

MONTHLY REPORT: MAY 2022

Mixed Messages

What are elevated levels of M&A activity possibly telling us that the stock market is not?

By Greg Smith, Head of Retail at Devon Funds. The correction in global markets seen thus far in 2022 has caused many investors to question whether several of the big picture themes that emerged during the pandemic will ever make a comeback or are consigned to the annals of history. Unprecedented levels of stimulus and ultra-low interest rates, along with better than feared economic outcomes, saw many stock-markets scale new record highs. Valuations were propelled higher as investors saw the stay-at-home thematic turbo-charging the growth prospects of many industries, and the technology sector in particular.

The lift-off in interest rates, which New Zealand saw last October, and the rest of the world is seeing now, has seen optimism fade on a number of counts. The inflation that has emerged as a consequence of the financial stimulus administered during the pandemic response has been propelled further by the war, ongoing supply chain blockages and labour market tightness. Central banks are doing their best to douse the flames, and as such investors are concerned about whether economies will be able to withstand this or will suffer significantly as a result.

Many commentators are also coming out and making predictions around a recession, hitting on the notion that higher lending rates will hit consumers and businesses hard, compounding the existing ill effects of inflation. Markets generally appear to be pricing in the “R” word, and this has arguably driven much of recent volatility.....[READ MORE](#)

MARKET INDICES

Index	Region	Monthly Return 1 Yr. Return	
S&P/NZX50G	NZ	-4.8%	-8.2%
S&P/ASX200G	AUSTRALIA	-2.6%	4.8%
MSCI World Index	GLOBAL	0.2%	-4.4%
S&P500	USA	0.2%	-0.3%
FTSE100	UK	1.1%	12.4%
NIKKEI 225	JP	1.6%	-3.6%
NZ 90 Day Bank Bill	NZ	0.2%	1.0%
Bloomberg Global Aggregate Index (NZD)	GLOBAL	-0.1%	-6.9%

AT A GLANCE

Prices as at 31 MAY 2022

DEVON ALPHA FUND	\$2.0829
DEVON AUSTRALIAN FUND	\$1.6039
DEVON DIVERSIFIED INCOME FUND	\$1.4624
DEVON DIVIDEND YIELD FUND	\$1.9071
DEVON GLOBAL IMPACT BOND FUND	\$1.4578
DEVON GLOBAL SUSTAINABILITY FUND	\$1.4864
DEVON TRANS-TASMAN FUND	\$4.5433
DEVON SUSTAINABILITY FUND	\$3.2203

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DEVON ALPHA FUND

FUND OUTLINE

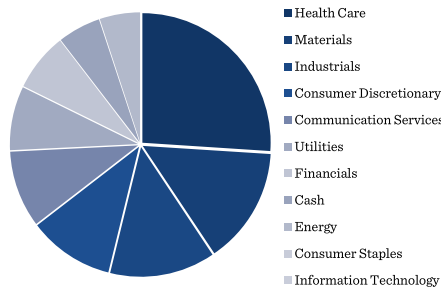
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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

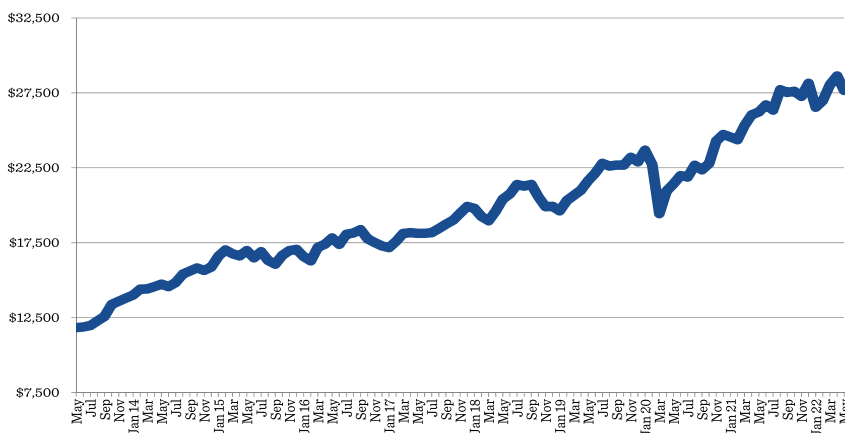
New Zealand Equities	23.8%	Cash	5.4%
Australian Equities	70.8%	Total	100.0%
Currency Hedge	49.1%		

