

## MONTHLY REPORT: JANUARY 2022

### Rewarding the value hunters

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

It has been one of the most volatile starts to a year on record, with the catalyst for investor angst not having been Omicron, but instead fears over rising interest rates, and the knock-on impact to economic growth. This has given rise to some concerns over stock market valuations, which have been elevated, particularly in the technology sector.

Tech stocks have been at the epicentre of this year's sell-off, with the Nasdaq Composite in correction territory, and had recently lost 17% from the November high. The tech laden index has made one of the worst starts to a year in half a century of its existence, on a par with the 10% fall in January 2008 during the global financial crisis. Volatility has continued into February.

The prospect of rising interest rates has thrust the spotlight on the surge in the valuations of growth stocks that has occurred since the onset of the pandemic. Many high-priced tech names have as a result gone into reverse, with more than half of the Nasdaq constituents having fallen 50% or more from their 52-week highs. This has also led to questions over whether 'growth' has had its day, and a rotation towards 'value' style investing may be the story going forward... [READ MORE](#)



### MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	-8.8%	-9.4%
S&P/ASX200G	AUSTRALIA	-6.4%	9.4%
MSCI World Index	GLOBAL	-6.9%	15.0%
S&P500	USA	-6.9%	21.0%
FTSE100	UK	1.1%	20.7%
NIKKEI 225	JP	-6.2%	-0.8%
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](mailto:enquiries@devonfunds.co.nz)

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### AT A GLANCE

Prices as at 31 January 2022

DEVON  
ALPHA  
FUND

**\$2.0280**

DEVON  
AUSTRALIAN  
FUND

**\$1.5184**

DEVON  
DIVERSIFIED  
INCOME  
FUND

**\$1.4877**

DEVON  
DIVIDEND  
YIELD  
FUND

**\$1.8661**

DEVON  
TRANS-  
TASMAN  
FUND

**\$4.4199**

DEVON  
SUSTAINABILITY  
FUND

**\$3.2395**

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## DEVON ALPHA FUND

## FUND OUTLINE

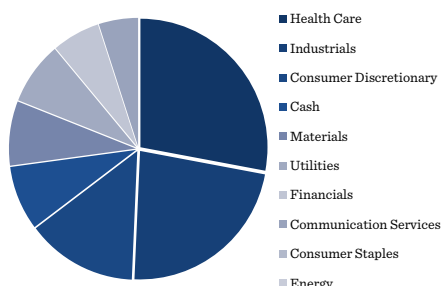
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	24.8%
Australian Equities	63.9%
Currency Hedge	48.4%

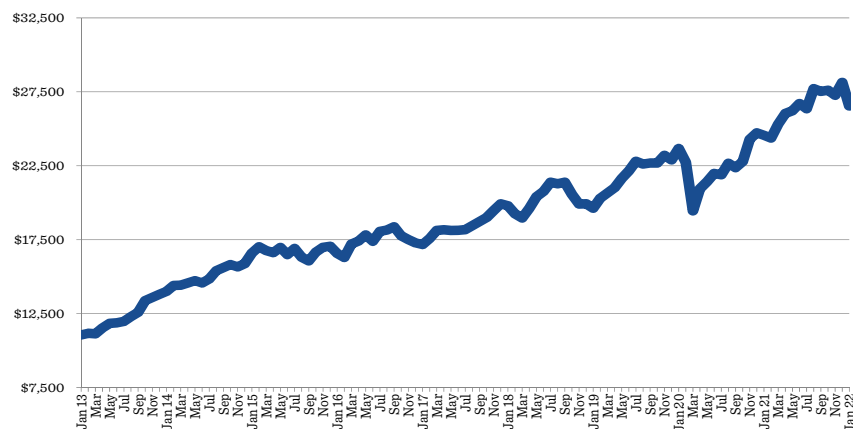
Cash	11.3%
Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Alpha Fund	-5.7%	-3.8%	8.2%	10.6%	9.1%	9.1%
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 disappointingly generated a negative absolute return last month. Although it notably outperformed local indexes, one of our primary objectives for this portfolio is to preserve capital in weak markets. Our bias towards high quality businesses helped minimise capital loss and we believe that we are well positioned for the current market environment.

Although there were not many positive contributors during January the standout was BHP Group, whose share price rallied 11.7%. BHP is a mining business with some of the most attractive assets in the industry, excellent management and a strong balance sheet. Investors were recently encouraged by announcements by the Chinese government that they are looking to re-stimulate their economy which is supportive for commodity demand, and in particular iron ore, which is a key focus for BHP. Also driving investor demand was a change to the corporate structure of the company which saw its weighting on the Australian market lift.

