

MONTHLY REPORT: FEBRUARY 2022

The results are in

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

The latest earnings season has wound down to a conclusion on both sides of the Tasman and has once again been heavily scrutinised. We are two years into the pandemic, and while COVID remains in our midst, the 'hard yards' are done with, and the end appears to be in sight. That said, while economies are opening up (to varying degrees) the corporate sector continues to face multiple side-effects of the economic medicine administered since March 2020, and the pandemic itself. With so many unknowns, investors have looked to the results season for further insight into how various elements of the corporate sector are tracking.

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.

By a contrasting token, many "older" economy stocks that have weathered challenges during the pandemic were always going to be in focus to see just how resilient they had been. Of particular interest has been just how close (and how plentiful) the light at the end of the COVID tunnel might be...
READ MORE



MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	0.7%	-2.0%
S&P/ASX200G	AUSTRALIA	2.1%	10.2%
MSCI World Index	GLOBAL	-2.5%	11.2%
S&P500	USA	-3.0%	16.4%
FTSE100	UK	0.3%	19.2%
NIKKEI 225	JP	-1.7%	-6.9%
NZ 90 Day Bank Bill NZ		0.1%	0.5%

Devon Funds Management Limited

Level 17, HSBC Tower, 188 Quay Street, Auckland 1010
PO Box 105 609, Auckland 1143
Telephone: 0800 944 049 (free call) or +649 925 3990
enquiries@devonfunds.co.nz

AT A GLANCE

Prices as at 28 February 2022

DEVON
ALPHA
FUND
\$2.0619

DEVON
AUSTRALIAN
FUND
\$1.5533

DEVON
DIVERSIFIED
INCOME
FUND
\$1.4914

DEVON
DIVIDEND
YIELD
FUND
\$1.9041

DEVON
TRANS-
TASMAN
FUND
\$4.5259

DEVON
SUSTAINABILITY
FUND
\$3.2816

IN THIS REPORT

Market Commentary	Page 1
At a Glance	Page 1
Devon Fund Summaries	
Alpha Fund	Page 2
Australian Fund	Page 3
Diversified Income Fund	Page 4
Dividend Yield Fund	Page 5
Sustainability Fund	Page 6
ESG Insights	Page 7
Trans-Tasman Fund	Page 8



DEVON ALPHA FUND

FUND OUTLINE

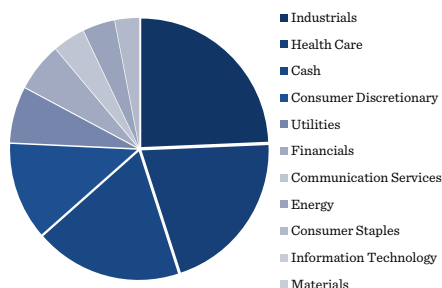
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	30.9%
Australian Equities	50.6%
Currency Hedge	52.6%

Cash	18.6%
Total	100.0%

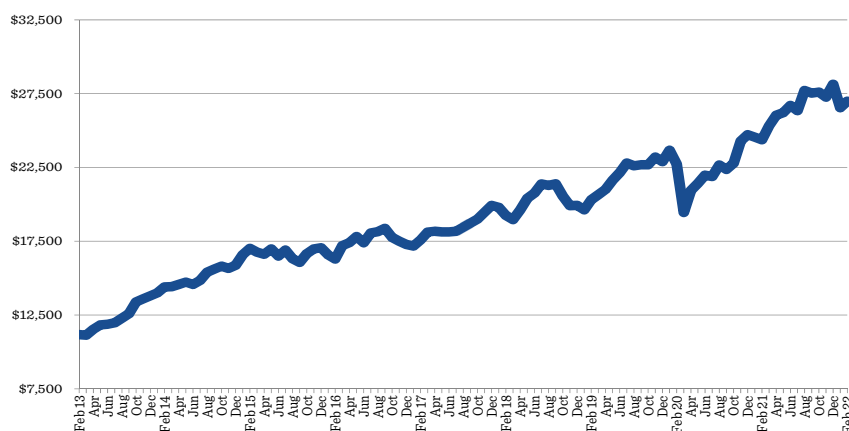
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Alpha Fund	1.7%	-1.0%	10.8%	10.0%	9.0%	9.2%
OCR	0.1%	0.2%	0.4%	0.7%	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

The Alpha strategy rebounded well during February, generating an absolute return of 1.7%. We were also pleased to note that after outperforming local markets in January, when stocks were under pressure, this strategy is also outperforming as market conditions improve. Given the absolute return objective of the Fund, it is important to highlight that we did adopt a more cautious approach to portfolio construction and lifted our cash weighting towards 20%. Although we remain optimistic around the medium-term prospects for equities, we are conscious that risk levels have risen on account of the conflict in the Ukraine, inflation, and the withdrawal of central bank support. Current volatility is providing us with exciting investment opportunities, and we expect to re-deploy our capital over the next few months.

