22 January 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 31 December 2023.

The Income Distribution Rates are:

	Dec 2023	Sep 2023	Jun 2023	Mar 2023	12 Month Average Return
Income Fund	4.29%	4.35%	4.26%	4.00%	4.23%
Growth & Income Fund	2.50%	2.40%	2.84%	2.10%	2.46%

Income distributions for the quarter totalled **$2,752,025**

PAYMENT OF DISTRIBUTIONS

Income distributions by direct credit will be made into depositors' accounts on Tuesday 23 January 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

As depicted in the following illustrative risk/return chart, the Income Fund invests in lower risk asset classes, which will result in lower income than higher risk investments, but with greater predictability.

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.

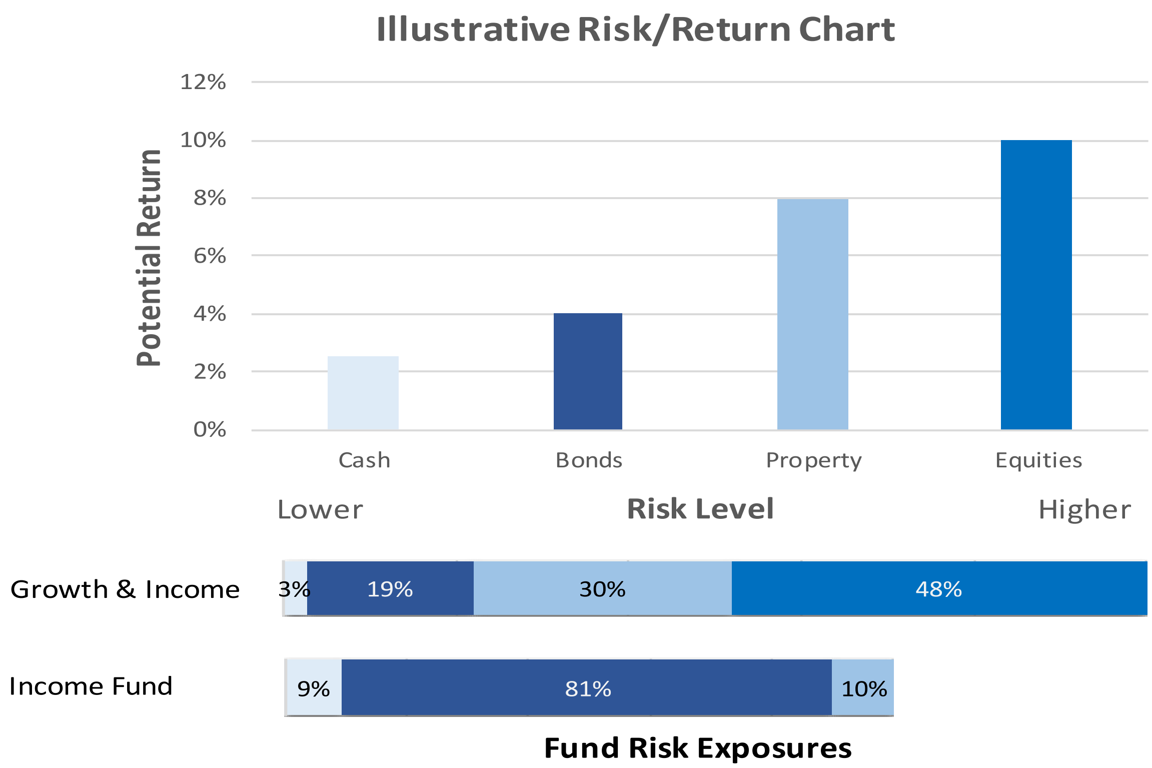
Growth & Income Fund

As depicted in the following illustrative risk/return chart, the Growth & Income Fund invests across the risk spectrum, with the highest weightings in the higher risk assets. This will result in higher returns over the longer term, but with that comes greater volatility of returns from year to year.

Over the 10-year period to 30 June 2023 the Growth & Income Fund produced a total return of 8% p.a. Within that 10-year period there was one negative year – 2022.

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).

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.

