

MONTHLY REPORT: MARCH 2022

The Ides of March come to pass

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

For investors, March 2022 will very much go down as a milestone month in more ways than one. The world passed the official two-year anniversary of the pandemic, the Fed signalled the first rate lift off since 2018 and the war in the Ukraine went past the month mark, with no clear end in sight. Companies that have thrived during the pandemic (and some with exuberant valuations to match) were always going to be in the spotlight. This comes as investors search for clues as to what extent conditions remain "good", as life for a largely vaccinated populous starts to normalise.

If that wasn't all, commodity prices soared, with oil going above US\$130 a barrel to reach a 14-year high. Meanwhile the bond yield curve inverted (the US 5-year Treasury yield briefly went above the 30-year yield for the first time since 2016) with some suggesting that fixed interest markets are now signalling that a recession is on its way. Given all this, equity markets delivered a somewhat stoic performance. The S&P500 in the US gained nearly 4%, the ASX200 rallied more than 6% and the NZX50 ticked up 1% (despite a double-digit percentage fall in Fisher & Paykel Healthcare, one of New Zealand's largest companies)... [READ MORE](#)

AT A GLANCE

Prices as at 31 March 2022

DEVON ALPHA FUND	\$2.1429
DEVON AUSTRALIAN FUND	\$1.6514
DEVON DIVERSIFIED INCOME FUND	\$1.5000
DEVON DIVIDEND YIELD FUND	\$1.9927
DEVON GLOBAL IMPACT BOND FUND	\$1.5090
DEVON GLOBAL SUSTAINABILITY FUND	\$1.5044
DEVON TRANS-TASMAN FUND	\$4.7289
DEVON SUSTAINABILITY FUND	\$3.3993

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MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	1.1%	-3.6%
S&P/ASX200G	AUSTRALIA	6.9%	15.0%
MSCI World Index	GLOBAL	4.3%	12.2%
S&P500	USA	3.7%	15.6%
FTSE100	UK	1.4%	16.1%
NIKKEI 225	JP	5.8%	-2.8%
NZ 90 Day Bank Bill	NZ	0.1%	0.7%
Bloomberg Global Aggregate Index (NZD)	GLOBAL	-2.3%	-3.8%

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DEVON ALPHA FUND

FUND OUTLINE

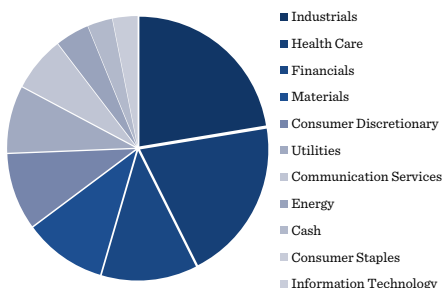
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

The Fund does not follow any index, is actively managed and aims to generate capital growth over the long term. Currency exposure is actively managed.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

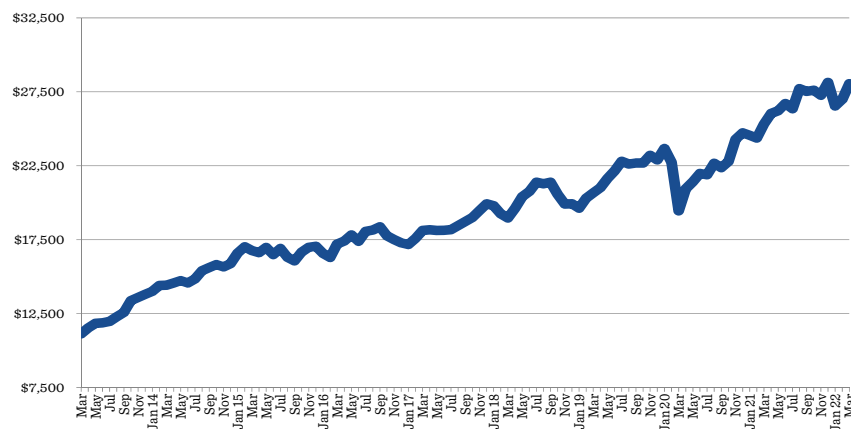
New Zealand Equities	30.2%	Cash	3.1%
Australian Equities	66.7%	Total	100.0%
Currency Hedge	50.2%		

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Alpha Fund	3.9%	-0.3%	10.9%	10.8%	9.2%	9.5%
OCR	0.1%	0.2%	0.5%	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

We are pleased to report that the Alpha strategy generated another month of solid returns during March. Contributing to this was our overweight exposure to Australian stocks. Over the past 6-months we have identified more attractive investment opportunities on the ASX and our investments in this market have rewarded us. Last month there were a number of notable contributions, but we are particularly pleased with the performance of Macquarie Group.