The reporting season was a successful one for us with particular highlights including Ooh!Media (+4.9%), Ramsay Healthcare (+1.9%) and Fletcher Building (+4.0%).

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 Funds Management Limited

Level 17, HSBC Tower, 188 Quay Street, Auckland 1010
PO Box 105 609, Auckland 1143
Telephone: 0800 944 049 (free call) or +649 925 3990
enquiries@devonfunds.co.nz

**DEVON
FUNDS.**

www.devonfunds.co.nz



DEVON AUSTRALIAN FUND

FUND OUTLINE

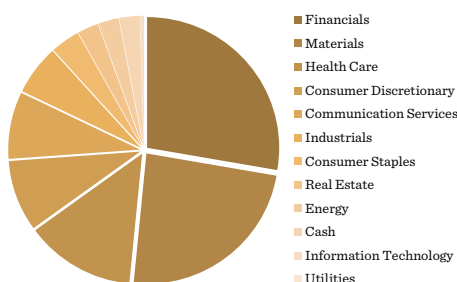
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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	2.5%
Australian Equities	97.5%	Total	100.0%

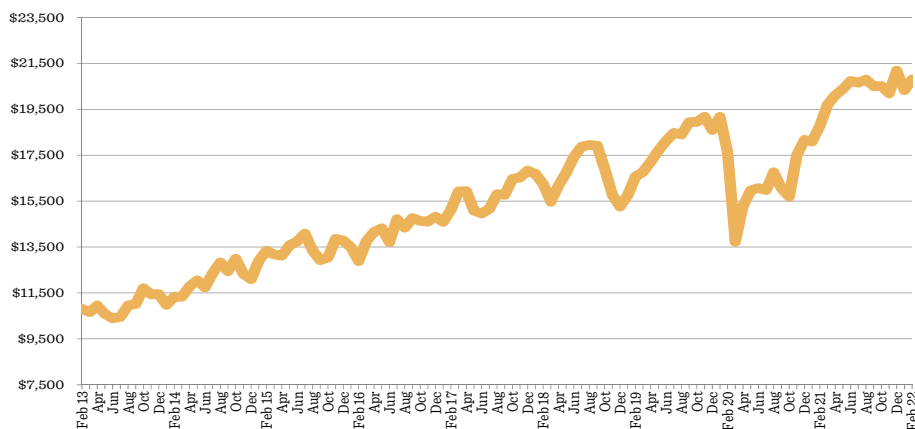
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Australian Fund	2.3%	3.0%	10.8%	7.9%	6.6%	7.5%
ASX200 Index Gross (NZD)	2.1%	0.9%	11.0%	9.4%	8.7%	7.0%

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, outperforming its benchmark. The top contributors for the month were South32 (+24.9%), Newcrest Mining (+19.6%) and Nine Entertainment (+6.5%). The top detractors were Aristocrat Leisure (-7.6%), Carsales (-7.0%) and Seek (-8.0%). February reporting season surprised to the upside this year. This was helped by conservative market expectations, a feature since the onset of the pandemic and the fact Australian corporates are in fundamentally strong shape. Importantly, fiscal year 2022 earnings have been revised higher with consensus now looking for +14% profit growth this year.

The strongest positive revisions came from Energy, Utilities and Materials with Industrials the worst. Nine delivered another strong result with Stan (SVOD), Publishing and TV being the standout performers, and upgraded guidance for FY22. Nine is a high-quality business with a strong balance sheet, has a diversified media asset base and yet still trades at a very attractive multiple.