## 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

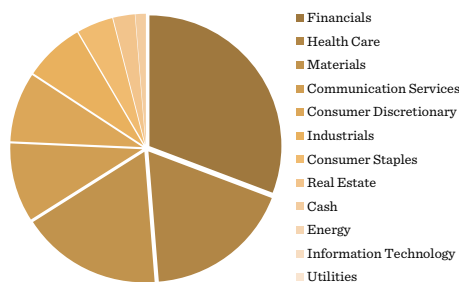
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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	1.6%
Australian Equities	98.4%	Total	100.0%

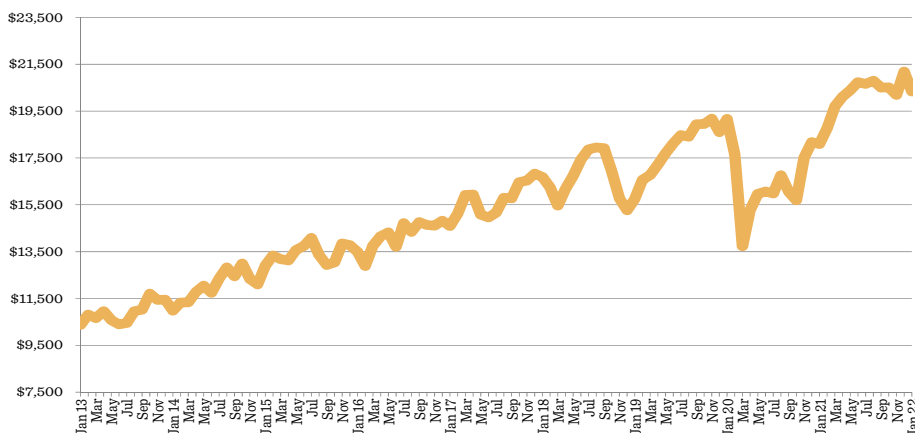
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Australian Fund	-4.0%	-0.9%	12.4%	8.9%	6.9%	7.4%
ASX200 Index Gross (NZD)	-5.4%	-2.2%	10.3%	10.5%	9.3%	6.9%

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 performed well against its benchmark during January. The top contributors for the month included Rio Tinto (+11.4%), BHP (+11.7%) and Virtus (+5.6%). Despite the challenging market conditions the Resources sector enjoyed significant outperformance with BHP and Rio Tinto particularly well supported. Ooh!Media, an outdoor advertising company, also outperformed the broader market this month, falling by a smaller 4.1%. Ooh!Media's earnings have been impacted by a lack of advertiser demand due to people being locked inside their homes during the pandemic.

With Australia and New Zealand going in and out of lockdown for the last two years, we are now seeing light at the end of the tunnel. A competitor, JCDecaux, gave a positive update on trading during the month, further solidify our view of an imminent recovery for this sector. We expect a strong rebound in advertising spend due to pent up demand, which will be beneficial to the largest out-of-home operator, Ooh!Media.

## 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

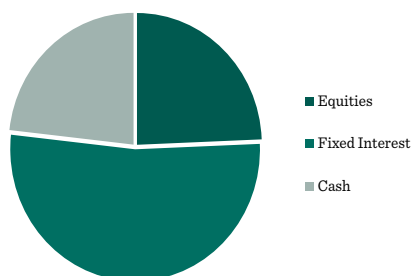
### FUND OUTLINE

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%
Australian Equities	9.7%

Bonds	55.7%
Cash	19.3%

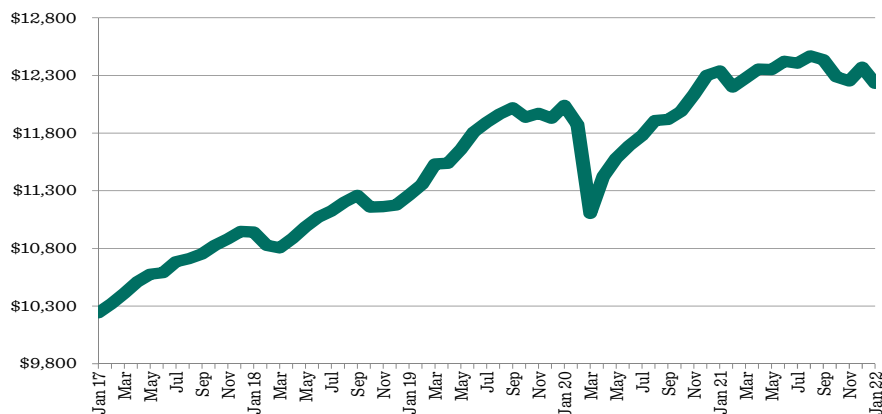
### PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Diversified Income Fund	-1.1%	-0.5%	-0.9%	2.8%	3.6%	3.5%
OCR + 1.5%	0.2%	0.5%	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

