Aurora Capital

Aurora RetirementPlus Strategy

Ages 0-50

QUARTERLY UPDATE SEPTEMBER 2023

Welcome to the new and improved Aurora KiwiSaver Scheme!

YOUR INVESTMENT IS NOW MULTI-MANAGER

We emailed you over the past quarter to let you know that we're adding new specialist fund managers to manage specific investment sectors, in all the Aurora Capital multi-asset portfolios. This approach, where multiple managers are combined in a portfolio, is called multi-manager. It's an important enhancement to the way your KiwiSaver money is being managed and is expected to bring a raft of other benefits such as improved manager diversification and improved style diversification, which should lead to a smoother investment journey for you.

The move to multi-manager was completed in August. With that done, we're now excited to tell you all about the fantastic new fund managers we've appointed. We thought this would also be a good time to update you on how we invest. That's because we believe it's important to be open and transparent about how and where your KiwiSaver money is being invested.

This Quarterly Update report is therefore a little different to previous reports, but usual transmission will return in the next Quarterly Update. We hope you stay tuned!

HOW WE INVEST

We're focused on delivering solid investment returns so that you can grow your wealth with your KiwiSaver money. To help us get there, we select best-in-class, specialist fund managers from around the world to actively manage the underlying assets of each asset class. We invest in assets that can grow over the long-term and use a mix of responsible investing approaches that can help to improve the climate and the environment.

We actively manage the portfolios

Active management in the Aurora portfolios takes place at two levels: through active asset allocation decision-making; and by selecting actively managed underlying investment strategies. We believe that actively managed portfolios are better equipped to manage the risk of loss during periods where markets are falling, disorderly and going through high levels of instability.

We build well-diversified portfolios to help manage risk

All investments involve some level of risk. While risk can't be eliminated, it can be managed. Diversification is a good way to manage risk by investing in assets that are expected to perform differently to one another in normal market conditions. Put simply, if one asset falls and a different asset rises, this can reduce the volatility of returns. We diversify risk by investing across different asset classes, geographies, and sectors. We also select fund managers that have different investment drivers and portfolio characteristics.

We 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. All of the underlying asset class strategies we select aim to outperform their respective benchmarks.

We use a mix of responsible investing approaches:

- **Sustainability**: We're biased to investing in companies and securities that are contributing to a more sustainable future. We support the United Nations (UN) Sustainable Development Goals (SDGs), and we specifically focus on the SDG's that can positively influence the climate and environment.

- **Exclusion:** Our portfolios exclude companies that we believe do more social or environmental harm than good. While exclusion is important in avoiding the most harmful activities, our view is that exclusion alone can't create the change that's needed to improve the climate crisis, as companies need capital to fund the replacement of carbon emitting processes. For more information on exclusions, please read the Aurora Statement of Investment Policy and Objectives.

- **ESG integration**: we aim to reduce and manage environmental, social and governance ("ESG") risks by making sure that the managers we select integrate ESG factors into their investment processes.

Figure 1: We use a mix of responsible investing approaches and prioritise the climate and environment.

We monitor and report financial and non-financial performance

For non-financial measures, we use independent third-party sources to track the carbon emissions of a portfolio and its alignment to sustainability goals. You can find these in every Quarterly Update and the monthly Fact Sheets, available on the Aurora Capital website.

OUR NEW LINEUP OF SPECIALIST FUND MANAGERS

ASSET CLASS	FUND MANAGER	ABOUT
Global Equities	Dimensional DIMENSIONAL FUND ADVISORS LTD.	A large global asset manager founded in 1981. They have 1400 staff in 14 offices globally. They have a high calibre research team who collaborate with leading academics in finance and economics to develop their investment strategies.
Global Equities	Stewart Investors	A large global equity fund manager with offices in Edinburgh, London, Singapore and Sydney. Founded In 1988. They are long-term focused and actively engage with companies on sustainability issues.
NZ Equities	mint ASSET MANAGEMENT	Leading NZ fund manager, founded in 2006. They have strong ESG credentials with ESG integrated into their decision-making, with a focus on negative / positive screens and active engagement.
Global Infrastructure	First Sentier Investors	Founded in Australia in 1988, they are now a global asset management business with operations in Asia, Europe, North America, and Australia. They invest in companies that are positioned to benefit from sustainable development.
Global Bonds	AIM Affirmative Investment Management	AIM was established in in 2014, making them of the first global impact bond managers. The business is headquartered in London, with offices around the globe. They have the longest track record in impact bond investing.
NZ Bonds	Mercer	The Cash and bond capability is managed by the highly rated former AMP Capital Fixed Income team. Mercer has an international network of 2000 investment experts, based in 43 countries.
Cash	Mercer	The Cash and bond capability is managed by the highly rated former AMP Capital Fixed Income team. Mercer has an international network of 2000 investment experts, based in 43 countries.

All of the fund managers we've selected have a focus on sustainability, climate and the environment while also aiming for strong financial returns. We undertake rigorous research of the fund managers in our selection and monitoring process. You can learn more about the factors we consider when appointing fund managers in Other Material Information about the Aurora KiwiSaver Scheme.

Each of the new fund managers have a strong business, a highly regarded investment team, and a proven investment process. They are each signatories to the UN Principles for Responsible Investment UNPRI and are making positive contributions to the UN SDGs in the strategies we've selected. Five out of the six fund managers that we've appointed have Responsible Investment Certification from the Responsible Investment Association Australasia (RIAA), and the sixth manager is currently in the process of getting certified.

