

MONTHLY REPORT: SEPTEMBER 2022

No gain without pain

By Greg Smith, Head of Retail at Devon Funds.

September proved a challenging month for markets, with investors intently focussed on the tightening plans of the Fed and other central banks around the world, as many officials double down on efforts to contain inflation. At the same time economies have remained resilient, as have corporate earnings in many instances. This has certainly been the case in New Zealand with June quarter GDP coming in ahead of expectations by some distance, and the reporting season a solid one. This, and further weakness in our currency, has arguably helped the New Zealand stock market hold up better than many international peers.

In what was a volatile month, the NZX50 fell 4.6%. In comparison the S&P500 fell 9.3%, while the Nasdaq dropped 10.5% as higher-priced growth stocks fell further out of favour amid concern over rising interest rates. Across the Tasman, the ASX200 fell 6.2% during the month.

Globally, investors have been concerned around the view that interest rates will be 'higher for longer.' A hotter than expected inflation print in the US has provided the catalyst for volatility. The annual rate of inflation was lower at 8.3% but ahead of forecasts of 8% and "core" inflation accelerated for the first time in six months. This cemented the prospect of another large rate hike which was duly delivered when the Fed met. Fears over inflation have intensified, despite a significant drop in gasoline/oil prices. Food prices continue to surge and double digits annual gains represent the sharpest pace since 1979.....[READ MORE](#)

MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	-4.6%	-16.6%
S&P/ASX200G	AUSTRALIA	-6.2%	-7.7%
MSCI World Index	GLOBAL	-9.3%	-19.2%
S&P500	USA	-9.2%	-15.5%
FTSE100	UK	-5.2%	0.9%
NIKKEI 225	JP	-6.9%	-10.0%
NZ 90 Day Bank Bill	NZ	0.2%	1.4%
Bloomberg Global Aggregate Index (NZD)	GLOBAL	-3.5%	-12.3%

AT A GLANCE

Prices as at 30 SEPTEMBER 2022

DEVON ALPHA FUND	\$2.0902
DEVON AUSTRALIAN FUND	\$1.5513
DEVON DIVERSIFIED INCOME FUND	\$1.4316
DEVON DIVIDEND YIELD FUND	\$1.8341
DEVON GLOBAL IMPACT BOND FUND	\$1.3772
DEVON GLOBAL SUSTAINABILITY FUND	\$1.3530
DEVON TRANS-TASMAN FUND	\$4.4270
DEVON SUSTAINABILITY FUND	\$3.1144

IN THIS REPORT

Market Commentary.....	Page 1
At a Glance.....	Page 1
Devon Fund Summaries	
Alpha Fund	Page 2
Australian Fund	Page 3
Diversified Income Fund	Page 4
Dividend Yield Fund.....	Page 5
Sustainability Fund	Page 6
ESG Insights	Page 7
Trans-Tasman Fund.....	Page 8
Devon Global Impact Fund	Page 9
Devon Global Sustainability Fund.....	Page 9

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DEVON ALPHA FUND

FUND OUTLINE

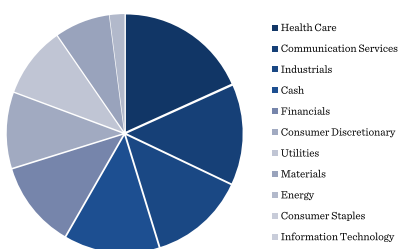
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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

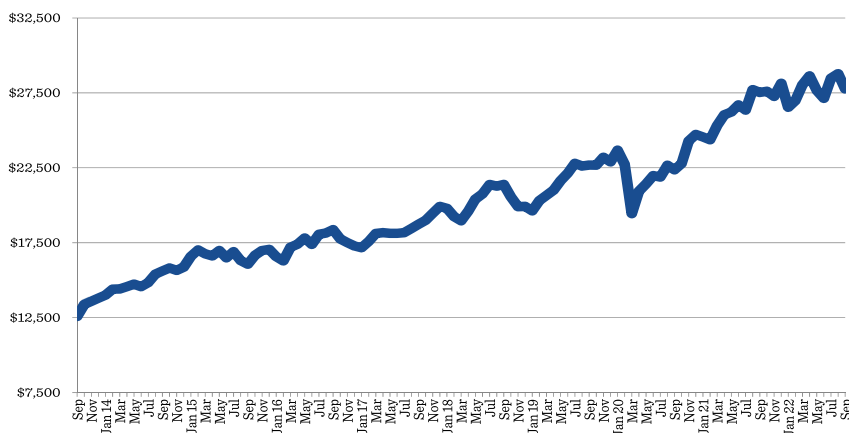
New Zealand Equities	21.6%	Cash	13.2%
Australian Equities	65.2%	Total	100.0%
Currency Hedge	73.3%		

