

MONTHLY REPORT: JULY 2022

Over the peak

Sky-high inflation numbers continue to garner much attention, but are they already yesterday's 'fish and chip wrapper'?

By Greg Smith, Head of Retail at Devon Funds. After a traumatic first half of the year for financial markets, the second half of 2022 has started off on a much brighter note. After losing more than 16% in the six months to June, the NZX50 rallied 5.7% in July. This is the strongest monthly gain since the April 2020 rebound (after markets had lurched downwards in March 2020 at the start of the pandemic). It is a similar story across the Tasman where the ASX200 also rose by 5.7% last month. Many other global markets, which saw steeper declines in the first half, were even more robust. In the US, the S&P500 rose 9.2% last month, marking the best July since 1939.

The title of our Special Interest piece a month ago was titled "Turning point." In that article we suggested that "high levels of pessimism, high cash balances and depressed market multiples" could mean that we were almost at the end of this year's volatility. Whilst early days, this could well be proving the case already, with the markets rebounding with some gusto in July.

So, what has been the catalyst?

Markets had priced in a substantial amount of bad news during the first six months of the year, with investor angst centred around rising inflation, rising interest rates and the rising prospect of a recession. All three subjects are logically inter-related, with inflation at the epicentre.....READ MORE

MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	5.7%	-8.7%
S&P/ASX200G	AUSTRALIA	5.7%	-2.2%
MSCI World Index	GLOBAL	8.0%	-8.7%
S&P500	USA	9.2%	-4.6%
FTSE100	UK	3.7%	9.6%
NIKKEI 225	JP	5.3%	3.9%
NZ 90 Day Bank Bill	NZ	0.2%	1.0%
Bloomberg Global Aggregate Index (NZD)	GLOBAL	2.6%	-7.7%

AT A GLANCE

Prices as at 31 JULY 2022

DEVON ALPHA FUND	\$2.1441
DEVON AUSTRALIAN FUND	\$1.564
DEVON DIVERSIFIED INCOME FUND	\$1.4563
DEVON DIVIDEND YIELD FUND	\$1.8886
DEVON GLOBAL IMPACT BOND FUND	\$1.4633
DEVON GLOBAL SUSTAINABILITY FUND	\$1.4859
DEVON TRANS-TASMAN FUND	\$4.5385
DEVON SUSTAINABILITY FUND	\$3.2348

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DEVON ALPHA FUND

FUND OUTLINE

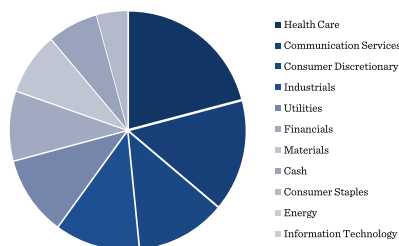
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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

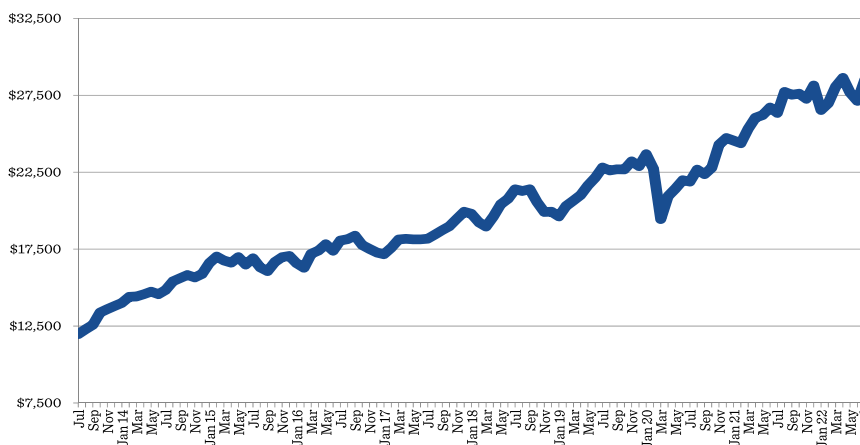
New Zealand Equities	33.7%	Cash	6.6%
Australian Equities	59.8%	Total	100.0%
Currency Hedge	74.6%		

