Methodist Trust Association

16 January 2025

Dear Depositor

MTA DISTRIBUTION RATES

The Methodist Trust Association (MTA) is pleased to advise the distribution rates for its Income and Growth & Income Funds for the quarter ended 31 December 2024.

The Income Distribution Rates are:

	Dec 2024	Sep 2024	Jun 2024	Mar 2024	12 Month Average Return
Income Fund	4.59%	4.53%	4.37%	4.38%	4.47%
Growth & Income Fund	3.38%	2.52%	2.60%	2.21%	2.68%

Income distributions for the quarter totalled **$3,185,236**

PAYMENT OF DISTRIBUTIONS

Income distributions will be made into depositors' accounts on Friday 17th January 2025 by direct credit.

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 over time are superior to those available in the general market for similar investments. The fund also maintains sufficient liquidity (cash) to allow you access to your funds at any time, with no penalty.

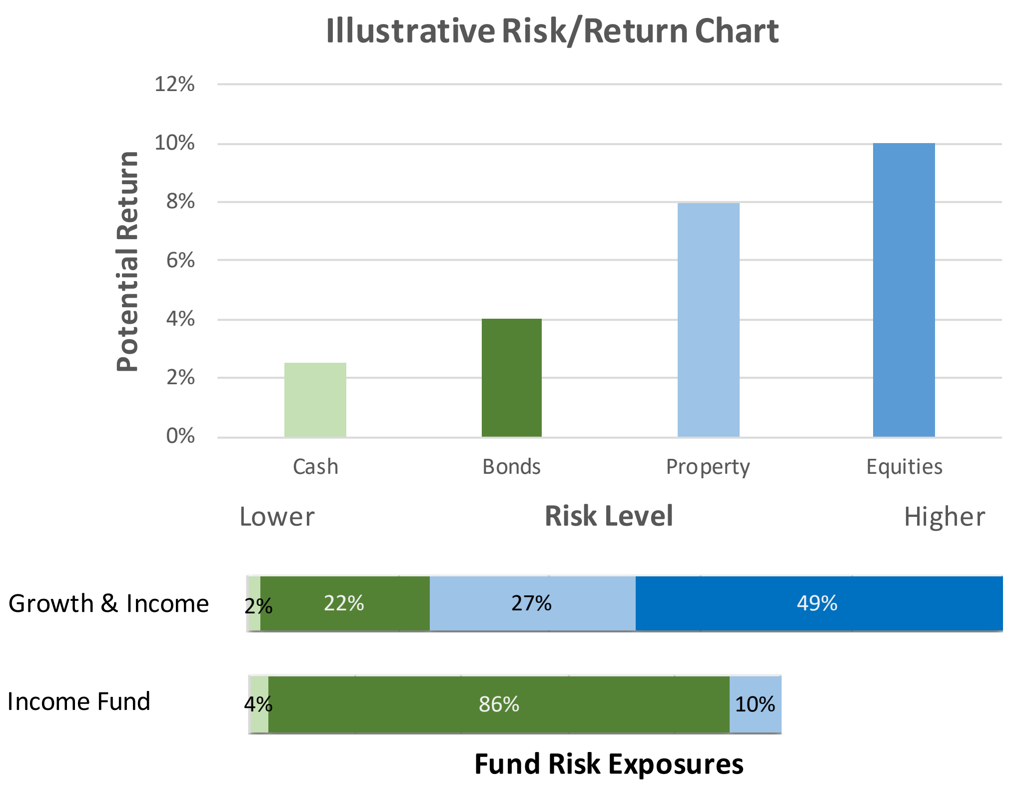
Growth & Income Fund

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. There is risk of capital loss, particularly over shorter periods (less than 3 years).

Over the 10-year period to 30 June 2024 the Growth & Income Fund produced a total return of 7.1% p.a. Within that 10-year period there were two negative years – 2022 and 2024.

