Methodist Trust Association

18 October 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 September 2024.

The Income Distribution Rates are:

	Sep 2024	**Jun 2024**	**Mar 2024**	**Dec 2023**	**12 Month Average Return**
Income Fund	4.53%	4.37%	4.38%	4.29%	4.39%
Growth & Income Fund	2.52%	2.60%	2.21%	2.50%	2.46%

Income distributions for the quarter totalled **$2,770,486**

PAYMENT OF DISTRIBUTIONS

Income distributions will be made into depositors' accounts on Monday 21st October 2024 by direct credit.

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.

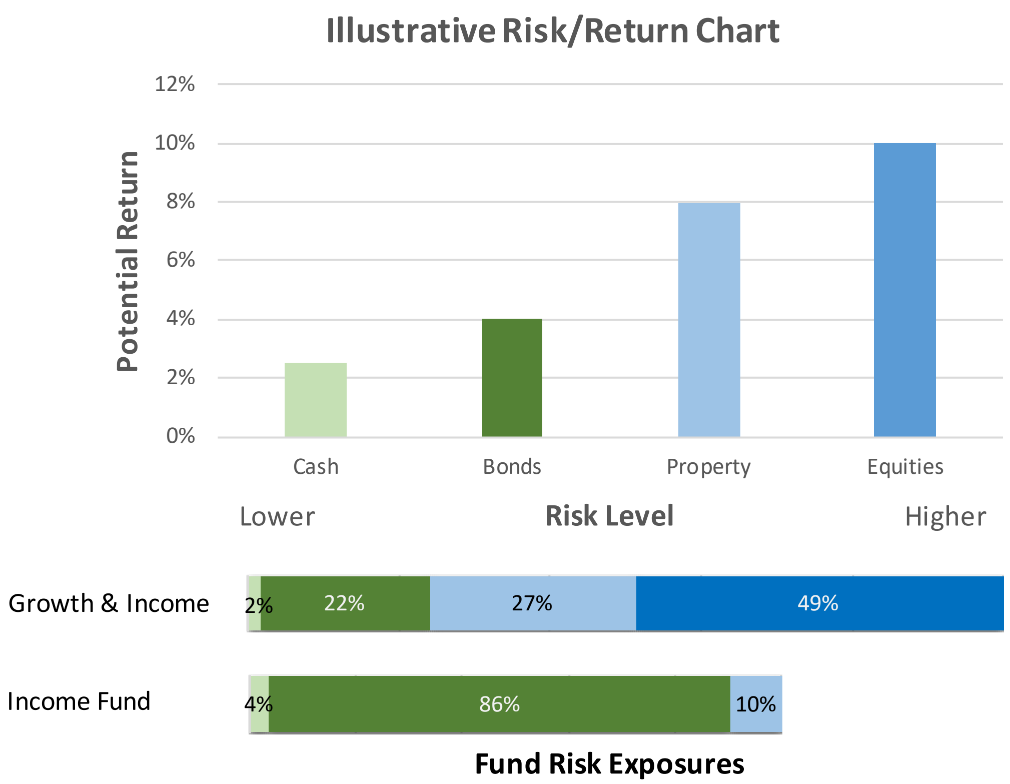
Growth & Income Fund

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:

