil and Gas stocks were also well supported with our holdings in Woodside (+7.1%) and Santos (+9.6%) of benefit to our portfolio. In amongst the earnings results we were pleased with a number of announcements although another highlight was Telstra (+4.0%) who reported an FY22 result which was slightly ahead of expectations and at the top end of their guidance range. This was driven by impressive growth in their mobile division, with service revenue up 6.4% and subscriber base numbers improving by 1.8%. Shareholders were also encouraged by the lift in Telstra's dividend, which was taken as a positive signal of management's confidence in outlook.

PORTFOLIO MANAGER

Slade Robertson



Slade has primary responsibility for stock selection and portfolio construction for the Alpha, Australian 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.



## DEVON DIVERSIFIED INCOME FUND

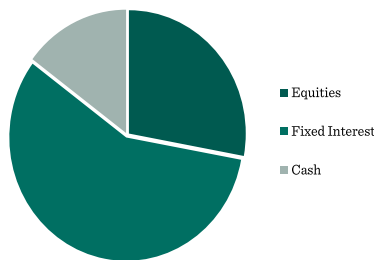
### FUND OUTLINE

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	17.6%	Bonds	57.3%
Australian Equities	9.8%	Cash	15.3%

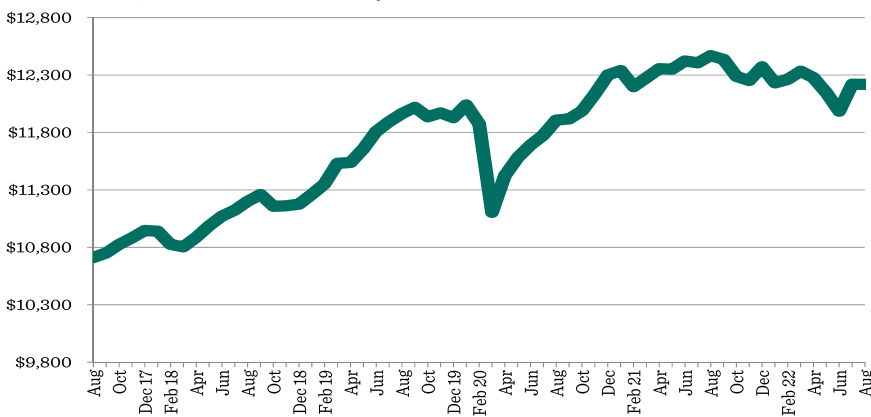
### PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Diversified Income Fund	-0.0%	0.6%	-2.0%	0.7%	2.7%	3.2%
OCR + 1.5%	0.4%	1.0%	2.7%	2.2%	2.6%	2.9%

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 rose sharply during August with the yield on the US 10-year Treasuries finishing the month at 3.13%. This move from 2.70%, at the end of July, reflected a growing conviction by investors that central banks remain committed to the withdrawal of liquidity in the system to address inflation. This was particularly evident in comments made by Jerome Powell, Chair of the US Federal Reserve, at the Jackson Hole Symposium where he pledged a commitment to use their monetary policy tools forcefully and that higher interest rates will likely persist “for some time”. Powell also acknowledged that he expects this approach by the bank will cause “some pain” to the US economy. In New Zealand the RBNZ raised the Official Cash Rate by 0.50% to 3.0%, a level not seen since September 2015. This was the fourth hike by 0.5% since February this year.

### PORTFOLIO MANAGER

Slade Robertson



Slade has primary responsibility for stock selection and portfolio construction for the Alpha, Australian 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

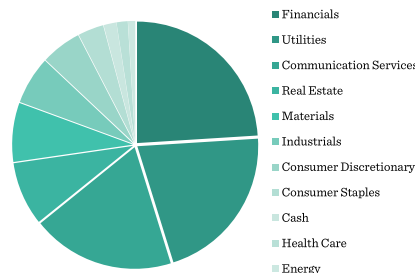
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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

