

The other side of the journey

By Greg Smith, Head of Retail at Devon Funds.

New Zealand's big electricity companies have come under fire recently, accused of generating 'scarcity' and prioritising 'excess dividends' over the past decade. A report co-authored by FIRST Union, NZCTU and 350 Aotearoa contends that the resultant 'systemic underinvestment' has left generating capacity practically flat over the period. The electricity companies are allegedly profiteering from elevated market prices, while consumers are losing out.

This is an emotive issue, with many Kiwis facing increasing cost-of-living pressures. These will only be exacerbated by the Reserve Bank's recent rate hike and accompanying outlook statement, which suggests borrowers could



face mortgage rates in excess of 7% next year.

The report does raise some important factual points, however as with most things, there are two sides to every story.

The report notes that from 2014 to 2021, the big four electricity companies distributed \$8.7 billion in dividends against \$5.35 billion in earnings...[READ MORE](#)

MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	1.9%	-9.2%
S&P/ASX200G	AUSTRALIA	6.6%	5.0%
MSCI World Index	GLOBAL	4.7%	-12.3%
S&P500	USA	2.4%	-12.0%
FTSE100	UK	7.1%	11.3%
NIKKEI 225	JP	1.4%	2.7%
NZ 90 Day Bank Bill	NZ	0.3%	1.9%
Bloomberg Global Aggregate Index (NZD)	GLOBAL	2.4%	-11.0%

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AT A GLANCE

Prices as at 30 NOVEMBER 2022

DEVON ALPHA FUND	\$2.1654
DEVON AUSTRALIAN FUND	\$1.6022
DEVON DIVERSIFIED INCOME FUND	\$1.4415
DEVON DIVIDEND YIELD FUND	\$1.9016
DEVON GLOBAL IMPACT BOND FUND	\$1.3890
DEVON GLOBAL SUSTAINABILITY FUND	\$1.4871
DEVON TRANS-TASMAN FUND	\$4.5270
DEVON SUSTAINABILITY FUND	\$3.2023

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DEVON ALPHA FUND

FUND OUTLINE

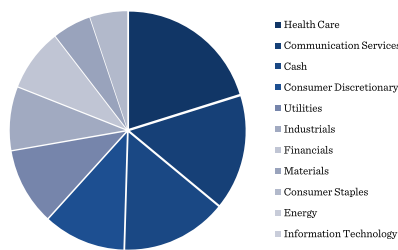
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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

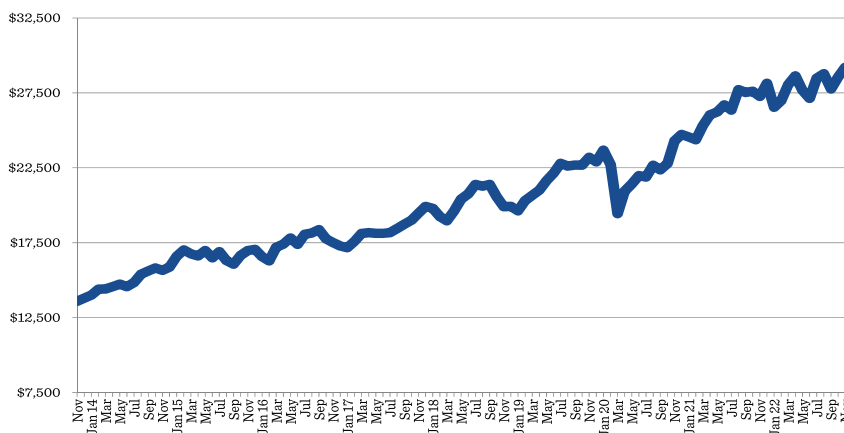
New Zealand Equities	21.4%	Cash	13.5%
Australian Equities	65.1%	Total	100.0%
Currency Hedge	46.3%		

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Alpha Fund	2.3%	1.5%	7.1%	8.0%	8.5%	9.3%
OCR + 5%	0.7%	2.1%	3.2%	1.3%	1.4%	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 solid returns during the month. There were a number of important highlights including our investments in Macquarie Group and Goodman Group which rallied 7.2% and 12.5% respectively. Another productive investment for us was Ramsay Healthcare, whose shares strengthened by 12.4%. Investors were buoyed after the company provided a positive trading update. Management identified that during the first-quarter, the Australian operating environment was recovering well, with a stronger-than-expected recovery evident in surgical admissions. As the challenges of Covid have begun to reduce, the company's ability to attract and retain staff have also improved.

