

## Resilience

By Greg Smith, Head of Retail at Devon Funds.

Markets globally were higher in unison over the course of the month. The NZX50 climbed back above 12,000 and rose 1.1% during April. Across the Tasman, the ASX200 posted a larger gain of 1.8%. Continuing positive global sentiment offered a helping hand to both benchmarks. The S&P500 in the US has gained nearly 9% through the first four months of the year. Confidence has been fairly broad based, although the technology sector has driven the momentum – the tech laden Nasdaq has rallied around 17% over the same period.

Optimism has been driven by signs that the global economy is holding together in better than expected fashion. Inflation is coming down, and this has added credence to the view that central banks are potentially nearing the end of their rate tightening plans.

The earnings season in the US, the world’s largest economy, has so far been encouraging. While there have been some misses (Tesla was a high profile one), the majority of companies that have reported to date (~80%) have beaten on earnings expectations, which is the biggest proportion since the third quarter of 2021. This situation has not been restricted to the US - across the Atlantic, 70% of companies reporting in Europe have reported better than feared earnings.

Results from the large banks helped investors (and depositors) move on from last month’s banking crisis. Sentiment has been boosted further by the news that one of the regional banks at the centre of the crisis...[READ MORE](#)

## MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	1.1%	1.1%
S&P/ASX200G	AUSTRALIA	1.8%	2.8%
MSCI World Index	GLOBAL	1.8%	3.7%
S&P500	USA	1.6%	2.7%
FTSE100	UK	3.4%	8.2%
NIKKEI 225	JP	2.9%	10.0%
NZ 90 Day Bank Bill	NZ	0.4%	3.5%
Bloomberg Global Aggregate Index (NZD)	GLOBAL	0.5%	-1.5%

## AT A GLANCE

Prices as at 30 April 2023

DEVON ALPHA FUND	\$2.1712
DEVON AUSTRALIAN FUND	\$1.5871
DEVON DIVERSIFIED INCOME FUND	\$1.4429
DEVON DIVIDEND YIELD FUND	\$1.8936
DEVON GLOBAL IMPACT BOND FUND	\$1.3785
DEVON GLOBAL SUSTAINABILITY FUND	\$1.5794
DEVON TRANS-TASMAN FUND	\$4.5702
DEVON SUSTAINABILITY FUND	\$3.2100

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# DEVON ALPHA FUND

## FUND OUTLINE

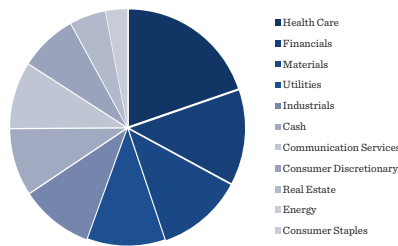
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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

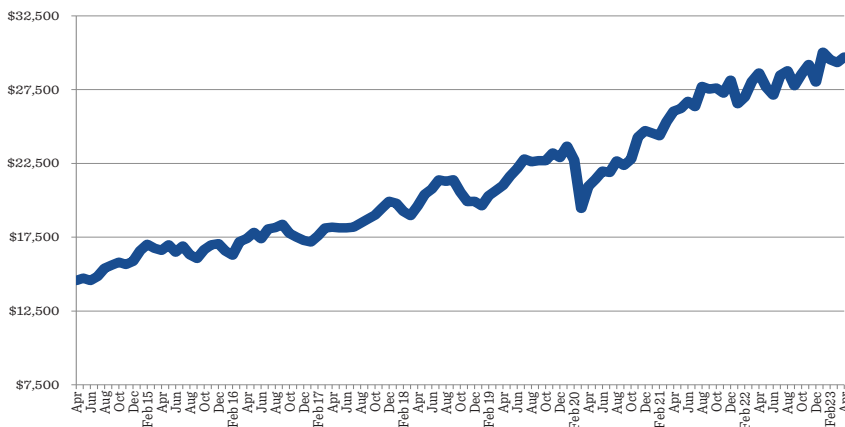
New Zealand Equities	20.9%	Cash	9.2%
Australian Equities	69.9%	Total	100.0%
Currency Hedge	30.1%		

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Alpha Fund	1.3%	-1.1%	3.8%	12.4%	8.7%	9.1%
OCR + 5%	0.8%	2.4%	6.9%	2.5%	2.1%	2.1%

Devon Alpha Fund returns are after all fees and expenses, but before tax which varies by investor.  
\*The benchmark for Alpha changed to OCR + 5% from 1 September 2022