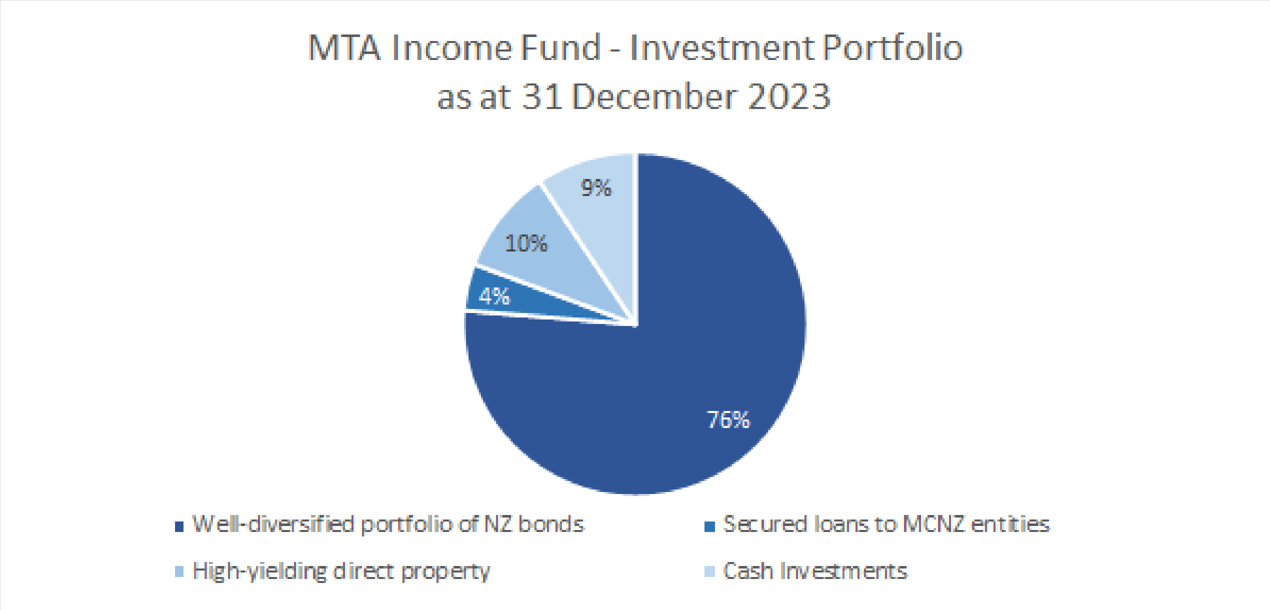
Deposits cannot be accepted from any other group or from any individual.

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 investment portfolio asset allocation is shown below.



The Income Fund's annualised income distribution rate for the December quarter is 4.29%.

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 will most likely start falling within the next six to 12 months. We are taking steps now 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 investment isn't something we just talk about, it's what we do.

For the June 2024 financial year, we have slightly lowered our forecast distribution rate to approximately 4.27%, with forecast returns of 4.25% for each of the next two quarters. This is due to some costs we incurred to lock in higher returns for future years.

Our current projection for the June 2025 financial year is 4.30%, which assumes some negative impact from a pull-back in short-term interest rates, the timing and size of which are uncertain.

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.

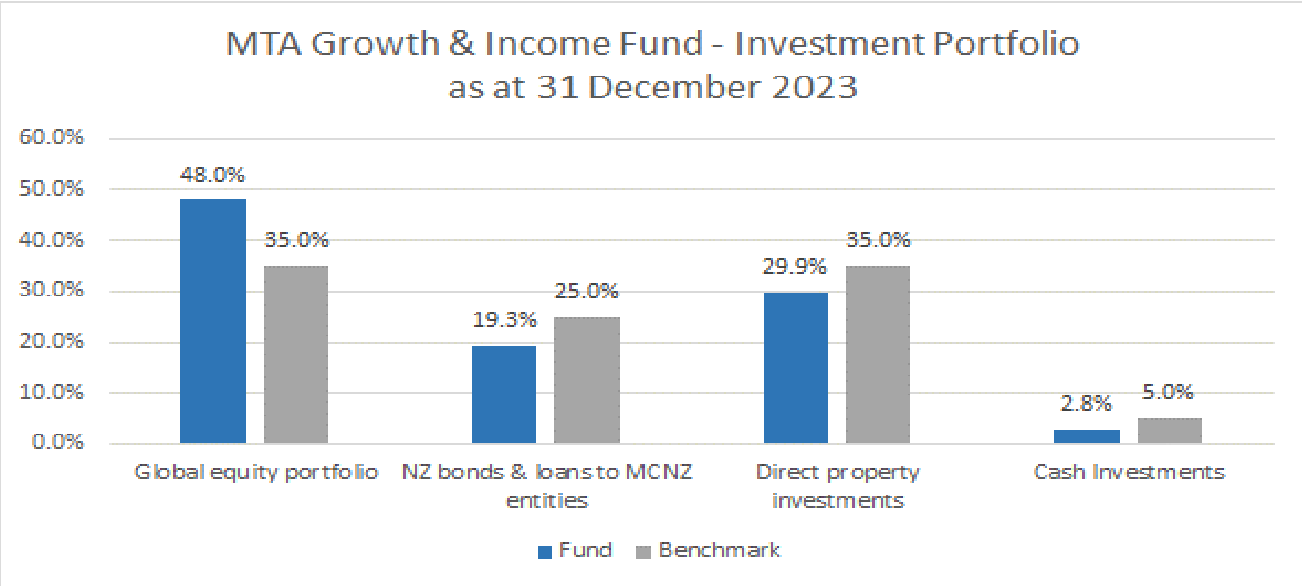
GROWTH & INCOME FUND

The annualised income distribution rate for the Growth & Income Fund is 2.50% 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, with the fund asset allocation as shown below.



