Aurora Balanced Strategy

QUARTERLY UPDATE MARCH 2023

Climate and Environmental, Social, Governance developments

CLIMATE CRISIS GOT YOU DOWN? HERE ARE 3 REASONS FOR HOPE.

You wouldn't be alone if you felt a bit down after reading any climate reports from the United Nations (UN), over the past few years. Getting into the weeds of climate data can be sobering.

Some of the most important reports on the science of climate change are from the UN Intergovernmental Panel on Climate Change (IPCC), representing the world's leading climate scientists. Their most recent update (the AR6 synthesis report) was released in March 2023. Straight up, this report highlighted some grim climate facts. For example, at the current level of CO_2 emissions, the surface temperature of the planet is expected to rise above the targeted 1.5 degrees Celsius. That said, the report also gave us cause for optimism, provided that governments and policymakers move quickly on climate action. So, the case for hope stays alive, in our view.

Here are 3 reasons to be hopeful after reading the UN IPCC Report :

The cost of clean energy has fallen quickly over the past decade:

> solar power is -85%
> wind power is -55%
> batteries are -85%.

In some regions and sectors, moving to clean energy is cheaper than running fossil fuel energy.

We still have time to act:

Every degree of avoided warming can make a difference. We have a window of opportunity, but it's closing quickly. The choices we make in this decade will determine how much the planet warms in the future.

We need to move from fossil fuels to cleaner energy, urgently:

Limiting global warming to between 1.5°C and 2°C needs fast and large cuts to greenhouse gas emissions.

We're not sugar coating the scale of the climate challenge. Action needs to be taken in this decade to avoid the worst consequences of climate change. Policymakers are being urged to take action now to reduce emisisons. Amidst this urgency, there is hope.

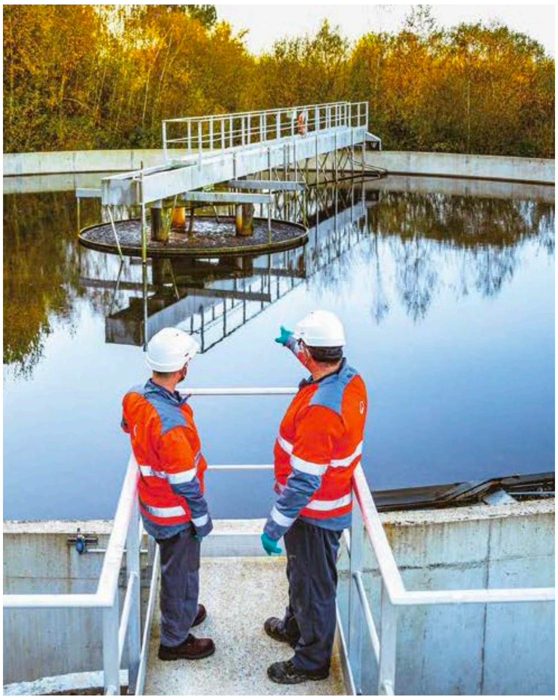
At Aurora Capital, we're investing in companies that have already transitioned or are in the process of transitioning to lower carbon emissions. In order to create positive change for the climate, we believe it's important to allocate capital to companies that are actively seeking to reduce their carbon emissions, rather than invest only in low carbon emitting companies.

INVESTING IN BETTER WATER MANAGEMENT

Aurora Capital invests in the water sector because water is life, and good management of our precious water resource can help to protect it, improve how water is treated and accessed, and offset some of the effects on climate change. Your investment in the Aurora Balanced Strategy has an investment in the water sector via the iShares Global Water ETF.

Case study – Veolia

An example of a company doing good work in the water sector is Veolia, which is a French service and utility company, providing water management, waste management and energy services. Your KiwiSaver investment has an exposure to Veolia via the Global Water ETF. The water management sector is Veolia's largest business, providing treatment, distribution and the recycling of water across 4,000 treatment plants, globally. Veolia's water services provides clean water to over 100 million people.



The number of people who benefitted from access to water or sanitation, which Veolia provide, was up to 6.71 million in 2021. **This is up 17.5%** from the prior year, and a **25% increase** from 2 years ago.

The efficiency of their drinking water networks have **improved 72.5% to 75.6%** over the same period, meaning less water wasted.

Source: Veolia 2021 Integrated Report

Closer to home, Veolia works with Danone Nutricia NZ, where they recently developed a water recovery system for their milk drying plant in the South Island of New Zealand. The system is the first of its kind in the southern hemisphere, closing the loop on water resources at this plant, which minimises the use of fresh water.

Within the waste management and recycling industry Veolia provides services such as collection, sorting and treatment of waste, in addition to developing new solutions for recycling and waste reduction. And, in the energy sector Veolia work in the spaces of energy efficiency consulting, renewable energy production, and district heating and cooling, to give a few examples.

When we run the Sustainable Platform analytics on Veolia, we can see that 82% of the company's sales are contributing to the United Nations Sustainable Development Goals, mainly SDG 6: 'Clean Water and Sanitation'. This reinforces our view that an investment exposure to Veolia can help with creating better water outcomes.

By providing capital to companies like Veolia, your KiwiSaver investment with Aurora Capital is supporting the accessibility of clean water to communities worldwide.

Investment markets

WHAT HAS DRIVEN INVESTMENT MARKETS?

Investment markets started the year with a bounce, with all key asset classes ending the March quarter higher. This was helped by the re-opening of the Chinese economy, which is expected to power a one-off global growth spurt. Elsewhere, signs that economic growth in the U.S and Europe had not yet fallen into a ditch, also fed some optimism that perhaps a 'bad' recession could be avoided in coming months.

