first news

December 2024

100th EDITION

first mortgage trust

Annualised pre-tax return for the quarter ending 31 December 2024

7.14% p.a. Group Investment Fund and PIE Fund

Past returns are not a reliable indicator of future performance.

As 2024 comes to a close, we're pleased to share that we've delivered a strong annualised pre-tax return of 7.14% for our investors.

While this is a reduction from the previous quarter, it remains a notable achievement. With the average 12-month term deposit rate across major banks now at 4.75%, our return continues to demonstrate a significant premium - highlighting one of the key benefits of our fund.

Our result reflects the economic headwinds New Zealand is currently facing. The falling interest rate environment has meant we have lowered our lending rates to remain competitive while maintaining the level of risk we are comfortable taking.

Additionally, lending volumes have decreased slightly over the past couple of months, meaning that we have held higher levels of cash which has impacted the return.

However, we remain committed to our core principle of optimising investor return rather than maximising it. Put simply, this means ensuring we find the right balance between risk and return and not lending for the sake of it.

Recently, we've seen a significant rise in quality lending opportunities, bolstered by increased borrower confidence following the latest OCR cut. Many borrowers had delayed transactions, but activity is now picking up as confidence grows.

Despite the challenges, we continue to deliver on our objective of consistently delivering a pre-tax investment return at least 1% above the four main banks' average 12-month term deposit rates. With a return of 7.14%, we are exceeding this target by 239 basis points, reflecting our commitment to delivering superior outcomes for our investors.

The changing economy

One of our key strengths is our loan book. By using local and national market insights and judgements rather than being tied to benchmarks like the OCR, we maintain the flexibility to deliver higher returns, even in a declining interest rate environment.

As noted, the recent OCR reduction has boosted confidence, indirectly benefiting many of our borrowers by stimulating market activity. This activity strengthens borrower performance, enhancing our portfolio and supporting your returns.

Looking back over the year

As we look back over the year, we've focused on enhancing our technology while maintaining cybersecurity as a top priority. A key initiative has been the development of a new investor portal, designed to complement our personal service - not replace it.

We understand that many investors value the convenience of managing their investments online, and this portal will provide benefits for those who choose to use it. For those who prefer to call or email, our personal service remains unchanged. Further details are included later in this newsletter, and we'll keep you updated as we approach the launch.

Connecting at investor meetings

One of my personal highlights of 2024 was meeting so many of you, and catching up with familiar faces, at our investor meetings across Christchurch, Auckland, Waikato, and the Bay of Plenty. With over 1,000 attendees, these events were more than just updates; they were an opportunity to connect, hear your thoughts, and strengthen the relationships that are so important to FMT.

The team and I really enjoy these opportunities to hear your feedback, answer your questions, and share our future plans. For those who couldn't join us, we've included the key messages in this newsletter to ensure you're kept up to date.

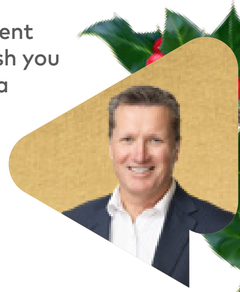
This edition also marks the 100th issue of our newsletter. Reflecting on past editions, it's inspiring to see how much we've grown while staying true to our core foundations: wealth protection, a conservative approach, and a commitment to personal service. These remain the same and are what sets us apart.

Looking ahead

As we move into 2025, our focus remains steadfast: delivering strong, consistent returns and protecting your investments. With a disciplined, long-term approach, we are confident in our ability to navigate both opportunities and challenges in the year ahead, supporting success for both our investors and borrowers.

Thank you for choosing FMT as your investment partner. On behalf of the entire team, we wish you and your loved ones a Merry Christmas and a Happy New Year.

Paul Bendall, CEO



Happy Holidays from our Chair, Michael Smith

On behalf of the Board, I would like to take this opportunity to extend season's greetings to you all.

Once again, it has been a satisfying year for FMT, with nearly 600 new investors joining us this year and a growing number of first mortgage loans secured over land and buildings using our prudent lending criteria. We've also grown our team in response to demand for investing and borrowing services, and we now have offices in Auckland, Wellington and Christchurch as well as our Head Office in Tauranga.

