Aurora Capital

Aurora RetirementPlus Strategy

Ages 55, 65, 75

QUARTERLY UPDATE DECEMBER 2024

Climate and Environment developments

CLIMATE AT A CROSSROADS: THE URGENCY OF ACTION

This past year, the world crossed a sobering threshold: 2024 was the first full year in which global temperatures exceeded 1.5°C above pre-industrial levels (1850–1900), a time before humans began burning CO_2-emitting fossil fuels on a large scale. This is more than just a number; it's a turning point that marks the need for urgency of global climate action.

Every single month in 2024 was either the warmest or second warmest on record, with the planet's average temperature reaching 1.6°C higher than the pre-industrial baseline, according to the European Union's Copernicus Climate Change Service (C3S).

Scientists confirm this isn't just an outlier, it's the result of decades of greenhouse gas emissions. While crossing 1.5°C doesn't mark the permanent passing of the Paris Agreement target (which measures longer-term averages), it's a wake-up call that the world is not moving quickly enough to address the climate crisis.

Why this matters for New Zealand

Around the world, and here at home, the impact of a changing climate with the growing frequency and intensity of extreme weather events is becoming impossible to ignore. The devastating wildfires in Los Angeles this month, which destroyed homes, businesses, and livelihoods, along with our own droughts, flooding and cyclones in recent years, highlight the ongoing impacts, and the escalating costs of climate change.

In 2024 alone, Hurricanes Milton and Helene in the US, floods in Spain, and heatwaves in places like Mexico and Saudi Arabia claimed thousands of lives. These events are stark reminders that climate change doesn't respect borders - it's a global challenge that affects everyone.

How New Zealand is tackling the climate crisis

The Government is stepping up with its climate change strategy and the release of the Second Emissions Reduction Plan, a key tool for turning strategy into action. This plan lays out how we'll cut emissions, transition to a low-carbon economy, and stay on track to meet our 2050 net-zero target. It's an ambitious roadmap, and the stakes couldn't be higher.

As a country that's heavily reliant on agriculture, tourism, and trade, New Zealand is particularly vulnerable to the effects of a warming climate. At the same time, we're also well-positioned to lead on climate action. With abundant renewable energy resources, innovative technology, and a growing sustainability movement, we have the tools to build a resilient, low-carbon future. Investing to improve the climate and environment not only helps mitigate the risks of climate change but also creates opportunities for economic growth, job creation, and global leadership.

The role of KiwiSaver investors

For KiwiSaver members like you, the significance of these climate milestones is twofold. First, climate risks are reshaping economies, markets, and industries at an accelerating pace. Strategies like the Emissions Reduction Plan and the global push for net-zero emissions mean businesses must adapt - or risk being left behind. Second, this crisis presents an opportunity. Through your KiwiSaver investment with Aurora, you're part of a collective effort to support sustainable businesses, drive innovation in low-carbon solutions, and influence companies to improve their environmental practices.

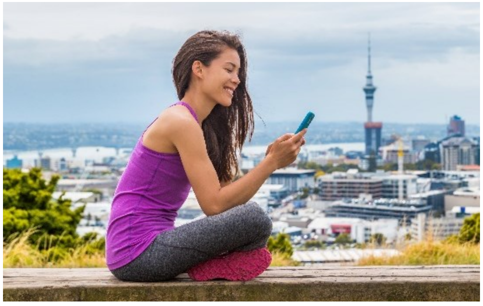
How Aurora is leading the way

We take a proactive approach to managing climate risk. Sustainable investing isn't just the right thing to do, it's the smart thing to do for ensuring your long-term financial resilience and growth. We prioritise investments in companies actively reducing their climate-related risks and avoid those not taking the issue seriously. By investing in businesses with strong environmental strategies and sustainable practices, we aim to generate better long-term returns for your retirement while making a meaningful impact on the planet.

As we look ahead, the challenge is immense, but so is the opportunity. Together, we can contribute to a more sustainable and resilient future, for the planet and generations to come. We're proud to have you alongside us on this journey.

