

## MONTHLY REPORT: JUNE 2022

### Turning point

Do high levels of pessimism, high cash balances and depressed market multiples mean we are almost at the end of this year's volatility?

By Greg Smith, Head of Retail at Devon Funds. Pretty much everywhere you look at the moment the messages appear to be all about economic doom and gloom. The prices of food, petrol and many other essential goods continue to rise, putting pressure on consumer wallets. House prices are falling all over the country, with further salt being rubbed in the wounds by rising mortgage-rates, giving those who are coming (or about to come) off lower one-year fixed deals a nasty shock.

Meanwhile many commentators and economists extol (almost gleefully in some cases) that the kiwi economy is already in recession. Unemployment is at record lows, exporters are doing well, and borders are opening up, but economically, things are to only get tougher it seems. The message is that it is time to batten down the hatches (apart from the government, which has continued a massive spending splurge).

Then there's the stock market. Emotive headlines always garner the most attention so it should not surprise that when kiwi shares recently went into a 'bear market' (falling 20% from last year's peak) not long ago, it captured much media attention. The NZX50 has though rallied somewhat in recent weeks but is still hovering around 'bear market' territory, with the decline from the January 2021 high still around 20%. It has nonetheless been a 'volatile' first half of the year. The NZX50 lost 3.9% for the month of June and fell 16% in the first six months of 2022.....[READ MORE](#)

### MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	-3.9%	-14.1%
S&P/ASX200G	AUSTRALIA	-8.8%	-6.5%
MSCI World Index	GLOBAL	-7.6%	-13.0%
S&P500	USA	-8.3%	-10.6%
FTSE100	UK	-5.5%	5.8%
NIKKEI 225	JP	-3.1%	-6.5%
NZ 90 Day Bank Bill	NZ	0.2%	0.8%
Bloomberg Global Aggregate Index (NZD)	GLOBAL	-1.6%	-8.8%

### AT A GLANCE

Prices as at 30 JUNE 2022

DEVON ALPHA FUND	\$2.0423
DEVON AUSTRALIAN FUND	\$1.4979
DEVON DIVERSIFIED INCOME FUND	\$1.4431
DEVON DIVIDEND YIELD FUND	\$1.8305
DEVON GLOBAL IMPACT BOND FUND	\$1.4242
DEVON GLOBAL SUSTAINABILITY FUND	\$1.3968
DEVON TRANS-TASMAN FUND	\$4.3222
DEVON SUSTAINABILITY FUND	\$3.0452

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#### Devon Funds Management Limited

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## DEVON ALPHA FUND

## FUND OUTLINE

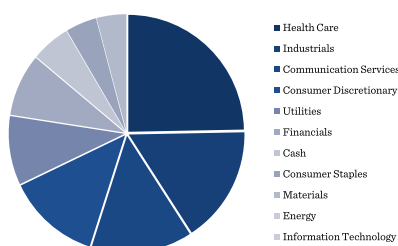
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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

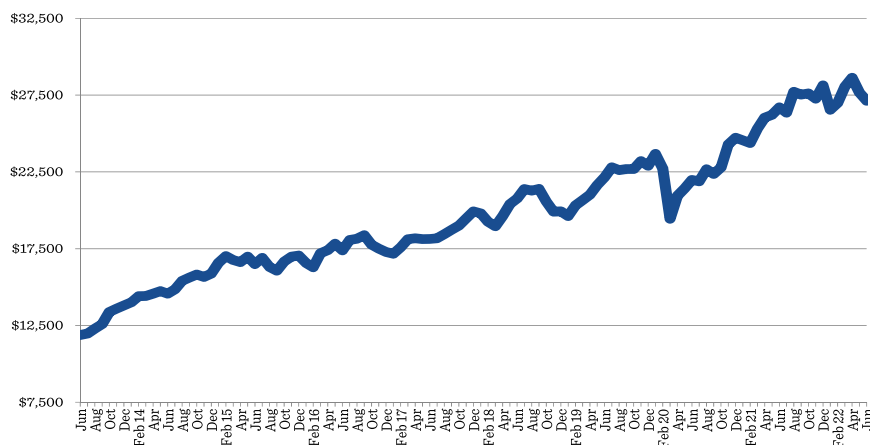
New Zealand Equities	38.6%	Cash	5.2%
Australian Equities	56.2%	Total	100.0%
Currency Hedge	76.3%		

