



Methodist Trust Association

18 January 2022

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 31 December 2021.

The Income Distribution Rates are:

	Dec 2021	Sep 2021	Jun 2021	Mar 2021	12 Month Average Return
Income Fund	3.58%	3.47%	7.35%*	3.83%	4.56%
Growth & Income Fund	1.81%	1.90%	1.98%	2.74%	2.11%

Income distributions for the quarter totalled **\$2,140,165**.

* Included in the June quarter's distribution rate for Income Fund depositors were \$1,457,794 of capital items.

PAYMENT OF DISTRIBUTIONS

Income distributions by direct credit will be made into depositors' accounts on Friday 21 January 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 (7%), well secured loans to Methodist Church entities (12%), a high yielding direct property investment (11%), a small portfolio of low risk equities (1%), international bond funds (9%) and a well-diversified portfolio of NZ bonds (59%) 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 Income Fund's annualised income distribution rate for the December quarter is 3.58%.

For the June 2022 financial year, we are increasing our forecast income distribution rate from 2.90% to 3.15%, with returns of approximately 3.0% expected for each of the remaining quarters. This upgrade reflects the rising interest environment we are now in.

We have maintained the high quality of NZ bonds in the portfolio. Holdings in bonds rated BBB+ or higher represented 63% of the portfolio on 31 December 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 are currently at 0.70% and 2.20% respectively, having increased from 0.45% and 1.40% at 30 September.

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 1.81% 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 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 8.6% during the December quarter and 30.8% over the last twelve months. The Growth & Income Fund has also held an overweight allocation to equities during 2021, further enhancing the overall fund's returns.

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 28% (benchmark 35%), NZ fixed interest 9% and international bond funds 6% (total fixed interest benchmark 25%) and cash 7% (benchmark 5%).

The Fund's largest equity holdings on 31 December 2021 and their respective December quarter returns are listed below.

Top 10 Equity Holdings

Name	Industry	Weight*	Quarter Performance
Husqvarna	Capital Goods	7.9%	35.7%
NICE	Software & Services	7.2%	8.0%
Palo Alto Networks	Software & Services	7.0%	17.5%
General Motors	Automobiles & Components	6.9%	12.5%
New York Times	Media & Entertainment	6.5%	-0.9%
Applied Materials	Semiconductors & Semiconductor Equipment	6.5%	23.7%
MongoDB Inc	Software & Services	4.7%	13.5%
Sabre	Software & Services	4.3%	-26.7%
Descartes Systems	Software & Services	3.7%	2.8%
Comvita	Household & Personal Products	3.3%	-0.3%

* Weight relates to the weighting in the listed equity portfolio, which was 47.4 % of the Fund at 31 December 2021

MARKETS

International equity markets recorded a strong quarter, with the strong returns driven by USA (+11.0%) and Europe (+7.6%). Emerging markets were weak, falling 1.3% during the quarter.

The MSCI World Total Return Index returned 7.8% for the quarter.

Currency movements were mixed, with the NZ falling 1.0% against the US dollar, 1.3% against the Australian dollar and 2.9% against the Swiss Franc. The NZ dollar gained 0.9% against the Euro.

As most of our exposures are in US dollars, the weaker Kiwi benefitted our overall returns, but resulted in a hedging loss, partially offsetting the gains in the equity portfolio.

The US S&P 500 finished up 11.0% for the quarter, with positive returns in all sectors other than Communication Services. The best performing sectors were Real Estate (+16.8%), Technology (+16.4%), Materials (+14.7%), and Consumer Discretionary (+12.7%). The poorest performing sectors were Communication Services (-0.2%), Financials (+4.1%), Energy (+6.8%) and Industrials (+6.8%).

Developed markets were mixed, with Asian and emerging markets posting negative returns. Local currency returns for other major equity indices were Euro Stoxx 600 up 7.6%; UK FTSE100 Index up 4.7%; Australian ASX 200 up 2.1%; New Zealand NZX50 down 1.8% and the Japanese Topix down 1.7%. In Australia the ASX200 Resources Index gained 9.7%, while the Industrials Index only gained 0.4%. The MSCI Emerging Markets Index fell 1.3%. (*Quoted returns include income and capital gains*).

Central Banks around the world have been more active during the quarter, generally tightening monetary conditions, but from very loose (low) levels. There were numerous rate increases, mainly in developing nations. Amongst the more developed nations, in October New Zealand raised rates by 0.25% to 0.50% and Iceland raised by 0.25% to 1.50%. In November Hungary raised by 0.30% to 2.10%, New Zealand raised by 0.25% to 0.75%, and South Korea raised by 0.25% to 1.00%. In December Hungary raised again by 0.30% to 2.40%, Norway raised by 0.25% to 0.50%, UK raised by 0.15% to 0.25% and Russia raised by 1.00% to 8.50%. Against this trend Turkey cut rates by 1.00% to 14.00% and China cut rates by 0.05% to 3.80%.

Over the December quarter bond yields were relatively flat across the major markets. However, in New Zealand the yield on 5-year Government bonds increased by 0.69% to finish the quarter at 2.21%, while the 10-year bond increased by 0.30% to finish the quarter at 2.39%.

US Bond yields have moved higher since the quarter ended.

In resources, oil prices, based on West Texas Intermediate crude, gained 2.2%. Metal prices were mixed with steel Price Index (-16.8%), copper (+8.8%), zinc (+18.3%), nickel (+15.7%), Iron ore fell 5.3% and aluminium fell 1.8%. Precious metals were stronger, gold (+4.1%), silver (+5.1%) and platinum (+0.1%). Agricultural commodities were also stronger: corn (+9.0%), Wheat (+4.7%) and Soybeans (+5.3%).

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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