Methodist Trust Association

21 April 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 March 2022.

The Income Distribution Rates are:

| | Mar 2022 | Dec 2021 | Sep 2021 | Jun 2021 | 12 Month Average Return |
|---|---|---|---|---|---|
| **Income Fund** | 2.99% | 3.58% | 3.47% | 7.35%* | 4.35% |
| **Growth & Income Fund** | 1.67% | 1.81% | 1.90% | 1.98% | 1.84% |

**Income distributions** for the quarter totalled **$1,837,190.**

*Included in the June 2021 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 22 April 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 (12%), 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 (8%) and a well-diversified portfolio of NZ bonds (56%) 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 26 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 March quarter is 2.99%.

**For the June 2022 financial year our forecast income distribution rate remains 3.15%, with a return of approximately 2.9% expected for the June 2022 quarter.**

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

We continue to maintain a high-quality portfolio of NZ bonds. Holdings in bonds rated BBB+ or higher represented 61% of the NZ Bond portfolio on 31 March 2022.

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 have continued to rise, currently being at 1.05% and 2.70% respectively, up from 0.70% and 2.20% at 31 December 2021.

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 1.67% 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 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 equity portfolio has experienced challenging times, dropping 12.2% during the March quarter to now be flat for the financial year to date. The Ukraine conflict has amplified the challenges and concerns around inflation and supply chain issues, particularly on the inputs for manufacturing activities. In addition, central banks have been begun raising interest rates to combat inflation.

During the March quarter, the only positively returning sectors in the MSCI World Index were Energy (+29.5%), Materials (+1.5%) and Utilities (+0.8%), with both energy and materials benefitting from rising commodity prices resulting from the Ukraine conflict.

Due to Responsible Investment considerations, we are excluded from investing in most energy sector companies, being mainly large oil and gas businesses. Although the energy sector is small, at just under 4% of the S&P 500 Index, the level of out-performance has resulted in a meaningful negative relative performance for the portfolio during the March quarter. In addition, most defence industry companies, which we also exclude, have understandably performed strongly.

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 shareholder value growth.

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 30% (benchmark 35%), NZ fixed interest 9% and international bond funds 5% (total fixed interest benchmark 25%) and cash 5% (benchmark 5%).

The Fund's largest equity holdings on 31 March 2022 and their respective March quarter returns are listed below.

**Top 10 Equity Holdings**

| Name | Industry | Weight* | Quarter Performance |
|---|---|---|---|
| Palo Alto Networks | Software & Services | 8.0% | 9.9% |
| MongoDB Inc | Software & Services | 7.2% | -17.7% |
| General Motors | Automobiles & Components | 6.9% | -26.7% |
| New York Times | Media & Entertainment | 6.9% | -6.7% |
| NICE | Software & Services | 6.3% | -29.1% |
| Husqvarna | Semiconductors & Semiconductor Equipment | 6.3% | -35.3% |
| Sabre | Software & Services | 6.1% | 30.7% |
| Applied Materials | Semiconductors & Semiconductor | 5.2% | -17.6% |
| Descartes Systems | Software & Services | 3.6% | -12.9% |
| ZipRecruiter Inc | Media & Entertainment | 3.6% | -9.5% |

* Weight relates to the weighting in the listed equity portfolio, which was 47.0 % of the Fund at 31 March 2022

## MARKETS

In resources there were large moves, caused mainly by the Ukraine conflict, with Russia and/or Ukraine being major producers of oil and gas, metals, and grains. Oil prices, based on West Texas Intermediate crude, gained 35.6%. Metal prices were also strong with steel Price Index (+24.9%), copper (+6.7%), zinc (+18.1%), nickel (+54.7%), Iron ore (+34.8%) and aluminium (+24.3%).

Precious metals were modestly stronger, gold (+5.9%), silver (+6.4%) and platinum (+19.1%).

Agricultural commodities were also strong: corn (+23.5%), Wheat (+31.1%) and Soybeans (+17.9%).