The past month was an important one for the fixed income markets with the Federal Reserve delivering a more hawkish assessment of the US economy and reaffirming their commitment to withdraw policy support. Chairman Jerome Powell stated that "With inflation well above 2 percent and a strong labour market, the Committee expects it will soon be appropriate to raise the target range for the Federal Funds Rate." Post the year's first Fed policy meeting, the market is now forecasting up to four interest rate hikes this year as well as a conclusion to their Quantitative Easing program in March. On this news, the yield on the US 10-year Treasuries rallied to finish January at 1.78% (this rate was 1.52% on 31 December 2021). In New Zealand, business confidence fell sharply for the December quarter due to ongoing activity restrictions and our property market showed signs of slowing.

### 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

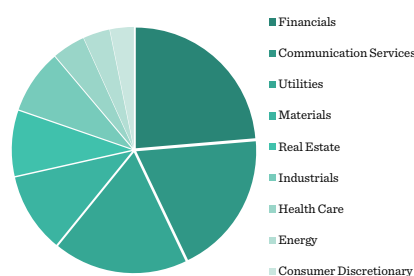
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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	60.6%	Cash	0.8%
Australian Equities	38.6%	Total	100.0%
Currency Hedge	96.7%	Yield	5.9%

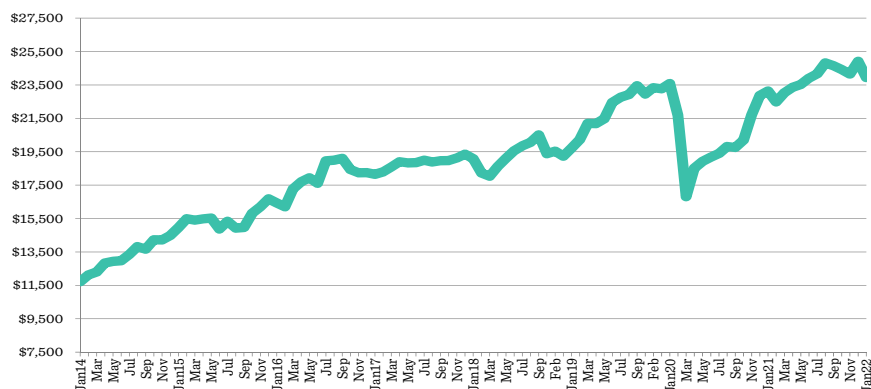
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Dividend Yield Fund	-3.9%	-1.9%	3.5%	6.7%	5.7%	10.2%
50:50 NZX50 & ASX200 Index Gross	-7.6%	-6.8%	0.0%	9.8%	9.8%	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

Our investments in the retail bank sector, through ANZ and NAB, outperformed during the month. Robust credit growth data for December in both the housing and business sectors resulted in the strongest annual credit expansion since 2007. The recent higher interest rates should also be positive for bank margins in the medium-term.

Following on from the Commerce Commission's final decision on fibre return regulation, both credit rating agencies (S&P and Moody's) re-affirmed their BBB credit rating of Chorus. Whilst largely expected, the more important detail was the revision of their downgrade rating threshold to a more accommodative metric. This effectively gives Chorus more balance sheet capacity, allowing them to increase their near-term dividend profile if required.

Kiwi Income Property confirmed that retail activity over Christmas had been strong with sales across its shopping mall portfolio up 9.6%. Flagship property Sylvia Park was a stand-out, achieving sales growth of 11.7%.