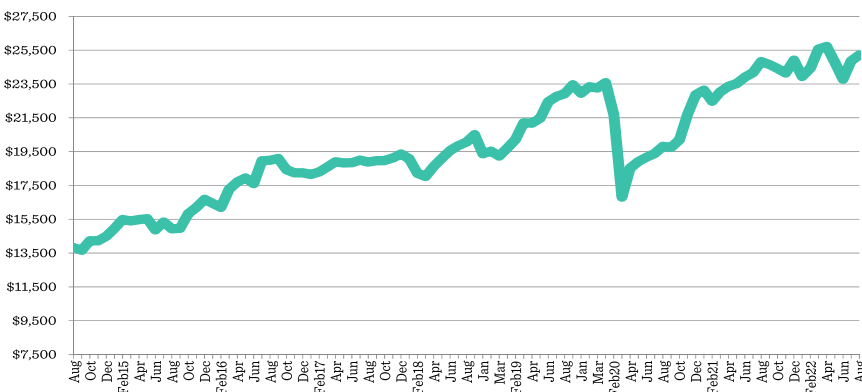
New Zealand Equities	63.0%	Cash	1.7%
Australian Equities	35.3%	Total	100.0%
Currency Hedge	98.8%	Yield	6.4%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Dividend Yield Fund	1.4%	1.8%	1.6%	3.3%	5.9%	10.1%
50:50 NZX50 & ASX200 Index Gross	1.1%	0.1%	-7.8%	4.0%	8.2%	10.8%

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

This strategy performed broadly in-line with its benchmark during the month and generated a solid absolute return. We were pleased with the results from many of our portfolio companies, and in particular Spark (+6.3%) was a highlight. Their result was underpinned by modest earnings growth from their core mobile division, offsetting some weaker performance in their legacy voice product. Spark also posted positive forward guidance for their operating profit to grow by 5% in FY23. This was in addition to a revision in their dividend policy, which will see their dividend per share increase for the first time in seven years.

Following the sale of their mobile towers, Spark will look to invest up to \$350mn into accelerating their 5G roll out and pursue other growth initiatives. All of this gives us confidence in the ability of Spark to grow both their earnings and dividends for investors over time.

## 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 TRANS-TASMAN FUND

### FUND OUTLINE

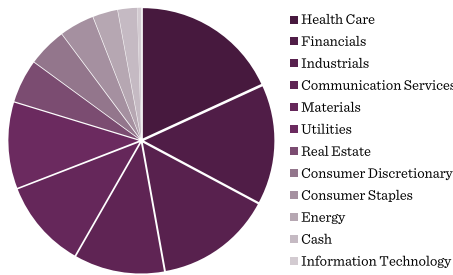
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

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

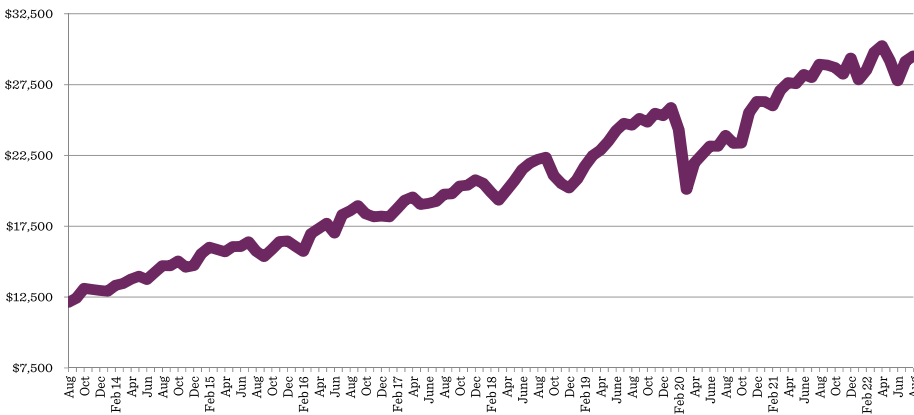
New Zealand Equities	45.6%	Cash	2.4%
Australian Equities	52.0%	Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Incep- tion
Devon Trans-Tasman Fund	1.3%	1.2%	2.1%	6.2%	8.3%	8.5%
50:50 NZX50 Gross & ASX200 Index Unhedged	1.3%	0.8%	-4.1%	4.8%	8.3%	9.2%

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 strategy performed broadly in line with its underlying benchmark during August. There were a number of positive contributors to our portfolio during the month including Mineral Resources (MIN), oOh!-media both up over 10% and Fletcher Building which finished up 8.53%. Key detractors included ResMed, Goodman Group and James Hardie.