Investment markets

Why 2024 was a good year for your KiwiSaver account



A YEAR OF SURPRISES AND RESILIENCE

Wow, what a year it's been! When 2024 started, markets were looking pretty shaky - high inflation, rising interest rates, and concerns about a global recession. But as the year progressed, we saw some unexpected twists. The U.S. economy remained resilient, and the buzz around artificial intelligence (AI) really took off, helping some of the world's biggest tech companies perform far better than most expected. The U.S. share market, especially tech-heavy stocks, such as Nvidia, Microsoft, Apple and Meta ended up being some of the top performers of the year. But it wasn't just the big players that shined. Small-cap stocks, or smaller sized companies such as those that make up the Russell 2000 Index, and listed infrastructure, also showed growth and resilience over the year. This was largely driven by a shift in investor focus towards companies and sectors that are more sensitive to changes in interest rates and economic cycles.

Here in New Zealand, we had some surprises too. The Reserve Bank cut interest rates more than expected, thanks to falling inflation with the Official Cash Rate (OCR) cut by 125 basis points during the year to 4.25%. Along with growing consumer and business confidence in the latter half of the year, provided the New Zealand share market with a boost.

But it wasn't all smooth sailing. There was plenty going on globally. The U.S. election, ongoing geopolitical tensions, and market volatility. China, in particular, introduced a range of policies to try and stabilise its struggling property market.

How we positioned our KiwiSaver portfolios for strong performance in 2024

Navigating these uncertainties while closely monitoring economic and corporate performance was crucial for Aurora Capital and our fund managers. Despite the challenges, many markets remained resilient throughout the year, highlighting the benefits of our diversified investment approach in navigating uncertainty and capturing opportunities.

As a result, you may have noticed your KiwiSaver account has performed strongly over 2024. Year-on-year, the Aurora Growth Fund returned 13.9%, the Conservative Fund 6.4% and the Liquidity Fund 5.4%.

So, how does Aurora help drive strong results? Our approach focuses on active asset allocation decision making, and our strategic mix of best-in-class fund managers who also actively manage the assets in each asset class. By spreading investments across different asset classes, countries, and sectors, we aim to reduce volatility and create a smoother investment journey for you. The idea is simple: when one asset takes a hit, another may rise, which can help cushion the blow.

But it's not just about diversifying where we invest, it's about who's managing those investments. Each fund manager we select is carefully chosen for their unique investment style, with different drivers and portfolio characteristics. This diversity allows us to adapt to changing market conditions while keeping our focus on long-term growth. By combining all this expertise, we ensure your KiwiSaver investment is not only well-positioned for growth but also built to withstand market ups and downs with greater resilience.

What has driven investment markets over the December 2024 quarter?

International equities had quite a mixed performance in Q4, with the US market powering ahead, while Europe and emerging markets lagged behind. After Trump's victory in early November, US equities maintained their positive momentum, with the S&P 500 gaining 2.4% over the quarter and finishing the year up an impressive 25.0%, in local currency terms.

Emerging market stocks, on the other hand, slipped 8.0% over the quarter as investors grappled with the potential impact of US tariffs, which pulled their year-to-date gains back to 7.50% (MSCI EM (USD)). European stocks also faced challenges, slipping 2.9% for the quarter and finishing the year with a gain of only 6.0% (STOXX Europe 600 – local currency). The region was weighed down by a combination of factors, including fears of new tariffs, political instability, and weakness in manufacturing—especially in the German auto sector. Despite these regional struggles, the strength of US stocks gave the global index (ACWI) a boost, with a 1.2% gain for the quarter and an impressive 20.5% rise for the year (MSCI ACWI NZD-hedged).

Global bond markets had a tough finish to the quarter, with rising yields reflecting the cautious stance central banks have taken on cutting rates. In the U.S., the Federal Reserve trimmed its benchmark rate by 25 basis points to 4.25%–4.50%. However, they also signalled that the pace of easing in 2025 would likely slow due to persistent inflation concerns. The U.S. Treasury 10-year yield closed the year at 4.58%, reinforcing expectations that interest rates will stay higher for longer. This contributed to global bonds declining 1.2% for the quarter (Global Aggregate NZD-hedged). Over the year, fixed income markets were shaped by central banks gradually transitioning from tightening to easing. This shift supported global bonds, which ended the year up 3.0% (Global Aggregate NZD-hedged).

