

## Positive outcomes

By Greg Smith, Head of Retail at Devon Funds.

Markets had plenty to deal with again in May. Investors largely moved on from the turmoil in the regional banking sector but had a new ‘crisis’ to deal in the US debt ceiling standoff. Central bank manoeuvrings remained in the spotlight, with officials suggesting that rate pauses were in the offing. For the most part, inflation continued to head in the right direction, making for an interesting backdrop to budgets delivered during the month in Australia and New Zealand, with the latter best described as “expansionary.”

Earnings seasons on the whole were positive, and while there were some misses, better-than-feared outcomes were generally a theme.

Most markets drifted lower in a month which has historically not been particularly kind to investors. There were however upward re-ratings for several companies within the Devon funds, the most notable being Ryman Healthcare (+20%) in New Zealand and James Hardie (+13%) in Australia.

As we move towards the half-way stage of the year, two drivers of equity market volatility – inflation and interest rates – appear to be heading for calmer waters. Inflation, while still elevated, has come down from peak levels in 2022 and is helping central bank officials to ratchet back the pace of interest rate hikes, or even pause them.

The Fed put through a widely anticipated 25bps increase in interest rates at the start of May. Chair Jerome Powell however implied that that “the door was open” to a rate pause. Helping the case here were US consumer prices which rose 4.9% in April, the lowest since April 2021, and well below the peak of 9.0% in June 2022...[READ MORE](#)

## MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	-1.7%	4.5%
S&P/ASX200G	AUSTRALIA	-2.5%	2.9%
MSCI World Index	GLOBAL	-0.1%	3.5%
S&P500	USA	1.0%	3.5%
FTSE100	UK	-4.9%	1.7%
NIKKEI 225	JP	7.0%	15.9%
NZ 90 Day Bank Bill	NZ	0.4%	3.8%
Bloomberg Global Aggregate Index (NZD)	GLOBAL	-0.4%	-1.8%

## AT A GLANCE

Prices as at 31 May 2023

DEVON ALPHA FUND	\$2.1845
DEVON AUSTRALIAN FUND	\$1.5659
DEVON DIVERSIFIED INCOME FUND	\$1.4371
DEVON DIVIDEND YIELD FUND	\$1.8650
DEVON GLOBAL IMPACT BOND FUND	\$1.3728
DEVON GLOBAL SUSTAINABILITY FUND	\$1.5735
DEVON TRANS-TASMAN FUND	\$4.5425
DEVON SUSTAINABILITY FUND	\$3.2092

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# DEVON ALPHA FUND

## FUND OUTLINE

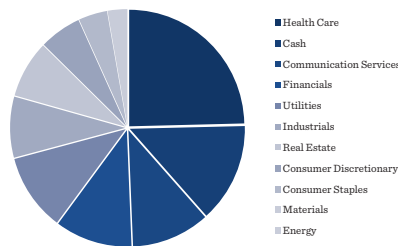
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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

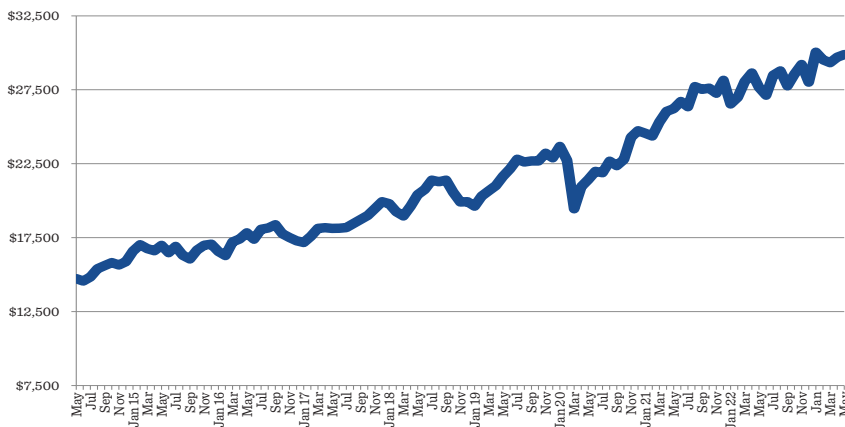
New Zealand Equities	26.5%	Cash	13.8%
Australian Equities	59.7%	Total	100.0%
Currency Hedge	0.0%		

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Alpha Fund	0.6%	1.2%	8.0%	11.8%	8.0%	9.1%
OCR + 5%	0.9%	2.5%	7.7%	2.8%	2.2%	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 portfolio performed well during the month, generating a positive absolute return despite local markets falling. There were a number of important contributors to this outcome including James Hardie which rallied 13.1% and CSL which closed 1.9% higher. The real highlight though was Ryman Healthcare whose share price soared 19.8%. We have continued to build our position in this business subsequent to their recent \$902m capital raising. This process enabled Ryman to strengthen their balance sheet and to provide management with an improved platform to execute on a strategy of driving better capital efficiency and cash generation. During May, they reported their FY23 result which was well received by investors. Highlights included good cost control and resale gains. Pleasingly the company's debt levels were better-than-expected. We believe that unless there is a further deterioration in the NZ housing market, this investment will remain a productive one for Alpha.

