

Starting with a bang – will the ‘risk-on’ party continue?

By Greg Smith, Head of Retail at Devon Funds.

While the weather in the upper North Island has made for a challenging start to the year, it has been a very different story for markets, which globally have enjoyed a very strong rally thus far in 2023. The US indices have set the tone, with the S&P500 having had its best January in four years with a gain of 6.3%. Technology stocks have driven the momentum, with the Nasdaq up 10.7% and enjoying its best January since 2001.

The kiwi market has also caught a New Year tailwind, with the NZX50 rallying 4.3% in January. Other China facing countries have also seen their markets perform very strongly amid the country’s pivot away from a Covid-zero policy. The ASX200 in Australia surged 6.2% in January, while the Hang Seng in Hong Kong has leapt over 10%.

Upward momentum for stock markets in 2023 of course follows what was a very challenging 2022 for investors. Risk appears to be back on the table, on the view that the worst-case scenarios priced into markets will not eventuate.

But is newfound investor optimism justified, and what are the implications for markets in the coming months, and the rest of the year?

Positive starts to the year historically bode well for the rest of the year. Looking at the S&P500, since World War II, a positive January has seen strength through the remainder of the year over 85% of the time. Gains have been more pronounced after a big sell-off. Of the five instances in which the S&P gained more than 5% in January after a negative year, the benchmark index rose 30% for the year on average...[READ MORE](#)

MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	4.3%	0.7%
S&P/ASX200G	AUSTRALIA	6.2%	12.2%
MSCI World Index	GLOBAL	6.1%	-7.8%
S&P500	USA	6.3%	-8.2%
FTSE100	UK	4.3%	8.0%
NIKKEI 225	JP	4.7%	3.5%
NZ 90 Day Bank Bill	NZ	0.4%	2.5%
Bloomberg Global Aggregate Index (NZD)	GLOBAL	2.2%	-8.3%

AT A GLANCE

Prices as at 31 January 2023

DEVON ALPHA FUND	\$2.2273
DEVON AUSTRALIAN FUND	\$1.6587
DEVON DIVERSIFIED INCOME FUND	\$1.4501
DEVON DIVIDEND YIELD FUND	\$1.9315
DEVON GLOBAL IMPACT BOND FUND	\$1.3861
DEVON GLOBAL SUSTAINABILITY FUND	\$1.5182
DEVON TRANS-TASMAN FUND	\$4.6819
DEVON SUSTAINABILITY FUND	\$3.2747

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DEVON ALPHA FUND

FUND OUTLINE

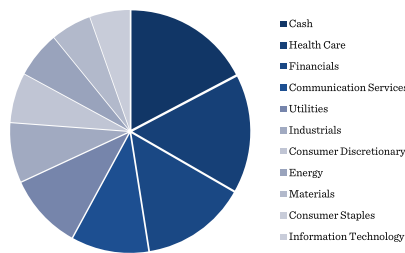
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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

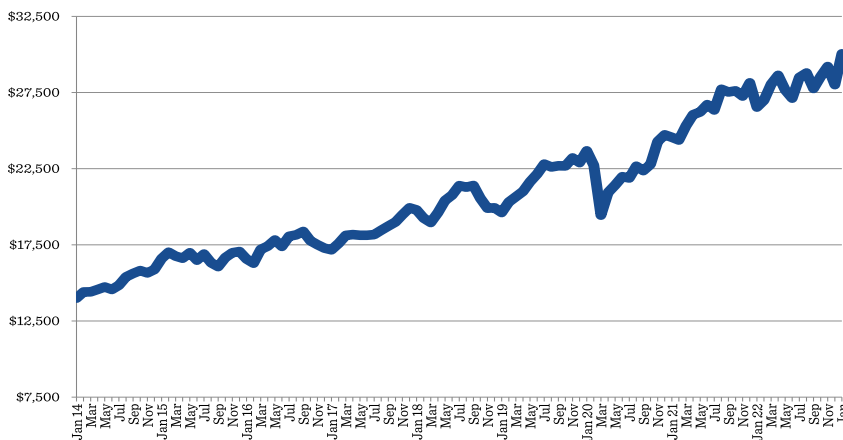
New Zealand Equities	26.0%	Cash	8.8%
Australian Equities	65.2%	Total	100.0%
Currency Hedge	0.2%		