During November we made a number of changes to the portfolio, including the sale of our shares in Qantas and the purchase of equity in Goodman Group and Woolworths. We also built up a position in Fisher & Paykel Healthcare earlier in the month but reduced our exposure as their shares rallied post the release of their first-half result.

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

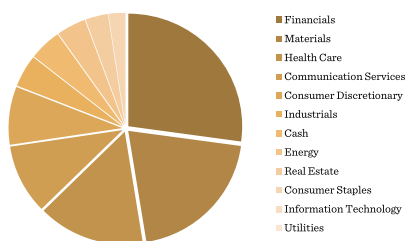
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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

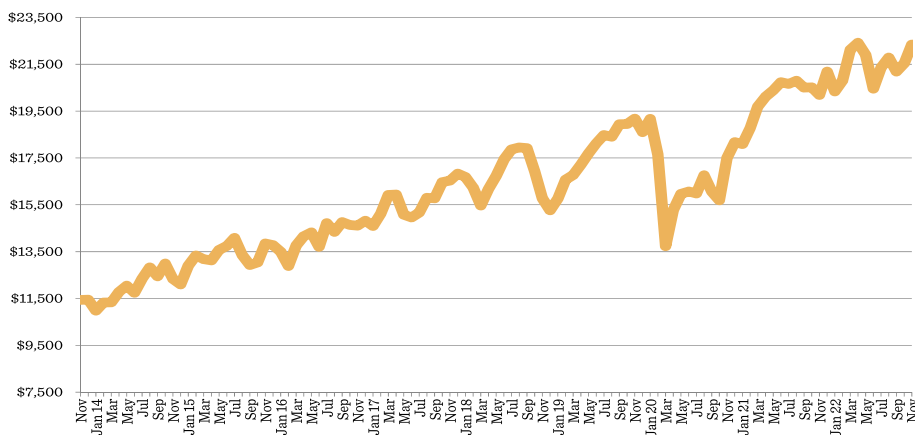
New Zealand Equities	0.0%	Cash	4.6%
Australian Equities	95.4%	Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Australian Fund	3.7%	2.5%	10.6%	5.2%	6.2%	7.7%
ASX200 Index Gross (NZD)	4.4%	2.3%	8.4%	6.7%	7.6%	7.2%

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 strategy generated strong absolute returns during November despite underperforming its benchmark. The largest sector contribution to the index returns came from Metals and Mining, with stocks such as Rio Tinto and BHP Group closing up 24.3% and 21.8% respectively. We own both of these businesses within the portfolio.

Another major contributor was CSL, whose shares rallied 7.0% after the company hosted a well-attended Research and Development Day. This highlighted an impressive mix of new projects being funded by their annual R&D budget of more than \$1.2bn. Their shares were also supported after CSL announced that they had received FDA approval for HEMGENIX, a one-time gene therapy for the treatment of haemophilia B. The list price for this treatment has been set at US\$3.5m, making it the world's most expensive. We did not make many changes to the portfolio during the month, although we did reduce our investment in Mineral Resources after its strong recent performance.

PORTFOLIO MANAGER

Slade Robertson



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

is also the Managing Director at Devon and has overall responsibility for the business. Slade has over 20 years' industry experience.



DEVON DIVERSIFIED INCOME FUND

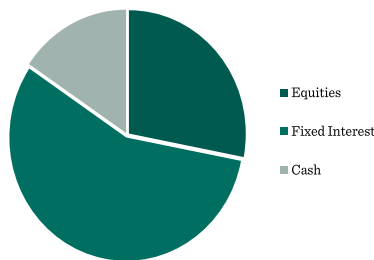
FUND OUTLINE

The **Devon Diversified Income Fund** aims to give New Zealanders access to a diverse and good quality portfolio of high yielding investments. The Fund aims to generate better-than-bank income rates by investing in a carefully selected portfolio of government and corporate bonds, cash, listed property, infrastructure, utility companies, high yielding equities, credit securities and other yielding financial assets.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	17.1%	Bonds	56.4%
Australian Equities	9.6%	Cash	16.9%

