Methodist Trust Association

21 July 2021

Dear Depositor

DISTRIBUTION RATES

The Methodist Trust Association is pleased to advise the distribution rates for its Income and Growth & Income Funds for the quarter ended 30 June 2021.

The Income Distribution Rates are:

	Jun 2021	Mar 2021	Dec 2020	Sep 2020	12 Month Average Return
Income Fund	7.35%*	3.83%	3.59%	3.50%	4.57%
Growth & Income Fund	1.98%	2.74%	2.27%	2.27%	2.32%

Income distributions for the quarter totalled **$3,214,792.**
Income & capital distributions for the quarter totalled **$33,776,132**

* Included in the June quarter's distribution rate for Income Fund depositors are $1,457,794 of capital items, comprising the Fund's share of the revaluation gains on the Izone property in Rolleston, together with realised gains on the small portfolio of low-risk equity investments. (**Total annual return for the Income Fund for the year to 30 June 2020 is 4.57%**)

Growth and Income Fund depositors have been credited with an additional 20.60% return for the quarter ($30,561,339) following revaluation of the Fund's property and equity investments. (**Total annual return for the Growth and Income Fund for the year to 30 June 2020 is 22.92%**)

PAYMENT OF DISTRIBUTIONS

Income distributions by direct credit will be made into depositors' accounts on Wednesday 21 July 2021.

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 (16%), a high yielding direct property investment (11%), a small portfolio of low risk equities (1%), international bond funds (8%) and a well-diversified portfolio of NZ bonds (61%) 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 25 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 risks. 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 2020 is 4.57%. The normalised return, excluding the capital items listed above, was 3.49% for the year.

For the June 2022 financial year we forecast the distribution rate to be approximately 2.90%.

We have maintained the high quality of NZ bonds in the portfolio. Holdings in bonds rated BBB+ or higher represented 69% of the portfolio at 30 June 2021.

The Association believes that the distribution rates for the Income Fund are very good, given the low-risk and on-call nature of this fund.

The Income Fund continues to produce significantly higher returns than are available through bank deposits. The BNZ three and twelve month term deposit rates during the June quarter were at 0.35% and 1.15% respectively. Recently the BNZ lifted their twelve month term deposit rate to 1.20%.

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 1.98% 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. Investment opportunities over the quarter have continued to favour international equities, where the income from dividends is lower than the income yields of other asset sectors. 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 Association has revalued the Growth and Income Fund's properties (+$6.9m) and equity investments (+$23.7m), resulting in a large capital value increase of $30.6m (+20.60% increase to depositors).

The fund's equity portfolio continues to be overweight in both quality and growth exposures, with investments held primarily in companies positioned to benefit from longer-term structural changes, that also have strong earnings growth, strong balance sheets and high returns on their capital employed.

The Growth & Income Fund's equity portfolio has performed significantly better than the benchmark, gaining 35.65% during the financial year. The Growth & Income Fund has also held an overweight allocation to equities during the year, further enhancing the fund's 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. The fund currently consists of: equities 49% (benchmark 35%), property 30% (benchmark 35%), NZ fixed interest 15% and International bond funds 4% (total fixed interest benchmark 25%) and cash 2% (benchmark 5%).

The Fund's largest equity holdings at 30 June 2021 and their respective June quarter returns are listed below.

Top 10 Equity Holdings

Name	**Industry**	**Weight***	**Quarter Performance**
NICE	Software & Services	8.2%	13.6%
New York Times	Media & Entertainment	7.0%	-13.9%
Palo Alto Networks	Software & Services	6.6%	15.2%
Applied Materials	Semiconductors & Semiconductor	5.8%	6.8%
Husqvarna	Consumer Durables & Apparel	5.7%	-7.2%
General Motors	Automobiles & Components	5.5%	3.0%
MongoDB Inc	Software & Services	5.0%	35.2%
PTC Inc	Software & Services	4.7%	2.7%
Comvita	Household & Personal Products	3.4%	9.9%
Zuora Inc	Software & Services	2.8%	16.4%

* Weight relates to the weighting in the listed equity portfolio, which was 47.2 % of the Fund at 30 June 2021

MARKETS

International equity markets produced strong positive returns for the quarter, with strength across most sectors of the market.

The MSCI World Total Return Index gained 7.3% for the quarter.

The US S&P 500 finished up 8.5% for the quarter, with all sectors other than Utilities showing positive returns. The best performing sectors were Real Estate (+12.3%), Information Technology (+11.3%), Communications Services (+10.5%) and Energy (+10.1%). The poorest performing sectors were Utilities (-1.1%), Consumer Staples (+3.2%), Industrials (+4.1%) and Materials (+4.5%).

Developed markets generally performed well, with Asian and emerging markets lagging. Local currency returns for other major equity indices were: Euro Stoxx 600 up 6.7%; UK FTSE100 Index up 5.7%; Australian ASX 200 up 8.3%; while the New Zealand NZX50 only gained 4.1% and the Japanese Topix fell 0.3%. In Australia the ASX200 Resources Index gained 7.1%, while the Industrials Index gained 8.6%. The MSCI Emerging Markets Index gained 3.4%. (Quoted returns include income and capital gains).

Late in the June quarter investors' preference for economically sensitive sectors finally ran out of steam, with the higher growth resilient sectors of the market rallying strongly, benefitting the Fund's portfolio. Many the Fund's holdings are beneficiaries of long-term secular trends, which Covid has accelerated.

We believe the new-normal will be quite different in many respects to what used to be normal. Examples of this are: Business travel will be lower, as Zoom meetings are more cost and time efficient; Remote working will remain an option for most businesses; Office occupancy in major centres will suffer, impacting rentals and valuations; home shopping and food/meal delivery will continue at higher levels.

Although Covid new-infection rates remain quite low in most developed countries, new more infectious Covid variants are once again seeing new infections increase in many countries, including USA. The currently prevalent Delta variant is roughly twice as infectious as the original Covid-19 virus. Fortunately, vaccinations are suppressing the growth in cases, but unvaccinated people remain vulnerable. Supply chain issues and input cost inflation also continue to challenge management teams and drive short-term inflation higher.

Major economy 10-year bond yields reduced in most major economies during the quarter. The 10-year yield fell from 1.74% to 1.47% in USA; from 0.095% to 0.058% in Japan; from 1.79% to 1.53% in Australia; but rose from -0.29% to -0.21% in Europe.

Shorter-term bond yields generally increased slightly across the major markets. This combination of increasing short rates and decreasing long rates indicates the market currently views inflation as a temporary issue, that isn’t such a concern in the longer-term.

In line with global markets, the yield on New Zealand 5-year Government bonds increased from 0.97% in March to finish the quarter at 1.12%, while the 10-year bond reduced slightly from 1.81% to finish the quarter at 1.77%.

In Resources, oil prices using the West Texas Intermediate crude price gained 25.2%. Metal prices were strong: iron ore (+36.9%), the Steel Price Index (+2.7%), copper (+6.7%), zinc (+5.5%), nickel (13.4%) and aluminium (+14.1%). Precious metals were mixed, gold (+3.7%), silver (+7.0%) and platinum (-9.4%). Agricultural commodities were also strong: corn (+23.2%), Wheat (+10.1%) and Soybeans (+11.4%).

Currency movements were mixed, with the NZ virtually unchanged against the US dollar and appreciated 1.3% against the Australian dollar. The NZ dollar depreciated 1.1% against the Euro and 2.0% against the Swiss Franc.

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.

Regards

Stephen Walker

Executive Officer

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