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Alpha Fund	7.2%	5.2%	13.2%	8.3%	8.7%	9.4%
OCR + 5%	0.6%	2.0%	4.5%	1.7%	1.6%	2.1%

Devon Alpha Fund returns are after all fees and expenses, but before tax which varies by investor.
*The benchmark for Alpha changed to OCR + 5% from 1 September 2022

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 strong absolute return during the month. Key to this outcome was the significant rally enjoyed by some high-quality industrial investments that we own, including James Hardie (+19.1%) and Goodman Group (+15.0%). We had positioned our portfolio in anticipation of this recovery back in December 2022, and with market volatility lifting towards the end of last year, we are pleased that our confidence in these businesses has been rewarded. Despite the impressive recovery of the James Hardie share price in January, this stock is still down by more than 30% over the past 12-months and continues to offer us valuation appeal. A number of changes were made to the portfolio during January including the sale of our shares in Seek. This stock rallied 15.6% last month and is up 12.1% over the past quarter, and as such we believe that much of the positive aspects of this thesis are now being reflected in its price.

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 AUSTRALIAN FUND

FUND OUTLINE

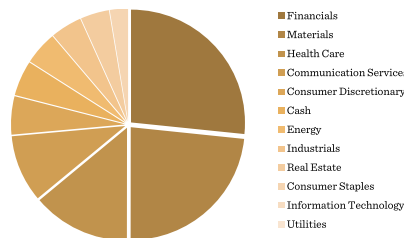
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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

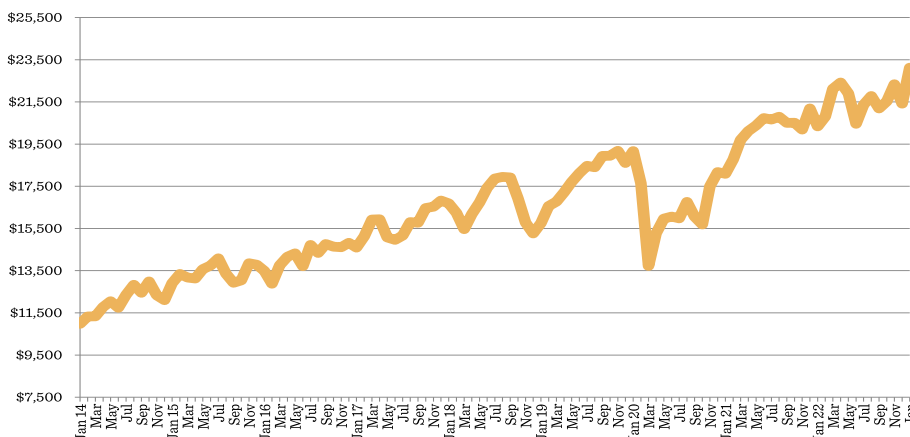
New Zealand Equities	0.0%	Cash	6.2%
Australian Equities	93.8%	Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Australian Fund	8.0%	7.4%	13.7%	6.5%	6.7%	7.9%
ASX200 Index Gross (NZD)	8.0%	8.6%	14.0%	7.8%	8.4%	7.4%

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

The Australian portfolio rallied strongly during January. There were a number of important contributors, including South32 (+13.5%), Aristocrat Leisure (+11.3%) and Wesfarmers (+8.2%). Another investment worth highlighting was Mineral Resources, which rallied 15.2% over the month and is now up by more than 60% in the past year. This business is principally known for their mining services and lithium and iron ore operations throughout Western Australia and the Northern Territory. During the month they reported their fourth-quarter 2022 production results, which were broadly well received by investors. Strong lithium chemical sales from their mines at Mt Marion and Wodgina were a highlight and although their iron ore shipment volumes missed expectations, this was more than offset by stronger pricing outcomes. There were no major changes made to the portfolio although we did increase our exposure to Woolworths, Aristocrat Leisure and Newcrest Mining.

