Methodist Trust Association

25 July 2022

Dear Depositor

DISTRIBUTION RATES

The Methodist Trust Association advises the following distribution rates for its Income and Growth & Income Funds for the quarter ended 30 June 2022.

The Income Distribution Rates are:

	Jun 2022	Mar 2022	Dec 2021	Sep 2021	12 Month Average Return
Income Fund	0.00%*	2.99%	3.58%	3.47%	2.51%
Growth & Income Fund	1.41%	1.67%	1.81%	1.90%	1.70%

Income distributions for the quarter totalled **$625,820.**
Income & capital distributions for the quarter totalled **-$17,461,893**

* The June quarter's distribution rate for Income Fund depositors have been reduced by $1,093,635 of capital losses, comprising realised losses on the international bond exposure, partially offset by the Fund's share of the revaluation gains on the Izone property in Rolleston. (**Total annual return for the Income Fund for the year to 30 June 2022 is +2.51%**)

The total return to Growth and Income Fund depositors has been reduced by a capital reduction of 10.18% for the quarter (-$18,087,713) following the devaluation of the equity portfolio, partially offset by positive revaluations of the Fund's property exposures. (**Total annual return for the Growth and Income Fund for the year to 30 June 2022 is -8.48%**)

PAYMENT OF DISTRIBUTIONS

Income distributions for the Growth and Income Fund will made into depositors' accounts on Monday 25 July 2022.

JUNE QUARTER PERFORMANCE

MTA is extremely disappointed and apologetic about the June quarter return for the Income Fund. As advised in early May, the Income Fund's expected return was revised down, due to a capital loss in the international bond exposure held by the portfolio, resulting from the large and rapid increase in US bond yields since 31 March 2022 (bond prices and bond yields are inversely related. As the yield of a bond goes up, the price of the bond decreases). In the final accounts the loss was larger than we had estimated in May, resulting in a nil distribution.

This was a one-off event, as we exited the fund's international bond exposure in early May.

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 low risk levels.

The Income Fund's investment portfolio at 30 June consisted of cash investments (6%), well secured loans to Methodist Church entities (12%), a high yielding direct property investment (11%), a small portfolio of low-risk equities (<1%) and a well-diversified portfolio of NZ bonds (71%) 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 27 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 2022 is 2.51%. The normalised return, excluding the capital items listed above, was 2.98% for the year. Even with the disappointing June quarter result, the annual return was still significantly higher than the return from investing in a BNZ twelve-month term deposit for the period, which was 1.20%.

For the June 2023 financial year we forecast the distribution rate to increase to approximately 3.20%.

We continue to maintain a high-quality portfolio of NZ bonds. Holdings in bonds rated BBB+ or higher represented 64% of the NZ Bond portfolio on 30 June 2022.

The Income Fund continues to produce higher returns than are available through bank deposits. The BNZ three and twelve-month term deposit rates have continued to rise, currently being at 1.50% and 3.65% respectively, up from 1.05% and 2.70% on 31 March 2022.

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 1.70% for the quarter.

The low distribution rate for the Growth and Income Fund reflects the different objectives for this fund, which is primarily focused on long-term capital growth. In particular, dividend yields from international equities are lower than the income yields of most other asset classes.

Over the longer term this focus on long-term capital growth is expected to produce higher total returns through capital growth but result in a lower income component within the total return.

For 2020 the Association has revalued the Growth and Income Fund's properties (+$3.3m) and equity investments (-$21.4m), resulting in a large capital value decrease of $18.1m (-10.18% to depositors).

The US market recorded its worst first half-year performance since 1970, resulting in a significant reduction in the market value of the equity portfolio for the financial year.

We remain very positive on the longer-term outlook for our portfolio companies. The fund's equity portfolio continues to be overweight in both high-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. With our longer-term view, we are confident these companies will generate strong growth in shareholder value.

The Growth & Income Fund's investment portfolio is well diversified both geographically and by business sector. The fund currently consists of equities 48% (benchmark 35%), property 35% (benchmark 35%), NZ fixed interest 15% (benchmark 25%) and cash 1% (benchmark 5%).

The Fund's largest equity holdings on 30 June 2022 and their respective June quarter returns are listed below.

