Aurora Capital

Aurora Liquidity 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.

We note that the Aurora Liquidity Fund doesn't have exposure to the New Zealand share market. However, we have included this information in your Quarterly Update as all of the other Aurora portfolios invest across multiple asset classes including New Zealand shares. This means Aurora KiwiSaver investments 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.

Image: Infratil's diversified portfolio focused on four high performing key sectors; Digital, Renewables, Healthcare and Airports.
Source: Infratil Investor Presentation - NZ1,150 million Equity Raise.
www.infratil.com/news/infratil-announces-nz1150-million-equity-raising

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 that are most aligned to the climate and environment. 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. You can read more about how we monitor SDGs here.

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 LIQUIDITY FUND AS AT 30 JUNE 2024

	RETURNS			
	3 month %	6 month %	1 year %	3 year %
Fund (after fees, before taxes)	1.38	2.73	5.57	-
Benchmark*	1.40	2.83	5.79	-

** Benchmark is the Bloomberg NZ Bond Bank Bill Index. As at 30 June 2024.*

The Liquidity Fund continued to deliver healthy returns in the second quarter, driven by strong cash yields. The Reserve Bank maintained New Zealand's Official Cash Rate (OCR) at 5.5% throughout the quarter, underscoring their ongoing commitment to controlling inflation back to target levels. Over the past year, cash has continued to provide solid returns with minimal risk for investors.

Despite a positive GDP figure, the economy showed persistent weakness throughout the quarter, raising questions about how much more economic strain is needed to effectively control inflation. The critical question now is when the Reserve Bank will decide they have done enough to lower rates.

Any potential rate cuts would lead to decreased cash yields, thereby lowering portfolio returns. However, the reduction in rates is expected to be gradual, given the persistent nature of inflation so far.

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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