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

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

Top 10 Equity Holdings

Name	Industry	Weight*	Quarter Performance
NICE	Software & Services	9.3%	11.4%
Husqvarna	Capital Goods	7.6%	3.9%
Skyline Champion	Consumer Durables & Apparel	7.4%	10.7%
General Motors	Automobiles & Components	6.9%	3.5%
Rocket Lab USA	Capital Goods	5.7%	19.8%
ZipRecruiter Inc	Media & Entertainment	5.5%	10.0%
Tomra Systems	Capital Goods	5.2%	0.7%
Microsoft Corp	Software & Services	5.2%	13.2%
MongoDB Inc	Software & Services	4.7%	12.2%
New York Times	Media & Entertainment	4.7%	13.1%

* Weight relates to the weighting in the listed equity portfolio, which was 46.4 % of the Fund on 31 December 2023

MARKETS

Share markets had a strong quarter. The MSCI World Total Return Index returned 11.4% for the quarter.

Major markets all gained over the quarter, with the US S&P 500 Index (11.7%), Europe (6.8%), UK (2.3%), Japan (5.2%), New Zealand (4.2%) and Australia (8.4%), with both the Resources and Industrials indices up 8.4%.

Secondary markets were also stronger, with the emerging markets index up 7.9% and Asia ex Japan up 4.2%.

Much has been written about the Magnificent Seven (Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta Platforms, and Tesla) contributing most of the US market's performance over 2023.

Looking at the composition of the indices shows that large growth companies did perform very well (+42.7%) for the year, while the performance of both value companies (+11.7%) and smaller growth companies (+18.7%) were relatively disappointing.

In the Growth and Income portfolio we only hold Microsoft from the Magnificent Seven. Regardless of the commentary, there have been plenty of other great companies that have performed superbly, driving the portfolio's 27% return for the year (there was minimal impact from currency over the year).

Among our top contributors over the year were Shopify (+125.5%); Palo Alto Networks (+112.4%); MongoDB (+108.7%); Applied Materials (+68.3%); New York Times (+52.8%); Microsoft (+58.6%); and Skyline Champion (+44.9%).

Resource price moves during the quarter:

- Oil prices were weak, with WTI crude down 16.0% for the quarter.
- Coking coal was up 11.9%.
- Metal prices were mostly stronger, with the steel Price Index up 3.9%, zinc (+0.3%), nickel (-11.2%), Iron ore (+12.8%), aluminium (+1.6%) and copper (+3.5%).
- Precious metals were also mostly stronger, gold (+11.6%), silver (+7.3%), platinum (+9.3%), but palladium was weaker (-11.9%).
- Agriculture commodities were mixed: Corn (-4.2%), Wheat (+9.5%) and Soybeans (-0.9%).

Over the December quarter bond yields dropped significantly in all major markets. In New Zealand, the yield on 5-year Government bonds fell by 1.10% to finish the quarter at 4.18%, while the 10-year bond yield fell by 0.98% to finish the quarter at 4.32%. The US 10-year bond yield fell by 0.69% to 3.88%, while the 30-year bond yield fell 0.67% to 4.03%. In Europe, the 10-year bond yield fell by 0.82% to 2.02%.

In currency markets, the NZ dollar gained 5.35% against the USD, 1.0% against the Euro, and 1.0% against the UK Pound, but fell 3.1% against the Swiss Franc and 0.5% against the Australian dollar.

The main Central banks were mostly inactive during the quarter:

- The US Federal Reserve last raised rates in July. The rate remains at 5.25-5.50%.
- The United Kingdom last raised rates in August and remains at 5.25%.
- Canada last raised rates in July and remains at 5.00%.
- Australia raised rates by 0.25% in November to now be at 4.35%.
- New Zealand last raised rates in May and remains at 5.50%.
- The European Central Bank last raised rates in September and remains at 4.50%.

OUTLOOK

The Gaza conflict erupted during October, with markets initially weakening. Subsequently markets strengthened significantly, as investors finally realised that US inflation is under control, resulting in a strong move lower in interest rates (which is positive for equity valuations). It's impossible to separate the numerous impacts, but it's not obvious that the Gaza conflict materially impacted markets over the quarter. It was clearly not the dominant factor.

However, the risk of further regional escalation remains, which could negatively impact financial markets, and therefore the Growth & Income Fund performance.

