first news
Issue 94
June 2023

first mortgage trust

Annualised pre-tax return for the quarter ending 30 June 2023

6.71% p.a. Group Investment Fund and PIE Fund

Past returns are not a reliable indicator of future performance.

From the CEO

We are pleased to announce that the annualised pre-tax return for the June 2023 quarter is 6.71%. This marks the sixth consecutive quarter of increased investor returns, an achievement that we are proud to deliver to our investors.

The continued growth in returns is another pleasing result in a difficult economic environment. We are very mindful that the security of your investment is as important as the return generated and as always this is reflected in the return.

In addition to the solid June quarter return we are also pleased to note that our loan portfolio continues to perform strongly which is a testament to our careful loan origination and management.

Based on the current interest rates we are achieving we are anticipating further increases in the second half of the year, assuming there aren't any significant changes to the current environment.

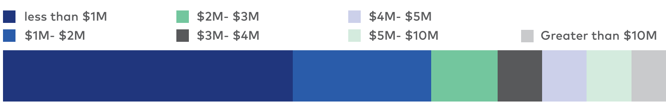
FMT loan book

One of the contributing factors to the strong performance of our loan portfolio is its diversification. We focus on having a spread of loans across sectors, geographical location, loan size and duration of loans to name a few.

At present, our loan portfolio exceeds $1.3 billion with the remainder of the fund held in either cash or term deposits. Safeguarding investor capital is of utmost importance to us, and we take great pride in maintaining an impressive track record of zero investor capital losses throughout our 27 years of business. We are proud of this and remain committed to ensuring that it remains unchanged.

Over the past year our loan portfolio has comprised of close to 700 loans all secured by first mortgages. In addition to other security such as personal guarantees we often have loans which have multiple property securities. We currently have first mortgages registered on close to 1600 properties, meaning that on average every loan we write is secured by more than two properties. This helps us achieve a portfolio loan-to-value (LVR) ratio of 47% currently.

Number of Loans by $ value



Your investment is spread across the entire portfolio

Another layer of protection for our investors is our governing documents which require a spread of loans across asset types and borrowers. We continue to operate well below all of our maximum limits, highlighting the level of loan portfolio diversification we have achieved.

New fund for wholesale investors

We are looking to open our new fund for wholesale investors shortly. This is an exciting step for FMT. The fund will provide wholesale investors the opportunity to invest with us, and in turn will provide benefits for all investors as it will help grow the fund and help balance risk and return. We believe this is a win-win for all investors. Further information will be shared in due course.

Our team is here for you

At FMT, we take the time to understand the priorities of our clients, which include protecting capital and wealth, providing consistent returns, and the ability to access funds when required. We also recognise the importance of personal interaction and take a people-first approach. With this approach in mind our investment team is always available by phone or email, so you can easily reach out to them should you need.

Looking to the rest of 2023

As we look towards the second half of the year, we remain positive in our outlook. We are continuing to see good lending opportunities across the country. It's also pleasing the fund continues to grow, largely through recommendations and positive referrals – we thank you for this.

Once again thank you for your continued support and we trust that the increase in the rate reinforces our promise to provide you with consistent returns and peace of mind investing.

Paul Bendall, CEO

Intrepid Travel to Antarctica

As the southernmost sea in the world, the Ross Sea in Antarctica remains one of the most remote places on Earth, and therein lies its appeal as an unparalleled travel experience.

To enable responsible passage through this region, the cruise sector has developed specialist and intimate tours that journey with reverence through this majestic wonderland.

Why go? For some, it's about seeing Emperor and Adélie penguins, Minke and Orca whales, and Snow Petrels, Southern Fulmars, Albatross and other bird species in their natural environment, whereas for others, it's the opportunity to visit the scientific research bases and the historic huts of Shackleton and Scott that lures them.

Many may think that the visitation of cruise ships could disrupt the delicate environment, but authorities and the sector recognise the responsibility they have as kaitiaki of the region. Cruise ships visiting the Ross Sea carry a limited number of passengers, with the total number of passengers (across all ships) at any one time being a maximum of 800. This means your ship will be small and intimate, with passengers sharing a common interest in nature and wildlife as a given.

We know how deeply moving this cruise experience can be. One of our customers, Steve Subritzky, sent us a message while on his 'bucket list' cruise, undeniably moved by the experience, and noting that he had taken nearly 2,000 photos with half the adventure still left to enjoy!

