

MONTHLY REPORT: DECEMBER 2021

Crystal ball gazing through 2022

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

It's that time again. We have turned the page on the year that was, and now look ahead to the coming 12 months with a degree of optimism. Many financial markets participants around now also engage in a time-honoured tradition of crystal ball gazing, making big picture predictions on developments and factors that will influence markets and portfolios in the year ahead.

There were a number of twists and turns in 2021, and the last two years have certainly provided plenty of reminders that it is wise to "expect (or at least be prepared for) the unexpected" from an investor's perspective. The question we must now ask is what will 2022 serve up? No one knows exactly, but below is a rundown on how the 'Top Ten' may play out in terms of big themes this year.

1. Inflationary fears subside.

The "T's" (inflation and interest rates) have it, and questions remain as to whether multi-decade highs in inflation will subside or remain persistent. The world's money supply has been turbo charged during the pandemic, which together with super strong demand... [READ MORE](#)



MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	2.5%	-0.4%
S&P/ASX200G	AUSTRALIA	2.7%	17.2%
MSCI World Index	GLOBAL	4.3%	22.3%
S&P500	USA	4.5%	28.7%
FTSE100	UK	4.8%	18.4%
NIKKEI 225	JP	3.6%	6.7%
NZ 90 Day Bank Bill NZ		0.1%	0.4%

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AT A GLANCE

Prices as at 31 December 2021

DEVON
ALPHA
FUND

\$2.1496

DEVON
AUSTRALIAN
FUND

\$1.5818

DEVON
DIVERSIFIED
INCOME
FUND

\$1.5198

DEVON
DIVIDEND
YIELD
FUND

\$1.9670

DEVON
TRANS-
TASMAN
FUND

\$4.6688

DEVON
SUSTAINABILITY
FUND

\$3.4849

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DEVON ALPHA FUND

FUND OUTLINE

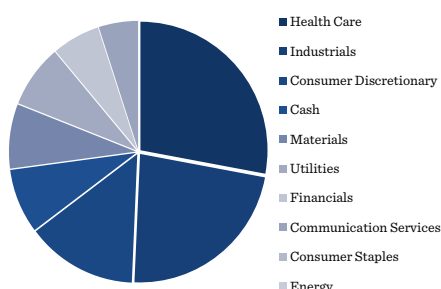
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	30.6%
Australian Equities	61.3%
Currency Hedge	50.4%

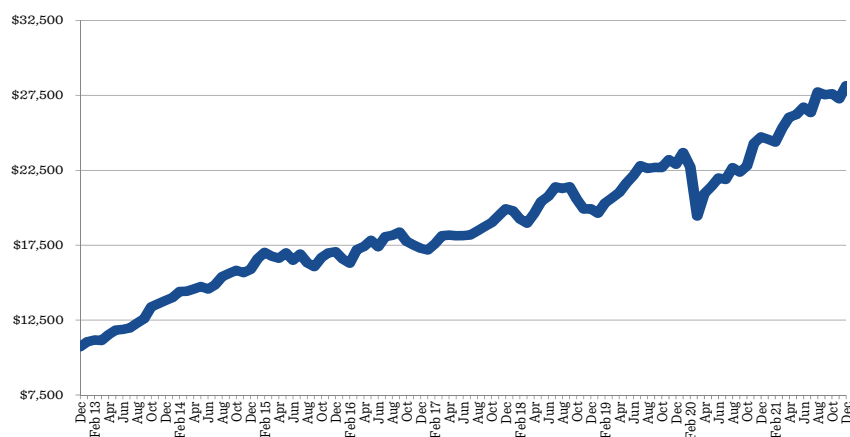
Cash	8.1%
Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Alpha Fund	3.2%	2.2%	13.9%	13.8%	10.3%	9.7%
OCR	0.1%	0.1%	0.3%	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 performed well during December as we were rewarded by positioning the portfolio to leverage off a world which continues its process of recovering from the headwinds of COVID.

Amongst our best performers were cyclical businesses including Fletcher Building (+8.6%) and Ooh!Media (+4.3%). We also benefitted from some corporate activity with Ramsay Healthcare rallying 7.0% after announcing their purchase of UK based mental healthcare provider Elysium Healthcare. Cleanaway Waste Management (+7.9%) continued to be a positive influence on the portfolio with investors encouraged by the announcement that the company had received ACCC approval to proceed with the acquisition of the Sydney post-collection assets from Suez. There are still other conditions to be met before this transaction proceeds, but confidence levels are high, and the earnings contribution of these assets being integrated into the Cleanaway network are meaningful if the deal is finalised.