As I write this short message, I reflect on the fact that this is our 100th newsletter, with Issue 1 rolling off the press in June 2003. There are still some of us here who either featured in, contributed to or received that newsletter, so it's been great to reflect on our achievements and remember those who shaped FMT along the way. I am sure all those people would be pleased to see how committed and steadfast we've been to their vision, and how far we've come in the past twenty plus years!

In closing, thank you again for your continued support of FMT. May you all have safe and happy holidays and a prosperous New Year. I look forward to seeing you again in 2025.

Best regards,
Michael Smith, Chairman

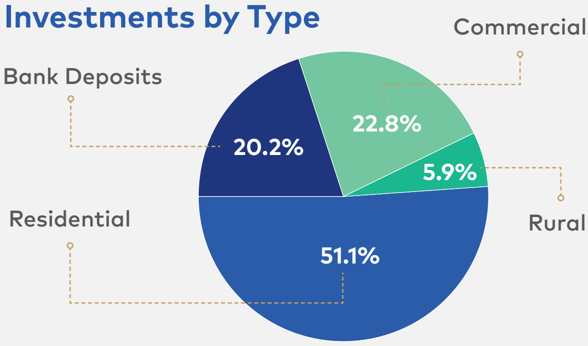
First Mortgage Trust Loan Book - key facts

Our loan book is diversified across property type 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 47%.

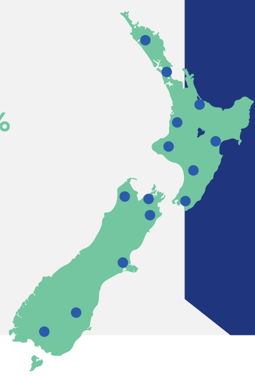
The following information provides details of our loans by region and investments by type as at 5 December 2024, demonstrating our diversity.

Investments by Type



Loans by Region

Northland 0.2%
Auckland 59.8%
Bay of Plenty 8.2%
Waikato 5%
Taranaki 0.2%
Hawkes Bay 0.5%
Manawatu-Wanganui 0.6%
Wellington 9.7%
Nelson 1.3%
Tasman 0.0%
Marlborough 0.1%
Canterbury 9.5%
Otago 4.7%
Southland 0.2%



Loan Summary

Number of loans
621

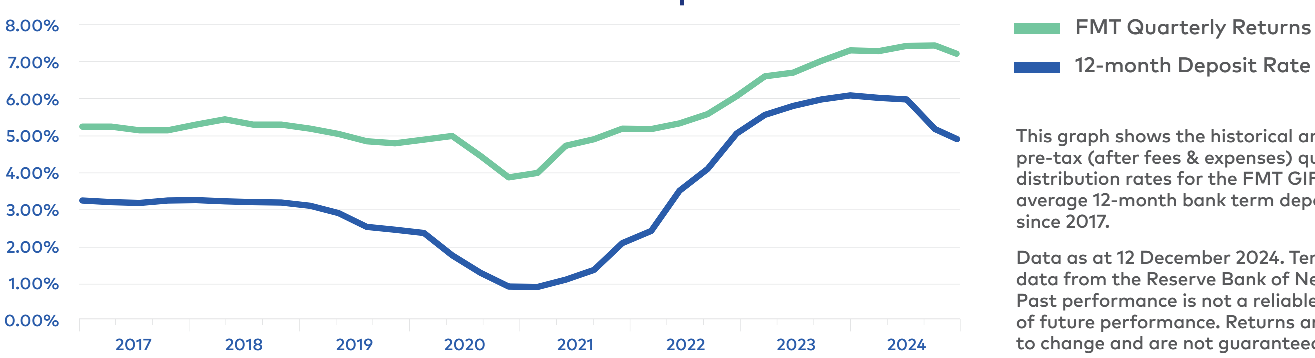
Loans secured over
1,400+ properties

Average loan size
$2.32m

Average LVR
47%

Loan origination in last 12 months
$946m

FMT Returns vs Bank Term Deposits



This graph shows the historical annualised pre-tax (after fees & expenses) quarterly distribution rates for the FMT GIF vs the average 12-month bank term deposit rate since 2017.

Data as at 12 December 2024. Term Deposit data from the Reserve Bank of New Zealand. Past performance is not a reliable indicator of future performance. Returns are subject to change and are not guaranteed.

It's with great pleasure we announce that this is our 100th issue of the investor newsletter. Some of you may remember receiving those early issues, as we still have many investors who have been with us from the start.