MTA Funds Risk and Returns

With the following illustrative risk/return chart, we show each fund's allocations to lower-risk (shown in green); and higher risk (shown in blue) asset classes. There is a clear trade-off between long-term returns and risk taken.



The Income Fund invests in mainly lower-risk (green) asset classes, which will result in lower investment returns, but with high predictability of returns.

The Growth & Income Fund invests across the risk spectrum, with its highest weightings in the (blue) higher-risk assets. This will result in higher returns over the longer term, but with that comes greater short-term volatility of returns from year to year.

MTA's responsible investment criteria also ensure that your investments are compliant with Church policies and values, resulting in MTA meeting both your financial and ethical requirements for investments. Responsible investing is entrenched in our research and investment decision-making processes.

If you are unsure which fund you should invest in, please contact MTA's Executive Officer Stephen Walker to discuss your circumstances and objectives.

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.

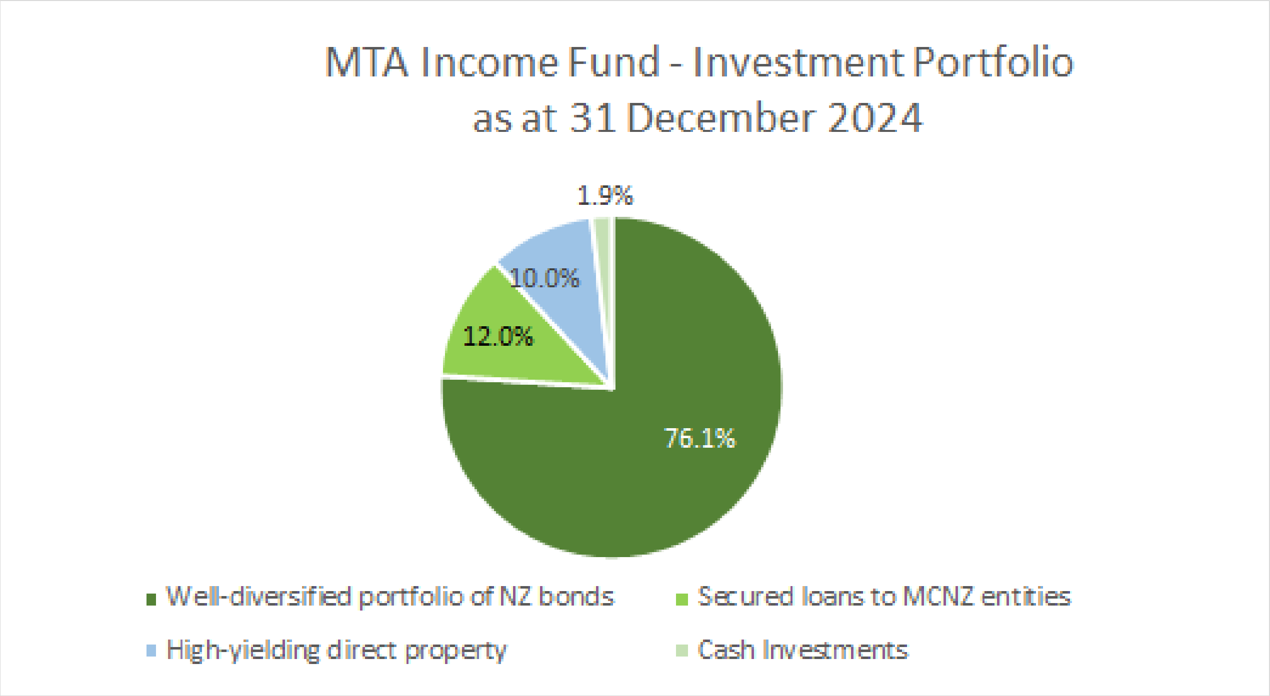
For the Growth & Income Fund only, the following withdrawal policy applies:

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 4.59%, which is slightly above our forecast return for the quarter made in September.

