

## Lessons from a silent housing crash

An interest piece written by Greg Smith, Head of Distribution at Devon Funds.

It certainly has been a rollercoaster ride for the economy and markets over the past four years. Initial angst over the pandemic was replaced with relief as central bankers and governments pulled out the punch bowl, stimulating a Covid-stricken economy with a raft of measures which included taking interest rates towards zero. Spending thrived and economic activity soared as a result. The property market also ballooned – the narrative for the latter was that it was “a good time to buy a house” because it was cheap to borrow. Any notion of value, long term affordability, and what the future might bring, was put aside as a thought for another day.

After any big party there are usually a few hangovers, and our economy has been left with a sore head in the form of a recession. Free lunches often come with a catch, and soaring inflation has seen “easy money” taken away, with interest rates rising rapidly. Cost of living pressures have reverberated through the economy, with a collapse in property prices rubbing salt and financial pain in the wounds for anyone that entered or moved up the housing ladder in 2021.

The NZ housing market has crashed since the peak in late 2021, with the house price index falling 19% in nominal terms, and some 29% in real terms when allowing for inflation. In Auckland the numbers are 21% and 31% respectively

The housing market crash doesn't get a lot of attention - contrast this with periods of volatility in the stock market, whose card is still...[READ MORE](#)

## MARKET INDICES

Index	Region	Monthly Return 1 Yr. Return	
S&P/NZX50G	NZ	-0.8%	0.5%
S&P/ASX200G	AUSTRALIA	0.9%	12.9%
MSCI World Index	GLOBAL	4.5%	25.5%
S&P500	USA	5.0%	28.2%
FTSE100	UK	2.1%	15.6%
NIKKEI 225	JP	0.2%	26.9%
NZ 90 Day Bank Bill	NZ	0.5%	5.8%
Bloomberg Global Aggregate Index (NZD)	GLOBAL	0.9%	2.9%

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## AT A GLANCE

Prices as at 31 May 2024

DEVON ALPHA FUND	\$2.2422
DEVON AUSTRALIAN FUND	\$1.7027
DEVON DIVERSIFIED INCOME FUND	\$1.4407
DEVON DIVIDEND YIELD FUND	\$1.8125
DEVON GLOBAL IMPACT BOND FUND	\$1.3465
DEVON GLOBAL SUSTAINABILITY FUND	\$1.8682
DEVON TRANS-TASMAN FUND	\$4.6471
DEVON SUSTAINABILITY FUND	\$3.2226
ARTESIAN GREEN & SUSTAINABLE BOND FUND	\$1.0345

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## DEVON ALPHA FUND

## FUND OUTLINE

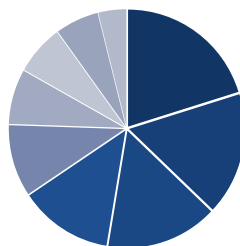
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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



- Health Care
- Utilities
- Materials
- Financials
- Cash
- Industrials
- Consumer Discretionary
- Communication Services
- Real Estate
- Consumer Staples
- Energy

## ALLOCATION

New Zealand Equities	21.0%	Cash	9.9%
Australian Equities	69.1%	Total	100.0%
Currency Hedge	47.7%		

## PERFORMANCE

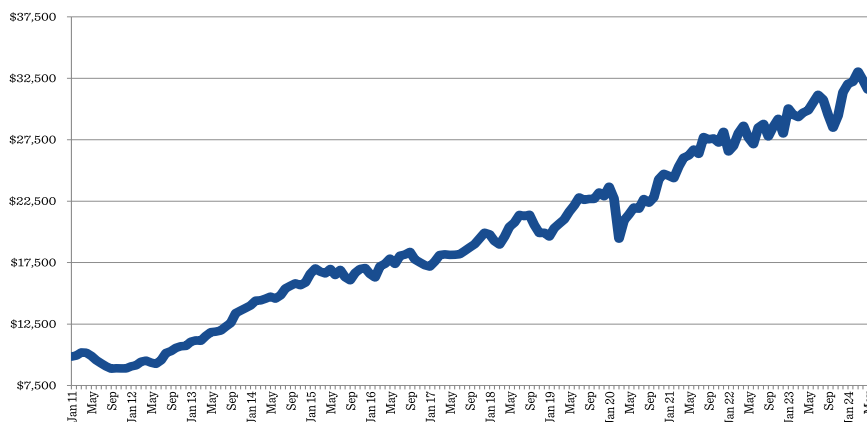
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Alpha Fund	-2.3%	-2.0%	5.7%	6.4%	7.9%	8.9%
OCR + 5%	0.9%	2.6%	10.9%	6.4%	4.0%	2.4%

