

# SIIPCC

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

## **Statement of Investment Policy and Objectives (SIPO)**

**DEVON  
FUNDS.**

**09.06.2023**

**ISSUER: DEVON FUNDS MANAGEMENT LIMITED**

This document gives you important information about this investment to help you decide whether you want to invest. There is other useful information about this offer on [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose). Devon Funds Management Limited has prepared this document in accordance with the Financial Markets Conduct Act 2013 (FMC Act). You can also seek advice from a financial advice provider to help you to make an investment decision.

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# Introduction.

## What is a SIPO?

This Statement of Investment Policy and Objectives (SIPO) applies to the Artesian Green and Sustainable Bond Fund (NZD) (the **Fund**) and plays an important role in ensuring the effectiveness of the overall accountability framework for the Fund. It does this by clearly articulating the philosophy, strategies, objectives and parameters of the offering.

The Fund's investments are managed by Artesian Corporate Bond Pty Ltd (**Artesian**, the **Investment Manager**). Artesian are a global, impact focused fixed income fund manager, who target relative value opportunities in credit markets. Artesian manage niche strategies with the overriding goal of producing consistent alpha and best in class risk adjusted returns for investors. Artesian are committed to integrating environmental, social, and governance (**ESG**) factors into their investment process with a focus on responsible investment.

The Fund is part of the Devon Investment Funds (the **Scheme**), consisting of a series of other funds. The Scheme is a registered management investment scheme under the Financial Markets Conduct Act 2013 and is a trust governed by a master trust deed dated 30 September 2016. As a managed investment scheme, your money will be pooled with other investors' money and invested in various investments as described in this document. The Fund is divided into units and you invest by buying units. The value of units fluctuates according to the changing value of the assets in which the Fund has invested.

The Fund is a Portfolio Investment Entity (**PIE**) for tax purposes. Further information about taxes can be found in the Other Material Information document on our website [www.devonfunds.co.nz](http://www.devonfunds.co.nz).

Devon Funds Management Limited (**Devon**) was incorporated in New Zealand under the Companies Act 1993 on 12 March 2010. Devon is a boutique funds management business committed to helping our clients achieve their investment objectives. Devon's parent company is Investment Services Group Limited (ISG). ISG provides operational functions on an outsource basis to its subsidiaries, including Devon.

The supervisor of the Scheme is The New Zealand Guardian Trust Company Limited (the **Supervisor**). The effective date for this SIPO is 9 June 2023. We may amend the investment policy and objectives for the Fund from time to time, in consultation with the Supervisor. We will notify you of any significant changes to the SIPO and when they will take effect. The most current version is available on the scheme's register at <https://disclose-register.companiesoffice.govt.nz/>. Further information about the Scheme and the offer of units in the Fund is available from the Disclose website [www.companiesoffice.govt.nz/disclose](http://www.companiesoffice.govt.nz/disclose). The Product Disclosure Statement and Other Material Information are available on the Disclose website. The Scheme's governing documents, including the latest version of this SIPO, are available on the Disclose website. There is also further information on the Manager's website <https://devonfunds.co.nz/>.

## Who else is involved?

Role	Name	Description
Supervisor & Custodian	The New Zealand Guardian Trust Company Limited	Supervisor of the Devon Investment Funds under the Financial Markets Conduct Act 2013 and responsible for supervising us as Manager of the Fund.
Administration Manager	APEX Investment Administration (NZ) Limited	Appointed by us to provide various administration functions in respect of the Fund, including registry, unit pricing and fund accounting.

If you should wish to contact the Supervisor to discuss any matters in respect of the Fund, New Zealand Guardian Trust Limited's contact details are as follows:

The New Zealand Guardian Trust Company Limited  
Level 6, 191 Queen Street, Auckland 1010  
PO Box 274, Shortland Street, Auckland 1140  
Email: [ct-auckland@nzgt.co.nz](mailto:ct-auckland@nzgt.co.nz)  
Telephone: 0800 683 909

## Benefits of investing in the Fund

- The Fund will invest in labelled corporate bonds issued by global companies, such as Green, Social or Sustainable Bonds. The designation is determined by the issuer of the bond (**Investment Process**) (see page 4 for further information on the Investment Process).
- An investment grade fund with an emphasis on liquidity and credit quality.
- The manager of the Underlying Fund aims to provide optimal investment decisions by integrating ESG investment research in selecting which bonds to invest in. When considering a bond as a potential investment for the Fund, Artesian applies both positive and negative screens as part of its investment decision-making process (**Screening**) (see page 4 for further information how Screening works).
- Large global, experienced team of fixed income professionals trading and analysing credit markets 24 hours a day.
- Returns in excess of the benchmark (see page 6 for the benchmark) are expected to be generated through a well-constructed and actively managed portfolio in the corporate bond market.