Top 10 Equity Holdings

Name	Industry	Weight*	Quarter Performance
NICE	Software & Services	8.4%	-2.2%
Palo Alto Networks	Software & Services	8.3%	-11.7%
General Motors	Automobiles & Components	6.9%	-19.1%
MongoDB Inc	Software & Services	6.6%	-34.9%
Husqvarna	Capital Goods	5.8%	-21.3%
Applied Materials	Semiconductors & Semiconductor Equipment	5.5%	-23.0%
ZipRecruiter Inc	Media & Entertainment	5.3%	-28.2%
New York Times	Media & Entertainment	5.2%	-32.2%
Skyline Champion	Consumer Durables & Apparel	4.6%	-4.0%
Advanced Drainage Systems	Capital Goods	4.4%	-15.3%

* Weight relates to the weighting in the listed equity portfolio, which was 46.0 % of the Fund on 30 June 2022

MARKETS

International equity markets were very weak during the June quarter and calendar year to date.

The MSCI World Total Return Index fell 16.2% for the June quarter, taking the calendar year to date return to -20.5%.

The S&P 500 index lost 16.4% for the quarter and 20.6% for the first half. The US market again favoured value stocks, with the value index "only" falling 11.7%, while the growth index fell 21.0%.

No sector in the S&P 500 Index recorded a positive return for the June quarter. The worst performing sectors were Consumer Discretionary (-26.3%), Communication Services (-20.9%), Technology (-20.4%) and Financials (-17.9%).

The US market started the quarter worrying about inflation and rising bond yields, but transitioned to being more worried about the prospects of a recession, after the Federal Reserve raised rates by 1.25% in during the quarter to 1.75%.

Although headline inflation remains high, and may go higher, there are growing signs that the US economy is slowing and that some of the more transitory drivers of inflation (see commodity prices below) are now unwinding, which are positive for equity outlook.

Europe, despite having a relatively poor economic outlook, fell less than the US market, down 9.2% for the quarter. Emerging markets (-11.4%) and Asia ex Japan (-6.2%) also fell less than the world index. The UK market performed relatively well (-3.7%).

Overall Australia fell 11.9%, with the Resource Index falling 13.8%, and the Industrials index falling11.2%. The New Zealand index fell 10.3%.

In Resources there were large moves:

- Oil prices were strong, with WTI crude up 11.2% for the quarter, but finishing well off its highs. Calendar YTD WTI crude is up 46.5%.
- Metal prices were weak with steel Price Index (-11.9%), zinc (-24.4%), nickel (-29.3%), Iron ore (-18.9%), aluminium (-29.9%) and copper (-20.4%). Calendar YTD most metal prices are now down ~10%.
- Precious metals were weaker, gold (-6.7%), silver (-18.2%), platinum (-9.1%) and palladium (-14.5%).
- Agriculture commodities were also generally weaker for the quarter: corn (-9.4%), Wheat (-10.6%) and Soybeans (+2.6%). Calendar YTD prices remain ~15% higher.

Note however, these commodities are all priced in USD, which increased 6.5% against a basket of currencies.

During the quarter the US Federal Reserve raised rates by 0.50% in May and 0.75% in June to 1.75%, in their effort to get inflation under control. The United Kingdom twice raised rates by 0.25% to be at 1.25% currently. Canada twice raised rates by 0.50% to be at to 1.50%. Australia raised rates by 0.25% in May and by 0.50% in both June and July to now be at 1.35%. And New Zealand raised rates by 0.50% in both April and May to now be at 2.00%.

The European Central Bank raised it rate by 0.5% to zero in July, the first time its rate hasn't been negative since 2014. It is expected to continue raising its rate to 0.75% by year end.

Current headline inflation rates in developed countries are: USA 9.1%; Eurozone 8.6%; UK 9.4%; Canada 8.1%; Australia 5.1%; and NZ 7.3%.

Over the June quarter bond yields increased steeply in all major markets. In New Zealand the yield on 5-year Government bonds increased by 0.53% to finish the quarter at 3.65%, while the 10-year bond increased by 0.64% to finish the quarter at 3.86%. The US 10-year bond yield rose by 0.67% to 3.01%, while the 30-year bond yield rose 0.74% to 3.18%. In Europe the 10-year bond rose by 0.79% to 1.34%.

In currency movements, the NZ dollar fell against all major currencies, down 10.1% against the strong US dollar, 5.0% against the Euro, 2.9% against the UK pound, 2.4% against the Australian dollar and 7.0% against the Swiss Franc. Most of the fund's exposures are in US dollars.

RESPONSIBLE INVESTMENT

The Church's Responsible Investment Policy is a living document, subject to regular review and improvement.

