



# Aurora Liquidity Fund

QUARTERLY UPDATE SEPTEMBER 2024

# Climate and Environment developments

## Powering the future

### HOW IMPACT BONDS ARE FUELLING THE RENEWABLE ENERGY TRANSITION

As the world races to combat climate change, one thing is clear - we need a massive transition to renewable energy.

Energy is at the heart of the climate crisis, and the facts speak for themselves. Fossil fuels—coal, oil, and gas—are the largest contributors to global climate change, responsible for over 75% of greenhouse gas emissions and nearly 90% of carbon dioxide emissions ([United Nations Climate Action, 2024](#)).

The good news is that renewable energy sources are available in every country and we're yet to fully tap into their potential. According to Dr Rod Carr, Chair of the New Zealand Climate Commission, 15 billion tonnes of carbon dioxide was added to the atmosphere through the burning of coal last year, 80% of which was emitted through electricity generation, despite the technology being available to prevent this. "We don't need to invent a single new thing to stop burning coal to make electricity. This is a failure of funding and distribution, not a failure of technology" he said.

The International Renewable Energy Agency (IRENA) estimates that by 2050, 90% of the world's electricity can and should come from renewable sources. In an urgent call to action at the G20 Foreign Ministers' meeting in September, United Nations Secretary-General António Guterres called on G20 nations to lead the charge in cutting fossil fuel production and tripling renewable energy capacity by 2030.

He urged the phasing out of coal, and the need for equitable and fair transition to clean energy for all nations, regardless of economic status. To avoid the worst impacts of climate change and achieve net-zero emissions by 2050, global emissions must be halved by 2030.

These targets are ambitious, but they are essential for keeping global warming within safe limits. While policy changes play an important role, they won't be enough to drive the changes needed. It will take a significant investment in the technologies and infrastructure needed to power the future.

This is where impact bonds can help.

#### Why we invest in impact bonds

Impact bonds include green bonds, social bonds and sustainable bonds. They are an investment designed to raise funds for projects that provide social and environmental benefits. These bonds are a type of fixed-income investment issued by governments, companies, and financial institutions to finance projects that contribute directly to a more sustainable future while offering returns to investors.

