Methodist Trust Association

17 July 2024

Dear Depositor
MTA 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 2024.

The Income Distribution Rates are:

	Jun 2024	**Mar 2024**	**Dec 2023**	**Sep 2023**	**12 Month Average Return**
Income Fund	4.37%	4.38%	4.29%	4.35%	4.35%
Growth & Income Fund	2.60%	2.21%	2.50%	2.40%	2.43%

Income distributions for the quarter totalled **$2,779,948**
Income & capital distributions for the quarter totalled -**$4,755,660**

Income Fund depositors have been credited with a small capital accretion 0.04% return for the quarter ($64,496) comprising the Fund's share of the revaluation gains on the Izone property in Rolleston. **(The total annual return for the Income Fund for the year to 30 June 2024 is +4.39%).**

The total return to Growth and Income Fund depositors has been reduced by a capital reduction of 4.29% for the quarter (-$7,600,104) following a devaluation of the equity portfolio and a devaluation of the Fund's property exposures. (**Total annual return for the Growth and Income Fund for the year to 30 June 2024 is -1.87%**).

The main property investment, known as the John Andrew Ford site on Great North Road, has now been devalued in two consecutive years, which is unusual. This year's property devaluation was a result of our valuers using a higher discount rate, due to the high long-term interest rates being experienced.

With the current outlook for inflation and interest rates, we are confident the discount rate to be used at June 2025, will be lower than the 2024, which would result in a positive revaluation at that time.

PAYMENT OF DISTRIBUTIONS

Income distributions by direct credit will be made into depositors' accounts on Wednesday 17 July 2024.

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 over time are superior to those available in the general market for similar investments. The fund also maintains sufficient liquidity (cash) to allow you access to your funds at any time, with no penalty.

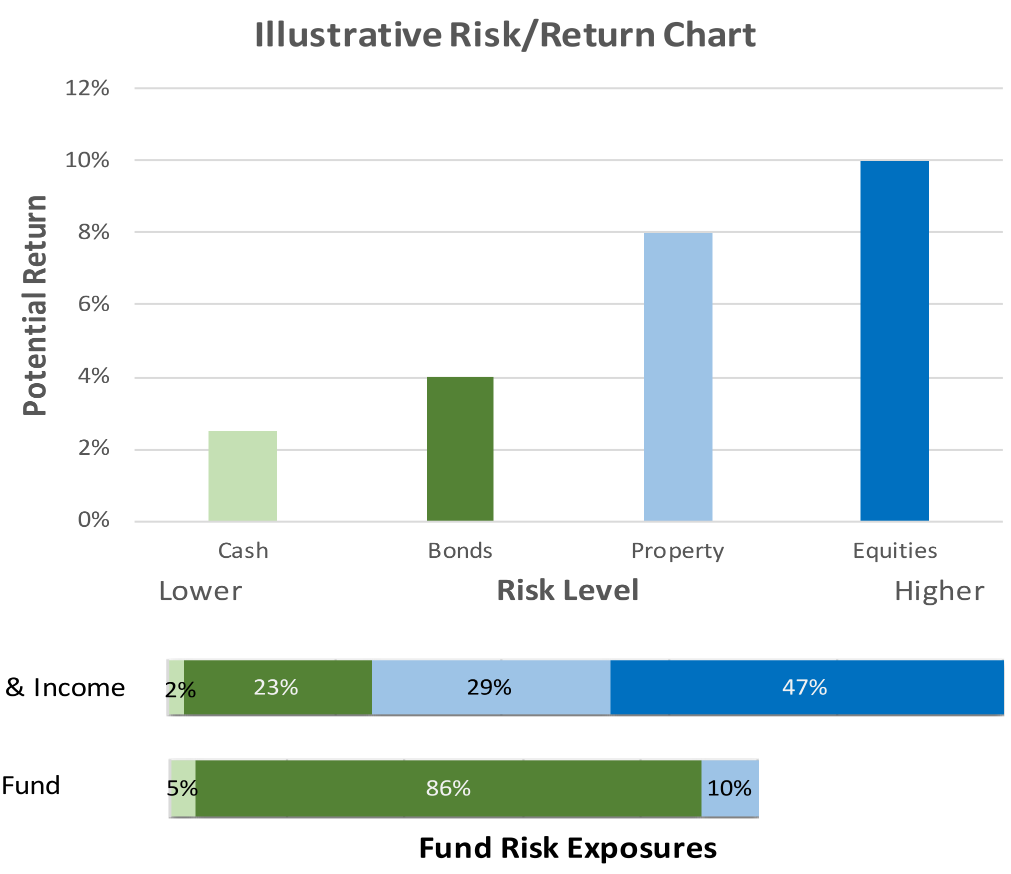
Growth & Income Fund

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. There is risk of capital loss, particularly over shorter periods (less than 3 years).