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Alpha Fund	-3.4%	2.5%	5.6%	8.6%	8.8%	9.2%
OCR	0.1%	0.3%	0.7%	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

Unfortunately, the Alpha strategy generated a negative absolute return during the month as share markets faced considerable selling pressure. Despite this disappointing outcome, it is worth highlighting that the portfolio performed better than local indices with a number of particularly positive stock contributions occurring. BHP rallied by more than 4% on expectations that the Chinese government will introduce policies to stimulate activity, and as the company's oil and gas assets were divested.

Resmed was another positive influence after we re-introduced this company back into the portfolio in late May. Recent weakness in its share price, due to an inability to source microchips for their sleep apnoea devices, afforded us the opportunity to buy this high-quality company at an attractive price. This investment was quickly rewarded after the company announced price increases across most of their products in the US and a strategy to lift their supply volumes.

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.



DEVON AUSTRALIAN FUND

FUND OUTLINE

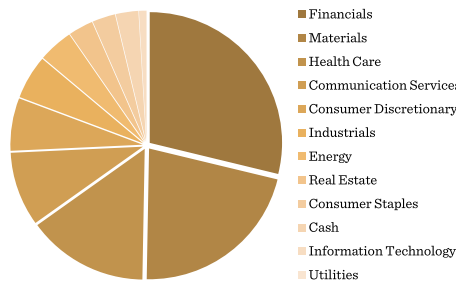
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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	2.8%
Australian Equities	97.2%	Total	100.0%

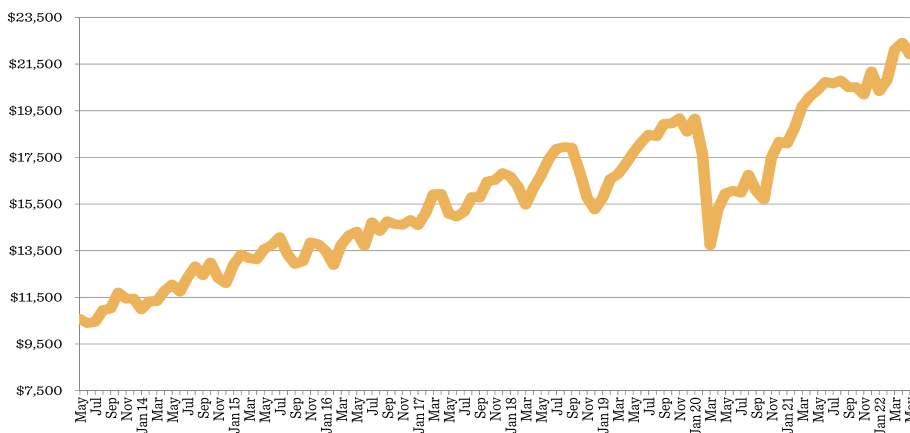
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Australian Fund	-2.3%	5.3%	7.4%	7.3%	7.7%	7.8%
ASX200 Index Gross (NZD)	-2.0%	6.1%	8.7%	9.2%	9.9%	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 Fund returned -2.3% for the month. Amongst the top contributors were GQG Partners (+16%) and BHP (+4%). Top detractors included Nine Entertainment (-18%) and Goodman Group (-14%). GQG Partners is a founder-led, global asset management company, managing US\$90bn in funds across four primary equity strategies. Despite continually achieving prospectus forecasts, the entire sector experienced a de-rating recently which weighed on their share price. However, more recently, sentiment turned as GQG continued to show FUM growth, market share gains and peer group out-performance, despite current volatile market conditions. We have been attracted to GQG's competitive operating structure, long-term growth optionality and supportive valuation.