MIN rallied 19% with the company benefiting from positive sentiment towards the lithium sector. MIN released their financial results which highlighted the continued ramp-up of their key lithium assets over the near-term into a very strong pricing environment due to the rapid growth in global electric vehicle production as consumers pivot away from combustion engine vehicles. Key drivers for the business going forward are earnings upside from lithium prices, an expansion of their iron ore business over the next 2-3 years and future opportunities in lithium processing and gas production in Western 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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## DEVON SUSTAINABILITY FUND

### FUND OUTLINE

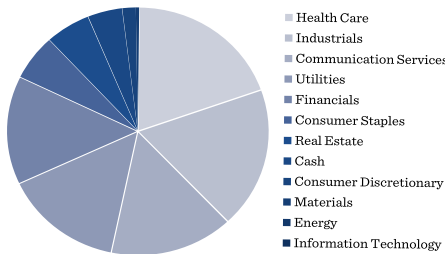
The **Devon Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	48.8%	Cash	4.3%
Australian Equities	46.9%	Total	100.0%

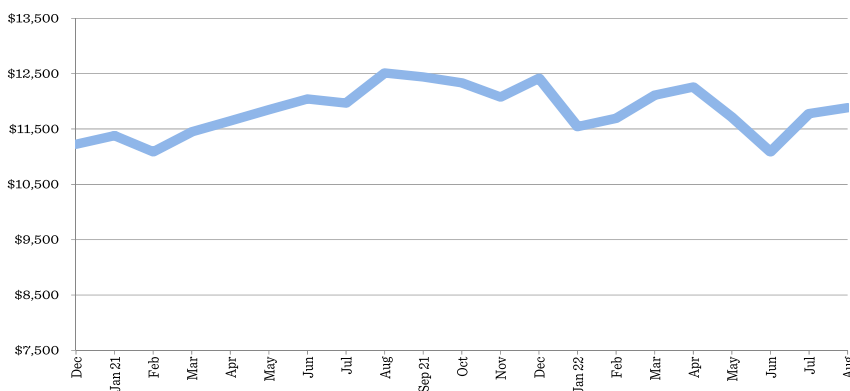
### PERFORMANCE

	1 Mth	3 Mth	1 Yr p.a	2 Yr p.a	Since Inception
Devon Sustainability Fund	0.9%	1.4%	-5.1%	9.0%	9.0%
50:50 NZX50 Portfolio Index & ASX200 Index	1.3%	0.2%	-7.1%	7.7%	7.7%

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

August was a hive of activity with the majority of companies within the Fund reporting their financial results. Cleanaway not only reported its financial result during the month, but it also announced an equity raising and an acquisition too.

The company delivered a solid result in the context of a disrupted year (weather, inflation, COVID) which presented a number of operational challenges. Organic revenue growth was very strong, but margins declined as the business faced labour availability challenges and some timing issues with passing on inflation costs. However, we expect margins to improve in the next few years as operating conditions normalise from both a volume and an operational standpoint.

We believe the business is well placed strategically to capitalise on a supportive regulatory environment and demographic trends. The capital raising and subsequent acquisition of GRL, a leading composting facility in Sydney, further confirms our view of Cleanaway being a vital player in the transition to a circular economy.

