

## Seeing the light

By Greg Smith, Head of Retail at Devon Funds.

June was a busy month again for markets. Another ‘crisis’ was averted, with the US debt ceiling raised after weeks of negotiations. The notion that the end of a sustained period of interest rate tightening was coming to an end was reinforced by the US Federal Reserve which paused interest rates, ending a string of 10 consecutive increases over the previous 18 months. Other central banks were beating a slightly different drum, but officials in New Zealand and Australia also suggested that the end of the interest rate hiking period was in sight.

Many economies were resilient, with New Zealand a clear exception as we entered a technical recession in the first quarter. Corporate announcements domestically were fairly thin on the ground locally, although several of those that were forthcoming did see a significant investor reaction as a result.

Market wise, large global markets were out in front. Investor hype around AI helped to propel those markets with strong technology weighting higher. The Nasdaq soared over 6.5% during June, and the 32% gain during the first six months of the year marked the best half since 1983. The broader S&P500 also gained 6.5% during June and is up 16% in the first six months of the year.

It was a month when records were broken. AI hype saw shares of chip maker Nvidia surge, and join an exclusive club of companies with a market cap of US\$1 trillion or more. One member of that club, Apple, also hit record highs, with the tech titan’s valuation above US\$3 trillion. Microsoft, the top holding in the Devon Global Sustainability Fund, also hit a record high.

Helping matters at the start of the month was the resolution of...[READ MORE](#)

## MARKET INDICES

Index	Region	Monthly Return 1 Yr. Return	
S&P/NZX50G	NZ	0.9%	9.6%
S&P/ASX200G	AUSTRALIA	1.8%	14.8%
MSCI World Index	GLOBAL	6.1%	19.1%
S&P500	USA	6.6%	19.6%
FTSE100	UK	1.4%	9.1%
NIKKEI 225	JP	7.6%	28.6%
NZ 90 Day Bank Bill	NZ	0.5%	4.1%
Bloomberg Global Aggregate Index (NZD)	GLOBAL	-0.0%	-0.3%

## AT A GLANCE

Prices as at 30 June 2023

DEVON ALPHA FUND	\$2.2317
DEVON AUSTRALIAN FUND	\$1.6103
DEVON DIVERSIFIED INCOME FUND	\$1.4424
DEVON DIVIDEND YIELD FUND	\$1.8966
DEVON GLOBAL IMPACT BOND FUND	\$1.3731
DEVON GLOBAL SUSTAINABILITY FUND	\$1.6392
DEVON TRANS-TASMAN FUND	\$4.6238
DEVON SUSTAINABILITY FUND	\$3.2253

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# DEVON ALPHA FUND

## FUND OUTLINE

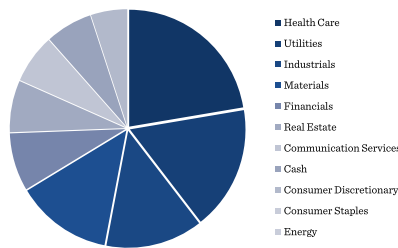
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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

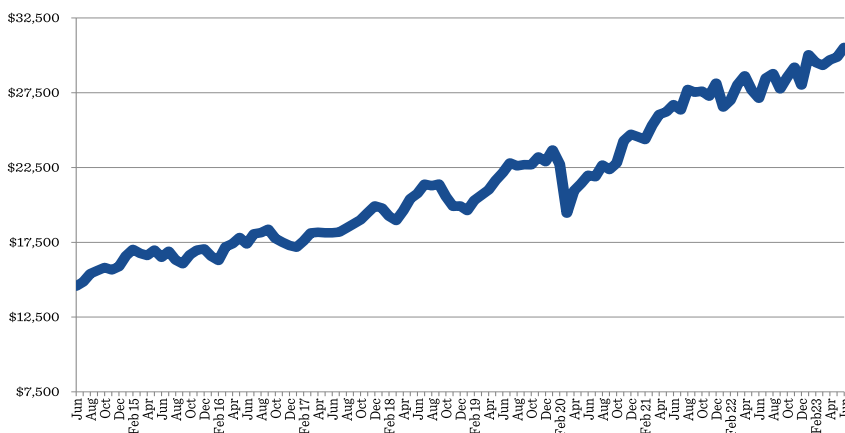
New Zealand Equities	30.5%	Cash	6.5%
Australian Equities	63.0%	Total	100.0%
Currency Hedge	69.8%		

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Alpha Fund	2.2%	4.1%	12.5%	11.6%	8.0%	9.2%
OCR + 5%	0.9%	2.6%	8.4%	3.1%	2.4%	2.2%

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 enjoyed a positive month of performance in June and generated solid absolute returns for the quarter. We have also exceeded the local benchmarks during this time, albeit we make this observation for reference purposes only, as this portfolio is managed solely with an absolute return objective.