## 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

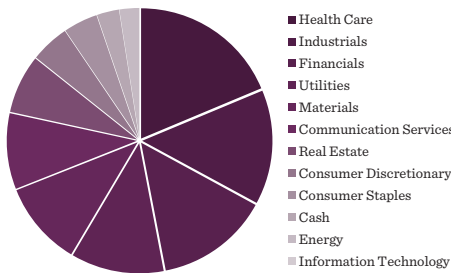
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

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	44.4%	Cash	2.7%
Australian Equities	52.9%	Total	100.0%

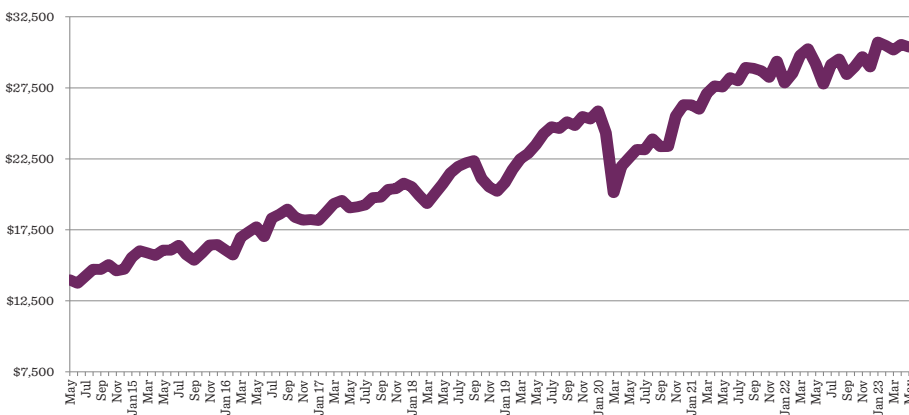
### PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Incep- tion
Devon Trans-Tasman Fund	-0.6%	-0.4%	4.1%	10.4%	7.9%	8.4%
50:50 NZX50 Gross & ASX200 Index Unhedged	-1.7%	-1.2%	2.6%	7.2%	7.0%	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 strategy generated strong outperformance of its benchmark during May. Our portfolio enjoyed the benefits of its bias towards high quality businesses, as economic and market volatility remained elevated. A good example of our discipline around quality and value is James Hardie, which rallied 13.1% over the month. The company reported their FY23 result which, despite being broadly in-line with market expectations, was well received by investors. Hardie's achieved record net sales during the year of US\$3.8bn globally. Encouragingly management provided guidance for their first-quarter operating performance which was ahead of analyst estimates. The result commentary was further supported by the provision of margin sensitivity analysis under different volume outcomes. This suggested that margins have lifted due to successful management execution around costs and manufacturing efficiencies. We continue to have an investment in this business and regard it as one of the best operators available to us in the building materials sector.

### 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**

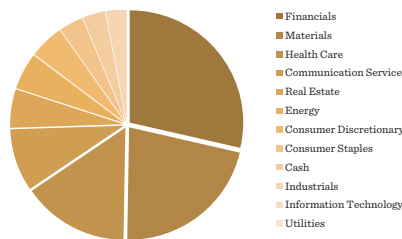
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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**

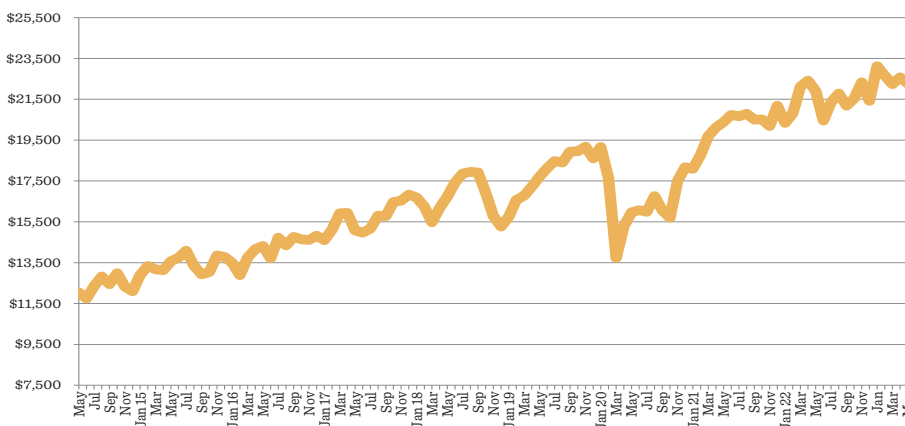
New Zealand Equities	0.0%	Cash	3.2%
Australian Equities	96.8%	Total	100.0%

