

Air New Zealand - brightness on the horizon?

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

It is no secret that the airline industry has faced a turbulent time in recent years, with participants halted for long periods during the pandemic, and making large losses. The reopening post-Covid then saw supersonic passenger demand with airfares rising accordingly, and turbo-charging earnings. Volatile jet fuel costs on the back of wars and geopolitical tensions have made the journey more testing.

From the stock market's perspective, the sector has descended around 30% over the past five years, while global equity markets have risen strongly – the S&P500 is up over 70% in this time. Air New Zealand has also lagged the NZX50, which will not have gone unnoticed by legions of retail investors (who increased their position via the \$1.2b capital rise in 2022), and the government given its 51% stake. Air New Zealand's share price is down nearly 20% year to date, with recent weakness driven by a downgrade to earnings forecasts.

Last month the airline reduced underlying earnings guidance for the year to 30 June 2024 by \$40-\$50 million, citing a softening of trading conditions both at home and abroad. In NZ, driving factors have been cost of living pressures along with subdued corporate and government demand. The kiwi economy is in recession and with airfares elevated, people are cutting back on travel. The airline's ratio between revenues and available seat kilometres (RASK) on short haul routes is down ~7% year to date versus a year ago. The airline is now putting up prices which could help but may also be a hindrance...[READ MORE](#)

MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	-1.2%	-0.5%
S&P/ASX200G	AUSTRALIA	-2.9%	9.1%
MSCI World Index	GLOBAL	-3.7%	19.0%
S&P500	USA	-4.1%	22.7%
FTSE100	UK	2.7%	7.7%
NIKKEI 225	JP	-4.9%	35.6%
NZ 90 Day Bank Bill	NZ	0.5%	5.8%
Bloomberg Global Aggregate Index (NZD)	GLOBAL	-1.6%	1.6%

AT A GLANCE

Prices as at 30 April 2024

DEVON ALPHA FUND	\$2.2960
DEVON AUSTRALIAN FUND	\$1.7260
DEVON DIVERSIFIED INCOME FUND	\$1.4388
DEVON DIVIDEND YIELD FUND	\$1.8393
DEVON GLOBAL IMPACT BOND FUND	\$1.3313
DEVON GLOBAL SUSTAINABILITY FUND	\$1.8490
DEVON TRANS-TASMAN FUND	\$4.7226
DEVON SUSTAINABILITY FUND	\$3.2430
ARTESIAN GREEN & SUSTAINABLE BOND FUND	\$1.0278

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DEVON ALPHA FUND

FUND OUTLINE

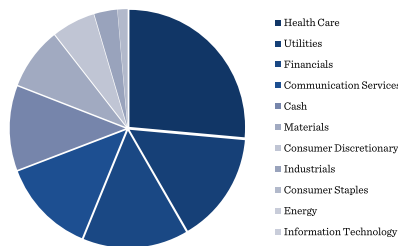
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

The Fund does not follow any index, is actively managed and aims to generate capital growth over the long term. Currency exposure is actively managed.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	20.6%	Cash	11.6%
Australian Equities	67.8%	Total	100.0%
Currency Hedge	47.9%		

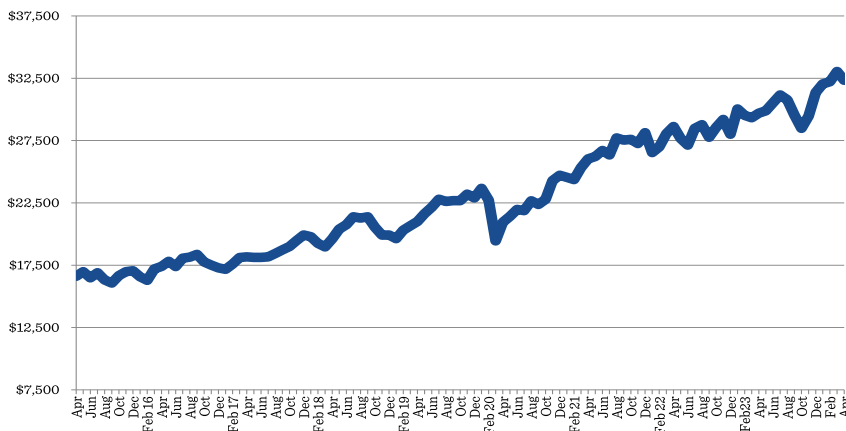
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Alpha Fund	-2.1%	0.9%	8.9%	7.5%	9.0%	9.1%
OCR + 5%	0.9%	2.6%	10.9%	6.0%	3.9%	2.4%