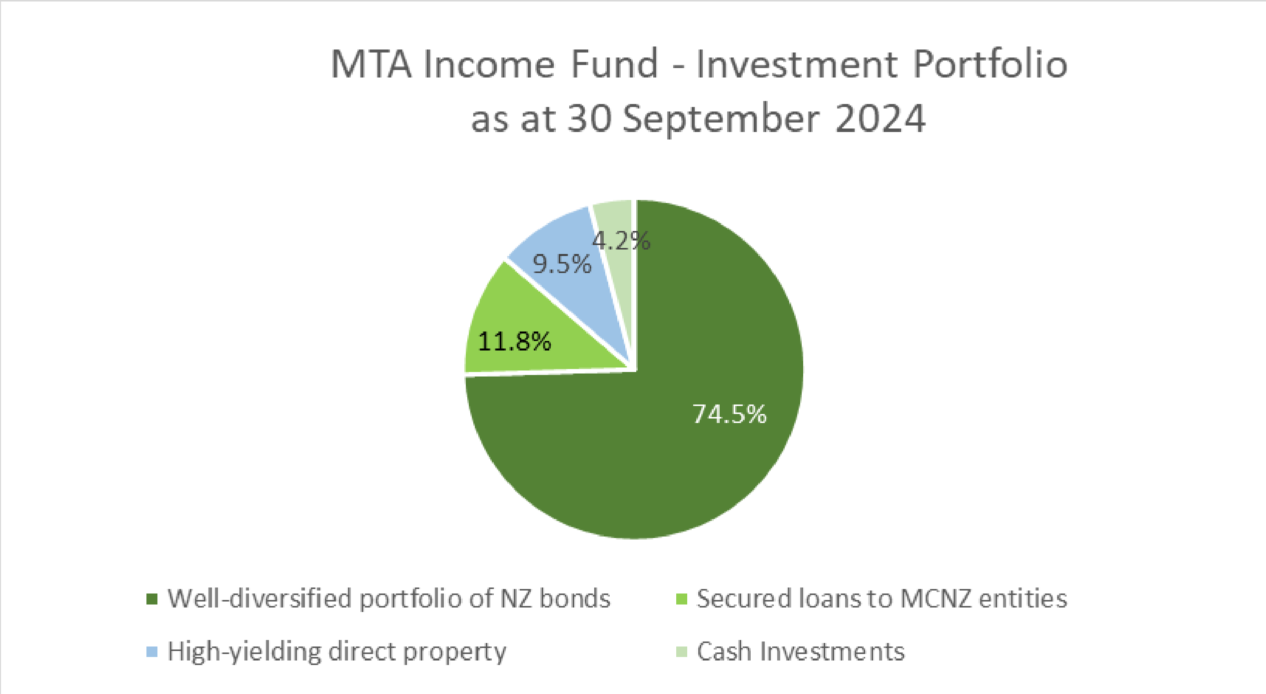
When a depositor wishes to withdraw their total Growth & Income Fund deposit during the financial year, 10% of that deposit will be retained until after the financial year end at 30 June. This will ensure that the depositor participates in the capital allocation at the end of the year, whether it is 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 Income Fund's annualised income distribution rate for the September quarter is 4.53%, which is above our forecast return made in June.

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.

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



We are increasing our forecast distribution rate for the June 2025 financial year from 4.40% to 4.50%. This forecast incorporates the negative impact from reductions in interest rates we have already seen and those we expect to see over the balance of the 2025 financial year. The size of future reductions is uncertain but will only have a modest impact on the final return. **We now forecast a return of 4.55% for the December quarter but expect returns for the subsequent quarters to decrease sequentially**.

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%.

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.