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Alpha Fund	5.0%	-0.5%	8.1%	7.7%	9.4%	9.3%
OCR	0.2%	0.5%	1.0%	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 generated strong absolute returns during the month. During the past 6-weeks we determined that the opportunity set across New Zealand and Australian stocks had become increasingly attractive, and we made a number of new investments. As at month-end Alpha has only 6% of its portfolio in cash. Amongst the new positions that we built during July were BHP Group and James Hardie. Both of these stocks had been sold down aggressively on concerns over deteriorating economic and therefore operating conditions, but we felt that at the prices we were purchasing each company that much of the bad news was reflected in their share prices. Both stocks have rallied subsequent to our investments.

A notable offset to our returns was our exposure to Sky City Entertainment. Shares in this company underperformed after the gaming regulator in South Australia announced the appointment of an independent expert to review their operation in Adelaide.

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.

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DEVON AUSTRALIAN FUND

FUND OUTLINE

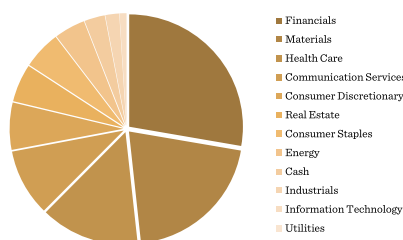
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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

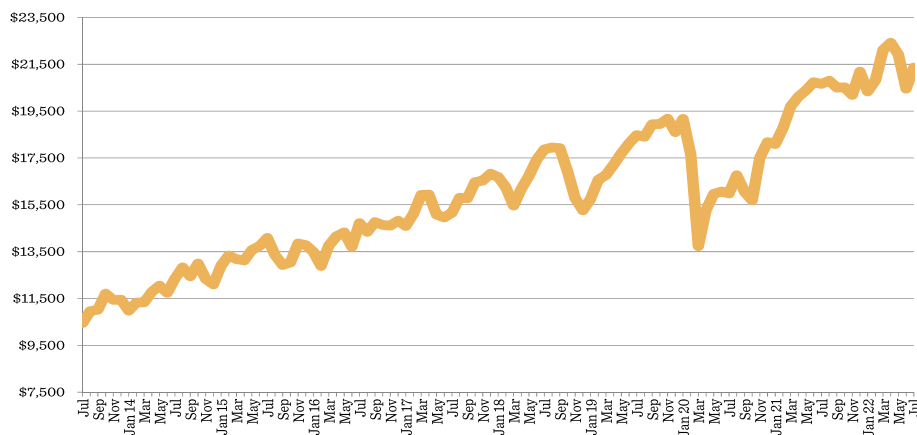
New Zealand Equities	0.0%	Cash	2.9%
Australian Equities	97.1%	Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Australian Fund	4.4%	-4.7%	3.4%	4.9%	7.1%	7.5%
ASX200 Index Gross (NZD)	6.4%	-4.5%	3.4%	6.5%	9.0%	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

The Australian portfolio generated solid absolute returns during the month, although it did underperform its benchmark. Contributing to this was our underweight positioning to some of the higher growth sectors which recovered strongly as bond yields fell. Smaller-cap mining stocks were also amongst the best performers, but we have concentrated our exposure in this sector to the larger businesses such as BHP Group and South32. These stocks underperformed.

Amongst our strongest contributors were ResMed which rallied 11.5% and CSL which finished 7.7% higher. Goodman Group was also important for the portfolio with their share price recovering well (up 16% during July). Goodman is a very high-quality business and investors are comforted by the fact that the vacancy rates for industrial properties in their key markets remain low, which is driving strong rental income growth. A number of comparable US businesses reported their quarterly earnings during July which exceeded expectations.