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 underperformed our expectations during May as a number of our investments were impacted by profit taking and short-term challenges. Included amongst these was our investment in Telstra which was penalised for announcing a change in their pricing strategy. We believe that the market's response was an overreaction and expect a recovery in this stock over the balance of this year. Offsetting this, to a degree, was our exposure to Meridian and Contact which rallied 12.7% and 6.3% respectively. These returns were generated after it was announced that a deal had been reached with Rio Tinto to extend the Tiwai electricity contract. With this agreement now complete, investors now have confidence over the medium-term supply/demand characteristics of the electricity sector and will expect upgrades to the dividend profiles of both Meridian and Contact. We remain shareholders in both companies.

## 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 TRANS-TASMAN FUND

## FUND OUTLINE

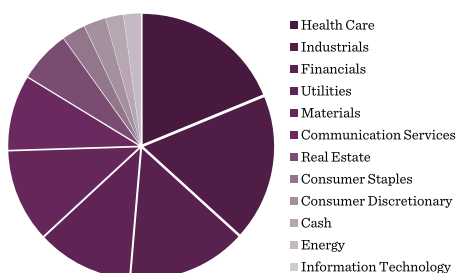
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

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	47.7%	Cash	2.2%
Australian Equities	50.1%	Total	100.0%

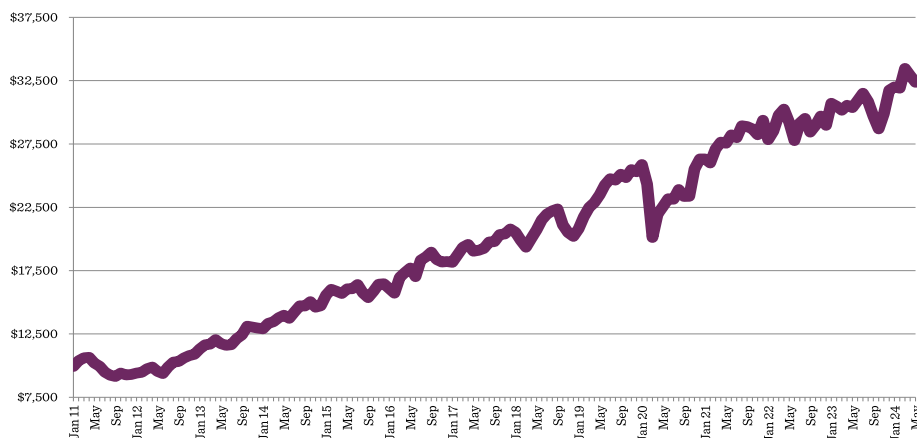
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Trans-Tasman Fund	-1.6%	1.5%	6.5%	5.5%	6.6%	8.3%
50:50 NZX50 Gross & ASX200 Index Unhedged	-0.6%	1.8%	6.8%	3.1%	5.7%	8.9%

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

Despite it being a difficult month for this strategy during May there were a number of positive contributors to our portfolio. Included amongst these was Telix which finished up by more than 20%. Other contributors included Contact Energy (+6.3%), Mercury (+4.7%) and AUB (+4.5%). Key detractors included companies where results or guidance disappointed, including James Hardie (-13.7%) and Telstra (-5.5%).

Telix is a A\$6bn bio-tech player and is developing a suite of radiation therapies for cancer. Its key advanced prostate imaging tracer, Illuccix (TLX591-CDx), generated A\$700m in annualised revenue in Q124, predominantly in the US market. Key near to medium-term opportunities include kidney (TLX250-CDx) and brain (TLX101-CDx) cancer screening, along with prostate (TLX591), kidney (TLX250) and brain (TLX101) therapies. All of these treatments are innovative and potential advancements in the treatment of cancer with large revenue opportunities. We remain a shareholder in this 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

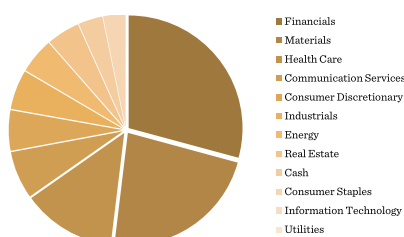
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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

