first news
Issue 96
December 2023

first mortgage trust

Annualised pre-tax return for the quarter ending 31 December 2023

7.31% p.a. Group Investment Fund and PIE Fund

Past returns are not a reliable indicator of future performance.

Welcome to the final newsletter of 2023

As we say goodbye to 2023 I want to take a moment to reflect on the year we've had at FMT and look towards 2024.

We have closed the year in a very strong position and are pleased to report our return for the December quarter is an impressive annualised pre-tax return of 7.31%, capping off a year of consistent growth in our returns.

Consistency is key

Since March 2022, we have managed to increase our quarterly return for seven consecutive quarters – this is an impressive achievement.

Over the past 12 months our return has increased by 124 basis points, from 6.07% in December 2022 to our current rate of 7.31%. For the same period, the 12-month term deposit rate has moved from 5.06% to 6.08%, reflecting a more modest 102 basis point rise*. (*Data sourced from rbnz.govt.nz, based on an average bank deposit of $10,000.)

At our recent Investor Meetings, many of you heard me talk about how we are driving these returns. One of the reasons for our continued strong performance has been the transition from older loans with lower interest rates to new loans mirroring current market pricing. For those who couldn't attend the Investor Meetings, we've included the key points later in this newsletter.

Navigating future market interest rates

A key discussion topic at our Investor Meetings was the potential impact of falling lending interest rates on investor returns. While we don't have a crystal ball to accurately predict where interest rates will go, we focus on what's within our control: the management of our lending rates.

Our lending rates are not linked to the OCR or other index movements, although they do follow similar trends. When the market was in its upward cycle we increased our rates based on our judgement of what we were seeing in the market, as opposed to following an index. What this means is, that when market rates begin to fall we aren't locked in to following the market down. Instead, we can move our rates depending on what market conditions we are experiencing. And while there will always be fluctuations to returns, we anticipate this strategy will allow us to keep rates higher for longer, delivering stable returns.

We aim to provide peace of mind investing through consistency and minimal volatility. We prioritise smart, balanced investment decisions to optimise returns rather than chasing the highest possible return.

Looking ahead: 2024 and beyond

Early indicators for the 2024 property market are encouraging, with growth signs in some areas and strong purchaser interest being driven by strong migration flows. Our lending team are also reporting an increase in high quality lending opportunities.

Recently we completed our planning for 2024 and beyond. We will continue to invest in both our people and technology, with a particular emphasis on cyber security – a priority for us and our investors. In line with our strong commitment to technology, we are pleased to advise the creation of a new Chief Technology Officer role. More details on this appointment will be shared in our March newsletter.

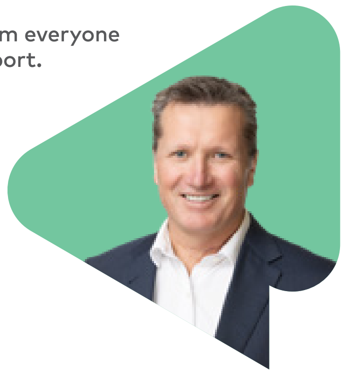
While we enhance our technological capabilities, we will always remain committed to our personal approach, a quality which sets us apart in the market.

Our commitment to you in 2024

As we step into the New Year, our primary goal remains steadfast: to protect your capital and deliver consistent returns. We're committed to making decisions that align with our long-term vision, ensuring the continued success of our clients – investors and borrowers alike.

In closing, a huge thank you from everyone at FMT for your continued support.

Wishing you and your loved ones a Merry Christmas and a Happy New Year.



Paul Bendall,
CEO

Season's Greetings from our Chair, Michael Smith

Just like that, another calendar year is behind us, and a new one about to get underway!

As we move into the holiday period, it's fitting that I take this opportunity to extend season's greetings to you and your families. My fellow Board members and I hope that you enjoy a well-deserved break, and that you have a chance to spend time with family and friends over the festive season.

Overall, it has been another very satisfying year for First Mortgage Trust, particularly with the economic conditions we have experienced this year. Despite the headwinds the country as a whole has experienced, we have continued to deliver steady returns for our investors - and for borrowers, we've continued to provide property finance that enables them to get going, and get ahead.