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

Level 17, HSBC Tower, 188 Quay Street, Auckland 1010
PO Box 105 609, Auckland 1143
Telephone: 0800 944 049 (free call) or +649 925 3990
enquiries@devonfunds.co.nz

**DEVON
FUNDS.**

www.devonfunds.co.nz

DEVON DIVERSIFIED INCOME FUND

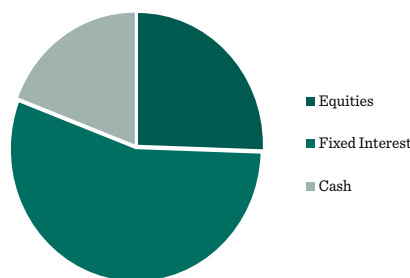
FUND OUTLINE

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%
Australian Equities	9.8%

Bonds	55.3%
Cash	19.6%

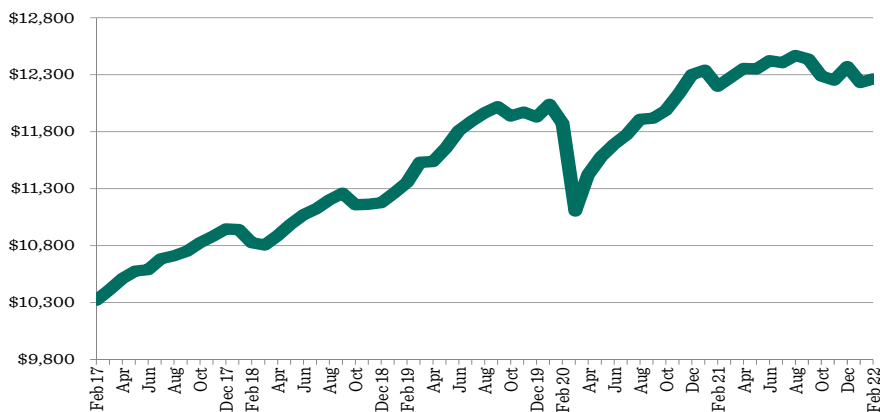
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Diversified Income Fund	0.2%	0.1%	0.5%	2.6%	3.5%	3.6%
OCR + 1.5%	0.2%	0.6%	1.9%	2.2%	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 traded higher during the month, with the interest rate on US 10-year Treasuries finishing at 1.85% (after closing January at 1.78%).

Inflation continues to be front-of-mind, as speculation continues as to whether or not the central banks are now “behind the curve” i.e. that they have essentially allowed inflation to get away from them. US core inflation for January surged to 7.5%, the highest level since 1982. In response to this, current expectations are a certainty that the US Federal Reserve will lift interest rates this month. This will likely be the first of many rises, which will continue through into 2023. Towards the end of the month though, Russia’s attack on the Ukraine also contributed to this debate as investors considered what impact the war will have on global growth and inflation. Key to this will be the impact of price changes in oil and gas. The next month will demonstrate how central banks are viewing this issue.

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 Funds Management Limited

Level 17, HSBC Tower, 188 Quay Street, Auckland 1010
PO Box 105 609, Auckland 1143
Telephone: 0800 944 049 (free call) or +649 925 3990
enquiries@devonfunds.co.nz

**DEVON
FUNDS.**

www.devonfunds.co.nz



DEVON DIVIDEND YIELD FUND

FUND OUTLINE

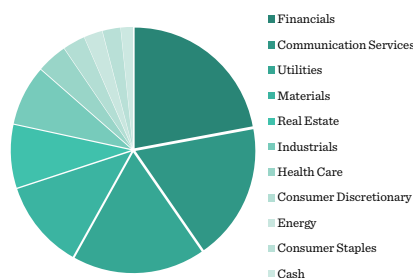
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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	60.1%	Cash	1.6%
Australian Equities	38.3%	Total	100.0%
Currency Hedge	99.9%	Yield	5.9%

