Methodist Trust Association

20 July 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 30 June 2023.

The Income Distribution Rates are:

	Jun 2023	Mar 2023	Dec 2022	Sep 2022	12 Month Average Return
Income Fund	4.26%	4.00%	3.85%	3.55%	3.92%
Growth & Income Fund	2.84%	2.10%	2.87%	1.89%	2.43%

Income distributions for the quarter totalled **$2,820,306**

Income & capital distributions for the quarter totalled **$15,201,683**

Income Fund depositors' returns have been reduced by a capital reduction of 0.73% for the quarter (-$1,159,956) which was due to our valuers decreasing the valuation of the Izone property in Rolleston. **(The total annual return for the Income Fund for the year to 30 June 2023 is +3.19%).**

Growth and Income Fund depositors have been credited with an additional 8.46% return for the quarter ($13,541,332) following devaluations on each of the Fund's properties, offset by a large increase in the market value of the Fund's equity investments. **(The total annual return for the Growth and Income Fund for the year to 30 June 2023 is +10.89%).**

PAYMENT OF DISTRIBUTIONS

Income distributions by direct credit will be made into depositors' accounts on Friday 21 July 2023.

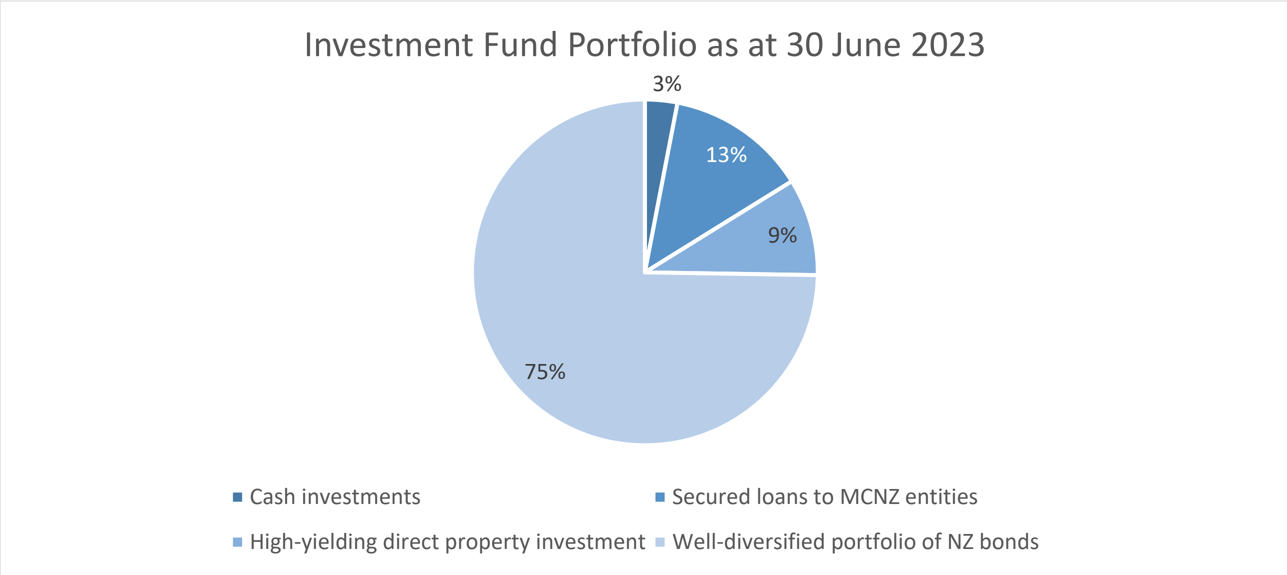
INVESTING IN THE MTA FUNDS

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 maintaining low risk levels, as well as sufficient liquidity to allow you access to your funds at any time, with no penalty.

The Income Fund's investment portfolio can be shown as per below.