PORTFOLIO MANAGER

Slade Robertson



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

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DEVON DIVERSIFIED INCOME FUND

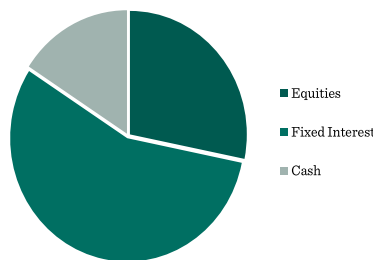
FUND OUTLINE

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	17.5%	Bonds	56.0%
Australian Equities	9.9%	Cash	16.5%

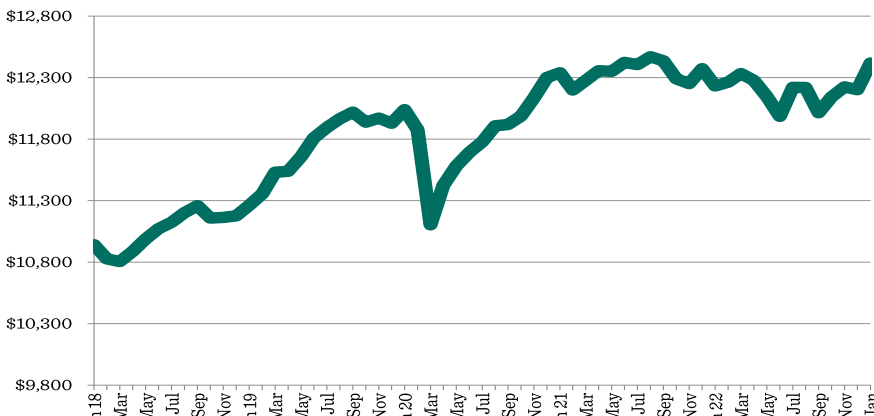
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Diversified Income Fund	1.8%	2.3%	1.5%	1.0%	2.6%	3.3%
OCR + 1.5%	0.3%	1.2%	3.9%	2.5%	2.8%	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 bonds rallied strongly over the month, with the yield on the US 10-year Treasuries closing at 3.52% (having started the month with a yield of 3.83%). The US economy was reported as having remained resilient in the final quarter of 2022, despite the tightening of monetary policy by the Federal Reserve. GDP grew at an annualised rate of 2.9% in Q4, supported by a strong jobs market and trillions of dollars that Americans had saved up during the pandemic. Despite this economic momentum, there appears to be a more dovish tone being adopted by the Fed with respect to future policy changes. In the minutes of their final meeting of last year, officials acknowledged the progress that they had made in controlling inflation and recognized that the central bank should consider slowing the pace of prospective interest rate hikes. In New Zealand and Australia, inflation levels remain elevated.

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 DIVIDEND YIELD FUND

FUND OUTLINE

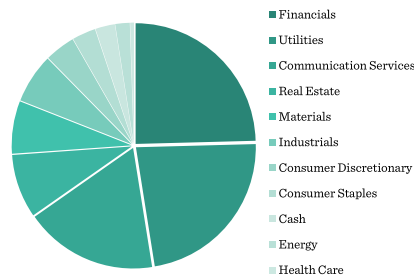
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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

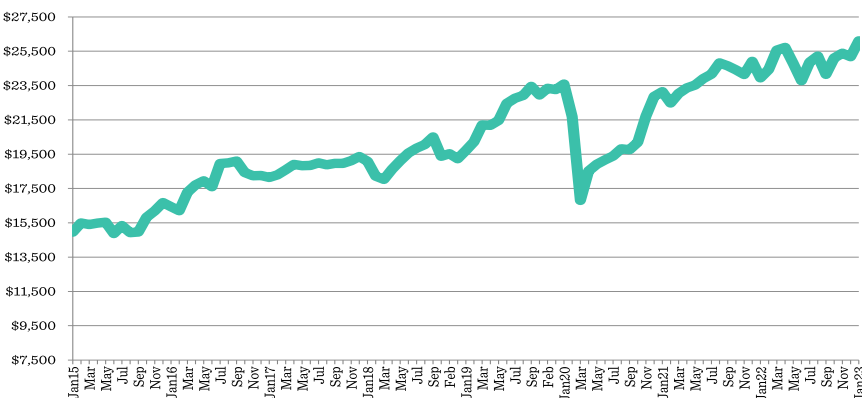
New Zealand Equities	62.3%	Cash	4.4%
Australian Equities	33.2%	Total	100.0%
Currency Hedge	99.8%	Yield	6.3%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Dividend Yield Fund	3.7%	4.0%	9.0%	3.5%	6.5%	10.1%
50:50 NZX50 & ASX200 Index Gross	5.3%	7.6%	6.4%	3.3%	7.9%	10.9%