<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 Australian Fund	-1.3%	-1.7%	1.7%	11.7%	5.9%	7.4%
ASX200 Index Gross (NZD)	-1.6%	-1.7%	0.8%	11.7%	7.5%	6.9%

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

**NET PERFORMANCE**

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



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

**COMMENTARY**

The Australian strategy enjoyed solid outperformance against its benchmark during the month. The key positive contributors to performance were Cleanaway Waste Management (+7.4%) and James Hardie (+13.1%). Cleanaway presented at the Macquarie conference earlier in the month and reaffirmed its full year earnings guidance which several market commentators had doubts over. As part of this presentation, the CEO outlined the company’s plan to materially improve margins over the next 24 months. Underpinning this margin improvement are initiatives to resolve labour productivity, benefits from lagged price escalations in its contract base, restoring its health services business and optimising its network in Queensland. Additionally, the company provided further insight into its plan to develop energy-from-waste facilities across its network and how this might impact the capital management framework. A key detractor to performance was Ramsay Healthcare (-11.3%) following its third quarter trading update which, despite a positive revenue performance highlighted a deterioration of margins, as staffing shortages continue to be an issue across the business.

**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**

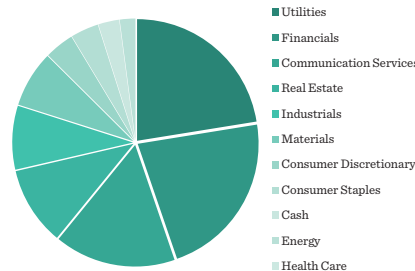
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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**

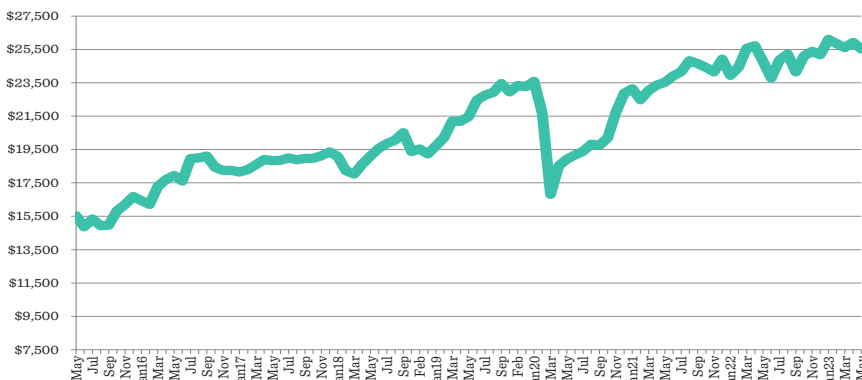
New Zealand Equities	62.0%	Cash	2.9%
Australian Equities	35.1%	Total	100.0%
Currency Hedge	101.1%	Yield	6.4%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Dividend Yield Fund	-1.5%	-1.2%	3.0%	10.5%	6.0%	9.5%
50:50 NZX50 & ASX200 Index Gross	-2.1%	-0.8%	3.7%	7.1%	6.9%	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**

During the month the Dividend Yield strategy performed well against its benchmark and continues to meet its yield objective, with a forecasted dividend yield of 6.4%. We believe this income stream is well supported by fundamentals and is likely to grow over the next three years. Over the course of May several investments were made for this strategy. Australian waste infrastructure business Cleanaway was added. We believe this is a high quality business and under new CEO, Mark Schubert, there are strong opportunities for improved operating efficiencies to be achieved over the next two years. We also purchased shares in the Australian real estate business GPT, as well as New Zealand's Goodman Property Trust. We lifted the strategy's property exposure via these two investments, as we believe that the underlying assets within these businesses are ultimately worth more than what the market has currently priced the shares at.