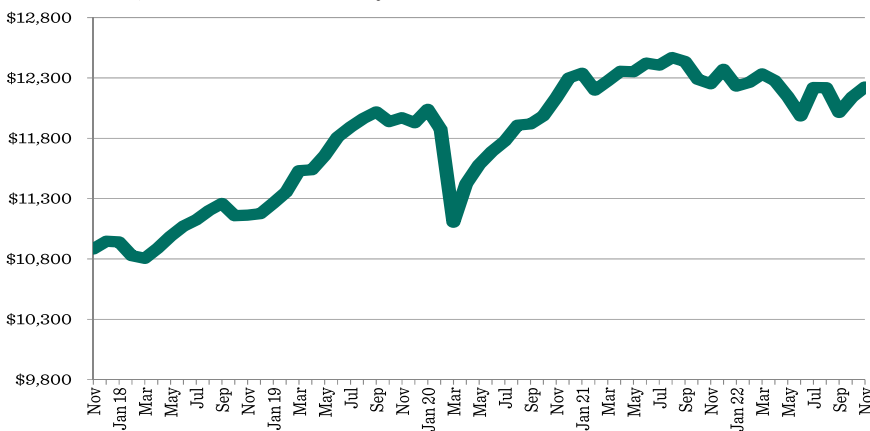
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Diversified Income Fund	0.7%	0.0%	-0.2%	0.7%	2.4%	3.1%
OCR + 1.5%	0.4%	1.2%	3.5%	2.4%	2.7%	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 US 10-year Treasuries falling from 4.04% in late October to close November at 3.68%. This substantial pricing adjustment occurred after the US Consumer Price Index for October was reported as having increased by 0.4% for the month and 7.7% from a year ago. Both of these results were below market expectations. Following this data, a number of Federal Reserve officials were reported as acknowledging that smaller interest rate hikes may be appropriate going forward as the economic impact of previous policy tightening is considered. Fed Chair, Jerome Powell, was quick to highlight though that their determination to address inflation through interest rate hikes remains absolute. In New Zealand, the RBNZ hiked rates by a record amount (0.75%) to 4.25% and announced that they believe a recession is necessary to curb aggregate demand and achieve their inflation targets.

PORTFOLIO MANAGER

Slade Robertson



Slade has primary responsibility for stock selection and portfolio construction for the Alpha, Australian and Diversified Income funds. Slade is also the Managing Director at Devon and has overall responsibility for the business. Slade has over 20 years' industry experience.

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DEVON DIVIDEND YIELD FUND

FUND OUTLINE

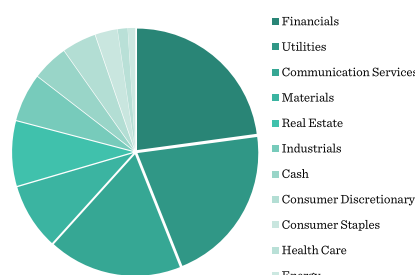
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

These stocks are chosen for their attractive dividend yields and growth prospects with the aim of maintaining the dividend yield and capital value in real terms. The Australian dollar currency exposure is typically fully hedged.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

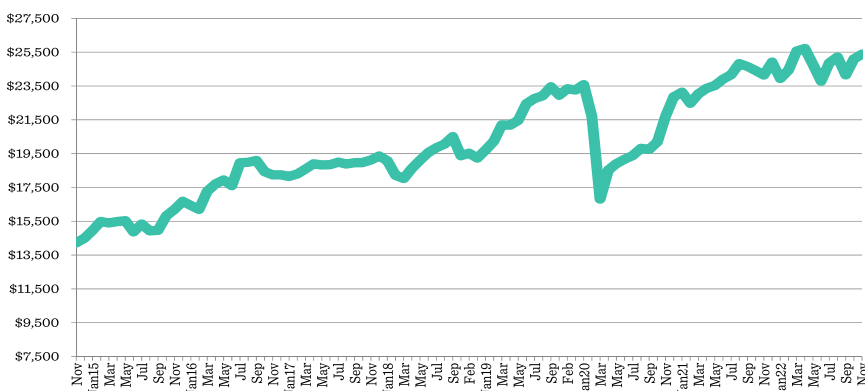
New Zealand Equities	61.0%	Cash	4.8%
Australian Equities	34.2%	Total	100.0%
Currency Hedge	98.2%	Yield	6.1%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Dividend Yield Fund	1.1%	0.6%	5.1%	2.9%	5.8%	9.9%
50:50 NZX50 & ASX200 Index Gross	4.2%	2.8%	-2.1%	3.3%	7.7%	10.7%