PORTFOLIO MANAGER

Slade Robertson



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DEVON DIVERSIFIED INCOME FUND

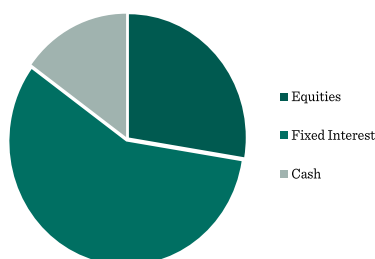
FUND OUTLINE

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	17.2%	Bonds	57.4%
Australian Equities	9.9%	Cash	15.5%

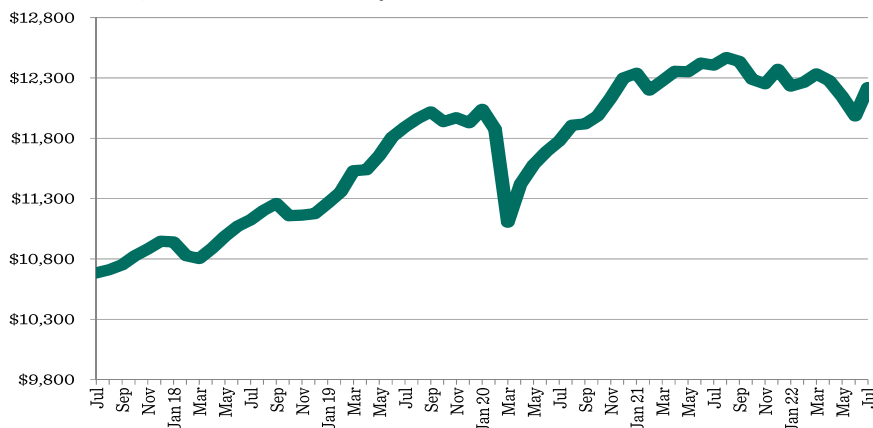
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Diversified Income Fund	2.0%	-0.5%	-1.5%	0.9%	2.7%	3.3%
OCR + 1.5%	0.3%	0.9%	2.5%	2.2%	2.6%	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

Global bonds rallied strongly over the month with the yield on US 10-year Treasuries falling from 3.06% at the end of June, to finish July at 2.70%. All the focus for investors was on global central banks as they continued their program of tightening monetary conditions. The US Federal Reserve raised rates by 0.75%. This was widely anticipated by the market although investor sentiment was buoyed by comments from Jerome Powell, that rate hikes will slow at some point in the future due to a slowing growth outlook.

The US recorded a fall in economic activity in the June quarter and although this confirmed a technical recession (it was their second consecutive quarter of negative economic growth), employment conditions remain robust. Other central banks also moved with the RBNZ hiking the Official Cash Rate by 0.50% to 2.50% and Australia's RBA also tightening by half-a-percent to 1.35%.

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.

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DEVON DIVIDEND YIELD FUND

FUND OUTLINE

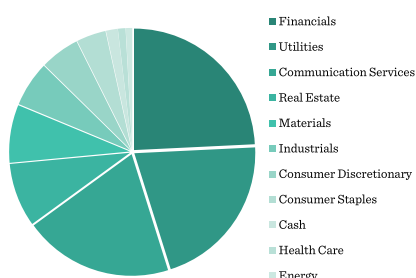
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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	62.4%	Cash	1.6%
Australian Equities	36.1%	Total	100.0%
Currency Hedge	95.3%	Yield	6.5%

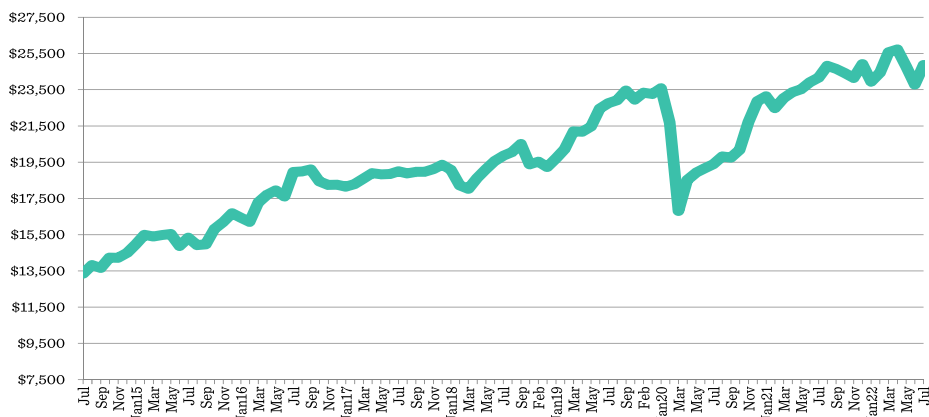
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Dividend Yield Fund	4.6%	-3.3%	2.9%	3.0%	5.5%	10.1%
50:50 NZX50 & ASX200 Index Gross	5.7%	-4.7%	-5.5%	3.1%	8.2%	10.8%