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

The latest preliminary Australian Bureau of Statistics data release indicates a strong retail sales outcome for December, with sales rising 7.9%. Food and liquor sales rose 8.2% for the period and whilst this is a good result, it was largely propped up by price inflation. More specifically food inflation was reported at 10.3% for the December quarter, which is a good proxy for supermarket performance. Furthermore, a reduction in Covid-19 costs and the costs associated with substantial supply chain disruption, compared to the prior year, should be a large positive swing factor for the industry. Coles Supermarkets in particular had an estimated A\$100m in direct Covid related costs in 1H22 which will not reoccur in this period.

This backdrop was important for our investments in Coles and Metcash, both of which posted strong positive performances for the month, finishing up 6.2% and 5.0% respectively. We expect continued upgrades to market earnings and dividend expectations, underpinning share price performance.

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.



DEVON TRANS-TASMAN FUND

FUND OUTLINE

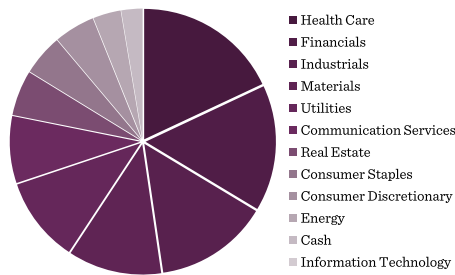
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

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

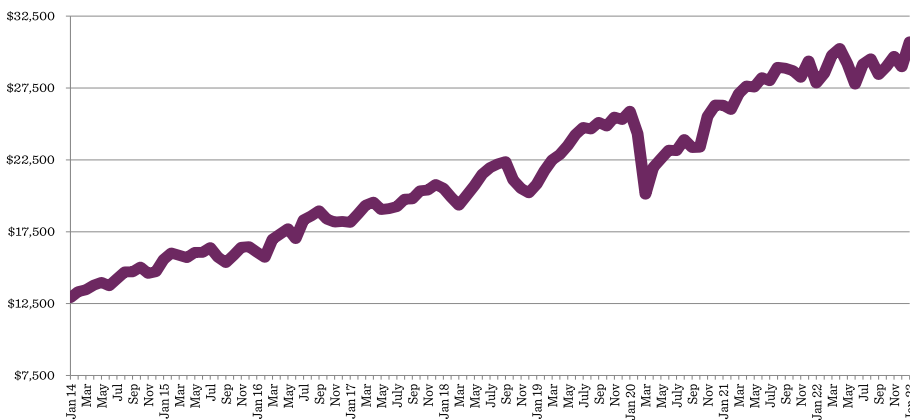
New Zealand Equities	43.6%	Cash	2.6%
Australian Equities	53.8%	Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Incep- tion
Devon Trans-Tasman Fund	6.0%	6.0%	10.3%	5.9%	8.4%	8.6%
50:50 NZX50 Gross & ASX200 Index Unhedged	6.2%	7.1%	7.4%	4.3%	7.8%	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 generated strong absolute returns during the month, performing broadly in line with its underlying benchmark. Aristocrat Leisure (ALL) rallied by 11.3% after a recent correction, and we remain positive on this business. The US casino backdrop is one of resilient revenue performance and ALL's land-based gaming business continues to gain share, with recent game performance suggesting this should continue. While macro pressures exist, gaming through economic cycles has proven to be very resilient. During the GFC for example, there was just a 4% decline in gross gaming revenue. The company has a strong balance sheet with net cash of >\$500m, providing it with significant flexibility for potential M&A and buy-backs. The stock is currently trading on 16x FY24 earnings, which is a 16% discount to the ASX200 Industrials Index. This compares to an historical premium of 2% over the past 10 years.

