

## MONTHLY REPORT: APRIL 2022

### When a rising tide no longer lifts all boats

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

Stock market volatility in April has given investors further cause to believe that the recent rotation from growth to value has further to play out. While most markets were softer, 'growthier' sectors came under much more pressure. The tech laden Nasdaq Composite in the US fell over 13%, dragging the broader S&P500 benchmark down nearly 10% for the month. In contrast, the broader and older economy-dominated NZX50 and ASX200 were only down 1.9% and 0.9% respectively.

Recent market dynamics, amidst elevated levels of inflation and the onset of a global rate tightening phase, have also raised questions around the merits of "passive" versus "active" investing strategies. This has always been the subject of much debate, with both approaches clearly having pros and cons. Passive investing strategies have arguably suited many investors well during the bull market, but equally active strategies often start to display their credentials in a scenario where "a rising tide no longer lifts all boats"... READ MORE

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### MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	-1.9%	-6.7%
S&P/ASX200G	AUSTRALIA	-0.9%	10.2%
MSCI World Index	GLOBAL	-8.3%	-3.1%
S&P500	USA	-8.7%	0.2%
FTSE100	UK	0.8%	12.3%
NIKKEI 225	JP	-3.5%	-5.0%
NZ 90 Day Bank Bill	NZ	0.1%	0.8%
Bloomberg Global Aggregate Index (NZD)	GLOBAL	-2.8%	-6.6%

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### AT A GLANCE

Prices as at 30 April 2022

#### DEVON ALPHA FUND

\$2.1551

#### DEVON AUSTRALIAN FUND

\$1.6414

#### DEVON DIVERSIFIED INCOME FUND

\$1.4782

#### DEVON DIVIDEND YIELD FUND

\$1.9797

#### DEVON GLOBAL IMPACT BOND FUND

\$1.4646

#### DEVON GLOBAL SUSTAINABILITY FUND

\$1.4697

#### DEVON TRANS-TASMAN FUND

\$4.7079

#### DEVON SUSTAINABILITY FUND

\$3.3704

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## DEVON ALPHA FUND

## FUND OUTLINE

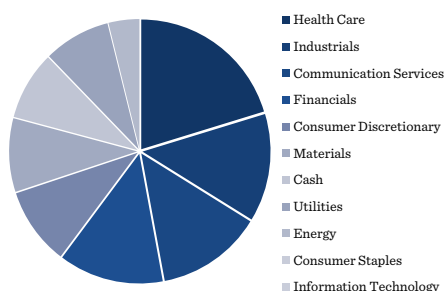
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	28.1%
Australian Equities	63.4%
Currency Hedge	48.0%

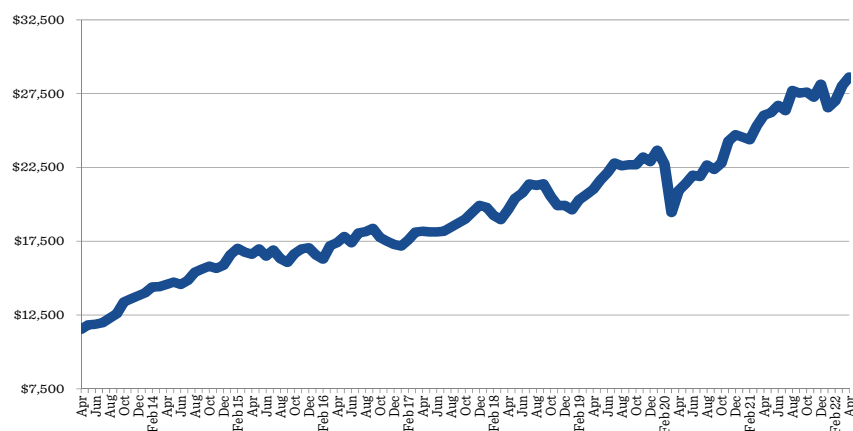
Cash	8.6%
Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Alpha Fund	2.1%	7.9%	10.0%	10.9%	9.5%	9.6%
OCR	0.1%	0.3%	0.6%	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

The Alpha portfolio enjoyed a strong month of performance, generating a positive absolute return despite local markets falling in value. This is ultimately the objective of this strategy.