If you want to get up close to one of the most wild and beautiful regions on the planet, and grow your awareness of our natural world, then an Antarctica Cruise could be for you.

With thanks to Catherine Membery and Kay Rogers from YOU Travel Bethlehem
www.youtravelbethlehem.co.nz

First Mortgage Trust Loan Book - key facts

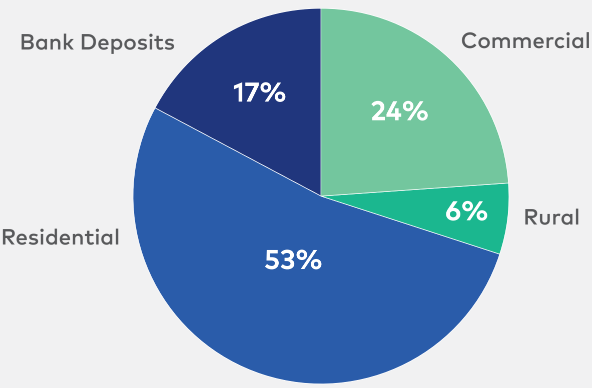
Our loan book is diversified in types of properties and location.

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 June 2023, demonstrating our diversity.

Investments by Type



Loans by Region

Northland 0.5%

Auckland 61.7%

Bay of Plenty 5.0%

Waikato 4.9%

Taranaki 0.1%

Hawkes Bay 0.4%

Manawatu-Wanganui 0.4%

Wellington 13.2%

Nelson 0.2%

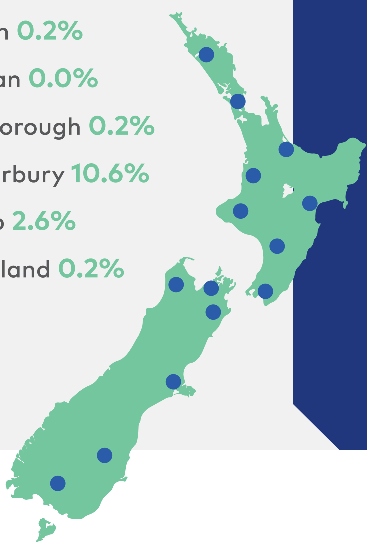
Tasman 0.0%

Marlborough 0.2%

Canterbury 10.6%

Otago 2.6%

Southland 0.2%



Loan Summary

Number of loans
661

Average loan size
$2m

Average LVR
47%

Average loan term
16.5 months

Loan origination in last 12 months
$860m

Changes to the First Mortgage Managers Board

We would like to advise you on recent changes to the Board of Directors at First Mortgage Managers (FMM). Firstly, after 16 years of dedicated service, Ian Farrelly has retired from his position on the Board. Concurrently, we are pleased to announce the appointment of Simon Cotter to the Board.

Retirement of Ian Farrelly

After 16 years, Ian Farrelly has announced his retirement as Director on the FMM Board. Ian's contributions and insights have been invaluable to the growth and continued success of First Mortgage Trust.

In 2007, when Ian joined the Board, the fund had 3,700 investors and $347 million of funds under management. Today, we have over 6,200 investors and the fund has grown to $1.6 billion.

Ian's tenure coincided with the Global Financial Crisis, during which he played a crucial role in guiding the business through the challenging economic climate. FMT successfully weathered the storm and emerged even stronger. Under the leadership of the Board and Management, not a single cent of investor capital was lost during that period—a remarkable achievement that we are proud to continue to uphold today.

"After 16 years I retire with a real sense of satisfaction having seen the business navigate its way through the GFC to now where it is thriving. I step away feeling confident that the business is in a strong position to continue growing and providing excellent service to both its investors and borrowers."

On behalf of the Board and the entire FMT team, we express our thanks to Ian for his years of contribution and dedication and we wish him all the best in his future endeavours.

Welcoming Simon Cotter to the Board

In addition to Ian's retirement, we would like to announce the appointment of Simon Cotter to the FMM Board from 1st July 2023. Simon brings a wealth of experience and financial acumen to the business.

Simon graduated from Auckland University in 1987 with a BCom. He has also completed a Master of Applied Finance (Securities Institute of Australia) and more recently an Advanced Management Programme (AMP) at INSEAD.