**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

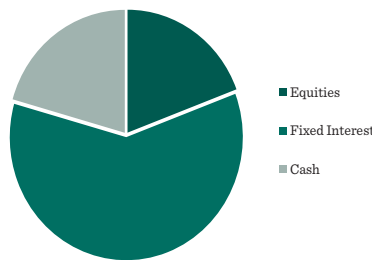
### FUND OUTLINE

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	17.4%	Bonds	54.2%
Australian Equities	9.9%	Cash	18.5%

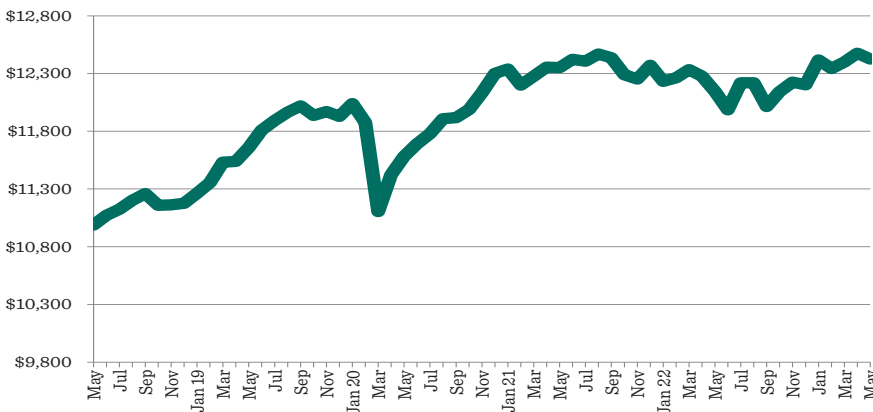
### PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Diversified Income Fund	-0.4%	0.7%	2.3%	2.4%	2.5%	3.1%
OCR + 1.5%	0.6%	1.7%	5.4%	3.1%	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

The global bond market was reasonably volatile during the month, with the yield on US 10-year Treasuries finishing the period at 3.66%. Of significant focus for investors was the negotiations surrounding the US debt ceiling. As the deadline approached it was announced that US policy makers had struck a deal, in principle, to lift the ceiling by approximately US\$4 trillion for two years and therefore avoid default. This deal was ultimately passed by Congress in early June. In New Zealand, the market was surprised by a more dovish tone to the latest Monetary Policy Statement by the RBNZ. Governor Orr increased the cash rate by 0.25% to 5.50% but also identified that this could be the peak in the rate cycle. Prior to this release investors had priced in an expectation that the cash rate would reach a high point of 5.90%. The New Zealand dollar has weakened subsequent to this statement.

### 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 SUSTAINABILITY FUND

## FUND OUTLINE

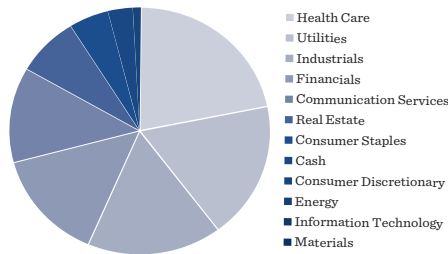
The **Devon Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	57.4%	Cash	3.1%
Australian Equities	39.5%	Total	100.0%

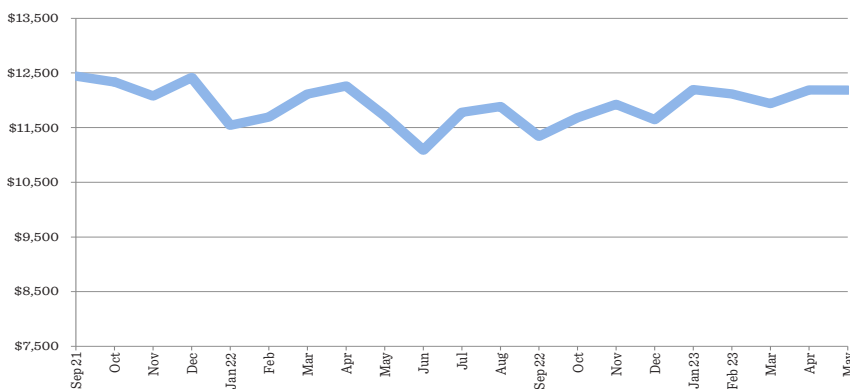
## PERFORMANCE

	1 Mth	3 Mth	1 Yr p.a	2 Yr p.a	Since Inception
Devon Sustainability Fund	-0.0%	0.6%	3.9%	1.4%	7.4%
50:50 NZX50 Portfolio Index & ASX200 Index	-1.3%	-0.5%	2.9%	0.8%	6.6%

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 May this strategy outperformed its benchmark by 1.29%, finishing up -0.02%. Top contributors to performance included Ryman Healthcare (+19.8%), Summer-set (+12.0%) and Fletcher Building (+11.6%). Meanwhile key detractors included Fisher & Paykel Healthcare (-16.0%), Ramsay Healthcare (-11.3%) and National Australia Bank (-7.1%). We continue to believe that there is attractive valuation support for a number of domestic cyclical businesses. A demonstration of this is our investment in Fletcher Building. During May the April housing consent data was released showing continued headwinds in this sector, with housing consents down 21% on the prior year. However, the market is forward looking. Given the RB-NZ's view on our Official Cash Rate being at peak levels, as well as strong inward net migration and a structural under supply of 70,000 homes in New Zealand, we consider Fletcher Building undervalued at its current price. Moreover, we look forward to their Investor Day, which is to be held at the end of June.