The asset allocation for the Income Fund's investment portfolio is shown below.



We continue to forecast a distribution rate for the June 2025 financial year of 4.50%. This forecast incorporates the continuing negative impact from reductions in interest rates we have already seen and those we expect to see over the balance of the 2025 financial year. The size of future reductions is uncertain but will only have a modest impact on the final return. **We now forecast a return of 4.45% for the March quarter and expect returns for the June quarter to decrease sequentially**.

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**. This can be very important should your circumstances change, resulting in an urgent need to access some of your money.

Commercial banks will penalise early withdrawals. For example, BNZ states that the interest rate that will be applied to the amount you withdraw early will be the advertised rate at the time the term deposit was opened, for the length of time the money was invested, less an interest rate adjustment currently set at 2%.

Your investment in MTA also enables us to provide loans for a variety of mission-related projects throughout the Connexion, when sufficient funds and liquidity permit.

GROWTH & INCOME FUND

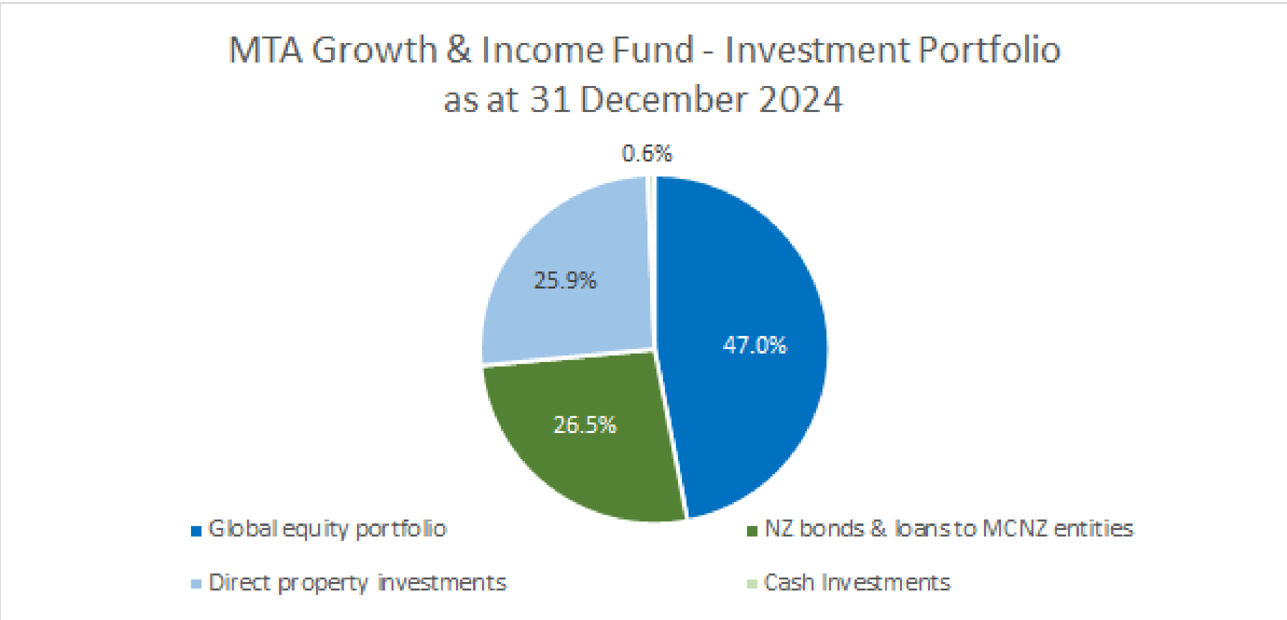
The annualised income distribution rate for the Growth & Income Fund is 3.38% for the December quarter.

The distribution was boosted by the receipt of $257,402 (0.59%), which was the fund's share proceeds from the Zuora shareholder class action suit, on which MTA was the lead plaintiff. Zuora settled the suit by paying US$75.5m to all affected shareholders, less the lawyer's fees.