Simon's career started with National Australia Bank, Countrywide Bank and Bank of Scotland in London. On returning to New Zealand he joined investment bank Grant Samuel in 1995. Grant Samuel is a leading corporate valuer and mid market mergers and acquisitions adviser.

Simon is also on the Board of Mainfreight.

Simon's strong financial skills and business acumen make him a great addition to the FMM Board.

We are confident that his expertise will contribute to the continued growth and success of FMT. We look forward to working with Simon and benefitting from his valuable insights.

Michael Smith
Chair

Final Call for FMT Youth Sponsorship Applicants

We're looking for our 2023 Youth Sponsorship Recipient. The recipient will receive $3,500 to help them excel in their chosen field at national or international level.

Do you know of anyone aged between 16-25 years who would benefit from this sponsorship grant? If so, we would love to hear from them!

▶▶ Applications close 31 July 2023.
To learn more or to apply visit fmt.co.nz/sponsorships

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In the community

We understand the value of being an integral part of the communities we serve, which is why we actively engage in various community events, clubs and organisations.

We recently had the pleasure of visiting some local bowling and golf clubs which we support, lending a helping hand with prize-giving ceremonies. Our team enjoy catching up with clients at these events and being part of the day.

To learn more about our sponsorship and community involvement visit - fmt.co.nz/about/in-our-communities

Photos from top left: *Te Puke Bowling Club 8th annual Invitational Men's Anzac Pairs / Mount Maunganui Ladies Golf – April Tournaments / Matua Bowls Bowling Arm Tournament.*

Seventeen Clubs were represented at the Annual Bowling Arm Tournament held at Matua Bowling Club - Matua, South, Mount Maunganui, Whakatane, Te Puke, Thames, Mercury Bay, Tairua, Tolga Bay, Blockhouse Bay, Hobsonville, Dannevirke, Omokoroa, Katikati, Papamoa, Matamata and Althorp Village.

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

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Winter Gardening Advice

Often the coldest days of winter occur in July, so it's not the easiest of months for gardening. However, there are many tasks requiring attention - pruning, mulching, and spraying, so take advantage of fine days.

Roses: It's been a tough season for roses with many tackling diseases such as blackspot and rust. Towards the end of June/early July, after the leaves have fallen and flowering has finished, start pruning your roses. Ensure your secateurs are sharp and give them a clean with methylated spirits before you begin.

Remove all small, twiggy growth and inward-growing branches, as well as shortening the main branches by cutting to an outward-facing node. Don't be afraid to prune quite hard as roses are quite vigorous growers.

To prevent reinfection of diseases in spring, collect all pruning's and leaf litter in the rose garden and dispose of them properly (not in the compost bin!). After pruning is complete, finish with a spray of copper oxychloride. Start planting any new roses, making sure you prepare the soil well.

Fruit Trees: Complete pruning of all deciduous fruit trees and follow up with a spray of a copper compound to help prevent reinfection of fungal diseases in spring. Mandarins, navel oranges, lemons and limes can now be harvested.

It's time to plant new fruit trees. Always try to select a warm and sheltered position. Fruit trees only flower once a year and in a windy position, flowers can be blown off the tree. The end result is the fruit will not set, which means no crops! Again, add in plenty of compost when planting, and stake young trees if required.

Recession is good – sort of

Statistics NZ have just released data telling us that in technical terms New Zealand was in recession in the last quarter of 2022 and first quarter of this year.

The definition is technical in nature because no-one in the country will notice if growth one quarter is 0.1% and the next -0.1%. Instead it is what is happening under the surface of the broad Gross Domestic Product numbers which matters.

We already knew that households were cutting their spending over these two quarters because the volume of retail spending fell by 1% in the December quarter and 1.4% in the March quarter. We also knew that house building was going down because construction volumes fell 1.6% in the December quarter and 0.8% in the March quarter.

Household spending usually makes up about 65% of our economy and house building another 6.5% or so, therefore the risk of a negative economic output change for the March quarter was already high. But as it turns out the quarterly decline was only 0.1% and the outcome would have been zero or above if not for strikes by teachers during the quarter and the cyclone which struck the East Coast and Auckland.

I emphasise these special factors because if the outcome had been +0.1% then the media headlines would have read "Recession avoided" rather than noting how we had fallen into recession. The fact that we have had a recession – which could disappear when data is revised over the next couple of years – adds some extra pessimism into people's assessment of the economy and their own personal fortunes.