## 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 SUSTAINABILITY FUND

## FUND OUTLINE

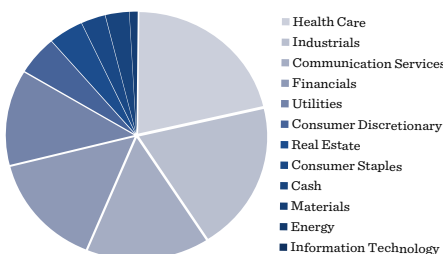
The **Devon Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	48.4%
Australian Equities	47.8%

Cash	3.7%
Total	100.0%

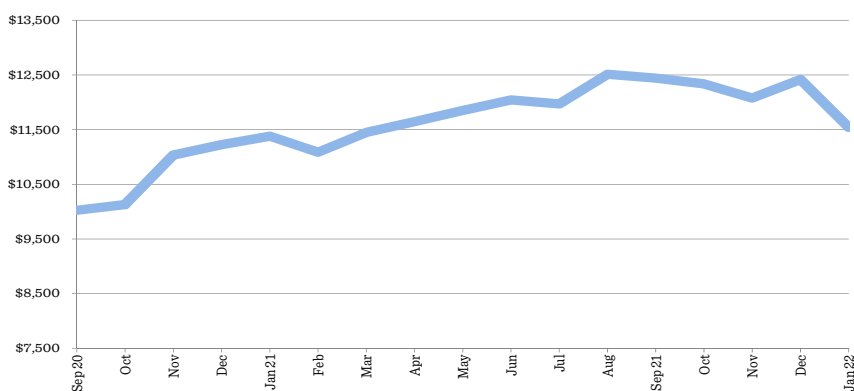
## PERFORMANCE

	1 Mth	3 Mth	1 Yr p.a	Since Inception
Devon Sustainability Fund	-7.0%	-6.4%	1.4%	10.0%
50:50 NZX50 Portfolio Index & ASX200 Index*	-7.3%	-6.8%	1.2%	10.3%

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 outperformed its benchmark for the month. The top relative contributors were Virtus (+5.6%), Amcor (+1.8%) and My Food Bag which fell by only 0.9%. The top detractors were Ryman Healthcare (-19.2%), AMP (-13.4%) and Collins Foods (-12.8%). We have held a small position in My Food Bag since its IPO. During the month it released a trading update to the market reconfirming earnings guidance which was in line with their prospectus numbers, but they did upgrade their revenue guidance. Offsetting some of this were additional observations by the company, citing that they are also seeing increased food inflation and COVID costs.

Inflation pressures seem to be an increasing narrative for a lot of companies in recent weeks and this is something we will monitor closely in the portfolio as we head into results season in February.

## 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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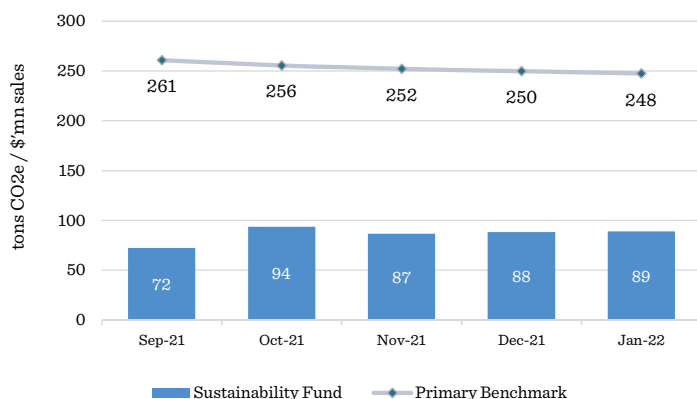
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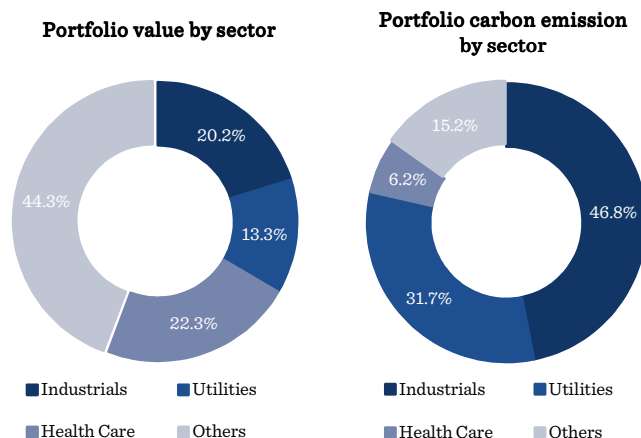


## DEVON SUSTAINABILITY FUND - ESG INSIGHTS

## CARBON INTENSITY - PORTFOLIO VS BENCHMARK



## PORTFOLIO CARBON EMISSIONS BY KEY SECTORS



The materials, utilities, and health care sectors make up 55.8% of the portfolio by value, but they account for 84.7% of the carbon emissions in the portfolio.