Devon Alpha Fund returns are after all fees and expenses, but before tax which varies by investor.
*The benchmark for Alpha changed to OCR + 5% from 1 September 2022

NET PERFORMANCE

Based on \$10,000 invested at 1 January 2011



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

COMMENTARY

April proved to be a disappointing month for the Alpha strategy, with a couple of our investments weighing on returns. These included Brambles, which delivered a disappointing third-quarter result, and BHP whose share price fell after announcing their intention to acquire rival Anglo American for \$39bn. Offsetting this was a very strong contribution from Resmed. Having owned this business a number of times during the life of this strategy, we understand the company well and took the opportunity to purchase shares during the early stages of last month amongst volatility in their share price. Subsequent to this they announced a strong quarterly result in which they reported revenue growth of 7%, but more importantly their gross margin expanded to a 3-year high of 58.5%. This was well received by investors and Resmed closed the month up 9.0%. Another outperformer for us included Meridian, which rallied 1.5%.

PORTFOLIO MANAGER

Slade Robertson



Slade has primary responsibility for stock selection and portfolio construction for the Alpha, Australian and Diversified Income funds. Slade is also the Managing Director at Devon and has overall responsibility for the business. Slade has over 20 years' industry experience.



DEVON TRANS-TASMAN FUND

FUND OUTLINE

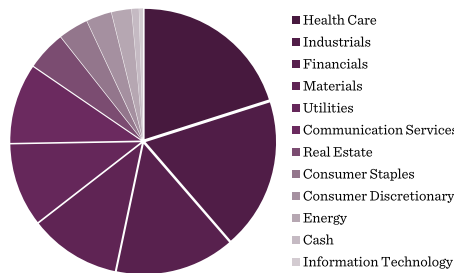
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the New Zealand and Australian equity markets.

This Fund invests in a select portfolio of well researched companies, which are primarily New Zealand and Australian listed companies. The Australian dollar currency exposure is typically unhedged.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	48.2%	Cash	0.9%
Australian Equities	50.9%	Total	100.0%

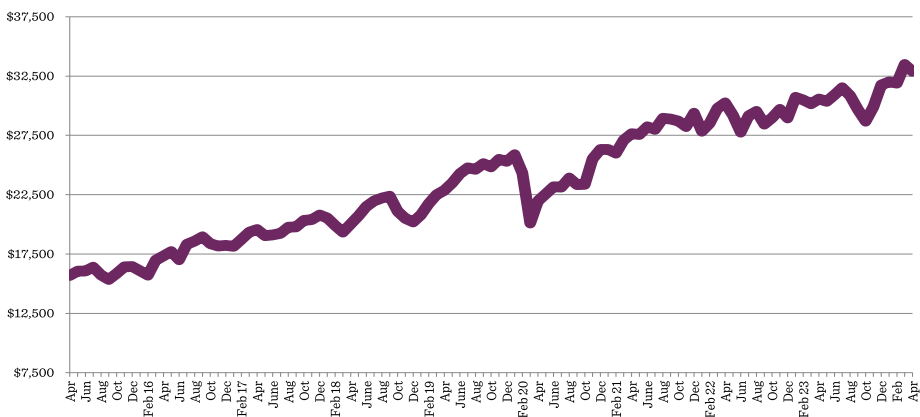
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Trans-Tasman Fund	-1.7%	2.8%	7.5%	6.0%	7.5%	8.4%
50:50 NZX50 Gross & ASX200 Index Unhedged	-1.8%	2.0%	5.7%	3.0%	6.2%	8.9%

Devon Trans Tasman Fund returns are after all fees and expenses, but before tax which varies by investor.

NET PERFORMANCE

Based on \$10,000 invested at 1 January 2011



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

COMMENTARY

The Trans-Tasman strategy had a number of positive contributors during April while slightly outperforming the underlying index. These included Resmed and Newmont which rallied 9.0% and 18.6% respectively.

The gold price, and stocks within this sector, were well supported by investors given the recent escalation in geopolitical tensions, a lift in central bank buying of gold and rising inflation expectations. Newmont reported strong production and earnings for the first-quarter and provided confidence that a rationalisation of their asset base is underway with the sale of the Fruta del Norte for \$330m. Progress across other non-core assets is expected with the objective of reducing debt and potentially returning capital.