In that regard the recession reinforces the negative impact on the economy of the Reserve Bank's recession prediction on November 23 last year. Their words contributed to a strong decline in business and consumer sentiment and have gone some way towards getting the rate of inflation down in the economy. The latest recession talk will further the crunch on price rises.

The technical recession then is a good thing for those looking to take advantage of the period of weakness to purchase some discounted assets. These might include commercial property, maybe some shares, but not necessarily houses.

The negative commentary will help suppress spending and inflation and makes it very unlikely that the Reserve Bank will need to backtrack on their May 24 statement that no further official cash rate rises beyond the 5.5% reached that day will be necessary this cycle. Having said that, there is an offset to the improving inflation outlook in New Zealand which we can see in a range of indicators including easing labour market pressures, falls in some building material prices, and dropping business pricing plans.

In other countries inflation outlooks are not looking as good as they were a few months ago. This is because businesses are hoarding scarce labour and the strong jobs growth still occurring implies that wage rate increases may remain at high levels for longer than earlier thought.

In fact, the general theme offshore is that inflation rates will reasonably comfortably fall from levels of 7% - 10% down towards 4%, but the extra step down to the desired 2% rate could be problematic.

What this means here is that while interest rates have probably peaked, it is not highly likely that they will fall all that much over the coming year. The first easing of monetary policy looks likely towards the middle of 2024 at best which means that falls in fixed borrowing costs may not start appearing with any solidity until the start of 2024, or maybe optimistically the post-election period before the end of 2023.

Uncertainty is high and for most borrowers a fixed term near 18 months may be optimal while for investors seeking a good yield perhaps a longer term would be wise. However, even with monetary policy having tightened more rapidly than any of us have seen before, the interest rates offered on fixed interest securities are not all that high by the standards of those who recall days before the GFC or even before inflation fell to settle around 2% from 1992.

Most investors are likely to be actively keeping an eye out for investments yielding potentially better returns than the banks are offering. For some this will mean equities and I can tell from a quarterly survey I run with Sharesies that there has been a fairly solid rise in people's desires to purchases shares either directly, through a managed fund, or maybe an exchange traded fund.

There also seems to be plenty of demand from more skilled investors for commercial property exposure whether through listed vehicles, directly, or syndications. One area worth keeping an eye on is vehicles giving exposure to the residential property sector. While the volume of home building is likely to decline all through this year, 2024, and maybe much of 2025, there is a slight recovery underway in turnover of existing dwellings.

Average house prices are also showing signs of flattening out and there are some big supporting factors building up strength. These include booming net migration now at a gain of 72,300 in the year to April from a loss of 20,000 a year ago. Young first home buyers have been back in the market since February and are appearing in greater numbers. Investors however remain thin on the ground due to tax changes and numbers may not truly return unless we get a change of government in October and the tax rules change.

All up, we may have been in recession recently and there certainly are many businesses struggling in the retailing and residential construction sectors. Margins are also tight across most sectors with labour still somewhat difficult to source. But upturns are underway in tourism and export education, and the outlook for inflation is getting better. This year's story is one of restraint for most. Next year is shaping up to be a period of interest rates falling and economic/business prospects improving with support from a newly lifting world economy – providing there are no new economic or geo-political shocks.

Tony produces a free weekly publication with a housing focus called "Tony's View", available for signup at www.tonyalexander.nz

Article by Tony Alexander,
Independent Economist

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Enduring Powers of Attorney and PPPR orders

It is important to have Enduring Powers of Attorney ("EPOAs") in place so that if an unexpected medical event happens the right people can look after you.

If a doctor certifies you have lost your mental capacity and you do not have EPOAs in place, it can be a costly, time-consuming and stressful process for your loved ones to have the right to look after you.

The Protection of Personal and Property Rights Act 1988 ("PPPR") provides what happens when a person loses capacity to manage their personal and property affairs.

EPOAs

EPOAs set out who can take care of your personal or property affairs if you are unable to. The person appointed is called your "attorney". There are two kinds of EPOA; property and personal care and welfare.

To be valid, the EPOAs must be advised on by a lawyer or registered legal executive while you have capacity.

Property EPOA

The Property EPOA authorises your attorney to make decisions in relation to your money and property, such as selling your home and paying your bills.