As investors we know you have a choice with your investment decision-making, and so I want to close by saying that we genuinely appreciate your support and the ongoing trust you place in us.

Best Regards,
Michael Smith, Chair

First Mortgage Trust Loan Book - key facts

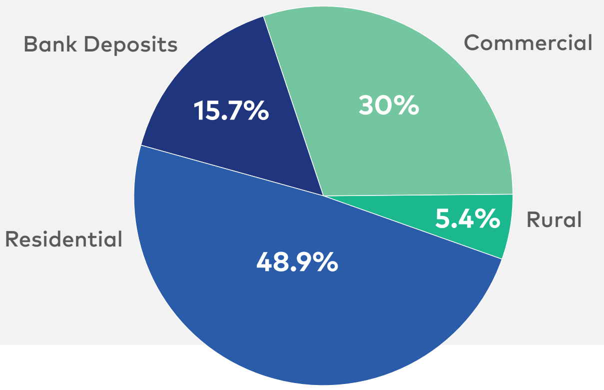
Our loan book is diversified across property types and location.

As an active fund manager we continually review the quality of our loans and ensure we adhere to our relatively conservative investment strategy.

This is demonstrated by our investment portfolio loan to value ratio (LVR) being approximately 46%.

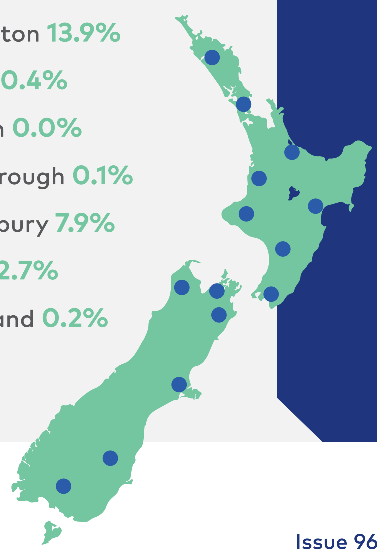
The following information provides details of our loans by region and investments by type as at 5 December 2023, demonstrating our diversity.

Investments by Type



Loans by Region

Northland 0.2%
Auckland 61.5%
Bay of Plenty 7.2%
Waikato 5.0%
Taranaki 0.0%
Hawkes Bay 0.5%
Manawatu-Wanganui 0.4%
Wellington 13.9%
Nelson 0.4%
Tasman 0.0%
Marlborough 0.1%
Canterbury 7.9%
Otago 2.7%
Southland 0.2%



Loan Summary

Number of loans
641

Loans secured over
1,350+ properties

Average loan size
$2.21m

Average LVR
45.8%

Average loan term
19.9 months

Loan origination in last 12 months
$915m

Introducing our new Board Member Mark Synnott

First Mortgage Managers Limited is pleased to announce the appointment of Mark Synnott to our Board.

Mark has been the Executive Chairman of Colliers NZ since May 2023, having previously been CEO for the thirty years prior. Mark's association with Colliers goes back to 1989 (some 34 years ago) when he joined the Auckland office as an Office Leasing Manager and Broker.

Having stepped into the CEO role only five years after joining Colliers, under Mark's leadership the team grew ten-fold (from 75 to nearly 750), with coverage extending to thirty offices across the country.

It goes without saying that Mark is a fantastic leader and motivator, with key strengths in strategic planning, relationship building, people and culture development and the recruitment and retention of senior personnel.

Alongside his directorships, Mark and wife Sally oversee the Michael Synnott Charitable Trust which they established in 2008 in memory of Mark's brother, Michael. The trust supports young people from South Auckland to achieve their potential via sponsorships which are provided in partnership with other entities such as the Tania Dalton Foundation.

Mark recently received the Supreme Excellence Award and the Outstanding Leadership Award at the Auckland Property People Awards 2023. This recognition is testament to his leadership and professional excellence, and his skill in navigating the market, and ongoing contributions to the industry.

We look forward to working with Mark and benefiting from his valuable expertise and skills.

New Year, New Goals?

Saying goodbye to December and saying hello to January is often a time when people reflect on the year that's been, and the one ahead. What has been achieved, and what would you like to achieve in the year ahead?