A number of our investments are worth highlighting with Rio Tinto and James Hardie rallying 7.2% and 4.9% respectively, whilst Ryman Healthcare finished up 3.6%. There were a number of portfolio changes made during the month, including our purchase of Brambles and our participation in the capital raising by Infratil New Zealand. This transaction was initiated by the company to fund their purchase of an additional 49.95% stake in One NZ from Brookfields. This is now Infratil's largest investment, and we are confident in management's ability to drive margin improvement within this business. We are also attracted to Infratil's other assets including their data centres and renewable energy.

## 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

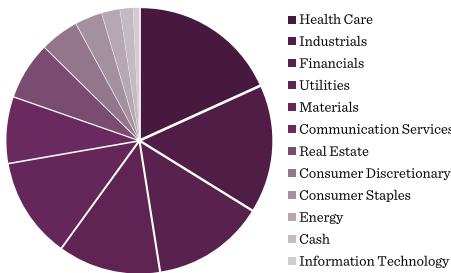
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

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	45.8%	Cash	1.6%
Australian Equities	52.6%	Total	100.0%

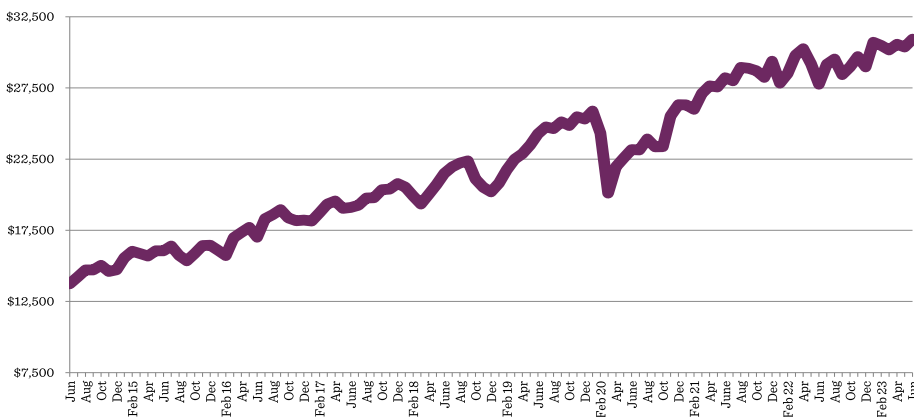
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Incep- tion
Devon Trans-Tasman Fund	1.8%	2.5%	11.4%	10.1%	7.5%	8.4%
50:50 NZX50 Gross & ASX200 Index Unhedged	1.6%	1.4%	11.2%	6.5%	6.5%	9.0%

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 enjoyed positive relative performance during June, exceeding its benchmark. Key highlights this month included strong performance from Pilbara Minerals (+10.9%), Fletcher Building (+8.0%), Rio Tinto (+7.2%), Ryman (3.6%), and Brambles (+4.9%). We also benefitted by having no exposure to Pacific Edge and by being underweight EBOS, after both notably underperformed.

The portfolio increased its position in Brambles over the month after a period of weakness. The backdrop for the business looks increasingly positive. Brambles continues to enjoy price rises and the cost pressures that they have endured now look to be easing, with significant falls in lumber prices and a moderation in transport cost growth. As the US economy moderates and pallet returns increase, this will allow the company to focus on new business wins while lower lumber prices reduce the cost of pallets. If this translates into improved free-cash flow like we expect, there is still scope for a re-rating of this high-quality business.

