

A photograph of five colorful Adirondack chairs (blue, green, yellow, orange, and red) arranged on a sand dune. The dune is covered in tall, green grasses. The sky is clear blue. The image is framed by a white border with rounded corners.

Aurora Conservative Fund

QUARTERLY UPDATE JUNE 2024

Investing in New Zealand's future

SHINING A LIGHT ON THE NEW ZEALAND SHARE MARKET

At Aurora, we're investing in New Zealand's future through our partnership with fund manager Mint Asset Management (Mint). Mint actively manage a large portion of the New Zealand shares in our portfolio. By investing in New Zealand shares, we can support Kiwi companies to grow, innovate and create jobs. This means your KiwiSaver investment can directly contribute to building our local economy, while also investing in emerging sectors such as renewable energy, technology, and healthcare. These sectors offer exciting opportunities for future growth and sustainability.

Mint aims for strong financial returns while integrating Environmental, Social, and Governance (ESG) considerations into every decision. They walk the talk on ESG, by engaging directly with companies to influence positive change.

We love talking about the amazing companies that your KiwiSaver money is invested in. One of these standout companies is Infratil Limited, one of the great pioneers in sustainable infrastructure investing.

Case study – Infratil Limited

Established in New Zealand in 1994, Infratil Limited (Infratil) was one of the world's first listed infrastructure investment companies. Its early investments included renewable energy firm Trustpower and a shareholding in Wellington Airport. Today, Infratil has evolved to prioritise investment in projects that they believe have a high rate of expected growth, and can drive positive change in society and the environment.

Why we like Infratil

Diversified investments

Infratil has diversified its investments across various sectors, including healthcare, digital infrastructure, and renewable energy. Its wide array of assets includes One NZ, Manawa Energy (the generation arm of Trustpower, focused on renewable energy), Longroad Energy (a US-based renewable energy developer focused on wind and solar), and CDC (a data centre developer and owner). Mint has included Infratil as a core holding in our portfolio for a long time, thanks to this diversified mix of investments, a strong management team, and solid share price growth over the long-term.

Future-focused

Through Mint, we participated in Infratil's recent capital raise of NZ\$1.15 billion to fund expansion into high-growth investment opportunities, including future projects for CDC and Longroad. CDC has experienced rapid growth driven by AI-related demand for data centre capacity and increased market share in Australia. Part of the capital will fund a new mega data centre campus in Sydney. The capital allocated to Longroad will support its massive pipeline of wind and solar development projects in the US.



What really excites us about Infratil, beyond its diverse investments, are the overarching global trends that drive its choices. These include the growing need for renewable energy, the digital shift requiring advancements in technology, and the increasing focus on sustainable development. These important trends are changing the world, and in our view, for the better. From an investment point of view, the infrastructure projects that bring these trends to life offer strong future growth potential. This is key to increasing the value of your KiwiSaver investment over the long-term.

Alignment to the United Nations Sustainable Development Goals

As sustainable investing is important to us, we also look at a variety of sustainability metrics on individual companies, asset classes, and the portfolios overall. When we run our Sustainable Platform analytics on Infratil, we're pleased to see that 86% of the company's revenue is contributing to the United Nations Sustainable Development Goals (SDGs). We prioritise four of these SDGs (see our climate and sustainability measures of performance below). Of these four SDGs, 43% of Infratil's revenue is contributing to these goals, with the greatest contribution to SDG 7, Affordable and Clean Energy. We also note that Infratil outperforms the market index in three of these four SDGs. This means that Infratil not only aligns well with our sustainability criteria but also demonstrates it's contributing to key global sustainability targets.

Investment markets

WHAT HAS DRIVEN INVESTMENT MARKETS?

Markets continued to charge ahead in the second quarter of the year. Following a difficult April, where US stocks fell 5.6% from their March highs, a robust jobs report mid-month shifted momentum; by the end of the quarter, the US Market Index had gained 3.5%. Artificial intelligence (AI) continued to be the key driver of market performance, with mega-cap* stocks like Nvidia, Apple, Microsoft and Alphabet contributing to a majority of the gains. Nvidia alone surged 36.7% during this period, briefly becoming the largest company in the world. The US stock gains were quite a contrast to the New Zealand market, with the NZX 50 falling by 3.2% in the quarter.

Bond markets exhibited a moderate recovery as yields on the 10-year Treasury note fell more than 0.3 percentage points from their April peak, closing the quarter at 4.4%. This decline resulted in slight price appreciation for bonds, with the Global Bond Index rising 0.1%.

The outlook for Federal Reserve policies shifted notably during the quarter. Initially, markets had priced in multiple rate cuts for 2024, but stronger-than-expected economic data reduced these expectations to just one or two cuts. The Fed's cautious stance, combined with ongoing geopolitical tensions, particularly in Ukraine and the Middle East, continued to influence investor sentiment. Despite these challenges, market volatility remained relatively low during the quarter. This is unlikely to last though, as we move closer to the upcoming United States election.

New Zealand's economy grew in the first quarter, with March GDP data showing an increase of 0.2%. However, this was driven largely by population growth, as on a GDP per capita basis, the economy shrunk by 0.3%, the third consecutive quarter of decline. Despite the weak economic growth, inflation remained elevated, rising by 0.6% in the first quarter which amounted to an annual increase of 4%, still above the Reserve Bank's target. As a result, the Official Cash Rate (OCR) was held steady at 5.5%.