The first glossy four page issue was published in June 2003, with the ambitious target of it being a monthly to 6-weekly publication. Within a year, it was determined that quarterly-based newsletters were a more sustainable and pragmatic approach and so newsletters have been published in March, June, September and December ever since (even through Covid when we had to get special permission from the Government to engage a printer for our Autumn issue).

Looking back through the newsletters, it is easy to spot the consistent messaging around trust, stability and conservative lending that define FMT, and to understand the extra attention that these messages received through the dark days of the global financial crisis when FMT stood tall amongst its peers.

During that period, investors were assured that FMT was focused on the 'return of your money' before 'return on your money', with both the General Manager and the Chair of the time writing extensively to reassure investors of their commitment to doing the basics right and sticking to what we know ('no fancy strategies'). How pleasing for them that throughout this period, their hard work and diligence paid off, with not a cent of capital lost and every investor return paid fully and on time (a legacy that we are incredibly proud of, and committed to always upholding).

This prudent approach and a deep respect for investors has only grown since that time (something which CEO Paul Bendall succinctly refers to as an 'investor first' mentality).

Over and above this, FMT's newsletters have always carried a personal and human-interest element, whether that be profiling charities we support, introducing new staff members, celebrating significant investor milestones or reiterating the "good old fashioned" personal service available to all investors.

Some of the more quirky or interesting observations from our past newsletters include:

- For a period, the entire team was photographed and could fit on a one-third page space.
- Only three people have featured on the front page, these being our three GM/CEOs - Neil Pettersen, Tony Kinzett and Paul Bendall. The exception being in 2007 during the GFC when Chair Dick Barry published an additional letter to reassure investors that protection of their investments was our top priority.
- Helping young people on their journey, be it in the arts, sports or music, has been in our DNA for a long time, with our youth sponsorship grant featuring as early as 2006. Our readers have delighted in the achievements of our recipients, even more so if they were aspiring Olympians and they went on to win medals for New Zealand.
- Our first investor meeting was in 2001, which means we've been meeting investors face-to-face for nearly 25 years.
- Our 'toll free' 0800 number was introduced in 2003 and it remains the same number to this day (no email addresses were offered back then with most business transacted by mail, phone or personal visits to the office).

Lastly, early newsletters were usually signed off with a Thought of the Day. Here's some of our favourites which are still relevant all these years on... for your contemplation:

Small opportunities are often the beginning of great enterprises. Issue 1.

If life were just, we would be born old and achieve youth about the time we'd saved enough to enjoy it. Issue 22.

Remember that happiness is a way of travel - not a destination. Issue 8.

Do what you can, with what you have, where you are. - Theodore Roosevelt. Issue 3.

From Growth to Opportunity: Highlights of FMT's 2024 Investor Meetings

November marks the conclusion of our annual Investor Meetings, a highlight on our calendar. This year, we hosted events across New Zealand, beginning in August and wrapping up in November. These meetings are a valued opportunity to connect with our investors, share insights into the past year's performance, and discuss our outlook for the year ahead.

This year's investor meetings attracted over 1,000 attendees. There were a number of key themes discussed, plus some excellent questions from the floor. Here's a wrap up of what was seen and heard:

We started with a review of our performance in what has been a very challenging economic environment, and advised investors that FMT has performed very well, despite the Reserve Bank taking the heat out of the economy. In particular, we noted how pleased we are with the performance of our loan book which, once again, highlights the active and disciplined approach we take to managing investor money in line with our driving principle of optimising investor return. We continued to be prudent in our lending, cherry picking the right opportunities, and finished the year with a strong loan book that was well diversified across different asset types and geographical locations.

Our accompanying slideshow focused on some of our key numbers. These are shared here for your interest:

Investment Highlights

- The fund now sits at over **$1.7bn** having grown by close to **$90m** over the last 12 months.
- We now have over **6,600 investors up from 6,200 last year.** This highlights investor support for us in a difficult period.
- We increased the pre-tax annualised investor return from **6.71% 12 months ago to 7.44% in September.** This is at a time when term deposit rates continue to fall.
- Additionally, the difference between our rates and the main bank rates continues to widen, a trend we expect to continue in a falling interest rate environment.
- In monetary terms in the last year **we distributed over $115m to our investors.**

Lending Highlights

- In the last year we originated just on **$1bn of new loans** and our loan book now sits at close to **$1.5bn**.
- Our loan book is spread across **630 loans** and is secured by close to **1700** first mortgage security properties.
- This means that on average **every loan has close to three properties** securing that loan.
- This helps to contribute to our very conservative average **loan to value ratio of 46%** which is well below the maximum levels permitted under our governing documents.