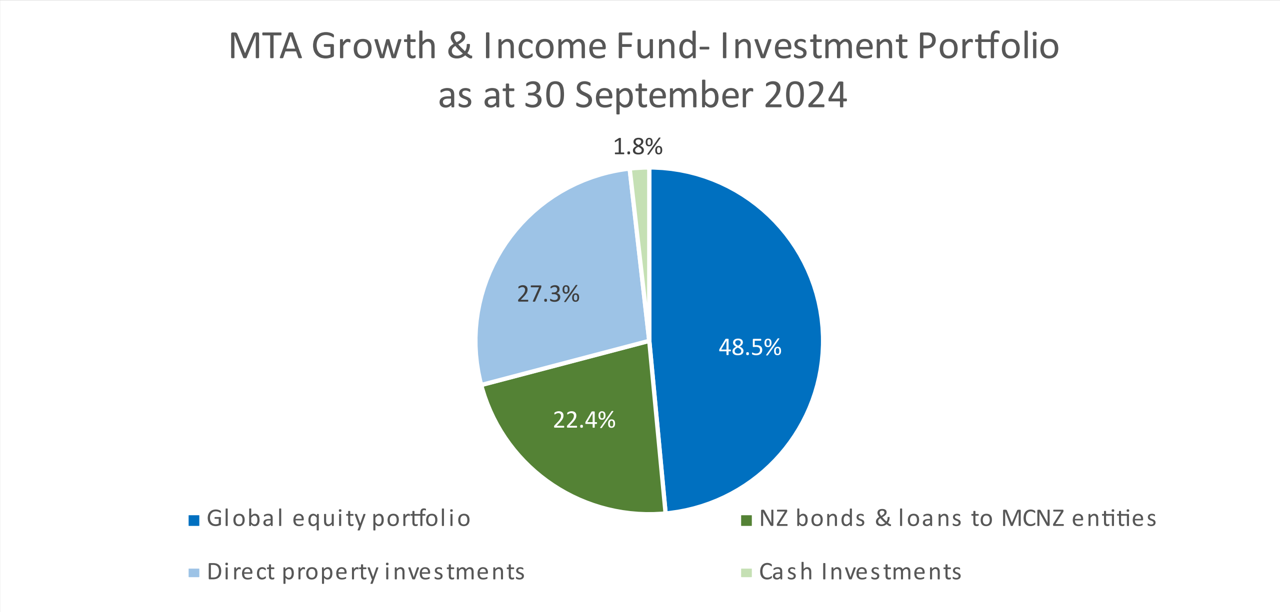
GROWTH & INCOME FUND

The annualised income distribution rate for the Growth & Income Fund is 2.52% for the September quarter.

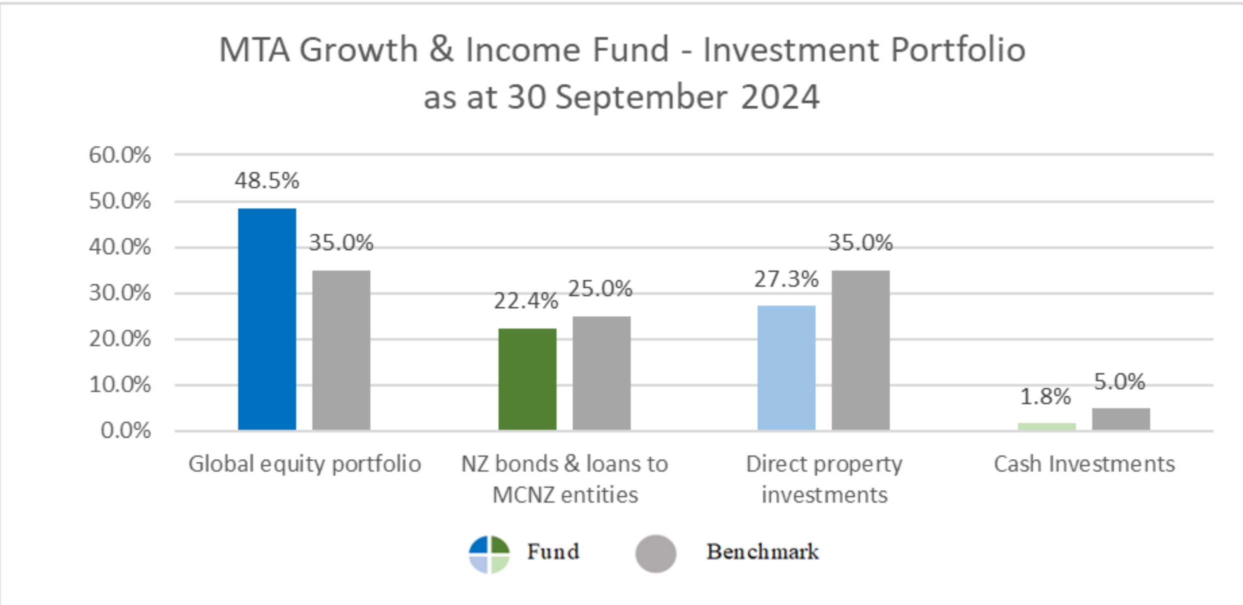
The lower distribution rates for the Growth and Income Fund reflect the different objectives for this fund, which is primarily focused on long-term capital growth. Consequently, a large portion of the portfolio is invested in international share markets, where income yields are much lower than most other asset classes.