# Investment philosophy.

A fundamental cornerstone of Artesian's strategy is to build a sustainable investment platform delivering long-term performance. Artesian believes that a proactive approach to responsible investment issues and drivers provides advantages to investment performance. In doing so, Artesian aim to mitigate risk and deliver greater long-term performance.

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.

For Artesian, responsible investing means incorporating into the investment process consideration of the actions and impacts on stakeholders by companies. Artesian does not differentiate ESG practices and other practices. Responsible investment integration occurs across Artesian's investment platform, but varies recognising that responsible investment integration should be specific to the asset class, capital structure, sector and geography and the investment team's specific processes and strategies. As a result, a Responsible Investment Sub Policy has been developed for the Fund.

Artesian's fixed income responsible investment objectives include:

- Funding bond issuers that are aiming to generate positive externalities for society.
- Creating resilience for those firms that address the needs of society in a responsible way.

- Using credit metrics and ESG analysis/screening to fund sustainable business models with the aim of avoiding fat-tail risks for investors.
- Funding bond issuers that are striving for business models that aim to be inclusive of all stakeholders.

In Artesian's approach to responsible investment, ESG factors are considered fundamental to Artesian's business. Indeed, many of Artesian's investment products are grounded in the investment proposition of investing for impact.

As part of this, Artesian assess and integrate ESG factors into investment analysis and decisions. This is as a result of Artesian's view that ESG factors can have an impact on the financial value of an investment and also that investments have impact.

ESG factors are considered by Artesian to be fundamental to Artesian's business. For example, Artesian is informed by and supports:

- The Principles for Responsible Investment (PRI).
- The PARIS Agreement.
- The Sustainable Development Goals (SDG) and Targets.
- The Task Force on Climate-related Financial Disclosure.

Artesian are a signatory to the United Nations supported PRI. The PRI provides global principles and a framework to help Artesian integrate the consideration of ESG issues into their investment decision-making and portfolio construction framework. As part of this process Artesian report annually to the PRI on their adherence to these policies. Further information can be found on the PRI

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# Investment philosophy.

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website: <https://www.unpri.org/signatory-directory/artesian-capital-management-pty-ltd-/4140.article>

Artesian has also been certified as a B Corporation. Certified B Corps are a community of companies seeking to meet the highest standards of social and environmental performance. They have all submitted to a rigorous assessment process, and are required to adhere to measures of transparency and accountability. Further

information can be found on the B Corporation website: <https://www.bcorporation.net/en-us/find-a-b-corp/company/artesian-capital-management-lp>

Artesian believes that analysing ESG characteristics enhances traditional credit analysis by providing a broader, enhanced understanding of the risk profile of each issuer.

# Investment process.

The Fund's investments are managed by Artesian in its capacity as Investment Manager of this Fund and the underlying fund into which the Fund invests directly.

The Fund is only permitted to invest in labelled corporate bonds such as Green, Social or Sustainable Bonds (Labelled Bonds). The Fund does not have explicit sustainability or non-financial objectives, rather, sustainability outcomes are a function of investing in the asset class of Labelled Bonds.

A Labelled Bond is designated as, for example, a Green, Social or Sustainable Bond, by the issuer of that bond. In making this designation, the issuer typically applies principles such as those issued by the International Capital Markets Association and typically seeks third party review or certification of the designation they have made. Artesian also conducts its own due diligence on each bond issuer, the issuer's intended use of the investment made by the Investment Manager and the level of ongoing reporting available.

## Screening

Artesian also apply their positive and negative screens to this investible universe. When considering any Labelled Bond as a potential investment for the Fund, Artesian applies both positive and negative screens as part of its investment decision-making process. Screening restricts the investments available to those which are Labelled Bonds that comply with the positive and negative screens.

