first news

Issue 93
March 2023

first mortgage trust

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

6.61% 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 the annualised pre-tax return for the March quarter is 6.61%.

This is the fifth consecutive quarter we have increased the investor return - a result we are proud to deliver to our investors. The increase in return has been many months in the making and reflects the hard work of our team. In response to the changing interest rate environment we have been progressively increasing our lending rates to optimise the return to our investors - balancing risk and return. The change to our lending rates does take time to filter through to the investor returns and we are now starting to see the real benefits of work started many months ago. We are also pleased to share that we are anticipating further increases this year which will be good news for our investors. This is on the assumption that we don't see a material change to the current operating environment.

Recent weather events

We would like to take a moment to address the recent weather events that the country has experienced. Firstly, the team and I hope that you and your families are well, and our thoughts are with those who have been affected.

In relation to the impact on our loan portfolio from these events, we have completed a flood impact assessment, and are pleased to advise that the loan portfolio was unaffected by material issues. For those that were impacted, the damage was largely cosmetic.

First Mortgage Managers has made a significant donation to the Red Cross. This donation is made by the Manager and does not come out of investor funds.

Global Markets

Many of you would be aware of the recent issues experienced by Credit Suisse and a few smaller American banks, most notably Silicon Valley Bank (SVB). SVB in particular has received a lot of media attention. It is our understanding that the SVB failure was a result of their treasury management by committing free cash to long dated government bonds as opposed to lending losses. At FMT we do not invest in such products and our governing documents require us to hold certain levels of free cash. We currently hold cash reserves significantly above our required minimums. In fact, our current cash reserves are at the upper end of our targeted operating range.

Performance of our Loan Portfolio

Our loan book continues to perform strongly despite the continued economic headwinds. Our non performing loan metrics are in line with our 5 year average which by industry standards are considered to be low. Overall, the loan book is performing as we would expect in terms of loan servicing and repayments.

We continue to remain vigilant both in terms of our loan origination and portfolio management. Our overall loan portfolio loan to value ratio (LVR) remains below our 5 year average and the LVR on the loans we have originated in the last 6 months is lower again. This is us managing to the market conditions which our highly experienced team are keeping a close eye on.

A new fund for wholesale investors

We are pleased to announce we have employed Matthew Laing as our Wholesale Investment Manager. In the coming months we will be introducing a new fund which will give wholesale investors another option for investing. We are excited by this initiative which we believe will benefit all investors from both a risk and return perspective. Further information and details on the fund will be shared on our website and in our future newsletters.

As we look toward the rest of 2023, we expect to see a continuation of the tough climate for the New Zealand economy - the impact of inflation, interest rates, overseas events and the recent weather events will all have an impact.

However, we remain positive in our outlook. We are continuing to see great lending opportunities and we continue to invest heavily into the business both in terms of our people and technology. In the coming weeks we will be launching a new IT platform for the lending side of our business and will commence the build on the investor portal. This is very exciting for both our staff and clients and highlights our commitment to investing for the future along with our commitment to provide great customer service.

In closing, once again thank you for your continued support and I trust that our current return gives you further evidence of our promise of consistent returns and peace of mind investing.

Paul Bendall, CEO

First Mortgage Managers Limited, the issuer, is not a registered bank under the Banking (Prudential Supervision) Act 1989. Risk and returns between our investments and bank fixed term deposits are different. For copies of our Product Disclosure Statements call 0800 321 113 or visit our website. Past performance is not a reliable indicator of future performance.

FMT Annual Youth Sponsorship – Call for Applications!!

For more than 18 years we have offered an annual Youth Sponsorship grant. The sponsorship is open to young people between the ages of 16 and 25 who are excelling in their chosen field at a national and/or international level in the fields of sport, music or the arts.

Sponsorship details

- The successful sponsorship recipient will receive a grant of $3,500 to put towards helping them excel in their chosen field.
- Applications close on 31 July 2023.

If you know of a suitable young person who meets these criteria and is looking for sponsorship, please get in contact!

For more details and to complete the application online, visit our website fmt.co.nz/in-our-communities/. If you have any queries, please contact us via email on promotions@fmt.co.nz

*NB Where sponsorship funds or donations are made by the Manager, these do not come out of investor funds. Funds or donations are paid for by the Manager although in the name of First Mortgage Trust.

