DEVON FUNDS.

SUSTAINABILITY REPORT 2023

Contents

Slade Robertson, BCom, CFA
Managing Director/Portfolio Manager

When we established Devon Funds in 2010, our objective was to create New Zealand's best asset management business. Our determination was to employ the most talented investment professionals and to invest client funds in a way that generated the best risk adjusted returns possible. We recognised that for us to achieve these goals, we needed a commitment from everyone associated with Devon that they endeavour to continually recognise major changes occurring around the world, and to respond. This philosophy has created a foundation for our leadership within the investment industry.

A critical aspect to this dynamic approach has been our recognition of the evolution occurring in Environmental, Governance and Social (ESG) influence. As a business we have always placed considerable importance on these factors, and the leadership that we have exhibited in this area of Responsible Investing is something that we are very proud of. We aim to add value and improve risk management through the integration of ESG into our investment decision-making, but we are also continually looking to ensure that we are being the best corporate citizen that we can.

The objective of this Sustainability Report is to provide you with clarity over how we are progressing with our Responsible Investment program. Transparency is something that we strongly encourage in the companies that we own across our portfolios, and we apply the same level of expectation to ourselves.

At Devon our policies have evolved substantially over the years to ensure that our own corporate standards are consistent with the expectations that we have of the companies in which we invest. Our Toitū Envirocare Gold Certification is an important example of this commitment. We are a signatory to the United Nations supported Principles for Responsible Investment (PRI). We are also a member of the Responsible Investment Association of Australasia (RIAA), who have classified us as a Responsible Investment Leader amongst our peer group in New Zealand. We were a founding member of the New Zealand Corporate Governance Forum which has been established to promote globally recognised governance standards in New Zealand and our commitment to responsible investing is further bolstered by our involvement with the investor led initiative Climate Action 100+.

Direct engagement with companies and their stakeholders is an important part of our investment process, and a key driver of our approach to Responsible Investment.

We are advocates for strong corporate governance structures, shareholder rights and transparency. We vote all proxies on behalf of retail clients.

The objective in voting is to support proposals and director nominees that maximize the value of a portfolio's investments over the long term. Factors considered include conflicts of interest, transparency, environmental impacts, social and governance issues and extraordinary meetings.

Devon was part of a collective that responded to the New Zealand government's proposal to implement compulsory TCFD (Task Force on Climate-Related Financial Disclosures) reporting. We jointly submitted our recommendations on the proposal to improve disclosures of climate-related financial risks in the New Zealand capital markets. As part of this effort, in 2020 we launched a Climate Related Financial Disclosure survey of all companies within the S&P/NZX50. In 2022 Devon also became a Founding Signatory to the Aotearoa New Zealand Stewardship Code, which aims to guide investors on how to incorporate ESG factors into their broad conduct.

Devon integrates ESG practices into all Funds. However, the Devon Sustainability Fund in particular leverages off our ESG capabilities and represents our commitments in this space. The Fund invests in those companies that exhibit sustainable characteristics and those which demonstrate credible strategies to improve their outcomes with respect to ESG factors. In 2022 we made two important additions to our suite of strategies with the introduction of the Devon Global Impact Bond Fund and the Devon Global Sustainability Fund. These strategies are in collaboration with Wellington Management and again highlight our commitment to Responsible Investment. In 2022 the Devon Global Sustainability Fund was awarded the Best New Ethical Fund by Mindful Money.

In early 2023 we were able to further strengthen our product offering with the addition of the TAHITO Te Tai o Rehua Fund. Te Tai o Rehua is the Māori name for the Tasman Sea, and we are offering this fund in partnership with investment firm TAHITO.

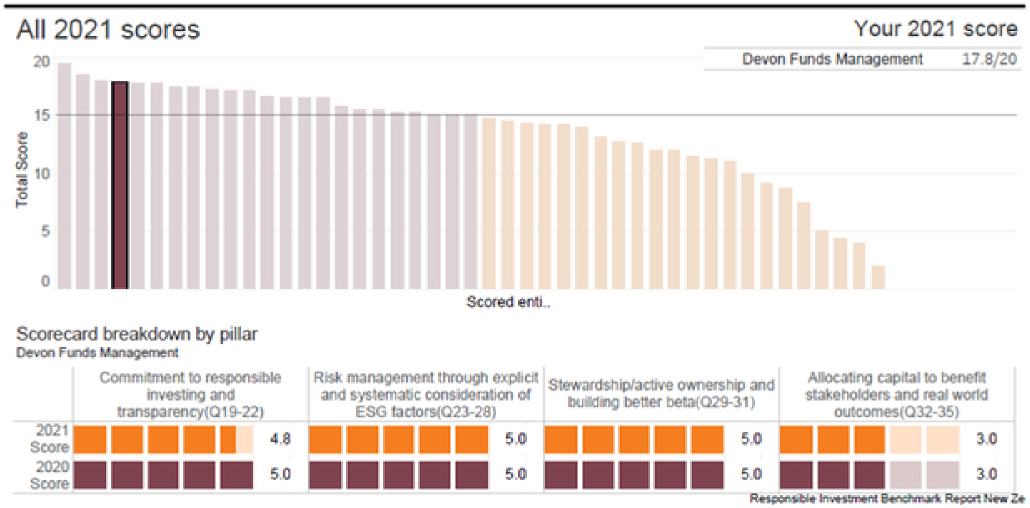
We realise that the responsible investing landscape is constantly evolving. At Devon, we see ourselves as being leaders in this space and therefore a key player in this transition.

Responsible Investment Association Australasia (RIAA) – Top Responsible Leader, 2021

RIAA champions responsible investing and a sustainable financial system in Australia and New Zealand. RIAA is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy. With close to 500 members representing US$29 trillion in assets under management, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand.

Devon was awarded the designation of Responsible Investment Leader in 2021.