PORTFOLIO MANAGER

Tama Willis



After a long period in international investment markets, Tama returned to NZ after a very successful career in London and Singapore to join Devon's investment team. Tama holds primary responsibility for Devon's Trans-Tasman Fund. Tama is widely regarded as a leading expert on resource and mining stocks.

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DEVON AUSTRALIAN FUND

FUND OUTLINE

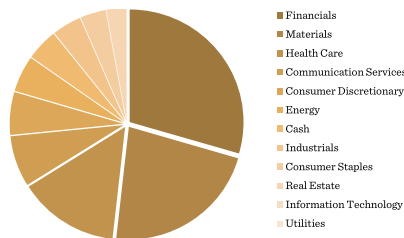
The **Australian Fund** invests in a select portfolio of companies, which are primarily Australian listed companies.

The Australian market is much larger than the New Zealand market and offers exposure to a number of sectors that are not available in New Zealand. The Australian dollar currency exposure of this Fund is typically unhedged.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

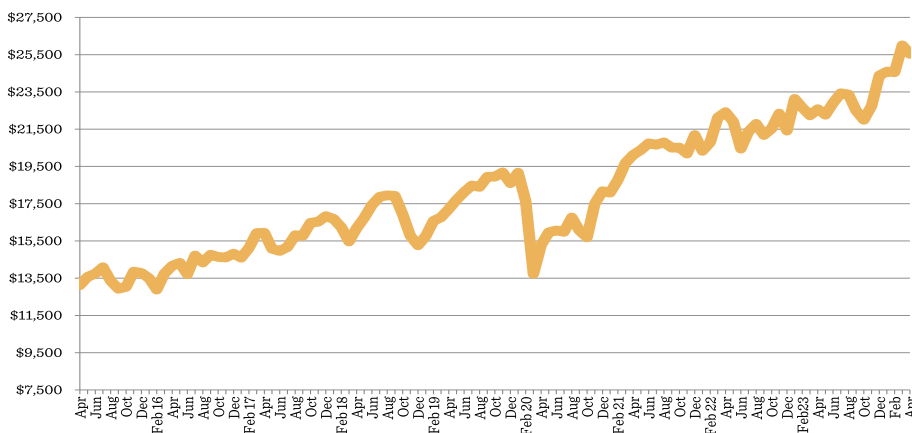
New Zealand Equities	0.0%	Cash	4.6%
Australian Equities	95.4%	Total	100.0%

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Australian Fund	-1.8%	3.8%	13.1%	8.3%	8.2%	7.9%
ASX200 Index Gross (NZD)	-2.3%	3.2%	11.9%	8.0%	8.8%	7.4%

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

NET PERFORMANCE

Based on \$10,000 invested at 1 January 2011



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

COMMENTARY

The Australian strategy performed well in a relative sense during the month, comfortably outperforming its underlying benchmark. It was a challenging month overall for the Australian market with most sectors generating negative absolute returns, although certain stocks within the Mining and Gold sectors were standout contributors. Amongst these were Sandfire Resources and South32 which rallied 7.4% and 19.7% respectively, while our gold exposure, Newmont Corporation, finished up 18.6%.

South 32 recovered strongly over the month as it reported its March quarter production data where it maintained FY24 production and operating unit cost guidance unchanged apart from Australian Manganese which was impacted by a recent cyclone. The key driver of the shares though was the strong recovery in their key commodity exposures with aluminium and copper rallying 12-13% during the period. Aluminium is their largest business and tightness in China on constrained output and rising demand helped. Rising premiums in Europe and North America amid further Russian sanctions, and an end to the end user destocking cycle, added further impetus to price moves. The copper price also rallied strongly to US\$10,000/t after fluctuating at lower levels for most of the last two years amid strong speculative inflows into metals markets and an improving outlook for the global economy.

PORTFOLIO MANAGER

Slade Robertson



Slade has primary responsibility for stock selection and portfolio construction for the Alpha, Australian and Diversified Income funds. Slade

is also the Managing Director at Devon and has overall responsibility for the business. Slade has over 20 years' industry experience.

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DEVON DIVIDEND YIELD FUND

FUND OUTLINE

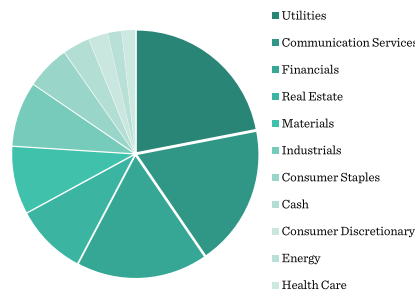
The **Devon Dividend Yield Fund** invests in a carefully selected portfolio of New Zealand and Australian listed companies.