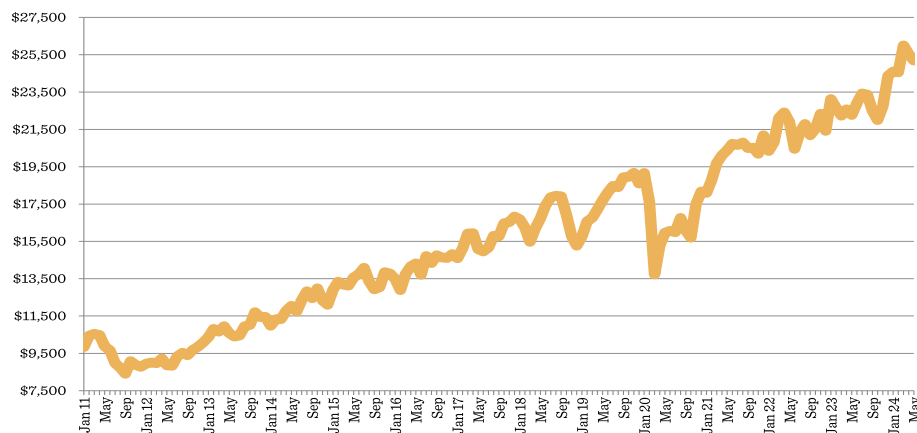
New Zealand Equities	0.0%	Cash	3.5%
Australian Equities	96.5%	Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Australian Fund	-1.3%	2.6%	13.1%	7.3%	7.3%	7.8%
ASX200 Index Gross (NZD)	-0.5%	2.5%	13.2%	7.4%	8.2%	7.3%

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

There were a number of notable contributors to this strategy during the month. These included Macquarie Group which rallied 3.9%, and Aristocrat Leisure which rose 13.5%. Aristocrat reported their first-half results which exceeded expectations. There were a number of key drivers to this, including a strong level of gaming installations in the US, strong sales in rest-of-world and impressive cost control. Operating cash flow impressed, and management announced an improvement in their dividend. We have maintained our investment in Aristocrat and have also purchased shares in their competitor, Light & Wonder. Offsetting these positive outcomes was weakness in some of our other portfolio names including James Hardie and Seek. We continue to see positive potential in both of these companies over the medium-term, but recent cyclical challenges have weighed on their short-term prospects.

## 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

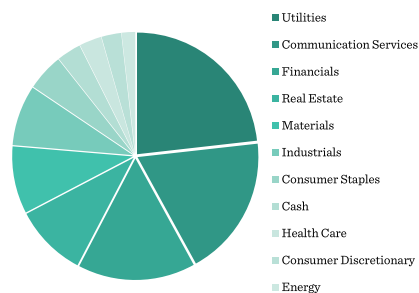
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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	62.9%	Cash	3.2%
Australian Equities	33.9%	Total	100.0%
Currency Hedge	96.4%	Yield	6.3%

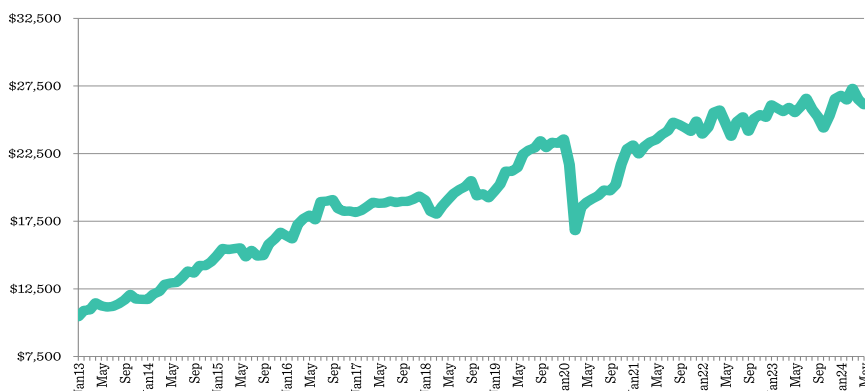
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Dividend Yield Fund	-1.5%	-1.3%	2.3%	3.6%	4.0%	8.8%
50:50 NZX50 & ASX200 Index Gross	0.1%	1.1%	6.7%	2.8%	5.5%	10.0%