There were a number of strong contributors to this outcome including AMP which rallied 20.2%, but it was our investment in Ramsay Health-care which was the standout. We have been long-term investors in this private hospital business and were afforded the opportunity to build a position at attractive prices as Covid restrictions negatively impacted elective surgery volumes across their properties. Ramsay jumped 24.5% during April after it was confirmed that private equity company, KKR, had made an unsolicited bid for the company, at a level substantially ahead of its prior close. KKR is continuing its due diligence process and we believe that there remains the possibility for a higher bid to be made. We continue to believe that the opportunity set in Australia is currently looking more favourable than New Zealand.

## 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

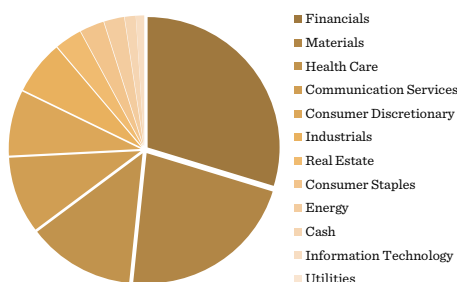
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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	1.3%
Australian Equities	98.7%	Total	100.0%

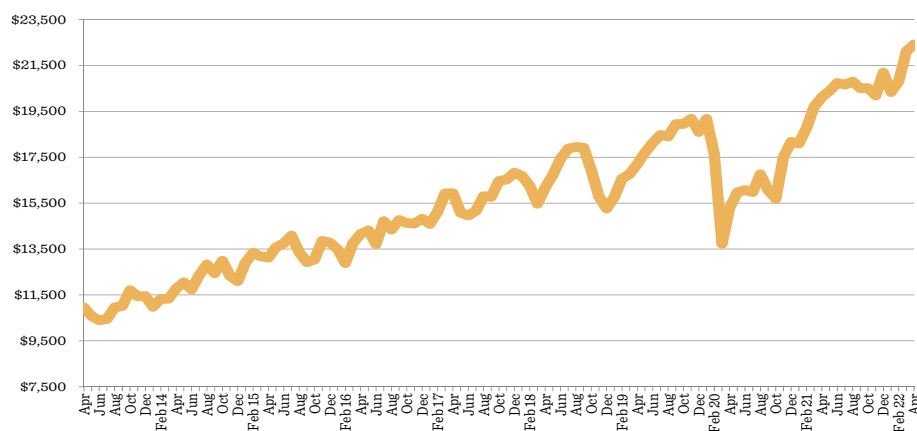
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Australian Fund	1.3%	10.2%	11.4%	9.2%	7.1%	8.1%
ASX200 Index Gross (NZD)	0.5%	10.5%	12.0%	10.8%	8.9%	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 performed well during the month, generating a positive return of 1.3%. Our top contributors included AMP (+20.4%) and Ramsay Healthcare (+24.5%) whilst detractors included ResMed (-10.1%) and Aristocrat Leisure (-8.3%). April was a busy month with an abundance of M&A activity. We were pleased to have a number of positions in the Fund which have received either a formal takeover offer (e.g. Ramsay Healthcare), are benefitting from a speculated takeover offer (e.g. Cleanaway) or have had parts of their business acquired (e.g. AMP).

Mineral Resources (+11.1%) outperformed on the month after agreeing with its partners to expand lithium production at their Western Australian mines, Wodgina and Mt Marion. Together, these mines will make Mineral Resources one of the top five lithium producers in the world. Investors were supportive of this announcement given that the lithium market is currently exceptionally tight, and likely to persist for some time with high demand from the growing electric vehicle market, and from applications such as energy storage. The company's lithium operations are very high quality, low-cost, long-life assets and have strong joint venture partners.