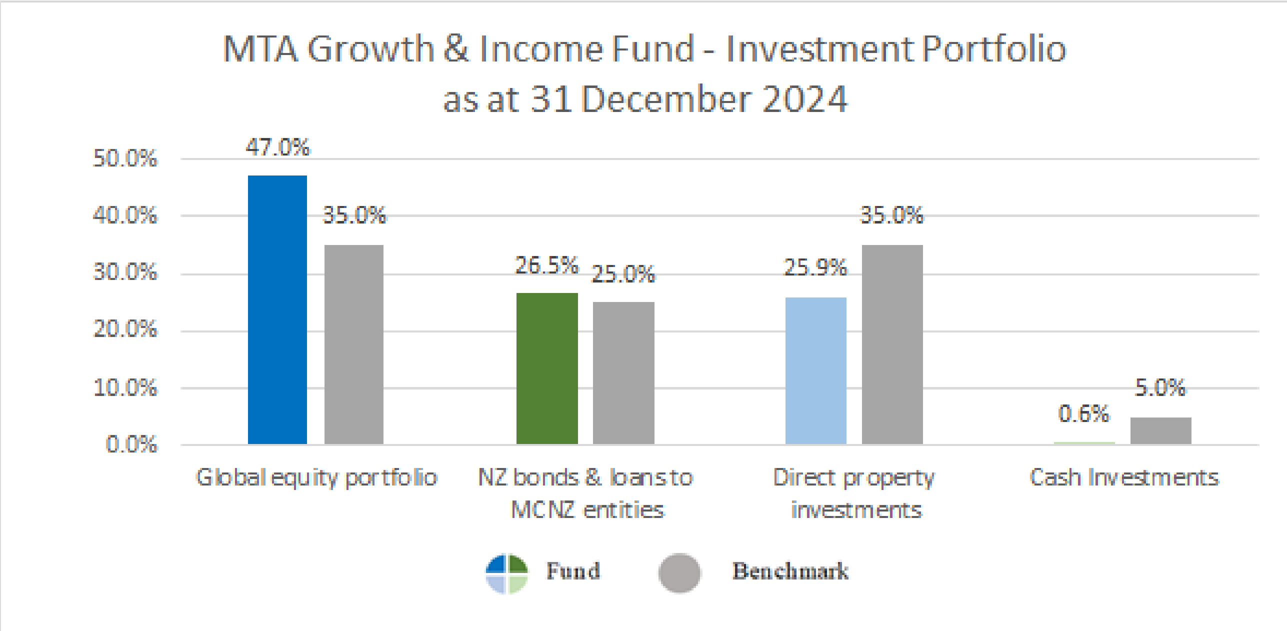
The lower distribution rates for the Growth and Income Fund, relative to the Income Fund, reflect the different objectives for this fund, which is primarily focused on long-term capital growth. Consequently, a large portion of the portfolio is invested in international share markets, where income yields are much lower than most other asset classes.

Over the longer term this approach is expected to produce higher total returns through capital growth, as seen in the December half year, but result in a lower income component within those total returns.

The asset allocation for Growth & Income Fund's investment portfolio is shown below.



The Growth & Income Fund's investment portfolio is currently overweight equities (shares) compared to the fund's benchmark, slightly overweight on Bonds, and underweight in both property and cash, as shown below.



Note: The benchmark weights are the neutral position. Each asset class is managed within a range around (over and under) its benchmark weight, with the position taken reflecting our relative risk-adjusted return expectations for each asset class.

The Fund's equity portfolio continues to favour resilient, high-quality growth businesses, positioned to benefit from longer-term structural change.

The Fund's largest equity holdings on 31 December 2024 and their respective December quarter returns are listed below.