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

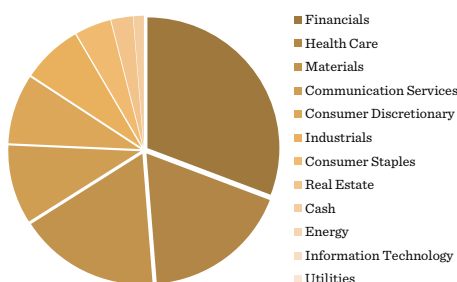
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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%

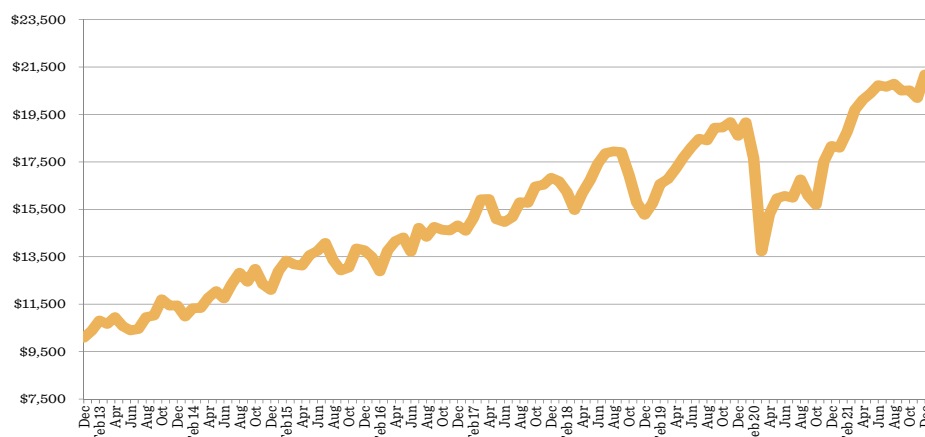
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Australian Fund	4.9%	3.3%	16.6%	11.5%	7.4%	7.8%
ASX200 Index Gross (NZD)	4.4%	3.5%	16.2%	14.1%	10.3%	7.5%

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

The Australian Fund delivered a strong absolute return of 4.9% this month and pleasingly it also outperformed its benchmark. The top contributors for the month were Virtus (+28.8%), EBOS (+13.0%) and South32 (+13.6%). The top detractors were CSL (-5.2%), Seek (-5.8%) and Collins Foods (-4.3%).

During the month, Metcash, which is a business that we have invested in for this strategy, released their half-year FY22 result. This was well received by the market and the stock closed 13.1% higher. Metcash has always traded at a significant discount to the other Australian listed supermarkets, being Coles and Woolworths. However, with the Hardware division now being a larger earnings contributor than Supermarkets, we believe the market will stop viewing Metcash as a structurally challenged grocer and apply a more appropriate multiple to the Group. This is one of the largest positions in the Fund and we continue to remain positive on the company's outlook.

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

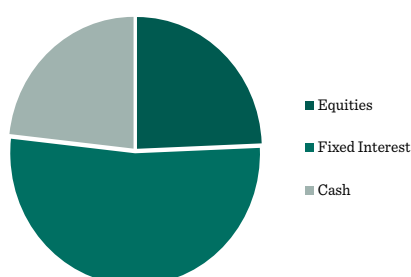
FUND OUTLINE

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	52.4%
Australian Equities	9.2%	Cash	23.3%

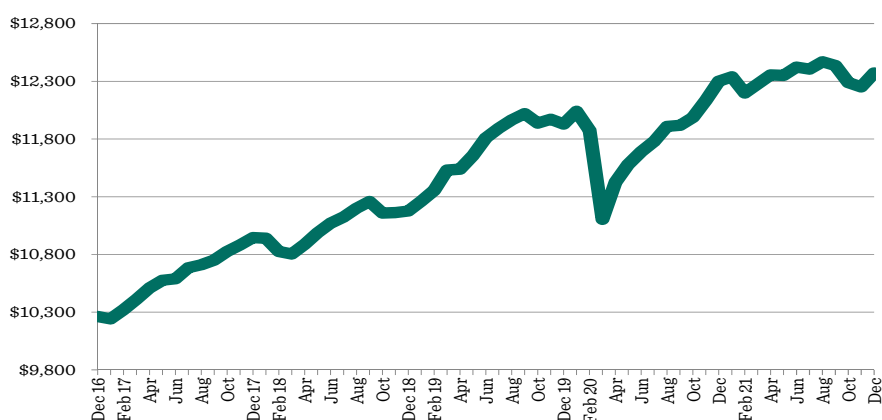
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Diversified Income Fund	1.0%	-0.5%	0.6%	3.4%	3.8%	3.9%
OCR + 1.5%	0.2%	0.5%	1.8%	2.2%	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