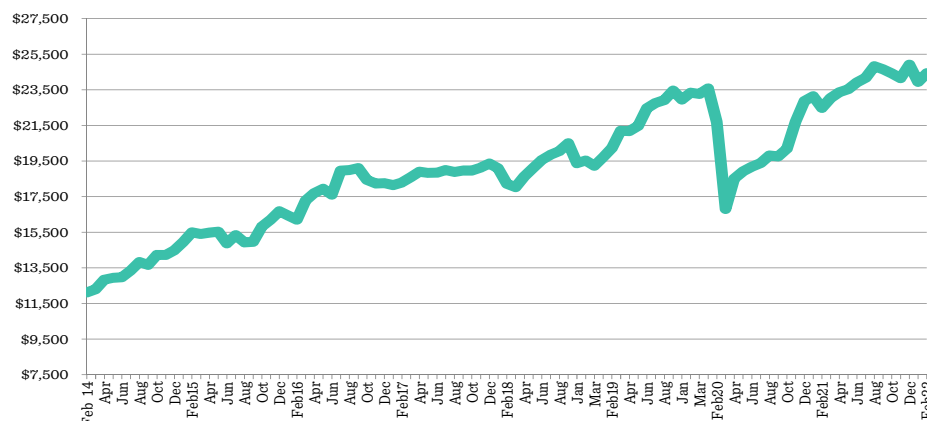
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Dividend Yield Fund	2.0%	1.2%	8.7%	6.5%	5.9%	10.3%
50:50 NZX50 & ASX200 Index Gross	1.4%	-3.8%	4.1%	8.6%	9.6%	11.5%

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

It was a strong reporting season for the fund with the majority of our investments either achieving or surpassing consensus estimates.

Spark's half-year result was well received by the market and so was its reiterated FY22 profit guidance of between \$1,130m and \$1,160m, with the stated intention to now be at the top end of this range. Following on from its recent infrastructure review, the company now plans to separate its passive mobile tower assets into a subsidiary company, thereby facilitating the inclusion of third-party capital by way of a partial sale.

Precinct Properties announced that it would be establishing a property investment entity with GIC, the Singaporean sovereign wealth fund. This new entity would acquire \$590m of Precinct's current portfolio whilst growing to a potential \$1bn. Precinct will maintain a 24.98% stake in the entity but will now be the manager of this entity deriving income and fees from this new endeavor.

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 Funds Management Limited

Level 17, HSBC Tower, 188 Quay Street, Auckland 1010
PO Box 105 609, Auckland 1143
Telephone: 0800 944 049 (free call) or +649 925 3990
enquiries@devonfunds.co.nz

**DEVON
FUNDS.**

www.devonfunds.co.nz



DEVON SUSTAINABILITY FUND

FUND OUTLINE

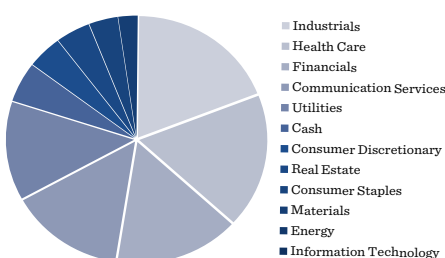
The **Devon Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	46.6%	Cash	5.3%
Australian Equities	48.2%	Total	100.0%

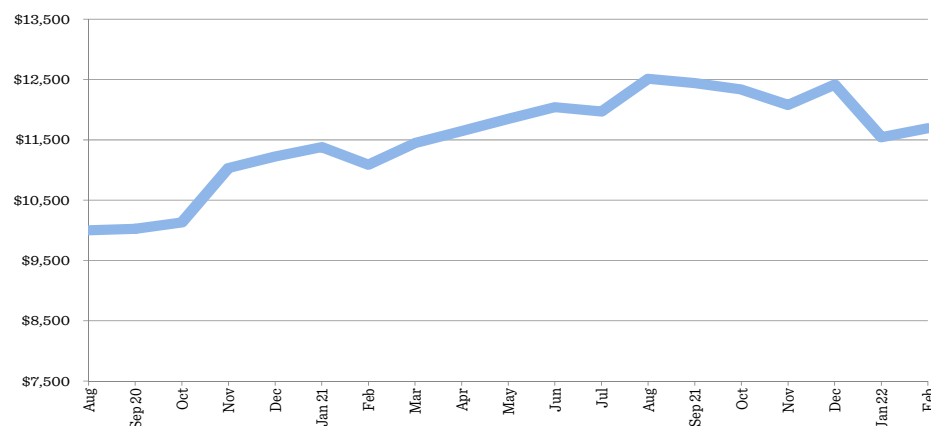
PERFORMANCE

	1 Mth	3 Mth	1 Yr p.a	Since Inception
Devon Sustainability Fund	1.3%	-3.2%	5.5%	11.0%
50:50 NZX50 Portfolio Index & ASX200 Index*	1.5%	-3.0%	4.6%	10.9%

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 1.3% for the month. Our top contributors included Meridian (+14.6%), IAG (+9.9%) and APM Human Services (+11.5%). The top detractors were Seek (-8.0%), Carsales (-7.0%) and Port of Tauranga (-5.8%). February reporting season surprised to the upside this year, with a large number of companies in the portfolio reporting strong financial results. One of those was recent IPO APM Human Services. APM is a global employment services company. This company IPO'd back in early November 2021 and released its maiden result as public company during the month. The result was above prospective forecasts with revenue up 30% and profit up 38%, as the business continues to take share.