Top 10 Equity Holdings

Name	Industry	Weight*	Quarter Performance
Rocket Lab USA	Capital Goods	8.5%	197.1%
General Motors	Automobiles & Components	8.0%	35.1%
MongoDB Inc	Software & Services	7.9%	-2.3%
NICE	Software & Services	7.9%	11.0%
Sabre	Consumer Services	5.7%	12.9%
Tomra Systems	Capital Goods	5.4%	-0.8%
Husqvarna	Capital Goods	5.1%	-13.3%
Porsche AG Group	Automobiles & Components	5.0%	-13.8%
Owens Corning	Capital Goods	4.1%	10.0%
ZipRecruiter Inc	Media & Entertainment	4.1%	-13.5%

*Weight relates to the weighting in the listed equity portfolio, which was 47.0 % of the Fund on 31 December 2024

The equity portfolio gained 12.15% during the December quarter, with strong contributions from Rocket Lab (+197.1%), General Motors (+35.1%), Wise plc (+68.7%) and Shopify (+50.6%).

WORLD MARKETS

Global share markets had a slightly negative quarter, with a high dispersion of returns. The MSCI World Total Return Index returned -0.16% for the period.

Major markets returns were mixed over the quarter. The US S&P 500 Index gained (+2.4%), Europe fell (-2.6%), the UK fell (-0.2%), Japan gained (+5.4%), New Zealand gained (+5.5%) and Australia fell -0.8%, with Resources down (-11.2%) and Industrials up (+2.3%).

Secondary markets were weak, with the emerging markets index down (-8.0%) and Asia ex Japan down (-4.5%).

Resource price moves during the quarter:

- Oil prices were stronger, with WTI crude up (+6.5%) for the quarter.
- Coking coal prices fell 24.9%.
- Metal prices were weak, zinc (-3.6%), Iron ore (-7.4%), aluminium (-2.3%), copper (-10.8%), and steel was weaker, with the steel Price Index down (-5.5%).
- Precious metals were all weaker, gold (-0.4%), silver (-7.2%), palladium (-9.0%), and platinum down (-7.6%).
- Agriculture commodities were mixed: Corn (+3.9%), Wheat (-8.7%) and Soybeans (-7.2%).

Over the December quarter bond yields increased in all major markets, which decreases the value of the bonds. In New Zealand the yield on 10-year Government bonds rose by 0.17% to finish the quarter at 4.41%. The US 10-year bond yield rose by 0.79% to 4.57%, while the 30-year bond yield rose 0.66% to 4.78%. In Europe the 10-year bond yield rose by 0.24% to 2.37%.

In currency markets, the US dollar was strong, resulting in the NZ dollar falling (-11.9%) against the USD. The NZ dollar was also weak against all other major currencies, falling -5.3% against the Euro, -5.9% against the UK Pound, -5.5% against the Swiss Franc and -1.6% against the Australian dollar.

Most Central banks cut their interest rates during the quarter:

- The US Federal Reserve cut its rates by 0.25% in both November and December to a range of 4.25-4.50%.
- The United Kingdom cut its rates in November by 0.25% to 4.75%.
- Canada cut its rates by 0.50% in both November and December to now be 3.25%.
- Australia last raised rates in November 2023 and remains at 4.35%.
- New Zealand cut its rates by 0.50% in both October and November to now be 4.25%.
- The European Central Bank cut its rates by 0.25% in both October and November to 3.00%.
- Switzerland cut its rates in December by 0.50% to 0.50%.
- Denmark cut its rates by 0.25% in both October and December to 2.75%.
- Sweden cut its rates by 0.50% in November and by 0.25% in December to now be 2.50%.

UNDERSTANDING INVESTMENT RISK

What is investment risk?

Investment risk refers to the uncertainty surrounding the outcome of an investment. This means there is no guarantee that any individual investment will generate the expected returns or even return the capital invested. Investing inherently involves taking risks, which must be understood and managed.