With interest rates remaining high, economic strain is evident in New Zealand. House prices dropped by 0.5% in June, the most significant monthly decline since June 2023, according to CoreLogic. The retail sector is also struggling, with an 8.7% decline in quarterly sales volumes, seasonally adjusted, since the peak in June 2021 (Stats NZ). Amid signs of economic weakness, OCR cuts may arrive sooner than previously anticipated.

** Mega-cap refers to companies with a large market capitalisation. These are the largest companies in the investment universe based on their total value. While this number can change, these companies are generally worth over \$200 billion.*

Financial performance returns

AURORA CONSERVATIVE FUND AS AT 30 JUNE 2024

RETURNS				
	3 month %	6 month %	1 year %	3 year %
Fund (after fees, before taxes)	0.39	1.85	5.00	-
Fund Objective*	1.01	2.27	5.83	

*Fund objective is CPI+2.50%. CPI is the headline Consumer Price Index. Latest CPI is used, as at 30 June 2024.

It was another positive quarter for the portfolio, driven primarily by the strength in global equities. Although, outside of global equities, other asset classes showed weakness. Consequently, the portfolio has been slightly behind its CPI+ objective over the short-term.

New Zealand equities declined by 3.2% during the quarter, and listed infrastructure ended down by 1.1%. However, we anticipate that both asset classes will perform better once interest rates start to fall. Cash continued to add value, benefiting from the current interest rate levels. Additionally, New Zealand bonds slightly outperformed global bonds during the quarter (0.8% vs. 0.1%).

This underscores the importance of diversification; we do not expect all asset classes to perform well simultaneously. As global equities continue to climb, their valuations increase, raising the risk of a market correction. Meanwhile, certain sectors, like infrastructure, are showing attractive value.

The outlook for the rest of the year remains uncertain. Questions linger: Will Trump become president once again? Will the Middle Eastern conflict escalate? When will interest rates decrease?

Regardless of the answers, maintaining a diversified portfolio and staying invested remains key.

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 CONSERVATIVE FUND AS AT 30 JUNE 2024

CARBON IN THE PORTFOLIO

	Portfolio Temperature Alignment	Portfolio Carbon Intensity
	Based on portfolio carbon footprint	Tonnes per \$1m of portfolio value
Portfolio	3.2 °C	431
Market Index*	3.6 °C	575

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

SOURCE



CONTRIBUTION TO THE UNITED NATIONS SDGs

	SDG 7 Affordable & clean energy	SDG 9 Industry, innovation, & infrastructure	SDG 11 Sustainable cities & communities	SDG 13 Climate action	ALL Sustainable development goals
Contribution to Sales (%)					
Portfolio	8.1%	5.5%	14.7%	4.1%	71.3%
Market Index*	3.4%	5.0%	10.4%	2.6%	58.7%

SOURCE



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 the 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, the portfolio's current temperature alignment is lower 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](#).

The 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 SDG's 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](#).

Currently, 71.3% of the portfolio's sales are contributing to sustainability goals, which is well above the MSCI ACWI. The portfolio is 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.

Sean Henaghan

Aurora Chief Investment Officer

Sean Henaghan



Aurora Capital

0800 242 023
hello@aurora.co.nz
www.aurora.co.nz

Disclaimer

This publication is provided by Aurora Capital Limited (Aurora) in good faith and is designed as a summary to accompany the Product Disclosure Statement (PDS) for the Aurora KiwiSaver Scheme (Scheme), and the Aurora Liquidity Fund, Aurora Conservative Fund, and Aurora Growth Fund (Funds). The PDS is available from Aurora at www.aurora.co.nz, or the issuer FundRock NZ Limited (FundRock), and on <https://disclose-register.companiesoffice.govt.nz>. The information contained in this publication is not an offer of units in the Funds or a proposal or an invitation to make an offer to sell, or a recommendation to subscribe for or purchase, any units in the Funds. Any person wishing to apply for units in the Funds must complete the application form which is available from Aurora or FundRock.

The information and any opinions in this publication are based on sources that Aurora believes are reliable and accurate. Aurora, its directors, officers, and employees make no representations or warranties of any kind as to the accuracy or completeness of the information contained in this publication and disclaim liability for any loss, damage, cost, or expense that may arise from any reliance on the information or any opinions, conclusions, or recommendations contained in it, whether that loss or damage is caused by any fault or negligence on the part of Aurora or otherwise, except for any statutory liability which cannot be excluded. All opinions reflect Aurora's judgment on the date of this publication and are subject to change without notice. This disclaimer extends to FundRock, and any entity that may distribute this publication.

The information in this publication is not intended to be financial advice for the purposes of the Financial Markets Conduct Act 2013 (FMC Act), as amended by the Financial Services Legislation Amendment Act 2019 (FSLAA). In particular, in preparing this document, Aurora did not take into account the investment objectives, financial situation, and particular needs of any particular person. Professional investment advice from an appropriately qualified adviser should be taken before making any investment. Past performance is not necessarily indicative of future performance, unit prices may go down as well as up, and an investor in the Funds may not recover the full amount of the capital that they invest. No part of this document may be reproduced without the permission of Aurora or FundRock.