It's been quite some time since the we've seen positive quarterly returns from the key asset classes, but it wasn't all clear sailing. There were some notable bumps along the way, including the collapse of two U.S banks and Swiss banking giant, Credit Suisse, which sparked fears about the stability of the global banking system. In response, central banks moved quickly to provide support to the banking system and give assurances to depositors that they wouldn't lose their money. While there were specific factors behind each banks' demise, a common theme was that these banks had large holding of bonds, which lost value throughout 2022 as bond yields rose. These bank collapses highlight the risks from central banks increasing interest rates quickly.

The most influential central bank in the world, the U.S Federal Reserve (the Fed), continued to make it clear that bringing down high inflation is a priority. Helping the Fed to do some of the work in slowing down the U.S economy, was the tightening in bank lending standards which should result in less credit being available. In our view, it's going to be a tough balancing act for the Fed. Continued high inflation means that a couple more interest rate increases can't be ruled out. However, concerns about the stability of the banking system and the likelihood of a recession kicking in over the next 12 months means that the Fed will probably respond more cautiously. In short, it's widely believed that the U.S is now nearing the end of its rate hike cycle - this was also a reason why key investment markets rose over the quarter.

How your money is changing the world

Financial performance returns

AURORA BALANCED STRATEGY AS AT 31 MARCH 2023

	RETURNS		
	3 month %	6 month %	1 year %
Strategy (after fees, before taxes)	3.15	3.87	-3.97
Objective: CPI + 3.4%*	2.71	4.40	10.05

CPI is the headline Consumer Price Index
* As at 31 March 2022

The positive return recorded by the portfolio for the 3 month period was underpinned by broad-based gains across all asset classes, with the strongest gains coming from global equities. This small but welcome bounce in investment markets wasn't large enough to offset the fall in asset class values seen over the past year. With this, portfolio returns for the 1 year period remained negative.

Since the end of 2021, we've seen a lot of volatility in investment markets, stemming from the rapid rise in inflation and central banks around the world playing catchup in hiking interest rates. It takes quite a long time for higher interest rates to slow down an economy, and it still remains unclear how much economic growth will decline as a result of interest rate hikes from central banks around the world. Based on U.S history , we know that when the Fed raises interest rates, it's often the case that the economy falls into a recession, although the length and severity varies in each episode. Historical lag times suggests the U.S could be in a recession within 12 months, although any downturn is widely expected to be mild at this point. In New Zealand, the central bank stunned markets in early April 2023, with a larger than expected increase in the overnight cash rate, to 5.25%, in an effort to bring down high inflation. It's possible that the New Zealand economy is already in a recession, given that GDP fell by 0.6% in the December quarter of 2022. The risk is that the NZ central bank doesn't get the shallow recession it's forecasting, but rather, something more severe. This scenario would likely result in the RBNZ lowering the overnight cash rate. As markets are forward-looking, they tend to price in future events before they happen, and at the time of writing, the NZ bond market started to price in the likelihood of lower rates at the start of 2024.

Looking ahead, we expect investment uncertainty to remain high, and with this, we expect continued volatility in markets.

CLIMATE SUSTAINABILITY MEASURES OF PERFORMANCE

We focus on measures of carbon risk in the portfolio because the majority of climate risk is carbon risk. We use independent third-party sources to analyse the portfolio's carbon sustainability characteristics. A portion of the portfolio is exposed to sectors and companies that are transitioning away from carbon to renewable energy over the medium term. These investments can elevate the current carbon risk of the portfolio, but as long as companies stick to their decarbonisation plans, the carbon risk of these companies will reduce over time. Like we always say, change is a journey. We also look at how much the portfolio is aligned with the UN's Sustainable Development Goals (SDG's) and how this compares with the relevant global equity index. You can read more about the SDG's and why we look at each portfolio's contribution to SDG's here.

TEMPERATURE ALIGNMENT AS AT 31 MARCH 2023	UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDGs) AS AT 31 MARCH 2023	PORTFOLIO CARBON INTENSITY AS AT 31 MARCH 2023
BASED ON PORTFOLIO CARBON INTENSITY	% OF SALES CONTRIBUTING TO THE SDGs	PER TONNE, PER $1M OF PORTFOLIO VALUE
2.3 DEGREES CELSIUS	PORTFOLIO 63% MSCI WORLD* 60%	PORTFOLIO 350 MSCI WORLD* 703

WHAT THIS MEANS FOR YOU?

The Temperature Alignment is based on the portfolio's carbon intensity. It captures the temperature scenario that the portfolio is currently in line with,

WHAT THIS MEANS FOR YOU

This metric looks at how much of the portfolio is aligned with the UN's Sustainable Development

WHAT THIS MEANS FOR YOU

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 based on its current carbon footprint. It's currently applied only on the equity component 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.

The current temperature alignment of 2.3°C reflects the portfolio's exposure to companies in the process of transitioning to a low carbon world.

Source: EMMI

Goals (SDGs), based on annual sales of the underlying companies.

It's currently applied only on the equity component of the portfolio.

Currently, 63% of the portfolio's sales are contributing to sustainability goals, which is higher than the MSCI World*, a global equity index.

The SDGs are a set of 17 goals established by the United Nations in 2015 as part of the 2030 Agenda for Sustainable Development. The goals focus on range of global issues, including creating positive environmental and social impacts.

*MSCI World ETF

Source: Sustainable Platform, BlackRock iShares

only on the equity component 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 World*, which is a global equity index.

The portfolio currently has a much lower carbon intensity than the MSCI World*.

* MSCI World ETF

Source: EMMI, BlackRock iShares

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.

Sean Henaghan
Aurora Chief Investment Officer

Sean Henaghan

Aurora Capital

0800 242 023
hello@aurora.co.nz
www.aurora.co.nz