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 2013



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

## COMMENTARY

The Dividend Yield strategy offers investors a forecasted distribution for the year ahead of 6.1%. This is also expected to grow by 3.1% annually over the next three years, exceeding the RBNZ's CPI forecast over the same period. These returns are achieved by owning good quality companies with stable and growing dividend streams. Top contributors to the strategy during May were Meridian (+12.7%), Amcor (+8.8%) and Contact Energy (+6.3%). Meanwhile, the key detractors were Genesis Energy (-9.7%), Spark (-12.5%) and Tourism Holdings (-35.5%), which was subsequently divested. During the month we purchased shares in Napier Port Holdings. After recently meeting the management team and visiting the business, we are excited about the prospect for them to lift earnings and improve their returns on invested capital. Doing so drives material free cash flow generation and thus dividend growth. We consider it greatly undervalued, with it currently trading on a low 20x forward earnings multiple.

## PORTFOLIO MANAGER

Patrick Washer



Patrick has primary responsibility for stock selection and portfolio construction for the Dividend Yield Fund. Patrick also holds research responsibilities for the property, aged care and transport sectors.

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## DEVON DIVERSIFIED INCOME FUND

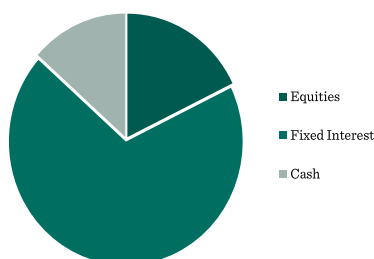
## FUND OUTLINE

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

## KEY HOLDINGS



## ASSET ALLOCATION



## ALLOCATION

New Zealand Equities	15.7%
Australian Equities	8.4%

Bonds	63.6%
Cash	12.3%

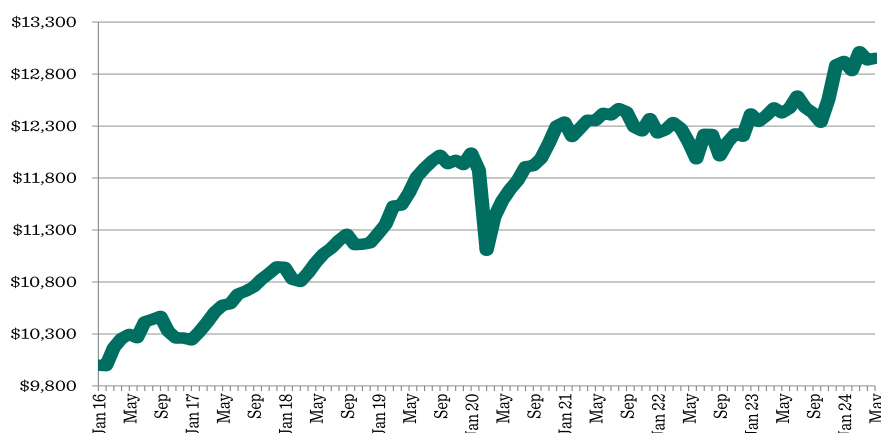
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Diversified Income Fund	0.1%	0.9%	4.3%	1.6%	2.1%	3.3%
OCR + 1.5%	0.6%	1.8%	7.3%	4.9%	3.8%	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 interest rates were reasonably stable during May with the yield on US 10-year Treasuries closing the month at 4.57%. The US Federal Reserve did not have a policy meeting but their minutes from their April event were released, highlighting concerns around the lack of progress being achieved with inflation. In New Zealand the RBNZ left the OCR unchanged at 5.5%, although the tone of the guidance was more hawkish than the market had expected. This was highlighted by comments that the potential for an increase in rates was actually considered as a possibility. This surprised many as it appears inconsistent with the domestic economic headwinds being experienced. In China, the central government have responded to growth challenges by introducing measures to support their property market. The aim is to sponsor housing demand and address the large inventory of unsold properties.