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Alpha Fund	-1.9%	-3.3%	1.7%	7.0%	8.4%	9.0%
OCR	0.2%	0.4%	0.8%	0.6%	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

There was a considerable amount of volatility across equity markets during the month, but the Alpha Fund is designed to capitalise off this environment. Within this strategy we are afforded a high level of flexibility in portfolio construction and as such look to hold cash when appropriate investment opportunities are not available (to protect our clients' capital) and to invest when share prices have fallen sufficiently.

This approach was executed upon well during June. After having lifted our cash levels early in the month, we then deployed it across a range of opportunities as markets weakened. An example of this was our purchase of shares in Fletcher Building. We last owned this company back in March when its share price was over \$6/share. Having sold it then we were able to repurchase it recently at \$4.76 as we became more confident in its value proposition. This was rewarded as the company announced positive earnings guidance in late June and its shares rallied.

## 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

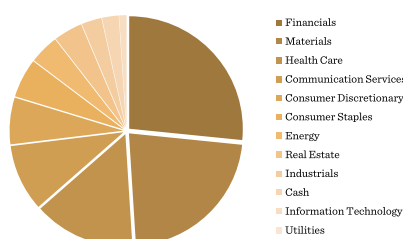
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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

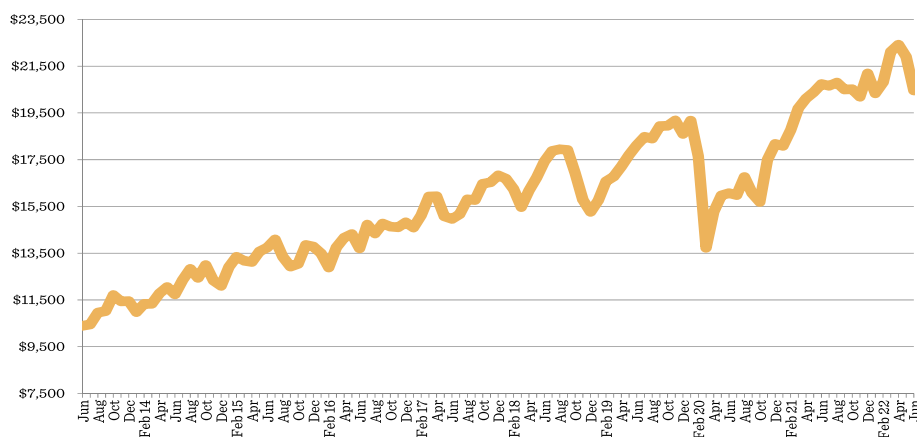
New Zealand Equities	0.0%	Cash	2.4%
Australian Equities	97.6%	Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Australian Fund	-6.6%	-7.5%	-1.4%	4.1%	6.4%	7.2%
ASX200 Index Gross (NZD)	-8.4%	-9.8%	-3.7%	5.3%	8.0%	6.6%

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

This strategy delivered a positive return relative to its underlying benchmark during the month. Although markets were weaker during June, we benefitted from the volatility by purchasing shares in a number of high-quality businesses at attractive prices.

Included amongst these was Goodman Group, one of the largest listed specialist investment managers of industrial properties globally. After the share price of Goodman was sold down with the markets, we increased our exposure to the company as we determined that its valuation support had become compelling. We tested our valuation by applying our most bearish assumptions regarding potential declines in property prices and the possible impact on the company's earnings, and even after this analysis the potential for investment looked attractive. Subsequent to our purchase of these shares, the price of Goodman Group pleasingly recovered well. Other stocks that we also bought in the latter stages of the month included Seek and Resmed.

