



## Aurora Growth Fund

QUARTERLY UPDATE JUNE 2022

### Climate and Environmental, Social, Governance developments

#### The great leap to electric transport is underway and here to stay

We were excited to read in a recent report<sup>1</sup> that the sale of combustion vehicles around the world peaked in 2017. Combustion vehicle sales are now falling, while electric vehicle sales are on the rise and growing fast. It seems that the electrical vehicle revolution is well and truly underway.

This is great news. We all know that combustion engines are fossil fuel guzzlers, consuming gasoline and diesel for fuel. The rise in electric transport is reducing oil demand by 1.5 million barrels per day, which is equivalent to approximately 3% of total road fuel demand. By 2025, the report estimates that sales of internal combustion passenger vehicles will be 19% below their 2017 peak. The biggest take-up of electric transport is happening with two and three wheelers, which account for nearly 70% of electric transport. In Asia alone, there are almost 300 million electric two and three wheelers: bikes, scooters, trikes and tuk-tuks.

The demand for electric transport is expected to shoot higher in coming years. Over time, this should help to shrink the amount of oil we consume globally. And the less we rely on fossil fuels for energy, the better off our climate will be, giving future generations a better chance to enjoy the planet we all love.

That said, some serious planning is needed. The shift to electric transport will have a massive impact on how much electricity is needed. The report estimates that EV's could account for 15% - 21% of global electricity demand in 2050. There is also a huge need for investment in charging stations and chargers, which will have knock-on effects for how countries build these at street level and into their grids. If the world is serious about getting to net-zero emissions by 2050, we will likely see incredible innovation and investment to create this much needed change.

<sup>1</sup> BloombergNEF, Annual Electric Vehicle Outlook, 2022

# Investment markets

---

## The battle of inflation... and rising interest rates

It's a first for some. Surging inflation and rapid increases in interest rates, that is. The developed world, including the U.S, U.K and NZ, is now rising at a pace last seen three or four decades ago, with no signs of slowing down.

For a generation that has only known U.S interest rates fairly close to zero, it may be hard to believe that the official interest rate in the U.S was a whopping 20% back in 1980. This is the highest interest rate the U.S has ever seen. Why was it so high back then? Inflation was a massive headache for policy makers, running away at over 14%! This period of hyper-inflation and high interest rates didn't end so well. It ended with an economic recession.

History tells us that it is very hard to tame the inflation beast once it becomes entrenched in expectations and decision-making by households, workers, companies, and governments.

## Official interest rates have not been 'normal' in a long time

In the U.S, U.K and most of Europe, official interest rates have generally been falling or kept fairly close to zero for the past 15 or so years. This has stemmed from two major crises. The first was the Global Financial Crisis, which reared its ugly head in 2007. The second was the global pandemic, which emerged as a serious problem by March 2020.

Throughout 2022, we have seen many central banks around the world start to increase their official interest rates from ultra-low levels. NZ began this process in late 2021. The U.S started to raise official interest rates in March 2022, from near-zero levels.

Overall, you could say that interest rates in the U.S, have been ultra-low for a long time. Raising interest rates to more 'normal' levels would take rates to at least 2-3%, from the current 1.5%, but given how much inflation has already overshot the Fed's target (which is 2-3%), the official cash rate could end up higher. In NZ, ultra-low interest rates have been in place only recently, in response to the COVID-19 pandemic.

Given how quickly inflation is rising, it is completely appropriate that rates are raised in economies such the U.S, U.K, and NZ.

## What has driven investment markets?

Investment markets generally had a terrible time throughout the June quarter. Key equity, bond and listed property markets ended with large declines for the quarter, 6-month and 1-year period. In the U.S, most of the supercharged gains in equity markets over 2021 have now been erased. In bond markets, yields have skyrocketed higher throughout 2022, causing bond markets to fall.

The main driver of these dramatic market movements has been the sharp rise in global interest rates, as central banks around the world have responded to surging inflation by raising official interest rates. However, the speed and size of interest rate hikes in the U.S have taken markets by surprise. In mid-June, the US Fed raised rates by 0.75%, which was the largest single increase in U.S interest rates since 1994. This followed a large 0.5% increase in the previous month. Usually, interest rates are moved in smaller, gradual increments. The message is clear: the U.S Fed is absolutely serious about breaking the back of inflation.