These stocks are chosen for their attractive dividend yields and growth prospects with the aim of maintaining the dividend yield and capital value in real terms. The Australian dollar currency exposure is typically fully hedged.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

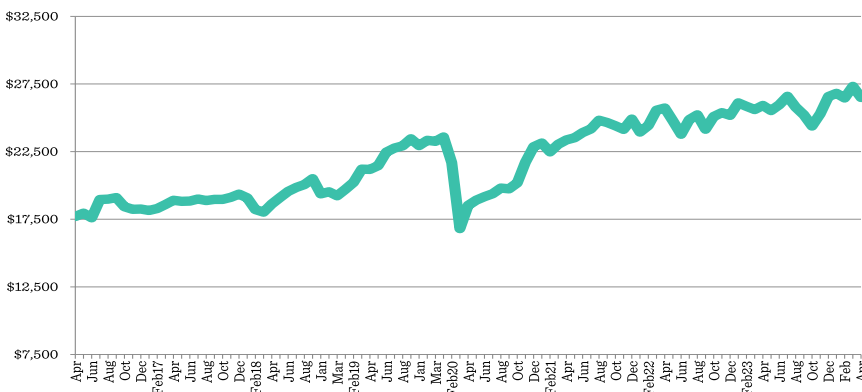
New Zealand Equities	63.8%	Cash	3.6%
Australian Equities	32.6%	Total	100.0%
Currency Hedge	100.0%	Yield	6.4%

PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Dividend Yield Fund	-3.0%	-1.1%	2.3%	4.3%	4.6%	9.1%
50:50 NZX50 & ASX200 Index Gross	-2.1%	0.9%	4.3%	2.6%	5.8%	10.0%

Devon Dividend Yield Fund returns are after all fees and expenses, but before tax which varies by investor.

NET PERFORMANCE

Based on \$10,000 invested at 1 January 2011



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

COMMENTARY

The Dividend Yield strategy offers investors a forecasted distribution for the year ahead of 6.4%. This distribution stream is forecasted to grow by 3% annually over the next three years, exceeding RBNZ's CPI forecast over the same period. Doing so will ensure investors' distributions aren't eaten away by inflation overtime, as they can be with bonds and other fixed income products. The top contributors to the strategy during April were NZX (+11.4%), Rio Tinto (+7.2%) and Meridian Energy (+1.5%). Meanwhile, the key detractors were Sky City (-14.4%), Charter Hall long WALE REIT (-11.3%) and Port of Tauranga (-9.3%). Last month we wrote about our local index operator the NZX. Pleasingly this investment performed strongly through April, rallying over 11% to finish the month at \$1.17 per share. We continue to see under-appreciated value in the company, which will be realised as their Wealth Technology platform reaches cashflow break even this year, share market turnover improves and cost growth abates.

PORTFOLIO MANAGER

Patrick Washer



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



DEVON DIVERSIFIED INCOME FUND

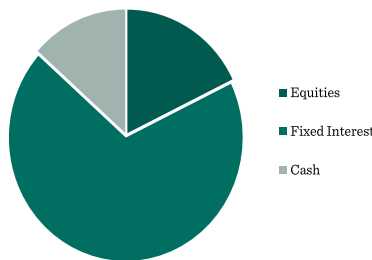
FUND OUTLINE

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

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	16.3%	Bonds	63.0%
Australian Equities	8.3%	Cash	12.3%

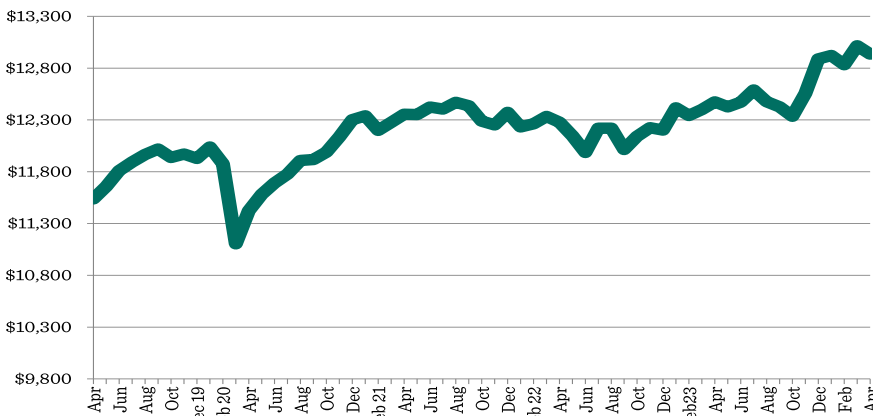
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a	Since Inception
Devon Diversified Income Fund	-0.6%	0.1%	3.7%	1.5%	2.3%	3.3%
OCR + 1.5%	0.6%	1.7%	7.2%	4.8%	3.7%	2.9%

