Methodist Trust Association

16 October 2020

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 30 September 2020.

The Distribution Rates are:

	Sep 2020	Jun 2020	Mar 2020	Dec 2019	12 Month Average Return
Income Fund	3.50%	4.50%	3.91%	4.27%	4.05%
Growth & Income Fund	2.27%	1.94%	2.90%	2.80%	2.48%

Income distributions for the quarter totalled $2,078,114.

PAYMENT OF DISTRIBUTIONS

Income distributions by direct credit will be made into depositors' accounts on Monday 19 October 2020.

INVESTING IN THE MTA FUNDS

An investment with MTA is an investment into one of MTA's 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 (10%), well secured loans to Methodist Church entities (16%), a high yielding direct property investment (9%) and a well-diversified portfolio of bonds (65%) 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 23 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).

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 September quarter is 3.50%. 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 trend down throughout the financial year, as lower current interest rates will have progressively more impact on portfolio income.

We continue to increase the quality of bonds in the portfolio. Holdings in bonds rated BBB+ or higher represented 77% of the portfolio at 30 September 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 3 and 12 month term deposit rates are 0.15% and 1.05% respectively. 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, with greater focus on long-term capital growth. Investment opportunities over the period have continued to favour international equities, which have lower average yields than other asset sectors. Over the longer term this is expected to increase total returns through capital growth, but result in a lower income component within those total returns.

The fund's equity portfolio remains overweight both quality and growth exposures, with investments primarily in companies positioned to benefit from longer-term structural changes, that also have strong earnings growth, strong balance sheets and high returns on capital employed. Most of these companies continue to perform well through the current uncertain environment.

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 June, with total equity exposure increasing to 44% of the portfolio (benchmark 25%), while cash reduced to 4% (benchmark 5%). Property 31% (benchmark 35%) and fixed interest at 21% (benchmark 35%) were unchanged.

The Fund's largest equity holdings at 30 September 2020 and their respective September quarter returns are listed below.

Top 10 Equity Holdings

Name	Industry	Weight*	Quarter Performance
MongoDB Inc	Software & Services	6.2%	0.8%
Manhattan Associates	Software & Services	5.8%	-0.1%
New York Times	Media & Entertainment	5.0%	0.4%
Applied Materials	Semiconductors & Semiconductor	4.8%	-1.8%
Palo Alto Networks	Software & Services	4.5%	-3.3%
Comvita	Household & Personal Products	4.2%	-7.4%
PTC Inc	Software & Services	4.0%	-7.9%
CSL	Pharmaceuticals, Biotechnology	3.8%	-0.3%
NICE	Software & Services	3.4%	0.5%
Deutsche Boerse	Diversified Financials	2.8%	-5.5%

* Weight relates to the weighting in the listed equity portfolio, which was 39.9 % of the Fund at 30 September 2020

MARKETS

The major central banks continued to support economies, but there was no change in central bank deposit rates for any of the major economies during the quarter.

Governments and Central Banks continue to support economies with stimulus packages, although there are some unfortunate politically driven delays in USA.

Major market 10-year bond yield movements were mixed. In USA the yield increased from 0.66% to 0.68%; decreased from -0.45% to -0.52% in Europe; and decreased from 0.028% to 0.016% in Japan. In Australia the 10-year bond yield decreased from 0.87% to 0.79%.

In New Zealand bond yields fell significantly. The yield on New Zealand 5-year Government bonds reduced from 0.43% in June to finish the quarter at only 0.02%, while the 10-year bond reduced from 0.93% to finish the quarter at 0.50%.

In resources, WTI crude oil prices gained 1.6%. Metal prices were strong: iron ore (+20.3%), the Steel Price Index (+3.4%), copper (+10.9%), zinc (+17.4%) and aluminium (9.0%). Precious metals were also strong: gold (+5.9%), silver (+27.6%) and platinum (+7.7%).

The NZ dollar gained against the USD, but fell against most other major currencies during the September quarter. It gained 2.5% against the USD, fell 1.8% against the Euro, 1.6% against the GBP, and 1.2% against the AUD.

International equity markets produced strong positive returns for the quarter as the markets looked to the post-recession earnings potential of companies. The MSCI World Total Return Index gained 7.5% for the September quarter.

As we expected, the rapid “V” shaped initial recovery has now given way to slow growth. This growth is also two-paced, which economists now refer to as a “K” shaped recovery, with many people and many companies recovering well (the up slope), while the rest continue to suffer (the down slope). The growth/recovery is likely to remain slow, being dependent on continued Government stimulus.

Covid new infection rates are now fairly stable in USA, however new infections have grown significantly in Europe and other parts of the world. As the Northern hemisphere heads into winter, there is risk that infection rates pick-up even more, as people spend more time in-doors.

To date Covid-related shutdowns in USA and Europe have been targeted, and haven't resulted in the economically damaging factory closures that were seen in the first phase, to the relief of equity investors.

Treatment routines have also improved significantly since the early days, helped by hospitals generally operating within their capacity and mortality rates have dropped considerably.

There is growing confidence that several effective vaccines will be available in late 2020/early 2021. Uncertainty remains about just how effective they will be and how many people will take them.

In addition we also have the uncertainty of the US election outcome. At this stage it is looking likely that the Democrats will win the Presidency, continue to hold the House and are marginal favourites to win the Senate as well. The economic impact of a Democrat win on business would be fairly neutral. Greater stimulus and greater certainty of policy would likely outweigh the drag from higher taxes.

The strength in US share markets recently has been due to investors becoming less concerned about the election, as well as looking beyond the immediate economic weakness to more normal earnings in 12 to 24 months. This has also seen strength in cyclical companies. I agree with this premise, but prefer to remain cautious as many risky companies are incurring large losses and burning through cash quickly. An example is Delta Airlines that had reduced its cash burn to US$18m per day during September.

We are yet to see how effective the vaccines will be in enabling economies to get back to normal, or whatever the new normal looks like. I remain positive on the outlook for shares, but continue to prefer resilient and defensive businesses.

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