The value of our shares in this diversified financial services business rallied more than 12% as investors recognised that their Commodities & Global Markets division is well placed to benefit from the recent volatility evident in the global oil and commodity markets. Additional positive aspects of our investment thesis have included our view that their Private Markets business (infrastructure) is well protected against inflation and that there is still a meaningful amount of performance fees yet to be realised by the Group.

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

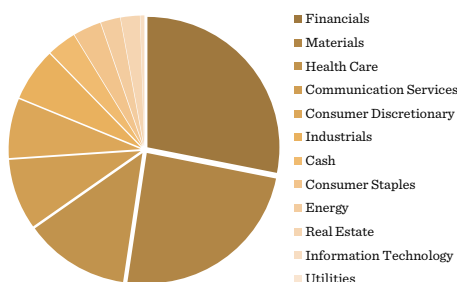
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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	3.6%
Australian Equities	96.4%	Total	100.0%

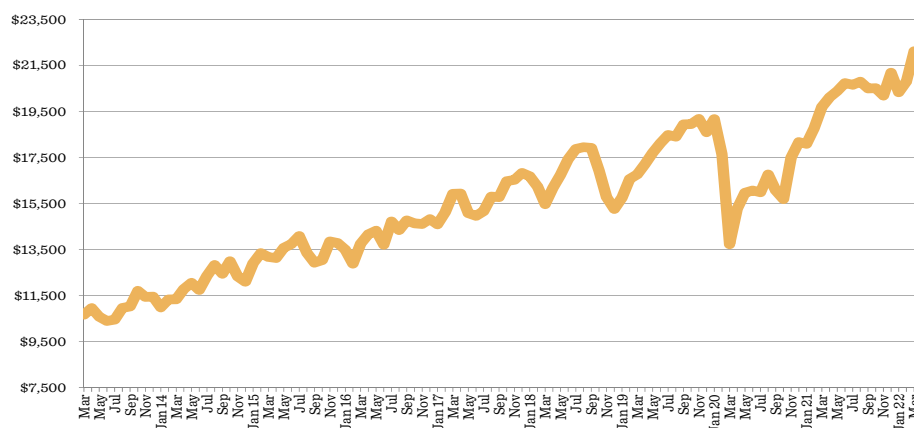
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Australian Fund	6.3%	4.4%	12.3%	9.7%	6.8%	8.1%
ASX200 Index Gross (NZD)	7.6%	3.9%	14.1%	11.9%	9.0%	7.7%

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 generated a strong absolute return of +6.3% this month. Included amongst the top contributors were Mineral Resources (+16.5%), Metcash (+10.2%) and Macquarie Group (+12.4%). The top detractors were Super Retail Group (-4.3%), James Hardie (-9.1%) and GQG Partners (-4.1%). March was a very strong month for the ASX driven by strong performances by the Banks and Resource sectors.

The ASX200 index has now fully recovered the very weak January and is now in positive territory for 2022. Metcash outperformed driven by strong demand from investors for 'inflation-hedged' companies. Supermarkets (and more broadly consumer staples companies) are often considered a safe haven in a rising inflationary environment due to their ability to potentially pass on price increases on food. Despite being optimally positioned for the current environment, Metcash's valuation is still very attractive compared to the broader market and its listed peers.

PORTFOLIO MANAGER

Victoria Harris



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

Victoria has over 10 years' experience in the industry across a broad range of markets, including ESG.