## NET PERFORMANCE

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



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

## COMMENTARY

The Alpha strategy generated solid positive returns during April. As we have highlighted in recent months, we have structured the current portfolio to provide us with exposure to companies which are in strong competitive positions and have solid balance sheets. These qualities will enable our investments to successfully navigate the current economic uncertainty. We have also been determined to ensure that we are exposed to companies which have strong valuation support on a through-cycle basis. This has resulted in us owning companies such as Jamie Hardie which rallied 5.2% and Goodman Group which closed the month higher by 2.8%. We also reintroduced ANZ to the portfolio in late March this year, and it was a notable outperformer in April, finishing up 6.2%. Weighing on returns was our investment in BHP Group, which sold off by 6.0%. We remain confident in this investment.

## PORTFOLIO MANAGER

Slade Robertson



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



## DEVON TRANS-TASMAN FUND

### FUND OUTLINE

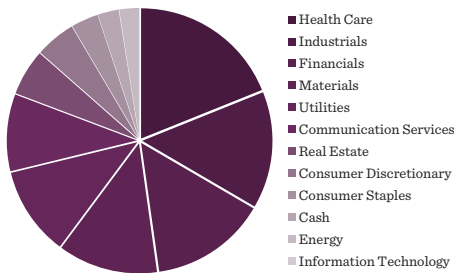
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

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%	Cash	2.6%
Australian Equities	53.7%	Total	100.0%

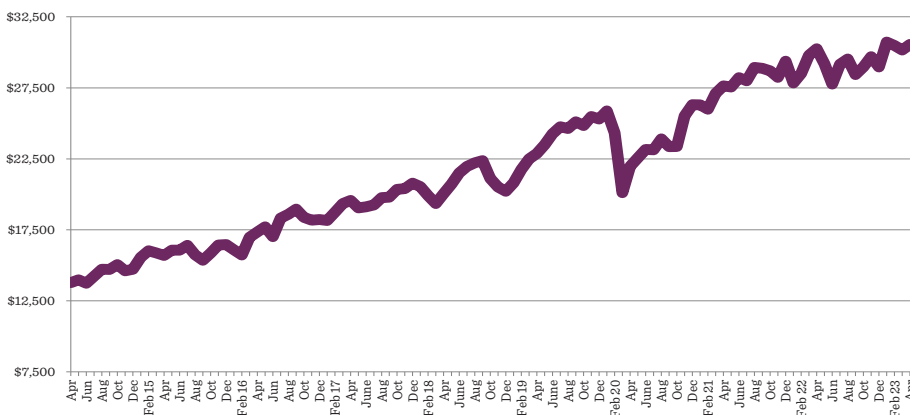
### PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Incep- tion
Devon Trans-Tasman Fund	1.3%	-0.5%	1.1%	11.6%	8.8%	8.4%
50:50 NZX50 Gross & ASX200 Index Unhedged	1.5%	-1.1%	0.8%	9.4%	7.8%	9.1%

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

### NET PERFORMANCE

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



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

### COMMENTARY

The Trans-Tasman Fund delivered a positive return of 1.3% this month, performing broadly in line with its underlying benchmark. The main positive contributors to the performance were Newcrest Mining (+7.7%), ANZ (+6.5%), Pilbara Minerals (+7.6%) and Brambles (+6.1%). Key detractors were the mining companies Rio Tinto (-6.6%) and BHP (-6.0%) following weaker than expected Chinese macro data and a softening iron ore price. We plan to visit China in late May for an on-the-ground assessment of the economic recovery.

Key performer Newcrest (NCM) received an improved offer from Newmont during the month with shareholders entitled to receive 0.4 Newmont shares for each NCM share, which implies a price of ~A\$29/share. The Newmont bid also allows NCM to pay a franked special dividend of up to US\$1.10/share (~A\$1.64 @ 0.67 AU-DUSD) which implies a bid of around A\$30.6. Over the past quarter NCM shares rallied 29.1%. We trimmed some exposure over the month following the strong outperformance.

### 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 primary responsibility for Devon's Trans-Tasman Fund. Tama is widely regarded as a leading expert on resource and mining stocks.

