

DEVON FUNDS.

ANNUAL
SUSTAINABILITY
REPORT
2024





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Devon Funds Management Limited (“Devon”) was established in 2010 when we acquired the well-respected asset management business of Goldman Sachs JBWere NZ Limited and changed the name to Devon Funds Management Limited. As of 2017, Investment Services Group Limited (“ISG”) is the parent company of Devon.

Devon is staffed by a number of leading investment professionals who enjoy a boutique environment. We take pride in the fact that Devon is independent and wholly owned by its employees and directors, who maintain personal holdings in the Devon funds, ensuring our investment team’s decisions and our clients’ interests are always aligned. We manage in excess of \$2.3 billion across our various strategies for a range of leading New Zealand clients.

For more information on who we are, visit our website:
www.devonfunds.co.nz



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Alongside the rest of the world, last year we witnessed the unprecedented weather events that have devastated communities, and conflicts that have resulted in significant human suffering. It feels that now more than ever we are observing catastrophic events that will continue to shape the world we are living in.

We continue to believe it is imperative to consider these trends and developments within our decision-making. Devon has long since recognised that for us to achieve our goal of delivering the best risk adjusted returns possible, we must ensure that we continually acknowledge these major changes and incorporate them within our process. This philosophy has created a foundation for our leadership within the investment industry.

We continue to consider climate change as one of the most important issues facing the world today and know that it is particularly relevant to our organisation and the portfolios that we manage. Throughout 2023 we engaged extensively with companies held across our funds on their decarbonisation targets and pathways. It is important to us that the companies we own have ambitious targets, and a roadmap to achieving them, notwithstanding the inevitable technological and equity challenges being faced. It is our view that companies who are actively addressing these issues now will secure an advantage in the face of ever-increasing environmental challenges and regulatory changes.

Ongoing and in some cases escalating conflicts in countries or regions such as Ukraine and the Middle East have resulted in the tragic and incomprehensible

loss of civilian lives. This serves as an unfortunate reminder of the reasons Devon does not invest in any company involved in armaments. We remain vigilant in continually ensuring the companies we own are not involved, in any capacity, in armed conflict.

In recognition of our efforts, in 2023 for the third consecutive year, Devon was named a Responsible Investment Leader by the Responsible Investment Association Australasia (RIAA) in its landmark annual study. RIAA's Benchmark Report is the most comprehensive review of the responsible investment sector in New Zealand, with the 2023 report reviewing the investment practices of 70 operators in our industry.

Across the responsible investment industry there are a number of firms doing some important and constructive work, and we are proud to sit alongside them and be considered a leader in this field. In addition, Devon was named as a finalist for the Mindful Money Best Ethical Fund Provider, alongside the provider TAHITO who secured the overall award. The TAHITO Te Tai o Rehua Fund is available through Devon, in partnership with TAHITO.

During 2023 we also increased our resourcing in responsible investment with the addition of an ESG analyst, Alice Jones, who is responsible for company ESG research and measuring and reporting on ESG factors to our clients. Alice is actively involved with company engagements and Devon's stewardship initiatives within the New Zealand and Australian markets. We have also begun more frequent sustainability reporting to our clients through our

quarterly sustainability reports.

We were pleased to further enhance our product offering with the addition of the Artesian Green and Sustainable Bond Fund (NZD). This Fund invests into the Artesian Green & Sustainable Bond Fund, managed by Artesian Corporate Bond Pty Ltd ("Artesian"). Artesian sees the global labelled (green, sustainable, and social) bond market as an opportunity for investors to facilitate positive change. The rise of the green, sustainable, and social bond market and the innovation of sustainability-linked bonds are prime examples of how investor demand, capital market innovation and corporations can foster positive impact, whilst improving returns with quality fixed income investments.

Finally, I am proud to be presenting our Annual Sustainability Report which I trust will provide you with transparency on how we think about, exercise, and incorporate responsible investment into our process. As the responsible investment sector continues to mature, with increasing expectations and higher standards, we look forward to meeting this challenge in the year ahead.