For some, it might be that you are planning on retiring, or perhaps you want to buy a property, or plan for a child or grandchild's education. Maybe it's 'business as usual' with some considered decision-making around your investment portfolio.

If any of these activities are part of your New Year's resolutions, and they prompt a revisit of your investment goals, then FMT would be glad to assist.

To assist our investors to achieve their goals we provide lump sum investment facilities and the establishment of more regular savings plans. This enables every investor to approach their investment plan in their own unique way.

Please talk to our friendly team to find out more, and let's see if we can help you to get your New Year's plans underway.

Please note; FMT does not provide financial advice, professional financial advice should be taken before making an investment or changing your investment goals.

An overview from our Investor Meetings for 2023

We recently concluded a busy calendar of seven Investor Meetings for 2023 with almost 1,000 people attending to hear first-hand from our Chair Michael Smith, Board representative Kylie Boyd, our CEO Paul Bendall and a range of special guest speakers.

For those who could not attend our Investor Meetings, below is a summary of the key points and information shared.

"My main goal today is to convey a picture of a company that knows what its core business and values are, has continued to thrive despite difficult market conditions and is well placed to execute on the opportunities that will present themselves in the future."

- Paul Bendall, CEO

Summary of Key Points

- Our fund now exceeds $1.65 billion funds under management, having continued to grow by over $80m in the last year.
- We've added over 400 new investors from around the country, indicating strong confidence from new investors and current investors despite economic challenges and in a time when other companies have reduced headcount, we've grown our team.
- Our loan book has 650 loans secured by over 1,300 first mortgages and stands at $1.45 billion.

"We also reached a new milestone this year distributing over $100 million in returns to our investors."

What about the specifics of our loan portfolio?

Our average loan-to-value ratio is below 47%, reflecting a conservative stance. Our loan portfolio is diverse, both in asset types and geographically, with over 96% of loans located in New Zealand's five main centres. This diversification and conservative approach have been key to our performance.

The reason we focus almost entirely on those key markets is historically, they have performed well from a property value perspective, because they are regions that have growth, employment opportunities and strong GDP.

How does FMT differentiate itself in terms of lending?

We're selective in who we lend to, in fact we only approve about 10% of all loan applications that come across our desk. When making decisions, the first question we always ask ourselves is -"Is this in the best interest of our investors?" If the answer isn't an emphatic yes, we move on. It has been this way since 1996 and it won't be changing. Our lending approach balances optimising investor returns with managing risks.

The forescast for FMT return rates:

From an investor perspective, we anticipate that our quarterly return will maintain its consistent rate, provided there is no material change to our current position.

We're focused on cyber security

We take data protection very seriously. We invest heavily into cyber security and our systems are monitored 24-7 by state-of-the-art technology and a cyber security team.

Despite investing into technology we won't be moving away from our personal approach.

Looking forward, what's FMT's future outlook?

We're very optimistic, with a focus on capturing lending opportunities in a growing market. Our strategy includes launching a wholesale fund, which will allow us to access different lending markets and potentially enhance returns for all investors.

What's the key message for investors?

With over 27 years of success and no capital loss for investors, FMT is underpinned by a skilled team and strong values. We are well-positioned to navigate future challenges and opportunities, ensuring stable returns for our investors.

In summary, our commitment to you, our investors is:

- To strive to provide the best customer service
- To always fully comply with all legislation
- To act in our investors' best interests
- To adhere to a conservative operational policy
- To maintain our commitment to steady, careful and well managed growth.

Our sincere thanks to those who attended the Investor Meetings and also to our guest speakers - Tony Alexander, Ross Halpin from Save the Kiwi, and our Youth Sponsorship recipient Lachie Kirk (read more from Lachie on page 6). If you were unable to make our investor meetings, you can watch a recording at ***fmt.co.nz/events.***

(Numbers and data as at September 2023)

Housing cycle turns mildly upward

Article by Tony Alexander, Independent Economist

Early this year we saw a strong lift in the number of first home buyers deciding to bite the bullet and make a home purchase. They were driven by lower prices, slightly improved credit access, availability of Housing NZ assistance schemes, strong numbers of listings, and little competition from other buyers.