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## DEVON AUSTRALIAN FUND

### FUND OUTLINE

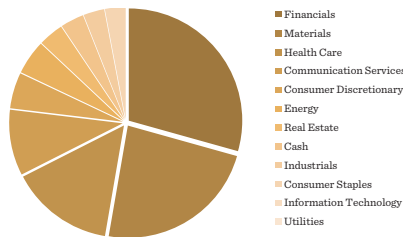
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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

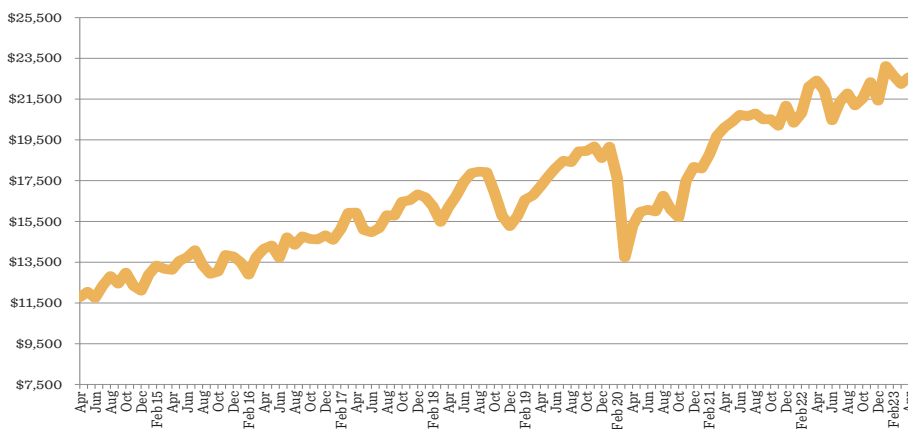
New Zealand Equities	0.0%	Cash	3.4%
Australian Equities	96.6%	Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Australian Fund	1.5%	-2.4%	0.7%	13.9%	6.9%	7.5%
ASX200 Index Gross (NZD)	1.8%	-2.7%	0.5%	14.3%	8.2%	7.1%

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

During the month, the Australian Fund benefited from its investment in Car-sales, which rose 7.4%. At its core, Car-sales owns the largest platform in Australia for buying and selling vehicles. Due to its extremely high market share, the business benefits from network effects of buyers and sellers essentially being forced to use its platform. This enables the business to continuously increase the price it charges sellers to list a vehicle. Additionally, volumes on the platform have proved to be resilient through the economic cycle as it continues to invest in value added products, allowing customers to sell vehicles more quickly and efficiently.

Our significant investment in Telstra, Australia's largest telecommunications company, also performed strongly, rising 3.6%. Telstra is following through with its intention to lift mobile pricing in line with consumer price inflation. Telstra's mobile business is the largest contributor to group earnings, and we see the growth of that business as being fundamental to increasing its dividend over time.

### PORTFOLIO MANAGER

Slade Robertson



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

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## DEVON DIVIDEND YIELD FUND

## FUND OUTLINE

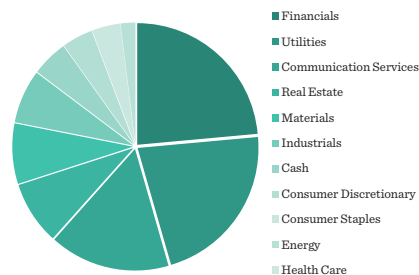
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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

## KEY HOLDINGS



## ASSET ALLOCATION



## ALLOCATION

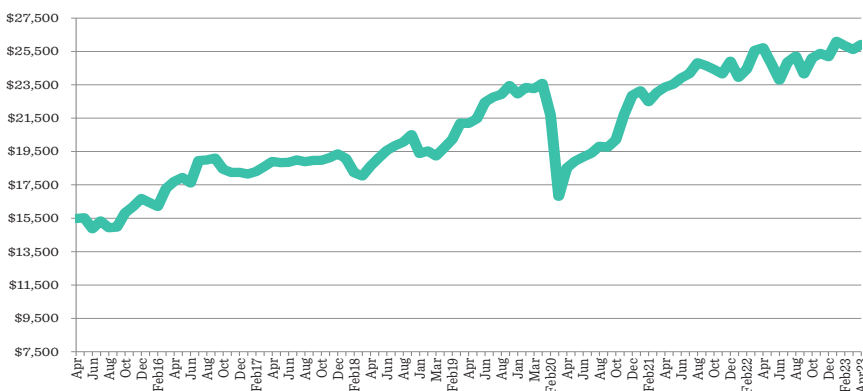
New Zealand Equities	61.3%	Cash	4.9%
Australian Equities	33.9%	Total	100.0%
Currency Hedge	97.3%	Yield	6.2%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Dividend Yield Fund	1.2%	-0.7%	0.8%	11.9%	6.8%	9.7%
50:50 NZX50 & ASX200 Index Gross	1.5%	-0.2%	2.0%	9.2%	7.8%	10.6%