First Mortgage Trust Loan Book - key facts

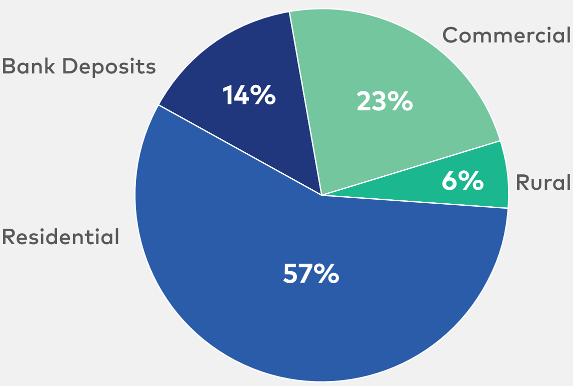
Our loan book is diversifed in types of properties and location.

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 49%.

The following information provides details of our loans by region and investments by type as at 3 March 2023, demonstrating our diversity.

Investments by Type



Loans by Region

Northland 0.5%

Auckland 62.1%

Bay of Plenty 5.4%

Waikato 4.9%

Taranaki 0.1%

Hawkes Bay 0.5%

Manawatu-Wanganui 0.4%

Wellington 11%

Nelson 0.2%

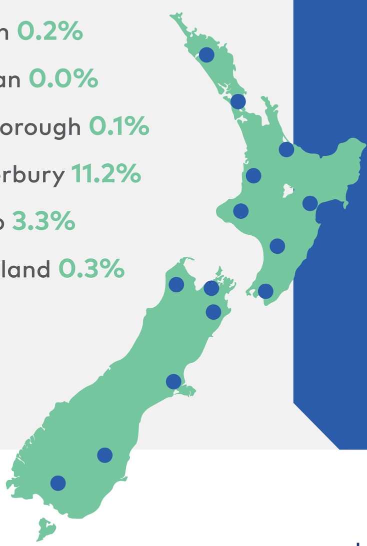
Tasman 0.0%

Marlborough 0.1%

Canterbury 11.2%

Otago 3.3%

Southland 0.3%



Loan Summary

Number of loans
703

Average loan size
$1.98m

Average LVR
49%

Average loan term
16.2 months

Loan origination in last 12 months
$945.91m

Helping your loved ones: the difference between a gift and a loan

Due to the rising cost of living and interest rates on mortgages, it is not uncommon for families to advance money to their loved ones to help them on to the property ladder. Due to the natural relationship, these advances usually go undocumented. However, there are several factors that need to be taken into account before making such an advance.

If you want to assist your child with a house deposit, you need to ensure the advance is correctly recorded. Are you expecting them to pay you back? If so, is the repayment with or without interest? Or is it a "no strings attached" gift?

Gift

Money passed from parent to child is generally regarded as a gift, unless evidence proves otherwise. There is no obligation for a gift to be paid back by the recipient(s).

Care needs to be taken where you are gifting money to your child and their spouse, such as to help them into a property. Should that relationship break down, the spouse would not necessarily be required to pay back any portion of the gift, therefore walking away with half of the gifted money.

Gifting certificates are often required by a bank where a family member is advancing a portion of the purchase price. This is so the bank isn't in competition with anyone to get their money back should the loan end up in default. There are ways to record a loan on terms that are acceptable to the bank, while also protecting the advance. The document needs to be worded in such a way that doesn't impede on the banks rights to be "first in line" if the loan defaults.

Other considerations include whether this will affect any inheritance you may plan to leave. Are you intending for your child to receive less inheritance than their siblings due to this gift? If so, your Will also needs to be updated accordingly.

Loan

Unlike a gift, a loan is repayable on terms agreed at the outset. The loan can be interest free (or very low interest) and can be repayable "upon demand" rather than a specified date or loan term. However, as noted above, when banks are involved they will usually not allow a loan with interest or, a specified repayment date, as this can affect the bank's priority if the loan is defaulted.

A loan provides protection in the scenario where you are advancing money to your child and their spouse. If this relationship later breaks down, you can "call up" the loan and have this paid back. You can then re-lend the money to your child once the separation is complete for another purchase, if you choose to.