New Zealand's economy had a tough run in 2024. GDP dropped 1% in Q3 after a -1.1% decline in Q2, making it the largest six-month downturn since the 1990s (outside of the COVID-19 period). Goods-producing industries took a hit, shrinking by 2.8%, but primary industries managed to grow 1%, thanks to strong dairy exports. To help stimulate the economy, the Reserve Bank of New Zealand lowered the Official Cash Rate to 4.25% during the year, as inflation eased. This, combined with increasing business and consumer confidence, helped the NZX50 deliver solid gains—up 5.5% in Q4 and 11.4% for the year.

Financial performance returns

AURORA RETIREMENTPLUS AS AT 31 DECEMBER 2024

	RETURNS			
	3 month %	6 month %	1 year %	3 year %
Strategy at age 55*	2.67	6.96	12.78	1.63
Strategy at age 65*	1.99	5.93	10.11	1.44
Strategy at age 75*	1.31	4.89	7.49	1.26

**Strategy returns are after fees, before taxes and are derived from the returns of the funds into which the strategy invests. Strategy returns are calculated based on the target allocation to underlying funds.*

The Aurora Retirement Plus options continued to deliver positive returns across all measured periods. This strong performance reflects the benefits of a diversified portfolio in a quarter where markets showed mixed results.

Global equities were the standout contributor to the strategies' returns. Unhedged global equities posted an impressive 12.4% gain for the quarter, benefiting from a strong US dollar. However, currency-hedged global equities recorded a more subdued 1.2% quarterly gain.

New Zealand equities also delivered robust gains, rising 5.5% for the quarter and 11.9% for the year. This was supported by improving business and consumer confidence, on the back of Reserve Bank of New Zealand continuing to lower the Official Cash Rate, to 4.25%.

Conversely, listed infrastructure detracted from performance, declining 7.1% for the quarter as rising bond yields and a higher-rate environment weighed on valuations. Global bonds also faced challenges, falling 1.2% as central banks signalled a slower pace of rate cuts in the face of persistent inflation pressures.

The Strategies' positive results underscore the importance of maintaining a diversified portfolio. While some asset classes, such as infrastructure, faced headwinds, the strong performance of global and New Zealand equities helped the Strategies deliver on their objectives.

As we enter 2025, markets will face a range of challenges. Persistent inflation is likely to keep the Federal Reserve cautious, slowing the pace of rate cuts and maintaining elevated bond yields, which could pressure both equity and fixed-income markets. U.S. stock valuations remain stretched, limiting the potential for further upside, particularly if earnings fail to meet high expectations. Deglobalisation trends, driven by increasing tariffs and trade tensions, may disrupt supply chains and dampen global trade which could add to market volatility. Meanwhile, New Zealand's gradual recovery, supported by ongoing rate cuts, offers a brighter outlook for domestic equities.

How your money is helping the planet

Climate and sustainability measures of performance

We monitor the climate and environment impact of the investments in the portfolio through relevant metrics, using independent third-party sources. The metrics are currently provided for the equity (including listed infrastructure) component of the portfolio. We focus on measuring the carbon emissions of the portfolio, which can then be compared against the relevant equity index or 'benchmark.' We also look at how much the portfolio is aligned with the UN's Sustainable Development Goals (SDGs) and how this compares with the relevant global equity index. You can read more about the SDGs and why we look at each portfolio's contribution to SDGs here.

AURORA RETIREMENTPLUS AS AT 31 DECEMBER 2024

AT AGE 55

CARBON IN THE PORTFOLIO

	Portfolio Temperature Alignment Based on portfolio carbon footprint	Portfolio Carbon Intensity Tonnes per $1m of portfolio value
Portfolio	3.2 °C	262
Market Index*	3.6 °C	374

CONTRIBUTION TO THE UNITED NATIONS SDGs

Contribution to Sales (%)	SDG 7 Affordable & clean energy	SDG 9 Industry, innovation, & infrastructure	SDG 11 Sustainable cities & communities	SDG 13 Climate action	ALL Sustainable development goals
Portfolio	6.2%	5.1%	15.1%	4.1%	68.5%
Market Index*	3.3%	4.9%	10.2%	2.6%	56.5%