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

NET PERFORMANCE

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



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

COMMENTARY

Strong global markets supported continued merger and acquisition activity within the listed equity market during the month. In Australia, ANZ agreed terms to purchase Suncorp's Queensland-based banking business for A\$4.9bn. This transaction simplifies the Suncorp business whilst allowing the ANZ to expand its banking business into Queensland, a state in which it had previously been underrepresented. As Suncorp shareholders, we are encouraged by the company's commitment to return excess capital, which given net proceeds from the deal of A\$4.1bn, should be substantial.

The New Zealand electricity sector performed well during the month, supported by news that Rio Tinto (the country's largest consumer of electricity) was exploring options to keep its Tiwai Point aluminum smelter open beyond 2024. This is significant for both Meridian and Contact Energy who had both given significant price discounts – unlikely to be repeated – in the previous negotiation round.

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

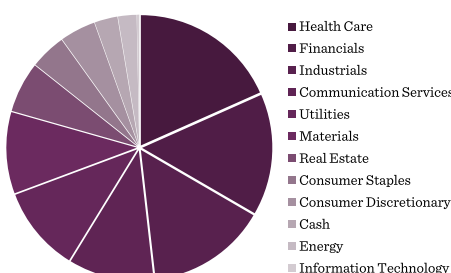
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

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	45.6%	Cash	2.9%
Australian Equities	51.6%	Total	100.0%

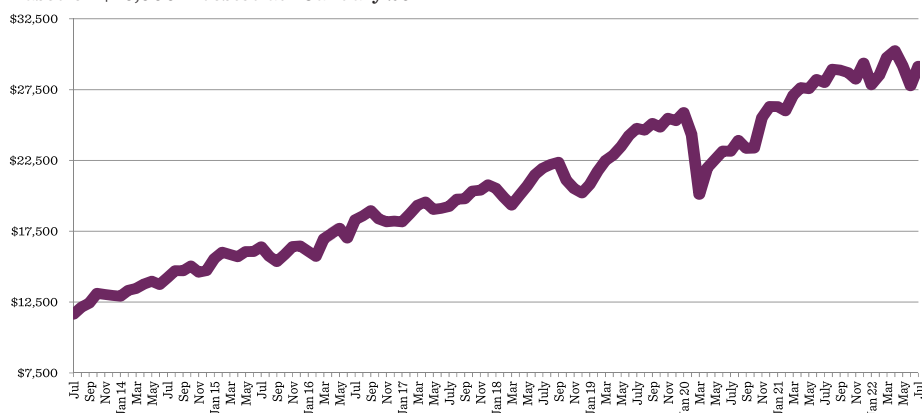
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Inception
Devon Trans-Tasman Fund	5.0%	-3.6%	4.2%	5.6%	8.6%	8.5%
50:50 NZX50 Gross & ASX200 Index Unhedged	6.1%	-3.9%	-2.7%	4.2%	8.7%	9.2%

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 portfolio rebounded strongly over the month, although we did underperform the benchmark. Amongst our best performers were Goodman Group (+16.0%), Freightways (+12.8%), National Australia Bank (+11.7%) and Resmed (+11.5%). A key detractor to relative performance was Sky City (-4.8%) although we see strong valuation support for this business and remain positive on the long-term potential of this investment.

National Australia Bank (NAB) bounced back strongly after a recent correction and we remain positive on this business. NAB has the largest exposure of the major banks to the business sector, where volumes remain favourable, as SMEs continue to invest. NAB has also delivered the highest levels of productivity over the last three years which leaves them well positioned for a period of higher inflation. A key risk is the potential of a sharp correction in the housing sector, although there is a significant buffer given the quantum of price rises in recent years.

PORTFOLIO MANAGER

Tama Willis



After a long period in international investment markets, Tama returned to NZ after a very successful career in London and Singapore

to join Devon's investment team. Tama holds co-responsibility for Devon's Trans-Tasman Funds. Tama is widely regarded as a leading expert on resource and mining stocks.