## 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

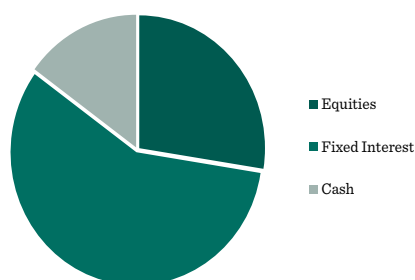
## FUND OUTLINE

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	15.5%	Bonds	57.5%
Australian Equities	11.3%	Cash	15.7%

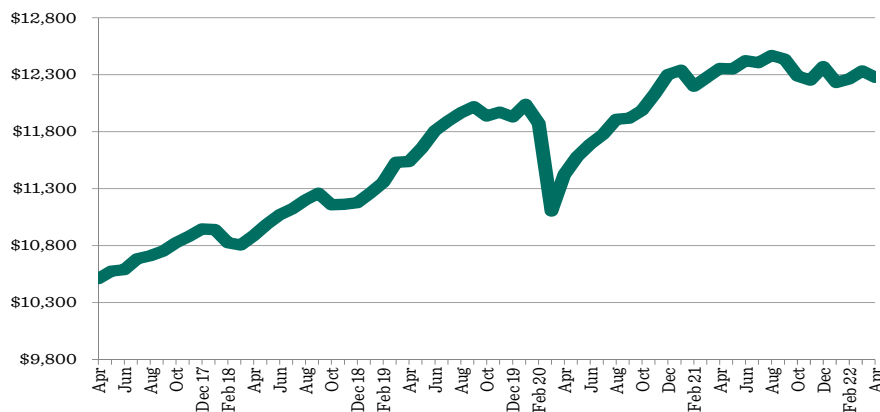
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Diversified Income Fund	-0.5%	0.4%	-0.7%	2.1%	3.1%	3.5%
OCR + 1.5%	0.2%	0.6%	2.1%	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 interest rates jumped significantly during April, with the yield on US 10-year Treasuries increasing from 2.32% in late March to finish the month at 2.85%. This volatility was a consequence of comments by Federal Reserve Chair, Jerome Powell, which indicated that aggressive increases in interest rates were needed to address inflation pressures.

This sentiment is not unique to the Fed, with central banks globally all facing the same challenges with inflation accelerating amid supply chain disruptions and the impact of the Russian invasion on the commodity markets. In New Zealand during the month, the RBNZ hiked the Official Cash Rate by 0.50% to 1.50%. This was their largest hike in 22-years, although it follows more than 30 other central banks who have also moved by at least half a percent, in one adjustment, this year.

## PORTFOLIO MANAGER

Slade Robertson



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

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## DEVON DIVIDEND YIELD FUND

## FUND OUTLINE

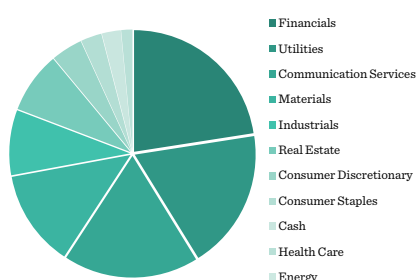
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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

## KEY HOLDINGS



## ASSET ALLOCATION



## ALLOCATION

New Zealand Equities	56.3%	Cash	2.5%
Australian Equities	41.1%	Total	100.0%
Currency Hedge	98.0%	Yield	5.9%

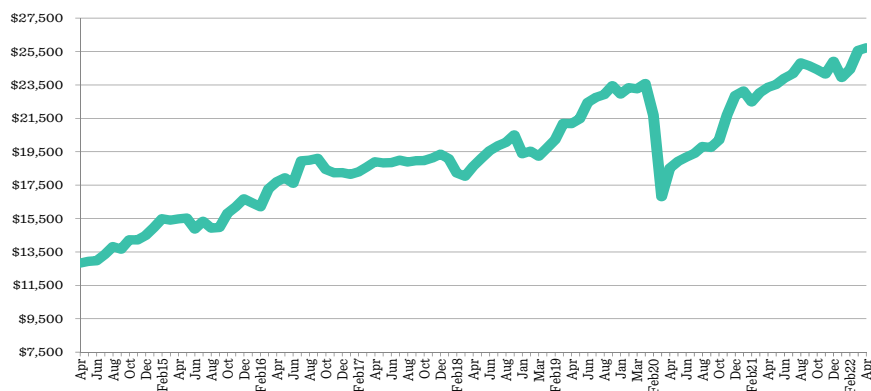
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Dividend Yield Fund	0.6%	7.4%	10.2%	6.7%	6.3%	10.7%
50:50 NZX50 & ASX200 Index Gross	-1.4%	4.1%	1.8%	7.6%	9.4%	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

The release by Coles of its third quarter sales results was well received by investors, which resulted in our investment in COL (+4.4%) outperforming the markets during the month. Supermarket sales growth of 3.9% was driven largely by higher food inflation, with the prospect of more to come over the remainder of 2022. Private label product growth continues to add value, now accounting for \$2.6bn of sales, up 3% over the prior corresponding period. Whilst Covid costs remained, management noted that these pressures were easing through the last months of the quarter.