In total the NZ bond portfolio currently has exposures with 28 different entities such as NZ local government, airports, electricity generators, transmission companies, large corporates, State Owned Enterprises and leading Australasian banks, 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 total annual return for the Income Fund to 30 June 2023 is 3.19%. The average income return for the year was 3.92%.

The Income Fund's annualised income distribution rate for the June quarter is 4.26%, which was above our forecast. The income return has grown with each quarter through the financial year.

MTA's valuers have decreased the valuation of the Income Fund's Izone property investment, resulting in a capital value decrease of $1.16m (-0.73% decrease to depositors). We consider this valuation to be conservative and do not expect any further reduction in the 2024 financial year.

Decreases in commercial property valuations are common across the market and reflect both higher bond yields and the economic weakness being experienced currently in New Zealand.

As you will be aware, the Methodist Church of New Zealand Te Hāhi Weteriana O Aotearoa celebrated its bicentenary in 2022 - an organisation which has grown and evolved over 200 years, and which continues to grow and evolve as we look to the next 200 years.

In determining its investment mix, MTA is aware that returns on your Income Fund investments must not only enable the Church to continue its operations in the short-term, but also allow the Church to enhance its resources in the longer term.

We therefore need to strike a balance between high short-term returns and locking in slightly lower but very attractive long-term rates, that will provide very attractive distributions in the years ahead. It would not be in the best interests of the Church or depositors for MTA to sacrifice higher long-term income returns, to maximise short-term income today, especially as short-term interest rates will most likely start falling within the next six to 12 months. Over time the MTA Income Fund has provided income distributions at rates significantly higher than banks have offered. We are taking steps now to ensure we can also do this in future years by buying high quality, long-dated bonds, locking in attractive rates for over ten years in many cases.

Your investment in MTA enables us to provide loan funds for a variety of mission-related projects throughout the Connexion, as sufficient funds and liquidity permit. MTA's ESG (environmental, social and governance) criteria also ensure that your investments are compliant with Church policies and values, resulting in MTA meeting both your financial and ethical requirements for investments. Responsible investment isn't something we just talk about, it's what we do.

MTA is pleased to **forecast a distribution return for the Income Fund the June 2024 financial year of approximately 4.10%.** By comparison, the BNZ three-month term deposit rate is currently at 4.20%. MTA believes that the distribution rates for the Income Fund are very good, given the liquidity provided to depositors from the "on-call" nature of this fund.

Commercial banks will penalise early withdrawals. For example, BNZ states that the interest rate that will be applied to the amount you withdraw early will be the advertised rate at the time the term deposit was opened, for the length of time the money was invested, less an interest rate adjustment currently set at 2%.

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**. This can be very important should your circumstances change, resulting in an urgent need to access some of your money.

You may have queries regarding returns, investment strategy and the best investment vehicle (MTA's Income Fund or the Growth and Income Fund) for you – please don't hesitate to contact Executive Officer Stephen Walker for further information about MTA, what we do, and how we do it.

GROWTH & INCOME FUND

The total annual return for the Growth & Income Fund to 30 June 2023 is 10.89%. The average income return for the year was 2.43%.

The Growth & Income Fund's annualised income distribution rate for the June quarter is 2.84%.

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.