Their lift in buying has produced so far, an average 4% rise in New Zealand house prices since the cycle reached its low in May. Auckland prices are ahead 5.4%, Wellington 4.5%, and Canterbury 4%.

At the moment there is an expectation that this wave of first home buyer activity will now be followed with a wave of investor buying. We can certainly see increased investor interest in the surveys which I run each month. For instance, a net 22% of real estate agents at the end of November said that they were seeing more investors in the market. Three months earlier this was a net zero and back in April a net 44% of agents were seeing fewer investors.

Why are investors showing higher interest? The fact that prices are no longer falling will be a motivating factor for the many who have been holding back before expanding or starting their portfolio. Additional motivation will come from evidence of prices rising on average near 0.8% a month.

Heading into the election the shifting of polls towards suggesting a National-dominated government will have encouraged a few. The post-election confirmation that deductibility of interest expenses will return in full from April 1 2025 and to an 80% degree from 2024's April will clearly be an encouraging factor.

However, when I look through my various surveys I can see no evidence that there is a flood of investors looking to buy. In fact, the net proportion of real estate agents saying that they are seeing more investors looking to sell has just risen to the highest level since late-2021 at 11%. Six months ago a net 6% were seeing fewer investors selling.

It looks like expectations of higher demand are encouraging some investors to sell without being in as weak a negotiating position as was the case through 2022 and the first half of this year.

Over-riding the impacts of tax changes etc. is the still very high level of interest rates which make it difficult for many people to finance a fresh purchase or even continue to afford what they already own. This is especially the case when we consider the sharp increases underway for home insurance, council rates, and basic maintenance.

In conjunction with a boom in population growth these factors suggest continuing strong upward pressure on rents. As rents push higher and the migration boom continues we can reasonably expect more young people to try their best to purchase a property as soon as they can satisfy bank lending and debt servicing criteria.

In fact, when we consider the tax changes, surging population growth, and falling house construction, the scene looks like being set for a period of firm increases in average house prices once one more thing happens – interest rates fall.

Recently the Reserve Bank reviewed their 5.5% official cash rate and said there is no scope for easing at the moment. In fact they pencilled in one further 0.25% increase next year and projected that no rate cuts will occur until the middle of 2025. It is extremely unlikely that rate cuts take that long to appear.

The Reserve Bank has failed to allow for a likely tightening of fiscal policy by the new government. They have also made no allowance for any negative impact in the farming sector from the El Nino weather pattern. Importantly, while they emphasised new upward pressure on housing costs because of the migration boom, they made no allowance for the boom restraining the pace of wages growth.

However, when we look at measures of labour market tightness we see a rapid improvement in staff availability is underway across most sectors, though not at all levels. There are still shortages of skilled people in some sectors.

The chances are high that in the next few months solid evidence will appear of slowing wages growth and some further decline in business plans for raising their selling prices. After all, offshore inflation outcomes in the past few weeks have surprised on the lower than expected side. Easing inflation offshore (including lower oil prices) will eventually feed through to inflation here in New Zealand.

There is a good chance that the Reserve Bank will start cutting interest rates in the second half of 2024. But it is impossible to take a strong view on how rapidly borrowing costs decline given the many uncertain local and international factors in play.

All we can say is that NZ house prices have started rising while interest rates are high and have gone higher in recent months. The pricing impact once they start falling seems relatively easy to figure out.

Tony Alexander is an independent economist and produces a free weekly publication with a housing focus called "Tony's View", available for signup at www.tonyalexander.nz

Hanmer Clinic: A Beacon of Hope in Addiction Treatment

Since 1999, Hanmer Clinic in Tauranga has been at the forefront of providing alcohol and drug addiction treatment services in the Bay of Plenty. Their approach extends beyond addiction treatment; encompassing a holistic view of individual wellness, integrating the strengths of the person and their family into the recovery process.

Their abstinence-based treatment programme is one of many support areas, tailored to address the multifaceted nature of addiction. Hanmer Clinic believes in treating the person, not just the addiction, by recognising the uniqueness of each individual's journey towards wellness.

The success of Hanmer Clinic's clients is significantly enhanced by the ongoing programmes they offer. These programmes foster meaningful relationships that not only aid in recovery but also ensure a smooth and supported reintegration into the community. The impact of these relationships is profound, often leading to transformative life changes for the clients.