Responsible Investment Scorecard Results New Zealand



Responsible Investment Association Australasia (RIAA) – RAA Certification, Devon Sustainability Fund

In 2022, both the Devon Sustainability Fund and the TAHITO Te Tai o Rehua Fund became RIAA certified. The RIAA Responsible Investment Certification Program is the leading initiative for distinguishing quality responsible, ethical and impact investment products and services in Australia and New Zealand. RIAA's Certification Symbol is recognised by investors and consumers across the region, providing confidence that a product or provider is delivering on its responsible investment promise and meeting the Australian and New Zealand Standard for responsible investing.

CERTIFIED RESPONSIBLE INVESTMENT ®

CERTIFIED BY RIAA

Aotearoa New Zealand Stewardship Code – Devon Funds, Founding Signatory

Aotearoa New Zealand's first Stewardship Code gives investors a clear framework for using their influence to steer the companies they own on critical environmental, social and corporate governance issues. In 2022, the New Zealand investment community developed this Stewardship Code for Aotearoa New Zealand. Devon was a significant part of this process, and hence is a founding signatory which means we are paving the way towards better stewardship in financial markets.

STEWARDSHIP CODE
AOTEAROA NEW ZEALAND

Mindful Money - Devon Global Sustainability Fund, Best New Ethical Fund 2022

In 2022 Devon launched two new global funds in collaboration with Wellington Management. The robust responsible investing credentials of both the Devon Global Sustainability and Devon Global Impact Bond funds were recognised by Mindful Money in their annual awards. The Devon Global Sustainability Fund won the accolade of Best New Ethical Fund 2022. The Devon Global Impact Bond Fund was also a category finalist, making the shortlist of four.

"The judges were looking for innovation in a fund launched over the past year. The large number of entries indicates the growth of ethical and impact investment in Aotearoa. While the judges welcomed the increased focus on funds investing in companies with a positive impact, the judges would have liked to have seen more evidence to substantiate ethical and impact claims. Overall, the entrants have demonstrated innovative approaches and are offering more options for retail investors" - Mindful money

2022 Mindful Money Awards
Best New Ethical Fund
Category Winner
DEVON FUNDS. Global Sustainablity Fund

Climate Action 100+

Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Almost 700 investors, responsible for over $68 trillion in assets under management, are engaging companies on improving climate change governance, cutting emissions and strengthening climate-related financial disclosures. Devon has been an active member of Climate Action 100+ since 2019.

ISG Achieves Toitū Envirocare –Enviromark Gold Certification

What is Toitū Envirocare – Enviromark Certification?

Toitū Envirocare provides businesses with a range of recognised certification programmes and environmental management tools and services. They aim to lead positive collective change for the environment through business use of their carbon and environmental programmes and ongoing certification.

We engaged with Toitū Envirocare, alongside our parent company, to assist with the implementation of a planned approach to managing our environmental aspects and impacts (including legislative and health & safety requirements) through using the Toitū Enviromarks programme. Annual independent audits are facilitated as part of the programme with the desired outcome being achievement of the Toitū Envirocare globally recognised third-party Enviromark certification.

Why is this important to us?

We strive to be both a Financial Services industry leader in business sustainability and an advocate for the cause.

Our board, management team and staff are committed to ensuring that we have a sustainably responsible business and that we proactively reduce our impact on the environment. Not only is "Doing the Right Thing" a philosophy that underpins our business culture but having a focus on environmental issues and climate change is increasingly important to our stakeholders. This is a factor in attracting and retaining good employees and it is becoming a key consideration for our clients when they assess their investment objectives.

Achieving the Toitū Enviromark Gold Certification provides assurance to our key stakeholders that Devon's environmental business practices align with and support the sustainable investment offerings we provide. The independent audit process ensures that our environmental management claims are accurate and consistent.

Our sustainability journey

Our sustainability journey commenced in 2019 when we engaged with Toitū Envirocare to develop, implement and systematically improve our Environmental Management System (EMS) across our business.

The Enviromark Certification programme has enabled us to implement a structured framework to assess our environmental hazards, risks, aspects and impacts. Improvement objectives have focussed on legislative requirements, hazard management and areas with a high negative environmental impact. As examples:

- the management and reduction of waste
- sourcing sustainable office consumables
- reduction of paper-based reporting
- reduction of electricity usage

The Toitū Enviromark programme has provided us with a framework to support the measurement, review and improvement of our environmental impacts. This has resulted in the EMS being successfully embedded into our Risk & Compliance Framework.

The most recent audit was completed in November 2022. We achieved Gold Certification with no corrective actions required and encouraging Audit Summary / Comments. Our journey does not end there. Looking ahead for 2023, we have two key focus areas:

1) Ensure that we are well-placed to support the inclusion of climate-related disclosures in our financial and other reporting through the following objectives:

- Reporting our Carbon Footprint. We will focus on collecting baseline carbon emission data for our high environmental impact areas of electricity, fuel, travel, waste, and freight to enable measurement of year-on-year impact.
- Work with key suppliers to understand their approach to reducing environmental impacts.

2) Undertake a more rigorous standard of certification through Toitū Envirocare.

- Switch from the current Environmental Management System certification to a Carbon Reduce or a Net Carbon Zero certification. This change reflects a step-up in our approach to reducing our carbon footprint through both business practice improvements and offsetting carbon emissions.

TOITŪ ENVIRO MARK GOLD

Modern Slavery Statement

Modern slavery is a significant issue impacting the lives of millions globally. It encompasses all forms of human trafficking, forced labour, debt bondage, forced marriage and child labour which stem from cultural attitudes or as a consequence of human tragedies such as conflict, poverty or natural disasters. A Global Slavery survey by Walk Free Foundation estimates that 45.8 million people were subjected to modern slavery between 2011 and 2016. Modern slavery is estimated to prevail across 167 of the most populous countries. The majority of these are concentrated within our own Asia Pacific region.