## 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 SUSTAINABILITY FUND

## FUND OUTLINE

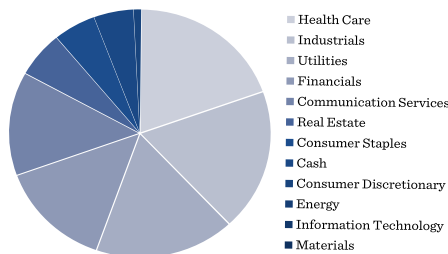
The **Devon Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	56.1%	Cash	4.9%
Australian Equities	39.0%	Total	100.0%

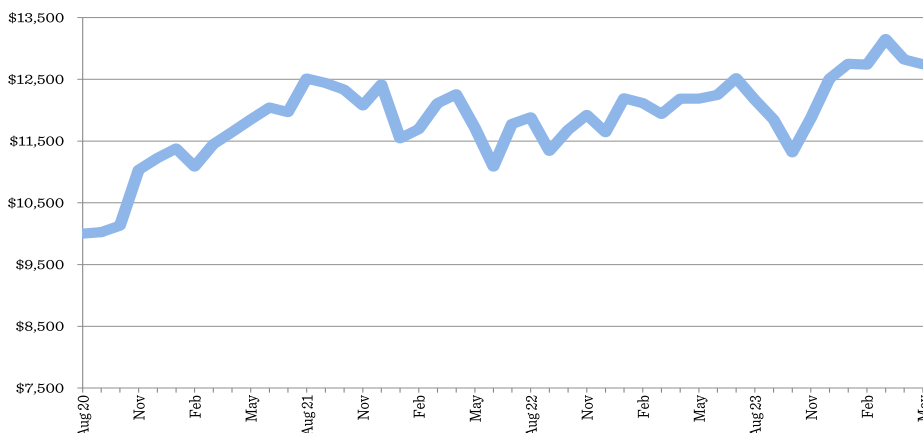
## PERFORMANCE

	1 Mth	3 Mth	1 Yr p.a	3 Yr p.a	Since Inception
Devon Sustainability Fund	-0.6%	0.0%	4.6%	2.4%	6.7%
50:50 NZX50 Portfolio Index & ASX200 Index	-0.3%	0.0%	4.9%	2.1%	6.1%

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

During May the Sustainability strategy slightly underperformed its benchmark. Weighing on its performance were positions in retirement village operators, Summerset Group (-14.4%) and Ryman Healthcare (-10.6%). Stocks in this sector were impacted by the rise of interest rates and a continuation of the weakness in the New Zealand housing market.

The portfolio received a significant contribution from New Zealand's electricity providers, Meridian Energy (+12.7%), Contact Energy (+6.3%) and Mercury NZ (+4.7%) after Rio Tinto announced its decision to extend its electricity contract at the Tiwai aluminium smelter.

Other important contributors included Telix Pharmaceuticals (+20.6%), Webjet (+7.3%) and AUB Group (+4.5%). AUB Group raised capital during the month to fund an acquisition. The capital raised was issued at a material discount to its share price and at a supportive valuation, so we took the opportunity to add to our existing position.

## PORTFOLIO MANAGER

Ben Jenkin



Ben has primary responsibility for stock selection and portfolio construction for the Sustainability Fund. Ben also holds research responsibility for the telco, media and technology sectors, as well as a wide ranging number of industrial companies.

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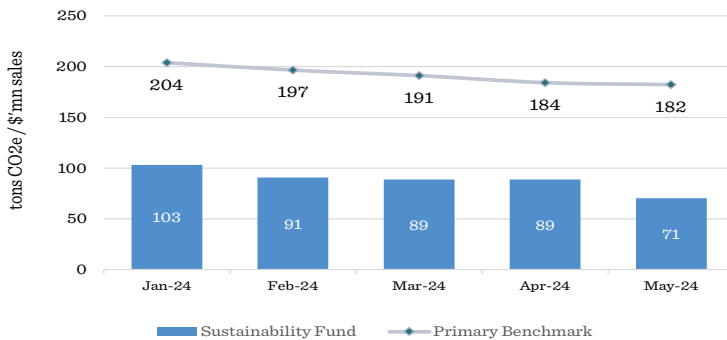
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## DEVON SUSTAINABILITY FUND

## CARBON INTENSITY - PORTFOLIO VS BENCHMARK

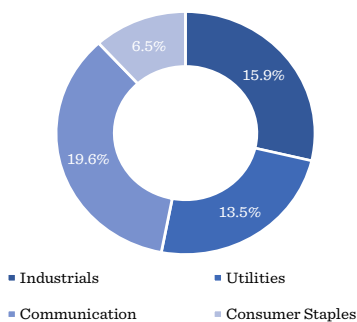
Carbon Intensity - Portfolio vs Benchmark