International equity markets recorded a weak quarter, driven by concerns over inflation, tight labour markets, rising bond yields, continued supply chain issues and the Ukraine conflict, with potential for escalated conflict, and the impact of the associated sanctions. Given all those factors, it has been a challenging time for financial markets, with diverging short-term and long-term trends.

Europe, being one of the regions more greatly impacted by the Ukraine conflict and associated sanctions, was one of the weaker equity markets, being down 5.9% as measured by the STOXX 600 index, although many country indices were down double-digit percentages.

Emerging markets (-7.6%) and Asia ex Japan (-6.7%) were also weak. The US market fell 4.6%, but more driven by inflation concerns and rising bond yields. The UK market performed relatively strongly (+2.9%) as did Australia (+2.2%) helped by the strong price increases by the Resource Index (+20.4%), mainly due to sanctions against Russia, which is a major supplier of many commodities. The New Zealand index was weak, falling 7.1%.

The US market again favoured value stocks, with the Russel Value Index falling only 1.2%, while the growth index fell 9.1%.

The MSCI World Total Return Index returned -5.2% for the quarter.

Central banks were very active during the quarter, with 78 interest rate increases and only one cut, which was by China, who reduced their Loan Prime Rate by 0.1% to 3.70%. Amongst the more developed nations, USA raised rates by 0.25% to 0.50% in March and signalled significant future increases to bring inflation under control. The United Kingdom raised rates twice by 0.25% to 0.75% currently. Canada raised rates by 0.25% to 0.50%. Norway raised rates by 0.25% to 0.75%. And New Zealand raised rates by 0.25% to 1.00%.

In addition, Russia raised by 1.00% to 9.50% in February and by 10.50% to 20.0% in March, after sanctions were imposed.

Over the March quarter bond yields increased steeply in all major markets. In New Zealand the yield on 5-year Government bonds increased by 0.91% to finish the quarter at 3.12%, while the 10-year bond increased by 0.83% to finish the quarter at 3.22%. The US 10-year bond yield rose by 0.83% to 2.34%, while the 30-year bond yield rose 0.54% to 2.45%. In Europe the 10-year bond moved into positives with a 0.73% increase to 0.55%.

Bond yields have continued to increase across all major markets during April, with the US 10-year bond yield currently at 2.86%.

In currency movements, the NZ dollar gained against most major currencies, up 1.8% against the US dollar, 4.2% against the Euro, 4.5% against the UK pound and 2.7% against the Swiss Franc. The NZ dollar fell 1.65% against the Australian dollar, which benefitted from Australia's commodity exposures.

As most of our exposures are in US dollars, the stronger Kiwi negatively impacted overall NZD returns.

**RESPONSIBLE INVESTMENT**

The MTA equity portfolios have no direct exposure to Russia or Ukraine. Indirect exposure is immaterial, with most companies with Russian activities promptly closing those operations down voluntarily.

The MTA Board has also added both Russia and Belarus to its list of high-risk countries, where violations of human rights and breaches of international law have been widely documented.

MTA will not invest in companies with meaningful operations in these countries.

The Church's Responsible Investment Policy is a living document, subject to regular review and improvement. We have negotiated an agreement with a leading global provider of market intelligence, corporate governance and responsible investment solutions, which will give us greater depth of information to assist us in managing our investments responsibly.

This new information will give us greater visibility into company supply chains, which will greatly improve our ability to identify human rights issues, including modern slavery.

Also included is the capability to measure the equity portfolio's carbon footprint (greenhouse gas emissions exposure) and benchmark it against the global equity benchmark and its alignment with the global goal of keeping the global temperature increase to no more than 1.5º C by 2050.