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DEVON SUSTAINABILITY FUND

FUND OUTLINE

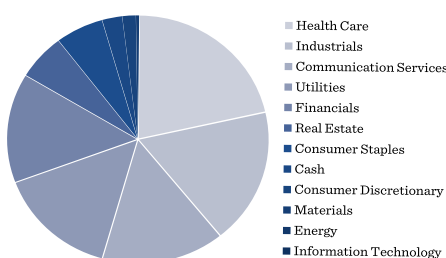
The **Devon Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	49.5%	Cash	2.5%
Australian Equities	48.1%	Total	100.0%

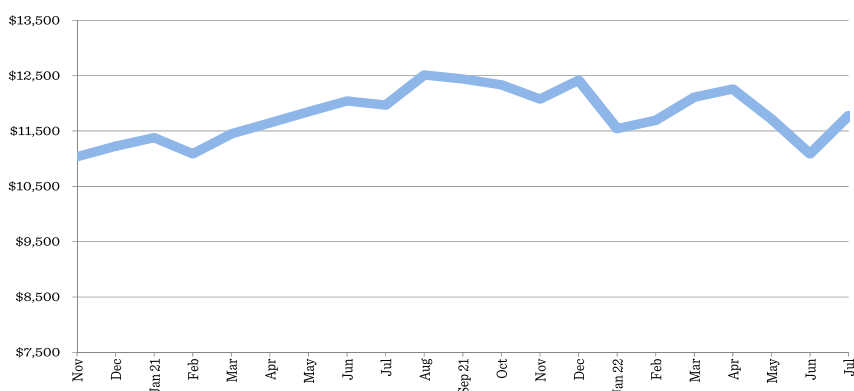
PERFORMANCE

	1 Mth	3 Mth	1 Yr p.a	Since Inception
Devon Sustainability Fund	6.2%	-4.0%	-1.7%	8.9%
50:50 NZX50 Portfolio Index & ASX200 Index	5.7%	-4.8%	-4.7%	7.4%

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 Fund delivered a 6.2% return for the month, outperforming its benchmark by 0.5%. The top positive contributors were Mercury (+7.4%), Seek (+9.2%) and NAB (+11.7%). The detractors to performance included Ramsay Healthcare (-4.2%).

KMD Brands released a trading update during the month, citing improved retail conditions in the second half. However COVID has continued to impact footfall, which caused sporadic store closures due to staff availability. This has impacted sales and earnings, leading to downgrades to FY22 consensus and no guidance was given. Overall, we believe KMD Brands is positioned well for the winter sales period and we remain confident in the strength of the Rip Curl and Oboz brands. The company trades on an attractive valuation even allowing for the earnings risk, and has a healthy dividend yield.

This upcoming reporting season will be very interesting considering the economic backdrop of rising interest rates, high inflation and the likelihood of a global recession.

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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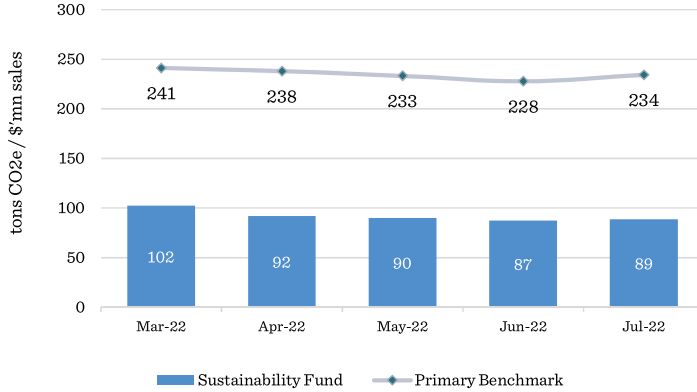
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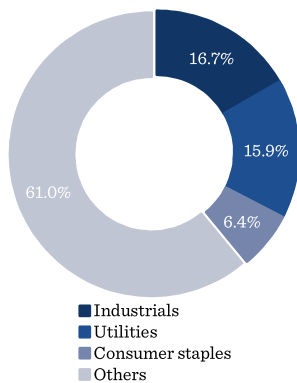
DEVON SUSTAINABILITY FUND