Artesian applies a negative screen (or exclusion) for issuers involved in the production of tobacco, alcohol, pornography, munitions, palm oil, gaming equipment and exploration and/or production of fossil fuels. For the avoidance of doubt, this negative screen does not extend to issuers that may be involved indirectly in

these same products or services, for example in the selling or distribution of them. An example of this may be investment in the food and grocery sector where supermarkets may be involved in the distribution of alcohol and tobacco.

Artesian applies a positive screen to highlight companies that are undertaking activities that reflect appropriate responsible investment practices and impact reductions. For example, Artesian analyse the way companies approach gender issues and promote gender equity. When assessing companies by way of positive screening, Artesian is evaluating the overall long-term sustainability of the business and their business practices. For example, companies with aspirational net-zero targets or market leading gender policies, and a track record of achieving these goals, would be viewed more positively than companies that were less developed in these areas.

Following Screening, Artesian then undertakes detailed financial analysis to form a view on whether an individual bond would be an appropriate investment for the underlying fund.

Artesian's proprietary credit analysis framework integrates bottom-up ESG research in order to enable portfolio managers to better assess investment opportunities. Artesian seek to determine and assess for material impacts, risks and opportunities and the manner in which these managed. This analysis and assessment is incorporated into the investment decision-making process via reports, presentations and discussions with analysts and portfolio managers.

Through this portfolio construction methodology, Artesian is seeking to fund bond issuers who have strong ESG characteristics and have high impact use of proceeds within the bond structure.

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# Investment process.

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## Active engagement / stewardship

Artesian believes that engagement with companies in their investment portfolios and those in which they consider investment is critical. Active engagement is an extension of the research process, which provides a more robust understanding of a company's business practices.

Engagement with the companies in which Artesian have, or are considering an investment, is an appropriate and important mechanism to inform companies of Artesian's perspectives, objectives and obligations as a responsible investor.

More specifically, Artesian seek to understand each company's understanding of its ESG impacts and risks and the rationale and process for management of these, whilst also signalling that of Artesian. Artesian use this to arm themselves with a fuller, more broadly informed perspective.

The criteria for Artesian's engagement is based on several factors:

- Contravention of or concern/confusion regarding potential breach of Artesian's defined unacceptable practices or policies (negative screens).
- Assessed material impacts both from and to a company and the nature and extent of efforts to mitigate these.
- Transparency - the level and nature of reporting of ESG issues and commitment to these.

Artesian pursue engagement when they have concerns over issues, including incidents, actions or inaction, and the level and quality of reporting which may affect Artesian's investment proposition and valuation.

Artesian's engagement following assessed material impacts and transparency is based on a determination and ranking considering the materiality of impact and reporting levels.

Artesian also apply engagement to highlight Artesian's commitment to assist companies to pursue impact reduction in their operations and/or those of its products and services. Artesian signal their commitment to quantification of engagement outcomes.

Artesian does not currently participate in collaborative engagement, but may do so in the future. In addition to Artesian's periodic assessment-based engagement, Artesian engages with investee companies in response to issues or controversies that Artesian believe may affect their understanding of a company's responsible investment status.

Artesian recognises the relevance, effectiveness and efficiency of collaborative engagement. Currently, Artesian's focus is on prioritising and pursuing those issues most material to Artesian's investment proposition and valuation. Inevitably this is most effectively done singularly.

For Artesian's fixed income funds, specifically when analysing Labelled Bonds and their use of proceeds, ensuring they are as disclosed and the reporting of impact reduction arising from these activities is core to Artesian's research. Artesian actively engages with issuers when seeking further clarification on ESG specific queries which come up during Artesian's investment research.

Whilst Artesian does not currently participate in collaborative engagement, Artesian are committed to pursuing collective opportunities which reflect shareholder and stakeholder concerns.

## Labour, environmental, social and ethical considerations

The Fund does not have explicit sustainability or non-financial objectives, rather, sustainability outcomes are a function of investing in the asset class of Labelled Bonds.

Artesian considers labour, environmental, social and ethical practices of companies when deciding to buy, hold or sell a security in the Fund. Artesian analyses the use of proceeds of each labelled bond it holds within the Fund. The use of proceeds is analysed when the bond is initially purchased and then subsequently on an annual basis (providing the issuer makes the analysis public), when the bond issuer releases their annual report. Artesian then tracks the Fund's pro rata allocation of impact created by the proceeds raised through the labelled bond issue. When an issuer doesn't provide the market a report or the annual report is lacking in the detail Artesian require, Artesian engages with the bond issuer for further clarification. Artesian uses this bond level impact data so it can report to investors on a monthly basis on the impact created with the underlying Fund.

