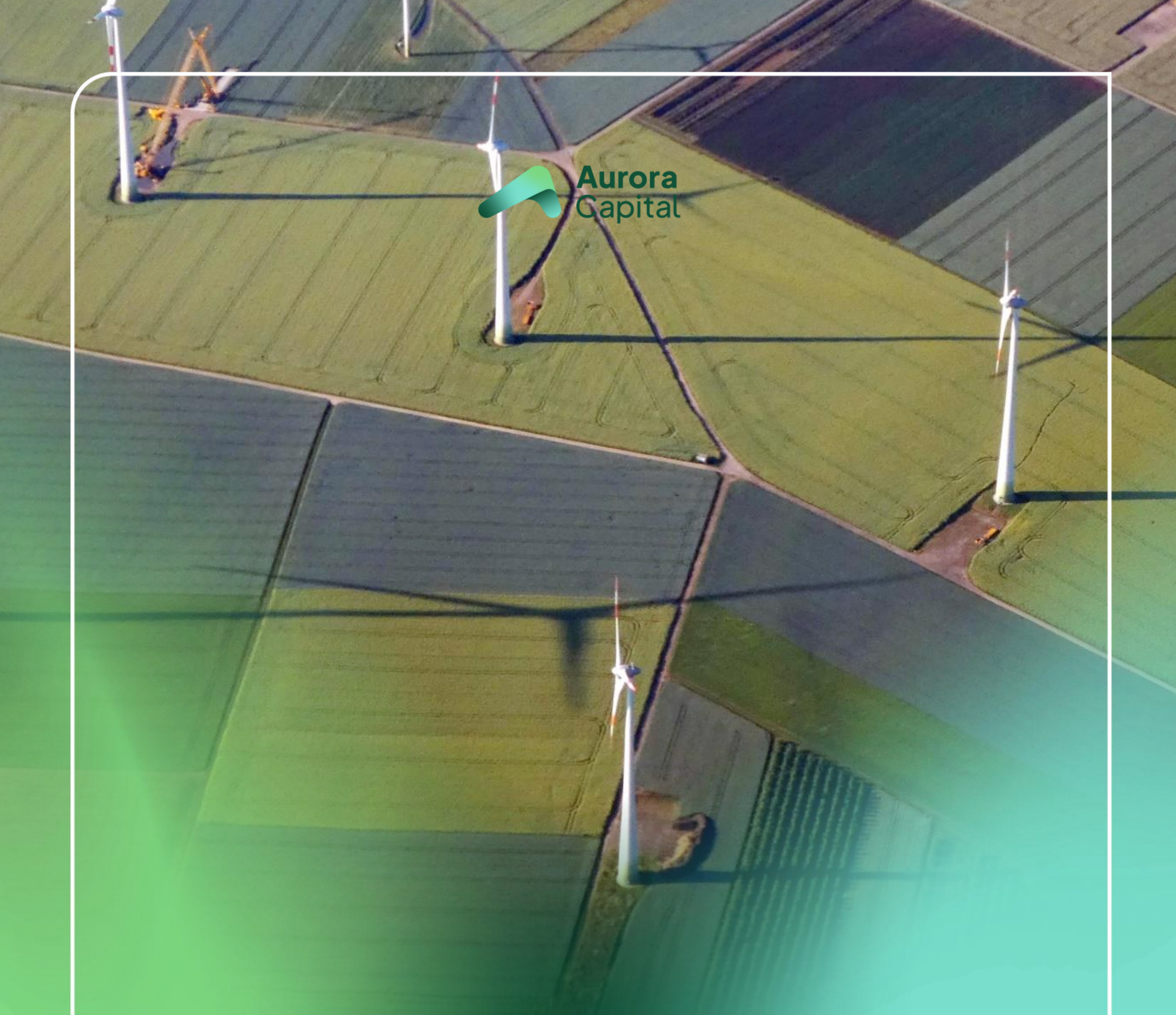

Aurora Capital

Aurora Liquidity Fund

QUARTERLY UPDATE MARCH 2024

Climate and Environment developments

IS IT JUST ME, OR IS IT GETTING WARM IN HERE?

It seems that everywhere we turn, temperatures are rising. In case you missed it, there have been record-breaking temperature increases in Antarctica. Glaciers on the border of the west Antarctic icesheet have been melting into the ocean at an increasing rate. Ocean temperatures rose every day throughout 2023, and this trend, so far, has continued in 2024.

The thermometer is also rising for global surface temperatures. In March 2024, global surface temperatures rose to yet another record high, according to data from the Copernicus Climate Change Service. This marked the tenth consecutive month of record-breaking temperatures in a warming trend that's exceeded all previous records. Over the past year, average global temperatures rose to 1.58°C above pre-industrial levels. This is higher than the 1.5°C benchmark outlined in the Paris climate agreement, at least temporarily. According to one of the vice-chairs of the UN's Intergovernmental Panel on Climate Change (IPCC), Diana Ürge-Vorsatz, the planet has been warming at a pace of 0.3C per decade over the past 15 years, almost double the 0.18C per decade trend since the 1970s.

So, is this temperature increase within the range of climate change variability or a sign that warming is accelerating? It's a fair question to ask.

Some scientists have explained the surface temperature increase to factors like the El Niño effect, reductions in cooling sulphur dioxide particles, impacts from the volcanic eruption in Tonga, and increased solar activity as the sun reaches its 'solar maximum' over the course of 2024. Even with those factors considered, the sheer size of the increase is still unexplained. With that in mind, the possibility of an acceleration in warming can't be ruled out.