Devon Diversified Income Fund returns are after all fees and expenses, but before tax which varies by investor. Inception date for the Fund is 1 January 2016.

NET PERFORMANCE

Based on \$10,000 invested at 1 January 2016



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

COMMENTARY

Global bond yields jumped materially during the month, with the interest rate on US Treasuries closing April at 4.63% (they began the month at 4.20%). The major catalyst for this performance was evidence that inflation in the US is proving to be stickier than investors and central bankers had expected. US CPI, at both the headline and core levels, increased by 0.4% during March relative to the previous month. The result of this has been a push back in the expectations of when the Federal Reserve will begin to cut interest rates. Many commentators now believe that an easing in policy settings won't begin until at least September this year. In New Zealand, our headline CPI rose by 0.6% but the outcome was broadly in-line with consensus expectations. The RBNZ held the OCR steady at 5.50% and reiterated that interest rates will need to be maintained at "a restrictive level for a sustained period".

PORTFOLIO MANAGER

Slade Robertson



Slade has primary responsibility for stock selection and portfolio construction for the Alpha, Australian and Diversified Income funds. Slade is also the Managing Director at Devon and has overall responsibility for the business. Slade has over 20 years' industry experience.

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DEVON SUSTAINABILITY FUND

FUND OUTLINE

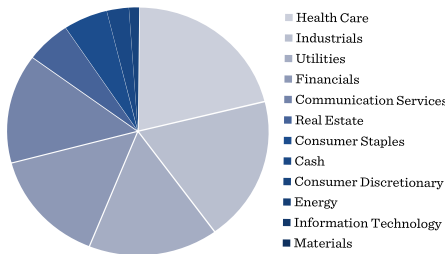
The **Devon Sustainability Fund** invests in a select portfolio of well researched New Zealand and Australian listed companies.

The Fund looks to invest in companies that score highly on overall environmental, social and corporate governance performance. The Fund also employs an ethical screen which will prohibit investment into certain companies and sectors.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	57.1%	Cash	2.7%
Australian Equities	40.2%	Total	100.0%

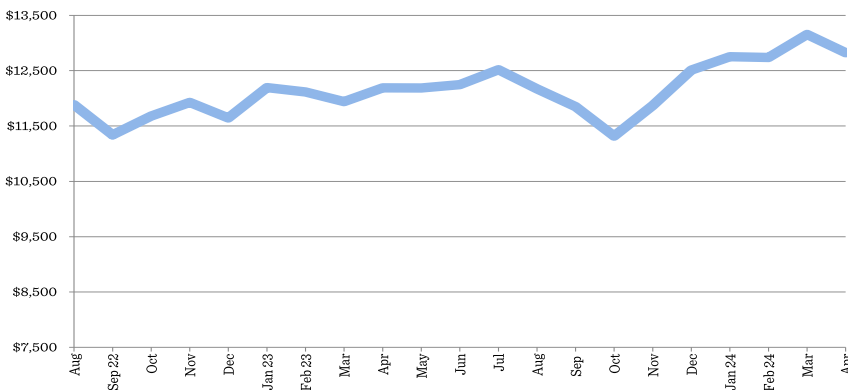
PERFORMANCE

	1 Mth	3 Mth	1 Yr p.a	3 Yr p.a	Since Inception
Devon Sustainability Fund	-2.5%	0.5%	5.2%	3.2%	7.0%
50:50 NZX50 Portfolio Index & ASX200 Index	-2.8%	0.0%	3.9%	2.4%	6.4%

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

NET PERFORMANCE

Based on \$10,000 invested at 31 August 2020



NOTE: Further information on the Devon Sustainability Fund can be found in our Quarterly Fund Updates by visiting <https://devonfunds.co.nz/devon-sustainability-fundor> by clicking [HERE](#)

COMMENTARY

The Sustainability Fund performed well relative to its benchmark during the month. Key contributors included New Zealand’s electricity providers Meridian Energy (+1.5%) and Contact Energy (+0.2%), with other highlights including Telix Pharmaceuticals (+16.8%), NZX (+11.4%) and ResMed (+9.0%).