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DEVON DIVERSIFIED INCOME FUND

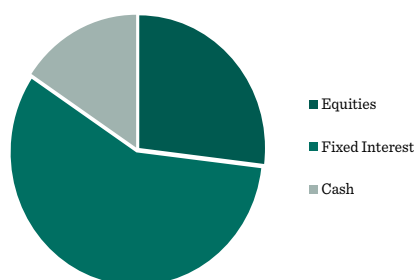
FUND OUTLINE

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

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	15.3%	Bonds	57.4%
Australian Equities	10.9%	Cash	16.4%

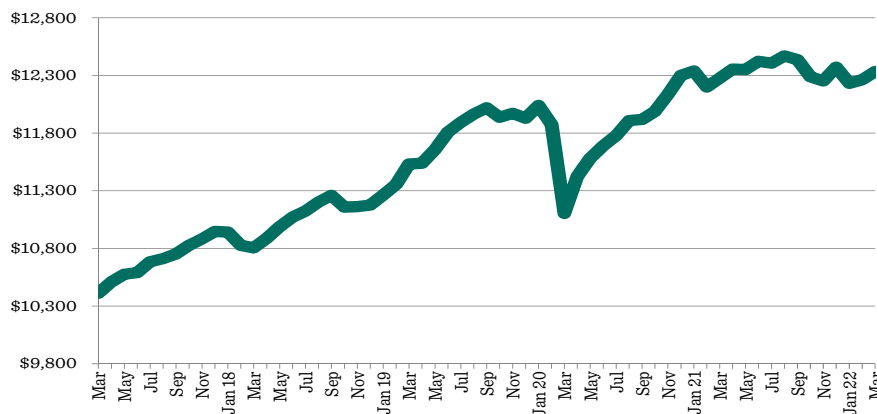
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Diversified Income Fund	0.6%	-0.3%	0.4%	2.3%	3.4%	3.7%
OCR + 1.5%	0.2%	0.6%	2.0%	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 rallied strongly during the month, with the interest rate on 10-year US Treasuries increasing from 1.91% in late February to finish the quarter at 2.32%. Driving this performance were ongoing concerns about inflation.

During March the US Federal Reserve raised interest rates by 0.25% for the first time in three years. Days later, Chairman Jerome Powell observed that “the labour market is very strong, and inflation is much too high”. Fed expectations now suggest that there will be seven rate hikes in 2022 and another four in 2023. The market also now expects that there could be moves of 0.50% at upcoming meetings. Given this position by the Fed, and other central banks around the world, there is concern developing over the potential for economic recession, which is being reflected in yield curves beginning to invert (i.e.: a situation where longer dated yields are priced below short-dated maturities).

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

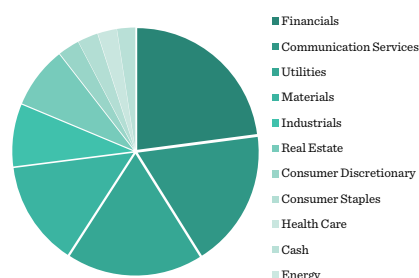
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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	56.9%	Cash	2.4%
Australian Equities	40.7%	Total	100.0%
Currency Hedge	97.5%	Yield	5.7%

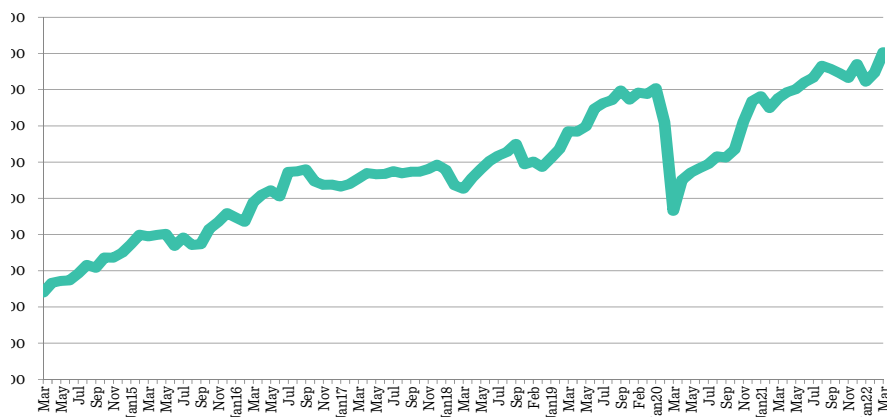
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Dividend Yield Fund	4.7%	2.6%	11.1%	6.5%	6.5%	10.8%
50:50 NZX50 & ASX200 Index Gross	4.0%	-2.4%	5.7%	8.9%	10.1%	11.8%

Devon Dividend Yield Fund returns are after all fees and expenses, but before tax which varies by investor.