"We are thankful to First Mortgage Trust for their support. Their partnership has allowed us to create the whānau room, a sanctuary for our clients."
– Sue Hancock, Hanmer Clinic Director.

The value of Hanmer Clinic's work is echoed in the heartfelt testimonials of those who have benefitted from their services. One client shared, "The treatment I have received from Hanmer Clinic has been life-changing," while another reflected, "This programme and the team have helped me change my path on which I journey."

At FMT, we're proud to support this worthwhile cause that helps so many people in our community.

N.B Donations and sponsorships are made by the Manager and do not come out of investor funds.

Announcing our FMT Youth Sponsorship Recipient 2023

Our annual Youth Sponsorship is an initiative that we are very proud of. It is open to those aged 16 to 25 who are excelling in sport, music or art at a national and/or international level.

Since its inception 18 years ago, we've had some amazing young Kiwis receive grants to help them achieve their dreams.

This year we received thirteen applications from all over the country. Selecting just one winner was difficult because every applicant was so talented with impressive achievements under their belt.

But for us, aspiring Olympic trampoliner Lachie Kirk was the applicant who stood out. We loved his hard work, his values, and his ambition to compete at the highest level.

Here's some feedback from Lachie since receiving the sponsorship award:

"It has been an honour to receive the FMT Youth Sponsorship for 2023. As my sport of Trampolining is fully self funded, the sponsorship has been used to partially fund my recent trip to the World Age Group Trampoline Championships in Birmingham. There, I ended up placing 11th on the Trampoline and improved my personal best by a whole mark, a huge step towards my ambitions for future years. The other half of the sponsorship is to be used to partially fund next year's World Cup competitions in Portugal and Switzerland. My goal for the next four years building up to the Los Angeles 2028 Olympic Games, is to improve my average score by a mark each year, so by the time the Olympic year comes around, I will be sitting in good contention to qualify for a spot to compete at the Games. This has been possible because of you all at First Mortgage Trust so a big thank you for sponsoring me to fund my ambitions and goals."

Succession Planning - is it time to review your affairs?

A fictional Case Study illustrating why succession planning is important.

John Johnson is a 68 year old widower. He has a complying Family Trust that owns the majority of his assets (only his KiwiSaver is in his personal name). The Trust was established several years ago when John operated a business, for creditor protection. On his death, John intends for all his personal assets and the assets settled on the Trust to be divided equally between his daughters, Sandy (who lives in Sydney) and Wendy (who lives in Wellington).

John's lawyer says it is generally not advisable for overseas family members to:

- be the executors of your Will; or
- be appointed as your attorney for either property or your personal care and welfare matters.

Having received advice, John has nominated Wendy alongside his solicitor, as the executors and trustees of his Will. For his **Enduring Power of Attorney** documents, John appoints Wendy and a family friend who are based in New Zealand.

John is also advised about the **Trust Act 2019**, which has placed increased obligations on trustees by introducing, amongst other things, the presumption of making basic Trust information available to all beneficiaries (whether they are likely to benefit or not) and the duty to invest Trust assets prudently.

John's lawyer suggests that now would be a good time to review his Trust to determine whether:

- the Trust is still needed;
- trustees are meeting their obligations; and
- the Trust Deed can or should be varied to reflect the changes introduced in the Trusts Act 2019.

The advice to John is that if you don't have a Trust for a really good reason, like asset and creditor protection, a Trust may just be another unnecessary and costly complication in life. As John no longer operates his business, he does not need the Trust for creditor protection.

However, John's lawyer indicates that there may be benefits in keeping the Trust for **residential care.** In John's case, he is likely to obtain a residential care benefit by keeping the Trust, because his personal assets fall under the threshold of $273,628, his only income is superannuation, and the Trust assets were gifted some time ago in line with MSD's gifting rules for the residential care subsidy.

The lawyer advises that there are other estate planning options to maximise residential care benefits for couples without a Family Trust. For example, if a couple's main asset is their home then they could consider **life interest Wills** so that if the survivor of them needs care, half of the equity in the home is protected. Where a single person owns a property in their personal name there are less options.