Over the longer term this approach is expected to produce higher total returns through capital growth, as seen in the September quarter, 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 in both bonds and property, as shown below.



Note: The benchmark weights are the neutral position. Each asset class is managed within a range around (over and under) its benchmark weight, with the position taken reflecting our 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 September 2024 and their respective September quarter returns are listed below.

Top 10 Equity Holdings

Name	Industry	Weight*	Quarter Performance
Rocket Lab USA	Capital Goods	8.2%	94.5%
Skyline Champion	Consumer Durables & Apparel	7.3%	34.9%
New York Times	Media & Entertainment	6.7%	4.6%
General Motors	Automobiles & Components	6.5%	-7.2%
NICE	Software & Services	6.4%	-3.1%
Husqvarna	Capital Goods	6.0%	-16.3%
Tomra Systems	Capital Goods	5.4%	18.4%
Sabre	Consumer Services	5.1%	31.9%
MongoDB Inc	Software & Services	4.6%	3.8%
Owens Corning	Capital Goods	4.5%	-2.3%

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

The equity portfolio gained 11.65% during the September quarter, with strong contributions from our two largest holdings, Rocket Lab (+94.5%) and Champion Homes (+34.9%), as well as from our holdings in Sabre (+31.9%) and Tomra Systems (+18.4%).

MARKETS

Global share markets had a positive quarter, with the MSCI World Total Return Index returning +6.4% for the period.

Major markets were mostly strong over the quarter, with the US S&P 500 Index (+5.9%), Europe (+2.7%), UK (+1.8%), New Zealand (+6.0%) and Australia (+7.8%), with Resources (+7.1%) and Industrials index (+8.0%). Japan was the main exception, falling 4.9% over the quarter.

Secondary markets were also strong, with the emerging markets index up +8.7% and Asia ex Japan up +8.0%.

In a turnaround from the first half of 2024, value companies outperformed growth companies during the quarter, and smaller companies outperformed large companies.

Resource price moves during the quarter:

- Oil prices were weaker, with WTI crude down -13.7% for the quarter.
- Coking coal prices fell 12.0%.
- Metal prices were mixed, zinc (+5.2%), Iron ore (-2.1%), aluminium (+3.4%), copper (+2.4%), and steel was slightly weaker, with the steel Price Index down (-3.4%).

- Precious metals were mostly higher, gold (+13.2%), silver (+6.9%), palladium (+2.7%), but platinum was weaker (-1.4%).
- Agriculture commodities were mixed: Corn (+1.0%), Wheat (-2.2%) and Soybeans (-4.3%).

Over the September quarter bond yields dropped in all major markets, which increases the value of the bonds. In New Zealand the yield on 5-year Government bonds fell by 0.76% to finish the quarter at 3.76%, while the 10-year bond yield fell by 0.43% to finish the quarter at 4.24%. The US 10-year bond yield fell by 0.62% to 3.78%, while the 30-year bond yield fell 0.44% to 4.12%. In Europe the 10-year bond yield fell by 0.38% to 2.12%.

In currency markets, the US dollar was weaker, resulting in the NZ dollar gaining 4.2% against the USD. The NZ dollar was mixed against other currencies, gaining +0.3% against the Euro, and +0.6% against the Australian dollar. The NZ dollar fell 1.5% against the UK Pound and 1.9% against the Swiss Franc.