As at 31 May, we have made a change to the portfolio manager of the Australian Fund. Slade Robertson, Devon Managing Director and portfolio manager for the Alpha strategy, has now assumed responsibility for the management of this portfolio. This is change has been made to enable Victoria Harris to focus her energies on the Devon Sustainability strategy.

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 Funds Management Limited

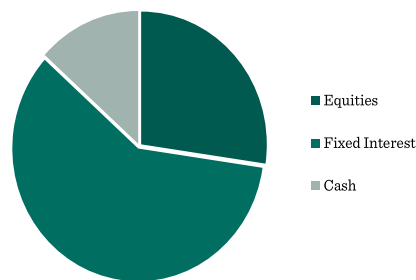
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**DEVON DIVERSIFIED INCOME FUND****FUND OUTLINE**

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	15.4%	Bonds	59.3%
Australian Equities	10.6%	Cash	14.7%

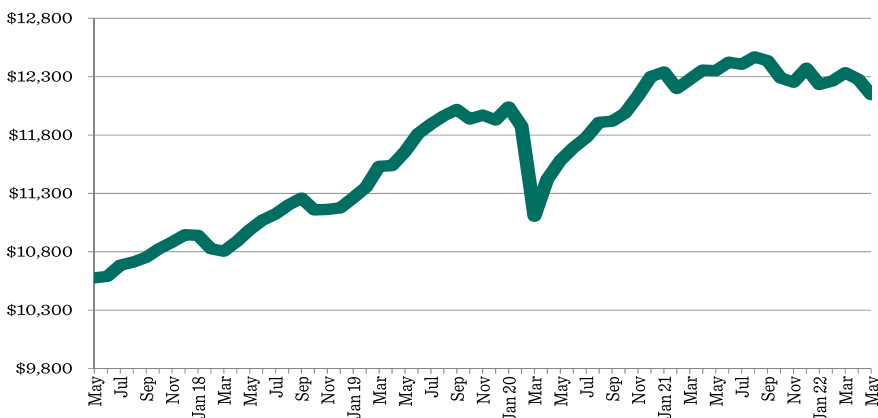
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Diversified Income Fund	-1.1%	-1.0%	-1.7%	1.4%	2.8%	3.3%
OCR + 1.5%	0.3%	0.7%	2.2%	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

Bond yields were volatile during May as investors navigated a range of macro factors including ongoing inflation pressures, a deceleration in global growth and the continuing invasion of the Ukraine. The US Federal Reserve met earlier in the month and increased their benchmark interest rate by 0.50%. This was the largest hike by the Fed since 2000, with Chairman Powell highlighting the challenges being caused by inflation and their determination to restore price stability.

This move set the scene for other central banks to announce their own tightening initiatives with Australia's RBA raising rates by 0.25% and New Zealand's RBNZ, lifting their Official Cash Rate (OCR) by 0.50% to 2.00%. This was in-line with market expectations although their forward guidance was notably more hawkish than expected, with OCR projections being lifted to an estimated 4.00% by mid-2023. This strategy generated a negative return during the month due to its 27% exposure to high-yielding Australasian equities, which traded lower with broader market weakness.

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

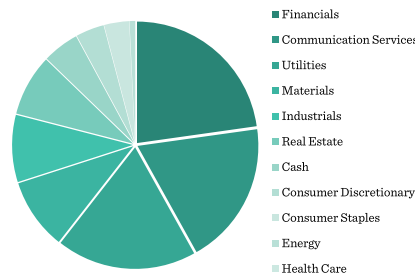
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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