Slade Robertson
Managing Director

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Management Team



Slade Robertson
Managing Director



Niall Hartigan
Chief Financial Officer



Mark Brown
Chief Investment Officer



Suki Chow
Operations Manager

Investment Team



Slade Robertson
*Managing Director/
Portfolio Manager*



Mark Brown
*Chief Investment Officer/
Portfolio Manager*



Chris Gaskin
Portfolio Manager



Tama Willis
Portfolio Manager



Patrick Washer
Portfolio Manager



Ben Jenkin
Portfolio Manager



Alice Jones
ESG Analyst

Distribution



Greg Smith
Head of Retail

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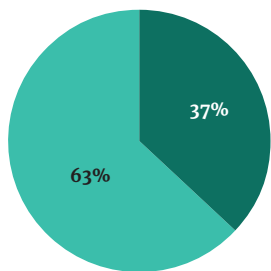
We recognise that diversity of background, experience, and thought contribute to a well-rounded and ultimately better placed business. In recognition of this, we have provided data below on the gender and ethnicity breakdown across our team. We recognise we have a way to go to reach true diversity and actively consider this within our recruitment processes.

Gender diversity

Gender refers to a person’s social and personal identity as male, female, or another gender such as non-binary. Gender may include the gender that a person internally feels (‘gender identity’), and/or the gender a person publicly expresses (‘gender expression’) in their daily life. A person’s gender may change over time. A person’s current gender may differ from the sex recorded at their birth and from what is indicated on their current legal documents. Some people may not identify with any gender. (Stats NZ, Data standard for gender, sex, and variations of sex characteristics)

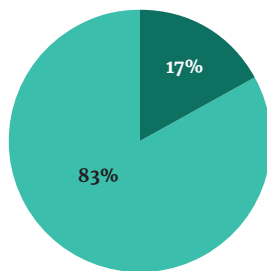
Please note respondents could answer female, male, another gender, prefer not to say, or a free-text response.

Gender Diversity – Whole Team

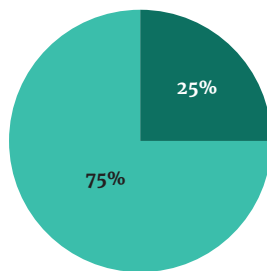


● Male ● Female

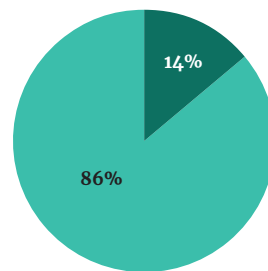
Gender Diversity – Directors



Gender Diversity – Management



Gender Diversity – Investment Team



Ethnic diversity

We recognise ethnicity is a measure of cultural affiliation. It is not a measure of race, ancestry, nationality, or citizenship. Ethnicity is self-perceived, and people can belong to more than one ethnic group.

An ethnic group is made up of people who have some or all of the following characteristics:

- a common proper name
- one or more elements of common culture, for example religion, customs, or language
- unique community of interests, feelings, and actions
- a shared sense of common origins or ancestry, and
- a common geographic origin

(Stats, NZ)

Ethnic diversity continued

Our staff were asked to fill out a free-text question for this survey, and as such ethnicities identified were varied. Respondents were also able to identify multiple ethnicities.

To accurately represent responses, we have presented these listed as opposed to categorising them for pie charts.

- Afrikaaner
- Caucasian
- Chinese
- European
- European/Maori
- Irish
- Kiwi (New Zealander)
- Maori/British
- New Zealand
- New Zealand Maori
- NZ European
- Pakeha
- South African
- White English

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As part of our approach and commitment to Responsible Investing, we are signatories to various industry groups, certified by Toitū and RIAA, and have been recognised for industry awards.



STEWARDSHIP CODE
AOTEAROA NEW ZEALAND

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.

A proud participant of:



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.

NZ | **CORPORATE GOVERNANCE** | FORUM

New Zealand Corporate Governance Forum

The New Zealand Corporate Governance Forum is committed to promoting good corporate governance in NZ companies. The Forum's members are investors with significant investment in NZ listed companies.



Toitū Envirocare Enviromark Gold 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.

Investment Services Group (ISG), which is the parent company of Devon Funds, engaged with Toitū Envirocare 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.



CERTIFIED BY RIAA

Responsible Investment Association Australasia (RIAA)

RIAA Certification, Devon Sustainability Fund

In 2022, the Devon Sustainability 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.



Responsible Investment Association Australasia RIAA

Responsible Investment Leader 2023

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 over 500 members (including Devon), 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 Responsible Investment Leader for 2023, the third consecutive year in which we have received this recognition. TAHITO also achieved this recognition for 2023.