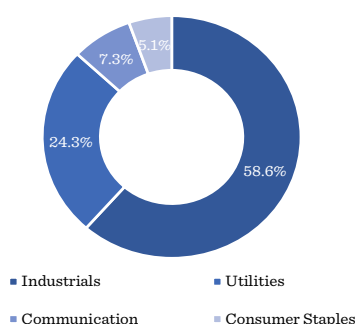
## PORTFOLIO CARBON EMISSIONS BY KEY SECTORS

Portfolio Carbon Emissions by Key Sectors

Portfolio value by sector



Portfolio carbon emission by sector



The industrials, utilities, and consumer staples sectors make up 49% of the portfolio by value, but they account for 88% of the carbon emissions in the portfolio.

## ESG PORTFOLIO SUMMARY

	MSCI ESG Ratings	MSCI ESG Quality score	
Portfolio	AA	7.63	Portfolio Sustainability Fund
Benchmark	AA	7.39	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	3.2%	4.0%	2.6%	3.6%	6.0%

\*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 Summary

% of companies reporting to TCFD standards	78.6%
% of companies committed to Net Zero	69.0%
% of companies committed to Carbon Neutral	7.1%
% of companies with no commitment to either	23.8%

## STEWARDSHIP

During May, Devon engaged with Freightways in regard to their decarbonisation targets. The company discussed with us the modelling that they have done internally towards a 1.5-degree global warming scenario. Ultimately, decarbonising their vehicles relies on vehicle supply, and where the vehicles can be charged. Their modelling assumptions are largely based on what commercial infrastructure will be available, and they are relying on funding initiatives from the government. Without this funding it may only be possible to achieve a partial cost recovery from customers through higher prices, which wouldn't be a commercially feasible outcome. We were satisfied with the clarity Freightways gave around the development of their 2030 target and in further engagements. We will be interested to receive further updates on their plans and their engagements with the government on commercial electric vehicle infrastructure funding, and on whether they set a net zero by 2050 (or earlier) target.

## PORTFOLIO MANAGER

Ben Jenkin



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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
US Government	1.27	1.04	0.23
Credit*	4.23	4.66	-0.43
Asset Backed Securities	0.04	0.01	0.03
Mortgage Backed	1.12	0.72	0.41
Commercial Mortgage	0.06	0.03	0.03
Other	0.02	0.09	-0.07
Cash Offset	-	-	-
	6.74	6.55	0.19

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	4.17	0.39	3.78
AAA	27.68	11.94	15.74
AA	34.97	42.04	-7.07
A	10.06	30.99	-20.93
BBB	14.84	14.37	0.48
BB	6.34	0.01	6.33
B	2.41	-	2.41
Below B	0.20	-	0.20
Cash Offset	-1.01	-	-1.01
Not Rated	0.32	0.26	0.06
	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 2024

## 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	1 Yr	2 Yr p.a	Since Inception
Devon Global Impact Bond Fund	1.1%	0.3%	3.8%	0.9%	-0.5%
Bloomberg Global Aggregate Index Hedged NZD	0.9%	0.1%	2.9%	0.5%	-0.7%

PERFORMANCE	1 Mth	3 Mth	1 Yr	2 Yr p.a	Since Inception
Devon Global Sustainability Fund	1.0%	3.2%	18.7%	12.1%	10.6%
MSCI All Country World Index in NZD, 50% hedged to NZD	1.9%	3.6%	22.3%	13.5%	9.7%

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

## KEY HOLDINGS\*



TEXAS  
INSTRUMENTS



\*Key Holdings as at 31 May 2024

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)

## FUND OUTLINE

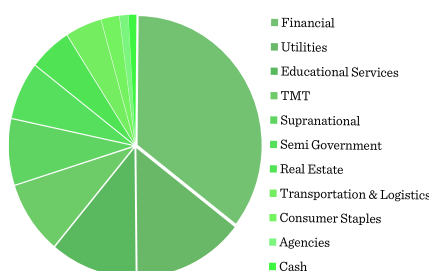
The **Artesian Green and Sustainable Bond Fund (NZD)** offers New Zealand-based investors a Portfolio Investment Entity (PIE) vehicle through which to invest in the Artesian Green and Sustainable Bond Fund (AUD).