Spark New Zealand (+7.4%) formally announced its intention to separate the ownership of its approximately 1,263 passive network tower assets into a new holding company with the intention of selling off a minority stake. This process, which should reduce the company's debt profile and improve the prospects for a resumption in dividend growth, saw this investment outperform.

## 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

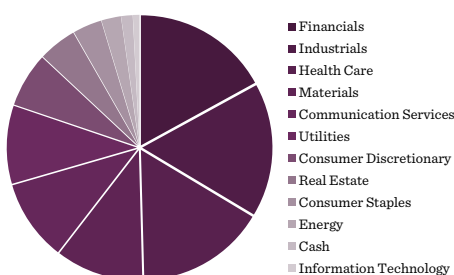
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

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	43.8%	Cash	1.4%
Australian Equities	54.8%	Total	100.0%

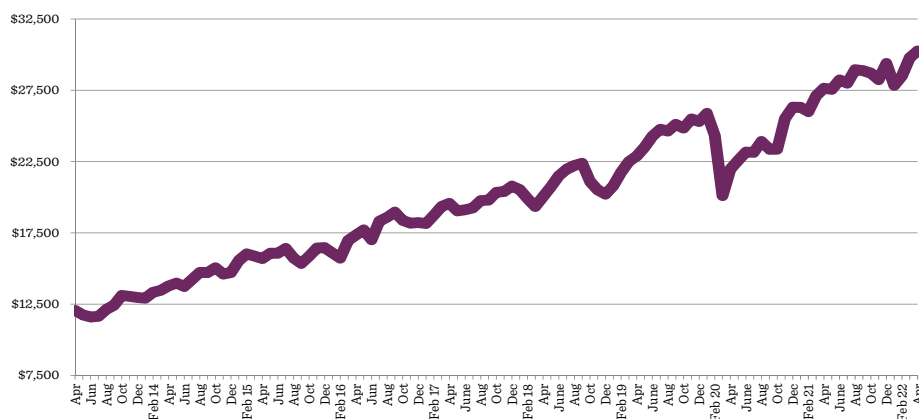
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Trans-Tasman Fund	1.5%	8.6%	9.5%	9.7%	9.1%	8.8%
50:50 NZX50 Gross & ASX200 Index Unhedged	-0.7%	5.2%	2.7%	8.3%	9.5%	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

The Trans-Tasman Fund finished up 1.5% this month, outperforming its benchmark by 2.2%. Positive contributors to our performance included Ramsay Healthcare (+24.5%), AMP, Ventia (+15.8%) and Amcor (+10.4%). AMP (+20.2%) have announced the sale of their fund management business, Colimate Capital (formerly AMP Capital), to Dexu and DigitalBridge Group. This follows the sale of their Infrastructure Debt platform, announced in February. While the sale process may take up to six months to complete, the total proceeds of circa \$2bn, and up to \$2.5bn including earnouts, is well ahead of market estimates. There is now more clarity on the strategy and balance sheet position of AMP. We estimate group surplus capital is close to \$2bn with a further re-rating opportunity ahead as a large proportion of this capital is returned to shareholders.

The main detractors to performance for the month came from our Resource names (BHP and South32). However, we had strategically taken profits on these investments over the preceding months after a period of strong performance.

## PORTFOLIO MANAGER

Tama Willis



After a long period in international investment markets, Tama returned to NZ after a very successful career in London and Singapore to join Devon's investment team. Tama holds co-responsibility for Devon's Trans-Tasman Funds. Tama is widely regarded as a leading expert on resource and mining stocks.