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.



DEVON SUSTAINABILITY FUND

FUND OUTLINE

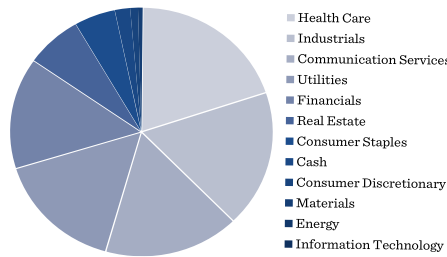
The **Devon Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	50.3%	Cash	3.0%
Australian Equities	46.6%	Total	100.0%

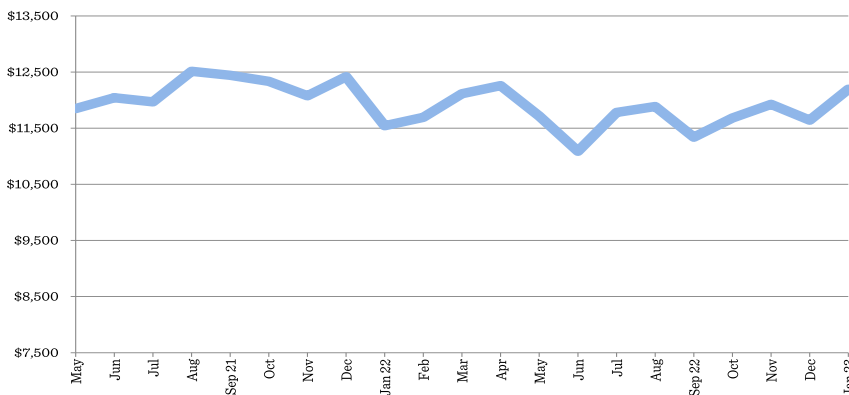
PERFORMANCE

	1 Mth	3 Mth	1 Yr p.a	2 Yr p.a	Since Inception
Devon Sustainability Fund	4.7%	4.4%	5.5%	3.5%	8.5%
50:50 NZX50 Portfolio Index & ASX200 Index	5.2%	6.6%	5.9%	3.5%	8.5%

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 Fund finished up nearly 5% for January, with our top contributor being Calix which rallied 24.2%.

During the month, Fisher & Paykel Healthcare delivered a strong trading update which was well above consensus expectations and set the company up for a strong FY23 result. Its revenue guidance for FY23 was 6% ahead of market forecasts, with gross margins also improving. The upgrade was due to increased sales of hospital hardware and consumables in China due to the COVID surges, and North American consumable sales being fuelled by an early start to the flu season. Demand for their OSA masks has remained strong, with the growth rate tracking above the first half of the year. The company will benefit from operating leverage as the higher than expected sales flow through to earnings. Their share price had run into this trading update announcement, and investors remain increasingly confident that the company can navigate the post-COVID revenue slump through growth from new regions (China as one example).

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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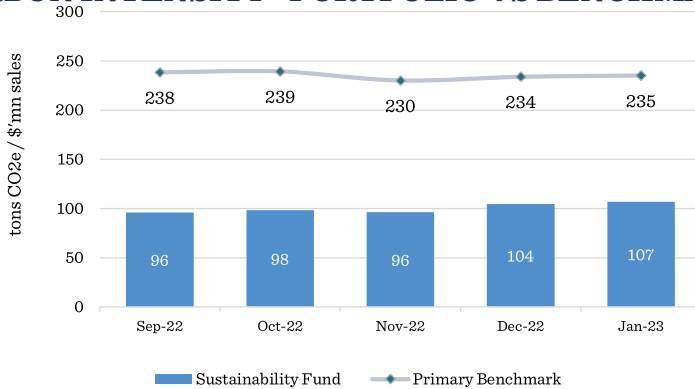