NET PERFORMANCE

Based on \$10,000 invested at 1 January 2011



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

COMMENTARY

Our investments in NAB (+11.8%) and ANZ (7.6%) outperformed the markets as investors expect the sector to benefit from higher rates that should provide margin support into FY23. Whilst we fully anticipate that a portion of the prospective margin improvement will be competed away between the major banks, we believe that there will be enough improvement to see net interest margins improve after many years of contraction.

Additionally, lending growth in Australia remains robust with housing and business credit in February expanding by 8% and 11% respectively. The strong economic backdrop should also ensure that delinquencies and bad debt experiences remain low. Our investment in Kathmandu (+3.8%) reported its first half result in line with previous guidance with Rip Curl once again its best performing business segment. Positive news also included a commitment to continue their dividend payments as a mark of their confidence in more normalized operations, post COVID.

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

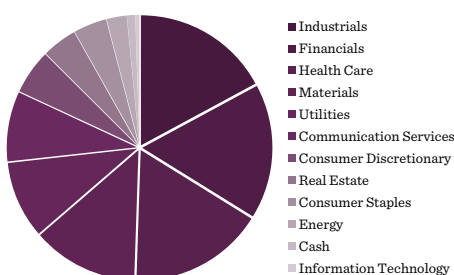
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

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

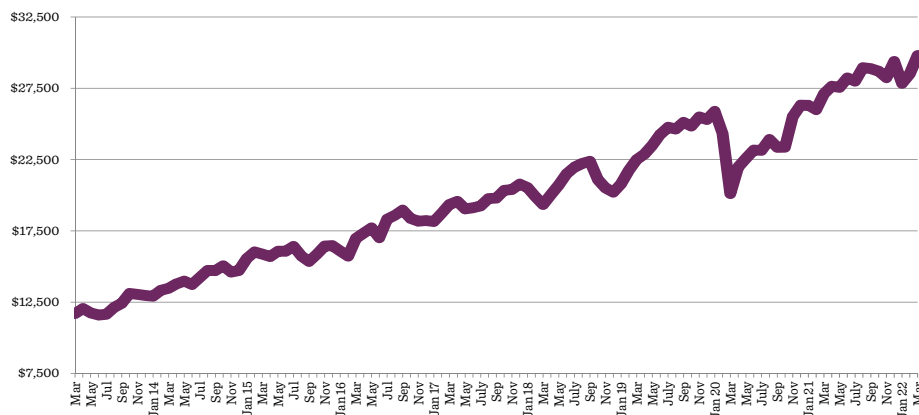
New Zealand Equities	44.0%	Cash	1.0%
Australian Equities	55.0%	Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Trans-Tasman Fund	4.5%	1.3%	9.9%	9.8%	9.0%	8.7%
50:50 NZX50 Gross & ASX200 Index Unhedged	4.4%	-1.6%	5.3%	9.5%	10.0%	9.5%

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

Positive contributions over the month came from our investments in Mineral Resources (+16.5%), Metcash (+10.2%), BHP (+10.9%) and Macquarie (+12.4%). BHP is benefiting from strong commodity prices, in part due to supply challenges stemming from the conflict in Ukraine, but also due to corporate developments which are focusing investor attention on the business.

In August 2021, BHP Petroleum and Woodside Petroleum announced a A\$60 billion merger. BHP have removed their Petroleum earnings from their financial statements effective 1 July 2021, but BHP shareholders will receive 48% of the combined group. As a New Zealand-based BHP shareholder, our portfolios will receive Woodside shares potentially in early June worth the equivalent of A\$6/share of BHP. We don't think the market is fully aware of the scale of this BHP corporate event, which we expect to unlock value for 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

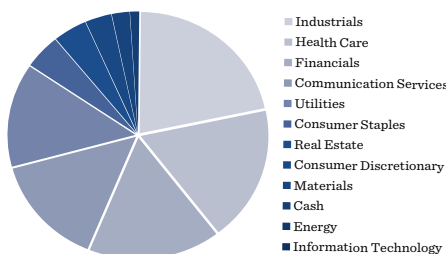
The **Devon Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	49.1%	Cash	1.2%
Australian Equities	49.7%	Total	100.0%