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## DEVON SUSTAINABILITY FUND

## FUND OUTLINE

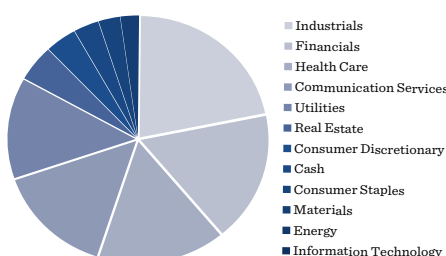
The **Devon Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

The Fund looks to invest in companies that score highly on overall environmental, social and corporate governance performance. The Fund also employs an ethical screen which will prohibit investment into certain companies and sectors.

## KEY HOLDINGS



## ASSET ALLOCATION



## ALLOCATION

New Zealand Equities	48.0%	Cash	3.2%
Australian Equities	48.8%	Total	100.0%

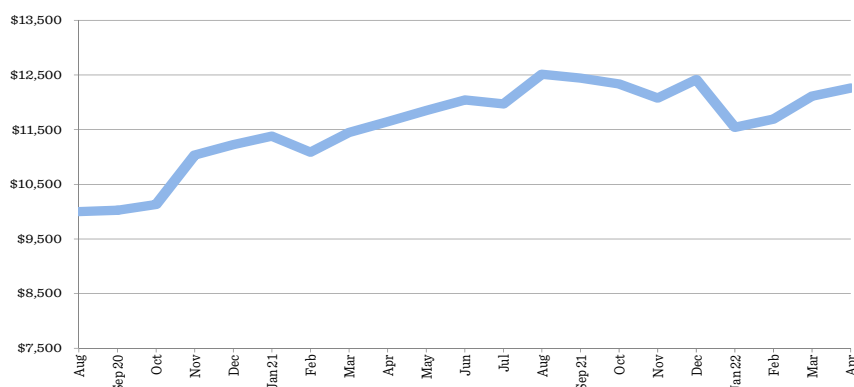
## PERFORMANCE

	1 Mth	3 Mth	1 Yr p.a	Since Inception
Devon Sustainability Fund	1.2%	6.2%	5.3%	13.1%
50:50 NZX50 Portfolio Index & ASX200 Index	-1.1%	4.7%	3.2%	11.8%

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-fund> or by clicking [HERE](#)

## COMMENTARY

The Sustainability Fund returned 1.2% for the month, outperforming its benchmark by 2.3%. Amongst our best performing investments was Cleanaway which rallied 3.9%. Cleanaway is a vertically integrated waste services company. It plays a vital part in the circular economy transition in Australia through resource recovery and its investments in Energy-from-Waste.

There was speculation during the month that a global PE firm was running due diligence over the company as a potential takeover opportunity. No formal offer was made but this shows there is demand and interest for these infrastructure assets. We are attracted to the Cleanaway's competitive position, supportive industry dynamics and the favourable regulatory environment. Cleanaway continues to be a top holding across multiple funds at Devon. Underperforming investments during April included Seek which fell by 4.8% and Nine Entertainment whose price weakened by 9.4%.

## 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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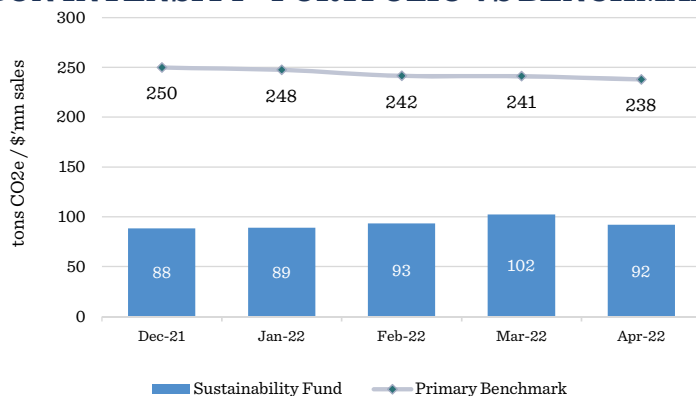
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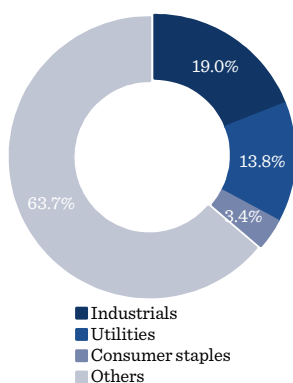
## DEVON SUSTAINABILITY FUND