Global interest rates moved higher during the month with the yield on US 10-year Treasuries closing at 1.52% (versus 1.46% at the beginning of December). It is also worth highlighting that in the early stages of 2022 the momentum continued, and by early January this important interest rate had increased further to 1.68%. This change in rates was broadly reflected in other major markets around the world. The primary driver of these changes has been inflation, which during December was reported at 6.8% in the US (the highest level since 1982!).

The Federal Reserve responded to this and, in their most recent monetary policy meeting, announced their intentions to intensify their response by ending their asset-buying (QE) program earlier and lifting interest rates at a faster pace than was expected. This is consistent with the recent commitments of the Reserve Bank of New Zealand who have also highlighted concerns over inflation and have already begun hiking the Official Cash Rate.

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.

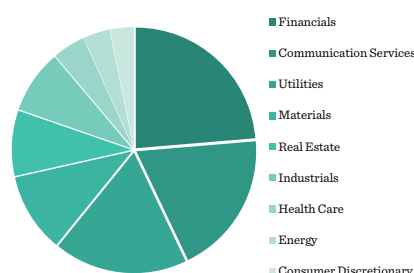
KEY HOLDINGS



Rio Tinto



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	61.8%	Cash	0.5%
Australian Equities	37.6%	Total	100.0%
Currency Hedge	98.8%	Yield	5.6%

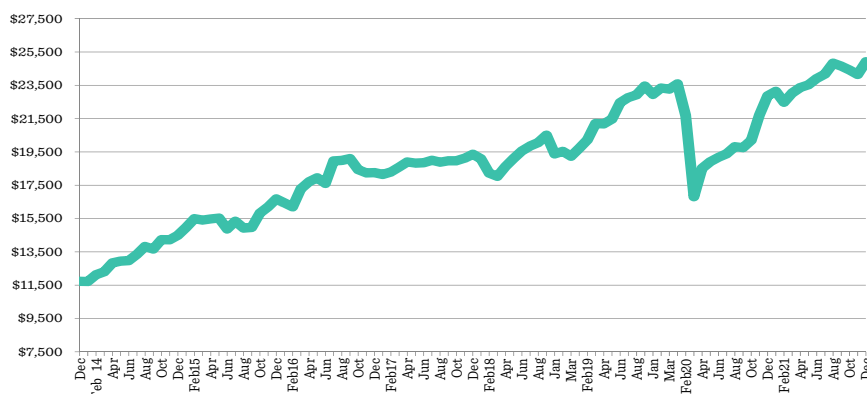
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Dividend Yield Fund	3.2%	1.1%	9.0%	9.0%	6.4%	10.8%
50:50 NZX50 & ASX200 Index Gross	2.6%	0.1%	8.4%	13.8%	11.7%	12.5%

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 investment in EBOS Healthcare (+13.0%) significantly outperformed the S&P/NZX50 during the month following its A\$765m capital raising to fund its acquisition of Life Healthcare for A\$1,167m. Life Healthcare is one of the largest independent distributors of third party medical devices, consumables, capital equipment and inhouse manufactured allograft material in Australia, New Zealand and South East Asia. This earnings accretive deal will generate approximately \$110m in operating profit in CY22 whilst also substantially accelerating EBOS' medical devices strategy, creating scale and an ability to service original equipment manufacturers across the entire Asia Pacific region. Additionally, the company announced that net profit for the first four months of this financial year was up 14% and that its current dividend policy would be maintained.

Regulatory certainty continued its incremental journey for Chorus (+7.2%) with the Commerce Commission making its final decisions for the new fibre regulatory regime. The key final determinations provide clarity for the company and their future dividend profile.