Numbers and data shown above are as at 30 September as per what was presented at the meetings.

We also touched on our reserve fund and its size and purpose. As its name suggests, the reserve fund exists to cover any loan losses which may occur.

It is grown from retaining 0.175% of the net value of the fund per annum, noting the return you receive each quarter is net of this contribution. In the last year the reserve fund grew to $14.2m. We were pleased to report that we had only one loan where the reserve fund was utilised and this was for an amount of $135k. The reserve fund now grows at around $750k per quarter which provides an additional buffer over and above our prudent loan origination standards (but doesn't guarantee against falls in distribution or unit value).

Industry Trends and our Strategy

We were direct about our goal to capture bank market share by offering services they cannot. The market is growing rapidly, and we are now competing directly with banks, aligning with the Commerce Commission's push for increased competition. Globally, the non-bank sector makes up nearly half of the financial system (IMF), while in New Zealand, it holds only 8% - a figure expected to grow significantly, as seen in Australia's projected rise to 40%. While the label 'non bank' lender is not our preferred terminology, we certainly don't want to be considered a bank either. Our preference is simply to be New Zealand's best first mortgage lender and to continue to be well placed to meet the needs of customers and to build on the enormous growth potential that regulators are encouraging.

Lastly we reflected on our internal growth which has been driven by market demand. We are now a team of 66, having added eight people to our team (a growth of 14% at a time when other businesses continue to contract). The calibre of our people is outstanding, with highly experienced property finance lenders and experts in technology and cyber security joining our team.

Outlook

Looking to the next 12 months and beyond, we continue to look forward with confidence despite the economic headwinds. This confidence is driven off the back of the structural shift continuing to gather momentum in New Zealand which is now being supported at a political and regulatory level.

We believe that the property market will continue to improve, and that our greatest opportunity is continuing to take bank market share, a trend we are seeing overseas. We are well placed to take advantage of the opportunities this presents, all the while sticking to our investor-first principles and delivering the best customer experience possible.

We also shared a video from Gabby Wright our inspirational FMT Youth Sponsorship 2024 recipient.

For those that couldn't attend we have a video of the speakers available at fmt.co.nz/investor-meetings-2024/

Article by
Tony Alexander,
Independent
Economist

Falling interest rates

The monetary policy easing cycle in New Zealand is now well underway with the cash rate which influences bank mortgage rates so far cut from 5.5% to 4.25%. The chances are high that by the middle of next year the rate will be at 3.5% and this will flow through to lower returns mainly on short-dated bank term deposits and fixed mortgage rates out to about two years. Beyond that the scope for rate declines for both borrowers and investors is not looking all that strong.

This outlook for only muted further interest rate declines especially for medium to long periods may seem unusual when considering my view since August that the speed of recovery in our economy will be quite mild – perhaps disappointing in fact.

Falling interest rates will help lift activity and we can already see sharp gains in business sentiment alongside their investing and hiring intentions. Household spending is also showing signs of stabilising after three years of decline and there is clearly a boost to economic activity around the country to come from higher infrastructure spending, better dairy prices, still positive net migration inflows, and slowly rising house prices.

But over one-quarter of our export receipts come from China and the outlook for growth in the world's second largest economy is not good as families curb spending to rebuild wealth lost in property investments. Construction is weak and the central government is reluctant to engage in another bout of debt-funded infrastructure stimulus.

China is also the economy most vulnerable to higher tariffs promised by the incoming US President. Those higher tariffs bring a risk of retaliation by other countries which will tend to boost global inflation while retarding economic growth rates.

But there are two key factors which suggest that even though New Zealand's upturn will be mild, there is a strong risk the cyclical recovery in inflation appears quite early. First, as highlighted by both Treasury and the Reserve Bank recently, New Zealand's rate of productivity growth seems to have permanently slowed.

This means that inflation tends to appear at lower growth rates than would otherwise be the case. It is worth noting for instance that in adjusting for a worse prediction of future productivity growth the Reserve Bank have just cut its growth forecasts for each of the next two years by about 0.6% yet lifted their inflation predictions slightly.