Both Meridian Energy and Contact Energy enjoyed another strong month of wholesale electricity price increases. Meridian Energy reported a strong energy margin as it delivered good growth in hydro generation despite lower-than-average inflows, which enabled the company to capitalise on the strong electricity prices. Contact Energy is on track with the progression of its new geothermal plant, Tauhara, with commissioning activities commencing shortly. The company is aiming to have the operation commercial in June 2024. We see Tauhara as a pivotal project for Contact Energy and a source of material earnings growth over the next couple years for the company.

PORTFOLIO MANAGER

Ben Jenkin



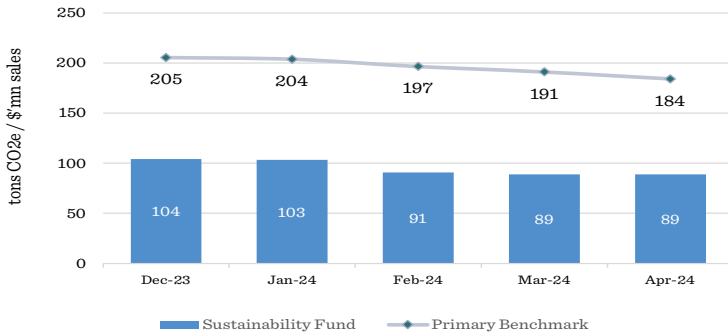
Ben has primary responsibility for stock selection and portfolio construction for the Sustainability Fund. Ben also holds research responsibility for the telco, media and technology sectors, as well as a wide ranging number of industrial companies.



DEVON SUSTAINABILITY FUND

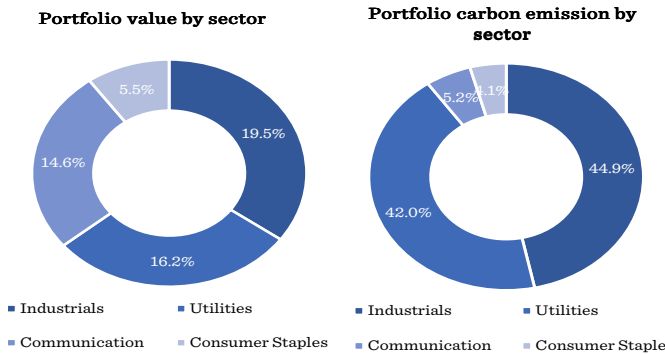
CARBON INTENSITY - PORTFOLIO VS BENCHMARK

Carbon Intensity - Portfolio vs Benchmark



PORTFOLIO CARBON EMISSIONS BY KEY SECTORS

Portfolio Carbon Emissions by Key Sectors



The industrials, utilities, and consumer staples sectors make up 44.5% of the portfolio by value, but they account for 91.0% of the carbon emissions in the portfolio.

ESG PORTFOLIO SUMMARY

	MSCI ESG Ratings	MSCI ESG Quality score	Portfolio
Portfolio	AA	7.70	Sustainability Fund
Benchmark	AA	7.38	50:50 composite S&P/NZX50 Portfolio Index & S&P/ASX200G Index

PERFORMANCE

	1 Mth	3 Mth	6 Mth	1 Yr	Since Inception
ESG relative performance	4.3%	4.3%	2.9%	3.6%	6.0%

*ESG Relative Performance is the MSCI ESG Score of the Devon Sustainability fund compared to the MSCI ESG Score of the Benchmark

PORTFOLIO HOLDING'S DISCLOSURE SUMMARY

Portfolio Holding's Summary

% of companies reporting to TCFD standards	76.7%
% of companies committed to Net Zero	65.1%
% of companies committed to Carbon Neutral	7.0%
% of companies with no commitment to either	27.9%

STEWARDSHIP

This month Devon met with Liz Coutts, the Chair of EBOS, over concerns around their CEO's pay (John Cullity is the highest paid CEO in New Zealand). Liz explained that the CEO's remuneration is usually 1/3 fixed, 1/3 STI, and 1/3 LTI's. As of FY23 Cullity was paid a fourth component which was a one-off payment for the acquisition of Life Healthcare, a year after the transaction, once the business case had been proved. This payment was also a reflection of the strategic work for this deal that happened over three to four years. While the board had wanted to use equity, an external advisor had advised against this approach. EBOS is listed on the NZX, however 85% of their business is in Australia. Therefore, remuneration is not benchmarked against NZ companies, and these benchmark companies are chosen by KPMG in Melbourne. There is also a competitive component given the pharmaceutical industry is often competing for professionals that can work in highly paid private equity roles. This engagement will be used to inform our voting in EBOS's AGM this year.