Through this structure, the Fund will invest in a diversified portfolio of liquid, predominately investment grade fixed and floating rate green and sustainable corporate bonds. Artesian are committed to integrating ESG into their investment processes, with a focus on responsible investment.

## KEY HOLDINGS



## ASSET ALLOCATION



## ALLOCATION

Artesian Green & Sustainable Bond Fund (NZD)	99.9%	Cash	0.1%
Currency Hedge (100% to NZD)	99.5%	Total	100.0%

## PERFORMANCE

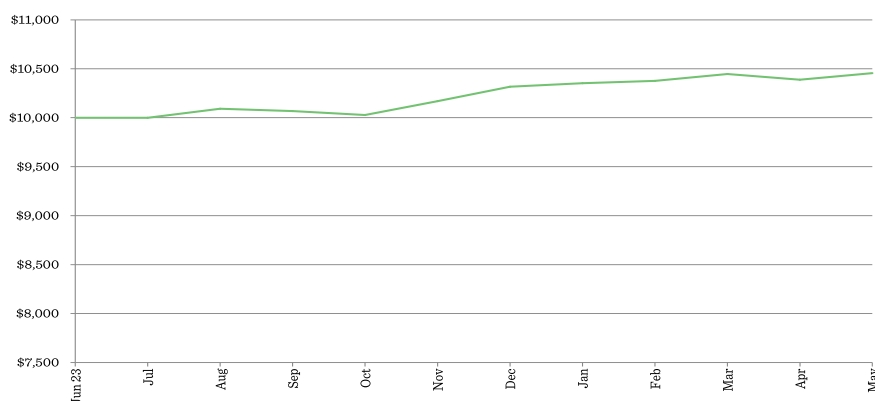
	1 Mth	3 Mth	6 Mth	Since Inception
Artesian Green & Sustainable Bond Fund (NZD)*	0.65%	0.77%	2.81%	5.36%
Artesian Green & Sustainable Bond Fund PIR Return (NZD)**	0.65%	0.87%	3.02%	5.61%
Bloomberg AusBond Composite 0-5 Yr Index 100% Hedged to NZD	0.50%	0.59%	2.69%	5.14%

\*Artesian Green & Sustainable Bond Fund (NZD) returns are after all fees and expenses, but before tax which varies by investor.

\*\*Artesian Green & Sustainable Bond Fund (NZD) returns are after all fees and expenses, but before tax which varies by investor and inclusive of tax credits. The Fund invests in an underlying Australian Unit Trust (AUT) which is required to distribute all income. Tax on these distributions is withheld at fund level but investors receive a tax credit for this amount. As such, the Zero PIR return is a reasonable basis for comparing performance between the NZD Fund and its AUT alternative.

## NET PERFORMANCE

Based on \$10,000 invested at 30 June 2023



NOTE: Further information on the Artesian Green Fund can be found in our Quarterly Fund Updates by visiting <https://devonfunds.co.nz/artesian-green-and-sustainable-bond-fund-nzd> or by clicking [HERE](#)

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## COMMENTARY

In May, we witnessed a reversal in market conditions that played out in April. Volatility across global markets eased with the VIX closing 19% lower MoM. This was positive for bond prices (yields lower), equity markets and credit spreads. Economic data was mixed, but generally supportive of the current stance of most central banks, which is higher for longer but rate hikes are unlikely. The good news for fixed income investors, is that they can still continue to earn a decent running yield in the range of 5%-5.50%, compared with the dividend yield of the ASX currently at 3.78%.

The Fund's outperformance versus benchmark in May, was driven by the overweight credit duration positioning (credit spreads were lower/tighter) and overweight interest rate duration positioning (interest rates were lower/tighter). The Fund's running yield of 5.05% versus the benchmark's 4.42%, also contributed to the monthly outperformance. Every position in the fund had a positive contribution to May's performance. The best performing issuers were Mercury NZ Ltd (Green), Australian Postal Corporation (Sustainable), Optus (Sustainability-Linked), Contact Energy (Green) and the University of Melbourne (Green).

## PORTFOLIO MANAGER

## David Gallagher

David joined Artesian in June 2013. Prior to joining Artesian, David spent nine years in the United Kingdom working for Deutsche Bank and RBS. David has extensive risk and portfolio management trading experience.

In David's previous role with RBS, David managed a credit portfolio with outright risk ranging between £1-2.5 billion.