We have always considered broader Human Capital issues within our ESG framework. More recently much of this has been defined as Modern Slavery. We capture this analysis under social factors. More recently we have increased our commitment, becoming an active member of the RIAA Human Rights Working Group.

Global index provider MSCI evaluates all companies on a social score and we supplement this with our own independent analysis of issues including Labour Management, Health and Safety and Labour Standards. We monitor all portfolio companies, and those under consideration for investment, for Modern Slavery risks. We include questions on Human Capital in our regular meetings with company management teams and the review of company documents. We also review all notifications published by the Australian regulatory bodies such as The Modern Slavery Register Australia. Any lack of compliance by the companies that we are reviewing would result in a very negative appraisal.

In the absence of a New Zealand equivalent, Devon adopts the Australian Modern Slavery Act definition of modern slavery, including the eight types of serious exploitation:

- trafficking in persons,
- slavery,
- servitude,
- forced marriage,
- forced labour,
- debt bondage,
- deceptive recruiting for labour or services, and
- the worst forms of child labour

In addition to the Modern Slavery definition, Devon has established a Remuneration Committee to ensure that we are paying staff an appropriate wage and our Health and Safety practices have been expanded to ensure adequate working conditions.

We view respecting human rights as an important part of our own social responsibility, beyond the companies in which we invest, but in our everyday operations – from our suppliers right through to our clients and our own workforce.

More generally, we do not operate in any high-risk jurisdictions, nor do the majority of stakeholders within our business. Where a supplier does operate in a higher risk jurisdiction, we assess this as part of our ongoing due diligence. We don't believe it is enough to say that we, encompassing our supply chain, don't operate in any high-risk jurisdictions alone. We therefore work collaboratively with our stakeholders to increase our understanding of modern slavery risks and the role we can play in seeking to address them.

We have subscribed to an EAP service for staff who may need emotional, mental and general physiological support. We have also included access for family members to these services. We continue to actively participate in and host forums including the RIAA Human Rights Working Group as well as being a founding member of both the New Zealand Corporate Governance Forum and Boutique Investment Group (B.I.G). Our Compliance Guide and Ethical Labour Practices Policy set out our commitment to establishing a safe, inclusive working environment.

Diversity of Devon Funds

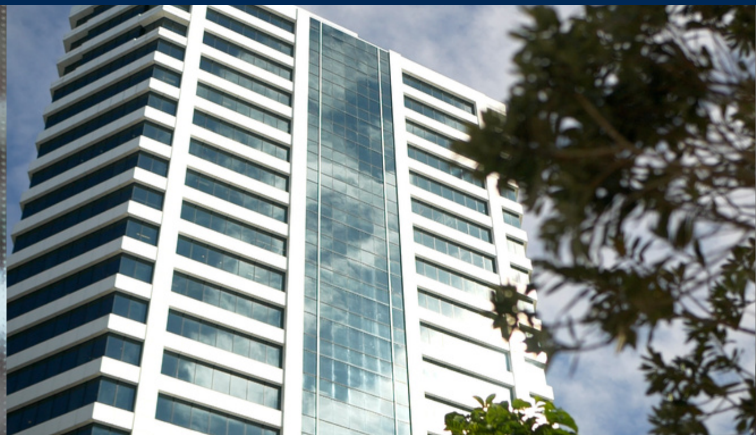
Devon Funds takes great pride in being a firm that values and promotes diversity across our team, in addition to the companies that we invest in. We believe that greater team diversity brings many benefits, which can foster a more balanced and optimal work environment.

Team diversity by its nature brings together a range of perspectives and experiences which means a wider range of idea generation, and problem-solving approaches to challenges that occur on a short and longer-term basis. Team diversity also helps to mitigate the pitfalls of ‘groupthink.’

Devon Funds believes that a diverse and inclusive work environment is also an essential aspect of staff well-being and development. We believe this has helped Devon to develop a great workplace culture, with strong retention rates and relatively low rates of staff turnover from an industry perspective.

At Devon we continue to strive to maintain and also build our reputation as a socially responsible and ethical employer. We want to ensure our workplace is known as one where staff enjoy their surroundings, but also are stimulated by them, and look forward to each workday.

The charts on the following page show the gender and racial diversity of our team, with it broken down further by the investment team, directors and management.



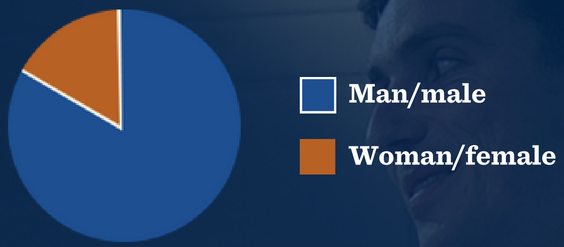
Gender Diversity - Whole Team

Race/Ethnicity Diversity - Whole Team

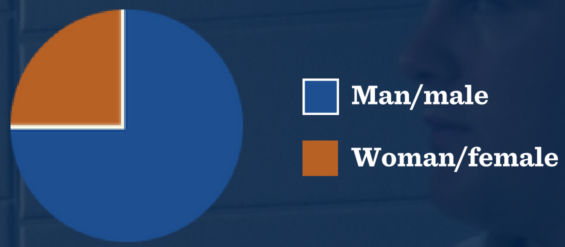
Gender Diversity - Investment Team

Race/Ethnicity Diversity - Investment Team

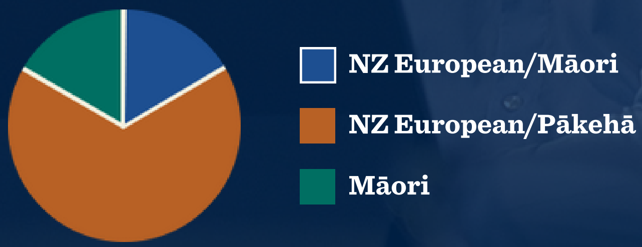
Gender Diversity - Directors



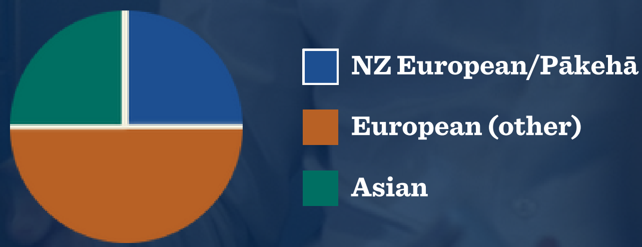
Gender Diversity - Management



Race/Ethnicity Diversity - Directors



Race/Ethnicity Diversity - Management



Wrapping up 2022: themes of the year

The "E" category remains the core focus, in particular:

- Emissions targets and credibility;
- Climate as a key focus for private capital; and
- Support for decarbonisation.