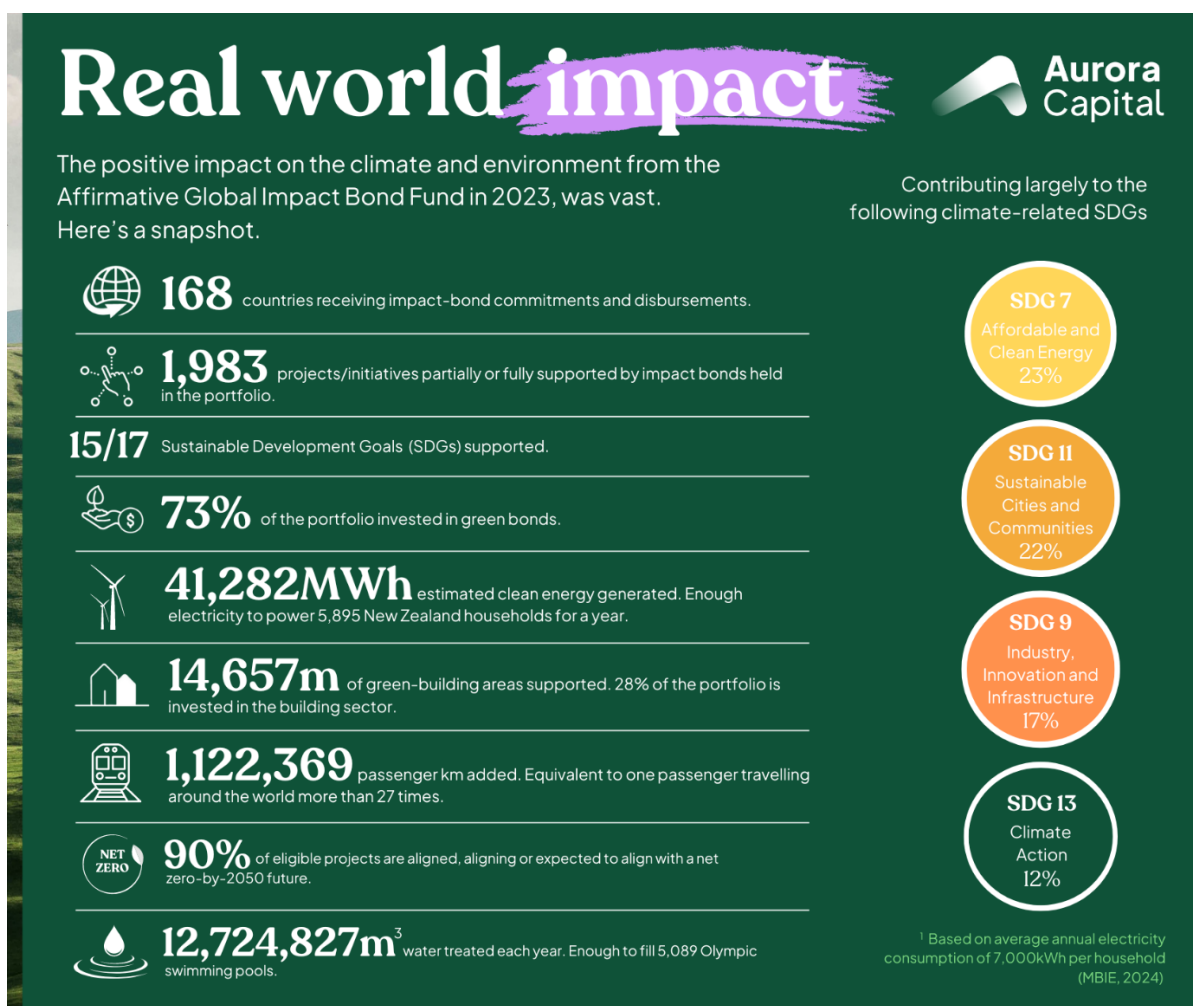


We invest in these bonds through the Affirmative Global Impact Bond Fund. We see impact bonds, especially green bonds, as an effective way of fuelling the renewable energy transition.

What sets green bonds apart is that their proceeds are exclusively used to fund projects promoting climate action and environmental sustainability, aligning perfectly with our commitment to a healthier planet. They allow us to directly fund global projects like solar farms, wind energy and sustainable infrastructure in countries that need it the most, while also contributing to [the United Nations Sustainable Development Goals](#).

### Your KiwiSaver investment is making real-world impact

Here's a snapshot of how your KiwiSaver money has driven positive impact for the climate and environment through the Affirmative Global Impact Bond Fund in 2023.



By channelling capital into renewables, green bonds not only help reduce carbon emissions but also offer investors a return comparable to standard bonds. The real bonus is they actively support the fight against climate change.

Here are just a few examples of the projects that the Affirmative Global Impact Bond Fund supports.



# Case studies

## SOME OF THE AMAZING PROJECTS SUPPORTED BY THE FUND

### 1. Connecting New Zealand's renewable energy to the grid

#### Transpower New Zealand – Green Bond



Transpower, New Zealand's state-owned grid operator, plays a crucial role in building and managing transmission infrastructure while ensuring the country's electricity supply meets demand. It's key to New Zealand's energy transition, constructing new connections to renewable plants and expanding grid capacity. In 2023, their green bonds enabled 265MW of renewable energy capacity to be connected to the grid, capable of supplying around 331,000 New Zealand homes each year<sup>2</sup>.

