Methodist Trust Association

19 January 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 31 December 2020.

The Distribution Rates are:

	Dec 2020	Sep 2020	Jun 2020	Mar 2020	12 Month Average Return
Income Fund	3.59%	3.50%	4.50%	3.91%	3.88%
Growth & Income Fund	2.27%	2.27%	1.94%	2.90%	2.35%

Income distributions for the quarter totalled $2,105,198.

PAYMENT OF DISTRIBUTIONS

Income distributions by direct credit will be made into depositors' accounts on Friday 22 January 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 (4%), well secured loans to Methodist Church entities (17%), a high yielding direct property investment (9%) and a well-diversified portfolio of bonds (70%) issued by local government, airports, electricity generators, transmission companies, large corporates, State Owned Enterprises, as well as leading Australasian banks. In total the bond portfolio currently has exposures with 26 different entities, in 12 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).

New or additional deposits in either fund are welcomed 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, a 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 3.59%. In the current low interest rate environment, we consider this a very good result.

We forecast the income distribution rate for the June 2021 financial year to be approximately 3.40%. We expect the distributions to continue to trend down, as lower current interest rates will have progressively more impact on portfolio income.

We have maintained the high quality of bonds in the portfolio. Holdings in bonds rated BBB+ or higher represented 71% of the portfolio at 31 December 2020.

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

The Income Fund continues to produce significantly higher returns than are available through bank deposits. The current BNZ three and twelve month term deposit rates are 0.35% and 0.80% respectively. 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 2.27% 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 remains overweight 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. Most of these companies have continued to perform strongly through the current uncertain environment.

The Growth & Income Fund's equity portfolio gained 16.6% during the quarter and has gained 21.0% for the financial year-to-date since June 2020. For the 2020 calendar year the equity portfolio gained 24.4%.

The Growth & Income Fund's investment portfolio is well diversified both geographically and by business sector. There were only minor changes to asset allocation since September, with total equity exposure increasing to 49% of the portfolio (benchmark 35%) due to the strong investment returns, while cash reduced to 3% (benchmark 5%). Property 29% (benchmark 35%) and fixed interest at 20% (benchmark 25%) were little changed.

The Fund's largest equity holdings at 31 December 2020 and their respective December quarter returns are listed below.

Top 10 Equity Holdings

Name	Industry	Weight*	Quarter Performance
MongoDB Inc	Software & Services	6.9%	42.8%
Palo Alto Networks	Software & Services	5.3%	33.7%
Applied Materials	Semiconductors & Semiconduc	5.1%	34.0%
Manhattan Associates	Software & Services	4.9%	1.5%
New York Times	Media & Entertainment	4.9%	11.6%
PTC Inc	Software & Services	4.6%	33.2%
General Motors	Automobiles & Components	4.4%	29.6%
Simpson Manufacturing Co	Capital Goods	4.1%	-11.4%
Comvita	Household & Personal Product:	3.7%	0.6%
NICE	Software & Services	3.5%	15.0%

* Weight relates to the weighting in the listed equity portfolio, which was 44.9 % of the Fund at 31 December 2020

MARKETS

The major central banks continued to support their economies. Australia was the only major central bank to change its cash rate during the quarter, reducing the target rate to 0.10% from 0.25%.

Central Banks and Governments around the globe continue to support economic conditions with monetary and fiscal policies respectively, including large Government stimulus packages to support some sectors of their populations and economies, which continue to suffer from Covid related adversity.

Major economy 10-year bond yield movements were mainly higher in the quarter. The 10-year yield increased from 0.68% to 0.91% in USA; from 0.016% to 0.021% in Japan; from 0.79% to 0.97% in Australia; but decreased from -0.52% to -0.57% in Europe.

In New Zealand, bond yields increased significantly. The yield on New Zealand 5-year Government bonds increased from 0.02% in September to finish the quarter at 0.39%, while the 10-year bond increased from 0.50% to finish the quarter at 0.99%.

In Resources, oil prices using the West Texas Intermediate crude price gained 18%. Metal prices were all strong with iron ore (+28.5%), the Steel Price Index (+17.1%), copper (+16.4%), zinc (+14.5%) and aluminium (+12.2%). Precious metals were mixed, gold (+0.7%), silver (+13.6%) and platinum (+6.0%). Agricultural commodities were also strong, with corn (+24.7%), wheat (+9.7%) and soybeans (+28.4%).

The NZ dollar gained against the all major currencies during the December quarter. It gained 8.6% against the USD, 4.2% against the Euro, 2.6% against the GBP, and 1.1% against the AUD.

International equity markets produced strong positive returns for the quarter in a “risk-on” environment, as the markets reacted positively to the US election results and strong vaccine efficacy news.

The MSCI World Total Return Index gained 13.6% for the quarter.

The major drivers of the strong equity returns during the quarter were the successful development and approval of several vaccines and the pleasing US election results.

The US election result was viewed favourably by markets, with the Democrats winning the Presidency, continuing to hold the House and also now have slim control of the Senate, by virtue of the deciding vote of the vice president. The Democrat win will see greater stimulus, focus on climate policy, infrastructure development and greater certainty of policy. The negative aspects for the equity market include the likelihood of higher taxes and increased regulation of large tech companies. The slim effective majority in the Senate makes it necessary to carry all democratic votes to pass new legislation, making any radical or unpopular policies unlikely to succeed, which has given comfort to the market.

The US share market can now look beyond the immediate economic weakness to more normal earnings in 12 to 24 months.

During the quarter several Covid vaccines were approved for use, with the Pfizer-BioNTech and Moderna mRNA vaccines demonstrating 94-95% efficacy rates, significantly above expectations.

These efficacy rates bring the prospect that developed nations could potentially see a return to more normal conditions early in the second half of this year. Subsequently, new more easily transmissible variants of the virus have emerged, which will see rates of new infection get worse in the short-term, before vaccine roll-outs can bring the pandemic under control.

An interesting outcome of the new vaccine developments is the approval for use of mRNA vaccines for the first time. This mechanism can also be used to produce vaccines for a number of other diseases, including some cancers.

The pandemic has accelerated the adoption of technology in many areas, with some technology companies stating that we have seen what would have been five-years of technology and cloud adoption happen in a few months, as “nice to have” technology became mission critical almost over-night.

The “K” shaped nature of the economic recovery, with many people and many companies recovering well (the up slope), while the rest continue to suffer (the down slope), will continue for most of this year at least. Continued Government stimulus remains necessary to bridge the gap until demand and activity can get back to more normal levels, enabled by the vaccine roll-out and the eventual significant reduction in infection rates.

The impact of the central bank monetary policies and Government fiscal policies are likely to see interest rates remain low for some time, inflation begin to increase, real asset prices increase and the real value of money decrease. This will likely result in increased inequality in most societies.

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