As the 2030 gatepost approaches and with Australia's 43% reduction and net zero targets formalised, emissions dominated 2022. Throughout the year, companies such as Comvita, CSL, Super Retail Group, Domino’s, APA, Mirvac and Cleanaway set more specific or wider targets, brought forward targets, or achieved them. Some companies including APA, Origin, Santos and Fortescue Metals, moved beyond ambition towards action by providing detail on transition pathways. Climate has emerged as a focus for private capital, with several high-profile proposals and acquisitions this year.

For "S", the Great Resignation in 2022 has been marked by CEO/CFO departures and board turnover. Meanwhile, the impact of staff shortages and strikes has weighed on companies’ operations, and in the Resources space we note that labour market pressure may have contributed to a recent rise in injuries (and deaths). We expect this to be an enduring theme and expect this to motivate boards to be more active in the search for suitable replacements at senior level.

Key "G" themes are (1) remuneration and (2) cybersecurity and data breaches. There has been no shortage of scrutiny on remuneration, with 14 S&P/ASX200 companies receiving a "strike" on pay this year. These include Downer EDI, Blackmores, GUD Holdings, Newcrest Mining, Lake Resources, Corporate Travel Management, AGL Energy, ASX, Star Entertainment, Cleanaway and Santos, whilst Lovisa, Link Administration and Goodman Group received a second strike. Companies are moving towards incorporating non-financial KPIs in their short-term incentives, which can help mitigate governance issues. We have seen listed companies and boards lift their focus on data privacy, cybersecurity policies and risk management plans.

Looking to 2023: themes for the year

We believe "E" will remain a core focus, with key themes for 2023 being:

- Biodiversity;
- Carbon markets;
- Scope 3 emissions; and
- Energy transition

Biodiversity will be brought into greater focus with the Taskforce on Nature-related Financial Disclosures finalised during 2023. In Australian carbon markets, the Chubb Review and the Safeguard Mechanism were released in early 2023 with the focus being on the effective management of domestic carbon credits. Changes to the Safeguard Mechanism are expected from 1 July 2023. As companies get on top of Scope 1 and 2 emissions, and with the International Sustainability Standards Board (ISSB) voting to make Scope 3 emissions reporting mandatory, we are seeing an expansion of focus on Scope 3, and a need for clarity in defining targets. The Federal Election result in May 2022 and Labor's Powering Australia plan, provided much needed certainty for the public and private sector and we expect to see investment in the energy transition ramping up into 2023 and beyond.

We expect the "S" aspect to rise in prominence and be defined by (1) labour issues and (2) social licence - indigenous rights and safety. The Great Resignation, COVID and industrial reforms with the introduction of multi-employer bargaining, are likely to see a spotlight on labour issues and mental health this year. Meanwhile, the Santos Tiwi Islands case is a salient reminder that companies must think carefully about their social licence to operate, conscious of indigenous issues..

On "G", we expect (1) culture and leadership and (2) cyber, to hold focus. Analysis of AMP, Cleanaway, James Hardie, and DGL demonstrate that senior leadership level governance issues do affect share prices. With macroeconomic conditions likely to remain challenging this year, we believe companies with strong non-financial KPIs will be better placed to mitigate governance issues. Cyber-attacks will be an ongoing risk. Addressing this operational reality is likely to require additional investment for many companies.

Source: Jarden report – ESG: Wrapping up 2022, and building on the momentum for 2023 (16 Dec 2022)

Types of Sustainable Investing

Investors can use several strategies to build and diversify their portfolios to ensure financial success. One emerging trend changing the way businesses and investors think about investing is a concept known as sustainable investing.

Sustainable investing has helped shape the world by contributing to positive social change. It's also proven that individuals and businesses can financially benefit by making their investments more sustainable.

What is sustainable investing?

Sustainable investing refers to a range of practices in which investors aim to achieve financial returns while promoting long-term environmental or social value. Combining traditional investment approaches with environmental, social, and corporate governance (ESG) insights has led to investors generating more comprehensive analyses and making better investment decisions.

Sustainable investing ensures firms aren't judged solely on short-term financial gains but on a broader picture of what and how they contribute to society. Investors must think critically about the potential impacts of investments as they relate to environmental, political, and societal landscapes.

Sustainable investing strategies

While most sustainable initiatives share the same end goals, not all investors share the same motivations. Therefore, there are several strategies investment managers can leverage when investing sustainably, including:

1 ESG:

ESG investing is a strategy which primarily focuses on the environmental, social and governance factors of a company. These factors are collated to create ESG scores which are indicators that come in the form of a number or other variable.

2 Negative/exclusionary screening:

Excludes specific sectors, companies, or practices from a fund or portfolio based on ESG criteria.

3 Positive/best-in-class screening:

Encompasses investments in sectors, companies, or projects selected from a defined universe for positive ESG performance compared to industry peers.

4 Engagement:

Buying equity in a company for the purpose of changing how it operates. Investment decisions are based on moral values or causes that companies and their leaders care deeply about. For example, individuals who strongly care about global warming may invest in a company that drives environmental change.