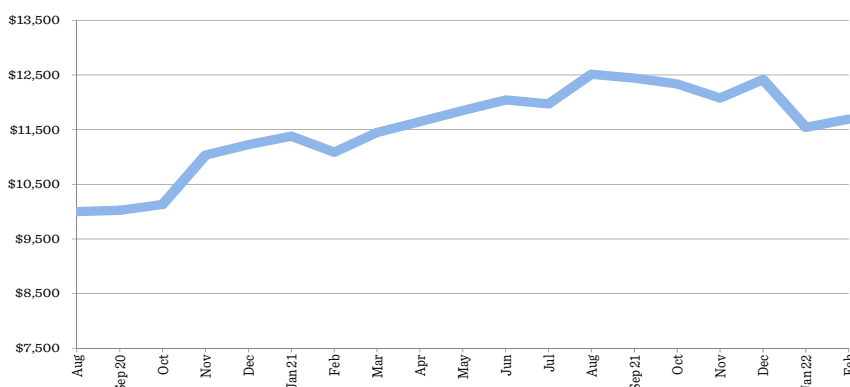
PERFORMANCE

	1 Mth	3 Mth	1 Yr p.a	Since Inception
Devon Sustainability Fund	3.6%	-2.5%	5.8%	12.2%
50:50 NZX50 Portfolio Index & ASX200 Index	4.3%	-1.8%	6.6%	13.3%

Devon Sustainability Fund returns are after all fees and expenses, but before tax which varies by investor.

NET PERFORMANCE

Based on \$10,000 invested at 31 August 2020



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

COMMENTARY

The Sustainability Fund returned +3.6% for the month. Top contributors included NAB (+11.8%), Seek (+12.7%) and APM Human Services (+10.7%) whilst detractors included Ryman Healthcare (-6.2%) and Super Retail Group (-4.3%).

APM Human Services is a recent IPO and a relatively new position in the Fund. APM offers employment services globally for people with injury, disability or illness. During the month, they announced that they had been successful in winning contracts for 27 Employment Regions through the Workforce Australia tender. This is a significant victory for the business and results in a major expansion in their footprint. This announcement has resulted in earnings upgrades and has de-risked their outlook for the 2022 financial year. Looking forward, this recent success has given the market confidence in APM's ability to win more upcoming contracts, and together with the current strong employment market has potentially created further upside risk to prospectus forecasts.

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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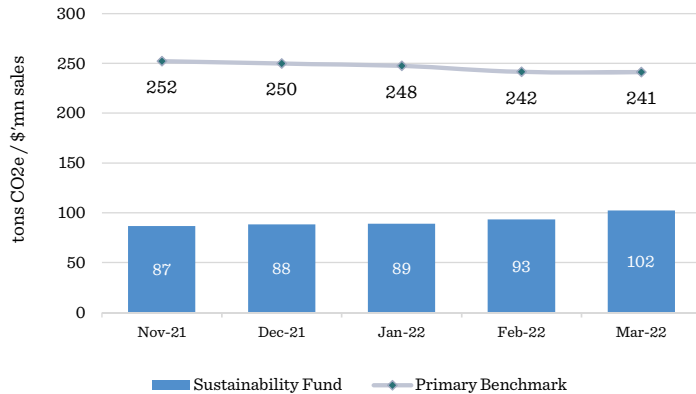
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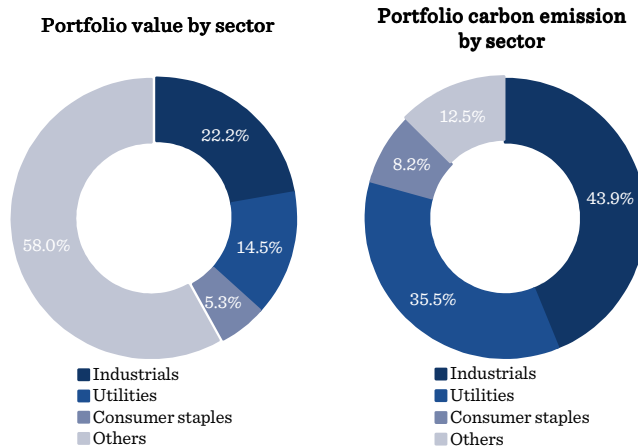


DEVON SUSTAINABILITY FUND

CARBON INTENSITY - PORTFOLIO VS BENCHMARK



PORTFOLIO CARBON EMISSIONS BY KEY SECTORS



The materials, utilities, and health care sectors make up 42.0% of the portfolio by value, but they account for 87.6% of the carbon emissions in the portfolio.