## 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

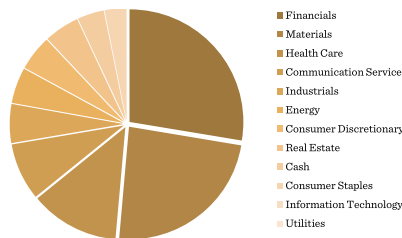
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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

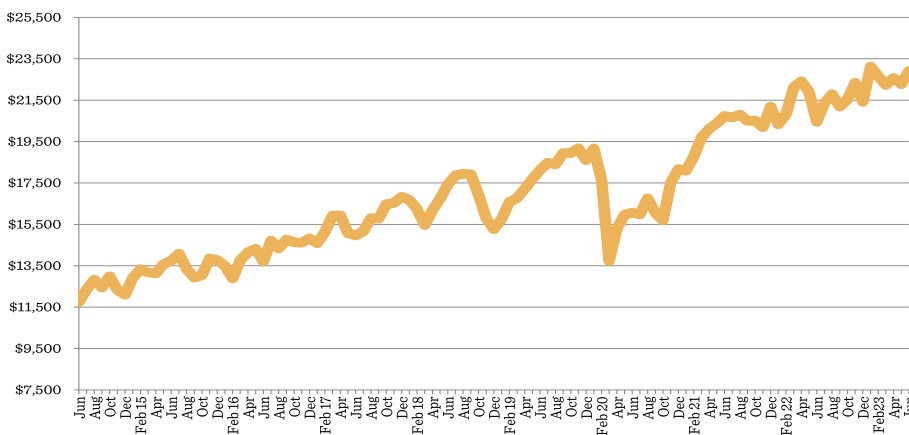
New Zealand Equities	0.0%	Cash	3.8%
Australian Equities	96.2%	Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Australian Fund	2.8%	3.0%	12.0%	12.5%	5.6%	7.5%
ASX200 Index Gross (NZD)	2.4%	2.5%	12.8%	11.7%	7.1%	7.0%

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

### NET PERFORMANCE

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



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

### COMMENTARY

The Australian portfolio generated strong absolute returns during June and comfortably exceeded its underlying benchmark. Although there were a number of important contributors, we wanted to highlight one particular investment, AUB Group. Over the past few months, we have been building a position in this business after conviction was developed within our research process. AUB is an equity-based insurance broker network with established exposures across New Zealand, Australia, and the UK. During the month the stock rallied 16.3%. This return was achieved after AUB completed a \$165m capital raise in late May to provide financial flexibility in support of their ongoing M&A objectives. This transaction received strong investor support after management also upgraded their earnings guidance, highlighting attractive trading conditions and operating performance across all their geographies. We continue to have a favourable view on this investment and believe that it remains supported by its valuation, organic, and non-organic growth potential.

### 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**

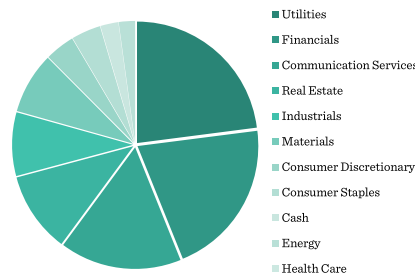
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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**

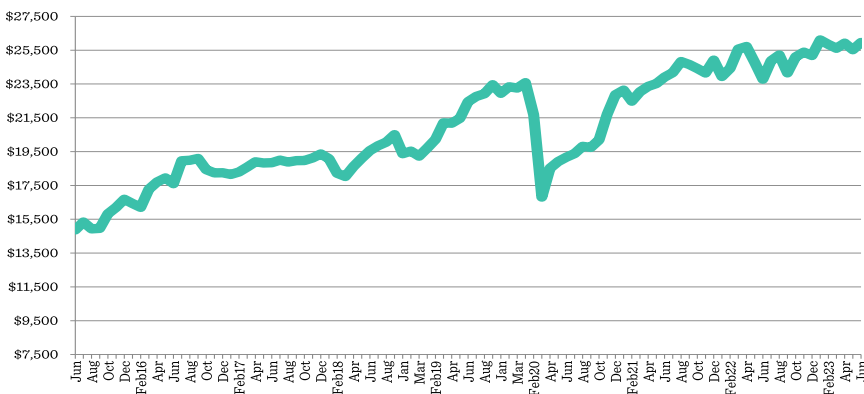
New Zealand Equities	63.4%	Cash	2.4%
Australian Equities	34.2%	Total	100.0%
Currency Hedge	96.6%	Yield	6.3%

<b>PERFORMANCE</b>	<b>1 Mth</b>	<b>3 Mth</b>	<b>1 Yr</b>	<b>3 Yr p.a</b>	<b>5 Yr p.a</b>	<b>Since Inception</b>
Devon Dividend Yield Fund	1.7%	1.4%	9.1%	10.7%	5.8%	9.6%
50:50 NZX50 & ASX200 Index Gross	1.3%	0.6%	12.2%	6.2%	6.5%	10.4%

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**

Whilst our investments in Australian supermarkets performed well, it was our investment in Metcash which outperformed the sector (+5.9% in June), surprising the market with a better than expected full year result. Metcash produced an underlying EBIT improvement of 8% with all divisions producing results ahead of consensus. Cash conversion of 120% supported the improved dividend, up 4.7 % with the company commenting that its solid sales growth had continued into the new year.