5 Impact investing:

Targeted investments aimed at solving social or environmental problems. It includes community investing, where capital is directed to traditionally underserved individuals or communities and financing is provided to businesses with clear social or environmental purposes. While impact investing is traditionally referred to as a private market strategy, there are now public market funds that identify as impact investors.

	Sustainability Fund	TAHITO	Global Impact Bond Fund	Global Sustainability Fund
Asset Class	Australasian equities	Australasian equities	Global Bonds	Global Equities
ESG	✓	✓	✓	✓
Negative Screening	✓	✓	✓	✓
Positive Screening	✓	✓		
Engagement	✓	✓	✓	✓
Impact			✓	

The above table is a summary of our Sustainability offerings. More detail is available on each fund on pages 15-20.

Portfolio objective & strategy:

This Fund aims to generate capital growth over the long term by actively managing your New Zealand and Australian equity investments.

The Fund will look to invest in those companies that exhibit sustainable characteristics and those which demonstrate credible strategies to improve their outcomes with respect to ESG factors. The Fund also employs an ethical screen which will prohibit investment into certain companies and sectors.

What do we exclude?

We exclude companies where more than 10% of business revenue comes from:

- Alcohol manufacturing
- Gambling
- Pornography
- Fossil fuel exploration, extraction, refining

And we exclude companies where >0% of business revenue is derived from:

- Tobacco and manufacturing
- Armaments
- Whaling
- Any companies on human rights watchlists.

For further information on our Exclusions, please refer to our Responsible Investment Policy on our website. Further information on the Devon Sustainability Fund is available in our PDS, which is also available on our website www.devonfunds.co.nz

ESG

Negative/ exclusionary screening

Positive best-in-class screening

Engagement

Portfolio Manager - Mark Brown

Mark is a Portfolio Manager and the Chief Investment Officer at Devon Funds. He has over 30 years' experience across a broad range of markets, including ESG. Prior to joining Devon, Mark was the Australasian Head of Equities at ANZ New Zealand Investments. As the Chief Investment Officer Mark is responsible for overseeing the overall research and investment process at Devon. He has primary responsibility for research, stock selection, and portfolio construction for the Sustainability Fund.

Mindful Money Weapons Free

CERTIFIED RESPONSIBLE INVESTMENT ®

CERTIFIED BY RIAA

Portfolio objective & strategy:

The Fund is an indigenous, ethical and sustainable fund. The Fund uses positive ESG integrated screens in selecting investments. Māori indigenous values and principles serve as the foundation to the Fund's philosophy and investment selection process.

The TAHITO investment philosophy focuses on providing high quality ethical and sustainable investment services to investors. It is based on the following principles:

- We are ethical and sustainable investors.
- We are values-based investors. We invest in high quality investments that display connectivity and relational behaviours and qualities, have or are committed to a low environmental impact and have a high level of social and corporate responsibility.
- We integrate MSCI ESG research on a values basis in our ethical screening.
- All securities undergo fundamental valuation and financial quality analysis.
- We take a long-term view.
- We are active investors.
- We have a disciplined approach to risk management.

What do we exclude?

Negative screens: Alcohol producers, adult entertainment/pornography, civilian firearms, global sanctions, defence and weapons, fossil fuels, gambling, genetic engineering (GE), human rights & environmental violations, nuclear power, production or purchase of palm oil, tobacco and vaping, no female board representation.

Further information on the TAHITO Te Tai o Rehua Fund is available in the TAHITO PDS, which is available on our website www.devonfunds.co.nz

ESG

Negative/ exclusionary screening

Positive best-in-class screening

Engagement

TAHITO – Temuera Hall

Temuera has been involved in business development, asset management and investment advice since 1994. He continues to bring his experience and knowledge of indigenous Māori values and principles into his governance business management, private equity and funds management roles. Temuera has led or played a key leadership role in numerous significant investment collaborations and partnerships with Māori Asset Holding entities. His expertise also incorporates instilling organisational values and culture, driving "kaupapa based" investment strategies and building enduring relationships.

Mindful Money Weapons Free

Mindful Money Fossil Fuel Free

CERTIFIED RESPONSIBLE INVESTMENT

CERTIFIED BY RIAA

2022 Mindful Money Awards
Best Ethical Retail Investment Provider
Category Finalist
TAHITO

Portfolio objective & strategy:

The Devon Global Sustainability Fund aims to deliver long-term total returns in excess of the index by investing in a selective portfolio of global equities.

The Fund invests into the Wellington Global Stewards Fund, managed by Wellington Management. 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. While the underlying Fund tends to be fully invested in global equities, when there are few compelling investment opportunities the Fund may hold some cash or cash equivalent securities.

Further information on the Global Sustainability Fund is available in our PDS, which is available on our website www.devonfunds.co.nz

ESG

Negative/ exclusionary screening

Positive best-in-class screening

Engagement

Portfolio Manager - Mark Mandell

Mark Mandel is the lead portfolio manager and has full responsibility for investment decisions and leveraging the best long-term investment ideas from the firm's global industry analysts and collaborating extensively with Wellington Management's broad base of investment resources. Mark has 30 years of industry experience.

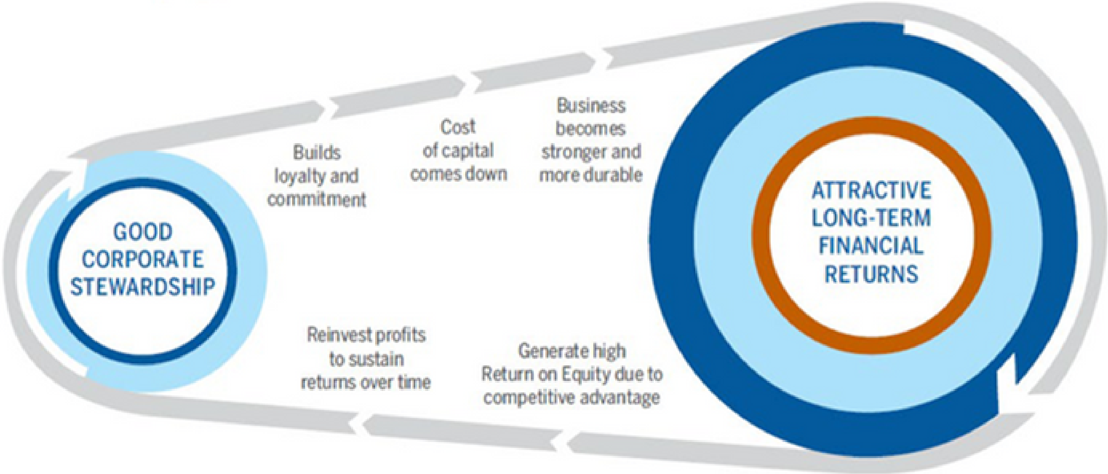
What do we exclude?