Interestingly, only about 10% of people believe they understand financial risks, and fewer than 1% grasp the most critical long-term risks: **inflation** and the **failure to preserve the real value of investments over the long-term**. However, there are strategies to manage and reduce these risks effectively, as outlined below.

Key Investment Risks and How to Manage Them

Types of risk	Ways to mitigate risks
Probability of Loss	Conduct thorough research and maintain diversification
Volatility of Returns	Diversify your portfolio and adopt a long-term investment horizon.
Liquidity Risk	Ensure access to cash and invest in liquid (easily tradable) securities.
Inflation	Invest in real (physical) assets, such as property or commodities.
Failure to Preserve Long-Term Real Value	Focus on real assets, diversify investments and currencies, and maintain a balanced portfolio.

A Historical Perspective on Investment Risks

The table below shows historical real (inflation-adjusted) annualised returns for shares, bonds, and short-term deposits across several countries from 1900 to 2022:

Country	Shares	Bonds	Short-term deposits
Austria	0.8%	-4.0%	-7.8%
Italy	2.0%	-0.9%	-3.3%
Belgium	2.5%	0.2%	-0.4%
Germany	3.0%	-1.5%	-2.3%
France	3.2%	0.0%	-2.1%
Japan	4.2%	-0.8%	-1.8%
Finland	5.2%	-0.2%	-0.6%
Norway	4.5%	1.5%	0.9%
Sweden	5.8%	2.4%	1.5%
Switzerland	4.4%	2.0%	0.6%
United Kingdom	5.2%	1.4%	0.8%
United States	6.4%	1.6%	0.4%
Australia	6.6%	1.5%	0.6%
New Zealand	6.1%	1.8%	1.5%

Real Returns and Inflation: *In investment terms, a* ***real return*** *means a return that has been adjusted for inflation. For instance, if your investment provides a notional return of 7% and inflation is 2%, the real return is 5% (7% - 2%).*

Periods of war and economic instability, such as the Great Depression and World War II, had devastating impacts on real returns government bonds and other interest-bearing investments.

For example:

- **Germany:** Government bond prices fell dramatically during the rise of the Nazi regime and World War II. Prices dropped from 60% of their issue price in 1932 to just 15% by 1939.
- **Belgium:** During the same period, Belgian bonds fell from 90% of their issue price to just 25% after Germany's invasion of Belgium in 1940.

Inflation and currency devaluations further eroded real returns, such as Italy’s 90% inflation rate in 1944.

Natural Disasters and Economic Shocks

Wars are not the only cause of such adverse outcomes. Natural disasters, such as a volcanic eruption and tsunami in Auckland, could severely impact New Zealand’s economy. Even minor disruptions, like lane closures on the Auckland Harbour Bridge, cost millions of dollars—highlighting the vulnerability of New Zealand investments in such scenarios.

The Power of Compounding

Compounding magnifies investment returns over time. Albert Einstein famously called compound interest “the eighth wonder of the world.” Consider these examples (ignoring tax for simplicity):

- Investing $1,000 in bonds at a 1.5% real return for 40 years grows real value to $1,814.
- Investing $1,000 in shares at a 6.0% real return for 40 years grows real value to $10,286.
- A $1,000 investment compounding at 6.0% annually for 100 years grows real value to $339,302.

Investing involves taking risks. However, risks can be minimised through careful planning, diversification, and through taking a longer-term perspective. Adequate diversification across asset classes and currencies is essential to safeguard and grow the real value of investments over time. While investing in shares may seem risky in the short term, it is the most reliable way to preserve and grow wealth in the long run.

RESPONSIBLE INVESTMENT

Our goal is to produce risk-adjusted returns that align with the values and principles of the Methodist Church, as well as our investors' return objectives.

We access most of the information we use to implement the Church's Responsible Investment Policy from Institutional Shareholder Services Inc (ISS).

The Responsible Investment Policy is implemented by using values/ethical negative screens, and through the integration of Norm-Based research and ESG factors into our investment analysis and investment decision making process.