## CARBON INTENSITY - PORTFOLIO VS BENCHMARK

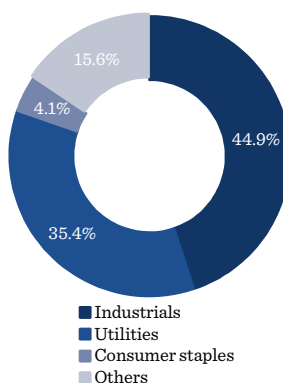


## PORTFOLIO CARBON EMISSIONS BY KEY SECTORS

Portfolio value by sector



Portfolio carbon emission by sector



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	8.89	Portfolio Sustainability Fund
Benchmark	AA	8.34	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	6.6%	3.1%	3.4%	1.9%	2.2%

\*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	93.2%
% of companies reporting to TCFD standards	65.9%
% of companies with a modern slavery statement	70.5%
% of companies with carbon emission reduction targets	65.9%

## CLIMATE CHANGE RISK BY PORTFOLIO HOLDINGS



## STEWARDSHIP

During the month we met with management from Kelsian, an ASX-listed bus and ferry operator. According to our third-party ESG research provider, MSCI, the company's rating is being dragged down due to its environmental score. Due to the nature of its operations, it produces a high level of carbon emissions.

To date, Kelsian has introduced a significant number of electric buses into its fleet (and will soon introduce hydrogen buses and ferries) to try to reduce their emissions. However, we pressed them on their disclosure requirements and management admitted they have not articulated their ESG story well enough. Encouragingly they have recently allocated resource to this area of their business, with the recent appointment of an ESG Manager for the Group. Over the next 12 months, Kelsian will release a clear sustainability strategy, including net-zero emissions targets.

## 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

## PERFORMANCE 1 Mth

Devon Global Impact Bond Fund	-2.9%
Bloomberg Global Aggregate Index	-2.8%

## DURATION

Sector	Contribution to Duration (Years)		
	Account	Benchmark	Difference
Cash & Cash Equivalents	-0.00	0.00	-0.00
US Government	-0.18	1.05	-1.23
Credit*	6.09	5.37	0.73
Asset Backed Securities	0.00	0.00	-0.00
Mortgage Backed	1.06	0.60	0.46
Commercial Mortgage	0.12	0.04	0.08
Other	0.02	0.10	-0.08
Cash Offset	-	-	-
	7.11	7.16	-0.04

## CREDIT RATING

Quality	Percent of Market Value		
	Account	Benchmark	Difference
Cash	-0.16	0.38	-0.55
AAA	48.72	37.99	10.73
AA	13.93	15.25	-1.32
A	12.98	31.14	-18.16
BBB	12.70	14.83	-2.13
BB	6.66	0.01	6.64
B	3.54	0.00	3.54
Below B	0.28	0.07	0.21
Cash Offset	-	-	-
Not Rated	1.36	0.33	1.03
	100.00	100.00	

The Fund invests into the Wellington Global Impact Bond Fund, managed by Wellington Management. Wellington Management is one of the world's leading investment management firms with over US\$1 trillion in assets under management worldwide across a broad range of asset classes. They have been providing innovative investment solutions to clients for more than 85 years. Wellington Management seeks to understand the world's social and environmental problems and to identify and invest primarily in debt issued by companies and organisations that they believe are addressing these needs in a differentiated way through their core products, services and projects. The Wellington Global Impact Bond Fund aims to improve access to, and the quality of, basic life essentials, reduce inequality and mitigate the effects of climate change.

They seek to identify securities which it believes fall into three primary impact categories: life essentials, human empowerment and the environment. Within these categories the Fund will invest across "Impact Themes" including, but not limited to the following:

**Life Essentials:** affordable housing, clean water and sanitation, health, sustainable agriculture and nutrition.

**Human Empowerment:** digital divide, education and job training, financial inclusion, safety and security.

**Environment:** alternative energy, resource efficiency and resource stewardship.

## DEVON GLOBAL SUSTAINABILITY FUND

## PERFORMANCE 1 Mth

Devon Global Sustainability Fund	-2.3%
MSCI ACWI Index in NZD, 50% hedged to NZD	-4.1%

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

## KEY HOLDINGS\*



\*Key Holdings as at 31 March 2022

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

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

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

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

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

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