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 recent investment into private health insurance through Medibank Australia performed well during the month, finishing up 6.0%. A combination of structural changes to claims outcomes, especially with respect to rehabilitation and prosthesis surgery, and growth in non-resident policy growth should see positive outcomes for margins above consensus estimates. High margin non-resident policy growth remains strong, as visitors whose visas may require health insurance return to Australia post Covid. Additionally, the Covid experience has seen a resurgence in the value attributed to good medical cover, with 14.42m Australians now covered by private health insurance. The cyber-attack which occurred earlier in the year at Medibank appears to have been far less invasive than originally thought, with growth now stabilized and marketing activities reinstated.

Our investments across the telecommunication sector, through Chorus, Spark and Telstra, also performed well. In part this was due to the continued delivery of asset restructuring, but mostly due to a more stable and rational mobile market.

## PORTFOLIO MANAGER

Mark Brown



Mark has primary responsibility for stock selection and portfolio construction for the Dividend Yield Fund, Sustainability Funds 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 DIVERSIFIED INCOME FUND

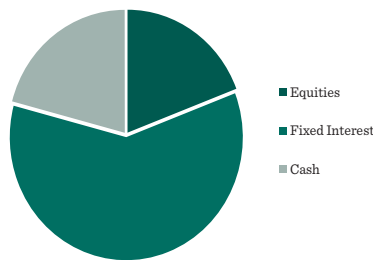
### FUND OUTLINE

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

### KEY HOLDINGS



### ASSET ALLOCATION



### ALLOCATION

New Zealand Equities	17.3%	Bonds	54.2%
Australian Equities	9.6%	Cash	18.9%

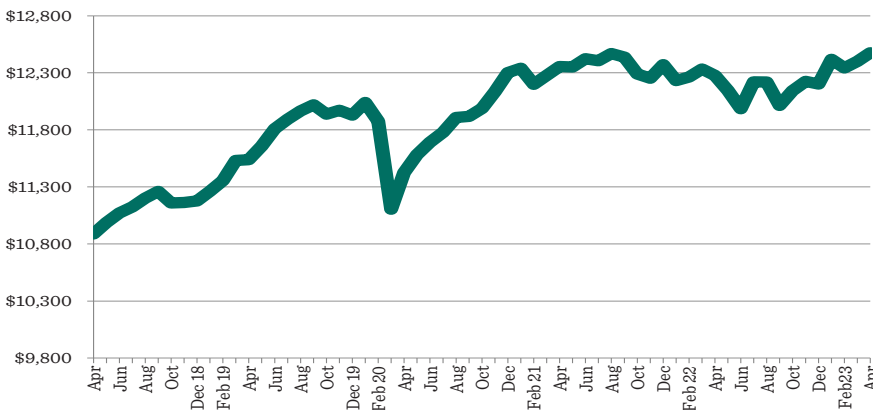
### PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Diversified Income Fund	0.6%	0.5%	1.6%	3.0%	2.8%	3.2%
OCR + 1.5%	0.5%	1.5%	5.1%	3.0%	3.0%	2.9%

Devon Diversified Income Fund returns are after all fees and expenses, but before tax which varies by investor. Inception date for the Fund is 1 January 2016.

### NET PERFORMANCE

Based on \$10,000 invested at 1 January 2016



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

### COMMENTARY

Despite global bond yields finishing April broadly in-line with where they began the month, the intervening period was reasonably volatile as investors responded to different economic data releases and central bank comments. Although the US Federal Reserve did not host a policy meeting during the month, expectations are now that they are likely to deliver a final 0.25% rate increase in May. In New Zealand, investors were surprised by a lower-than-expected CPI result for the first quarter. The headline rate was reported as +1.2%, which was also softer than the RBNZ had forecast in February at +1.8%. In Australia, the RBA met during the month and decided to leave the cash rate target unchanged. In early May though they did increase the rate by 0.25% to 3.85% and retained a tightening bias in their accompanying statement.