- Great Business
- Quality investment team
- Proven investment process
- Signatory to UNPRI
- Positive contribution to UN SDG's

Investment markets

WHAT HAS DRIVEN INVESTMENT MARKETS?

After charging higher over the first half of 2023, equity markets started the September quarter strong but couldn't hang onto these early gains and ended the period weaker. This was most likely due to a shift in sentiment about future interest rates. At first, there was optimism that an economic downturn in the United States would be soft (a mild recession that doesn't lead to a huge rise in the unemployment rate) in coming months, and as a result, the era of high interest rates would soon be over. This optimism, however, soon evaporated as the US Federal Reserve indicated that high interest rates were likely to remain that way for some time, that is, that rates would stay 'higher for longer.'

Why? Simply put, the U.S economy has proven to be stronger than expected. Despite the dramatic interest rate increases from the U.S central bank, the economy is holding up quite well. We can thank low unemployment and healthy consumer spending for this stunning resilience in economic growth. In the meantime, core inflation appears to be slowing down (year-on-year) in the U.S and also across most economies. While this is good to see, inflation still remains well above target ranges. As long as economic growth remains feisty, policy makers will be in no rush to lower interest rates from their current high levels. On balance, we think it's likely that rates will rise one or two times more in the U.S, and will not be lowered for some time. A soft landing is still possible, although uncertainty remains. It's worth remembering that the majority of interest rate hiking cycles in the U.S do usually end up as recessions, with job losses.

Government bonds also weakened in the quarter, as bond yields rose. In the U.S, the most dramatic increase in bond yields was seen in longer dated maturities, with 10 year bonds rising to their highest levels since 2007. While the continued strength of the economy pressured yields higher, there were also increased worries about the enormous debt levels being run by the government. This resulted in lenders demanding higher compensation in the form of higher bond yields, for bonds with longer-dated maturities. Debt burden concerns in the U.S even led to a credit rating downgrade of the U.S, by Fitch Ratings. Central banks in the U.S, Europe (ECB) and the U.K all raised official interest rates in the September quarter, in acknowledgement of stubbornly high inflation.

In New Zealand, the central bank kept the official cash rate unchanged over the September quarter, at 5.5%. This was welcome relief for households, however, the risk of a further rate hike remains. If inflation continues to hover near its current levels, we can expect that interest rates will stay at their current high levels for longer.

How your money is helping the planet

Financial performance returns

AURORA RETIREMENTPLUS AGES 0-50, AS AT 30 SEPTEMBER 2023

	RETURNS		
	3 month %	6 month %	1 year %
Strategy (after fees, before taxes)	-3.19	0.08	5.63

Portfolio returns were negative in the September quarter, as most of the main asset classes recorded declines. The exception was cash, which continued to deliver positive returns for the period and provide some safety for the portfolio while other assets weakened. However, the positive returns from cash were swamped by negative returns from equities, bonds and infrastructure.

Growing expectations that interest rates would stay higher for longer was a major factor in driving negative returns in infrastructure. The infrastructure asset class is notoriously sensitive to rising, or high, interest rates and bond yields. We retain a positive medium to long-term view about the outlook for global infrastructure returns. We also believe that global infrastructure is going to be a key asset class in tackling climate change through electrification. It's estimated that more than $50 trillion is needed to be invested in the next 25 years to achieve net zero emissions by 2050.

What made the September quarter challenging for the portfolio was the decline in both equities and bonds. Usually, we would expect that when one of these asset classes weakens, the other strengthens. Bonds are usually considered to be a steady counterpart to the more volatile stock market. When both decline at the same time, there is usually elevated uncertainty about the economic or interest rate outlook. This was true for the September quarter, in our view. Importantly, the recent weakness in bonds now provides a great opportunity to buy bonds at lower prices (higher yields). When the cycle turns and inflation eventually declines, bond markets are likely to perform well and offer diversification to equities.

We get that short-term investment performance can be captivating to watch, but ultimately not very helpful, as markets can be (and often are) volatile over the short term. This includes periods of 3 months, 6 months and even 1 year. Instead, it's better to focus on returns that are relevant for your investment timeframe and to stick with your investment strategy. If you have questions or doubts about your strategy, we encourage you to get in touch with your adviser who can review your KiwiSaver investment and make sure that you're invested in the right strategy for your situation.

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.

MEASURES OF CARBON IN THE PORTFOLIO

TEMPERATURE ALIGNMENT AS AT 30 SEPTEMBER 2023	UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDGs) AS AT 30 SEPTEMBER 2023	PORTFOLIO CARBON INTENSITY AS AT 30 SEPTEMBER 2023
BASED ON PORTFOLIO CARBON INTENSITY	% OF SALES CONTRIBUTING TO THE SDGs	TONNES PER $1M OF PORTFOLIO VALUE
3.2 DEGREES CELSIUS	PORTFOLIO 68% MSCI ACWI* 60%	PORTFOLIO 431 MSCI ACWI* 620

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

WHAT THIS MEANS FOR YOU

This metric 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 of the portfolio.

Currently, 68% of the portfolio's sales are contributing to sustainability goals, which is higher than the MSCI ACWI*, a global equity index.

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 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.

4.0°C. These scenarios have been adopted by international climate science bodies.

The current temperature alignment of 3.2°C reflects the portfolio's exposure to companies in the process of transitioning to a low carbon world.

Source: EMMI

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 All Country World Index (ACWI) ETF

Source: EMMI, BlackRock iShares

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

* MSCI All Country World Index (ACWI) ETF

Source: EMMI, BlackRock iShares

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 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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