Tax is also a consideration. John is advised that in many overseas jurisdictions, distributions from Trusts are taxed more harshly than distributions from a person or from their estate. John is cautioned that if Sandy from Sydney is to receive a distribution from the Trust (rather than his estate), there may be tax consequences.

He is advised to speak to his accountant about this. Ultimately, John would have to weigh up the potential benefit of keeping the Trust in the case that he went into residential care, against the potential tax consequences for Sandy.

John suddenly passes away. Wendy from Wellington receives a half share of the Trust assets and estate assets without any deduction (as generally in New Zealand there are no tax consequences for receiving a Trust capital distribution). However, in accordance with Australian tax rules Sandy from Sydney's half share is taxed as income and she therefore receives a significantly smaller share than her sister.

As your circumstances change, your Will and wider estate planning (such as Family Trusts and Enduring Powers of Attorney) should be reviewed.

It may be that what once was suitable for you and your family, is no longer the best option. Here are some important events that should trigger a review:

- change in relationship status (for example, a marriage will automatically revoke your Will but a separation will not);
- change in financial situation;
- change in health (yours or your families);
- sale or purchase of a property;
- births/deaths;
- family members moving overseas; and
- law changes – such as the Trusts Act 2019.

If it has been a while since you last reviewed your estate planning, or if you have had a change in circumstance, we encourage you to speak to a professional about reviewing your wishes.

In particular, if you have overseas family members, chat to your lawyers about your estate planning to ensure unnecessary cost and complications are avoided.

HOLLAND BECKETT
LAW

Why we need to ask for updated identification

Updating customer identification in a New Zealand financial business is crucial, especially for fraud prevention.

One aspect is the acquisition and maintenance of current photo identification from all our investors.

This practice, though seemingly small, plays a role in our compliance processes and is a requirement we must adhere to, as it relates to our broader anti-money laundering obligations.

Why current identification matters

- Regulatory Compliance: We must comply with the anti-money laundering (AML) and counter-terrorism financing (CFT) regulations set by the Government.
- Risk Management: Having accurate and current customer information helps us to identify and mitigate potential risks associated with financial activities and helps with fraud prevention.
- Improved Customer Relationship: Maintaining accurate customer information is essential for positive customer relationships, effective communication, and meeting legal and contractual obligations.

What happens when your identification expires?

1. Contact us so that we can send you an SMS text to your mobile phone with a link to update your ID online.

2. Provide a certified colour copy of your current driver license or passport (we can provide specific wording for the certification).

If you need any assistance

We understand that updating your photo ID might seem like an extra task and we greatly appreciate your cooperation in this process.

Our friendly investment team is available to assist with any questions you may have. You can contact them on 0800 321 113 or email at team@fmt.co.nz

FMT Investor Prize Draw: Your Chance to Win!

Every quarter, all First Mortgage Trust investors are automatically entered into the draw for a chance to win one of six $250 vouchers, which can be redeemed as petrol or supermarket gift cards. Winners will be contacted via phone. Congratulations to our winners!

Prizes are paid for by the Manager and do not come out of investor funds.

Christmas Hours

Our offices will close on Thursday 21st December and we will re-open on Monday 8th January 2024.

first mortgage trust

Talk to us

0800 321 113 | team@fmt.co.nz fmt.co.nz

Investment Transactions: Depositing and Withdrawing Funds

Depositing to Your Investment:

The easiest method is to use internet banking, where our account details are already set up as a Registered Payee. Just enter 'First Mortgage Trust – Group Investment Fund or PIE Trust' depending on your account and provide the necessary information. Alternatively, you can call us on 0800 321 113.

Withdrawing from Your Investment:

To initiate a withdrawal from your investment, you will need to fill out a Notice of Withdrawal, which can be found on our website. Simply complete the form and return it to us. Typically, we process withdrawals within four business days, either on Mondays or Thursdays.

Last date for processing Withdrawals in March:
Monday 25th March 2024. We will need to receive completed and signed Notices of Withdrawal on or before Thursday 21st March 2024.

Next processing date for Withdrawals in April:
Thursday 4th April 2024. We will need to receive completed and signed Notices of Withdrawal on or before Tuesday 2nd April 2024.