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

Mining stocks rallied hard during the month as markets anticipated the post Covid re-opening of the Chinese economy and the prospect of Chinese stimulus to reinvigorate the weak economy. Stability in the housing market and a relaxation of the Zero Covid policy combined with other stimulus measures should be supportive of the mining sector and the Chinese economy into 2023. Our investments in BHP and RIO performed outstandingly during the month, up 21.8% and 24.3% respectively.

EBOS Healthcare had its annual investor day during the month, reiterating its strong position in the Australasian pharmaceutical distribution industry and giving more clarity on its fast-growing pet food business. The completion of its own pet food manufacturing facility allows this operation to now be brought inhouse, incrementally improving returns for this segment whilst improving the company's ability to innovate with product development. Whilst the day was positively received by investors it was the stock's inclusion in the MSCI Mid Cap index which catalyzed its strong performance in the month, up 9.2%. Our investment in the name was a positive contribution to the fund.

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

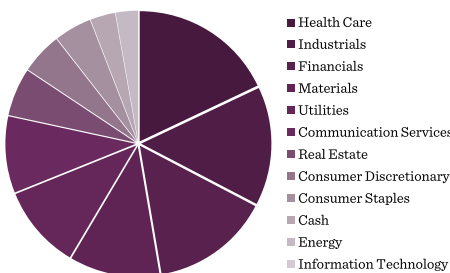
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

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	43.6%	Cash	3.1%
Australian Equities	53.3%	Total	100.0%

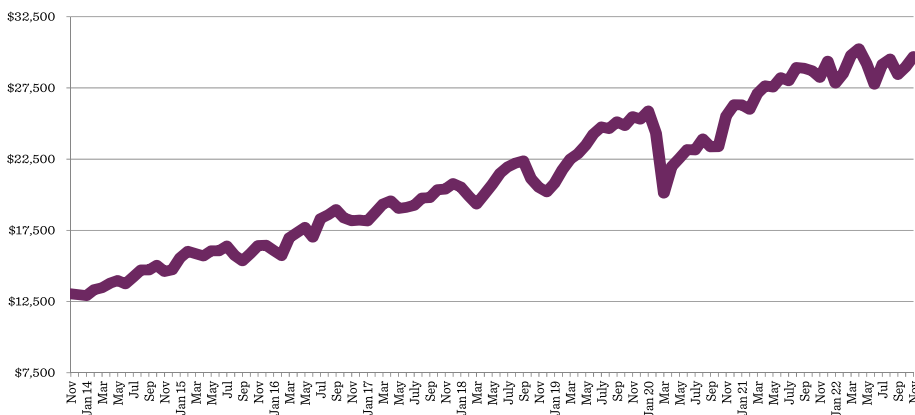
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Incep- tion
Devon Trans-Tasman Fund	2.5%	0.6%	5.1%	5.2%	7.8%	8.5%
50:50 NZX50 Gross & ASX200 Index Unhedged	3.1%	0.9%	-0.4%	3.7%	7.4%	9.1%

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 Fund delivered a pleasing 2.50% return for the month. The positive contributors to the performance were the Resources names (Mineral Resources (+19.5%), Rio Tinto (+24.3%) and BHP (+21.8%)), Ramsay Healthcare (+12.4%) and Goodman Group (+12.5%). Mineral Resources continued to outperform as lithium pricing remained elevated due to strong demand from battery manufacturers. Their shares have rallied close to 100% over the past 12 months and we took the opportunity to take some profits this month.

Newcrest (+14.2%), a global gold producer, was a key addition to the portfolio during November. At a time of recovering gold prices, Newcrest is advancing expansion plans at a number of its key operations that will lift production from around 2 million ounces of gold in FY22 to 2.5 million ounces in FY25/FY26. In addition, copper output (as a by-product) will also increase to over two hundred thousand tonnes, driving additional revenue in a commodity market that will benefit from the energy transition.