Most Central banks cut their interest rates during the quarter:

- The US Federal Reserve made its first rate cut of 0.5% in September to a range of 4.75-5.00%.
- The United Kingdom made its first rate cut of 0.25% in September to 5.00%.
- Canada cut its rates by 0.25% in both July and September to now be 4.25%.
- Australia last raised rates in November 2023 and remains at 4.35%.
- New Zealand made its first rate cut of 0.25% in August to 5.25%.
- The European Central Bank cut its rates in September by 0.60% to 3.65%.
- Switzerland cut its rates in September by 0.25% to 1.00%.
- Denmark cut its rates in September by 0.25% to 3.25%.
- Sweden cut its rates by 0.25% in both August and September to now be 3.25%.

POSITIVE IMPACT INVESTMENTS

As we have previously commented, many of our investments have a highly positive impact on the economy, climate or the environment.

Impact investing is defined as the deployment of funds into investments that generate a measurable and beneficial social or environmental impact alongside a financial return on investment.

While we wouldn’t define ourselves as Impact Investors, the positive future impact that some companies have is a key consideration for us in assessing the attractiveness of an investment opportunity and its prospects for creating future economic value. We will include case studies of some of our investments in this and future newsletters, to help depositors better understand these companies and the rationale behind our decision-making.

Case study 1 - Rocket Lab

In September 2024 Fortune Magazine announced its tenth annual “Change the World List”, which recognizes leading companies that are driving true innovation, addressing social issues and making commercial returns doing it.

Sharing the top position were Rocket Lab, GHGSat and SpaceX, for their impact in tackling climate change and the digital divide.

Rocket Lab’s slogan is “We go to space to improve life on earth”.

Rocket Lab is an "end to end" space business and has effectively become a space infrastructure business.

You are probably familiar with its Electron rocket launches from Mahia Peninsular. The launch section of Rocket Lab's business now contributes 30% of their revenues but remains vital. Most of their revenues now come from space systems, a business that manufactures many critical components for satellites and spacecraft and can also design and build entire satellites and spacecraft solutions for a range of commercial and Government customers, including NASA.

The only important capability Rocket Lab is currently missing, is having a rocket that can lift multi-tonne workloads into orbit. To address this need, Rocket Lab is well progressed on developing their larger Neutron Rocket, which is designed to launch a payload of 13,000kg into space. (Electron can launch up to 320kg). We expect Neutron's first launch to be during 2025.

By providing this space infrastructure, customers have cheaper and easier access to space. Customers no longer need the expertise to design their own satellites in order to provide the solutions they need. This has opened space to more customers and is creating increased demand. We are progressively seeing more new solutions that are enabled by space.

Currently the major commercial space-enabled activities are in satellites providing global communications, internet, television and global positioning data (GPS).

Over the last few years, we have already seen deployments of satellites that can image and scan the whole world every day, enabling the creation of AI-enabled Earth data platforms, supporting impact and sustainability initiatives around the world, including biodiversity protection in South America, mapping the Andean Amazon to estimate forest carbon, monitor deforestation and rapid disaster response and damage assessments.

Commercial uses of imaging data include asset monitoring, measuring crop biomass and yields to optimise harvesting, measuring soil moisture levels, verifying land areas for government subsidies and insurance payouts.

We are still in the nascent stages of the space industry, learning what will be possible with cheaper and easier access to space, and the benefits this will bring to humanity.

You might be thinking that launching rockets would produce a lot of greenhouse gas emissions. A single launch of Electron uses about half the amount of jet fuel used in a flight from Auckland to Wellington. Rocket Lab plans 17 Electron launches in 2024. The benefits from most missions significantly outweigh the harm from associated carbon emissions, which is an important point to note as part of our commitment to rekindling the vā of Papatūānuku.

