



Aurora Liquidity Fund

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 CO₂-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 LIQUIDITY FUND AS AT 31 DECEMBER 2024

RETURNS				
	3 month %	6 month %	1 year %	3 year %
Fund (after fees, before taxes)	1.15	2.59	5.39	-
Benchmark*	1.21	2.65	5.55	-

* Benchmark is the Bloomberg NZ Bond Bank Bill Index. As at 31 December 2024.

The Aurora Liquidity Fund continued to deliver healthy returns in the fourth quarter, supported by strong cash yields. Over the past year, cash has provided solid returns with minimal risk, making it an attractive option for investors with a short investment time horizon.

During the quarter, the Reserve Bank of New Zealand lowered the Official Cash Rate (OCR) to 4.25% to help stimulate economic growth. With the New Zealand economy remaining weak, further OCR cuts are anticipated in the near term.

As rates decline, cash yields are expected to soften, which will likely lead to slightly lower returns for the Liquidity Fund moving forward. However, this should not be a concern for investors, as the primary goal of this fund is to protect your savings, offering stability and security rather than aggressive growth.

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), 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.