### 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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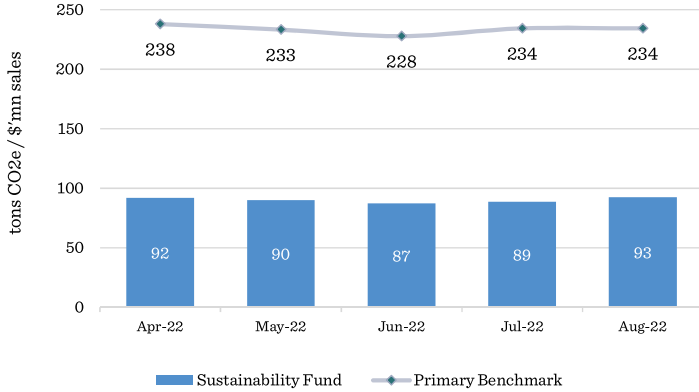
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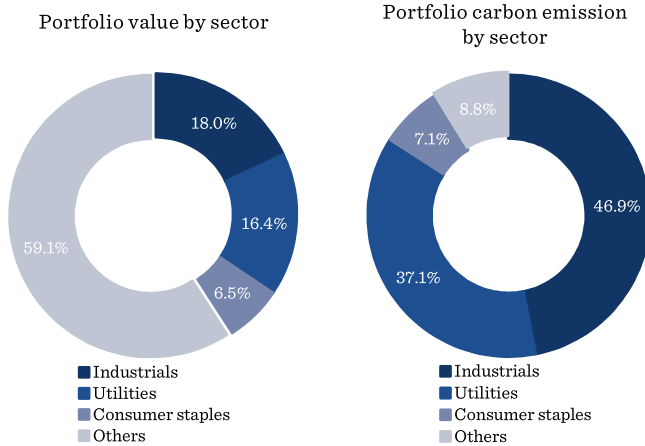


# DEVON SUSTAINABILITY FUND

## CARBON INTENSITY - PORTFOLIO VS BENCHMARK



## PORTFOLIO CARBON EMISSIONS BY KEY SECTORS



The materials, utilities, and health care sectors make up 36.2% of the portfolio by value, but they account for 84.4% of the carbon emissions in the portfolio.

## ESG PORTFOLIO SUMMARY

	MSCI ESG Ratings	MSCI ESG Quality score	Portfolio Sustainability Fund
Portfolio	AAA	9.39	50:50 composite S&P/NZX50 Portfolio Index & S&P/ASX200G Index
Benchmark	AA	8.09	

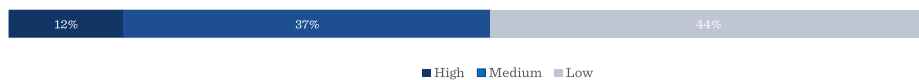
PERFORMANCE	1 Mth	3 Mth	6 Mth	1 Yr	Since Inception
ESG relative performance	16.1%	14.7%	15.1%	8.9%	5.2%

\*ESG Relative Performance is the MSCI ESG Score of the Devon Sustainability fund compared to the MSCI ESG Score of the Benchmark

## PORTFOLIO HOLDING'S DISCLOSURE SUMMARY

% of holding companies doing ESG reporting	93.0%
% of companies reporting to TCFD standards	69.8%
% of companies with a modern slavery statement	67.4%
% of companies with carbon emission reduction targets	69.8%

## CLIMATE CHANGE RISK BY PORTFOLIO HOLDINGS



## STEWARDSHIP

August was a busy month for engagements with companies. Some of the trends and themes we observed included:

- 1) Many companies updated or showed significant process on their sustainability goals and ESG targets;
- 2) We saw fuel retailers and contractors highlight their energy transition opportunities;
- 3) Emissions reduction plans were put into action with the focus on renewables, energy efficiency and alternative fuels (specifically by Qantas). In regard to emissions, FY21 was the year for setting targets and FY22 was the year for implementation and progress;
- 4) Scope 3 emissions were also coming into the spotlight;
- 5) Absenteeism was definitely elevated, leading to challenging operating environments for many consumer facing businesses, although impacts appear to be easing. For example, Woolworths absenteeism is running at 7% versus historical pre-COVID levels of 4%. In the case of Qantas, the company has over 300 pilots per day either sick or on leave; and
- 6) There is also an emerging discussion on biodiversity, particularly across Australian companies as they progress towards the introduction of the Taskforce for Nature Disclosure (TNFD) in 2023.