Our decision to remove EBOS Healthcare from the portfolio earlier in the year on valuation and contract risk concerns proved correct as the price fell 12.7% during the month. The announcement from its significant customer, Chemist Warehouse, that it would not be renewing its distribution agreement with EBOS was a substantial blow to the company and will materially affect their earnings next year.

**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.



# DEVON DIVERSIFIED INCOME FUND

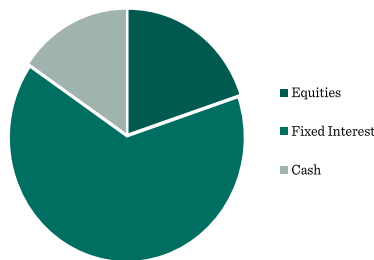
## FUND OUTLINE

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	17.9%	Bonds	58.4%
Australian Equities	9.7%	Cash	14.0%

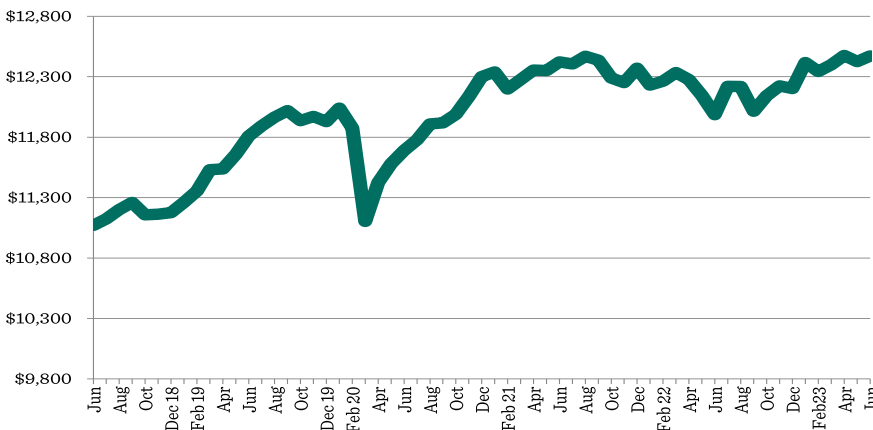
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Diversified Income Fund	0.4%	0.6%	4.0%	2.2%	2.4%	3.1%
OCR + 1.5%	0.6%	1.7%	5.7%	3.3%	3.1%	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 bond yields rallied during the month with the interest rate on the US 10-year finishing at 3.88% (having finished the prior month at 3.66%). The US Federal Reserve met market expectations by keeping rates on hold, but Chairman Powell did note that the next move is likely to be higher, not lower. Key to this “hawkish” position is the observation by the Fed that although headline inflation is coming down, core inflation remains stubbornly high, in large part due to ongoing tightness in the US labour market. In Australia the RBA moved counter to expectations by hiking rates for the second consecutive meeting. They lifted the cash rate by 0.25% to 4.1%, acknowledging a view that wage growth is likely to rise further, driven by inflation in public sector wages and an increase to the minimum wage. In New Zealand we had confirmation that we were technically in recession after the first quarter of this year.

## PORTFOLIO MANAGER

Slade Robertson



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## DEVON SUSTAINABILITY FUND

### FUND OUTLINE

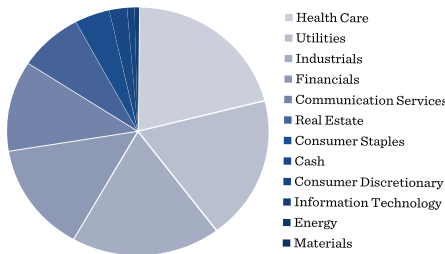
The **Devon Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	58.6%	Cash	2.2%
Australian Equities	39.2%	Total	100.0%

