Aurora RetirementPlus Strategy

Ages 55, 65, 75

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.
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> 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.

How your money is helping the planet

Financial performance returns

AURORA RETIREMENTPLUS AS AT 31 MARCH 2024

	RETURNS			
	3 month %	6 month %	1 year %	3 year %
Strategy at age 55*	4.79	11.42	11.36	-
Strategy at age 65*	3.41	9.42	9.03	-
Strategy at age 75*	2.04	7.44	6.72	-

*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.

Continuing on from last year, the portfolio has benefited from the strength in global equities, which surged higher in the first three months of 2024. This momentum in equities was the significant driver in the positive portfolio returns to start the year.

While global equities were the standout performer, nearly all key asset classes delivered positive returns. The exception to this was global bonds, which ended flat (-0.02%), amidst the uncertainty around the timing of interest rate cuts. This also impacted NZ bonds, which finished slightly positive (0.25%). Cash continued to be a solid performer, while NZ equities & infrastructure had reasonable gains although small in comparison to broader equities. The impressive rally in global equities, mainly in the US, has led to richer valuations, prompting a more cautious outlook considering the potential for a market correction.

As we navigate through the year, we expect volatility given the many uncertainties in the economic and geopolitical landscape. The upcoming US elections loom large, potentially influencing market sentiment and fiscal policies. Interest rate dynamics remain a critical focus, with sticky inflation and the potential for economic weakness weighing on central banks' decisions. Furthermore, ongoing tensions in regions like Russia/Ukraine and the Middle East add layers of complexity to sentiment and risks.

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 AS AT 31 MARCH 2024

AT AGE 55

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	434
Market Index*	3.6 °C	595

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	5.7%	5.4%	14.9%	3.9%	68.0%
Market Index*	3.0%	4.9%	10.8%	2.5%	58.7%

AT AGE 65

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	430
Market Index*	3.6 °C	595

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	6.0%	5.4%	15.0%	3.9%	68.6%
Market Index*	3.0%	4.9%	10.8%	2.5%	58.7%

AT AGE 75

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	422
Market Index*	3.6 °C	595

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	6.6%	5.6%	15.4%	4.1%	69.9%
Market Index*	3.0%	4.9%	10.8%	2.5%	58.7%

*MSCI All Country World Index (ACWI) is used.

SOURCE

EMMI

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.

All portfolios currently have a much lower temperature alignment than the MSCI All Country World Index (ACWI)*.

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*, which is a global equity index. 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.

All portfolios are making a higher contribution to sustainability goals than the All Country World Index (ACWI)*, a global equity index. All portfolios are also making a positive contribution to the 4 focus SDGs. For more information click here.

* MSCI All Country World Index (ACWI) ETF

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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