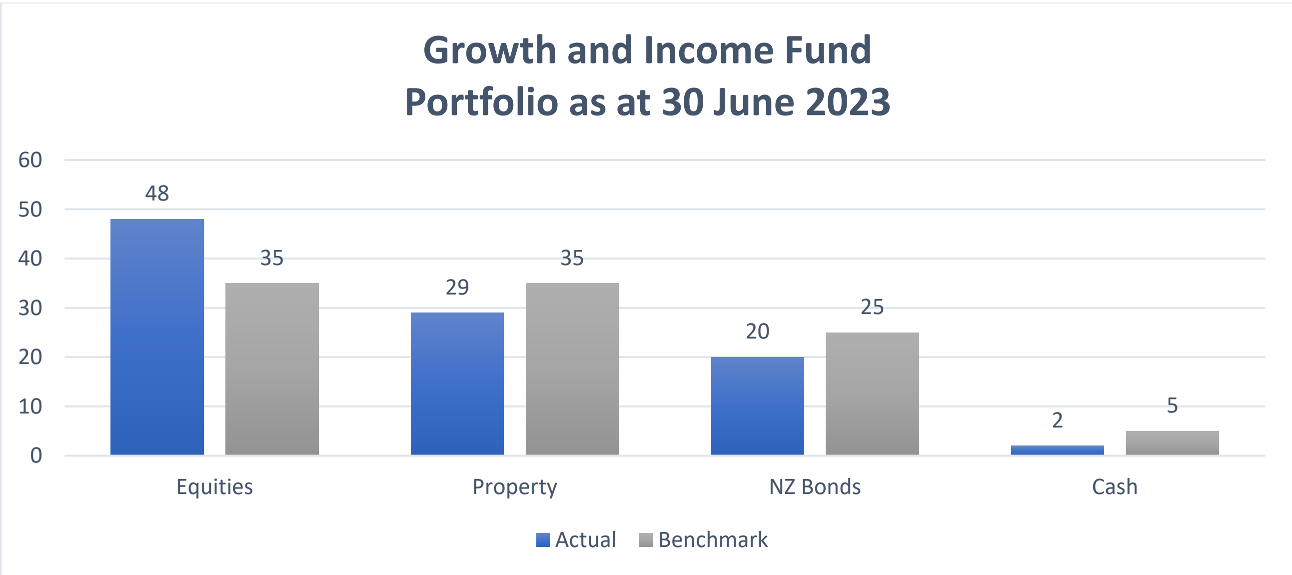
Over the longer term this approach is expected to produce higher total returns through capital growth but result in a lower income component within the total return.

For 2023 MTA's valuers have decreased the valuations for the Growth and Income Fund's properties by $4.7m, which is consistent with market devaluations as discussed above. In contrast, the Fund's equity investments had a great year, increasing in value by $18.3m. The net result was a large capital value increase of $13.5m (+8.46%) to depositors.

The Fund's equity portfolio continues to favour resilient, high quality growth businesses, positioned to benefit from longer-term structural changes.

The Growth & Income Fund's equity portfolio has performed significantly better than the benchmark, gaining 27.2% during the financial year compared to the benchmark's return of 18.2%. The Growth & Income Fund has also held an overweight allocation to equities during the year, further enhancing the fund's total returns. These gains are reflected in the large capital distribution for this fund.

The Growth & Income Fund's investment portfolio is well diversified both geographically and by business sector, with sector allocation as shown below.



The Fund's largest equity holdings on 30 June 2023 and their respective June quarter returns are listed below.

Top 10 Equity Holdings

Name	Industry	Weight*	Quarter Performance
NICE	Software & Services	9.1%	-7.8%
Husqvarna	Capital Goods	7.5%	7.5%
MongoDB Inc	Software & Services	7.1%	80.1%
General Motors	Automobiles & Components	6.8%	7.7%
Palo Alto Networks	Software & Services	6.8%	30.7%
ZipRecruiter Inc	Media & Entertainment	6.4%	13.9%
Skyline Champion	Consumer Durables & Apparel	5.8%	-11.0%
New York Times	Media & Entertainment	5.7%	3.7%
Comvita	Household & Personal Products	3.7%	-6.8%
Tomra Systems	Capital Goods	3.6%	-1.9%

* Weight relates to the weighting in the listed equity portfolio, which was 46.4 % of the Fund on 30 June 2023

MARKETS

Share markets were strong for the quarter, despite continued uncertainty on the economic outlook. The MSCI World Total Return Index returned +6.83% for the quarter.