Over the 10-year period to 30 June 2024 the Growth & Income Fund produced a total return of 7.1% p.a. Within that 10-year period there were two negative years – 2022 and 2024.

MTA Funds Risk and Returns

With the following illustrative risk/return chart, we show each fund's allocations to lower-risk (shown in green); and higher risk (shown in blue) asset classes. There is a clear trade-off between long-term returns and risk taken.



The Income Fund invests in mainly lower-risk (green) asset classes, which will result in lower investment returns, but with strong predictability of returns.

The Growth & Income Fund invests across the risk spectrum, with its highest weightings in the (blue) higher-risk assets. This will result in higher returns over the longer term, but with that comes greater short-term volatility of returns from year to year.

If you are unsure which fund you should invest in, please contact MTA's Executive Officer Stephen Walker to discuss your circumstances and objectives.

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.

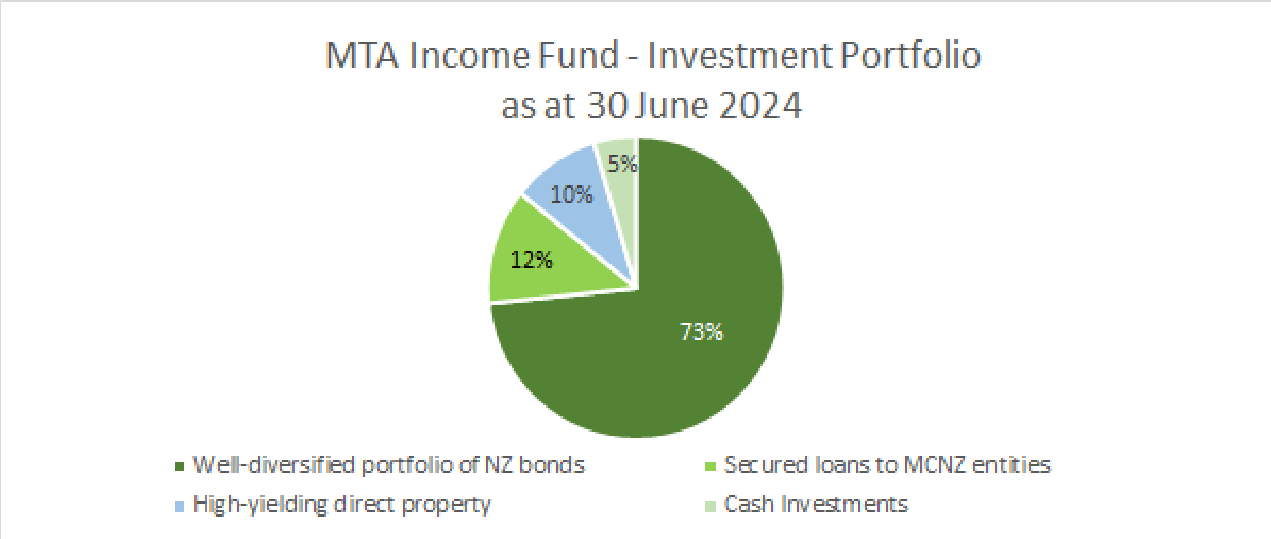
Deposits cannot be accepted from any other group or from any individual.

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 asset allocation for the Income Fund's investment portfolio is shown below.



The Income Fund's annualised income distribution rate for the June quarter is 4.37%.

We are pleased to deliver a return much better than our initial forecast of 4.10% at June 2023. This improvement was achieved through careful management of the investment portfolio, as we proactively improved the credit quality of the portfolio as well purchasing longer term bonds, thereby locking in higher long-term returns. This has also resulted in us lifting our forecast distribution for 2025.

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, which will provide strong 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 are likely start falling within the next six months.

We continue to take steps to ensure we can provide strong distributions 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 also enables us to provide loans for a variety of mission-related projects throughout the Connexion, when sufficient funds and liquidity permit.