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Alpha Fund	-3.5%	2.3%	0.8%	7.0%	8.2%	9.0%
OCR + 5%*	0.6%	1.1%	1.9%	0.9%	1.2%	2.0%

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 fell in absolute terms during the month as market conditions deteriorated, but for reference, we did notably outperform local indices. As Australasian businesses faced a myriad of challenges including rising interest costs, wage pressures and softening demand, we lifted the cash weighting in this portfolio. Towards the latter stages of September this level approached 15%. We will closely monitor markets over the coming months and expect pricing volatility to create attractive risk-adjusted opportunities to invest our capital.

During September we were particularly pleased with the contributions made from our exposures in the Healthcare sector. Resmed finished up 5.3% whilst CSL closed lower by only 2.3%. These high-quality businesses have been long-term holdings for Alpha and we are excited by their respective prospects. Resmed is successfully leveraging off the challenges being faced by their competitor Philips, and CSL is benefitting from a recovery in plasma collection volumes and optimism for contribution from their recent acquisition of Vi-for.

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 AUSTRALIAN FUND

FUND OUTLINE

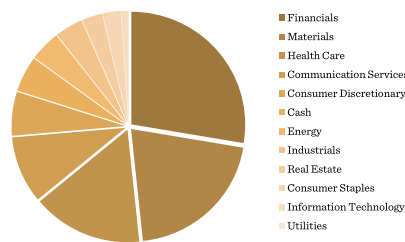
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

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

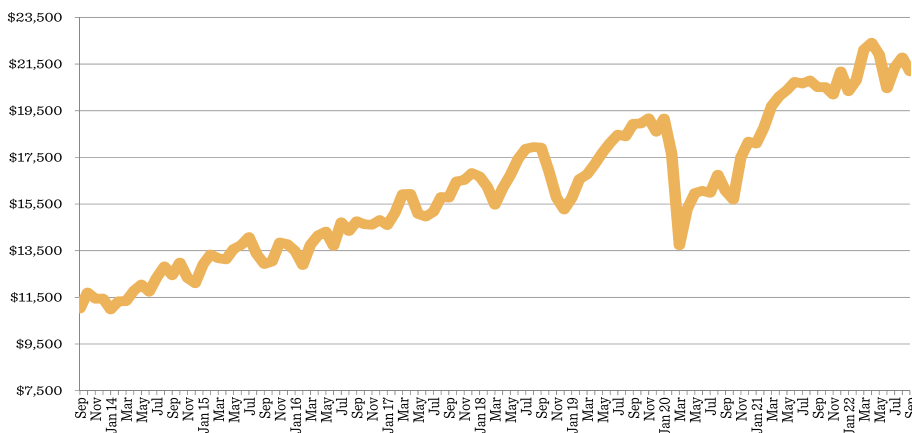
New Zealand Equities	0.0%	Cash	5.1%
Australian Equities	94.9%	Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Australian Fund	-2.8%	3.6%	3.3%	3.8%	6.1%	7.3%
ASX200 Index Gross (NZD)	-4.6%	3.2%	0.2%	4.6%	7.8%	6.7%

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

Despite generating a negative absolute return, this strategy materially outperformed its benchmark during the month as we benefitted from a portfolio which is exposed to high quality businesses with valuation support. Amongst the highlights during September were our investments in Mineral Resources (+4.4%), BHP (+1.2%) and Resmed which closed higher by 5.3%. The Australian Resources sector benefitted from evidence that China is introducing policy targeted at supporting growth and the property sector in particular. Towards the end of the month the Chinese central government announced permission for selected cities to lower mortgage rates on first home purchases, where those cities experienced a price decline for recently constructed properties during June to August.