Mindful Money Best Ethical Retail Fund Provider 2023

At the annual Mindful Money awards both Devon Funds Management and TAHITO were nominated for an award in the “Best Ethical Retail Investment Provider” category.

TAHITO took out the award in recognition that TAHITO's Te Tai o Rehua Fund has provided above market returns while maintaining a high ethical and sustainable standard, with a strong and distinctive investment approach.



**DEVON ALPHA
FUND**

**DEVON
AUSTRALIAN
FUND**

**DEVON
DIVERSIFIED
INCOME
FUND**

**DEVON
DIVIDEND
YIELD FUND**

**DEVON
SUSTAINABILITY
FUND**

**DEVON
TRANS-TASMAN
FUND**

Externally managed funds

**DEVON
GLOBAL
SUSTAINABILITY
FUND**

**DEVON
GLOBAL IMPACT
BOND FUND**

**ARTESIAN
GREEN AND
SUSTAINABLE
BOND FUND
(NZD)**

**TAHITO TE TAI O
REHUA FUND**



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Responsible investment strategies vary and are often used in combination with one another by investors globally. The Responsible Investment Association Australasia (RIAA) categorise the approaches used by investors according to the below:

ESG Integration

ESG integration: the systematic and explicit inclusion by investment managers of environmental, social and governance factors into the investment decision-making process.

Negative/Exclusionary Screening

Negative/exclusionary screening: the exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria, such as what goods and services a company produces, or how inadequate a company or country response is to emergent risks such as climate change impacts.

Minimum Standards (Norms-Based) Screening

Minimum-standards (norms-based) screening: screening of investments against minimum standards of business or government practice, for example as based on international norms such as those issued by the UN, ILO, OECD and NGOs (e.g. Transparency International) and may include exclusions of investments that are not in compliance with norms or standards or over and underweight.

Corporate Engagement and Shareholder Action

Corporate engagement and shareholder action: employing shareholder power to influence corporate behaviour, including through direct corporate engagement (i.e., communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines.

Positive/Best in Class Screening

Positive/inclusionary screening: intentionally tilting a proportion of an investment portfolio towards positive solutions, or targeting companies or industries assessed to have better ESG performance relative to benchmarks or peers.

Sustainability Themed Investing

Sustainability themed investing: investment in themes or assets and programs specifically related to improving social and environmental sustainability (e.g. safe and accessible water, sustainable agriculture, green buildings, lower carbon tilted portfolio, community programs).

Impact Investing

Impact investing: investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.



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At Devon, we apply responsible investment strategies both at a firm level and in varying degrees across our portfolios. **All of our funds employ ESG integration**, in which environmental, social, and governance factors are fundamental to the investment decision making process.

Across our funds we apply the following strategies:

————— Externally managed funds —————

	Devon Alpha Fund	Devon Australian Fun	Devon Diversified Income Fund	Devon Dividend Yield Fund	Devon Sustainability Fund	Devon Trans-Tasman Fund	TAHITO Te Tai O Rehua Fund	Global Impact Bond Fund	Global Sustainability Fund	Artesian Green and Sustainable Bond Fund (NZD)
Asset class	Australasian Equities	Australian Equities	Australasian Equities	Australasian Equities	Australasian Equities	Australasian Equities	Australasian Equities	Global Bonds	Global Equities	Global Bonds
ESG Integration	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Negative/Exclusionary Screening	No	No	No	No	Yes	No	Yes	No	Yes	Yes
Minimum Standards (norms-based) Screening	No	No	No	No	No	No	No	No	No	No
Corporate Engagement and Shareholder Action	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Positive/Best in Class Screening	No	No	No	No	Yes	No	Yes	No	No	Yes
Sustainability Themed Investing	No	No	No	No	Yes	No	Yes	Yes	Yes	Yes
Impact Investing	No	No	No	No	No	No	No	Yes	No	Yes

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The term 'ESG' has been critiqued for being vague. Certainly, even breaking down the acronym to environmental, social, and governance fails to fully explain the term. In essence, we view ESG as a lens through which we think about material risks or opportunities within our company analysis. We execute this in three ways.

The first is through initial company research. For any company we are looking at we will evaluate:

- **Environmental impact:** predominantly from a carbon emissions perspective
- **Social impact:** which differs depending on the core business of a company but can include safety, labour issues, or consideration of community impact (including traditional owners)
- **Corporate governance:** best practice

If any issues are identified in this process, we use this as a point of engagement in our meetings with the companies.