ESG PORTFOLIO SUMMARY

	MSCI ESG Ratings	MSCI ESG Quality score	
Portfolio	AA	8.44	Portfolio Sustainability Fund
Benchmark	AA	8.27	Primary Benchmark 50:50 composite S&P/NZX50 Portfolio Index & S&P/ASX200G Index

PERFORMANCE

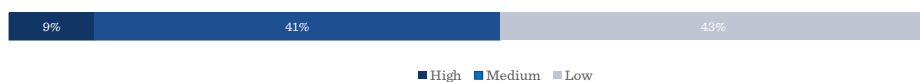
	1 Mth	3 Mth	1 Yr p.a	Since Inception
ESG Relative Performance*	2.1%	1.5%	0.9%	2.0%

*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	93.5%
% of companies reporting to TCFD standards	67.4%
% of companies with a modern slavery statement	71.7%
% of companies with carbon emission reduction targets	65.2%

CLIMATE CHANGE RISK BY PORTFOLIO HOLDINGS



STEWARDSHIP

During the month we engaged with Nine Entertainment (NEC) on governance and social issues. Despite being a large media and entertainment company, which operates in a highly regulated industry we connected with management to discuss the recent defamation case involving Ben Roberts-Smith. The company stated that they firmly believe that what they wrote is factually correct. They have provisions in place for events like this and have strict rules and procedures in place to ensure all journalistic content it distributes is accurate.

We also engaged with Amcor (AMC) around its environmental initiatives. The company reinforced its commitment to make all of its packaging recyclable or reusable by 2025. The biggest headwinds to this target are its Flexibles division where the products are much more complex. 64% of Flexibles sales are already recyclable with an additional 11% of sales that will become recyclable in the near-term, as soon as contracts roll over. AMC is seeing continued strong demand from customers (Unilever, Pepsi, Mars etc) for recycled or reusable products with a number of them contributing their own money to R&D and the circularity of products, as well as lobbying governments.

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

DEVON GLOBAL SUSTAINABILITY FUND

DEVON FUNDS LAUNCHES TWO NEW GLOBAL FUNDS

Devon Funds is pleased to announce the launch of two new fund offerings, being the Devon Global Sustainability Fund and the Devon Global Impact Bond Fund. The two new products are being launched through a partnership with Wellington Management, a globally integrated investment management firm with over US\$1 trillion in assets under management. Both funds have been structured as PIEs for tax purposes.

The Devon Global Sustainability Fund aims to deliver long-term total returns in excess of the MSCI All Country World index in NZD (50% hedged) by investing in a selective portfolio of global equities through investment in the Wellington Global Stewards Fund managed by Wellington Management.

The Wellington Global Stewards Fund 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 in the pursuit of profits and how they incorporate material environmental, social and governance (ESG) risks and opportunities in their corporate strategy.

The Fund adopts a highly selective approach in investing in typically 35-45 stocks, only relying on Wellington Management's own internal ESG research. The Fund actively engages investee companies, holding those in charge to account and encouraging companies to commit to net zero carbon emissions by 2050 in alignment with the Paris Agreement.

The Devon Global Impact Bond Fund aims to deliver long-term total returns in excess of the Bloomberg Global Aggregate index in NZD (100% hedged) by investing in a diverse portfolio of global bonds through investment in the Wellington Global Impact Bond Fund managed by Wellington Management.

The Wellington Global Impact Bond Fund 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. Through the Fund's investments the Fund aims to improve access to, and the quality of, basic life essentials, reduce inequality and mitigate the effects of climate change. The Fund intentionally selects high impact issuers, measuring and quantifying each investment's level of impact.

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