### PORTFOLIO MANAGER

Slade Robertson



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## DEVON SUSTAINABILITY FUND

## FUND OUTLINE

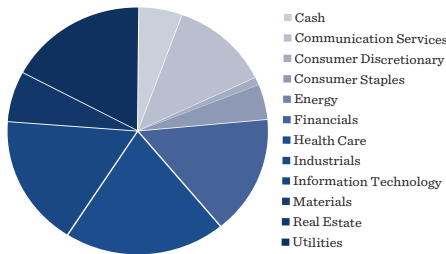
The **Devon Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	54.8%	Cash	5.4%
Australian Equities	39.8%	Total	100.0%

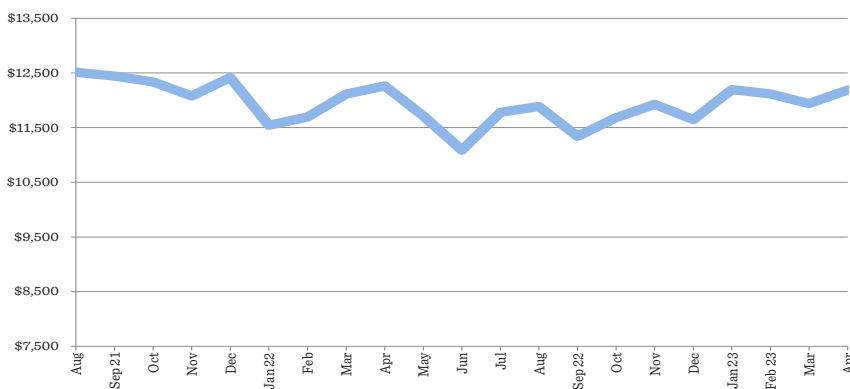
## PERFORMANCE

	1 Mth	3 Mth	1 Yr p.a	2 Yr p.a	Since Inception
Devon Sustainability Fund	2.1%	-0.0%	-0.7%	2.3%	7.7%
50:50 NZX50 Portfolio Index & ASX200 Index	1.3%	-1.0%	0.2%	1.7%	7.0%

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

## NET PERFORMANCE

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



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

## COMMENTARY

The fund outperformed the index by 0.8% during April, up 2.1%. During the month, more economically sensitive companies tended to perform strongly. Many of the financials, property and building related companies within the portfolio achieved meaningful positive performance. The best performer during the month was the A\$11bn property developer, Stockland. Unlike most other REITs listed in Australia, their core focus is residential development and their Land Lease offering for retirees. During April, the company released their first quarter operating report, which beat investor expectations. The resilience in demand from retirees appears enduring, with the company posting a strong medium-term build target on the back of this. Moreover, the outlook for Australian residential property is improving, due to the currently strong inward migration and house prices seeming to have bottomed in key markets. Stockland was able to capitalise on these trends, with residential unit sales up for a second quarter in a row.

## PORTFOLIO MANAGER

Mark Brown



Mark has primary responsibility for stock selection and portfolio construction for the Dividend Yield Fund, Sustainability Funds and the New Zealand Equity fund. Mark is also responsible for overseeing the overall research and investment process at Devon.

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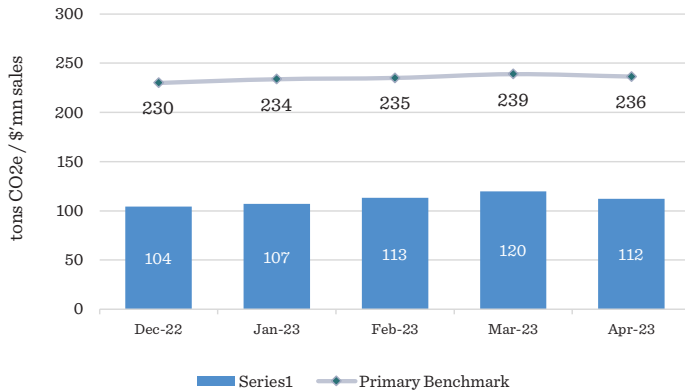
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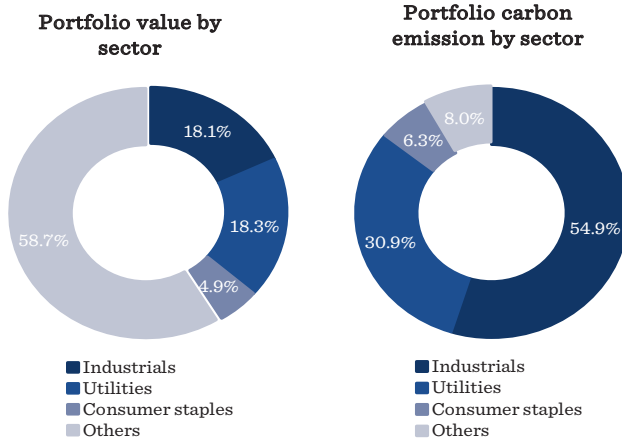