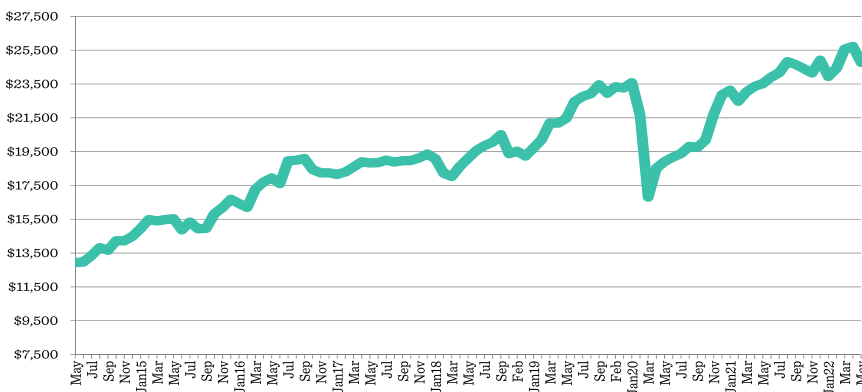
New Zealand Equities	56.3%	Cash	4.9%
Australian Equities	38.8%	Total	100.0%
Currency Hedge	99.4%	Yield	6.2%

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Dividend Yield Fund	-3.7%	1.4%	5.3%	4.9%	5.6%	10.2%
50:50 NZX50 & ASX200 Index Gross	-3.7%	-1.2%	-1.7%	5.8%	8.8%	11.0%

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 Dividend Yield portfolio performed in-line with its underlying benchmark during the month. Our most successful investment was Amcor whose stock price finished the month up over 9%, although our experience was even better than this as we sold our shares at a higher price, intra-month.

Amcor is a high-quality business which operates in the global Packaging sector. The company is well diversified which allows it to generate stable volume growth, although its earnings have been further supported through its successful cost-base restructuring. Although management have also done an excellent job of navigating cost inflation, especially in resins which have surged more than 100% over the past two years, we ultimately made the decision to exit this investment due to its valuation. We will continue to monitor Amcor to determine if a sufficiently attractive opportunity presents itself again for reinvestment.

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

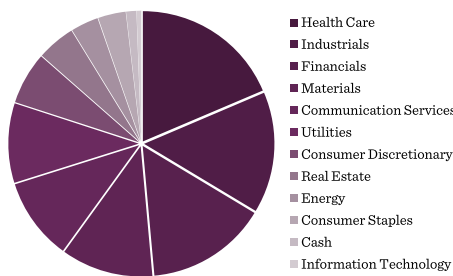
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

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

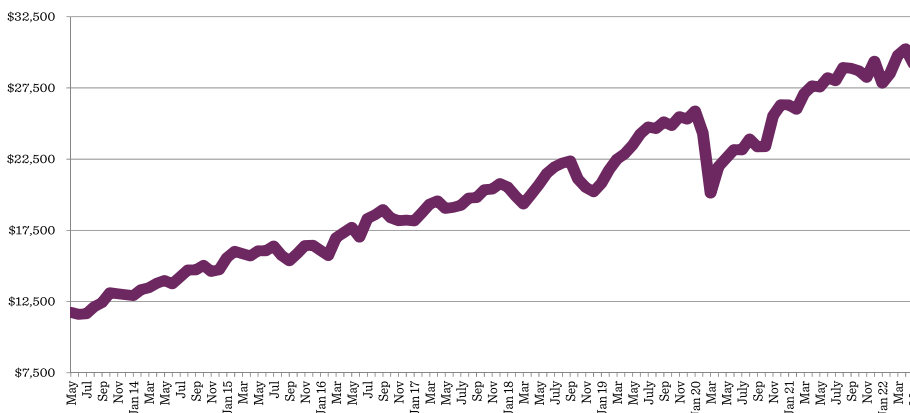
New Zealand Equities	43.7%	Cash	1.3%
Australian Equities	55.0%	Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Trans-Tasman Fund	-3.5%	2.4%	6.0%	7.5%	8.9%	8.6%
50:50 NZX50 Gross & ASX200 Index Unhedged	-3.4%	0.2%	0.2%	6.5%	9.4%	9.3%

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 performed in-line with its benchmark during May, although underlying markets were very weak. We were rewarded for our strong bias towards high quality businesses and those supported by valuations and amongst our best performers were Aristocrat Leisure which rallied 1% and Brambles which closed higher by 3%.