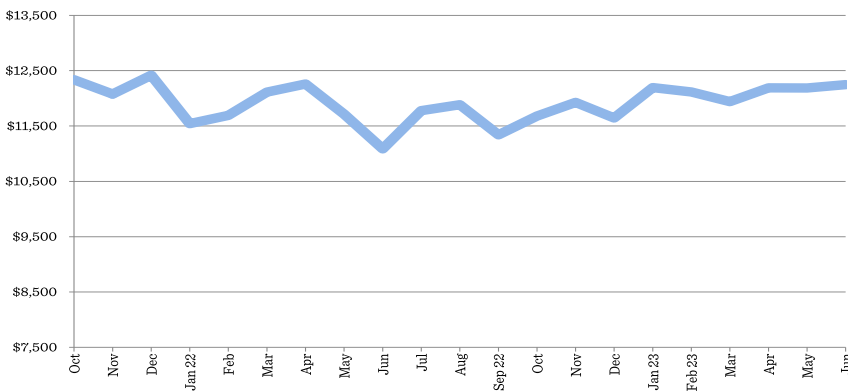
### PERFORMANCE

	1 Mth	3 Mth	1 Yr p.a	2 Yr p.a	Since Inception
Devon Sustainability Fund	0.5%	2.6%	10.5%	0.8%	7.4%
50:50 NZX50 Portfolio Index & ASX200 Index	1.3%	1.3%	11.3%	0.3%	6.9%

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

### NET PERFORMANCE

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



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

### COMMENTARY

During June the Sustainability strategy generated a positive absolute return but it did underperform its benchmark, in large part due to the strong performance of the mining sector, which we cannot own in this portfolio. Top contributors included Fletcher Building (+8.0%), Precinct Properties (+7.1%) and Fisher and Paykel Healthcare (+6.8%).

APM Human Services also permed well for us, finishing the month up 2.4%. APM is a large AU\$2bn human services provider, operating throughout numerous countries in a range of capacities. APM is the market leader in, helping people with disabilities find work in Australia. We have seen its share price sell off in the last few months due to the tight labour market in Australia meaning there are fewer candidates to place in general. While this is a short-term challenge for the business, we consider the impact to be fully captured in the current share price. APM now trades at a substantial discount to its peer group.

### 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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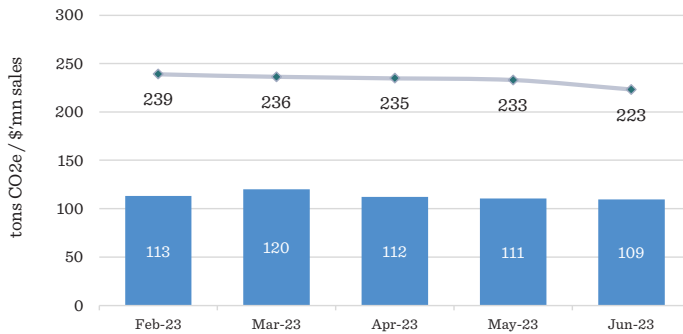
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**DEVON SUSTAINABILITY FUND**

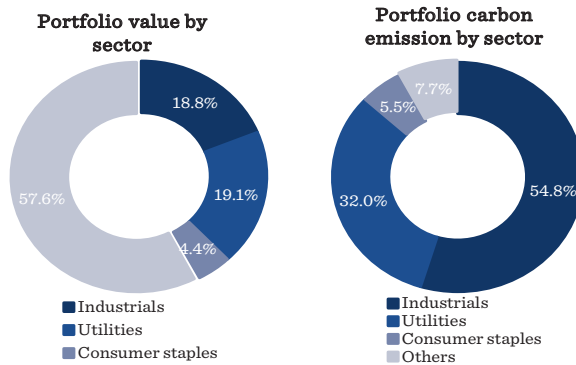
**CARBON INTENSITY - PORTFOLIO VS BENCHMARK**

Carbon Intensity - Portfolio vs Benchmark



**PORTFOLIO CARBON EMISSIONS BY KEY SECTORS**

Portfolio Carbon Emissions by Key Sectors



The industrials, utilities, and consumer staples sectors make up 42.3% of the portfolio by value, but they account for 92.3% of the carbon emissions in the portfolio.