These announcements, alongside evidence of infrastructure stimulus across certain municipalities in China, and a view that steel inventories are currently low, provided support to the iron ore price which finished the month at \$96 a tonne.

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 DIVERSIFIED INCOME FUND

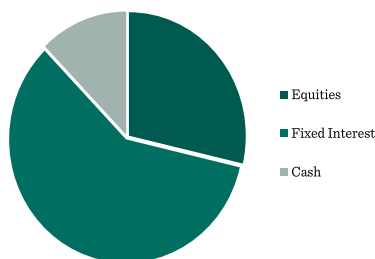
FUND OUTLINE

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	18.0%	Bonds	59.1%
Australian Equities	10.1%	Cash	12.8%

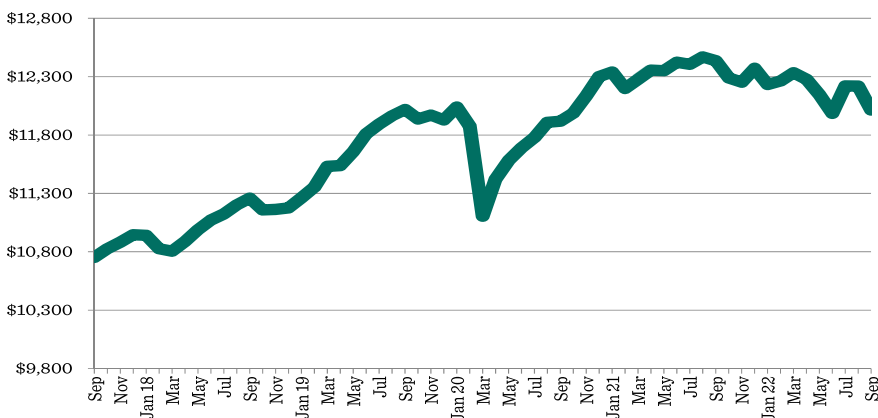
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Diversified Income Fund	-1.7%	0.2%	-3.4%	-0.0%	2.2%	2.9%
OCR + 1.5%	0.4%	1.1%	3.0%	2.3%	2.7%	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 were weaker during the month as yields jumped higher. US 10-year Treasuries were a good example of this with their rate moving from 3.13% in late August to finish September at 3.71%. This volatility is a consequence of the ongoing hawkish positioning by central banks with the Fed hiking again by 0.75%, its third consecutive move by this amount. This followed a stronger than expected US core inflation print, with core prices having increased by 6.3% over the past 12-months. Inflation will fall over the next year, but it now appears that the decline will be slower than expected. As Jerome Powell identified in his policy statement, “we will need unemployment to rise more sharply for demand-pull inflation to cool”. This commitment to addressing rising prices will weigh on economic growth and this should start to temper some of the volatility recently seen in the fixed interest markets.

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

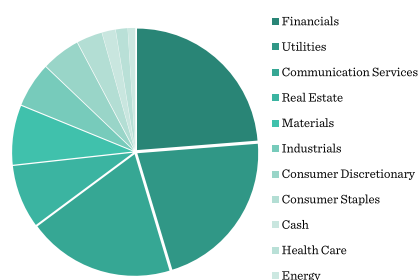
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

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

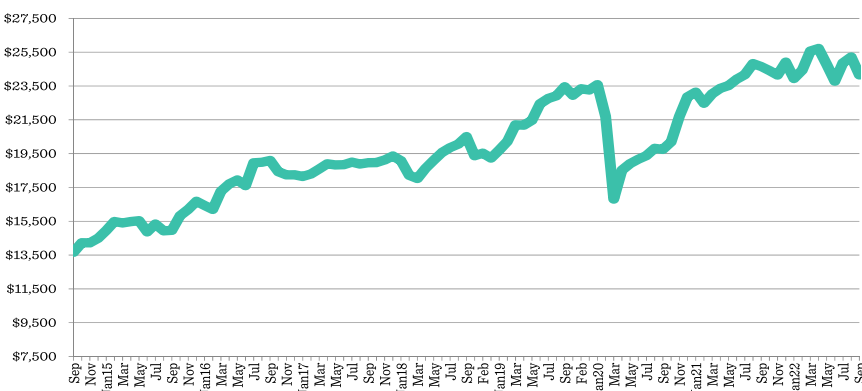
New Zealand Equities	62.8%	Cash	1.8%
Australian Equities	35.4%	Total	100.0%
Currency Hedge	97.4%	Yield	6.8%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Dividend Yield Fund	-4.2%	1.6%	-2.0%	1.0%	4.9%	9.5%
50:50 NZX50 & ASX200 Index Gross	-5.4%	1.1%	-12.2%	1.5%	6.8%	10.1%