- Production of controversial weapons, including cluster munitions, landmines, biological/ chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragments;
- Production of nuclear weapons;
- Production, distribution, retail or supply of tobacco related products;
- Thermal coal extraction or thermal coal-based power generation; and
- Production and generation of oil sands (also known as tar sands).

Fund positioning and Edge (cont.)

We take a long-term perspective and prioritise return on capital and stewardship in concert when assessing individual companies. We view the two as interconnected and together create the stewardship flywheel (as illustrated). We conduct rigorous research to identity and invest in companies with both characteristics, favoring large global industry leaders with robust competitive positions. We believe companies that generate and sustain attractive returns on capital can focus on positive environmental and social outcomes, leading to higher stock prices and superior long-term returns. We believe higher returns enable these companies to further invest in good corporate stewardship. The process generates a continuous flywheel effect, improving the level and sustainability of both financial returns and stewardship over time, creating lasting competitive advantages.

Stewardship flywheel



Portfolio objective & strategy:

This Fund aims to deliver long-term total returns in excess of the index by investing in a diverse portfolio of global bonds.

The Fund invests into the Wellington Global Impact Bond Fund, managed by Wellington Management. Wellington Management seeks to understand the world's social and environmental problems and to identify and invest primarily in debt issued by companies and organisations that they believe are addressing these needs in a differentiated way through their core products, services and projects. The Wellington Global Impact Bond Fund aims to improve access to, and the quality of, basic life essentials, reduce inequality and mitigate the effects of climate change.

They seek to identify securities which it believes fall into three primary impact categories: life essentials, human empowerment and the environment. Within these categories the Fund will invest across "Impact Themes" including, but not limited to the following:

- Life Essentials: affordable housing, clean water and sanitation, health, sustainable agriculture and nutrition.
- Human Empowerment: digital divide, education and job training, financial inclusion, safety and security.
- Environment: alternative energy, resource efficiency and resource stewardship.

While the underlying Wellington Fund tends to be fully invested in global bonds, when there are few compelling investment opportunities the Fund may hold some cash or cash equivalent securities.

Further information on the Global Impact Bond Fund is available in our PDS, which is available on our website www.devonfunds.co.nz

ESG | Negative/ exclusionary screening | Positive best-in-class screening | Engagement | Impact

Portfolio Manager - Campe Goodman

Campe is ultimately accountable for all performance and risk management decisions in the Global Impact Bond portfolio. Campe is the final decision maker who is responsible for performance, positioning, and risk in Global Impact Bond portfolios. Campe has 23 years of industry experience and has managed the underlying Wellington Global Impact Bond fund since its inception in 2017.

What do we exclude?

Exclusions with respect to the production of controversial weapons, revenues associated with thermal coal extraction or power generation and revenues associated with the production and generation of oil sands are applied in accordance with the Exclusions Policy in order to avoid significant activities associated with controversial weapons and fossil fuels principal adverse impacts.

Fund Positioning and Edge

The approach is primarily focused on identifying issuers and issues that are creating a positive environmental or social impact.

We believe that within the public fixed income markets there are opportunities to invest in securities that are both financially attractive and have a meaningful social and environmental impact. These opportunities may or may not have an “impact” label attached to them, but we assess whether the bond proceeds are in fact linked to operations that are seeking to solve some of the world’s biggest challenges in a measurable way.

With respect to exclusions, we review both issuers and issues for exposure to a baseline set of activities that we view as having a negative impact on society and the environment.

For each of the investments we make in the portfolio, we seek to measure key performance indicators (KPIs) to ensure that our investments are making progress towards our desired impact. We do not believe that impact investing is concessionary capital. We are seeking to achieve a “double bottom-line” for our clients; where we are contributing to solutions to some of the world’s greatest challenges and providing above market financial returns over a market cycle.

Freightways

Freightways business model is all about transporting products around the country and is one of New Zealand's top 50 companies on the New Zealand Stock Exchange. Earlier in the year, we engaged with the Freightways CEO on several topics. Whilst much of our conversation referred to operational and business issues, we did spend considerable time talking about the future of the ICE fleet and the ability for the company to transition to more fuel efficient or EV fleet vehicles. This reduction of emissions would significantly help decarbonise New Zealand.

Contact Energy

Contact Energy is one of three publicly listed renewable energy companies in New Zealand. During the year, we met with the Contact Energy management team multiple times. In one particular meeting, we discussed with the CEO and spoke at length over the transition of the company and the industry toward 100% renewable energy. In this regard, they have significant new developments to grow their renewable portfolio. They are firm believers that the Lake Onslow project will prove too costly and that a central thermal company that provides dry year electricity cover is the best option for the country.

Amcor

The company reiterated its commitment to make all of the packaging it produces recyclable or reusable by 2025. We engaged with the company to discuss this journey and ensure it is progressing in line with these targets. The biggest headwinds to this target are in its Flexibles division where the products are much more complex. Pleasingly over 60% of Flexibles sales are already recyclable with an additional 11% of sales that will become recyclable in the near-term as soon as contracts roll over. We came away pleased that the company is on track to achieve this 2025 target.