**ESG PORTFOLIO SUMMARY**

	MSCI ESG Ratings	MSCI ESG Quality score	Portfolio
Portfolio	AA	7.67	Sustainability Fund
Benchmark	AA	7.37	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	4.1%	3.0%	8.5%	11.6%	6.9%

\*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 CARBON EMISSION REDUCTION SUMMARY**

Portfolio Holding's Carbon Emission Reduction Summary

% of companies committed to Net Zero	57.9%
% of companies committed to Carbon Neutral	7.9%
% of companies with no commitment to either	34.2%

**PORTFOLIO HOLDING'S DISCLOSURE SUMMARY**

Portfolio Holding's Disclosure Summary

% of companies reporting to TCFD standards	81.6%
% of companies with carbon emission reduction targets	78.9%

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**STEWARDSHIP**

June saw the conclusion of some ongoing stewardship projects for Devon. Most notably we were pleased to release our annual disclosure survey in which we surveyed NZX50 companies on how they incorporate ESG considerations within their CEO remuneration packages. We also put together a submission for the NZX consultation on director independence regulatory settings and were part of the working group for a submission for the New Zealand Corporate Governance Forum on this consultation. Lastly, we publicly endorsed the Advance initiative; a stewardship initiative where institutional investors work together to take action on human rights and social issues.

At a company level, we engaged with Fonterra. With decarbonisation in the spotlight, we felt it was important to get a sense for the emission reduction strategy Fonterra has in place, as one of New Zealand's top five emitting companies. While they still have a long way to go, we were pleased to see the progress they are making towards becoming coal free, and targeting Net Zero by 2050, in line with New Zealand's national emission reduction goals.

**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	1.33	1.04	0.29
Credit*	4.16	4.73	-0.57
Asset Backed Securities	0.01	0.01	0.01
Mortgage Backed	1.09	0.63	0.46
Commercial Mortgage	0.10	0.03	0.06
Other	0.01	0.09	-0.09
Cash Offset	-	-	-
	6.70	6.53	0.17

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	5.37	0.34	5.03
AAA	46.88	39.58	7.29
AA	17.28	14.63	2.66
A	10.74	31.04	-20.30
BBB	14.18	14.13	0.05
BB	4.03	0.01	4.02
B	3.05	-	3.05
Below B	0.22	-	0.22
Cash Offset	-2.24	-	-2.24
Not Rated	0.49	0.27	0.22
	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 May 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	0.0%	0.2%	2.6%	0.3%
Bloomberg Global Aggregate Index Hedged NZD	0.0%	0.1%	2.7%	-0.3%

PERFORMANCE	1 Mth	3 Mth	6 Mth	1 Yr
Devon Global Sustainability Fund	4.2%	6.0%	13.2%	17.4%
MSCI All Country World Index in NZD, 50% hedged to NZD	4.5%	7.6%	15.9%	16.9%

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

## KEY HOLDINGS\*



\*Key Holdings as at 31 May 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.

## Devon Funds Management Limited

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**DEVON  
FUNDS.**

www.devonfunds.co.nz



ARTESIAN GREEN AND SUSTAINABLE BOND FUND (NZD)

**DEVON FUNDS LAUNCHES A NEW SUSTAINABLE CORPORATE BOND FUND**

Devon Funds is pleased to announce the launch of a new sustainable fund offering, being the Artesian Green and Sustainable Bond Fund (NZD). The Fund will be managed by Artesian Corporate Bond Pty Ltd ('Artesian').

Artesian are a global fixed income fund manager focused on relative value opportunities in credit markets. Artesian has managed specialised funds focused on credit arbitrage and relative-value strategies across global financial markets since 2004 from its New York, London, Singapore, Shanghai, Melbourne and Sydney offices. The Fund has been structured as a PIE for tax purposes.

The Fund invests in labelled corporate bonds issued by global companies, such as green, social or sustainable bonds. The Fund is an investment-grade fund with an emphasis on liquidity and credit quality. The Fund's benchmark is the Bloomberg AusBond Composite 0-5 Yr Index, 100% hedged to NZD.

Artesian sees the global labelled (green, sustainable and social) bond market as an opportunity for investors to facilitate positive change. The rise of the green, sustainable and social bond market and the innovation of sustainability-linked bonds are prime examples of how investor demand, capital market innovation and corporations can foster positive impact, whilst improving returns with quality fixed income investments.

We are excited by the launch of this offering. Artesian has a strong investment team with robust investment processes, and a great track record. We view their rigorous approach to sustainable investing as being an excellent fit with Devon's own responsible investing framework. We see the Fund as having significant appeal for local investors. Initial interest in the Fund has been very strong.