MTA's responsible investment 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 investing is entrenched in our research and investment decision-making processes.

We have raised our forecast distribution rate for the June 2025 financial year to 4.40%. This forecast incorporates the negative impact from expected reductions in short-term interest rates over the financial year. The size of these reductions is uncertain but are now expected to begin in 2025. **We forecast returns of 4.45% for the September and December quarters**.

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.

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%.

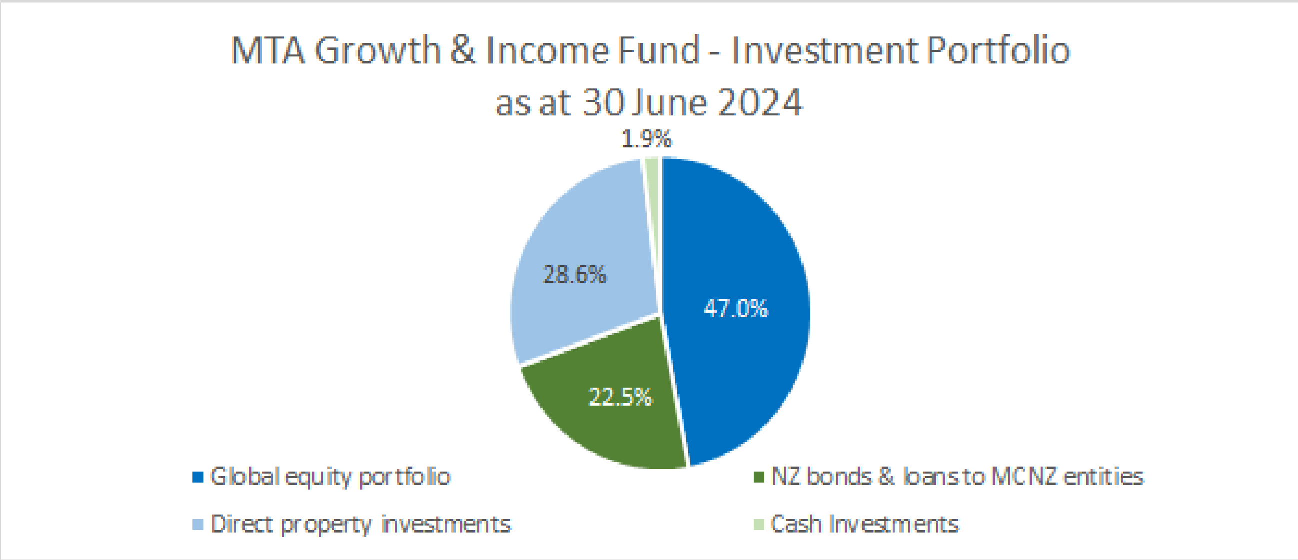
GROWTH & INCOME FUND

The annualised income distribution rate for the Growth & Income Fund is 2.60% for the June 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.