Again, estate planning comes in to play. Is the loan forgiven on your death (assuming it hasn't already been paid back)? Or is the recipient required to pay back your estate?

More considerations are needed when a Trust or other entity is involved, as well as further relationship property aspects not covered here. If you are unsure whether you should be making a gift or a loan, get in touch with us and we can assist you through the process.

HOLLAND BECKETT
LAW

Article provided by
Georgia Mackay,
Holland Beckett Law

Donation to the Red Cross Disaster Recovery

We believe it's important to support those in need during difficult times. That's why we have made a substantial donation to the Red Cross Disaster Fund to help with recovery efforts to those devastated by Cyclone Gabrielle. Below is an excerpt from the Red Cross on how donations will help those affected.

"New Zealand Red Cross teams have worked with emergency management agencies to deliver vital assistance across some of Aotearoa New Zealand's hardest hit areas. That includes setting up and managing Civil Defence Centres, providing essential supplies, and deploying satellite phones, generators and other equipment. Our trained team have also provided crucial psychosocial support and practical help to those who have been forced to leave their homes."

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

Rediscovering New Zealand

There are over 600 islands that make up our great country

As an island nation, we are spoilt for choice when it comes to visiting coastal cities and destinations.

But what you may not know is that there are another 600 or so islands that make up this great country of ours, with many of them accessible for day visits or overnight adventures. Of the 600, about a dozen of them are populated, with Stewart Island and Waiheke Island being the most notable and well known. Thereafter, it's the smaller islands that might pique your interest to add to your 'to do' list.

For example, Tiritiri Matangi, Rangitoto, Kawau and Great Barrier Islands near Auckland, Matakana Island in the Tauranga region, Kapiti Island near Wellington, Chatham and Pitt Island approximately 800+ kms east of Christchurch, or Secretary Island in Fiordland.

All these islands provide opportunities to visit with the most popular reasons for visiting being hiking, day walks, heritage enquiry, water activities, nature experience and, for some, overnight stays with camping options.

Those who have travelled to the islands speak with awe at the many species of native flora they see, and the prolific native bird count and their beautiful birdsong, with the respective islands benefiting from the restoration and predator protection work underway. For the overnighters, it's the star gazing that gets the biggest mention, with the night skies said to be incredible, thanks largely in part to clearer atmospheric conditions.

If you are looking for something different to do on your next holiday, then why not choose a destination that then gives you access to one of New Zealand's smaller islands. It's a great way to see more of our own country, and support those who proudly call these islands home.

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

Autumn Gardening Advice

Time to get your winter veggie garden jobs underway.

Existing vegetable gardens: The last of the summer vegetables are now harvested so remove finished crops. Dig over your existing soil to approximately one and a half spades deep. Add Daltons Compost to improve soil texture and structure and mix it in well.

Winter vegetables to be planted as young seedlings or sown as seed directly into the garden include; beetroot, broccoli, brussel sprouts, cabbage, cauliflower, carrots, lettuce, onions, peas, bok choy, radish, silverbeet, spinach, (turnip, swede in colder climates), and kale.

Rotate areas where you have specific crops to manage the soil nutrient balance.

Starting a new vegetable garden: The site of your garden is essential to its success – whether in the ground or a raised bed. It will need full sun (or as much as your backyard can provide) during the growing season, shelter from the cold, strong southerlies and it should be positioned in a well-drained part of the garden. Also, think about how close you are to a water source for easy irrigation.

The quickest way to get a vegetable garden up and running is straight into the ground. This works well if you have a relatively flat area that is north facing, open and sunny. If you have access to materials, and for ease of access when planting, caring and harvesting, a raised vegetable garden is ideal. Raise the soil level using treated timber or bricks etc to about 300mm high and fill with (if possible) Daltons Garden Time Compost and existing soil (mix in well). Then plant out with vegetables.

Daltons™ Keeping New Zealand Growing

With thanks to Daltons
www.daltons.co.nz

Interest rate outlook shifting

Housing markets are heavily influenced by changes in interest rates as are the actions of investors. Rising interest rates from tightening monetary policy tend to encourage investors away from assets like shares and property towards fixed interest securities and bank term deposits.