## 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 DIVERSIFIED INCOME FUND

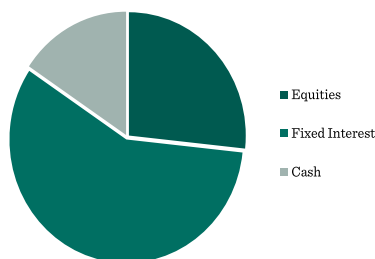
## FUND OUTLINE

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	16.0%
Australian Equities	9.4%

Bonds	57.7%
Cash	16.9%

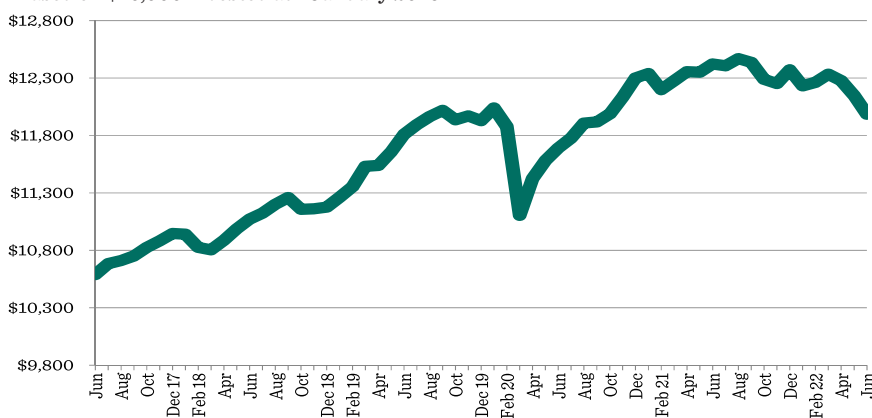
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Diversified Income Fund	-1.3%	-2.8%	-3.5%	0.5%	2.5%	3.0%
OCR + 1.5%	0.3%	0.8%	2.3%	2.1%	2.6%	2.8%

Devon Diversified Income Fund returns are after all fees and expenses, but before tax which varies by investor.  
Inception date for the Fund is 1 January 2016.

## NET PERFORMANCE

Based on \$10,000 invested at 1 January 2016



NOTE: Further information on the Devon Diversified Income Fund can be found in our Quarterly Fund Updates by visiting <https://devonfunds.co.nz/diversified-income-fund> or by clicking [HERE](#)

## COMMENTARY

Global bond yields rose over the month, with the US 10-year Treasury yield closing at 3.06%. The first-half of this year has been defined by the dramatic rise in inflation and the response by central banks to address this challenge. In the US for example, financial conditions are tightening faster than they have at any point in the past two decades.

The Fed hiked rates by 0.75% in early June, their biggest increase since 1994. As a consequence of this approach, concerns are developing over economic durability, with the possibility of recession across many countries increasingly significantly. In response to this risk, Jerome Powell (Fed Chairman) delivered a more dovish testimony to Congress than expected, where he identified that future changes to interest rates would be data dependent and acknowledged that conditions have already tightened significantly.

Bonds and equities rallied post these comments. The Reserve Bank of Australia lifted their cash rate by 0.50%.

## 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

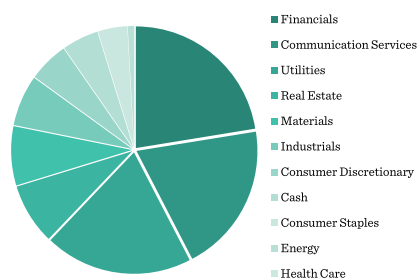
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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