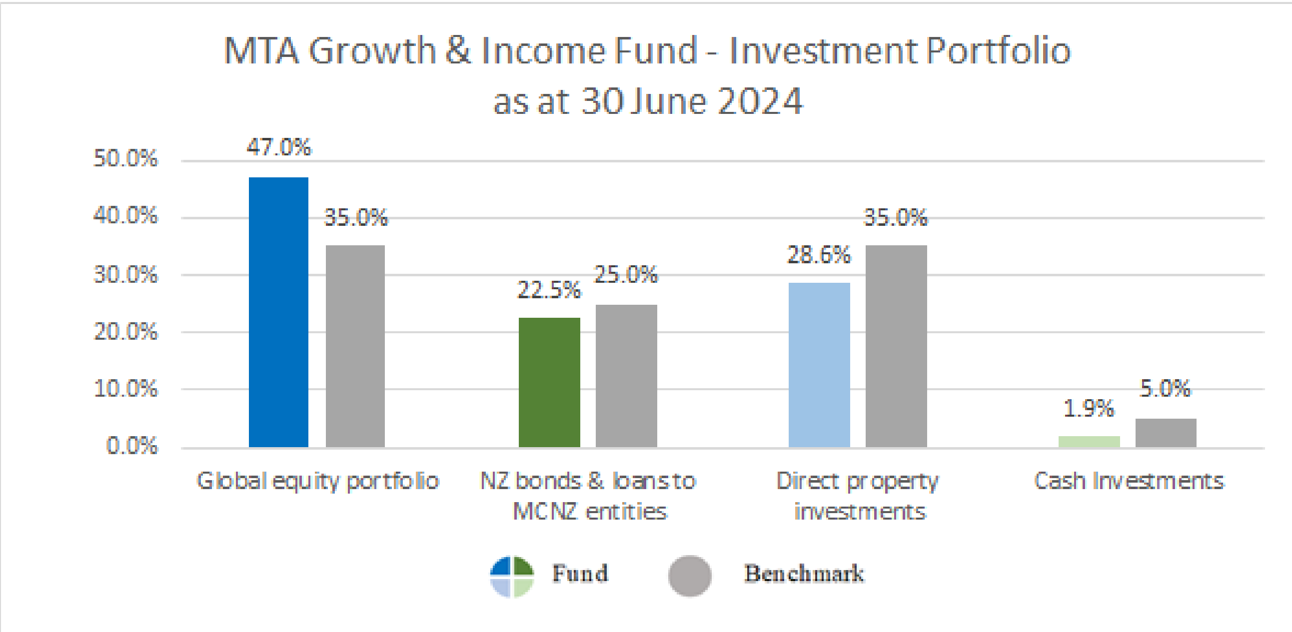
Over the longer term this approach is expected to produce higher total returns through capital growth but result in a lower income component within those total returns.

The asset allocation for Growth & Income Fund's investment portfolio is shown below.



The Growth & Income Fund's investment portfolio is currently overweight equities (shares) compared to the fund's benchmark, and underweight both bonds and property, as shown below.

Note: The benchmark weights are the neutral position. Each asset class is managed with a range around (over or under) its benchmark weight, with the position chosen being a reflection of the relative risk-adjusted return expectations for each asset class.



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

The Fund's largest equity holdings on 30 June 2024 and their respective June quarter returns are listed below.

Top 10 Equity Holdings

Name	Industry	Weight*	Quarter Performance
General Motors	Automobiles & Components	8.8%	0.8%
Husqvarna	Capital Goods	7.9%	-7.8%
New York Times	Media & Entertainment	7.3%	16.6%
Skyline Champion	Consumer Durables & Apparel	6.7%	-22.1%
NICE	Software & Services	6.7%	-35.2%
Rocket Lab USA	Capital Goods	5.6%	14.6%
Tomra Systems	Capital Goods	5.1%	-24.4%
Microsoft Corp	Software & Services	4.7%	4.4%
Sabre	Consumer Services	4.2%	8.3%
ZipRecruiter Inc	Media & Entertainment	3.9%	-22.3%

*Weight relates to the weighting in the listed equity portfolio, which was 46.0 % of the Fund on 30 June 2024

MARKETS

Share markets had a positive quarter. The MSCI World Total Return Index returned +2.6% for the quarter.

Major markets returns were quite mixed over the quarter, with the US S&P 500 Index (+4.3%), Europe (+1.5%), UK (+3.7%), Japan (-1.8%), New Zealand (-3.2%) and Australia (-1.1%), with Resources (-5.2%) and Industrials index (+0.3%).

Secondary markets were positive, with the emerging markets index up +5.0% and Asia ex Japan up +7.9%.

The strength in the US market during the quarter was driven entirely by large growth companies, which seem overextended.

Looking at a segmentation of the US share market shows that large US growth companies continued to perform well (+8.3%) for the quarter, while value companies (-2.3%) and smaller growth companies (-2.9%) both significantly underperformed the S&P 500, which is more in keeping with the softness being seen in the US economy.

Resource price moves during the quarter:

- Oil prices were slightly higher, with WTI crude up +0.8% for the quarter.
- Coking coal prices were unchanged.
- Metal prices were mostly stronger, zinc (+20.4%), nickel (+3.2%), Iron ore (+9.1%), aluminium (+8.0%), copper (+8.3%), but steel was slightly weaker, with the steel Price Index down -0.9%.
- Precious metals were mostly higher, gold (+4.3%), silver (+16.7%), platinum (+9.3%), but palladium was weaker (-3.9%).
- Agriculture commodities were weaker: Corn (-11.9%), Wheat (-3.0%) and Soybeans (-6.9%).