Against a backdrop of volatility, our engagements last year were increasingly focused on resilience and adaptability. We pushed companies to rearticulate their discipline around capital management and their commitment to a strong balance sheet.

Inditex

We engaged with retailer Inditex's new CEO, Oscar Garcia Maceiras, as he settles into the new leadership role, detailing how he will prioritize stakeholder relations to add value to the Zara brand, how Inditex continues to grow in the US market and the strong upside he sees from the hybrid distribution model that balances online and offline sales. Each of these engagements enhanced our confidence in the strength of leadership, the focus on building long-term franchises and the resilience of these business models in the face of market shifts, supporting a fund of companies positioned for the long-term.

Edwards Lifesciences

We were drawn to the strong scientific edge at Edwards Lifesciences, a global leader in patient-focused medical innovation for structural heart disease. Edwards products and technologies are used in late-stage cardiovascular treatments, aortic valve replacement and other critical heart care. The company stands out for a patient focused culture and innovative R&D that allows it to sustain attractive organic revenue growth, and deliver returns on equity in the mid-20s. Over time we will look to engage with the company on succession planning and board size. In general, well run health care companies demonstrate many of the characteristics we value: investment cycles requiring long-term planning, returns that are attractive in differentiated niches and a stakeholder mindset given the importance of patient care.

Starbucks

In some cases, we determine that the positive flywheel has broken down. Coffee retailer Starbucks had been owned in the fund since inception. We recognized the company as an incredible franchise, with strong brand power, employing roughly 300,000 people across 76 countries delivering an average 30% plus ROIC over the past 10 years, with an average 10% revenue growth, strong balance sheet and great cash flow. Unfortunately, after a period of engagement and escalation, we concluded that the questions around the Starbucks' stewardship were material, growing, and unaddressed by leadership. We lost confidence in execution, long-term returns and in Starbucks' ability to balance the needs of stakeholders, most notably employees. We sold our position last September. In hindsight, COVID accelerated fundamental changes in the Starbucks business model, and the company did not respond quickly enough.

An essential part of the Global Impact Bond Fund is a robust approach to impact and measurement. High quality impact measurement and management is essential to inform the investment process, identify opportunities and support real world, quantifiable outcomes.

Acciona Energia

Acciona Energia is a clean energy company engaged in the development, construction and operation of wind, solar, hydro, and biomass plants. The company has a long history of investing in renewable energy across 16 countries. The Fund purchased a green bond, with proceeds allocated to finance or refinance eligible green projects, including the construction of wind farms and solar farms, in order to achieve the goals of Acciona's Sustainability Master Plan. Acciona has ambitious expansion targets, aiming to double installed energy capacity to 20GW by 2025 with a further increase to 30GW by 2030.

Spain, a country from which Acciona derives 41% of EBITDA, has a poor energy mix, with less than 15% of energy currently being derived from renewable sources. Investment in renewables is critical in order to accelerate decarbonization efforts and mitigate the effects of climate change. In addition to playing an essential role in the growth of renewable energy sources, Acciona has demonstrated a strong commitment to sustainability in its operations. In order to neutralize Acciona's carbon footprint by 2025, the company applies Nature-Based Solutions that are equal or equivalent to planting and monitoring the growth of 1 million trees over the period.

Queensland Treasury Corporation

Queensland Treasury Corporation (QTC) is the Australian state's central financing authority and corporate treasury services provider. QTC remains a leading quasi-government issuer of green bonds in Australia, making a significant contribution to the growth of the Australian green bond market. The proceeds of the green bond are to be allocated to projects which diversify Queensland's energy mix, and support the transition to a low-carbon and climate resilient economy. Queensland has the highest share of Australia's emissions by state and therefore effective action to reduce Queensland's emissions is essential to meeting both Australia's emissions reduction targets and international obligations.

Financed projects include the development of water treatment and desalination plants; development of the Gold Coast Light Rail, a low carbon public transport alternative; expansion of electric rolling stock for the state's Citytrain network; and construction of marked bicycle lines and cycle paths across Queensland. The quality of the bond framework and the state's track record in deploying green bond proceeds effectively leads us to believe the projects funded by this bond will aid the State's transition to climate resilience and net zero emissions by 2050.

Helios Towers

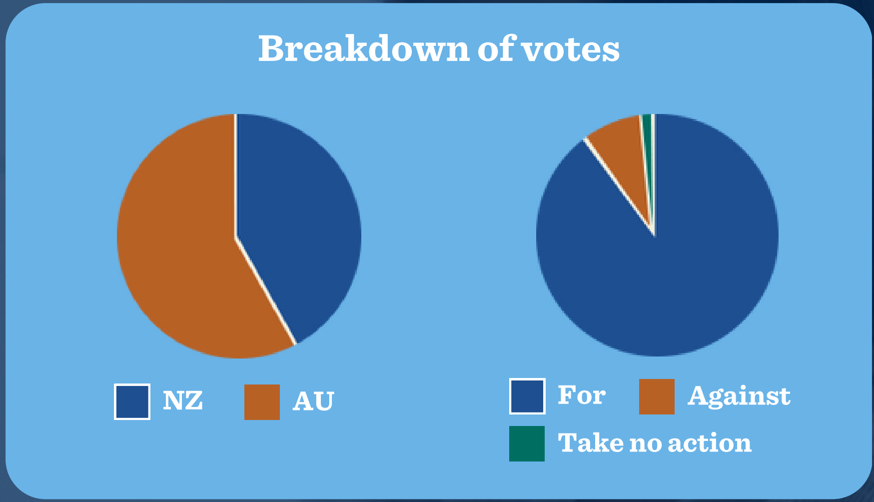
Helios Towers Africa provides critical telecommunication infrastructure through its network of over 10,000 cell towers throughout Africa, offering a range of tower related operational services. The company's towers accommodate major mobile network operators in the region, such as Airtel, Vodacom and Orange.

