Methodist Trust Association

21 April 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 March 2023.

The Income Distribution Rates are:

| | Mar 2023 | Dec 2022 | Sep 2022 | Jun 2022 | 12 Month Average Return |
|---|---|---|---|---|---|
| **Income Fund** | 4.00% | 3.85% | 3.55% | 0.00%* | 2.85% |
| **Growth & Income Fund** | 2.10% | 2.87% | 1.89% | 1.41% | 2.07% |

**Income distributions** for the quarter totalled **$2,419,283**

* *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 21 April 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 (2%), well secured loans to Methodist Church entities (13%), a high yielding direct property investment (10%) and a well-diversified portfolio of NZ bonds (75%) issued by NZ local government, airports, electricity generators, transmission companies, large corporates, State Owned Enterprises and 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 March quarter is 4.00%, which was in-line with our expectations.

**We continue to forecast a distribution rate of approximately 4.00% for the June quarter, which would result in a 3.85% for the June 2023 financial year.**

High quality bonds, rated BBB+ or higher, represented 73% of the NZ Bond portfolio on 31 March 2023.

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.

The Income Fund continues to produce superior returns to those available from shorter-term bank term deposits. The BNZ three-month term deposit rate has continued is currently at 3.80%.

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 2.10% 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 33% (benchmark 35%), NZ bonds 19% (total fixed interest benchmark 25%) and cash 1% (benchmark 5%).

The Fund's largest equity holdings on 31 March 2023 and their respective March quarter returns are listed below.

**Top 10 Equity Holdings**

| Name | Industry | Weight* | Quarter Performance |
|---|---|---|---|
| NICE | Software & Services | 10.9% | 20.8% |
| Husqvarna | Capital Goods | 8.1% | 25.2% |
| Palo Alto Networks | Software & Services | 7.4% | 45.2% |
| Skyline Champion | Consumer Durables & Apparel | 7.4% | 48.2% |
| General Motors | Automobiles & Components | 7.2% | 10.8% |
| New York Times | Media & Entertainment | 7.0% | 21.8% |
| ZipRecruiter Inc | Media & Entertainment | 6.5% | -1.6% |
| MongoDB Inc | Software & Services | 6.2% | 20.2% |
| Applied Materials | Semiconductors & Semiconductor Equipment | 5.2% | 28.2% |
| Tomra Systems | Commercial & Professional Services | 4.3% | 1.0% |

* Weight relates to the weighting in the listed equity portfolio, which was 45.9 % of the Fund on 31 March 2023

**MARKETS**

Share markets were strong for the quarter, despite uncertainty about the economic situation and turmoil in the banking sector. The MSCI World Total Return Index returned +7.25% for the quarter.

The banking sector had a small negative impact on the US share market, since it makes up less than 4% on the S&P 500 index. Our portfolios had no banking exposure, although we added Swiss bank UBS during the weakness. UBS agreed to purchase the troubled Swiss bank Credit Suisse on very attractive terms.

The main weaknesses in the US banking sector are with the smaller regional banks. Although they represent only a small part of the share market, they have a larger impact on the economy as in aggregate they provide the majority of residential mortgages and loans to medium-sized businesses. Their ability and willingness to make loans is now reduced, with negative implications for US economic growth.

The positive for equity markets, as a result of the banking turmoil, is the significant drop in bond yields which are an important determining factor for company valuations. A fall in bond yields increases the value of companies, with higher growth companies being most sensitive and therefore benefitting the most.

As a result, equity markets generally performed well during the quarter. The US S&P 500 Index gained 7.5% during the quarter. Europe gained 8.6%, the UK gained 3.6%, Japan gained 7.2%, Australia gained 3.5%, with the Resource Index gaining 6.2%, and the Industrials index gaining 2.4%, and the New Zealand index gained 3.6%.

Emerging markets gained 4.0% and Asia ex Japan gained 4.5%.

The higher growth, technology heavy NASDAQ Index gained 17.0% for the March quarter, benefitting significantly from the fall in bond yields during the quarter, but also from bond yield declines in the December quarter, when share prices had failed to positively respond at that time.

The outlook for share markets are complicated, being a process of weighing up the positives and negatives, both of which may be significant. Looking at USA, we are likely to see economic weakness in the next few quarters; consequently we are likely to see the Federal Reserve stop raising the federal funds target rate, and possibly start reducing it before years end; if those events happen then bond yields should also continue to trend lower, which would be positive for shares; activity levels and profitability at large companies, with their stronger, more diversified business models and financial positions, should be less impacted than smaller businesses.

We remain cautious and alert to news and developments as we chart the way forward.

Economic weakness in the USA is likely to be negative for smaller and developing economies, where the fund has little exposure.

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 dropped by 5.9% in the quarter. Having now lapped the price rise resulting from the Ukraine invasion, the twelve-month change in WTI crude was down 11.7%.
- Thermal coal was flat for the quarter while coking coal was down 1.4%.
- Metal prices were mixed, with the Steel Price Index gaining 8.6%, zinc (-1.7%), nickel (-20.7%), Iron ore (+8.6%), aluminium (+1.5%) and copper (+7.4%).
- Precious metals were also mixed, gold (+8.0%), silver (+0.6%), platinum (-7.4%) and palladium (-18.3%).
- Agriculture commodities were weaker: Corn (-2.6%), Wheat (-13.3%) and Soybeans (-1.6%).

In the bond markets yields dropped in the major markets. In New Zealand the yield on 5-year Government bonds fell by 0.22% to finish the quarter at 4.25%, while the 10-year bond fell by 0.28% to finish at 4.20%. The US 10-year bond yield fell by 0.41% to 3.47%, while the 30-year bond yield fell 0.31% to 3.65%. In Europe the 10-year bond fell by 0.28% to 2.29%.

In currency markets, the NZ dollar weakened against most major currencies, dropping 1.5% against the USD, 2.7% against the Euro, 3.4% against the UK Pound and 2.4% against the Swiss Franc.

The exception was the Australian dollar, against which the Kiwi strengthened 0.4%.

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 both January and February to now be at 4.75-5.00%.
- The European Central Bank raised rates by 0.50% in both January and February to now be at 3.50%.
- The United Kingdom raised rates by 0.50% in January and 0.25% in February to be at 4.25%.
- Canada raised rates in January by 0.25% to be at to 4.50%.
- Australia raised rates by 0.25% in both January and February, but paused in April at 3.60%.
- New Zealand raised rates by 0.50% in January to now be at 4.75%.

**US SECURITIES CLASS ACTION CASE**

Since 2019 MTA has been the Lead Plaintiff, on behalf of many shareholders, in a US Securities Class Action case against Zuora Inc. In early April the case was settled out of court for US$75m. The proceeds will be split between the lawyers, who have funded the litigation expenses, and all of the claimants, who bought shares during the “damage” period.

To put this in perspective, in 2022 there were only 105 settlements in the US, with a median settlement of US$13m.

MTA should receive its share, expected to be in the low hundreds of thousands, later this calendar year.

As part of the settlement Zuora denies the claims alleged in the litigation, and the settlement does not assign or reflect any admission of wrongdoing or liability by Zoura or the named defendants.

**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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