## 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 GLOBAL IMPACT BOND FUND

## DURATION

Sector	Contribution to Duration (Years)		
	Account	Benchmark	Difference
Cash & Cash Equivalents	-0.00	-0.00	-0.00
US Government	0.03	1.08	-1.06
Credit*	5.40	5.11	0.28
Asset Backed Securities	0.01	0.01	0.00
Mortgage Backed	1.09	0.58	0.51
Commercial Mortgage	0.11	0.04	0.07
Other	0.01	0.10	-0.08
Cash Offset	-	-	-
	6.64	6.92	-0.28

The Fund invests into the Wellington Global Impact Bond Fund, managed by Wellington Management. Wellington Management is one of the world's leading investment management firms with over US\$1 trillion in assets under management worldwide across a broad range of asset classes. They have been providing innovative investment solutions to clients for more than 85 years. Wellington Management seeks to understand the world's social and environmental problems and to identify and invest primarily in debt issued by companies and organisations that they believe are addressing these needs in a differentiated way through their core products, services and projects. The Wellington Global Impact Bond Fund aims to improve access to, and the quality of, basic life essentials, reduce inequality and mitigate the effects of climate change.

## CREDIT RATING

Quality	Percent of Market Value		
	Account	Benchmark	Difference
Cash	-0.09	0.31	-0.40
AAA	49.08	39.91	9.17
AA	14.07	14.20	-0.14
A	12.02	30.88	-18.86
BBB	15.34	14.38	0.96
BB	7.05	0.02	7.03
B	2.47	-	2.47
Below B	0.21	-	0.21
Cash Offset	-1.00	-	-1.00
Not Rated	0.87	0.30	0.57
	100.00	100.00	

They seek to identify securities which it believes fall into three primary impact categories: life essentials, human empowerment and the environment. Within these categories the Fund will invest across "Impact Themes" including, but not limited to the following:

**Life Essentials:** affordable housing, clean water and sanitation, health, sustainable agriculture and nutrition.

**Human Empowerment:** digital divide, education and job training, financial inclusion, safety and security.

**Environment:** alternative energy, resource efficiency and resource stewardship.

\*Duration & Credit Rating as at as at 31 July 2022

## DEVON GLOBAL SUSTAINABILITY FUND

The Fund invests into the Wellington Global Stewards Fund, managed by Wellington Management. Wellington Management is one of the world's leading investment management firms with over US\$1 trillion in assets under management worldwide across a broad range of asset classes. They have been providing innovative investment solutions to clients for more than 85 years. Wellington Management seeks to invest in companies globally, that generate high return on capital relative to their peers, and whose management teams and boards display exemplary stewardship to sustain those returns over time. Wellington define stewardship as how companies balance the interests of all stakeholders (customers, employees, communities and the supply chain) in the pursuit of profits and how they incorporate material environmental, social and governance (ESG) risks and opportunities in their corporate strategy. The underlying Wellington Fund differentiates itself by:

**Long-term horizon** – the intention is to hold stocks for over 10 years. The belief is the longer the holding period, the greater the potential performance benefits from superior stewardship.

**Highly selective** – typically 35-45 stocks, only relying on their own internal ESG research.

**Active engagement** – holding those in charge of investee companies to account and encouraging companies to commit to net zero carbon emissions by 2050 in alignment with the Paris Agreement.

PERFORMANCE	1 Mth	3 Mth	Since Inception
Devon Global Impact Bond Fund	-2.4%	-2.0%	-4.8%
Bloomberg Global Aggregate Index Hedged NZD	-2.7%	-1.7%	-4.2%

PERFORMANCE	1 Mth	3 Mth	Since Inception
Devon Global Sustainability Fund	-4.5%	-4.6%	-5.4%
MSCI All Country World Index in NZD, 50% hedged to NZD	-2.2%	-1.9%	-6.8%

\*Benchmark performance figure is indicative only and will be finalised in the mid month report

Please note that monthly reports will be produced for the Devon Global Impact Bond Fund and Devon Global Sustainability Fund later this month. These reports will include data on top holdings, performance, asset allocation, and fund commentaries. These reports will be sent out separately from those for Devon's other retail funds each month and will be available on the Devon Funds website.

## KEY HOLDINGS\*

INDITEX



RECRUIT Microsoft

\*Key Holdings as at as at 31 July 2022

## Devon Funds Management Limited

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