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

Exceptionally weak global equity and bond markets undermined returns for the month, with only nine stocks in the NZX50 posting positive outcomes for the month. Our investments in the NZ electricity sector all outperformed the market as continued positive rhetoric regarding the ongoing future of the Tiwai point smelter kept forward electricity prices firm. Mercury (+1.1%), one of our best performing investments for the month, announced it was proceeding with stage one of its Kaiwera Downs wind farm in Southland, which was sooner than the market was expecting. Contact Energy used its significant renewable energy asset base to issue a \$250m green bond to the debt market at a very competitive rate.

The ramifications of the ongoing wet weather in New Zealand manifest themselves in the operating statistics from Meridian Energy which indicates national hydro storage at 162% of historical averages. Firm pricing combined with hydro generation availability should underpin FY23 profitability and dividends.

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

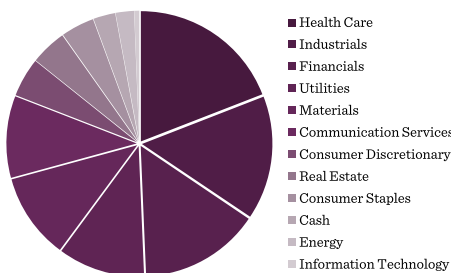
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

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

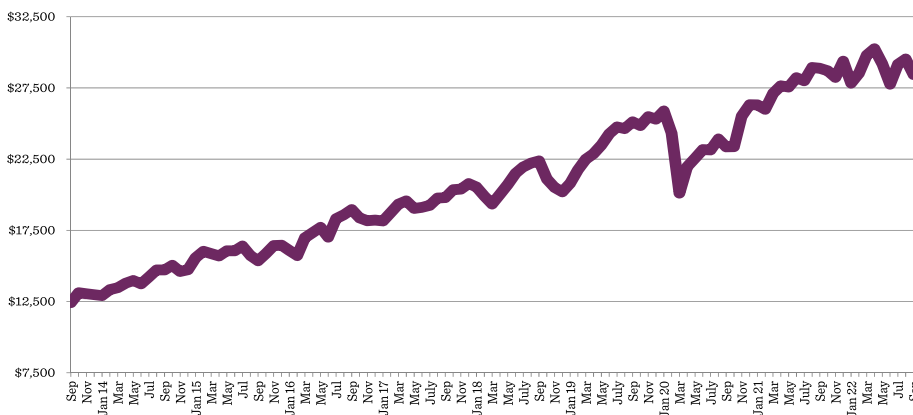
New Zealand Equities	44.2%	Cash	2.7%
Australian Equities	53.1%	Total	100.0%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Incep- tion
Devon Trans-Tasman Fund	-3.7%	2.4%	-1.4%	4.2%	7.5%	8.3%
50:50 NZX50 Gross & ASX200 Index Unhedged	-4.6%	2.5%	-8.2%	2.5%	7.3%	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 falling in an absolute sense, this portfolio materially outperformed its benchmark during the month. Within the portfolio, Telstra is an exciting investment for us. In September, their major competitor Optus suffered a significant cyber-attack impacting around 10 million customers. The cyber-attack is thought to have compromised the addresses, drivers licenses and passports of its users. Given the severity of this attack, it could have material ramifications for Optus with respect to customer churn.

Since this news surfaced, Google Trends data shows an almost 50% spike in searches for “Telstra mobile plans”. Every crisis is different of course, but a comparable event in the history of Australian mobile was the “Vodafail”. Back in 2010-2014, when Vodafone was the nation’s third-largest mobile network, it suffered a series of major network outages. The customer backlash was severe with Vodafone losing around 30% of its customers during that period, and market leader Telstra picked up a majority of these customers.