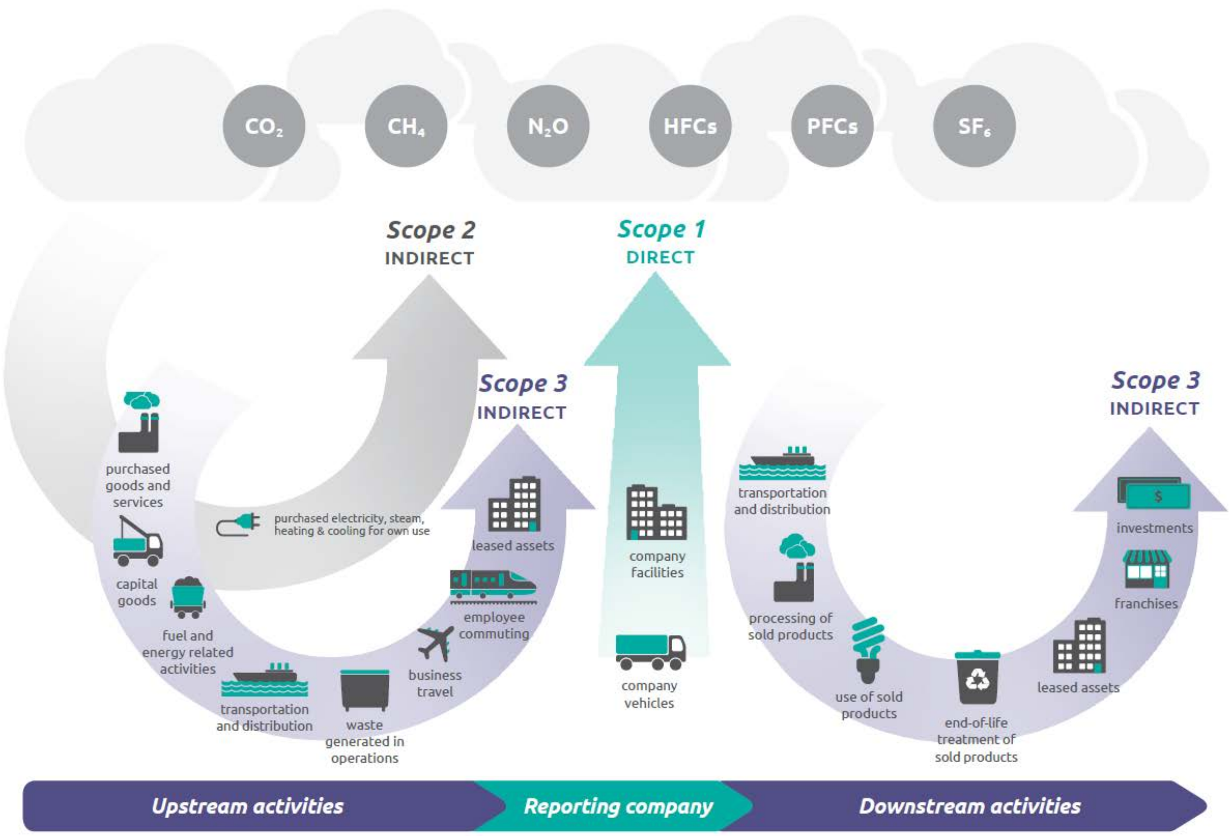
The equity portfolio greenhouse gas emission exposure at 30 June 2022 was at 18.8% of the benchmark's level for scope 1 & 2 emissions (see diagram below for definitions), significantly better than the benchmark level. The individual company exposure measures are backward looking, using prior financial year disclosures. We expect current exposures to have improved from those previously disclosed levels.

Our portfolio in its current state is aligned with a potential temperature increase of 1.5^{o} C by 2050. We also expect this to improve further over the coming years as the companies we invest in continue to reduce their carbon intensity and footprint.

The environment and climate change have been major focuses for us in stock selection, so it is gratifying to now be able to more accurately measure what we are doing and achieving. We have also invested in a number of companies involved in recycling and circular systems.

As environmental disclosure standards improve around the world, the quality of information will get even better and more useful.

Overview of greenhouse Gas scopes and emissions



Source: Greenhouse Gas Protocol

The six main greenhouse gases are: carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulphur hexafluoride (SF_6).

The Board of the MTA is very interested in improving its knowledge on the needs of depositors and the best methods for us to communicate with our stakeholders.

We have created an email address MTAFeedback@methodist.org.nz to enable investors to easily ask any questions. As the name suggests, we would also welcome your feedback on our communications and any suggestions for topics you would like us to cover.

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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