

# DEVON FUNDS.

For the informed investor.



## DEVON GLOBAL IMPACT BOND FUND

MONTHLY REPORT: OCTOBER 2024

### SUMMARY OF INVESTMENT OBJECTIVE

The **Devon Global Impact Bond Fund** is actively managed and seeks to understand the world's social and environmental problems and to identify and invest primarily in debt issued by companies and organisations that we believe are addressing these needs in a differentiated way through their core products, services and projects. Through the Fund's investments, we seek to improve access to, and the quality of, basic life essentials, reduce inequality and mitigate the effects of climate change. The Fund seeks to deliver long term total returns in excess of the Bloomberg Global Aggregate Index (hedged to NZD).

### PORTFOLIO SUMMARY

	Portfolio	Benchmark	Difference
Effective Duration (Years)	6.61	6.43	0.18
Spread Duration (Years)	6.60	6.29	0.31
Credit Spread Duration (Years)	4.46	2.42	2.04
Yield to Worst	5.20	4.82	0.38
Average Quality	AA-	AA-	

### ALLOCATION

Wellington Global Impact Bond Fund NZD Hedged	99.0%	Cash	1.0%
Currency Hedge (100% to NZD)	100.0%	Total	100.0%

### PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a
Devon Global Impact Bond Fund	-1.6%	0.5%	10.6%	5.8%
Bloomberg Global Aggregate Index Hedged NZD	-1.6%	0.7%	9.4%	5.2%

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

### MARKET REVIEW

In October, broadly encouraging economic releases contributed to rising sovereign yields, against the backdrop of political uncertainty stemming from the US elections and intensifying tension in the Middle East. Most fixed income sectors outperformed duration-equivalent government bonds.

Global sovereign bond yields moved higher across major developed economies, reversing the downward trajectory from August and September. Signs of a resilient US labour market, resurgent oil prices on fears of an escalating Middle East conflict, and the prospect of a prolonged US port strike raised concerns about revived inflationary pressures, resulting in markets pricing in fewer rate cuts by the Fed. Likewise, German bund yields climbed while eurozone GDP surprised to the upside in the third quarter and October inflation rose to higher-than-expected levels, weakening the case for jumbo rate cuts by the ECB. In the UK, Chancellor Rachel Reeves's budget announcement sent gilt yields close to their highest level since the 2008 global financial crisis.

Global credit markets outperformed duration-equivalent government bonds over the month as spreads tightened. All three major sectors – financials, industrials, and utilities – generated positive excess returns. Broadly, municipal bonds outperformed duration-equivalent Treasuries.

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## FUND PERFORMANCE AND ATTRIBUTION

The portfolio generated a negative total return during the month and performed in line with the Bloomberg Global Aggregate hedged to NZD index.

The portfolio's corporate credit positioning had a positive impact on performance overall. At the broad sector level both high yield credit and US investment grade corporates outperformed duration-equivalent government bonds. Positioning within high yield credit had a positive impact on performance, as did an overweight to non-US investment grade credit, particularly financials. This positive impact was partially offset by negative results from an underweight to US investment grade corporates. An allocation to emerging markets high yield corporates, particularly industrials invested in the Alternatives Energy and Digital Divide themes, aided relative results.

An overweight to agency mortgage back securities in support of the Affordable Housing theme hurt results, impacted by higher US Treasury yields and uncertainty around US elections.

An allocation to taxable municipals, primarily allotted to Education & Training and Health themes, had a positive impact on results.

Overall duration and yield curve positioning was the main detractor from performance over the month. The portfolio was positioned overweight duration during the month.

## MARKET REVIEW (CONTINUED)

Within the securitized sectors, commercial mortgage-backed securities and asset-backed securities outperformed, while agency mortgage-backed securities underperformed duration-equivalent government bonds, respectively.

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## 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.



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## CONTRIBUTION TO DURATION YEARS

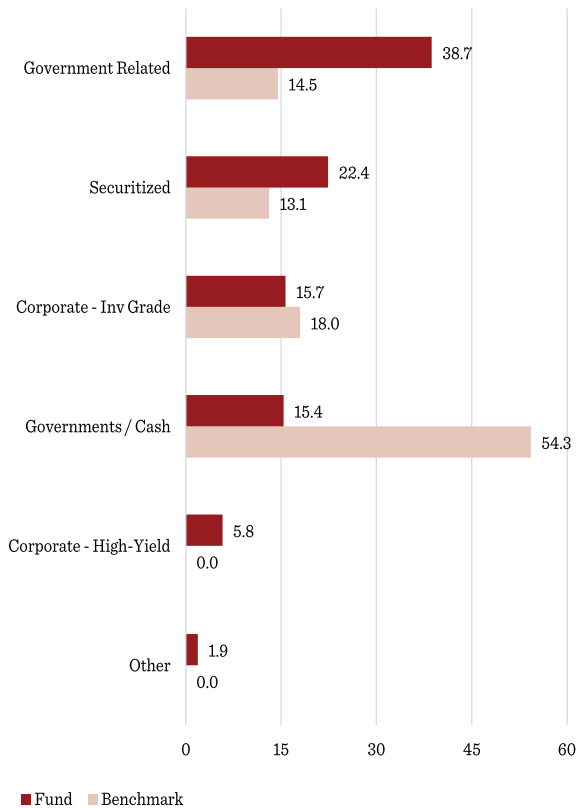
SECTOR	Account	Benchmark	Difference
Cash & Cash Equivalents	0.00	0.00	0.00
US Government	1.12	1.05	0.08
Credit*	4.31	4.59	-0.29
Asset Backed Securities	0.05	0.01	0.04
Mortgage Backed	1.07	0.67	0.40
Commercial Mortgage	0.05	0.03	0.02
Other	0.02	0.09	-0.07
Cash Offset	-	-	-
	<b>6.61</b>	<b>6.43</b>	<b>0.18</b>