AT AGE 65

CARBON IN THE PORTFOLIO

	Portfolio Temperature Alignment Based on portfolio carbon footprint	Portfolio Carbon Intensity Tonnes per $1m of portfolio value
Portfolio	3.2 °C	262
Market Index*	3.6 °C	374

CONTRIBUTION TO THE UNITED NATIONS SDGs

Contribution to Sales (%)	SDG 7 Affordable & clean energy	SDG 9 Industry, innovation, & infrastructure	SDG 11 Sustainable cities & communities	SDG 13 Climate action	ALL Sustainable development goals
Portfolio	6.3%	5.1%	15.1%	4.1%	68.8%
Market Index*	3.3%	4.9%	10.2%	2.6%	56.5%

AT AGE 75

CARBON IN THE PORTFOLIO

	Portfolio Temperature Alignment Based on portfolio carbon footprint	Portfolio Carbon Intensity Tonnes per $1m of portfolio value
Portfolio	3.2 °C	264
Market Index*	3.6 °C	374

CONTRIBUTION TO THE UNITED NATIONS SDGs

Contribution to Sales (%)	SDG 7 Affordable & clean energy	SDG 9 Industry, innovation, & infrastructure	SDG 11 Sustainable cities & communities	SDG 13 Climate action	ALL Sustainable development goals
Portfolio	6.7%	5.2%	15.3%	4.1%	69.7%
Market Index*	3.3%	4.9%	10.2%	2.6%	56.5%

**MSCI All Country World Index (ACWI) is used.*

SOURCE EMMI

SOURCE SUSTAINABLE PLATFORM

WHAT THIS MEANS FOR YOU?

The Temperature Alignment is the temperature scenario that the portfolio is currently in line with, based on its current carbon footprint. It's currently applied only on the equity component (including listed infrastructure) of the portfolio. The temperature alignment is calculated from its carbon emissions and the current carbon budgets associated with three globally acknowledged climate scenarios: 1.5°C, 2.0°C, and 4.0°C. These scenarios have been adopted by international climate science bodies. For more information click here.

In order for the planet to avoid a catastrophic climate crisis, global warming needs to be limited to between 1.5°C and 2°C. The current temperature alignment of each portfolio is relatively higher, at 3.2°C, however this reflects the portfolio's exposure to companies that are in the process of transitioning to a low carbon world. Of note, all portfolios currently have a lower temperature alignment than the MSCI All Country World Index (MSCI ACWI). This is a global equity index we use for benchmarking that tracks the performance of large and mid-sized companies in 47 countries, covering about 85% of the global investible share market.

Portfolio Carbon Intensity is a measure of carbon dioxide equivalents emitted by a portfolio per $1 million of assets under management. It's currently applied only on the equity component (including listed infrastructure) of the portfolio. The metric allows us to look directly at the carbon impact of the equity part of the portfolio and to compare that with market indexes, such as the MSCI ACWI. For more information click here.

Each portfolio currently has a much lower carbon intensity than the MSCI ACWI.

The contribution to the UN Sustainable Development Goals (SDGs) looks at how much of the portfolio is aligned with the UN's Sustainable Development Goals (SDGs), based on annual sales of the underlying companies. It's currently applied only on the equity component (including listed infrastructure) of the portfolio.

The SDGs are a set of 17 goals established by the United Nations in 2015 as part of the 2030 Agenda for Sustainable Development. We believe that all SDGs are important for a better and sustainable future, so we look at the portfolio's contribution to all 17 SDGs (see final column of the table above). However, we are most interested in how well the portfolio is aligned to the four SDGs that can positively impact the climate and environment. In our view, these are SDG 7,9, 11, and 13, and represent our focus SDGs. For more information click here.

All portfolios are making a higher contribution to sustainability goals than the MSCI ACWI. All portfolios are also making a positive contribution to the four focus SDGs.

Questions?

If you have questions about this report, please contact your adviser who will be happy to help. We welcome all feedback and would like to hear from you if you have any questions or concerns about your investment, as this can form the basis of future articles and reports that we write.

We also invite you to ask us questions through our website at www.aurora.co.nz.

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