### 2. Expanding onshore wind-energy capacity in Brazil

#### Statkraft - Green Bond



Norwegian company Statkraft is Europe's largest renewable electricity generator. Proceeds from their green bonds have been used to finance the Ventos de Santa Eugênia Project in Brazil. This is Statkraft's largest wind project in South America and will include 14 wind farms in the state of Bahia, contributing an additional 519MW of renewable electricity capacity and delivering 2.3TWh of wind power per year – enough to supply 1.2m Brazilian homes.

### 3. Combined solar and BESS in South Australia

#### Vena Energy - Green Bond



Proceeds from Vena Energy's green bond programme have been used to build out renewable energy capacity across Asia and Australia. This includes the Tailern Bend 2, a combined solar and battery energy storage system (BESS) in South Australia. The project, with 159MW capacity (118MW of solar and 41MW of battery storage), will power 35,000 homes annually and reduce greenhouse gas emissions by over 207,000 tonnes of CO<sub>2</sub>e.

*Source: Affirmative Global Impact Bond Fund, 2024 Impact Report*

<sup>2</sup> Based on an average annual household consumption of 7,000kWh.

## Investment markets

### WHAT HAS DRIVEN INVESTMENT MARKETS?

The third quarter of 2024 delivered another strong performance for most asset classes, continuing the positive momentum from earlier in the year. Global equities rose by 4.8% (NZD-hedged) in the quarter, bouncing back after a brief scare in August. As interest rates started to decline, interest-rate sensitive sectors like small-caps and listed infrastructure outperformed. However, the global market outlook remains uncertain, with risks including Middle Eastern conflict escalation and the upcoming US elections.

Market leadership shifted during the quarter, with the technology sector, previously driven by the AI boom, taking a backseat. Small-cap stocks led the charge, with the Russell 2000 index climbing 9.3%, while the tech-heavy Nasdaq 100 posted a more modest gain of 2.1%. Smaller companies tend to benefit more from lower interest rates, as they often rely heavily on borrowing to fuel growth. Likewise, infrastructure stocks performed strongly, gaining 13.5% due to declining bond yields and rising demand for stable, long-term cash flows.

Central bank policy impacted market sentiment during the quarter. The Federal Reserve made a notable move by cutting rates by 50 basis points in September, the first reduction in four years. This marked a shift in priorities, with the key concern moving from inflation to slowing economic growth. Closer to home, the Reserve Bank of New Zealand cut the Official Cash Rate (OCR) by 25 basis points in August. Bond yields fell in response, helping both the Global Aggregate Bond Index (NZD-hedged) and the NZ Bond Index post positive returns for the quarter, gaining 4.2% and 3.9%, respectively.

New Zealand's economy continued to struggle, with GDP contracting by 0.2% in the June quarter, and performing even worse on a per capita basis, falling by 0.5%. Despite this, business confidence has rebounded following the OCR cut, with August marking the highest level of confidence in a decade, and September rising further by an additional 10 points. The NZ stock index (NZX50) also posted positive returns for the quarter, gaining 6.0%, helped by falling interest rates.

## Financial performance returns

### AURORA LIQUIDITY FUND AS AT 30 SEPTEMBER 2024

RETURNS				
	3 month %	6 month %	1 year %	3 year %
<b>Fund</b> (after fees, before taxes)	1.42	2.82	5.70	-
<b>Benchmark*</b>	1.42	2.84	5.79	-

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

The Liquidity Fund continued to deliver healthy returns in the third quarter, driven by strong cash yields. Over the past year, cash has provided solid returns with minimal risk, which has been great for investors with a short investment time horizon.

The Reserve Bank dropped New Zealand's Official Cash Rate (OCR) to 5.25% during the quarter, with their focus shifting from controlling inflation to reducing damage to the economy. Given the ongoing weakness in the New Zealand economy, we anticipate further OCR cuts in the near term.

With rates heading downwards, cash yields are following, which means the expected return of the Liquidity fund will be slightly lower moving. However, this should not be a significant concern for investors, as the primary objective of this fund is to safeguard your savings, rather than aggressively grow your investment.

## 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](http://www.aurora.co.nz).

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