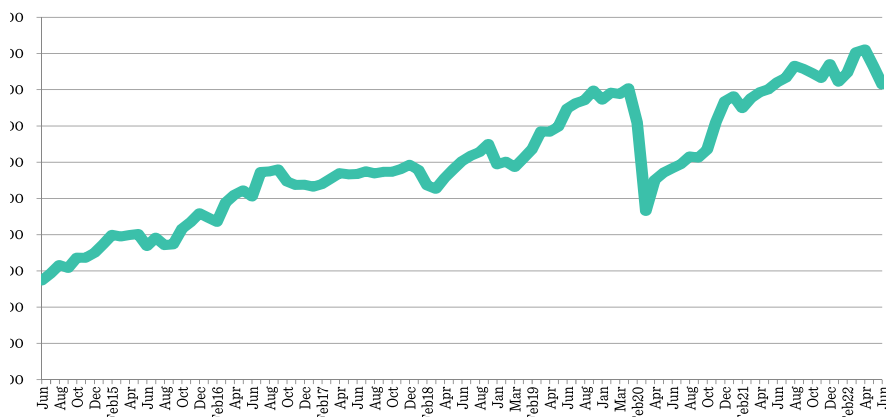
New Zealand Equities	59.9%	Cash	4.9%
Australian Equities	35.2%	Total	100.0%
Currency Hedge	99.7%	Yield	6.7%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Dividend Yield Fund	-4.0%	-7.0%	-0.5%	2.0%	4.7%	9.6%
50:50 NZX50 & ASX200 Index Gross	-6.3%	-11.1%	-10.3%	2.2%	7.1%	10.3%

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

Despite the tribulations of the casino sector in Australia, Sky City was one of our significant outperformers for the month, outperforming the NZ50G Index by 15%. The resumption of a more normalized post Covid operating environment has been positive for the casino, most importantly for its flag ship assets in Auckland. During the month the company provided positive earnings guidance, announcing a return to strong operational performance from its local gaming businesses in New Zealand.

Additionally, its non-gaming businesses continue to recover, benefiting from positive domestic tourism and a reopening of international borders. Whilst regulatory oversight continues to affect the sector, its significant asset base combined with high barriers to entry make it a potential target for corporate action.

## 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

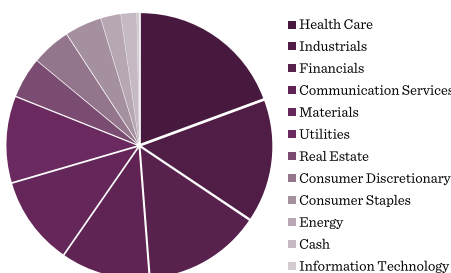
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

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	45.8%	Cash	1.9%
Australian Equities	52.2%	Total	100.0%

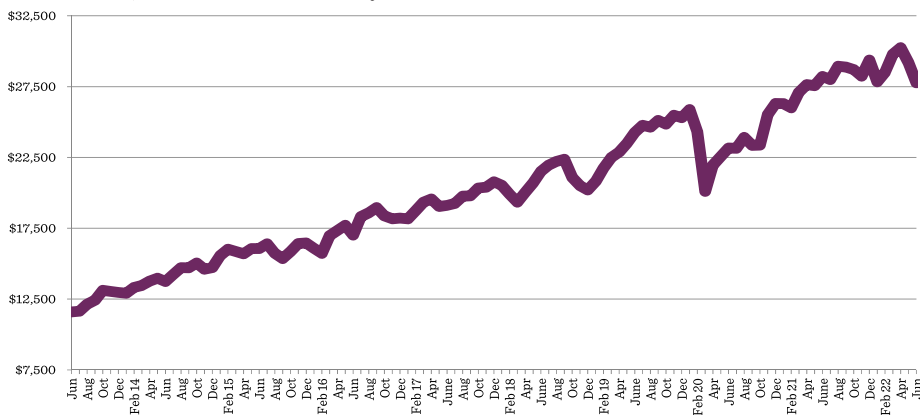
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Inception
Devon Trans-Tasman Fund	-4.9%	-6.8%	-1.5%	4.6%	7.7%	8.3%
50:50 NZX50 Gross & ASX200 Index Unhedged	-6.2%	-10.0%	-8.9%	3.2%	7.7%	8.9%

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 portfolio outperformed its benchmark during June, although underlying markets were very weak. Like last month, we were rewarded for our strong bias towards high quality businesses and those supported by valuations. Amongst our best performers were Sky City which rallied 11.1% and Resmed which closed higher by 5.2%.