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

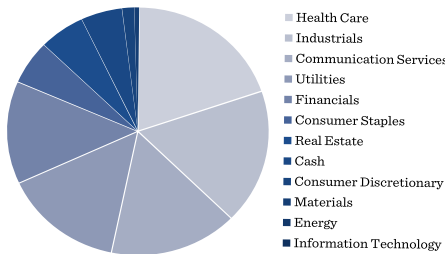
The **Devon Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	49.0%	Cash	5.1%
Australian Equities	45.9%	Total	100.0%

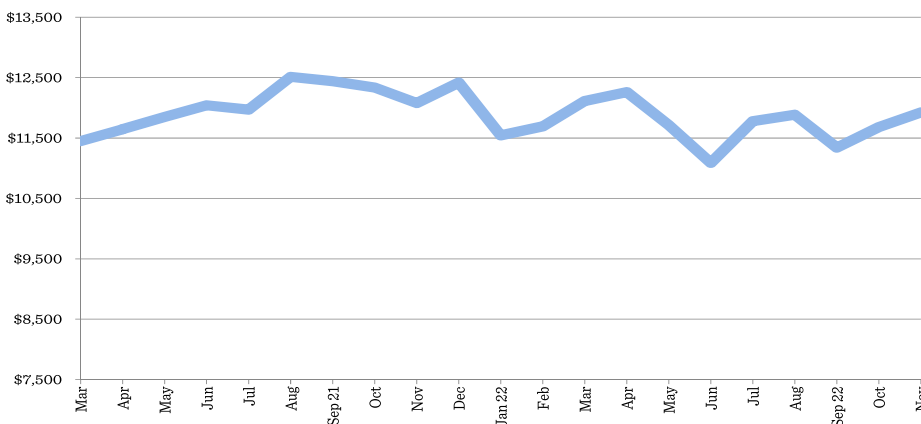
PERFORMANCE

	1 Mth	3 Mth	1 Yr p.a	2 Yr p.a	Since Inception
Devon Sustainability Fund	2.1%	0.3%	-1.4%	3.9%	8.1%
50:50 NZX50 Portfolio Index & ASX200 Index	3.6%	2.0%	-1.7%	3.8%	7.8%

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-fundor> by clicking [HERE](#)

COMMENTARY

The Fund finished up 2.1% for November with the top positive contributors being Calix (+23.3%), Goodman Group (+12.5%) and Fisher & Paykel Healthcare (+20.5%). The detractors to performance included Ryman (-20.6%) and APM Human Services (-4.3%).

Nine Entertainment gave a trading update at its AGM during the month. Management now expect 1H23 EBITDA to be towards the lower end of its A\$380-400m guidance range, which was slightly disappointing. The shortfall appears primarily due to Domain, of which Nine owns 55% of. This is largely a temporary issue due to listings volatility, as vendors adjust to the 'new normal' conditions in the property market. This aside, the advertising market has held up fairly well, despite macro uncertainties. Broadcaster Video on Demand growth seems to be performing better than expected, offsetting any structural declines in Free to Air TV. Nine is a very well-diversified business, has a strong balance sheet, attractive valuation and is undergoing a share buyback.

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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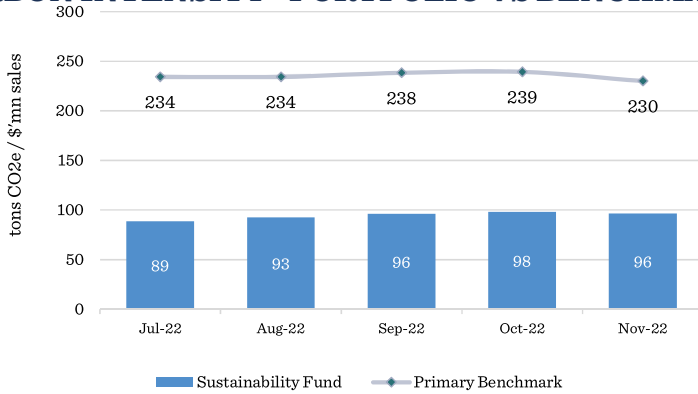


