



Methodist Trust Association

18 January 2023

Dear Depositor

DISTRIBUTION RATES

The Methodist Trust Association (MTA) is pleased to advise the distribution rates for its Income and Growth & Income Funds for the quarter ended 31 December 2022.

The Income Distribution Rates are:

	Dec 2022	Sep 2022	Jun 2022	Mar 2022	12 Month Average Return
Income Fund	3.85%	3.55%	0.00%*	2.99%	2.60%
Growth & Income Fund	2.87%	1.89%	1.41%	1.67%	1.96%

Income distributions for the quarter totalled **\$2,708,276**

** The June 2022 quarter's distribution rate for Income Fund depositors was reduced by realised losses from exiting international bond holdings.*

PAYMENT OF DISTRIBUTIONS

Income distributions by direct credit will be made into depositors' accounts on Friday 20 January 2023.

INVESTING IN THE MTA FUNDS

An investment with MTA is an investment into one of MTA's two diversified investment funds. Both investment funds are managed in accordance with the Church's Responsible Investment Policy.

Income Fund

The Income Fund's objective is to provide income returns that are superior to those available in the general market, while also maintaining very low risk levels.

The Income Fund's investment portfolio currently consists of cash investments (3%), well secured loans to Methodist Church entities (11%), a high yielding direct property investment (10%) and a well-diversified portfolio of NZ bonds (75%) issued by local government, airports, electricity generators, transmission companies, large corporates, State Owned Enterprises, as well as leading Australasian banks. In total the NZ bond portfolio currently has exposures with 28 different entities, in 11 industries, providing a high level of diversification.

Growth & Income Fund

The Growth & Income Fund's objective is to provide superior longer-term returns, with greater focus on long-term capital growth and less focus on short-term income. To achieve superior long-term returns this fund takes on higher risk. There is risk of capital loss, particularly over shorter periods (less than 3 years).

For either fund, new or additional deposits are welcome 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.

For the Growth & Income Fund only, the following withdrawal policy applies:

When a depositor wishes to withdraw their total Growth & Income Fund deposit during the financial year, 10% of that deposit will be retained until after the financial year end at 30 June. This will ensure that the depositor participates in the capital allocation at the end of the year, whether it is a capital accretion or a capital decrease. After the capital distribution has been done at year-end, those depositors can close their deposit and receive the balance of their account.

INCOME FUND

The Income Fund's annualised income distribution rate for the December quarter is 3.85%. This was slightly less than previously forecast due to timing issues.

We continue to forecast a distribution rate of approximately 3.85% for the June 2023 financial year, with forecast returns of 4.00% expected for each of the next two quarters.

During the quarter we have further increased the quality of the NZ bond portfolio. Holdings in high quality bonds, rated BBB+ or higher, now represent 74% of the NZ Bond portfolio on 31 December 2022.

MTA believes that the distribution rates for the Income Fund are very good, given the low-risk and liquidity provided to depositors from the "on-call" nature of this fund.

The Income Fund continues to produce superior returns to those available from bank term deposits. The BNZ three-month term deposit rate has continued to rise to be currently at 3.10%.

Unlike bank term deposits, the **MTA Income Fund deposits are not locked in for any term. They can be withdrawn at any time, with no penalty.**

GROWTH & INCOME FUND

The annualised income distribution rate for the Growth & Income Fund is 2.87% for the quarter.

The lower distribution rates for the Growth and Income Fund reflect the different objectives for this fund, which is primarily focused on long-term capital growth. Consequently, a large portion of the portfolio is invested in international share markets, where income yields are much lower than most other asset classes. Over the longer term this approach is expected to produce higher total returns through capital growth but result in a lower income component within the total return.

The Growth & Income Fund's investment portfolio is well diversified both geographically and by business sector. The fund currently consists of equities 48% (benchmark 35%), property 35% (benchmark 35%), NZ bonds 16% (total fixed interest benchmark 25%) and cash 1% (benchmark 5%).

The Fund's largest equity holdings on 31 December 2022 and their respective December quarter returns are listed below.