# Investment strategy and objectives.

**Benchmark:** Bloomberg AusBond Composite 0-5 Yr Index (100% hedged to NZD).

**Objective:** To outperform the benchmark net of fees through active management.

**Strategy:** The strategy for the Fund is to invest in a diversified portfolio of Australian and international bonds labelled as Green, Social or Sustainable Bonds that have been screened in accordance with Artesian's screening processes.

**Investment limits:** The asset classes in which the Fund invests are: Green Bonds – target exposure 70% (range 0% to 100%), Sustainable Bonds – target exposure 15% (range 0% to 100%), Social Bonds – target exposure 10% (range 0% to 100%); cash – target exposure 5% (range 0% to 100%). The Fund may also invest in other labelled bonds as these markets mature and new products become available.

## Minimum, maximum and target region weights:

	Min	Max	Target
Exposure to foreign bond issuers*	0%	50%	30%
Exposure to Australian bond issuers	0%	100%	60%
Exposure to cash	0%	100%	0-10%

\*This exposure may be held in AUD, USD or EUR.

## Minimum, maximum and target credit rating weights:

	Min	Max	Target
Exposure to investment grade debt	81%	100%	90%
Exposure to non-rated debt	0%	10%	0%
Exposure to non-investment grade debt	0%	10%	0%
Exposure to cash	0%	100%	0-10%

## Minimum, maximum and target interest rate risk duration:

	Min	Max	Target
Deviation from benchmark modified interest rate duration	0 years	2 years	0 years - 0.5 years



# Investment strategy and objectives.

**Minimum, maximum and target credit risk duration:**

	Min	Max	Target
Deviation from benchmark credit spread duration	0 years	2 years	0 years - 0.5 years

**Minimum, maximum and target concentration risk weights:**

	Min	Max	Target
Exposure to any one bond as a % of total portfolio	0%	20%	3%
Exposure to any one bond as a % of total bond issue size	0%	10%	0-3%

**Holdings:** The Fund will invest in a diversified portfolio of liquid, predominately investment grade fixed and floating rate green, social and sustainable corporate bonds.

**Suitability:** The Fund is generally suited for persons seeking stable returns.

**Minimum suggested investment timeframe:** The minimum suggested investment time frame for the Fund is three years.

**Currency hedging:** The Fund has the ability to hedge its foreign currency exposure in a range from 0-100%.

**Distributions:** The Fund pays distributions quarterly at our discretion.

**Authorised investments:** The authorised investments of the Artesian Green and Sustainable Bond Fund (NZD) are:

- Cash, cash equivalents and fixed interest.
- Derivatives.
- Any other investment permitted by the Supervisor from time to time.

The Fund may utilise active currency management.

**ESG Focused:** Artesian believes that analysing ESG characteristics enhances traditional credit analysis by providing a fuller understanding of the risk profile of each issuer (see ‘Investment Philosophy’ and ‘Investment Process’ above at page 4).



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# Investment governance and policies.

## Conflict of Interest, Staff Trading and Related Parties Policy

We expect that our directors and employees will conduct themselves ethically and in accordance with what are generally accepted as 'good business practices'. To this end, we have adopted a number of internal policies and procedures that set out the company's expectations and guiding principles. These include Conflicts of Interest, Staff Trading and Related Party Transactions policies.

The purpose of these policies is to ensure that:

- our employees act in the best interest of our clients
- our employees undertake their duties with care and diligence
- we meet our legislative and regulatory obligations

All dealings with, or through, a related party are reported to our Compliance Officer. Where a related party transaction provides a related party benefit, as prescribed under legislation, we must notify the Supervisor and provide them with reporting quarterly.

## Liquidity Management

The Fund will invest in global green, social and sustainable corporate bonds and cash. These corporate bonds will be issued by Australian and international companies. The Fund will invest in liquid securities which allow Artesian to enter and exit positions easily (in normal market conditions) resulting in daily liquidity for investors.

Liquidity is an important consideration, and the Fund has been designed with liquidity as a top priority. The

Fund only invests in liquid investment grade corporate bonds and does not invest in illiquid structured credit products. Further, the Fund only invests in bonds where the issuance is greater than 100m Australian Dollars, as this assists in providing ongoing liquidity for transactions.