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

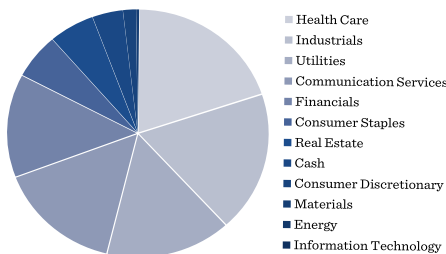
The **Devon Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

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	49.8%	Cash	3.8%
Australian Equities	46.4%	Total	100.0%

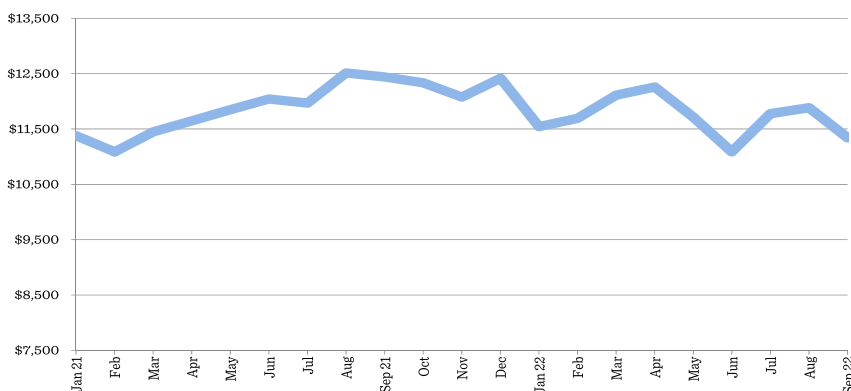
PERFORMANCE

	1 Mth	3 Mth	1 Yr p.a	2 Yr p.a	Since Inception
Devon Sustainability Fund	-4.6%	2.3%	-9.0%	6.3%	6.2%
50:50 NZX50 Portfolio Index & ASX200 Index	-5.3%	1.4%	-11.4%	5.6%	4.6%

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-fund/> by clicking [HERE](#)

COMMENTARY

The Fund fell 4.6% for the month as many markets around the world had a challenging September. Pleasingly though we outperformed our benchmark by 0.7%. Some of the notable positive contributors included ResMed (+5.3%) and APM Human Services (+2.1%) whilst detractors included Goodman Group which fell by 19.8%.

APM Human Services is an employment services provider focusing on matching employers with employees who have a disability and/or illness. During the month, they announced an acquisition of Equus Workforce Solutions for US\$153m which will be funded through a combination of existing cash and debt. APM estimates the transaction will be 7% earnings accretive in FY23. Equus generates the majority of its revenue from employment services operations, with the remainder split across its Disability to Work, Job Corps, Equitable Social Solutions, and Canada divisions. APM's North American revenue will increase from 16% pre-acquisition to 37% post-acquisition. This transaction is expected to close by the end of CY22.

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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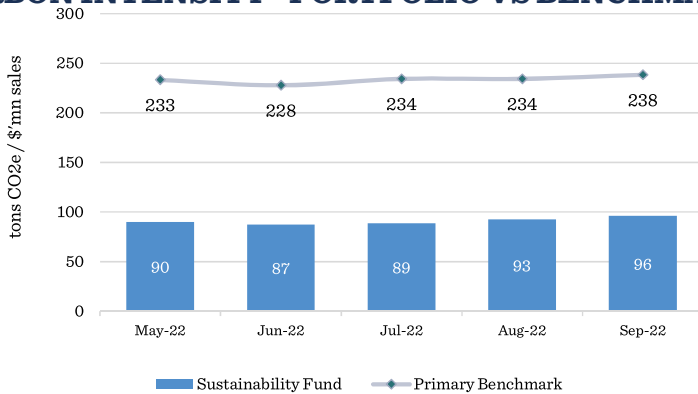
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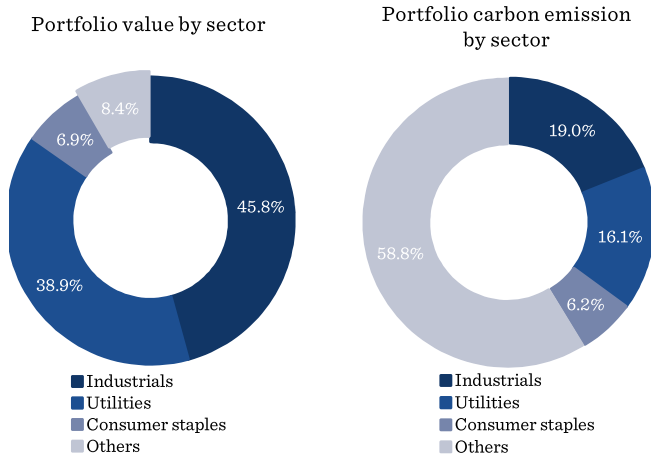