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

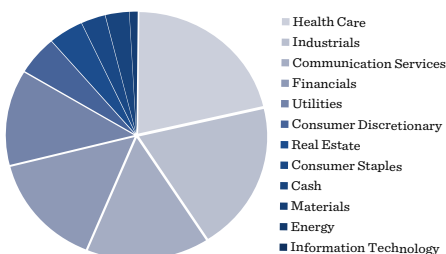
The **Devon Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	49.6%	Cash	3.0%
Australian Equities	47.5%	Total	100.0%

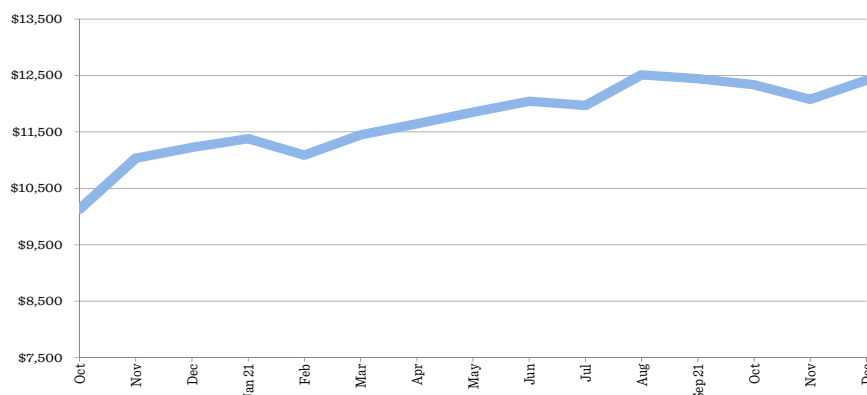
PERFORMANCE

	1 Mth	3 Mth	1 Yr	Since Inception
Devon Sustainability Fund	2.8%	-0.2%	10.6%	16.5%
50:50 NZX50 Portfolio Index & ASX200 Index*	3.0%	-0.0%	9.3%	17.5%

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 2.8% for the month. The top contributors for the month were Virtus (+28.8%), EBOS (+13.0%) and Fletcher Building (+8.6%). The top detractors were My Food Bag (-3.4%), Woolworths (-6.9%) and A2Milk (-3.0%). December saw a hive of activity on the M&A front with a number of companies in the portfolio raising capital to make acquisitions or being acquired themselves.

One of those companies was assisted reproductive service provider Virtus Health. Back in August, Virtus announced a capital raising for the acquisition of a competitor's IVF clinics. However, since then it has run into competition issues from the ACCC, resulting in delays in the completion of the transaction and subsequently their share price fell. However, during December, Virtus fell prey to a takeover itself with a private equity company making a bid for a majority stake in the company for a price of \$7.10, nearly a 40% premium to its last close price. This proves there is demand for the business's assets and that, just like us, private equity sees value and structural growth in this industry.

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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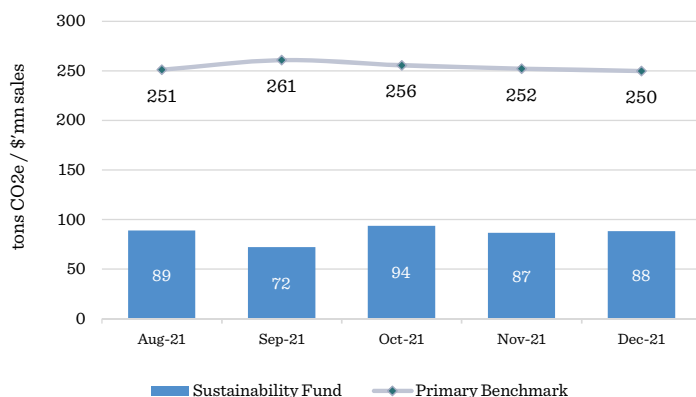
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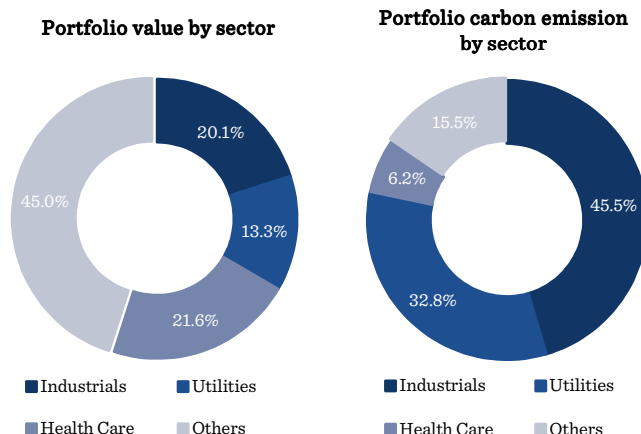
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DEVON SUSTAINABILITY FUND - ESG INSIGHTS

CARBON INTENSITY - PORTFOLIO VS BENCHMARK



PORTFOLIO CARBON EMISSIONS BY KEY SECTORS



The materials, utilities, and health care sectors make up 55.0% of the portfolio by value, but they account for 84.5% of the carbon emissions in the portfolio.