## External Investment Managers

When selecting an external manager, we take the following criteria into consideration:

- A sound and disciplined investment process
- Investment style is consistent with Devon's investment philosophy
- Experience and capability of investment team
- Performance and track record
- Access to the investment management team
- Governance and compliance arrangements

Devon will consider the suitability and performance of any external investment manager from time to time.

Where Devon has appointed an external manager with a focus on the integration of ESG considerations into their investment process, on a six-monthly basis we will assess the holdings of the external manager's portfolio to determine whether in our view the holdings remain consistent with the ESG considerations that have been described. We will report our analysis to our Investment Committee, and in the event we develop any concerns, these will be raised promptly with the Investment Manager for further discussion.

# Investment performance monitoring.

Unit price movements are assessed daily against tolerance ranges. Investment performance is monitored on a monthly basis against the Fund's benchmark and is measured over 1 month, 3 months, 6 months, 1, 2, 3 and 5 years.

Fund performance is calculated (net of fees but before tax) by the operations and compliance team and all members of the investment team and compliance team receive a monthly fund performance report.

The Board evaluates performance on a quarterly basis. We focus on making long term investment decisions and consequently greater focus is given to assessing performance numbers over 3-year periods and longer.

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# Investment strategy review and monitoring.

The investment strategy is reviewed at least annually by Artesian, in consultation with the Devon Investment Committee. The investment strategy framework is designed for the long term and consequently it is unlikely that changes will be made on a regular basis.

Once Artesian has made the decision to invest in an individual bond, that bond is subject to ongoing monitoring in respect of both its status as a Labelled Bond and its adherence to the Screening applied before that investment was made. This monitoring occurs on an ongoing basis, typically when the bond issuer issues their annual impact report which outlines the impact achieved by the proceeds of the invested bond.

If this monitoring programme was to identify a possible exception (for example, the loss of a bond's status as a Green Bond), Artesian will determine the most appropriate response on a case-by-case basis. Possible responses include working with the issuer to resolve the breach identified, or if this can't be achieved, making a decision to sell the holding. If a bond loses its labelled status, it would be disposed of within 30 days in normal market conditions.

## Review of the SIPO.

A full review of the SIPO is undertaken by us annually to ensure that the investment objectives and parameters for the Fund are clearly articulated and remain relevant. The Manager monitors compliance with the SIPO and will report any breaches to the Devon Board and the Supervisor. The most up to date version of the SIPO is available on the scheme and offer registers (Disclose), which can be found at [www.companiesoffice.govt.nz/disclose](http://www.companiesoffice.govt.nz/disclose).

Whilst changes are not expected, if they are required, we will consult with our Supervisor before making the changes and obtaining Directors' approval of the SIPO. If changes are made that materially impact investors, we will give you at least 30 days' written notice of those changes.

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# Glossary.

<b>CLEAN ENERGY</b>	Clean energy comes from natural sources or processes that are constantly replenished. For example, sunlight (solar panels) and wind (wind turbines) keep shining and blowing, even if their availability depends on time and weather.
<b>GAMING EQUIPMENT</b>	All gaming devices and other related gaming equipment used in connection with the operation of a casino, for example slot machines and gaming tables.
<b>GREEN BOND</b>	A green bond is a fixed income instrument where the capital raised is targeted for environmental related projects such as clean energy, clean water and energy efficiency.
<b>IMPACT INVESTING</b>	Impact investing is a general investment strategy that seeks to generate financial returns while also creating a positive social or environmental impact.
<b>LABELLED BONDS</b>	Labelled bonds include, but are not limited to green, blue, social, sustainable, transition and sustainability-linked bonds, which promote sustainability and better Environmental, Social and Governance (ESG) performance.
<b>SOCIAL BOND</b>	A social bond is a fixed income instrument where the capital raised is targeted for improved social outcomes for specific groups, for example the impoverished or disadvantaged.
<b>SUSTAINABLE BOND</b>	A sustainable bond is a fixed income instrument where the capital raised is targeted for sustainable development; economic prosperity, social inclusion and environmental sustainability.

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Thank you for taking the time to read this SIPO.

**If you have any questions, please don't hesitate to contact us at:  
[enquiries@devonfunds.co.nz](mailto:enquiries@devonfunds.co.nz)**



# DEVON FUNDS.

**For the  
informed  
investor.**

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