DEVON SUSTAINABILITY FUND

CARBON INTENSITY - PORTFOLIO VS BENCHMARK



PORTFOLIO CARBON EMISSIONS BY KEY SECTORS



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 / Benchmark
Portfolio	AAA	9.38	Portfolio Sustainability Fund
Benchmark	AA	8.30	Primary Benchmark 50:50 composite S&P/NZX50 Portfolio Index & S&P/ASX200G Index

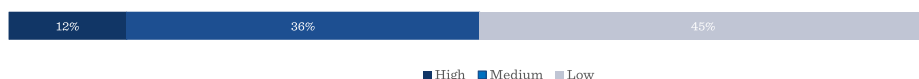
PERFORMANCE	1 Mth	3 Mth	6 Mth	1 Yr	Since Inception
ESG relative performance	13.0%	15.1%	17.0%	10.0%	5.6%

*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	92.9%
% of companies reporting to TCFD standards	66.7%
% of companies with a modern slavery statement	66.7%
% of companies with carbon emission reduction targets	69.0%

CLIMATE CHANGE RISK BY PORTFOLIO HOLDINGS



STEWARDSHIP

During the month, we engaged with Cleanaway (CWY) to further understand their recently unveiled Blueprint 2030 strategy. This is an extension of Footprint 2025, and is intended to help meet opportunities that will emerge by transitioning to a high circularity and low-carbon economy. To support delivery, they have enhanced the capabilities of their executive leadership team including the appointment of dedicated resources to manage the carbon and sustainability functions, and will be aligning a methane reduction target to executive LTIs from FY23.

CWY's 2022 Sustainability Report was released during the month also which pleasingly gave further detail on the company's sustainability strategy. CWY finalised the acquisition of Global Renewables Holdings which should help accelerate BluePrint 2030 by providing high circularity, low-carbon solutions for 'Red bin' mixed waste and future FOGO (Food & Organics) bin waste. Waste-to-energy also represents a key opportunity for tackling both waste disposal needs as well as energy needs. On the environmental side, CWY established 2030 and 2050 emissions reduction targets in August 2022, including methane targets. On the governance side, CWY is committed to 40:40 Vision, introducing female participation targets from FY23.

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.



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	0.30	1.08	-0.78
Credit*	5.21	4.89	0.32
Asset Backed Securities	0.01	0.01	-0.00
Mortgage Backed	1.04	0.68	0.36
Commercial Mortgage	0.11	0.04	0.07
Other	0.01	0.00	-0.08
Cash Offset	-	-	-
	6.67	6.76	-0.09

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	6.00	0.32	6.37
AAA	45.12	39.73	5.39
AA	14.27	14.50	-0.23
A	11.40	30.91	-19.51
BBB	13.71	14.23	-0.52
BB	6.43	0.01	6.42
B	2.27	0.00	2.27
Below B	0.20	-	0.20
Cash Offset	-0.98	-	-0.98
Not Rated	0.89	0.30	0.58
	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 August 2022

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
Devon Global Impact Bond Fund	-3.6%	-3.3%	-8.7%
Bloomberg Global Aggregate Index Hedged NZD	-3.5%	-3.7%	-8.0%

PERFORMANCE	1 Mth	3 Mth	6 Mth
Devon Global Sustainability Fund	-4.6%	-3.1%	-10.1%
MSCI All Country World Index in NZD, 50% hedged to NZD	-5.5%	-1.5%	-11.2%

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

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.

KEY HOLDINGS*



*Key Holdings as at 31 August 2022

Devon Funds Management Limited

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