Resmed performed strongly over the month and is one of the largest overweight positions in the portfolio. The business continues to benefit from market share gains as a result of the device recall for Philipps, their competitor. Philipps expects to complete the majority of their recall by the end of CY22, but risks appear to be rising that this could extend well into CY23 which would benefit Resmed. In addition, there is a large patient backlog for Continuous Positive Airway Pressure devices, and channel checks suggest strong volume improvement for Resmed in June and into Q3 CY22. We see the potential of 20% earnings growth in both FY23 and FY24 regardless of macro conditions.

## 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

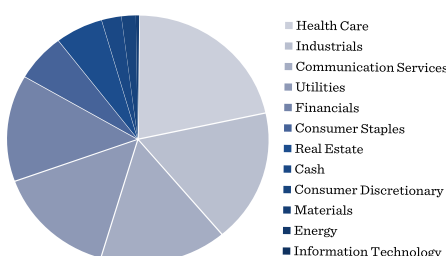
The **Devon Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	50.4%	Cash	2.4%
Australian Equities	47.2%	Total	100.0%

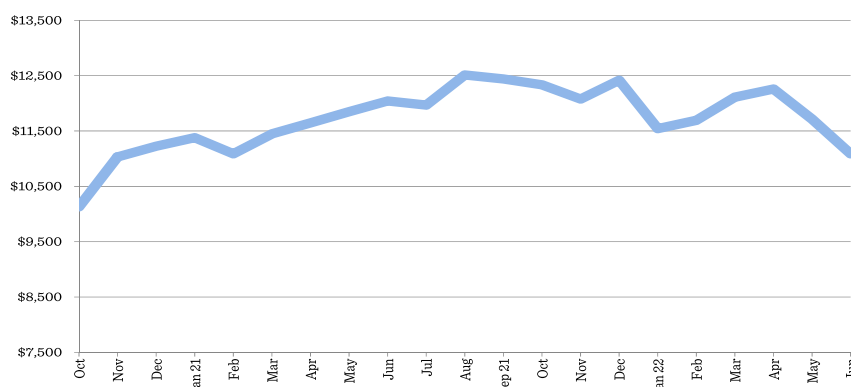
## PERFORMANCE

	1 Mth	3 Mth	1 Yr p.a	Since In-
Devon Sustainability Fund	-5.4%	-8.5%	-8.0%	5.8%
50:50 NZX50 Portfolio Index & ASX200 Index	-6.4%	-11.0%	-9.7%	4.5%

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 outperformed its benchmark during the month. Its top contributors included ResMed (+5.2%), Chorus (+1.3%) and Mercury (+2.7%) whilst Freightways (-16.8%) and Nine Entertainment (-17.1%) were amongst the detractors. Metcash released its FY22 financial result in late June. It was better than our expectations, as it was confirmed that the company had continued to retain most of the customers gained during COVID-19. This saw the share price jump 4% on the day. Over half the earnings are now hardware-related after a recent acquisition, and there were concerns that the slowing housing market in Australia could negatively impact this division.

However, its trading update for the first few weeks of FY23 was also very strong, with no sign of a slowdown. This gave the market confidence in the outlook for the rest of FY23. We think the market simplistically views Metcash as a COVID winner and therefore assumes performance will revert, but we see the benefits lasting longer, and the valuation still looks attractive relative to their peers and the broader market.