The second factor is a product of the way business margins are currently being squeezed to the greatest extent since 1976 according to a measure I track. When we look at what businesses expect for only the next three months a below average proportion say they will raise their selling prices. That is great for inflation and explains why interest rates are being cut by the Reserve Bank.

But an above average proportion say they still expect their costs to go up. At the moment businesses cannot get away with margin-protecting price rises because customers won't stand for it. But a separate survey by the ANZ which looks ahead not three months but 12 shows that a well above average proportion of businesses plan to raise their prices.

That is, once the better economy they expect brings greater customer numbers through the doors they intend rebuilding their currently crunched margins by raising prices.

The upshot is that the cash rate set by the Reserve Bank will most probably be cut another 0.5% come February 19 and 0.25% on April 9. The rate then will sit at 3.5%. The risk is that this is as low as it goes this cycle. Having said that, none of us really know what is going to happen in world oil markets as the situation changes in the Middle East, and with global trade, inflation, and growth once January 20 brings the return of Mr Trump.

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

▶▶ To learn more about the wholesale fund, visit **fmt.co.nz/wholesale-fund** or get in touch with our team.

FMT Wholesale Fund

For those who attended our investor meetings, and have read previous newsletters, you would have heard the news that we have launched our wholesale fund, which is a fixed term product requiring a minimum investment of $500,000 for a minimum term of two years.

As its name suggests, the fund is open to "wholesale investors" only. This is a class of investor that is defined in law and, broadly speaking, it includes people or organisations who are large in size or who have sufficient previous investing experience to mean that they don't require the same protections as retail investors.

You can check to see if you are a wholesale investor on our website, noting that if you think you qualify, you will need to complete either the Eligible Investor Certificate or a Safe Harbour Certificate when you complete the application form.

In designing and developing the wholesale fund, we have kept all investor interests at the front-and-centre in all of our decision making. The good news for all investors is that the wholesale fund will have positive flow on benefits, regardless if you invest in it or not. This occurs because fixed-term investments via the wholesale fund means we will be able to lend slightly longer-term for the right borrowers, which is a market we haven't previously targeted, despite knowing that there is opportunity for us to do so. The wholesale fund will also enable us to hold lower liquidity in the FMT GIF which will mean we can consider more lending transactions, and ultimately boost the investor return for all.

Opportunities in a Shifting Market

With the property market stabilising after a challenging cycle, good quality opportunities are beginning to emerge.

While borrowers navigate shifting dynamics, our competitive lending approach and tailored solutions are helping them achieve their goals in ways that main banks often cannot.

One recent example of this is a loan secured by 10 high quality townhouses in Auckland. The townhouses are fully tenanted, providing rental income along with strong underlying security. Whilst the loan is higher than our average loan size, it was structured at a conservative loan-to-value ratio (LVR) while still providing flexibility for the borrower.

This transaction demonstrates FMT's ability to deliver flexible, competitive financing for the right opportunities. Located in a high-demand area, the townhouses offered strong collateral, creating a win-win for both the borrower and our investors, highlighting our expertise in supporting quality projects with tailored solutions.

Helping kiwis succeed

At FMT, it's about more than just providing funding – it's about understanding the nuances of the market and the individual loans, which enables us to help create opportunities for growth.

As the OCR continues to fall, FMT's focus on flexibility, expertise, and relationship-building means we can deliver tailored solutions and retain our premium over term deposit rates.

For borrowers seeking a lending partner that understands the complexities of the market and sees the potential where others might not, FMT remains ready to assist.

Welcoming Deborah O'Connor as Investment Relationship Manager in Christchurch

We are excited to announce the recent appointment of Deborah O'Connor as our new Investment Relationship Manager, based in our Christchurch office. Deborah's addition reflects our commitment to expanding our investor team and strengthening our presence in the South Island.

Deborah joins us with extensive experience in investment and wealth management, bringing a strong focus on building relationships that benefit both our investors and our growing business.

Deborah's role will be pivotal in supporting the recent launch of our new wholesale fund, which provides expanded opportunities for our investor community.

Chief Investment Officer, Sam Burgess, says, "We're excited to welcome Deborah to the team. Deborah has a great deal of experience in personal wealth and investments; her expertise and passion will help accelerate our growth in Canterbury and enhance our ability to deliver exceptional customer service to our South Island investors."

Sam adds, "We look forward to the opportunities Deborah will bring for FMT and our valued investors in Canterbury."