Australia was the standout region despite Omicron, with the UK ramping up and positive momentum in the US. We like that APM trades on an undemanding valuation, has solid underlying momentum to-date and expect there is upside to company guidance.

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

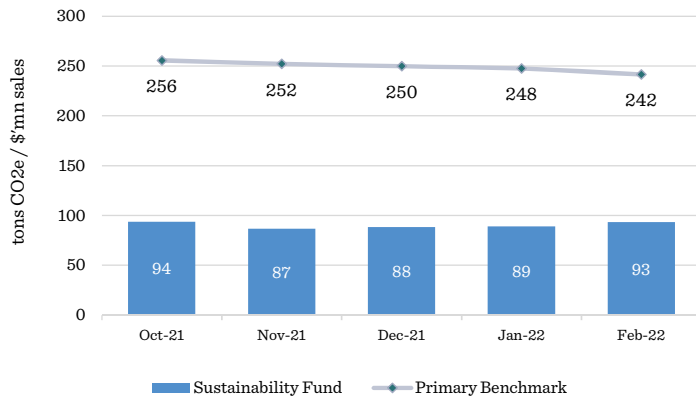
Level 17, HSBC Tower, 188 Quay Street, Auckland 1010
PO Box 105 609, Auckland 1143
Telephone: 0800 944 049 (free call) or +649 925 3990
enquiries@devonfunds.co.nz

**DEVON
FUNDS.**

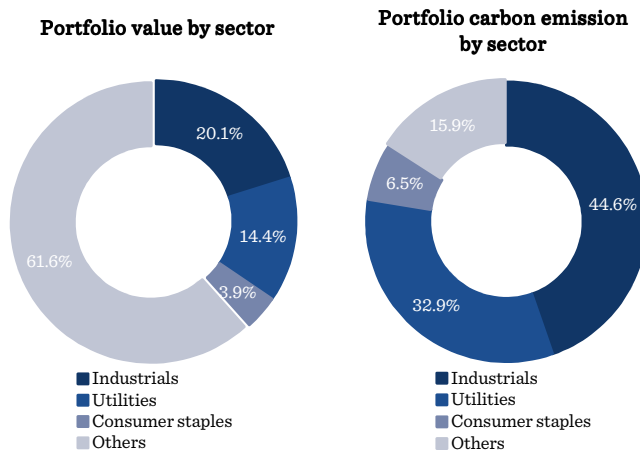
www.devonfunds.co.nz

DEVON SUSTAINABILITY FUND - ESG INSIGHTS

CARBON INTENSITY - PORTFOLIO VS BENCHMARK



PORTFOLIO CARBON EMISSIONS BY KEY SECTORS



The materials, utilities, and health care sectors make up 38.4% of the portfolio by value, but they account for 84.0% of the carbon emissions in the portfolio.

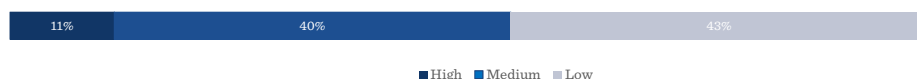
ESG PORTFOLIO SUMMARY

	MSCI ESG Ratings	MSCI ESG Quality score	
Portfolio	AA	8.28	Portfolio Sustainability Fund
Benchmark	AA	8.22	Primary Benchmark 50:50 composite S&P/NZX50 Portfolio Index & S&P/ASX200G Index

PORTFOLIO HOLDING'S DISCLOSURE SUMMARY

% of holding companies doing ESG reporting	93.6%
% of companies reporting to TCFD standards	68.1%
% of companies with a modern slavery statement	72.3%
% of companies with carbon emission reduction targets	66.0%

CLIMATE CHANGE RISK BY PORTFOLIO HOLDINGS



COMMENTARY

During the month, Software billionaire Mike Cannon-Brookes of Grok Ventures made a takeover bid for AGL, Australia's leading energy company, in partnership with Brookfield Asset Management. He stated it is "the single biggest decarbonisation project" they could find in the world. Grok Ventures knew that it was serious about solving big problems to shape a better future, so it came up with a plan for Australia's AGL Energy.