## 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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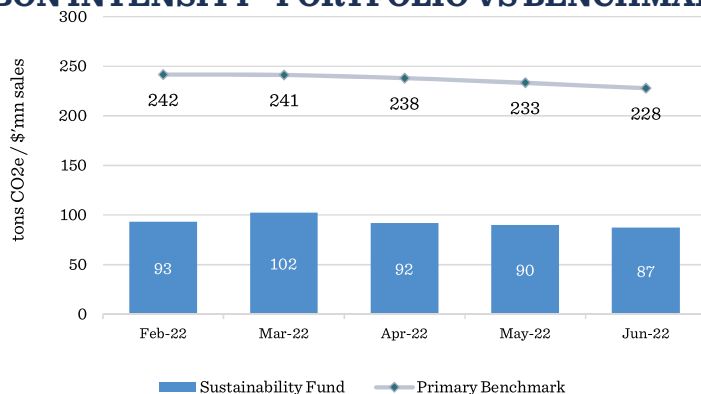
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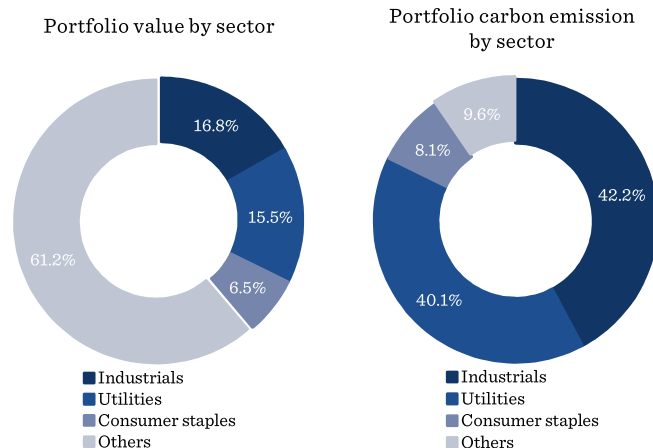


## DEVON SUSTAINABILITY FUND

## 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	AA	7.32	Portfolio Sustainability Fund
Benchmark	A	6.59	Primary Benchmark 50:50 composite S&P/NZX50 Portfolio Index & S&P/ASX200G Index

## PERFORMANCE

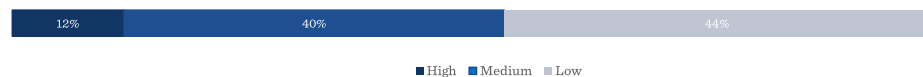
	1 Mth	3 Mth	6 Mth	1 Yr	Since Inception
ESG relative performance	11.1%	19.2%	9.8%	6.1%	4.3%

\*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	95.3%
% of companies reporting to TCFD standards	69.8%
% of companies with a modern slavery statement	69.8%
% of companies with carbon emission reduction targets	72.1%

## CLIMATE CHANGE RISK BY PORTFOLIO HOLDINGS



## STEWARDSHIP

During the month we met with management from Pact Group, a packaging and recycling company based in Australia. Its customers are large FMCG companies such as Unilever, Coles and Woolworths. Currently only 9% of the packaging it produces for these FMCG players is recycled, reused or compostable. According to the Australian Packaging Covenant Organisation (APCO), its customers have to be at 100% by 2025.

As such, Pact Group and its customers have a long way to go to achieve these targets, so we expect significant acceleration in the volumes of recycled product over the next few years. It will do this through increasing manufacturing capacity and partnering with other industry players through JV structures. Pact Group has also recently employed a new Head of IR with one of their main objectives being to better articulate their sustainability strategy to investors and wider stakeholders.

## 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	-0.12	1.05	-1.17
Credit*	5.71	5.19	0.51
Asset Backed Securities	0.01	0.00	0.01
Mortgage Backed	1.27	0.64	0.63
Commercial Mortgage	0.13	0.04	0.09
Other	0.02	0.10	-0.08
Cash Offset	-	-	-
	7.01	7.02	-0.01

## CREDIT RATING

Quality	Percent of Market Value		
	Account	Benchmark	Difference
Cash	-3.01	0.43	-3.44
AAA	48.85	39.36	9.49
AA	15.51	13.68	1.84
A	13.64	31.41	-17.76
BBB	14.39	14.80	-0.41
BB	7.00	0.01	6.99
B	4.22	-	4.22
Below B	0.29	-	0.29
Cash Offset	-2.07	-	-2.07
Not Rated	1.18	0.32	0.86
	100.00	100.00	

\*Duration & Credit Rating as at 31 May 2022

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.

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.

## 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
Devon Global Impact Bond Fund	-2.30%	-5.62%
Bloomberg Global Aggregate Index	-1.55%	-4.48%
Devon Global Sustainability Fund	-6.03%	-7.15%
MSCI All Country World Index in NZD, 50% hedged to NZD	-6.09%	-10.16%

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

## KEY HOLDINGS\*



\*Key Holdings as at 31 May 2022

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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[www.devonfunds.co.nz](http://www.devonfunds.co.nz)