Deborah shares her enthusiasm: "I am thrilled to be joining FMT and look forward to meeting our South Island investors. The Christchurch and wider South Island market holds so much potential, and I'm excited to be part of a company that places such a strong emphasis on its values and investors."

Win the chance to name a Kiwi

At First Mortgage Trust, we're thrilled to offer our valued investors a once-in-a-lifetime opportunity to gift a name to a newly-hatched kiwi. This is your chance to leave a unique mark on New Zealand's conservation story while celebrating our treasured national bird.

How to Enter

We're looking for a name that encapsulates the essence of New Zealand and suits our precious, endangered kiwi. Submit your chosen name to promotions@fmt.co.nz and you'll be in the running to win this special honour.

Get creative, draw inspiration from New Zealand's culture, landscape, and history, and submit your entry today. **Entries close 30 April 2025**, so don't miss your chance to be part of this meaningful journey.

What You'll Win

The winner will not only have their chosen name bestowed upon the kiwi but will also receive:

- A Kiwi hamper filled with treats from Aotearoa's most loved and boutique brands.
- Your winning name will be announced in our newsletter, on Facebook, and via email.

Good luck - we can't wait to see the incredible names you submit.

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 **'First Mortgage Trust - PIE Trust Fund'** 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 24 March 2025. We will need to receive completed and signed Notices of Withdrawal on or before Thursday 20 March 2025.

Next processing date for Withdrawals in April:
Tuesday 1 April 2025. We will need to receive completed and signed Notices of Withdrawal on or before Friday 28 March 2025.

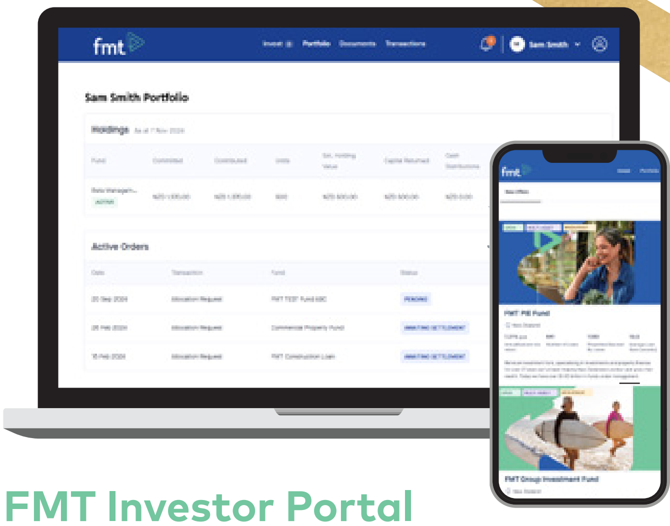
Wishing all our valued investors a very Merry Christmas and a Happy New Year. Relax this summer knowing your nest egg is in good hands.

Christmas Office Hours
Our offices will close on Monday, 23 December, and we'll be back on Monday, 6 January.

first mortgage trust

Talk to us ▶▶ 0800 321 113

team@fmt.co.nz ▶▶ fmt.co.nz



FMT Investor Portal

We're excited to announce the upcoming launch of our **Investor Portal** in 2025, designed to make managing your investments easier and more convenient while maintaining the personal service you trust.

A Portal Built with You in Mind
The Investor Portal is designed as an additional self-service option for those who want to manage their investments online, while still preserving the trusted personal service you know and value. Whether you prefer to call or email us directly or explore digital tools, we're here to support you in the way that suits you best.

What Can You Expect?
The first phase of the portal will allow you to:

- View your account details, balances, and statements
- Update personal information, like tax details
- Request withdrawals and manage deposits directly from the portal.

Over time, we'll add more features based on feedback from you, our investors.

Why Use the Portal?
For those who prefer digital tools, the portal offers:

- Secure, 24/7 access to your investment details
- An option to opt out of paper or email delivery for quarterly statements
- Time-saving, centralised access to forms and information.

But rest assured, if you choose not to use the portal, you'll still receive the same personal care and support you've always enjoyed with FMT.

What Do You Need to Do?
We'll need your **email address** to set up access. If we don't have yours, please email us at **team@fmt.co.nz** with your name and investment number.

Commitment to Security
Your security is our priority. The portal is designed to meet the highest data protection standards.

More to come
We'll provide more details as the launch approaches, including updates in the new year via email and in our next investor newsletter. If you have any questions, our team is here to help.