Our most significant positive contribution though came from our investment in BHP Group (+4%). There were a number of catalysts which were responsible for this outcome. From a sector perspective there is an increasing level of confidence building that the Covid lockdowns in China are coming to an end (eg: Shanghai have already started to ease restrictions) and that important economic stimulus measures will be announced in the coming weeks. This should have a positive impact on demand for iron ore. BHP also benefitted from the sale of its petroleum assets to Woodside with the proceeds from the transaction being distributed to shareholders.

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

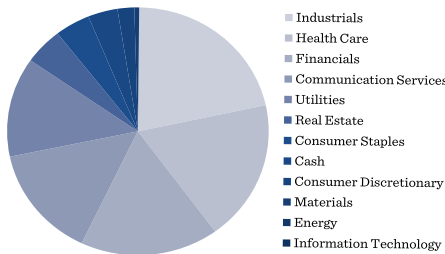
The **Devon Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	48.2%	Cash	3.7%
Australian Equities	48.1%	Total	100.0%

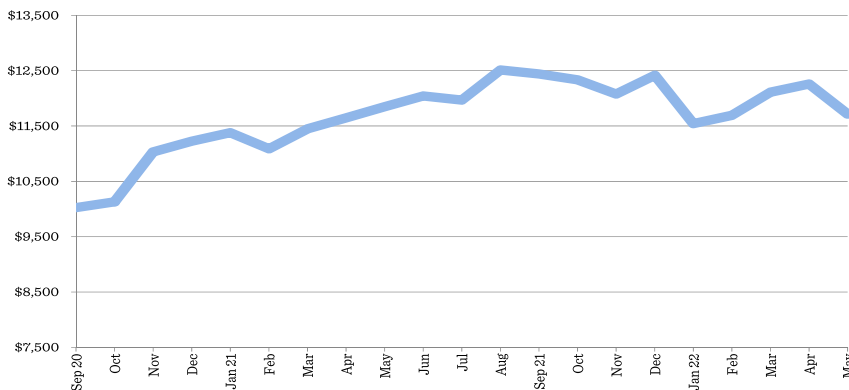
PERFORMANCE

	1 Mth	3 Mth	1 Yr p.a	Since Inception
Devon Sustainability Fund	-4.5%	0.2%	-1.1%	9.5%
50:50 NZX50 Portfolio Index & ASX200 Index	-3.9%	-0.8%	-1.3%	8.7%

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

This strategy fell during May, as markets experienced a period of weakness. Its top contributors included GQG Partners (+16%), and Brambles (+3%) whilst detractors included Nine Entertainment (-18%), Kathmandu (-12%) and Freightways (-10%).

A new position we initiated in the Fund this month was Calix. Calix is a unique business that is determined to become a leading global innovator of industrial solutions for the environment. It is not only exposed to the energy transition, but its business activities directly ensure that less CO2 is emitted into the atmosphere through its core technology platform. Calix proactively defends the environment through crop protection, water treatment and sustainable processing as its technology centres around a 'new way of heating things up'. It is also enjoying significant demand from the cement and lime industries - which are both large carbon emitters.

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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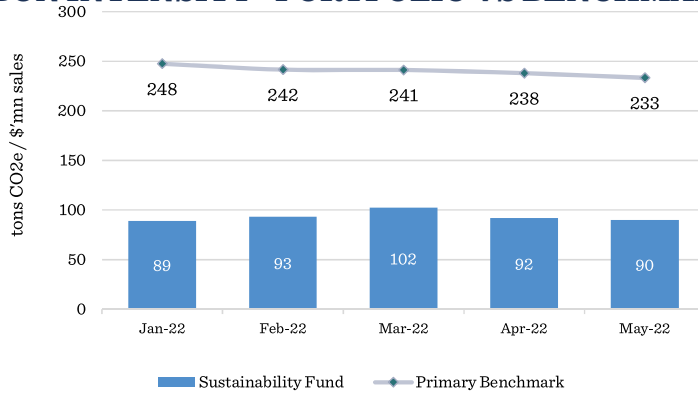
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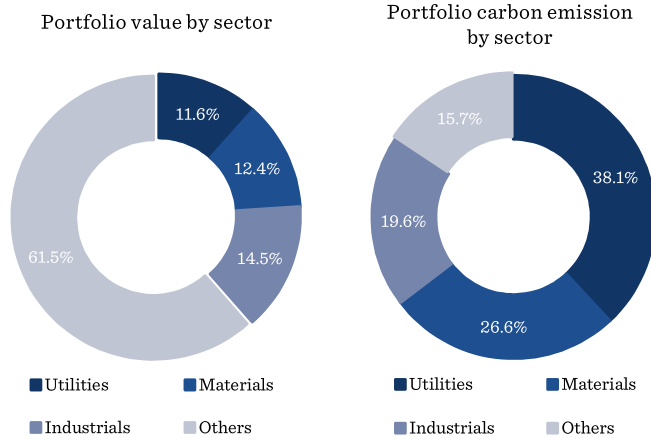