You can choose whether your property attorney can act immediately (while you have capacity) or only if you lose capacity. The Property EPOA can appoint one or more attorneys or a trustee corporation. You can require your attorneys to consult with or provide information to certain people.

Personal Care and Welfare EPOA

The Personal Care and Welfare EPOA authorises your attorney to make decisions relating to your health and welfare, such as choosing a rest home, your level of care and medical treatment.

This EPOA can only come into effect if a doctor certifies you have lost capacity. You can only appoint one person at a time for this EPOA. However, successor attorneys can be appointed and you can require your attorney to consult with or provide information to certain people.

PPPR orders

If you lose capacity without EPOAs in place, an application must be made to the Family Court to appoint someone to make your decisions. Whilst effort is made to appoint a suitable person, the person(s) the Court appoints may not be who you would have chosen.

Applying to be a property manager or welfare guardian includes obtaining a medical assessment, drafting applications, affidavits and consent documents, seeking consent from interested parties, filing documents in court, interested parties being served, a lawyer being appointed for and assessing the subject person, and court approval of the person to be appointed. If the appointed person is disputed, there may also be a court hearing.

Once someone has been appointed to be your property manager and welfare guardian, that person must file a statement of assets and liabilities with the Court each year, and the orders need to be reviewed by the Court initially every three years – the Court may then decide that every five years is acceptable.

This process is costly, time consuming, perhaps stressful and can delay important decisions being made due to the time taken to conclude the Court process. It is significantly quicker and less expensive to enter into EPOAs when you have capacity, than for your family to have to seek PPPR orders after capacity is lost.

Takeaway

EPOAs are important documents to prepare whilst you have capacity. Having EPOAs in place will save your family time, cost and stress. It will also ensure that the people you trust are the ones appointed to take care of you.

If you have any queries, would like to prepare EPOAs or need to apply for PPPR orders, please reach out to us at Holland Beckett Law.

HOLLAND BECKETT
LAW

Investing in the Future Generations

In days of old, it was common for grandparents or parents to have a saving or investment account so that their children or grandchildren didn't finish their education with a big student loan.

While university study is now amongst a myriad of choices open to teenagers, the concept of investing now for the benefit of future generations has stood the test of time, and remains a popular way to give children and grandchildren some financial assistance no matter what their path in life might be.

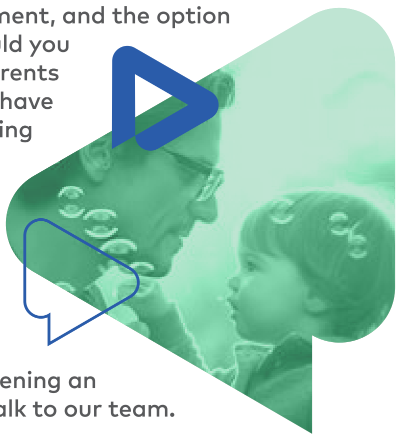
At FMT, we have a number of investors who set up an investment account for their family members, and we've even had some grandchildren attend our Investor Meetings so they can get to know us and understand our investment model further. Some have even added to the investment in their own right, and then used the funds for study or towards a first-home deposit or decided to keep the fund and continue investing for their future.

The appeal of longer-term 'grandchild funds' is linked to the power of compounding interest; this is where the interest earned is held in the account and consolidated with the initial sum deposited.

As an example of compounding interest at work, let's say that you decided to invest $10,000 for your grandchild at birth, with the fund's return rate of 5.2% per annum (after charges and before tax) with the interest compounding quarterly. By the time your grandchild reached the age of 18, the investment would be worth approximately $23,000.

Double that initial investment and the results are even more satisfying. For example, if you invested $20,000 for your grandchild at birth, and the same compounding interest and assumptions applied, the future value of the fund at aged 18 would be $46,000.

At First Mortgage Trust, we provide the option of opening funds for your family members, with an initial lump sum investment, and the option to add to the fund should you wish. We have many parents and grandparents who have opened accounts, creating a new generation of FMT clients who are now raising a toast to those who've supported them with their financial foresight.



To learn more about opening an account for children - talk to our team.

This is an example only; actual returns will differ and the differences could be substantial. Calculations used are based on return rates of 5.2% p.a (after charges and before tax) across the 18 years with no withdrawals or deposits. The annual return rate of 5.2% is based on the average return of the FMT GIF Fund over the last 5 years, after charges and before tax. Marginal tax rate used is 10.5%. These calculations do not take inflation into account. Past performance is not a reliable indicator of future performance and returns are not guaranteed.