Top 10 Equity Holdings

Name	Industry	Weight*	Quarter Performance
NICE	Software & Services	7.9%	-9.9%
ZipRecruiter Inc	Media & Entertainment	7.3%	-12.1%
Husqvarna	Capital Goods	7.2%	12.6%
General Motors	Automobiles & Components	6.8%	-7.5%
New York Times	Media & Entertainment	6.3%	-0.3%
Applied Materials	Semiconductors & Semiconductor Equipment	6.2%	5.1%
MongoDB Inc	Software & Services	5.6%	-12.6%
Palo Alto Networks	Software & Services	5.6%	-24.9%
Skyline Champion	Consumer Durables & Apparel	5.5%	-14.1%
Sabre	Software & Services	4.7%	5.8%

* Weight relates to the weighting in the listed equity portfolio, which was 45.5 % of the Fund on 31 December 2022

MARKETS

Share markets remained more volatile than normal during the quarter. The MSCI World Total Return Index returned +9.4% for the quarter, despite dropping during December. The weakness in December was principally driven by hawkish rhetoric from the US Federal Reserve Governors about the need to continue raising interest rates to combat inflation, and their concerns about continued strength in the job market.

It currently suits the Federal Reserve to deliver a pessimistic narrative to ensure inflation doesn't reignite in USA. The actual data on current inflation excluding rent, which is effectively a 12-month average figure, shows that inflation has slowed rapidly over recent months to modest levels.

The Fed's concern over strength in the jobs market is also misplaced in our view. In December, 65% on new jobs were in the healthcare, leisure and hospitality sectors, where significant labour shortages remain and increasing capacity in these sectors toward the level of demand should reduce inflation.

The US S&P 500 Index was up 7.6% during the quarter. Europe gained 9.9%, the UK gained 8.7%, Japan gained 3.3%, Australia gained 9.4%, with the Resource Index gaining 14.7%, and the Industrials index gaining 7.4%, and the New Zealand index gained 3.7%.

Emerging markets gained 9.7% and Asia ex Japan gained 8.2%.

Resource prices were mostly weak during the quarter, but these are priced in US dollars (which strengthened significantly):

- Oil prices, based on West Texas Intermediate crude rose 4.7% in the quarter. For the calendar year WTI crude was up 16.7%.
- Coal was stronger, with thermal coal up 1.4% and coking coal up 5.0%.
- Metal prices were stronger, with the steel Price Index gaining 0.3%, zinc (+0.2%), nickel (+42.4%), Iron ore (+25.6%), aluminium (+10.0%) and copper (+10.7%).
- Precious metals were mostly stronger, gold (+9.8%), silver (+25.9%), platinum (+24.3%) and palladium (-17.3%).
- Agriculture commodities were mixed: corn (-0.8%), Wheat (-15.0%) and Soybeans (+10.2%).

In currency markets, the US dollar weakened considerably against other major currencies, reversing the gains in the September quarter. Against the weak US dollar, the Euro gained 9.2%, the UK pound gained 8.2%, the Australian dollar gained 6.5% and the NZ dollar gained 13.4%.

The NZ dollar gained against all major currencies, also gaining 3.9% against the Euro, 4.7% against the UK pound, 6.6% against the Australian dollar and 6.4% against the Swiss Franc.

All the main Central banks were active raising rates during the quarter:

- During the quarter the US Federal Reserve raised rates by 0.75% in November and 0.50% in December to now be at 4.25-4.50%.
- The European Central Bank raised rates by 0.75% in October and by 0.50% in December to now be at 2.50%.
- The United Kingdom raised rates by 0.75% in November and 0.50% in December to be at 3.50%.
- Australia raised rates by 0.25% in October, November, and December, to now be at 3.10%.
- New Zealand raised rates by 0.50% in October and 0.75% in November to now be at 4.25%.

In the bond markets yields increased modestly in most major markets. In New Zealand the yield on 5-year Government bonds increased by 0.23% to finish the quarter at 4.47%, while the 10-year bond increased by 0.17% to finish the quarter at 4.47%. The US 10-year bond yield rose by 0.05% to 3.88%, while the 30-year bond yield rose 0.19% to 3.96%. In Europe the 10-year bond rose by 0.46% to 2.57%.

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.

FEEDBACK

The Board of the MTA is keen to improve its communications with our stakeholders.

Please use the email address MTAFeedback@methodist.org.nz to ask any questions. We would also welcome your feedback on our communications and any suggestions for topics you would like us to address in future.

Regards



Stephen Walker

Executive Officer

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