Values/Ethical Negative Screens

The Methodist Church of New Zealand excludes companies that derive >5% of their revenue from products and services listed below, that are not aligned to the principles of the Methodist Church.

Ethical Screening

- Alcoholic beverages
- Adult Entertainment
- Civilian Firearms
- Conventional Weapons and munitions
- Gambling
- Privately operated correctional facilities
- Nuclear bases
- Tobacco

Controversial Weapons Screening

- Cluster munitions,
- Anti-personnel Mines,
- Depleted Uranium,
- Nuclear Weapons (all),
- Chemical Weapons,
- Biological Weapons,
- Incendiary Weapons
- White Phosphorus Weapons

Energy & Extractives

- Exposure to Fossil Fuel Activities - Coal, Oil and Gas

At 31 December the fund had no exposure to any companies with >5% of revenues involved in any prohibited activities related to our ethical screens, controversial weapons or energy and extractives.

Norm-Based Research Integration

Norm-Based Research includes assessing investments against minimum standards of business practice based on national or international standards and norms such as the International Labour Organisation conventions, the OECD Guidelines for Multinational Enterprises, the UN Global Compact or the UN Guiding Principles on Business and Human Rights.

ISS research assists MTA by flagging any exposure, as well as providing detailed information on any issues. This enables MTA to make robust decisions regarding companies' adherence to global norms on anti-corruption, human rights, environmental protection and labour standards.

We use Norm-Based Research to assess supply chain risks (e.g. child/forced labour) and to identify and understand any companies with military equipment involvement.

Norm-Based Research covers:

- Anti-Corruption
- Environmental Protection
- Human Rights (including supply chain exposures)
- Labour Rights/Standards (including supply chain exposures)
- Military Equipment Involvement.

ISS currently flags three of our holdings, Porsche, UBS Group and Microsoft, with amber warnings for past failures.

For Microsoft, as previously reported, the flag is characterised as labour rights. Microsoft Corporation has an AMBER signal since December 2023 relating to its recently acquired subsidiary Activision Blizzard, Inc.

For UBS Group, as previously reported, the flag was characterised as human rights, being failure to pay fair share of taxes in France.

For Porsche AG, as previously reported, the AMBER signal relates to illegal engine software that resulted in non-compliant diesel emissions in 2015, when it was part of the Volkswagen Group.

An amber warning is less serious than a red warning. This is usually due to the issue being either less serious or historic and remediated, as is the case with UBS. It does not preclude us from owning these investments.

We use all warnings or flagged potential breaches of our values, as a signal to fully investigate the issue, to determine whether we are comfortable with the current situation. If not, any holding will be exited in a timely manner.

In each of the cases above, the issues raised are not current issues and did not happen under the current senior management teams.

At 31 December, the Funds had no exposure to any companies of continuing concern related to the above listed issues. In addition, no companies were flagged as having issues in their supply chains.

ESG Integration

We include Environmental, Social and Governance risks and opportunities into our investment analysis and investment decisions.

ESG risks and opportunities are assessed across a company's value chain.

ESG Assessments include:

- Upstream risks related to a company's supply chain and natural resource usage.
- Operational risks related to a company's production and operational processes.
- Downstream impacts, positive and negative, from products and services sold.

The portfolio ESG assessment will give a more complete picture in time, as more companies are assessed, and disclosures improve. Currently, reliable data is available for larger companies, especially in North America and Europe.

Where data is available most of our holdings are rated highly by MSCI and mostly rate much higher than their industry peers.

Global Warming Alignment

We are committed to transitioning to net-zero greenhouse gas emissions by 2050. This is needed to limit the increase in the global temperature to less than 1.5°C. Current science indicates that global warming beyond 1.5°C has potentially catastrophic impacts on the natural world and human society.