The second is ongoing monitoring of the companies we own. This is done on a regular basis through monthly controversy screening. However, given this is backwards looking we stay on top of all company announcements, news reports, and policy and regulatory updates to address controversies as and when they arise. In addition, we monitor all company results and annual reports for updates on their performance against ESG targets. We are particularly focussed on tracking company progress towards interim and net zero goals and update our models according to this on an annual basis. We will engage with companies where we find issues.

Finally, the global shift towards a more sustainable world presents material opportunities for companies. In the past couple of years, we have seen a significant increase in investment in this space and political appetite to provide funding in these areas. We are always looking for companies whom we feel will benefit from this set of circumstances.



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We recognise that some of our clients wish to invest in a manner that does not provide capital to certain activities that can have environmental or social impacts. As such we have fund which apply various exclusions, which are outlined below.

Devon Sustainability Fund

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

- Alcohol manufacturing
- Gambling
- Pornography
- Fossil fuel exploration, extraction, and refining¹

Also excludes companies where any business revenue is derived from:

- Manufacturing of tobacco-based products or nicotine alternatives²
- Manufacturing and sale of armaments³

As well as any company on human rights watchlists as stated by MSCI, or involved in whaling activities.

¹²³Please refer to our website for further details on these exclusions: <http://devonfunds.co.nz/sustainability-fund>

TAHITO Te Tai o Rehua Fund

Tahito Te Tai o Rehua Fund excludes companies with no female board representation and any company subject to global sanctions. It further excludes companies involved in:

- Adult entertainment/pornography

- Civilian firearms
- Defence and weapons
- Fossil fuels
- Gambling
- Genetic engineering (GE)
- Human rights & environmental violations
- Nuclear power
- Production or purchase of palm oil
- Production of alcohol
- Tobacco and vaping

Global Sustainability Fund

Excludes companies that are involved in the following:

- 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

- Production and generation of oil sands (also known as tar sands)

Global Impact Bond Fund

Excludes companies that are involved in the follow:

- Production of controversial weapons
- Thermal coal extraction or power generation
- Production and generation of oil sands
- Significant activities associated with controversial weapons
- Significant activities fossil fuels principal adverse impacts

Artesian Green and Sustainable Bond Fund (NZD)

The Investment Manager has determined various products and practices attract unacceptable social and environmental risks. The Investment Manager adopts a zero-tolerance for issuers involved in the production of tobacco, alcohol, pornography, munitions, palm oil, gaming equipment and exploration and or production of fossil fuels.

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Proxy voting

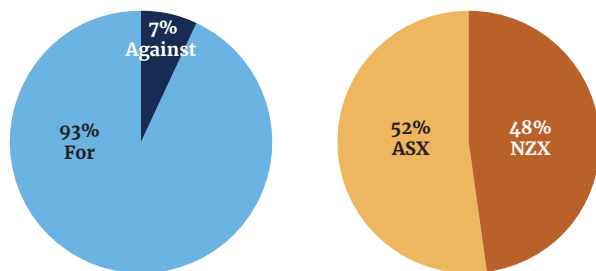
We are advocates for strong corporate governance structures, shareholder rights, and transparency. We vote all proxies on behalf of clients, unless the client has a preference to vote these proxies themselves. The objective in voting is to support proposals and director nominees that maximize the value of a portfolio's investments over the long term.

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. This year Devon voted against management recommendations on 11 motions.

Clients of Devon's Sustainability Fund have access to all their relevant voting outcomes through the Devon Funds website (<https://devonfunds.co.nz/sustainability-fund>).

Please note this information relates only to Devon's internally managed funds.

Breakdown of votes:



Engagement

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 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.

We collaborate with other fund managers through the New Zealand Corporate Governance Forum, of which we are a founding member, where we believe a collaborative approach will be in the best interests of our clients and achieve the greatest result.

Engagement example:

During the year we have worked on a targeted engagement approach for decarbonisation across the companies that we own in all our portfolios. We have modelled the carbon emission reductions we expect from the companies according to their own targets, and nationally determined net zero by 2050 goals.



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Over the coming years this will give us a reference point through which we can engage with companies when their reported emissions are not aligned with our expectations.

In the interim we have engaged with several of the held companies, asking for more information around their targets for our understanding, updates on how they are progressing on their targets when this hasn't been reported and discussed the challenges individual companies will face in achieving their targets.