Over the past year we have had several concerns raised about Rocket Lab's possible involvement in military contracting or in the development of weapons and munitions. Such concerns are always investigated thoroughly.

Our in-depth research indicates that Rocket Lab has no involvement in the development of weapons or munitions.

Regarding military contracting, the Church's Responsible Investment Policy allows the Fund to own companies that have contracts with entities like the US Department of Defense, for goods and services that are not-weapons related, such as computers, semiconductors and communications systems. It also allows minor military business as long as it's less than 5% of revenues.

Rocket Lab has government customers, as well as many commercial customers, some of which have government entities as their customers. Rocket Lab must disclose any customer that represents 10% or more of their revenue in any quarter and full financial year, which we track carefully to ensure it matches our investment profiles. In the case of launch customers, the customer is also usually disclosed.

In 2022 Rocket Lab launched two satellites for the US National Reconnaissance Office. This was in the past and well before our time of purchase, so not relevant to our ownership. We have determined that providing transportation is a non-weapons related service.

Some of the Rocket Lab's commercial customers, with earth-imaging and scanning satellite constellations, have military and intelligence organisations as their customers. We have determined that those commercial services are not weapons related.

The spaces systems business sells components for satellites and spacecraft, including batteries, solar panels, star trackers, reaction wheels, separation systems and software, not weapons-related products. Governments and government contractors are purchasers of those products.

Our in-depth research shows that to date, Rocket Labs main US Government customer has been NASA, for climate satellites and interplanetary spacecraft.

We have seen no evidence of Rocket Lab doing any weapons-related business and this remains our current determination at present.

This is also backed by the ISS research which does not flag Rocket Lab as having involvement in any prohibited activities related to our ethical screens, controversial weapons or energy and extractives. No norm-based research flags were raised by ISS and no issues were flagged in its supply chain.

Case study 2 - TOMRA Systems

TOMRA is instrumental in driving improved collection and recycling rates, particularly for plastic and aluminium packaging, enabling circularity of feedstock for reuse back into the same product quality, while also enabling significant energy savings compared to using virgin raw materials.

TOMRA launched its first reverse vending machine in 1972 and continues to be the global leader. As the name suggests, a reverse vending machine (RVM) gives you money back after you insert a plastic or aluminium beverage container into the RVM. You can now tip in a bag full of containers into some RMVs. RVMs are instrumental in the success of Deposit Return Schemes around the world. A well-designed Deposit Return Scheme can increase the recycling rate to over 90%, from around 40% without and significantly reduces litter. The deposit is usually equivalent to about 20 cents. These systems run in many countries in Europe, several states in USA and Canada, and will be in all states in Australia shortly. TOMRA captures over 46 billion used beverage containers

Disappointingly, in 2023 the Labour Government deferred the planned introduction of a Deposit Return Scheme New Zealand.

TOMRA also has the world's most advanced sensor-based sorting solutions for metal recycling and waste recycling.

Today, over 2 billion metric tons of municipal solid waste (MSW) are produced annually worldwide. TOMRA's sorting systems can efficiently separate plastics, paper, glass, organics, inert materials and bulky items from complex mixed waste streams. Their systems are used by companies like Waste Management in USA and many municipalities in Europe.

TOMRA is also working to solve other waste problems. It is currently running a pilot project in Aarhus, Denmark to address the growing problem of takeaway packaging. This pilot is effectively a deposit return system for several types of reusable takeaway packaging, leveraging their expertise in RVMs.

Our research indicates that TOMRA has no involvement in any prohibited activities related to our ethical screens, controversial weapons or energy and extractives. No norm-based research flags were raised by ISS and no issues were flagged in its supply chain.

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

At 30 September the fund had no exposure to any companies with >5% of revenues involved in any prohibited activities related to our ethical screens, controversial weapons or energy and extractives.

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 currently flags three of our holdings, Porsche, UBS Group and Microsoft, with amber warnings for past failures.