The consensus among climate scientists remains clear. Human activities, especially fossil fuel emissions, are driving global surface temperature increases, and rapid reductions in greenhouse gas emissions are needed to limit further warming.

At Aurora Capital, we build portfolios that aim for competitive investment returns while investing to improve the health of the planet. We're biased to a mix of investment strategies that target a low-carbon economy and can contribute to a more sustainable future.

We do more than simply exclude high carbon emitting companies; we also aim to fund innovations that are needed to replace legacy carbon emitting processes. We may also invest in companies that currently have high carbon emissions provided they are actively on a path to cutting their emissions. These companies are often operating in the energy sector and working on renewable energy solutions.

The equity and listed infrastructure component of our portfolios have a lower carbon intensity and lower carbon footprint than the equity market index. Our portfolios also positively contribute to the 4 UN Sustainable Development Goals (SDGs) that can positively impact the climate and environment.

We’re enhancing the portfolios.

HERE’S WHAT WE’RE DOING

We wrote to you in early April to let you know that we're adding a small allocation to New Zealand private debt, via a specialist underlying private debt manager. This allocation is being made to the Aurora Conservative Fund and the Aurora Growth Fund and will flow through to the Aurora First Home Buyer Strategy, the Aurora Balanced Strategy, and the Aurora RetirementPlus Strategy.

Why are we adding private debt? Private debt involves companies borrowing from non-bank financial institutions or private investors. This segment of the debt market has increased in popularity over the past 10 years as traditional sources of financing (mainly from banks) has become more difficult for companies to access. This has resulted in a lack of funding for companies seeking finance, therefore creating an opportunity for investors. Our analysis of the New Zealand private debt market indicates that the underlying conditions for this market segment will likely remain favourable for investors.

Our portfolio modelling shows that the addition of private debt is expected to improve returns while reducing risk (as measured by volatility) for each of the portfolios.

We note that while private debt is less liquid than publicly traded debt, we actively monitor and manage all risks in the portfolios, including illiquidity risks. Our analysis suggests that this small allocation to private debt won’t impact our ability to effectively manage member cashflows and that the portfolios can tolerate a much higher allocation to illiquid assets.

Investment markets

WHAT HAS DRIVEN INVESTMENT MARKETS?

The first three months of 2024 offered encouraging signs that the global economy is on track to achieve the much desired ‘soft landing,’ where inflation declines, growth ticks along steadily and a crash in employment is dodged. The United States (U.S) economy continued to show resilience, while growth in China made a comeback in 2023, after struggling with pandemic-induced challenges. After a strong 2023, global equity markets continued to boom, rising over 10% in the first three months of 2024, taking 12 month returns to just shy of a whopping 30%.

Investor sentiment has been mixed, however. Sentiment has swung between optimism for a string of rate cuts and concerns over the economic resilience we're seeing, especially in the U.S. Too much economic resilience could mean that the rate cuts already priced into markets may not be justified. With peak inflation behind us in most countries, central banks are navigating the tricky path of easing monetary policies without triggering a recession or reigniting inflation. Central bank actions have diverged as a result. The Swiss National Bank cut rates towards the end of March, becoming the first developed market central bank to do so. On the contrary, the Bank of Japan raised interest rates for the first time in 17 years. Meanwhile, the United States Federal Reserve held rates steady. Global bond prices were relatively flat during the quarter, indicating a market waiting for clearer directional cues.

By contrast, New Zealand’s economy continued to weaken, contracting by 0.1% in the final quarter of 2023, bringing the annual growth rate to a mere 0.6%. This downturn has led to the country falling into another technical recession, characterized by two consecutive quarters of negative GDP growth. The impact is more pronounced on an individual level, with GDP per capita dropping by 0.7% as the population grew by 0.6%. Reflecting these economic difficulties, the NZ equity market significantly lagged global equities, posting a 2.8% gain for the quarter. The Official Cash Rate (OCR) held constant at 5.5% through the first quarter of the year, however, our view is that the prevailing weak economic data may lead to rates being cut sooner than previously expected.

Financial performance returns

AURORA LIQUIDITY FUND AS AT 31 MARCH 2024

	RETURNS			
	3 month %	6 month %	1 year %	3 year %
Fund (after fees, before taxes)	1.34	2.81	5.43	-
Benchmark*	1.41	2.86	5.72	-

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

The Liquidity Fund's healthy returns in the first quarter continued to be driven by strong cash yields. The Reserve Bank held New Zealand's Official Cash Rate (OCR) at 5.5% in the quarter, reflecting their continued focused on bringing inflation back down into their target range. Over the 1 year period, cash has provided solid returns, with low risk for investors.

As the quarter unfolded, fresh economic indicators pointed to increased fragility within the New Zealand economy, igniting debate over whether the current monetary policy might be too restrictive. In light of these developments, there is a growing anticipation that the Reserve Bank may ease rates sooner than previously expected. This comes after some of the major banks called for further rate hikes back in February.

Any potential rate cuts would lead to a reduction in cash yields, which would flow over to a lower return in the portfolio. However, the path to lower rates is expected to be gradual, as inflation has proven to be sticky, 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 invite you to ask us questions through our website: www.aurora.co.nz, and through your adviser.

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