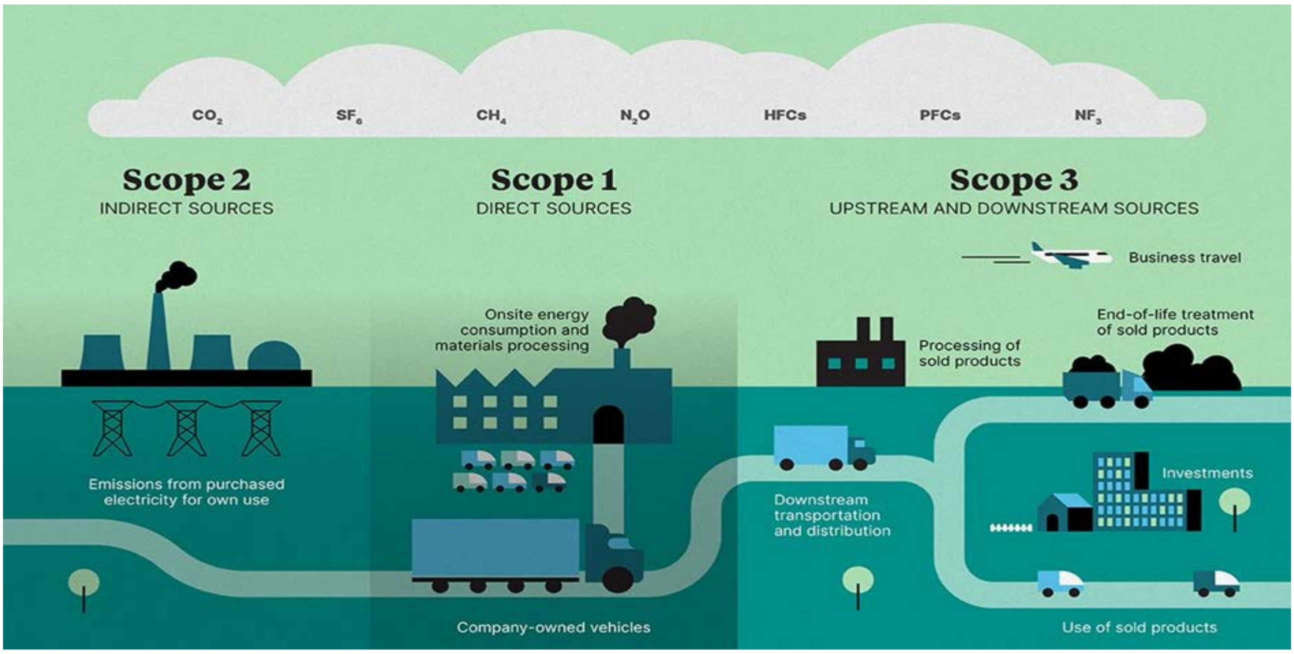
ISS data shows that our portfolio is aligned with a potential temperature increase of 1.5°C by 2050, whereas the MSCI World Index has a potential temperature increase of 2.7°C.

Climate Impact Assessment

The equity portfolio's annual greenhouse gas exposure on 31 December 2024 was at 933.29 tonnes for scope 1 & 2 emissions and 30,948.33 tonnes for Scope 1,2 &3 emissions.

The portfolio was at 36.5% of the MSCI benchmark's level for scope 1 & 2 emissions (see diagram below for definitions) and at 95.7% for scope 1,2 &3 emissions. The higher level for scope 3 emissions relates to emissions from use of products, primarily from General Motors and Husqvarna, who are both leaders in transitioning their products to zero-emission battery power.

Overview of Greenhouse Gas scopes and emissions



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.

FEEDBACK

The Board of the MTA is keen to improve its communications with our stakeholders.

Please use the email address MTAFeedback@methodist.org.nz to ask any questions. We would also welcome your feedback on our communications and any suggestions for topics you would like us to address in future.

Regards

Stephen Walker
Executive Officer

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