Balsamic, tomato and rosemary slow-cooked Lamb Shanks

INGREDIENTS (SERVES 4)

- 4 lamb shanks
- 1/4 cup white flour
- 4 tbsp olive oil
- 2 thinly sliced onions
- 3 crushed garlic cloves
- 2 tbsp finely chopped fresh rosemary
- 1/3 cup balsamic vinegar
- 1/4 cup brown sugar (or maple syrup)
- 2x 400g tins canned tomatoes chopped
- 3 peeled and sliced carrots
- A pinch of salt
- A pinch of black pepper

1. Turn your slow cooker on to low. In a small bowl, mix the flour with a pinch of salt and pepper.
2. Coat the lamb shanks in the flour mix, shaking off any excess, then using a frypan brown the shanks using half the olive oil on a high heat, and set aside.
3. Add the remaining oil to the pan and cook the onion and garlic until the onion starts to soften, about 2-3 minutes.
4. Add the rosemary, balsamic vinegar, brown sugar, tomatoes and carrots, season to taste. Stir well and bring to a gentle bubble then remove from the heat.
5. Add the sauce and lamb shanks to the slow cooker and cook on low for 8 hours (or on high for 4-5 hours) until the meat is falling off the bone.
6. Serve lamb shanks and sauce on-top of creamy potato mash with a side of seasonal greens.

Recipe by: Beef and Lamb New Zealand

2023 Investor Meetings

We start our 2023 Investor Meetings in July. The first event is in Christchurch on Thursday 26 July, followed by two meetings in Auckland, to be held on Monday 31 July & Tuesday 1 August. This is the first time we have held events in these regions and this reflects our growing investor base in both areas. We look forward to catching up with existing and potential investors in these areas.

About the Investor Meetings

CEO Paul Bendall will provide an update on the business and he will be joined by some members of the Board. We are also pleased to have as our guest speaker, economist Tony Alexander, join us at the first three events. Tony will provide his insights into the economy.

To register for an Investor Meeting, visit our website at fmt.co.nz/events – click on the Investor Meeting you would like to attend and complete the registration process to book your seat.

If you don't have access to the website and would like more information about these events, please phone us on 0800 321 113 or email team@fmt.co.nz

▶▶ Dates of Investor Meetings 2023

- **Christchurch** - Wednesday 26 July
- **Auckland (Ellerslie)** - Monday 31 July
- **Auckland (North Shore)** - Tuesday 1 August
- **Matamata** - Wednesday 25 October
- **Te Awamutu** - Thursday 26 October
- **Tauranga** - Wednesday 8 November
- **Katikati** - Thursday 9 November

FMT Investor Prize Draw

Each quarter First Mortgage Trust investors have a chance at winning a $250 voucher, choosing from petrol or supermarket gift cards.

This quarter's prize winners are located in:

- 1 individual Tairua
- 1 individual Auckland
- 1 individual Patumahoe
- 1 trust Tauranga
- 1 individual Tauranga
- 1 individual Papamoa

Congratulations to our winners!

The prize draw is held under supervision and winnings are paid for by the Manager of the Fund, meaning it has no effect on the return to investors.

Terms and conditions apply.

Making a Withdrawal

To make a withdrawal from your investment you must complete a Notice of Withdrawal. A Notice of Withdrawal form is available on our website for you to complete and return to us.

Withdrawals are normally actioned twice a week (Monday & Thursday). We generally action withdrawals within four business days of receiving the completed Notice of Withdrawal.

Last date for processing withdrawals for September quarter: Monday 25 September 2023.

We will need to receive completed and signed Notices of Withdrawal on or before Thursday 21 September 2023.

Next processing date for withdrawals: Monday 2 October 2023.

We will need to receive completed and signed Notices of Withdrawal on or before Thursday 28 September 2023.

Making a Deposit

When depositing funds to your investment, we need to check:

We hold current identification for you. If not, don't worry! We'll discuss the most convenient way for you to obtain it.

Where your funds are coming from and how they originated. We may need to get written confirmation such as a bank statement, solicitor statement, or KiwiSaver correspondence.

▶▶ If you need any help please contact us, we're here to help.

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Talk to us ▶▶

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