The U.S rate hike cycle is turning out to be more aggressive than what bond markets and equity markets were pricing in, just a few months ago. The risk is that higher interest rates in the U.S and other economies could eventually lead to a recession. That said, we support the aggressive action taken by central banks because the danger is that inflation becomes imbedded in consumer expectations. This often manifests in expectations for large wage increases, which can then produce a damaging spiral of rising wages and prices.

Markets are forward-looking, which means that they attempt to anticipate future changes in inflation and interest rates before they actually happen. There is a lot of uncertainty about how far inflation and interest rates will rise, and while this uncertainty continues, markets are likely to stay jittery.

## How the portfolio has performed

### FINANCIAL PERFORMANCE RETURNS

#### AURORA GROWTH FUND AS AT 30 JUNE 2022

	RETURNS		
	3 month %	6 month %	1 year %
<b>Strategy</b> (after fees, before taxes)	-11.51	-19.23	n/a
<b>Objective: CPI + 4%*</b>	n/a	n/a	11.30**

\* CPI is the headline Consumer Price Index

\*\* As at 30 June 2022

We are focused on achieving long term financial returns that can help you meet your financial goals and will generally provide commentary on returns over timeframes that are meaningful for a long-term investor. Short term performance returns (daily, monthly, quarterly, and even 1 year time periods) can be volatile and reflect noise that is unrelated to the long-term value of your investments, so focusing on these shorter timeframes is rarely helpful to KiwiSaver investors, in our view.

With that in mind, we note that the negative returns recorded by the portfolio over 3 months and 6 months were driven by market declines in equities, bonds, and listed property. While negative portfolio returns are disappointing, it's worth remembering that markets can, and do, fall in the short-term. Especially when there is a lot of uncertainty. Over longer-term periods, history shows that equity markets generally rise, providing growth to portfolios. It's also worth noting that when markets decline, new investment opportunities can arise, for instance, being able to buy good assets at lower prices, which is also positive for portfolios over the longer-term. This is a good reminder to stay the course and avoid focusing on short-term noise.

### ESG & SUSTAINABILITY MEASURES OF PERFORMANCE

We measure the sustainability and ESG performance of the portfolios through several lens, with each providing a slightly different focus or perspective. Ultimately, these help us to identify which assets in the portfolio are doing well or are lagging on ESG and sustainability factors. We use independent third-party sources to analyse the portfolios sustainability characteristics.

### EMMI Carbon Intensity Temperature Alignment as at 30 June 2022

**1.5**  
degrees Celsius



#### How to read this:

The EMMI Temperature Alignment is the portfolio's implied warming impact in the future.

There are 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.

The Growth Fund has a temperature alignment of 1.5°C, which is the best of the climate scenarios.

Source: EMMI

### EMMI Global Carbon Efficiency Rating (GCER) as at 30 June 2022

**93**  
/100



#### How to read this:

The higher the GCER Rating, the lower the carbon exposure of a company/portfolio, and the lower the financial risk of transitioning to a future net zero emissions world. The GCER Rating is a measure of a company's financial exposure to carbon and whether that company is aligned with a future economy where carbon emissions are low.

We look at carbon risk because the majority of climate risk is carbon risk.

The Growth Fund GCER Rating of 93/100 suggests a very low carbon exposure.

Source: EMMI

## Questions?

If you have questions about this report, we encourage you to contact your adviser who can discuss this with you.

We welcome all feedback and would like to hear from you should you have any questions or concerns about your investment, as this can form the basis of future articles and reports that we write. We invite you to ask us questions through our website: [www.aurora.co.nz](http://www.aurora.co.nz), and through your adviser.

**Sean Henaghan,**  
Aurora Chief Investment Officer

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 Conservative Fund, Aurora Future Focused Fund and Aurora Growth Fund (Funds). The PDS is available from Aurora at <https://www.aurora.co.nz/>, or the issuer Implemented Investment Solutions Limited (IIS), 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 IIS. 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 IIS, 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 IIS. IIS is the issuer and manager of the Scheme. Aurora is the investment manager of the Scheme.