DEVON SUSTAINABILITY FUND

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	AAA	9.87	Portfolio Sustainability Fund
Benchmark	A	6.95	Primary Benchmark 50:50 composite S&P/NZX50 Portfolio Index & S&P/ASX200G Index

PERFORMANCE

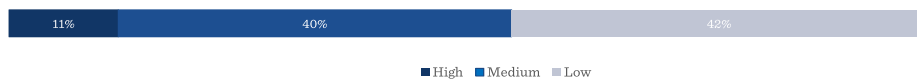
	1 Mth	3 Mth	6 Mth	1 Yr	Since Inception
ESG relative performance	42.0%	15.4%	8.7%	5.2%	4.0%

*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

% of holding companies doing ESG reporting	93.3%
% of companies reporting to TCFD standards	68.9%
% of companies with a modern slavery statement	71.1%
% of companies with carbon emission reduction targets	68.9%

CLIMATE CHANGE RISK BY PORTFOLIO HOLDINGS



STEWARDSHIP

During the month we attended the largest annual Australasian equity conference in Sydney. We had the opportunity to engage with many companies across a range of different industries on ESG factors. One of those was Ooh!-Media. We questioned the CEO and CFO around their lack of disclosure around sustainability and emissions reduction targets. They stated that they have appointed a new dedicated ESG executive who is working with an external consultant on determining sustainability targets. They have started measuring their carbon emissions and are now actively developing strategies to reduce, rather than offset.

They will disclose more at their half-year result in August. We were encouraged by this response and the active approach the company is taking to ensure they reduce their impact on the environment.

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

PERFORMANCE

1 Mth

Devon Global Impact Bond Fund	-0.46%
Bloomberg Global Aggregate Index	-0.14%

DURATION

Sector	Contribution to Duration (Years)		
	Account	Benchmark	Difference
Cash & Cash Equivalents	0.00	0.00	0.00
US Government	-0.04	1.02	-1.06
Credit*	5.82	5.08	0.74
Asset Backed Securities	0.01	0.00	0.01
Mortgage Backed	1.26	0.67	0.58
Commercial Mortgage	0.12	0.04	0.08
Other	0.02	0.09	-0.07
Cash Offset	-	-	-
	7.18	6.90	0.27

CREDIT RATING

Quality	Percent of Market Value		
	Account	Benchmark	Difference
Cash	0.58	0.36	0.23
AAA	49.39	37.97	11.42
AA	14.36	16.63	-2.28
A	12.79	30.32	-17.53
BBB	12.37	14.41	-2.04
BB	5.96	0.01	5.95
B	4.12	-	4.12
Below B	0.29	-	0.29
Cash Offset	-0.98	-	-0.98
Not Rated	1.12	0.31	0.82
	100.00	100.00	

*Duration & Credit Rating as at as at 30 April 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

PERFORMANCE

1 Mth

Devon Global Sustainability Fund	1.14%
MSCI All Country World Index in NZD, 50% hedged to NZD	-0.23%

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

KEY HOLDINGS*



*Key Holdings as at as at 30 April 2022

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.

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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