DEVON SUSTAINABILITY FUND

CARBON INTENSITY - PORTFOLIO VS BENCHMARK



PORTFOLIO CARBON EMISSIONS BY KEY SECTORS



The industrials, utilities, and consumer staples sectors make up 41.3% of the portfolio by value, but they account for 92.1% of the carbon emissions in the portfolio.

ESG PORTFOLIO SUMMARY

	MSCI ESG Ratings	MSCI ESG Quality score	
Portfolio	AA	7.41	Portfolio Sustainability Fund
Benchmark	AA	7.21	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	2.8%	11.4%	12.0%	15.2%	7.2%

\*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

Portfolio Holding's Disclosure Summary

% of holding companies doing ESG reporting	97.2%
% of companies reporting to TCFD standards	77.8%
% of companies with a modern slavery statement	75.0%
% of companies with carbon emission reduction targets	80.6%

CLIMATE CHANGE RISK BY PORTFOLIO HOLDINGS

Climate Change Risk by Portfolio Holdings



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STEWARDSHIP

During the month we engaged with Woolworths (WOW.ASX) and Cleanaway (CWY.ASX) on the topic of soft plastic recycling.

Woolworths soft plastic recycling partner, REDcycle, financially collapsed late last year, which has left Woolworths and other supermarkets without an onshore soft plastic recycling solution. Woolworths and Coles have subsequently had to consider alternative solutions.

Cleanaway is working on an interesting project with Coles, and potentially Woolworths, to recycle their soft plastic waste by partnering with the specialist recycling company Qenos. The companies would jointly invest in an advanced recycling technology to convert soft plastic into feedstock and make new plastic through a process known as pyrolysis. As part of this project, Cleanaway will be putting a separate collection bag in each household to help separate soft plastics from other types of household waste so it can be recycled. Being able to offer an onshore soft plastic recycling solution would be a pleasing outcome for supermarket chains Coles and Woolworths and we will continue to monitor Cleanaway's progress.

PORTFOLIO MANAGER

Mark Brown



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## DEVON GLOBAL IMPACT BOND FUND

## DURATION

Sector	Contribution to Duration (Years)		
	Account	Benchmark	Difference
Cash & Cash Equivalents	-0.00	-0.00	-0.00
US Government	1.51	1.06	0.45
Credit*	4.19	4.90	-0.71
Asset Backed Securities	0.01	0.01	0.00
Mortgage Backed	1.02	0.65	0.36
Commercial Mortgage	0.09	0.03	0.06
Other	0.01	0.09	-0.09
Cash Offset	-	-	-
	6.82	6.75	0.07

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

## CREDIT RATING

Quality	Percent of Market Value		
	Account	Benchmark	Difference
Cash	5.51	0.30	5.22
AAA	48.22	40.19	8.03
AA	15.57	12.59	2.98
A	11.40	32.02	-20.62
BBB	13.54	14.57	-1.04
BB	4.22	0.03	4.19
B	2.37	0.00	2.37
Below B	0.16	-	0.16
Cash Offset	-1.55	-	-1.55
Not Rated	0.55	0.30	0.25
	100.00	100.00	

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

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

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

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

\*Duration & Credit Rating as at 31 March 2023

## DEVON GLOBAL SUSTAINABILITY FUND

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

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

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

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

PERFORMANCE	1 Mth	3 Mth	6 Mth	1 Yr
Devon Global Impact Bond Fund	0.6%	0.8%	4.6%	-2.0%
Bloomberg Global Aggregate Index Hedged NZD	0.5%	1.0%	4.4%	-1.5%

PERFORMANCE	1 Mth	3 Mth	6 Mth	1 Yr
Devon Global Sustainability Fund	2.1%	4.0%	11.9%	7.5%
MSCI All Country World Index in NZD, 50% hedged to NZD	2.1%	4.1%	7.8%	4.2%

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

## KEY HOLDINGS\*



\*Key Holdings as at 31 March 2023

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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**DEVON  
FUNDS.**

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