PORTFOLIO MANAGER

Ben Jenkin



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



DEVON GLOBAL IMPACT BOND FUND

DURATION

Sector	Contribution to Duration (Years)		
	Account	Benchmark	Difference
Cash & Cash Equivalents	0.00	0.00	0.00
US Government	1.20	1.01	0.19
Credit*	4.14	4.62	-0.47
Asset Backed Securities	0.01	0.01	0.00
Mortgage Backed	1.14	0.72	0.41
Commercial Mortgage	0.06	0.03	0.03
Other	0.02	0.09	-0.07
Cash Offset	-	-	-
	6.57	6.48	0.10

The Fund invests into the Wellington Global Impact Bond Fund, managed by Wellington Management. Wellington Management is one of the world's leading investment management firms with over US\$1 trillion in assets under management worldwide across a broad range of asset classes. They have been providing innovative investment solutions to clients for more than 85 years. Wellington Management seeks to understand the world's social and environmental problems and to identify and invest primarily in debt issued by companies and organisations that they believe are addressing these needs in a differentiated way through their core products, services and projects. The Wellington Global Impact Bond Fund aims to improve access to, and the quality of, basic life essentials, reduce inequality and mitigate the effects of climate change.

CREDIT RATING

Quality	Percent of Market Value		
	Account	Benchmark	Difference
Cash	7.77	0.30	7.47
AAA	25.27	11.75	13.51
AA	35.87	42.54	-6.67
A	9.57	30.98	-21.40
BBB	14.27	14.15	0.12
BB	5.16	0.01	5.15
B	3.26	-	3.26
Below B	0.21	-	0.21
Cash Offset	-1.68	-	-1.68
Not Rated	0.28	0.26	0.02
	100.00	100.00	

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

Life Essentials: affordable housing, clean water and sanitation, health, sustainable agriculture and nutrition.

Human Empowerment: digital divide, education and job training, financial inclusion, safety and security.

Environment: alternative energy, resource efficiency and resource stewardship.

*Duration & Credit Rating as at 30 April 2024

DEVON GLOBAL SUSTAINABILITY FUND

The Fund invests into the Wellington Global Stewards Fund, managed by Wellington Management. Wellington Management is one of the world's leading investment management firms with over US\$1 trillion in assets under management worldwide across a broad range of asset classes. They have been providing innovative investment solutions to clients for more than 85 years. Wellington Management seeks to invest in companies globally, that generate high return on capital relative to their peers, and whose management teams and boards display exemplary stewardship to sustain those returns over time. Wellington define stewardship as how companies balance the interests of all stakeholders (customers, employees, communities and the supply chain) in the pursuit of profits and how they incorporate material environmental, social and governance (ESG) risks and opportunities in their corporate strategy. The underlying Wellington Fund differentiates itself by:

Long-term horizon – the intention is to hold stocks for over 10 years. The belief is the longer the holding period, the greater the potential performance benefits from superior stewardship.

Highly selective – typically 35-45 stocks, only relying on their own internal ESG research.

Active engagement – holding those in charge of investee companies to account and encouraging companies to commit to net zero carbon emissions by 2050 in alignment with the Paris Agreement.

PERFORMANCE	1 Mth	3 Mth	1 Yr	2 Yr p.a	Since Inception
Devon Global Impact Bond Fund	-1.8%	-1.2%	2.2%	0.1%	-1.1%
Bloomberg Global Aggregate Index Hedged NZD	-1.6%	-1.4%	1.6%	0.0%	-1.1%

PERFORMANCE	1 Mth	3 Mth	1 Yr	2 Yr p.a	Since Inception
Devon Global Sustainability Fund	-2.6%	5.8%	17.1%	12.2%	10.5%
MSCI All Country World Index in NZD, 50% hedged to NZD	-2.5%	6.8%	21.0%	12.3%	9.2%

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

KEY HOLDINGS*



*Key Holdings as at 30 April 2024

Please note that monthly reports will be produced for the Devon Global Impact Bond Fund and Devon Global Sustainability Fund later this month. These reports will include data on top holdings, performance, asset allocation, and fund commentaries. These reports will be sent out separately from those for Devon's other retail funds each month and will be available on the Devon Funds website.