For Microsoft, as previously reported, the flag is characterised as labour rights. Microsoft Corporation has an AMBER signal since December 2023 relating to its recently acquired subsidiary Activision Blizzard, Inc.

For UBS Group, as previously reported, the flag was characterised as human rights, being failure to pay fair share of taxes in France.

For Porsche AG the AMBER signal relates to illegal engine software that resulted in non-compliant diesel emissions in 2015, when it was part of the Volkswagen Group.

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

At 30 September, 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.

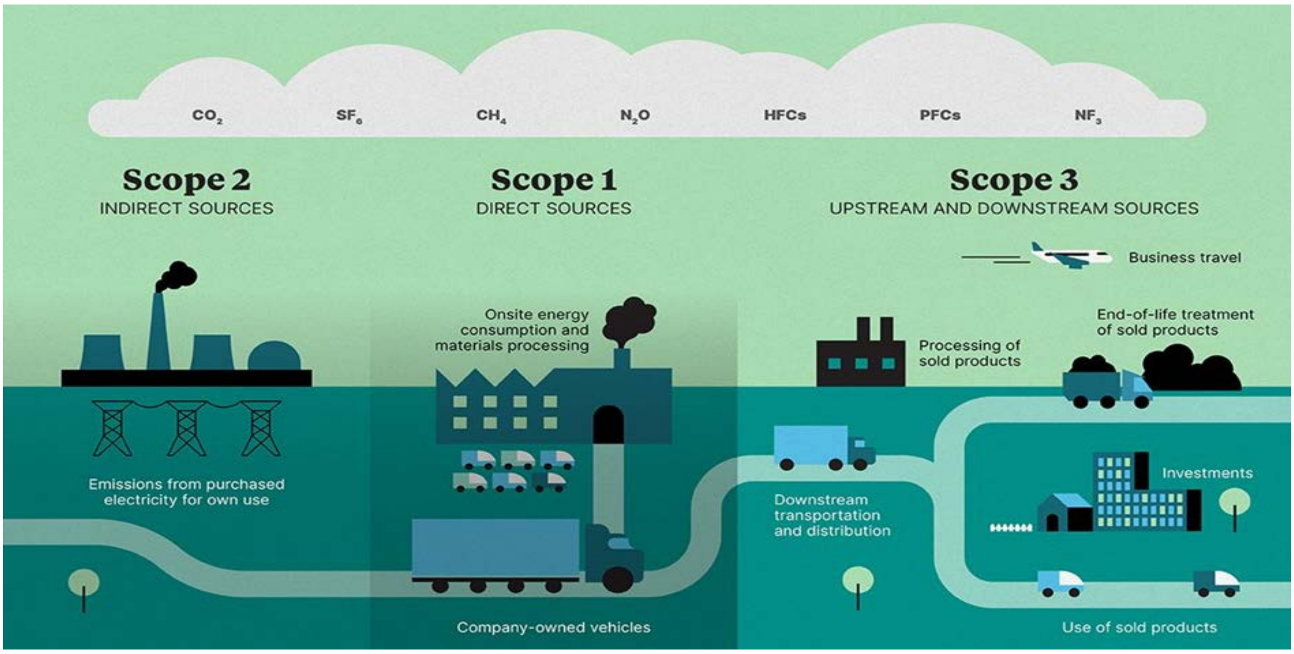
ISS data shows that our portfolio is aligned with a potential temperature increase of 1.5°C by 2050, whereas the MSCI World Index has a potential temperature increase of 2.7°C.

Climate Impact Assessment

The equity portfolio's scope 1 & 2 greenhouse gas emission exposure at 30 September 2024 was significantly below those of the MSCI benchmark.

The portfolio was at 59% of the MSCI benchmark's level for scope 1 & 2 emissions (see diagram below for definitions) but at 104% for scope 1,2 &3 emissions. The higher level for scope 3 emissions 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