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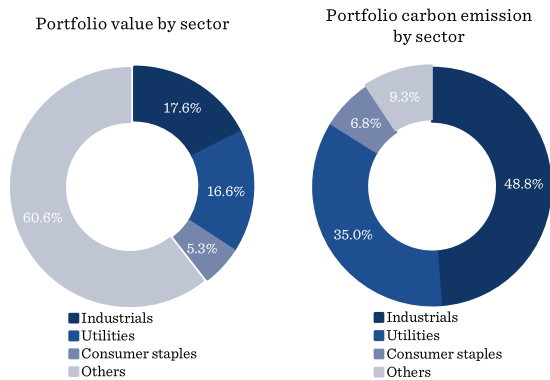


DEVON SUSTAINABILITY FUND

CARBON INTENSITY - PORTFOLIO VS BENCHMARK



PORTFOLIO CARBON EMISSIONS BY KEY SECTORS



The industrials, utilities and consumer staples sectors make up 39.5% of the portfolio by value, but they account for 90.6% of the carbon emissions in the portfolio.

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	AA	8.34	Portfolio Sustainability Fund
Benchmark	AA	7.55	Primary Benchmark 50:50 composite S&P/NZX50 Portfolio Index & S&P/ASX200G Index

PERFORMANCE

	1 Mth	3 Mth	6 Mth	1 Yr	Since Inception
ESG relative performance	10.5%	12.6%	13.5%	12.9%	7.0%

*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

Portfolio Holding's Disclosure Summary

% of holding companies doing ESG reporting	97.4%
% of companies reporting to TCFD standards	76.3%
% of companies with a modern slavery statement	73.7%
% of companies with carbon emission reduction targets	76.3%

CLIMATE CHANGE RISK BY PORTFOLIO HOLDINGS

Climate Change Risk by Portfolio Holdings



STEWARDSHIP

2022 was pivotal for ESG and we expect 2023 to be the year of adaptation. In regard to stewardship, the top theme in 2023 is set to be biodiversity as discussions around the 'E' in ESG expand. Australia and New Zealand have some of the largest threats to biodiversity and one of the greatest opportunities. The traditional analysis of the 'G' in ESG is also returning to the forefront of investor minds. Board effectiveness and executive compensation as well as incentives are being scrutinised. Cyber risk has been a clear focus for investors, companies and governments in recent years, with Australia in particular seeing some severe cybersecurity breaches in recent months. The "Great Resignation", the term attributed to the ongoing trend of employees voluntarily resigning from their jobs in the wake of the pandemic, has seen employers competing for talent. Employee-friendly companies are gaining a competitive advantage and investors are increasingly examining a corporate's culture. And finally, modern slavery risks continue to be of concern to investors.

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 GLOBAL IMPACT BOND FUND

DURATION

Sector	Contribution to Duration (Years)		
	Account	Benchmark	Difference
Cash & Cash Equivalents	-0.00	-0.00	-0.00
US Government	1.03	1.06	-0.03
Credit*	4.13	4.90	-0.77
Asset Backed Securities	0.01	0.01	0.00
Mortgage Backed	1.13	0.75	0.38
Commercial Mortgage	0.11	0.04	0.07
Other	0.01	0.09	-0.09
Cash Offset	-	-	-
	6.41	6.84	-0.44

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	8.12	0.27	7.85
AAA	47.20	40.30	6.89
AA	14.78	12.63	2.15
A	9.98	31.93	-21.94
BBB	13.46	14.55	-1.10
BB	4.63	0.01	4.62
B	2.68	-	2.68
Below B	0.17	-	0.17
Cash Offset	-1.66	-	-1.66
Not Rated	0.64	0.31	0.33
	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 31 January 2023

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	6 Mth
Devon Global Impact Bond Fund	2.2%	3.7%	-2.8%
Bloomberg Global Aggregate Index Hedged NZD	2.2%	3.4%	-3.2%

PERFORMANCE	1 Mth	3 Mth	6 Mth
Devon Global Sustainability Fund	4.8%	7.6%	2.2%
MSCI All Country World Index in NZD, 50% hedged to NZD	5.7%	3.6%	-0.0%

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

KEY HOLDINGS*



*Key Holdings as at 31 January 2023

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.

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