AGL is one of the biggest emitters of scope 1 greenhouse gas emissions (those from sources controlled by an organisation) in Australia, thanks to its portfolio of electricity generators. Its plan is to take over Australia's most polluting company with a goal to shut its coal power plants earlier than planned. The deal was rejected by AGL as it was not in the best interests of shareholders. Watch this space...

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 TRANS-TASMAN FUND

FUND OUTLINE

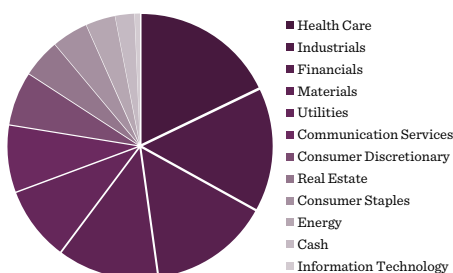
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

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%
Australian Equities	53.9%

Cash	2.4%
Total	100.0%

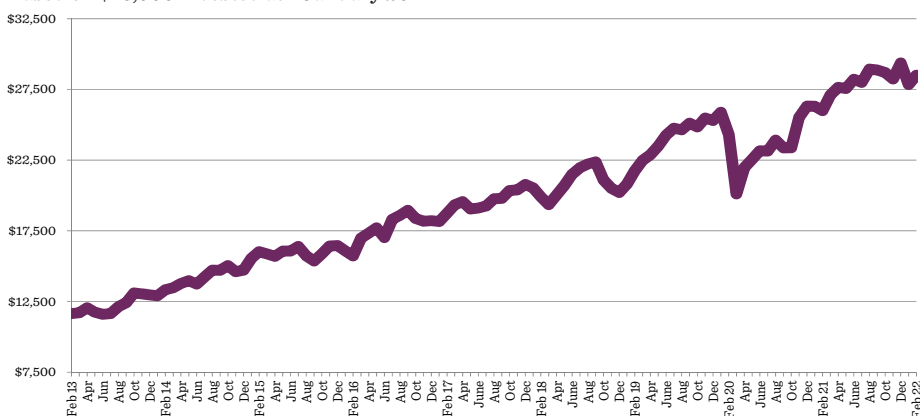
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Trans-Tasman Fund	2.4%	0.8%	9.7%	9.4%	8.7%	8.6%
50:50 NZX50 Gross & ASX200 Index Unhedged	1.4%	-2.5%	4.5%	9.0%	9.7%	9.4%

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

NET PERFORMANCE

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



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

COMMENTARY

The Trans-Tasman strategy enjoyed another strong month of relative returns during February, with key contributors including South32, Newcrest Mining (+19.6%), Nine Entertainment (+6.5%) and Contact Energy (+3.7%). The overweight portfolio positioning in the resources sector continued to deliver positive returns with a number of commodities at record highs (aluminium, coal) and others including copper and crude oil not far from 10-year highs. These levels are due to a range of factors, including fiscal easing in China and concerns around supply shortages due to the tragic Russian invasion of Ukraine.

During the month South32 rallied 24.9% and is now up 76.0% over the past year. South32 has broad commodity exposure with Aluminium/Alumina making up 40% of earnings on Devon estimates, as well as Copper (9%), Nickel (11%), Silver (9%) and Metallurgical Coal (26%). The company has also made a number of acquisitions, including increasing their exposure to the Mozal aluminium smelter in Mozambique and acquiring a 45% stake in Sierra Gorda copper mine in Chile. Despite the strong share price performance, on assumptions well below current commodity prices, the business still trades at a very attractive valuation.

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 Funds Management Limited

Level 17, HSBC Tower, 188 Quay Street, Auckland 1010
PO Box 105 609, Auckland 1143
Telephone: 0800 944 049 (free call) or +649 925 3990
enquiries@devonfunds.co.nz

**DEVON
FUNDS.**

www.devonfunds.co.nz