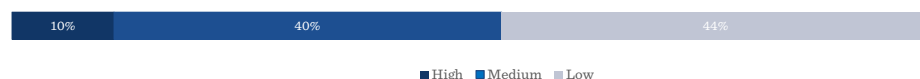
## ESG PORTFOLIO SUMMARY

	MSCI ESG Ratings	MSCI ESG Quality score	
Portfolio	AA	8.31	Portfolio Sustainability Fund
Benchmark	AA	8.16	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	93.8%
% of companies reporting to TCFD standards	66.7%
% of companies with a modern slavery statement	72.9%
% of companies with carbon emission reduction targets	66.7%

## CLIMATE CHANGE RISK BY PORTFOLIO HOLDINGS



## COMMENTARY

The Investor Group on Climate Change (IGCC) released a new report during the month stating that Aotearoa New Zealand climate disclosure must meet global best practice. Matching leading climate disclosure practice will help ensure New Zealand's competitiveness in global capital markets. IGCC's CEO, Rebecca Mikula-Wright, stated that "Climate risk reporting by companies has accelerated since the Task Force on Climate-related Disclosures' recommendations emerged in 2017, but the quality and comparability of this reporting has too often fallen well short of providing investors with the information they need to manage the climate risk in their portfolios".

In response, many jurisdictions have begun mandating reporting rules like New Zealand is doing. New Zealand now has an opportunity to join the global leaders in climate reporting, setting a great example in the region, and helping its companies attract international capital investment.

## 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 TRANS-TASMAN FUND

## FUND OUTLINE

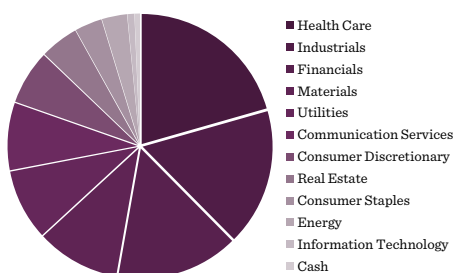
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

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	54.1%

Cash	2.2%
Total	100.0%

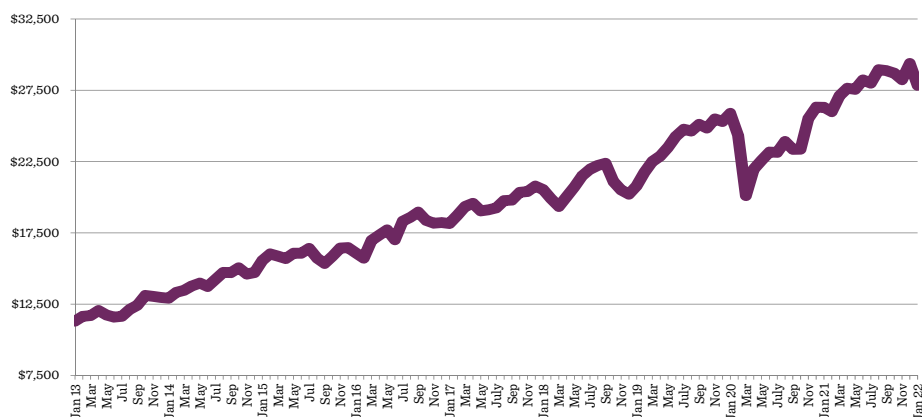
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Trans-Tasman Fund	-5.3%	-3.1%	5.9%	10.2%	8.9%	8.5%
50:50 NZX50 Gross & ASX200 Index Unhedged	-7.1%	-5.7%	0.4%	10.1%	10.1%	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 strategy performed well ahead of its benchmark during the month as the overall Australasian market corrected, with a number of our investments making a positive contribution. Included amongst these were Santos (+13.2%), BHP (+11.7%) and Ventia (+9.5%).

Santos delivered a strong fourth-quarter report with revenue +34% to US\$1.5bn, with the key drivers being solid production results, stronger oil prices and increased spot gas sales from their Darwin LNG asset. This included only a small contribution from the recent Oil Search merger. We believe the business is well placed from an earnings and corporate strategy perspective following the merger and we expect its share price performance to catch up with their US peers, which have materially outperformed the Australian sector. Brent crude oil rallied by more than 15% over the month to close at over US\$90/barrel as the global economy reopens and geopolitical concerns remain.

## 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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