Methodist Trust Association

12 January 2018

Dear Depositor

**DISTRIBUTION RATES**

The Methodist Trust Association is pleased to advise the distribution rates for its Income and Growth and Income Funds for the quarter ended 31 December 2017.

The Distribution Rates are:

| | Dec 2017 | Sep 2017 | Jun 2017 | Mar 2017 | 12 Month Average Return |
|---|---|---|---|---|---|
| **Income Fund** | 5.35% | 4.86% | 6.10% | 4.59% | 5.23% |
| **G&I Fund** | 3.46% | 4.01% | 6.05% | 3.28% | 4.20% |

Distributions for the quarter totalled $3,124,721

## PAYMENT OF DISTRIBUTIONS

Income distributions by direct credit will be made into depositors' accounts on Monday 15 January 2018.

## INCOME FUND

The Income Fund's annualised distribution rate for this quarter is very pleasing, being significantly ahead of the previous corresponding quarter.

The Income Fund's December quarter return benefitted from a recovery on its holding of Solid Energy Bonds, which had previously been written down during the 2017 Financial Year. The Voluntary Administration and sale process for Solid Energy resulted in much better recoveries than had been expected. The normalised return, excluding the Solid Energy recovery (in excess of the written down level) was 4.97%, itself a pleasing return.

At this time we continue to expect the distribution rates for the remainder of the 2018 Financial Year to average approximately 4.65%. The forecast distribution rate for the June 2018 financial year, including the recovery above, is now expected to average approximately 4.85%.

The Association believes that the distribution rates for the Income Fund are very satisfactory given the high level of liquidity within the Income Fund.

## GROWTH AND INCOME FUND

The annualised distribution rate for the Growth and Income Fund is also pleasing, although lower than recent quarters and the previous corresponding quarter last year. In part this reflects the capital growth reported by the Fund in the June 2017 financial year, with similar income being divided by a larger investor base by value. This is likely to be reflected in future returns for some time to come.

However, it also reflects the aims of this fund, which are focused on both capital growth and income. Investment opportunities over the past year have favoured equities (shares), particularly international equites, which have lower average yields than other asset sectors. This has raised total returns, through capital growth, but resulted in a lower income component in those returns.

The Growth and Income Fund’s normalised December quarter return, excluding the Solid Energy recovery, in excess of the written down level, was 3.26%.

The Fund’s equity portfolio has appreciated strongly, gaining 16.3% during the December half year, with significant gains from security selection again being a key feature of this result. The June 2018 full-year outlook for returns remains positive, with strong global economic conditions, despite continuing geo-political concerns and volatile equity markets.

The Fund is well diversified both geographically and by business sector. The asset allocation was broadly unchanged during the quarter, with equities making up 38.4% of the portfolio (benchmark 25%) and property 31.1% (benchmark 35%). The fund is neutrally weighted in cash at 6.8% (benchmark 5%) and underweight fixed interest at 23.8% (benchmark 35%).

**MARKETS**

The New Zealand Reserve Bank held the Official Cash Rate at 1.75% at its November meeting and again maintained its expectation that monetary policy will remain accommodative for a considerable period. However it did note that numerous uncertainties remain and policy may need to adjust accordingly.

Elsewhere the quarter saw the US Fed raise rates by 0.25% as expected and the Bank of England also raise by 0.25%. There were no changes in policy from the Reserve Bank of Australia, the European Central Bank or the Bank of Japan.

We expect to see three 0.25% increases from the US Fed during 2018, which will continue to put upward pressure on New Zealand bond yields.

The major central bank rates are currently: USA at 1.50%; Australia at 1.50%; United Kingdom at 0.50%; Japan at -0.10% and the Euro Area at 0.00%.

Over the quarter the yield on New Zealand 5-year Government bonds reduced from 2.54% in September to 2.25%, while the 10-year bond also reduced from 2.97% to 2.75%.

During this period 10-year bond yields increased in USA from 2.33% to 2.41%; Europe reduced from 0.46% to 0.43%, but had earlier dipped to 0.30% and is now on a rising trend; Australia reduced from 2.88% to 2.67%, but had also dipped to 2.57% and is also now on a rising trend. Since December 10-year bond yields have continued to increase by 0.10% to 0.15% across all of the above markets, a trend we expect to continue through this year.

We expect longer-term NZ rates to also rise over the year ahead and beyond, reflecting the gradually rising central bank rates and rising international bond yields, particularly in the US.

Term deposit rates in New Zealand remain attractive, with 90 day term deposits still at 2.8%, while 6 month rates are 3.4%. This reflects Reserve Bank requirements for banks to fund more of their loan book through domestic deposits.

The international equity markets continued their strong run during the quarter, with the MSCI World Total Return index up 5.5% in USD terms. This reflected solid growth in all the major regions. In the US strong corporate performance and tax reform boosted the S&P 500 by 6.1%, with good gains from both the financial (+8.1%) and technology sectors (+8.6%), while the yield sensitive Utilities sector fell 0.6%.

Local currency returns for other major indices were: Euro Stoxx 600 up 0.6%; UK FTSE100 Index up 4.3%; Australian ASX 200 up 7.6%; and New Zealand NZX50 up 5.9%. (*Quoted returns include income and capital gains*).

The NZ dollar fell against all major currencies in the December quarter due to concerns over the election result. It fell 1.5% versus the USD, from 0.7209 to 0.7098, but has recovered well from its post-election low of 0.6809. It fell 1.2% versus the AUD. The Fund's currency management procedures have limited the volatility impact on the Fund from these currency movements.

## PAYMENT OF DISTRIBUTIONS

Income distributions by direct credit will be made into depositors' accounts on Monday 15 January 2018.

## RENEWAL OF DEPOSITS

In the absence of instructions to the contrary, maturing deposits are rolled over for new terms equivalent to those expiring. Income not withdrawn is credited to capital but remains available for withdrawal upon request by the depositor.

## FURTHER INVESTMENT

New or additional investments are welcomed from any Church group responsible in whole or in part to the Conference of the Methodist Church of New Zealand. Deposits cannot be accepted from any other group or from any individual.

Regards

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|---|---|---|
| **Stephen Walker** | **Peter Van Hout** | **Elaine Knegt** |
| **Executive Officer** | **Finance Service Manager** | **Accountant** |

***We encourage you to photocopy and distribute this newsletter amongst your parish or organisation's office holders***

***Returns to depositors will vary over time. Past returns may not be an accurate indication of future returns. Past returns are no guarantee or indicator of future returns.***