These investor preference shifts are one reason why average NZ house prices have fallen by over 16% since the extreme heights reached late in 2021. A simple correction in an over-valued market however explains the bulk of the price declines and as always happens when an asset market is undertaking such a correction we begin to wonder about the risk of over-correcting.

That risk is present but probably not great in New Zealand. REINZ have just reported that average house prices rose 0.1% in February after falling 1.3% in January and 1.7% in December. The 0.1% rise may well be a blip and we need to treat all February and March data with a grain of salt because of the extreme flooding events and the fact house prices typically rise firmly in these two months.

But the slowing in the pace of house price decline is consistent with strong evidence that young buyers have returned to the market. Each month I run a survey of mortgage brokers around the country and back in December a net 17% said they were seeing fewer first home buyers. That measure was about at the same at -13% in January.

But in February it reversed course to record a positive net 30% and the March result is a high net 59%. I get a similar turnaround in the results of my monthly survey of real estate agents. In November a net 16% were seeing fewer first-time buyers. That reading improved to -3% in January and now sits at +22%.

I also ask these two groups operating at the real estate coalface if they are seeing more investors. None of those results are positive though they are less negative than shortly after the record 0.75% tightening of monetary policy on November 23 last year. Investors remain focussed on the potential for short-term capital losses, high financing costs, new regulations, and tax changes decreasing interest expense deductions.

The housing market in New Zealand is firmly back in the endgame of the downward leg of its cycle and although turnover is at record weak levels things are shaping up towards a bottoming out perhaps near the middle of the year.

Some of the factors in play include these, and this relates to the introductory sentences above. The outlook for interest rates is changing – better for borrowers, not as good as hoped for savers. Banks are failing to meet their mortgage sales goals and have started experimenting with heavily discounted special rates aimed at retaining customers and attracting the many who will rollover into higher fixed rates this year.

More importantly, low mortgage sales are encouraging banks to run lower than average margins on their lending and following a round of fixed rate cuts two months ago my expressed 90% confidence that peak rates this cycle have passed sits now at 99%.

This is especially the case when we consider the recent government takeover of Silicon Valley Bank in the United States. This classic bank run caused ultimately by higher interest rates on US government debt has strongly altered expectations for US monetary policy. Because of concerns about other institutions being affected, banks raising deposit rates to retain customers whilst reining in some lending, the outlook for US growth has deteriorated.

US wholesale interest rates have fallen strongly, and this has fed through to lower rates in New Zealand. These declines might prompt a new round of fixed interest rate declines shortly. But there remains a very high level of uncertainty regarding the speed with which inflation here and offshore will decline in response to tighter monetary policy.

So, whatever does happen in the next few weeks, it would be best not to expect that some hopefully contained financial wobbles lead to rapid declines in borrowing costs. The dynamics driving inflation appear stronger than in the years between the Global Financial Crisis and the pandemic and that means interest rate falls are likely to be slow over the next two years.

For investors there is good and bad in this. The bad is that some new hesitancy regarding extra tightening of monetary policy from current levels will limit further rises in bank deposit rates. The good is that those deposit rates will be slow to decline once they do start easing. Then there is the good stemming from the improving interest rates outlook.

Interest rates are strong drivers of the housing market and forecasts are shifting from horror levels near 8% towards rates slowly easing. That is why most people are fixing their interest rate just one year or two years at most. And it pays to note this unusual thing. The Reserve Bank raised their official cash rate 0.5% on February 22. Since then, there have been no increases in main bank mortgage interest rates. Technically speaking, no monetary tightening occurred.

Article by Tony Alexander, Independent Economist

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

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FMT stands tall in KPMG non-bank report and the increasing significance of ESG

The annual KPMG Performance Survey of Non-Bank Financial Institutions results were released in late 2022, with First Mortgage Trust featuring again as one of the top non-banks in New Zealand.

The comprehensive report compiled by KPMG looks at 26 non-banks at a macro and comparative level, with added commentary from industry leaders, and insight into key factors facing the sector in general.

In his introduction, John Kensington, Partner - Audit and Head of Banking and Finance at KPMG New Zealand said that the non-bank sector continues to play an incredibly important part in New Zealand's financial and social fabric.