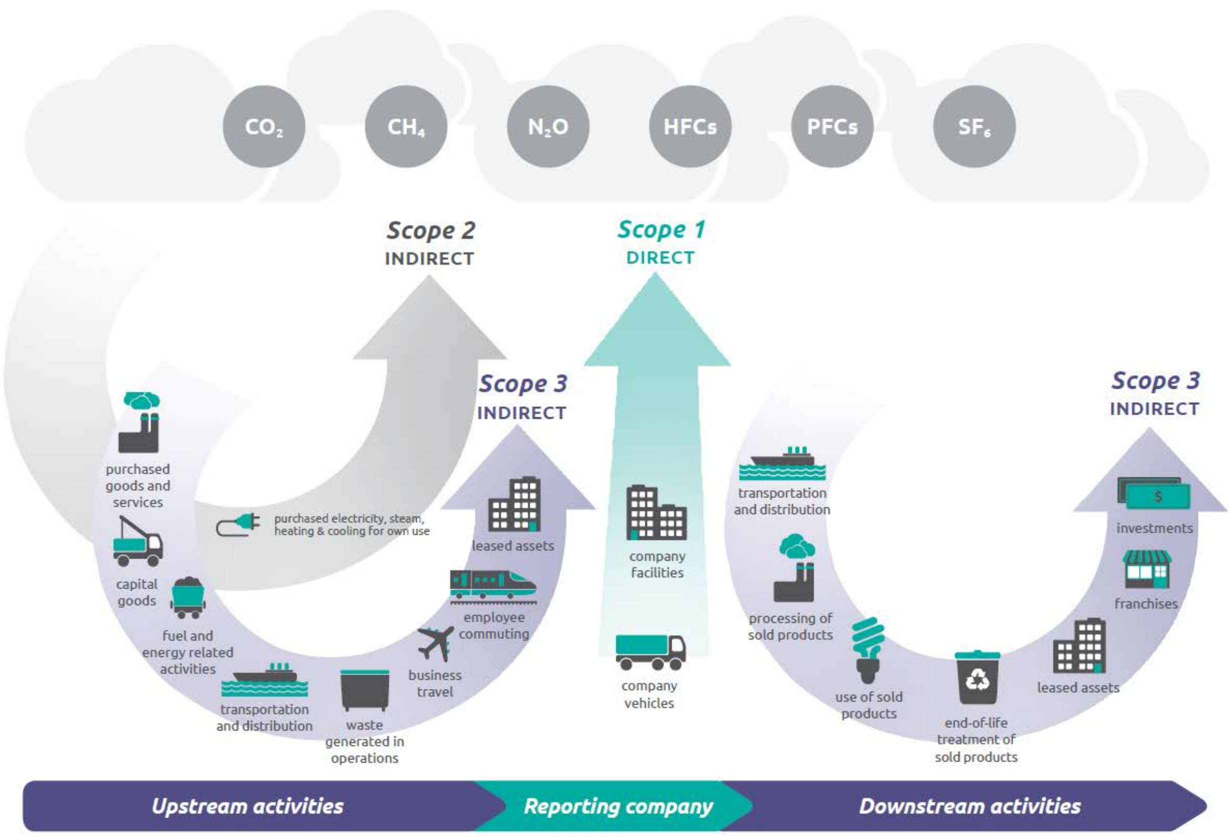
The equity portfolio greenhouse gas emission exposure at 30 June 2021 was at 13.6% of the benchmark's level for scope 1 & 2 emissions (see diagram below for definitions) and 17.8% for scope 3 emissions, both strikingly better than the benchmark levels. Our portfolio in its current state is aligned with a potential temperature increase of 1.5º C by 2050. We obviously expect this to improve further over the coming years.

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.

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

Greenhouse gas emissions are only one important measure of environmental impact. We will be looking to improve the portfolio measurement of resource use and recycling, which are other areas of focus for us, where we also believe our portfolio is very well positioned.

**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 ($SF_6$).*

## 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**

***The information contained in this newsletter has been prepared from sources believed to be reliable and accurate at the time of preparation and reflects the views and opinions of the New Zealand Methodist Trust Association. This publication is provided for general information purposes only and does not purport to give investment advice. All analysis, opinions and views reflect a judgment at the date of publication and are subject to change without notice. Although the information provided in the newsletter is, to the best of our knowledge and belief correct, the New Zealand Methodist Trust Association, its trustees, officers, employees and related parties accept no liability or responsibility for any error or omission in this newsletter or for any resulting loss, damage, claim or expense suffered or incurred by any party as a result of reliance on the information provided and opinions expressed in this newsletter, except as required by law. Please also note that past performance is not necessarily a guide for future returns.***