\*Credit includes Tax-Exempt Municipals, Investment Grade and High Yield Credits, Bank Loans, Emerging Market Debt, and Developed Non US Dollar Denominated Securities.

## CREDIT RATING % MARKET VALUE

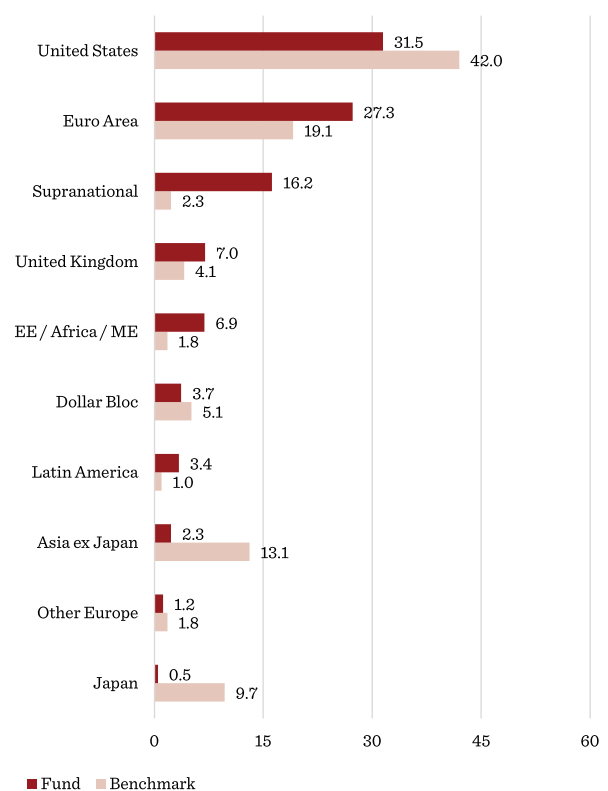
QUALITY	Account	Benchmark	Difference
Cash	-1.46	0.34	-1.80
AAA	31.98	11.47	20.52
AA	39.94	43.58	-3.64
A	9.07	30.46	-21.38
BBB	11.99	13.90	-1.91
BB	6.04	0.01	6.04
B	2.05	-	2.05
Below B	0.13	-	0.13
Cash Offset	-0.70	-	-0.70
Not Rated	0.96	0.25	0.70
	<b>100.00</b>	<b>100.00</b>	

## SECTOR DISTRIBUTION % MARKET VALUE



Totals may not add up to 100% due to rounding.

## GEOGRAPHIC DISTRIBUTION % MARKET VALUE



Totals may not add up to 100% due to rounding. | EE stands for Emerging Europe & ME stands for Middle East.

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## FUND POSITIONING AND OUTLOOK\*

We believe that a soft-landing scenario will likely unfold for the US economy as the wealth boost supports consumer spending and offsets a weaker employment backdrop. In our view, inflation should continue to moderate though structural drivers of inflation will challenge the Fed's ability to bring inflation down to its target.

We anticipate market volatility on the run up to November's US election, which in turn creates a wealth of opportunity for active fixed income investing. Markets often overreact to potential election outcomes, creating opportunities for active duration management and sector rotation.

Although major global central banks have begun to cut short-term interest rates in 2024, we expect rates to remain higher for longer, contributing to a tightening of financial market liquidity conditions. This tightening of financial conditions will be accelerated by the major global central banks' scheduled balance sheet reductions and the increased issuance of government debt, in turn translating to greater credit spread volatility and increased dispersion in the credit spreads of individual issuers.

In terms of positioning, the portfolio has a close to neutral credit risk profile, while preserving high-quality liquid instruments to take advantage of future market dislocations.

From a sector perspective, the portfolio maintains an off-benchmark allocation to select taxable municipals, emphasizing healthcare and education issuers. The portfolio holds select below investment-grade corporates and bank loan issuers that in our view carry attractive credit spreads.

The portfolio maintains positioning in agency MBS issuers with a focus on supporting housing affordability for low-income borrowers. We continue to hold select single-asset single borrower CMBS backed by LEED certified buildings.

The portfolio maintains exposure to labelled use-of-proceeds government and agency bonds intended to fund green, social, and sustainability-related projects.

*\*These views are those of Wellington Management, who have been appointed as the underlying investment manager for the Devon Global Impact Bond Fund*

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