Despite continued economic growth and new business opportunities in the region, most African countries still suffer from a shortfall in digital infrastructure. Expanding digital infrastructure and bridging the digital divide is a critical pathway for reducing poverty, enhancing gender equality, and reducing inequalities. The demand for telecommunication services in the continent is rapidly growing: over half of all website traffic in the continent comes from mobile devices. Mobile telecom operators provide a crucial service in countries at prices affordable for most of the population and control systemically important infrastructure. The Fund purchased a Digital Divide Corporate Bond in 2022.

We are advocates for strong corporate governance structures, shareholder rights, and transparency. We vote all proxies on behalf of retail clients. The objective in voting is to support proposals and director nominees that maximize the value of a portfolio's investments over the long term. Factors considered include conflicts of interest, transparency, ESG issues and extraordinary meetings.

Each proposal must be evaluated on its merits, based on the particular facts and circumstances as presented. Our practice seeks to ensure that proxy voting decisions are suitable for individual portfolios. For most proxy proposals, the evaluation will result in the same position being taken across all portfolios.

Clients of Devon's Sustainability Fund have access to all their relevant voting outcomes through the [Devon Funds website](#).



Total votes in 2022; 222 proxy votes

Collaboration and education

The ESG landscape is very much a dynamic one, which is constantly evolving. While awareness around the challenges and opportunities within the sphere of responsible investing is growing, there is much more that can be done. No-one has all the answers, and healthy discussions and collaboration between stakeholders is therefore a key part of the ESG journey.

With other industry participants

We are proud to be a sponsor a number of industry events. We have a long-standing association with the Responsible Investment Association Australasia (RIAA) and last year we were a sponsor of RI Aotearoa 2022. There were some fantastic sessions during the conference, including one titled "Losing Social License" which involved Devon Portfolio Manager Victoria Harris. The topic in question was the industry's response to the offensive comments made by DGL's Simon Henry in relation to My Food Bag co-founder Nadia Lim. Victoria explained the reasoning behind Devon putting DGL on the investment exclusions list.

Putting a company on the exclusions list was Devon's way of saying we did not condone or support the racist and sexist comments. We have a fiduciary duty to our investors and the broader community when it comes to our investment decisions and allocation of capital. The wider response to the controversial comments also highlighted that more and more investors are aligning their investments with their ethics and values.

Devon were also proud sponsors of the Combined Community Trusts Conference, which in 2022 was hosted by Bay Trust in Rotorua. During the conference, there was a host of in-depth discussions around a variety of opportunities and challenges for New Zealand around ESG. Devon's Head of Retail Greg Smith took part in the Platinum sponsor's session, titled "Sustainable investing for a positive world." Greg provided some insights into the sustainable investing processes at Devon, and the application of this to a real-life example in the form of ASX-listed Cleanaway.

With businesses we invest in

We believe that we have an obligation to ensure that the businesses we invest in conduct themselves in accordance with the highest governance standards. Where these standards are not being demonstrated we will actively engage with the company to seek improvement. Direct engagement with companies and their stakeholders is an important part of Devon's investment process, and a key driver of our approach to Responsible Investment.

Engagement is typically with the CEO, CFO and other senior management and may take the form of face-to-face meetings, phone conversations or written communication. This engagement provides us with insights into the quality of a company's management, strategy, market environment, operations, governance structure and their approach to ESG issues.

Additionally, we actively engage with corporate boards either to address particular issues or to engage on various matters as the custodians of our equity investments. In this regard we often engage proactively with boards with respect to their construction, their gender diversity, member contribution and tenure.

With clients

Ultimately we are here to serve our clients, and it has also been noticeable that more and more clients are increasingly displaying a desire to do well, while also "doing good." We have sought to increasingly present more detail around our approach to responsible investing into our presentations and communications with clients, existing and potential. Responsible investing is a journey, and we are eager to share how we are participating in this with all our clients.

With the public

Our commitment to responsible investing has also involved making our voice heard on issues that we believe to be important to the public, and also which may not necessarily involve a listed company. During the year we produced an opinion piece in The New Zealand Herald which highlighted the period of financial and operational underperformance of the Ports of Auckland under 100% full council ownership. The article argued that the port was a problem that would not go away and reinforced the need for a viable alternative to the status quo. The port was of course a focal point for the Auckland mayoral campaign later in the year.

Also in The New Zealand Herald last year, we provided our view on criticism directed towards the electricity companies in a report co-authored by FIRST Union, NZCTU and 350 Aotearoa. The report contended that the sector has prioritised 'excess demands' and that the resultant 'systemic underinvestment' has left generating capacity practically flat over the period. We drew attention to the fact that dividends on a free-cash cash flow basis, and underlying earnings growth figures, were far less alarming than the accusations suggested. Electricity companies have also been investing heavily in renewable generation and New Zealand's decarbonisation journey, raising question marks over the need for government intervention. The report did however highlight a constant predicament around balancing returns with due consideration of ESG impacts. However, there is no black and white solution. It is a journey.

With suppliers

We work with our suppliers to ensure alignment with our policies and initiatives across our stakeholders. Understanding our supply chain is an important part of not only ensuring compliance with our modern slavery statement, but also to achieve alignment of goals. We are very enthused to see some of the initiatives being implemented across our supply chain.

Walking the Talk

Good stewardship is about responsibly allocating and managing capital to create and preserve long-term value for current and future generations. Engaging with companies, such as the gentailers, to encourage them to allocate capital accordingly, is part of this process.

At Devon we are proud to be ‘walking the talk’ as it relates to Responsible Investing in New Zealand. A study showed that 76% of New Zealanders want their money to be invested ethically. Greenwashing is rife with many funds claiming to be responsible but still investing in companies that the public wants to avoid. Devon Funds was proud of the acknowledgement that we had supported Mindful Money’s efforts to bring radical transparency to investment, enabling the public to align their investments with their values. The subject was covered in the following article in the media earlier last year.

DEVON
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