



Methodist Trust Association

26 October 2022

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 September 2022.

We apologise for the lateness of the distribution this quarter.

The Income Distribution Rates are:

	Sep 2022	Jun 2022	Mar 2022	Dec 2021	12 Month Average Return
Income Fund	3.55%	0.00%*	2.99%	3.58%	2.53%
Growth & Income Fund	1.89%	1.41%	1.67%	1.81%	1.70%

Income distributions for the quarter totalled **\$2,163,012**.

*The June quarter's distribution rate for Income Fund depositors was reduced by realised losses on the international bond exposure.

PAYMENT OF DISTRIBUTIONS

Income distributions by direct credit will be made into depositors' accounts on Friday 28 October 2022.

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 (12%), a high yielding direct property investment (10%) and a well-diversified portfolio of NZ bonds (74%) 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 September quarter is 3.55%.

For the June 2023 financial year, we are pleased to raise our forecast the distribution rate from 3.20% to approximately 3.85%, with forecast returns of 3.95% for each of the next three quarters.

During the quarter we have further increased the quality of the NZ bond portfolio. Holdings in bonds rated BBB+ or higher represented 68% of the NZ Bond portfolio on 30 September 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 and twelve-month term deposit rates have continued to rise, currently being at 2.10% and 4.20% respectively, up from 1.50% and 3.65% at 30 June 2022.

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 1.89% 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 49% (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 30 September 2022 and their respective September quarter returns are listed below.

Top 10 Equity Holdings

Name	Industry	Weight*	Quarter Performance
NICE	Software & Services	8.3%	-3.6%
ZipRecruiter Inc	Media & Entertainment	8.1%	7.9%
Palo Alto Networks	Software & Services	7.3%	-3.6%
General Motors	Automobiles & Components	7.2%	-8.1%
Skyline Champion	Consumer Durables & Apparel	6.2%	2.0%
Husqvarna	Capital Goods	6.1%	-9.3%
New York Times	Media & Entertainment	5.9%	3.1%
Applied Materials	Semiconductors & Semiconductor Equipment	5.8%	-4.8%
MongoDB Inc	Software & Services	5.2%	-32.8%
Advanced Drainage Systems	Capital Goods	5.1%	0.2%

* Weight relates to the weighting in the listed equity portfolio, which was 47.0 % of the Fund on 30 September 2022

MARKETS

Equity markets were very volatile during the quarter. The MSCI World Total Return Index dropped by 6.6% for the quarter. A strong rally early in the quarter was undone by concerns about the size and duration of interest rate increases by the US Federal Reserve, driving up US bond yields and the US Dollar.

The worst performing sectors for the September quarter were Communication Services (-13.2%), Real Estate (-12.3%) and Utilities (-9.0%). Although real estate and utilities are more defensive business activities, those two sectors have very high debt levels.

The US S&P 500 Index was down 4.9% during the quarter. Europe fell 4.3%, the UK fell 2.7%, Japan fell 0.8%, Australia gained 0.4%, with the Resource Index gaining 2.8%, and the Industrials index falling 0.5%, and the New Zealand index gained 1.8%.

Emerging markets and Asia ex Japan both fell 7.2%

In the currency markets, the US dollar appreciated considerably against all other major currencies. Against the strong US dollar, the Euro fell 6.5%, the UK pound fell 8.3%, the Australian dollar fell 7.3% and the NZ dollar fell 10.3%.

The NZ dollar was weak against all major currencies, falling 4.1% against the Euro, 2.2% against the UK pound, 3.4% against the Australian dollar and 7.5% against the Swiss Franc.

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 fell by 15.4% in the quarter. Calendar YTD WTI oil is up 16.1%.
- Coal was stronger, with thermal coal up 2.8% and coking coal up 9.3%.
- Metal prices were weak. The steel Price Index fell 16.6%, zinc (-6.0%), nickel (-22.0%), Iron ore (-19.6%), aluminium (-6.0%) and copper (-8.5%). Calendar YTD most metal prices are now down 15-45%.
- Precious metal prices were weaker, gold (-6.2%), silver (-6.2%), platinum (-17.4%) and palladium (-19.6%).
- Agriculture commodities were mixed: corn (+9.3%), Wheat (-6.4%) and Soybeans (-6.4%).

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

- During the quarter the US Federal Reserve raised rates by 0.75% in both July and September to now be at 3.00-3.25%.
- The European Central Bank raised rates by 0.50% in July and by 0.75% in September to now be at 1.25%.
- Australia raised rates by 0.50% in July, August and September, followed by 0.25% in October, to now be at 2.60%.
- New Zealand raised rates by 0.50% in July, August and September to now be at 3.50%.

In the bond markets yields increased steeply in all major markets. In New Zealand the yield on 5-year Government bonds increased by 0.59% to finish the quarter at 4.24%, while the 10-year bond increased by 0.44% to finish the quarter at 4.30%. The US 10-year bond yield rose by 0.82% to 3.83%, while the 30-year bond yield rose 0.59% to 3.78%.

2022 ANNUAL REPORT

MTA's 2022 Annual report is available on the Methodist Church website ([CLICK HERE](#)), providing a review for the 2022 financial year. This year we have included greater detail on our responsible investment activities and focus during the year.

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.

We have created an email address MTAFeedback@methodist.org.nz to enable investors to easily ask any questions. As the name suggests, 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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