CARBON INTENSITY - PORTFOLIO VS BENCHMARK

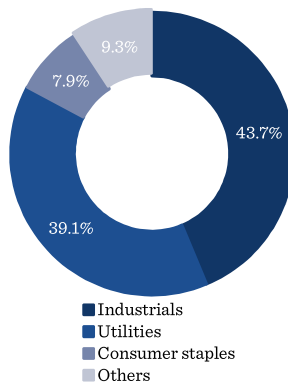


PORTFOLIO CARBON EMISSIONS BY KEY SECTORS

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	AA	9.45	Portfolio Sustainability Fund
Benchmark	A	8.13	Primary Benchmark 50:50 composite S&P/NZX50 Portfolio Index & S&P/ASX200G Index

PERFORMANCE

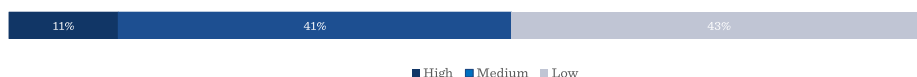
	1 Mth	3 Mth	6 Mth	1 Yr	Since Inception
ESG relative performance	16.2%	22.9%	12.4%	7.5%	4.8%

*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	95.5%
% of companies reporting to TCFD standards	70.5%
% of companies with a modern slavery statement	70.5%
% of companies with carbon emission reduction targets	72.7%

CLIMATE CHANGE RISK BY PORTFOLIO HOLDINGS



STEWARDSHIP

There were a number of ESG developments during July that will impact our stewardship with companies going forward. On the environmental side, the Australian Labour government introduced their Climate Change Bill seeking to legislate its 2030 goal of a 43% emissions reduction (from 2005 levels). Also, the State of the Environment Report released during the month highlighted that the current state of Australia's environment is poor. Takeaways from the report for Australian corporates include the increasing importance of biodiversity risk and natural capital risk. On the social side, the UN released 'The Sustainable Development Report 2022' which showed that 64% of ASX200 companies use the SDGs as a framework to guide their reporting. Unsurprisingly Climate Action (Goal 13) is the most common. On the governance side, APRA has yet again delayed the results of its Climate Vulnerability Assessment (CVA) to the end of this year, following several challenges, including lack of relevant climate data. It now anticipates providing an update on the outcomes in the third quarter. The outcome of this report is likely to not only impact the banking sector but will also extend to insurers and the superannuation industry.

Heading into the August Reporting Season, we expect employment conditions to be in focus amidst tight labour markets and rising industrial activity. Elevated energy prices will put efficiency initiatives in the spotlight, and we expect to see greater detail on corporate transition plans, including decarbonisation capex as well as more pledges to science-based targets.

PORTFOLIO MANAGER

Victoria Harris



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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

DURATION

Sector	Contribution to Duration (Years)		
	Account	Benchmark	Difference
Cash & Cash Equivalents	0.00	0.00	-0.00
US Government	-0.34	1.05	-1.40
Credit*	5.65	4.94	0.71
Asset Backed Securities	0.01	0.01	0.00
Mortgage Backed	1.32	0.66	0.66
Commercial Mortgage	0.12	0.04	0.09
Other	0.02	0.09	-0.07
Cash Offset	-	-	-
	6.78	6.80	-0.02

CREDIT RATING

Quality	Percent of Market Value		
	Account	Benchmark	Difference
Cash	-1.51	0.34	-1.85
AAA	48.32	39.18	9.14
AA	15.05	15.27	-0.22
A	13.47	30.63	-17.16
BBB	14.60	14.26	0.34
BB	8.02	0.02	7.99
B	2.74	-	2.74
Below B	0.26	-	0.26
Cash Offset	-2.09	-	-2.09
Not Rated	1.14	0.30	0.84
	100.00	100.00	

*Duration & Credit Rating as at as at 30 June 2022

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

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
Devon Global Impact Bond Fund	2.7%	-0.1%
Bloomberg Global Aggregate Index Hedged NZD	2.6%	0.8%
Devon Global Sustainability Fund	6.4%	1.1%
MSCI All Country World Index in NZD, 50% hedged to NZD	6.5%	0.0%

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

KEY HOLDINGS*



INDITEX



*Key Holdings as at as at 30 June 2022

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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