Aurora Capital

Aurora RetirementPlus Strategy

Ages 0–50

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

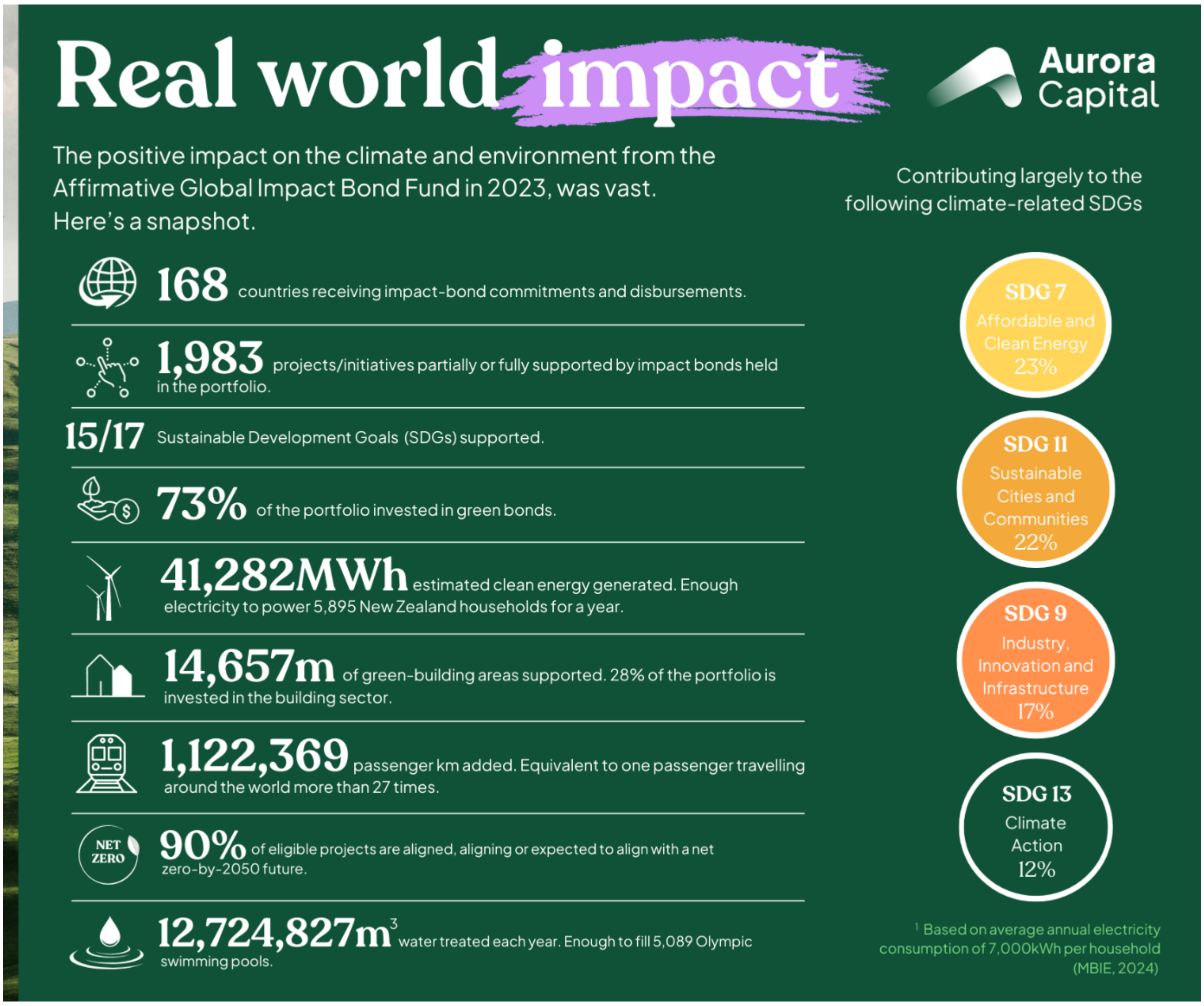
Impact bonds include green bonds, social bonds and sustainable bonds. They are an investment designed to raise funds for projects that provide social and environmental benefits. These bonds are a type of fixed-income investment issued by governments, companies, and financial institutions to finance projects 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[2].

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 Tailem 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_2e.

Source: Affirmative Global Impact Bond Fund, 2024 Impact Report

[2] *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 RETIREMENTPLUS AGES 0-50, AS AT 30 SEPTEMBER 2024

	RETURNS			
	3 month %	6 month %	1 year %	3 year %
Strategy Return*	4.31	5.01	17.90	1.96

**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 portfolio delivered another positive quarter, driven primarily by strong performances in infrastructure and New Zealand equities, which rose by 13.5% and 6.0%, respectively. As a result, the portfolio has met its CPI+ objective over the 3-month, 6-month, and 1-year periods.

This quarter also marks an important milestone, as the portfolio now has a 3-year return figure. This number is annualised, reflecting the average yearly return assuming the investment has been compounded over time. While the three-year return has not met its objective, it's important to note that the objective is based on CPI, which has been especially high over this period. In addition, 2022 was a particularly challenging year for both equities and fixed income, with both asset classes ending that year in the negative. However, recent strong performance show how markets always eventually recover losses, reinforcing the importance of staying the course.

All key asset classes posted gains during the quarter, though the drivers were notably different from what we've seen in previous periods. US equities, particularly the 'Magnificent 7' tech stocks, had long led the way thanks to the growth potential surrounding AI. However, with falling interest rates, the top performers this time were more interest-rate-sensitive sectors such as listed infrastructure. New Zealand equities also fall into this category, given the composition of the NZ stock market.

Fixed income made a meaningful contribution to returns, with New Zealand and global bonds performing strongly, over both the quarter and 1-year period. The NZ Bond index rose 11.3% over the 1-year period, well above the long-term averages for the asset class.

This quarter's performance highlights the value of maintaining a well-diversified portfolio. While US technology stocks may have driven returns in previous periods, this quarter showed the importance of having exposure to a broader range of asset classes.

As we move into the last quarter of the year, there are several risks on the horizon which could impact global markets. Significant geopolitical tensions in the Middle East have the potential to disrupt energy markets and broader regional stability. The upcoming US presidential election adds another layer of uncertainty, with potential policy changes likely to influence the market. US stock valuations also appear stretched, which could limit further upside potential. While declining interest rates have supported markets, the presence of these risks suggests that it may not be smooth sailing from here to year-end.

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 AGES 0-50, AS AT 30 SEPTEMBER 2024

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	253
Market Index*	3.6 °C	378

MSCI All Country World Index (ACWI) is used.

SOURCE

EMMI

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%	14.7%	3.8%	69.3%
Market Index*	3.4%	4.9%	10.4%	2.6%	58.6%

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 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 4 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, 69.3% of the portfolio's sales are contributing to sustainability goals, which is 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.

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