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www.devonfunds.co.nz



ARTESIAN GREEN AND SUSTAINABLE BOND FUND (NZD)

FUND OUTLINE

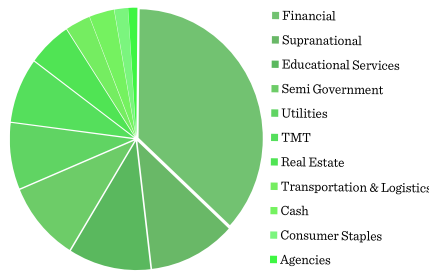
The **Artesian Green and Sustainable Bond Fund (NZD)** offers New Zealand-based investors a Portfolio Investment Entity (PIE) vehicle through which to invest in the Artesian Green and Sustainable Bond Fund (AUD).

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

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

Artesian Green & Sustainable Bond Fund (NZD)	99.0%	Cash	1.0%
Currency Hedge (100% to NZD)	100.8%	Total	100.0%

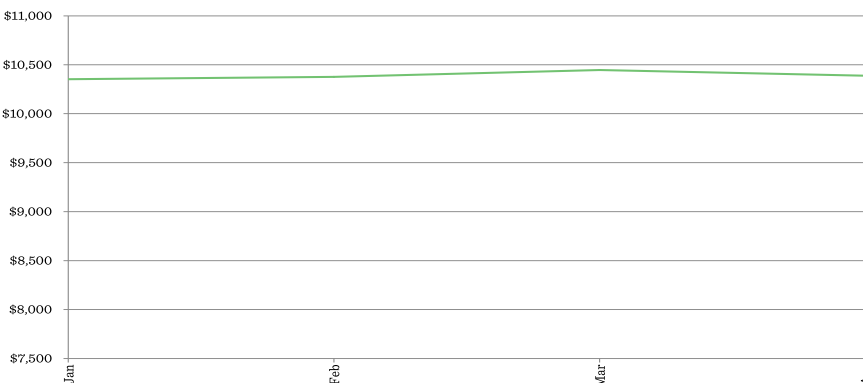
PERFORMANCE

	1 Mth	3 Mth	6 Mth	Since Inception
Artesian Green & Sustainable Bond Fund (NZD)*	-0.56%	0.33%	3.58%	4.68%
Artesian Green & Sustainable Bond Fund PIR Return (NZD)**	-0.46%	0.44%	3.80%	4.93%
Bloomberg AusBond Composite 0-5 Yr Index 100% Hedged to NZD	-0.60%	0.20%	3.60%	4.62%

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

NET PERFORMANCE

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



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

COMMENTARY

Volatility increased throughout April, as geopolitical tension in the middle east heightened and the US Federal Reserve turned hawkish. Credit spreads started to drift wider as investors used credit indices to hedge their portfolios against an all-out war between Iran and Israel. Fortunately, it didn't escalate and credit spreads reversed their widening and finished the month tighter. With so much geopolitical risk in the world at the moment, it appears the market is becoming immune to it. Government bond yields trended higher over the month, as the realisation took hold that stubborn inflation was proving difficult to get back within central bank targets. Locally, Australian 3y government bond yields peaked at 4.16% (essentially pricing out any interest rate cuts for the next 3 years) which looked a little too aggressive to us. Therefore, we extended the Fund's interest rate duration (IRD), which for the first time since inception means the Fund (IRD 2.60yrs) has a slight overweight position versus benchmark (IRD 2.47yrs).

The Fund's outperformance versus benchmark in April was driven by the overweight credit duration positioning (credit spreads were lower/tighter) and underweight interest rate duration positioning (interest rates were higher/wider). Outperformance in April came from the Fund's positions in Optus (Sustainability-Linked), QIC Town Centre Fund (Green), European Investment Bank (Sustainable) and New South Wales Treasury Corporation (Sustainable). The main contributors to underperformance in April were the South Australian Financing Authority (Sustainable), Western Australia Treasury Corporation (Green) and Contact Energy (Green).

PORTFOLIO MANAGER

David Gallagher

David joined Artesian in June 2013. Prior to joining Artesian, David spent nine years in the United Kingdom working for Deutsche Bank and RBS. David has extensive risk and portfolio management trading experience. In David's previous role with RBS, David managed a credit portfolio with outright risk ranging between £1-2.5 billion.