ESG PORTFOLIO SUMMARY

	MSCI ESG Ratings	MSCI ESG Quality score	
Portfolio	AA	8.30	Portfolio Sustainability Fund
Benchmark	AA	7.88	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	91.7%
% of companies reporting to TCFD standards	47.9%
% of companies with a modern slavery statement	39.6%
% of companies with carbon emission reduction targets	58.3%

CLIMATE CHANGE RISK BY PORTFOLIO HOLDINGS

Climate Change Risk by Portfolio Holdings



COMMENTARY

During the month, one of Australia's largest listed companies, Fortescue Metals, announced it may convert a New Zealand oil refinery to green hydrogen production facility. Fortescue Future Industries (FFI), the green energy offshoot of iron ore Fortescue Metals, is investigating options to convert a New Zealand oil refinery to become a hub for renewable hydrogen production.

In the latest of a string of green hydrogen project proposals, FFI says it has signed a memorandum of understanding with Refining NZ to study options for the conversion of parts of the Marsden Point oil refinery. The Marsden Point oil refinery – located north of Auckland – is slated for closure in early 2022, but has characteristics, including access to port infrastructure and established export facilities, that would make it well suited for conversion to a green hydrogen facility. This project will form part of the company's broader plan to convert more fossil fuel facilities into renewable hydrogen production sites, which is a positive step.

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 TRANS-TASMAN FUND

FUND OUTLINE

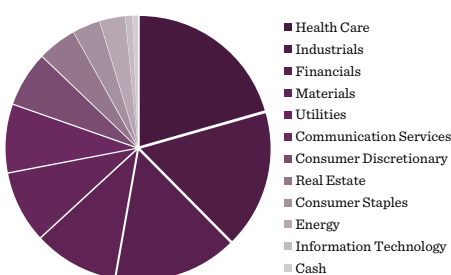
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

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	46.3%
Australian Equities	53.1%

Cash	0.7%
Total	100.0%

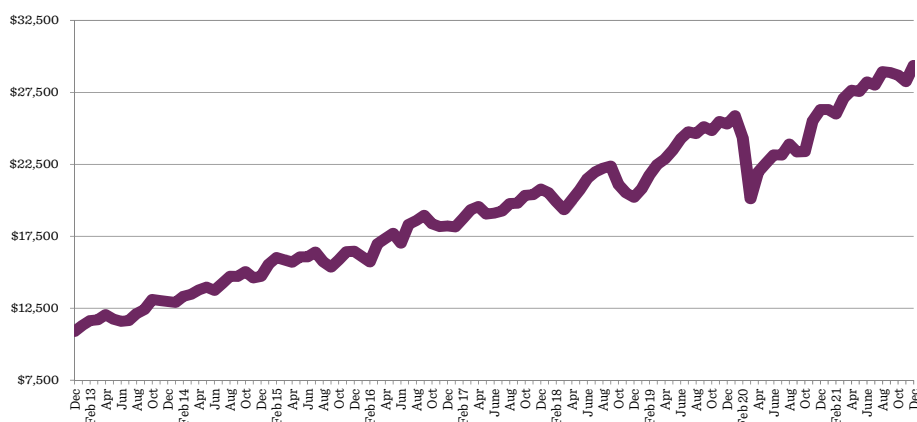
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Trans-Tasman Fund	4.0%	1.9%	11.8%	13.3%	10.0%	8.8%
50:50 NZX50 Gross & ASX200 Index Unhedged	3.5%	0.9%	7.9%	14.0%	11.9%	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 strategy enjoyed another good month of absolute and relative performance in December and rounded out what has been a very good year for this portfolio. During this year we have endeavoured to invest across a range of stocks which were positively exposed to a recovery in economic activity, but we have been determined to ensure that valuation support and quality characteristics have been the defining features.

December saw a number of our key holdings perform particularly well with EBOS rallying 13.0% and Fletcher Building up 8.6%, whilst in Australia National Australia Bank and BHP closed higher by 5.6% and 5.4% respectively. Another great contribution came from Ramsay Healthcare (+7.0%) which received strong support from the market after they announced the acquisition of Elysium Healthcare in the UK. This mental healthcare provider is highly complementary to Ramsay's existing asset base and is exposed to an area in the health system which is experiencing a strong lift in demand.

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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