The other significant risk is an economic recession in USA. Markets currently expect inflation to continue to moderate, while the US continues to report moderate growth. Although it's not our core expectation, there is a material probability that the US reports negative growth, which could see the US share market weaken.

The cause of a recession would be the US Federal Reserve keeping interest rates too high for too long. A recession would lead to a hasty reduction of interest rates.

As we continue to favour investment in high-quality growth companies with resilient business models, the earnings impact on these companies from a recession would be modest. A reduction in interest rates would significantly boost valuations, more than offsetting any earnings weakness. But share prices might still be negatively impacted.

We spend a lot of time researching global developments and economic data. Our job is to manage risks and to position each portfolio accordingly.

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 now access all 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 social 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 currently flags 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, Inc., which is facing numerous allegations of toxic workplace culture and sexual misconduct in the United States since June 2018.

For UBS Group, as previously reported, the warning relates to a failure to pay its fair share of taxes in France between 2004 and 2012. UBS has taken measures to address this failure.

At 31 December, the fund had no exposure to any other companies of continuing concern related to the above 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:

- 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 our holdings are rated highly by MSCI, a leading provider of decision support tools and services for the global investment community, with twelve of our 21 holdings rated AA or better for their overall ESG score, and nine rated in the top 10% of their respective industry peer group for their overall score.

Global Warming Alignment

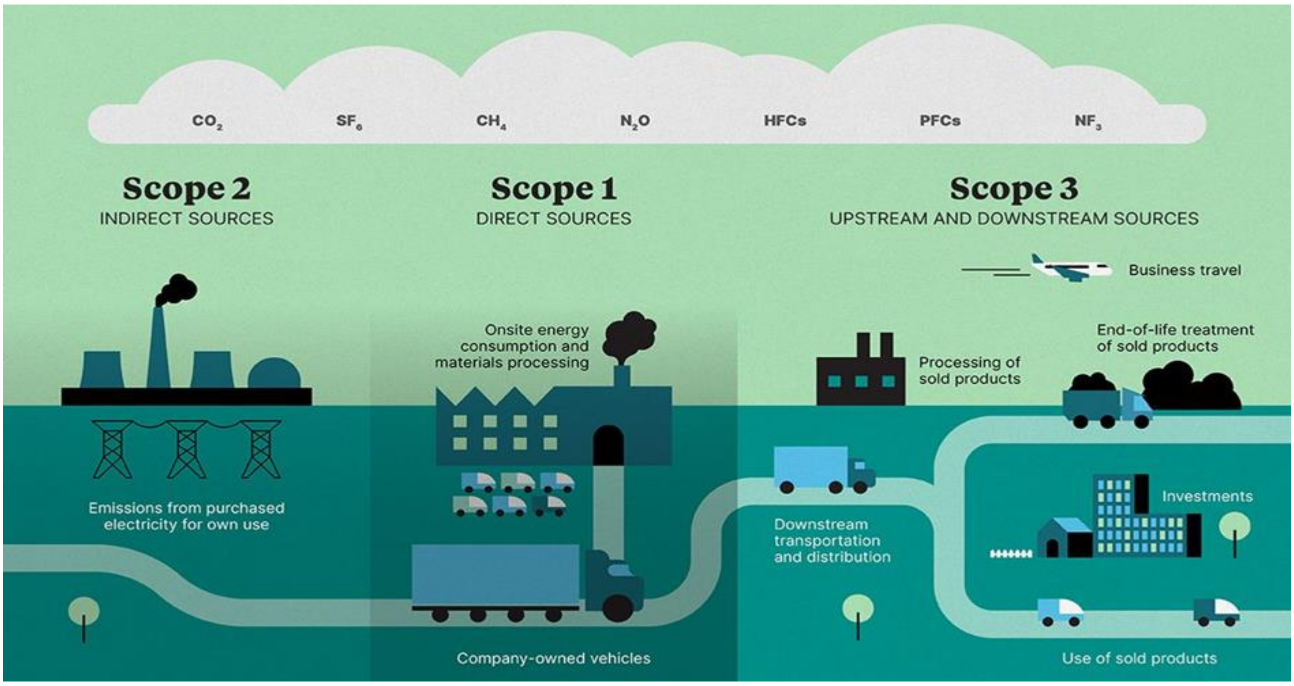
We are committed to transitioning to net-zero greenhouse gas emissions by 2050. This is needed to limit the increase in the global temperature to less than 1.5°C. Current science indicates that global warming beyond 1.5°C has potentially catastrophic impacts on the natural world and human society.

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

Climate Impact Assessment

The equity portfolio's greenhouse gas emission exposure at 31 December 2023 was at only 29% of the MSCI benchmark's level for scope 1 & 2 emissions (see diagram below for definitions).

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