Over the June quarter bond yields rose modestly in most major markets. In New Zealand the yield on 5-year Government bonds rose by 0.16% to finish the quarter at 4.52%, while the 10-year bond yield rose by 0.13% to finish the quarter at 4.67%. The US 10-year bond yield rose by 0.20% to 4.40%, while the 30-year bond yield rose 0.22% to 4.56%. In Europe the 10-year bond yield rose by 0.20% to 2.50%.

In currency markets, the NZ dollar was stronger against most currencies, gaining 1.9% against the USD, 2.7% against the Euro, 1.7% against the UK Pound and 1.5% against the Swiss Franc, but falling 0.5% against the Australian dollar.

Some of the main Central banks began cutting rates during the quarter:

- The US Federal Reserve last raised rates in July 2023. The rate remains at 5.25-5.50%.
- The United Kingdom last raised rates in August 2023 and remains at 5.25%.
- Australia last raised rates in November 2023 and remains at 4.35%.
- New Zealand last raised rates in May 2023 and remains at 5.50%.
- Canada cut its rates in June by 0.25% to 4.75%.
- The European Central Bank cut its rates in June by 0.25% to 4.25%.
- Switzerland, Sweden and Denmark also cut their rates by 0.25% during the quarter.

RESPONSIBLE INVESTMENT

Our goal is to produce risk-adjusted returns that align with the values and principles of the Methodist Church, as well as our investors' return objectives.

We access most of the information we use to implement the Church's Responsible Investment Policy from Institutional Shareholder Services Inc (ISS).

The Responsible Investment Policy is implemented by using values/ethical negative screens, and through the integration of Norm-Based research and ESG factors into our investment analysis and investment decision making process.

Values/Ethical Negative Screens

The Methodist Church of New Zealand excludes companies that derive >5% of their revenue from products and services listed below, that are not aligned to the principles of the Methodist Church.

Ethical Screening

- Alcoholic beverages
- Adult Entertainment
- Civilian Firearms
- Conventional Weapons and munitions
- Gambling
- Privately operated correctional facilities
- Nuclear bases
- Tobacco

Controversial Weapons Screening

- Cluster munitions,
- Anti-personnel Mines,
- Depleted Uranium,
- Nuclear Weapons (all),
- Chemical Weapons,
- Biological Weapons,
- Incendiary Weapons
- White Phosphorus Weapons

Energy & Extractives

- Exposure to Fossil Fuel Activities - Coal, Oil and Gas

Norm-Based Research Integration

Norm-Based Research includes assessing investments against minimum standards of business practice based on national or international standards and norms such as the International Labour Organisation conventions, the OECD Guidelines for Multinational Enterprises, the UN Global Compact or the UN Guiding Principles on Business and Human Rights.

ISS research assists MTA by flagging any exposure, as well as providing detailed information on any issues. This enables MTA to make robust decisions regarding companies' adherence to global norms on anti-corruption, human rights, environmental protection and labour standards.

We use Norm-Based Research to assess supply chain risks (e.g. child/forced labour) and to identify and understand any companies with military equipment involvement.

Norm-Based Research covers:

- Anti-Corruption
- Environmental Protection
- Human Rights (including supply chain exposures)
- Labour Rights/Standards (including supply chain exposures)
- Military Equipment Involvement.

ISS continues to flag two of our holdings, UBS Group and Microsoft, with amber warnings for past failures.

For Microsoft the flag is characterised as labour rights and relates to its recently acquired subsidiary, Activision Blizzard.

For UBS Group the warning relates to a failure to pay its fair share of taxes in France between 2004 and 2012.

An amber warning is less serious than a red warning. This is usually due to the issue being either less serious or historic and remediated, as is the case with UBS. It does not preclude us from owning these investments.

We use all warnings or flagged potential breaches of our values, as a signal to fully investigate the issue, to determine whether we are comfortable with the current situation. If not, any holding will be exited in a timely manner.

In both the cases above, the issues raised are not current issues and did not happen under the current senior management teams.

At 30 June, the Funds had no exposure to any companies of continuing concern related to the above listed issues. In addition, no companies were flagged as having issues in their supply chains.

ESG Integration

We include Environmental, Social and Governance risks and opportunities into our investment analysis and investment decisions.

ESG risks and opportunities are assessed across a company’s value chain.