In addition to this, we surveyed the S&P/NZX50 companies on the way in which their remuneration structures are linked to their ESG reporting with the view that linking pay to these factors is essential for credible strategies.

Pleasingly, the second most common ESG related issue that was evaluated within KPI's for remuneration was greenhouse gas emission (scope 1 and 2) reductions and greenhouse gas emission (scope 3) reductions was the fourth most common response. The survey gave us an excellent overview of the ways in which ESG issues are embedded within remuneration packages for CEOs across the New Zealand market. Importantly, it acts as a way we can focus our engagements with companies on specific topics.

We are frequently engaging with boards and executive teams and can use the survey as a tool to contribute to these discussions.

Collaboration

We recognise that collaboration within the investment industry can be a powerful tool for leveraging change within an organisation.

We collaborate with investors as part of the Climate Action 100+, and through this initiative we are part of an engagement with Woolworths which is ongoing. In addition, we are members of RIAA, signatories of PRI and the New Zealand stewardship code, and a founding member of the New Zealand Corporate Governance Forum; all of which represent a network of investors with whom we can collaborate.

We anticipate that as the market moves towards stewardship as the key way in which investors can exercise responsible investment, more collaborative opportunities will emerge which we would view as a very positive development.

Collaboration example:

During the year the NZX sought feedback on regulatory settings in respect of director independence. We were part of the working group on a submission for the New Zealand Corporate Governance Forum.

Our view was that in situations where there is a dominant/controlling shareholder, the other/minority shareholders should have rights in respect of the appointment of at least some of the independent directors. This is to prevent a situation in which an independent director may be supported by a majority shareholder/s, but not minority shareholders, and be able to be elected (and continually elected), at odds with minority shareholder sentiment.

We view this as an opportunity to enhance the voting power of minority shareholders.



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The sustainability investing landscape is ever evolving with better understanding of sustainability challenges, increasing expectations and changing reporting requirements. In the year ahead we expect to see scope 3 emissions and nature and biodiversity reporting develop. Within the industry, we expect to see more collaborative action.

Scope 3 emissions are indirect emissions that occur within the supply chain of a company, and this includes both upstream and downstream emissions. Scope 3 emissions can include those that are the result of investments, use of sold products, business travel, purchased goods and services, and many others.

Given the broad scope there has been serious data constraints in terms of companies being able to measure scope 3 emissions, report on them, and set reduction targets. Best practice for reporting on scope 3 emissions is to break down emissions according to the 15 categories within the Greenhouse Gas (GHG) protocol, and only exclude categories if they don't have a material impact on emissions figures.

There is currently no legislation in place around this, so companies can choose what categories they report on, and don't need to disclose methodology. This can create consistency issues. We therefore anticipate progress in this space in the year ahead.

Nature and biodiversity have become more of a concern for investors with the introduction of the Taskforce on Nature-related Financial Disclosures (TNFD). The TNFD has been developed to provide a set of disclosure recommendations and guidance for organisations to report and act on evolving nature-related dependencies, impacts, risks, and opportunities.



The recommended disclosures are structured around the four pillars of governance, strategy, risk and impact management, and metrics and targets. 320 organisations have committed to being an 'early adopter' of TNFD and are expected to report in the next couple of financial years. Many companies are dependent on nature in order to operate and the TNFD will illustrate the risks they are exposed to, and how they consider these across their operations, strategies, and management decisions. It will therefore act as a tool that investors can use in their analysis.

Within the responsible investment industry, it has been recognised that investors in New Zealand need ways to collaborate with each other in order to leverage change within companies.

The Aotearoa New Zealand Stewardship Code has made this a priority for many signatories as investors are motivated to have outcome-based engagements. In

response to this, towards the end of 2023 an Aotearoa Collaborative Working Group was formed through RIAA which brought New Zealand asset managers and asset owners together. While still in its early stages it is set to become a key way in which the industry can work together to achieve sustainability outcomes. In addition, the PRI launched a collaboration platform in 2023 which allows investors to pool resources, share information and extrapolate their influence on ESG issues. Therefore, there are more opportunities for New Zealand investors (and others in the industry) to collaborate on key issues which are important from both a sustainability perspective, and of importance to all New Zealanders.

We're certainly looking forward to the year ahead and significant progress being made within our industry and on globally important challenges!

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