The major share markets mostly gained during the quarter. The US S&P 500 Index gained 8.7% during the quarter. Europe gained 2.7%, the UK lost 0.3%, Japan gained 18.5%, Australia gained 1.0%, with the Resource Index falling 1.8%, but the Industrials index gaining 2.2%, and the New Zealand index gained 0.3%.

Secondary markets generally weren't as strong, with the emerging markets index gaining only 0.9% and Asia ex Japan falling 0.2%.

The outlook for share markets continues to be complicated, being a process of weighing up both the positives and negatives.

Looking at USA, we are likely to see some economic weakness in the next few quarters, as a result of the significant tightening of monetary conditions, through both interest rate increases and reductions in the Federal Reserve's balance sheet (the opposite of "money printing").

Inflation in the US has fallen to 3.0% in June, with core inflation down to 4.8%. Adjusting the figures for current market rentals, the respective inflation figures fall to 0.5% and 1.6%. So the job is done! Unfortunately, the Federal Reserve prefers to look at other measures and may still increase rates further.

Even so, the Federal Reserve will stop raising the federal funds target soon, if it hasn't already, and will probably start reducing rates in the first half of 2024. Bond yields should also trend lower, which would be positive for shares.

Activity levels and profitability at large companies has held up well, due to their stronger, more diversified business models and financial positions. Smaller businesses are being more impacted.

We continue to favour resilient, high quality growth businesses and remain positive on the outlook for our portfolio companies. We remain alert and vigilant to news and developments as we navigate the way forward.

Resource prices were weak during the quarter:

- Oil prices, based on West Texas Intermediate crude dropped by 6.4% in the quarter.
- Coking coal was down 23.0%.
- Metal prices were weak, with the steel Price Index down 11.1%, zinc (-18.3%), nickel (-13.9%), Iron ore (-10.3%), aluminium (-10.8%) and copper (-7.5%).
- Precious metals were weaker, gold (-2.5%), silver (-5.5%), platinum (-8.9%) and palladium (-15.9%).
- Agriculture commodities were mainly weaker: Corn (-12.7%), Wheat (-9.2%), but Soybeans (+1.8%).

The weakness in resources is due to several factors, including some normalisation from COVID and the initial disruption from the war in Ukraine. The weakness in coal and metals is mainly due to weak growth, particularly in China. Overall, the weakness should result in lower input prices for companies leading to lower inflation in the months ahead.

Over the June quarter bond yields increased in all major markets. In New Zealand the yield on 5-year Government bonds rose by 0.34% to finish the quarter at 4.58%, while the 10-year bond yield rose by 0.43% to finish the quarter at 4.62%. The US 10-year bond yield rose by 0.37% to 3.84%, while the 30-year bond yield rose 0.21% to 3.86%. In Europe the 10-year bond yield rose by 0.10% to 2.39%.

In currency markets, the NZ dollar weakened against most major currencies, dropping 2.1% against the USD, 2.5% against the Euro, 5.0% against the UK Pound, 4.3% against the Swiss Franc and 1.7% against the Australian dollar.

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

- During the quarter the US Federal Reserve raised rates by 0.25% in May, but paused in June, to now be at 5.00-5.25%.
- The United Kingdom raised rates by 0.25% in May and 0.50% in June to be at 5.00%.
- Canada raised rates in June by 0.25% to be at to 4.75%.
- Australia raised rates by 0.25% both May and June, to be at 4.10%.
- New Zealand raised rates by 0.50% in April and 0.25% in May to now be at 5.50%.
- The European Central Bank raised rates by 0.25% in both May and June to now be at 4.00%.

RESPONSIBLE INVESTMENT

We now access the majority of the information we use to implement the Church's Responsible Investment Policy from Institutional Shareholder Services Inc (ISS), which enables us to regularly report the following information on the Fund's equity investments.

Norm-Based Assessment

The Norm-Based assessment covers human rights, labour rights, environment and corruption. ISS flags two of our holdings, UBS Group and Volkswagen, with amber warnings for past failures that have now been fixed.