ESG Assessments include:

- Upstream risks related to a company's supply chain and natural resource usage.
- Operational risks related to a company's production and operational processes.
- Downstream impacts, positive and negative, from products and services sold.

The portfolio ESG assessment will give a more complete picture in time, as more companies are assessed, and disclosures improve. Currently, reliable data is available for larger companies, especially in North America and Europe.

Where data is available most of our holdings are rated highly by MSCI and mostly rate much higher than their industry peers.

Global Warming Alignment

We are committed to transitioning to net-zero greenhouse gas emissions by 2050. This is needed to limit the increase in the global temperature to less than 1.5°C. Current science indicates that global warming beyond 1.5°C has potentially catastrophic impacts on the natural world and human society.

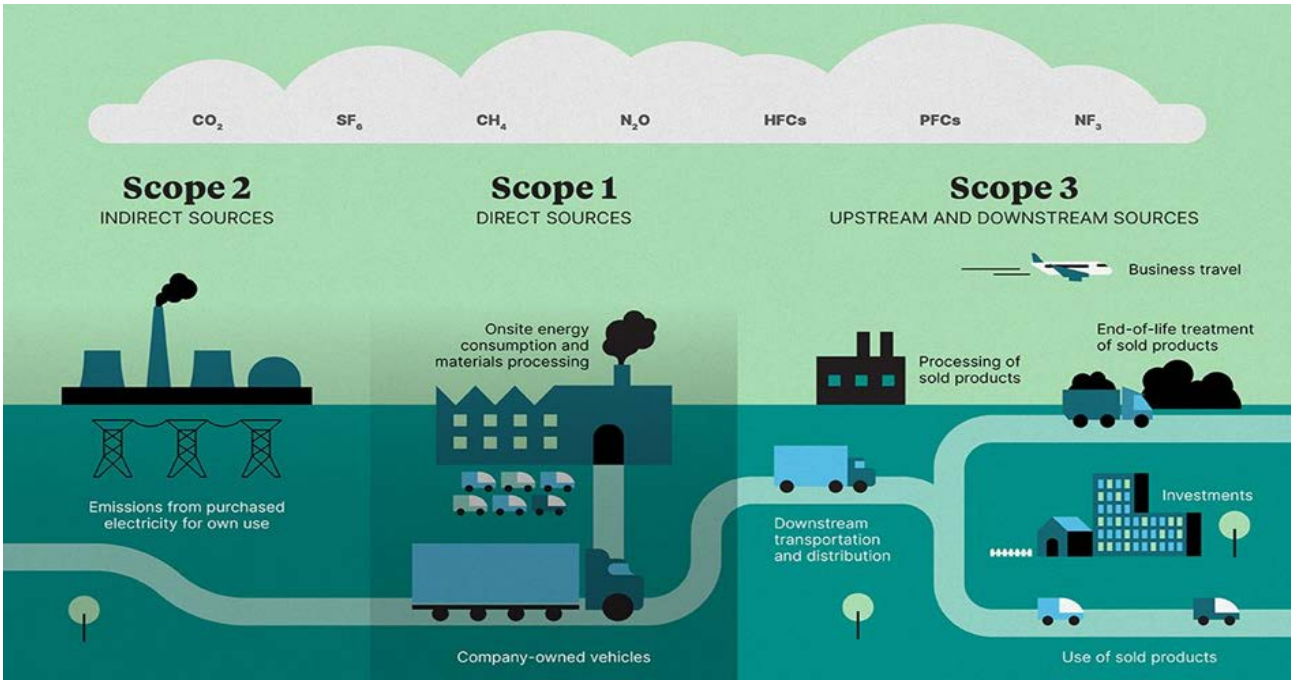
ISS data shows that our portfolio remains aligned with a potential temperature increase of 1.5º C by 2050, whereas the MSCI World Index has a potential temperature increase of 2.6°C.

Climate Impact Assessment

The equity portfolio's greenhouse gas emission exposure at 30 June 2024 was significantly below those of the MSCI benchmark.

The portfolio was at 56% of the MSCI benchmark's level for scope 1 & 2 emissions (see diagram below for definitions) but at 116% for scope 1,2 &3 emissions. The higher level relates to emissions from use of products, primarily from General Motors and Husqvarna, who are both leaders in transitioning their products to zero-emission battery power.

Overview of Greenhouse Gas scopes and emissions



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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