## 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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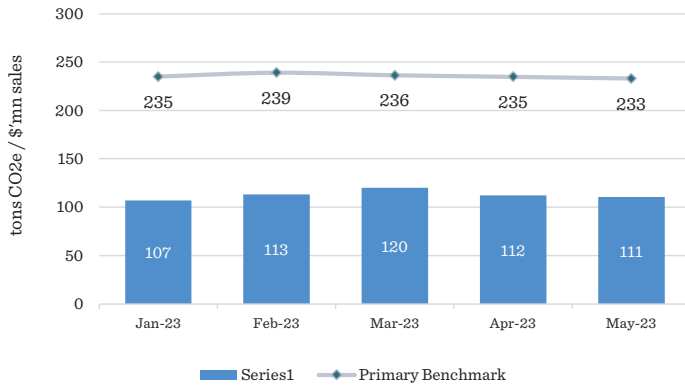
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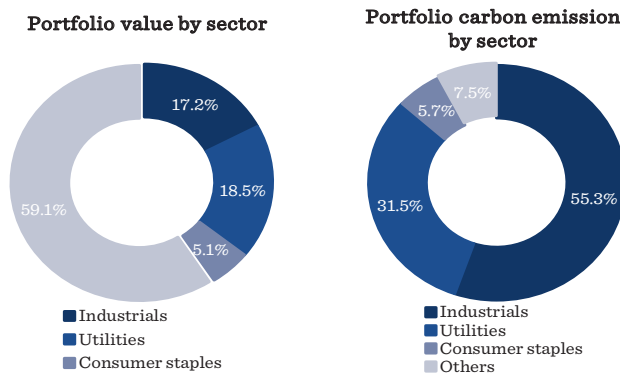


## DEVON SUSTAINABILITY FUND

### CARBON INTENSITY - PORTFOLIO VS BENCHMARK



### PORTFOLIO CARBON EMISSIONS BY KEY SECTORS



The industrials, utilities, and consumer staples sectors make up 40.8% of the portfolio by value, but they account for 92.5% of the carbon emissions in the portfolio.

### ESG PORTFOLIO SUMMARY

	MSCI ESG Ratings	MSCI ESG Quality score	Portfolio
Portfolio	AA	7.47	Sustainability Fund
Benchmark	AA	7.31	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	2.2%	5.8%	9.3%	12.1%	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	58.3%
% of companies committed to Carbon Neutral	8.3%
% of companies with no commitment to either	33.3%

### PORTFOLIO HOLDING'S DISCLOSURE SUMMARY

#### Portfolio Holding's Disclosure Summary

% of companies reporting to TCFD standards	80.6%
% of companies with carbon emission reduction targets	80.6%

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### STEWARDSHIP

During the month we engaged with CSL Limited, an Australian healthcare company. We engaged on the topic of decarbonisation and asked for an update on the emission reduction targets they announced in December 2022.

CSL let us know that their Science Based Targets (SBTi) were close to being ready to take to the board and should be released with their full year results. In the meantime, they have been making progress on their target to reduce scope 1 and 2 emissions by 40% and have put considerable emphasis on scope 3 emissions, given it is their highest source of emissions. They noted that they won't come out with a net zero target at this stage as they don't have a clear pathway to do so, whereas they have a path to reduce emissions by 2030, and once achieved will re-evaluate for 2035. We were pleased with the pragmatic target setting the company has put in place and have confidence in their approach.

### 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 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	-0.4%	2.1%	1.6%	-2.0%
Bloomberg Global Aggregate Index Hedged NZD	-0.4%	2.3%	1.5%	-1.8%

PERFORMANCE	1 Mth	3 Mth	6 Mth	1 Yr
Devon Global Sustainability Fund	-0.4%	3.8%	5.8%	5.9%
MSCI All Country World Index in NZD, 50% hedged to NZD	0.9%	5.4%	5.2%	5.3%

## KEY HOLDINGS\*



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

\*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.

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FUNDS.**

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