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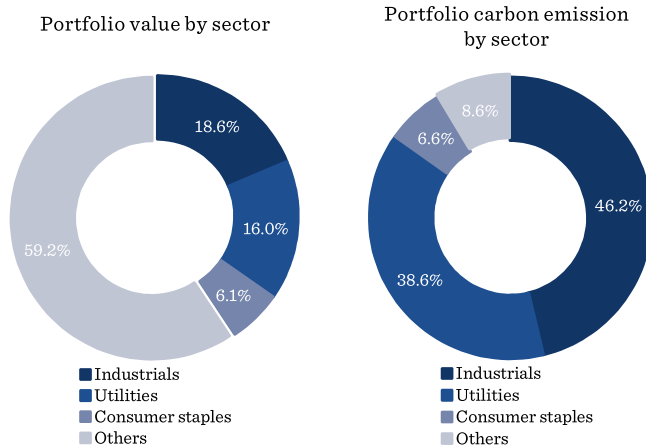


DEVON SUSTAINABILITY FUND

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	9.13	Portfolio Sustainability Fund
Benchmark	AA	7.73	Primary Benchmark 50:50 composite S&P/NZX50 Portfolio Index & S&P/ASX200G Index

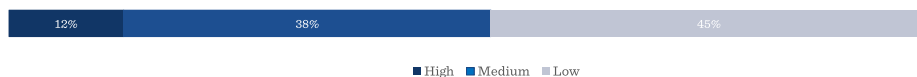
PERFORMANCE	1 Mth	3 Mth	6 Mth	1 Yr	Since Inception
ESG relative performance	18.1%	14.9%	14.8%	11.7%	6.4%

*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	95.2%
% of companies reporting to TCFD standards	69.0%
% of companies with a modern slavery statement	69.0%
% of companies with carbon emission reduction targets	71.4%

CLIMATE CHANGE RISK BY PORTFOLIO HOLDINGS



STEWARDSHIP

During the month we engaged with Goodman Group on their ESG strategy. The company has set ambitious targets across three focus areas; 1) Sustainable properties (Environmental), 2) People and Culture (Social) and 3) Corporate Performance (Governance).

Pleasingly, they have progressed well. One objective was to be carbon neutral by 2025. The company is pleased to have achieved this goal three years ahead of schedule. With this achieved, the focus is now on embodied emissions in their development activities. It has developed science-based emission targets for scope 1, 2 and 3 emissions of a 1.5 degree reduction, in line with the Paris Agreement. It has also achieved 100% renewable energy use in Australia in FY22 and 65% renewable energy use globally. One of their new projects, set to commence next year in Paris, will house the largest urban farm in Europe. We are very encouraged with the progress and achievements Goodman Group has made to-date on their ESG strategy and see them as one of the ESG leaders in the REIT sector.

PORTFOLIO MANAGER

Victoria Harris



Victoria has primary responsibility for stock selection and portfolio construction for the Australian and Sustainability funds. Victoria has over 10

years' experience in the industry across a broad range of markets, including ESG.



DEVON GLOBAL IMPACT BOND FUND

DURATION

Sector	Contribution to Duration (Years)		
	Account	Benchmark	Difference
Cash & Cash Equivalents	-0.00	-0.00	-0.00
US Government	0.51	1.03	-0.52
Credit*	4.97	4.75	0.23
Asset Backed Securities	0.01	0.01	0.00
Mortgage Backed	1.36	0.79	0.56
Commercial Mortgage	0.12	0.04	0.08
Other	0.01	0.09	-0.08
Cash Offset	-	-	-
	6.98	6.70	0.27

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	7.17	0.32	6.85
AAA	47.50	40.48	7.01
AA	13.55	13.55	0.01
A	11.25	31.12	-19.87
BBB	13.27	14.22	-0.95
BB	5.32	0.01	5.31
B	2.21	0.00	2.21
Below B	0.17	-	0.17
Cash Offset	-1.06	-	-1.06
Not Rated	0.62	0.31	0.31
	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 October 2022

DEVON GLOBAL SUSTAINABILITY FUND

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

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

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

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

PERFORMANCE	1 Mth	3 Mth	6 Mth
Devon Global Impact Bond Fund	2.5%	-1.6%	-3.5%
Bloomberg Global Aggregate Index Hedged NZD	2.4%	-1.5%	-3.3%

PERFORMANCE	1 Mth	3 Mth	6 Mth
Devon Global Sustainability Fund	5.4%	4.8%	0.0%
MSCI All Country World Index in NZD, 50% hedged to NZD	3.4%	2.1%	0.1%

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

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

KEY HOLDINGS*



*Key Holdings as at 31 October 2022

Devon Funds Management Limited

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