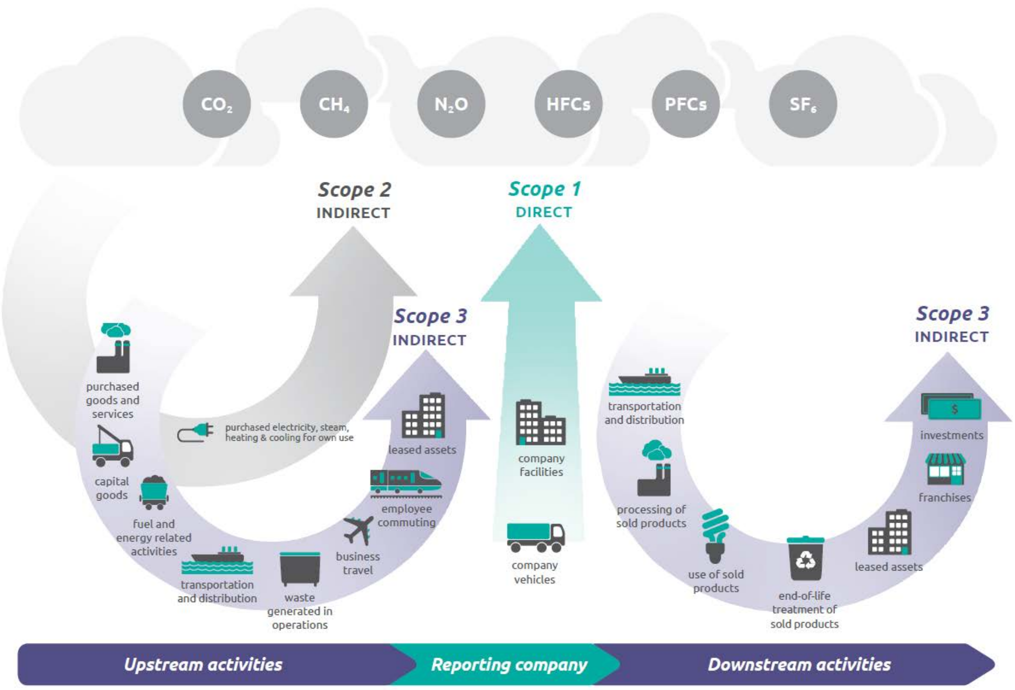
For UBS Group the flag was for human rights.

For Volkswagen, which has since been exited, the flag was for environment.

Climate Impact Assessment

The equity portfolio greenhouse gas emission exposure at 30 June 2023 was at 13.8% of the benchmark's level for scope 1 & 2 emissions (see diagram below for definitions). This is significantly better than the benchmark level and a 26% reduction from the portfolio's level in 2022, although some of this is due to updated information. Note the individual company exposure measures are backward looking, using prior financial year disclosures.

Overview of greenhouse Gas scopes and emissions



Source: Greenhouse Gas Protocol

The six main greenhouse gases are: carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulphur hexafluoride (SF_6).

Our portfolio remains aligned with a potential temperature increase of 1.5^o C by 2050. We also expect this to improve further over the coming years as the companies we invest in continue to reduce their carbon intensity and footprint.

Controversial Weapons Assessment

The Controversial Weapons assessment covers anti-personnel mines, biological weapons, chemical weapons, cluster munitions, nuclear weapons, civilian firearms and military equipment involvement. ISS flags two of our holdings, General Motors and Microsoft, as having minimal military equipment involvement for "non-combat equipment" only.

Methodist Church Values Assessment

The Church Values assessment, in addition to the above items, includes alcohol, tobacco, gambling, adult entertainment, private prisons, nuclear bases, coal oil and gas involvement. ISS indicates that none of our portfolio companies have involvement in any of these issues, which is above the Church's materiality threshold of 5% of revenues.

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