> **"These are the institutions providing over 1.7 million New Zealand businesses and individuals with access to financing that banks either won't or can't do as well as a non-bank entity",**
>
> John Kensington, KPMG

First Mortgage Trust (FMT) is referenced throughout the report, with the report highlighting:

- **FMT remains one of New Zealand's largest non-banks** and in the report is ranked the fourth largest non-banks with total assets of $1.459 billion, representing an annual increase of 32%.
- **FMT is continuing to grow its loan book** and in 2022 reached a milestone of $1 billion in gross loans following a 34% increase over the previous year.

(Figures as at 31 March 2022)

The report also highlighted **the new climate and ESG (Environmental, Social, Governance) reporting requirements.**

What the new ESG legislation means for FMT

The new legislation means that non-banks with greater than $1 billion in assets, which includes FMT, are now required to report on climate-related matters alongside existing financial disclosures. This means considering the impacts of climate change on future business models and activities and bringing everyone involved in the value chain into the equation.

From a market perspective, the report stresses the importance of recognising that investors, borrowers and employees are becoming more discerning and selective about whom they do business with, and who they choose to work for, with broader ESG sustainability strategies needed to increase short and long-term resilience and confidence.

FMT has just begun work on climate and ESG strategies and reporting, with an inhouse team and Board representation now in place to align activities with the new requirements to ensure we understand the impact of our operations and what we can do in the future to create a better future for New Zealanders. We will be sharing more information with our investors as we progress on this journey.

Cyber security continues to be a key focus

The KPMG report also discussed the continued risk of a cyber-attack in a world where digital services are being expanded to complement personal service models. This is not a new topic at FMT, where the integrity of systems is vital and communications are ongoing with staff, investors and borrowers about the importance of vigilance.

At FMT we invest very heavily into technology and cyber security. We have a cyber security company providing a comprehensive security framework meaning that our systems are monitored 24/7.

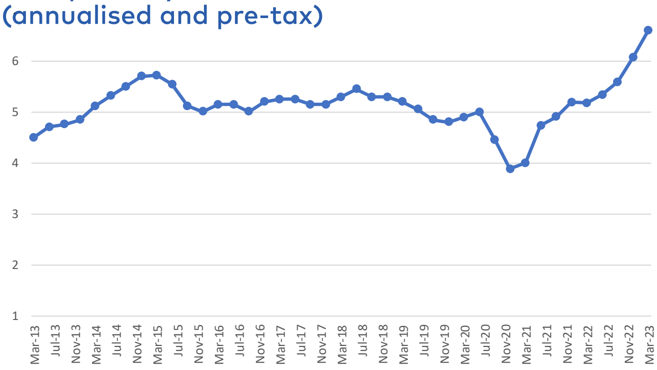
Overall, the report is complimentary of non-banks, highlighting the personalised and innovative nature of the sector and the core values that define many of the businesses within it.

In this context, FMT stands tall once again, as a business providing great stewardship for investor funds and solid trusted partnership for borrowers who are working hard to create a better future for New Zealand.

To view the entire KPMG report - visit
kpmg.com/nz/en/home/insights

Our long track record of delivering consistent returns

Our quarterly investment returns since 2013 (annualised and pre-tax)



We are often asked how we maintain consistent returns even during times of uncertainty. Our results are driven by our selective lending and staying true to our core principles of focusing on quality lending opportunities, whilst ensuring we have a diverse loan portfolio and active management, a strategy we have always upheld.

We asked Sam Burgess, Head of Lending, questions around the lending side of the business.

How is FMT different from other non-bank lenders?

Firstly, FMT has an established team of Business Development Managers (BDMs) located throughout NZ. This geographic coverage sets us apart from other non-bank property financiers and allows us a greater level of knowledge of the areas in which lend to.

Another point of difference is our experienced lending team. Our BDMs possess extensive experience in both non-bank and traditional lending markets, which enables them to make informed lending decisions based on their market knowledge.

How does FMT assess and manage risk, and what steps are taken to protect investors' capital?

As an active manager we are continuously monitoring our loan book and where we see emerging risks in the market, we adjust quickly. This sets us apart from the main banks who are often more reactionary and slower to move.

At a transaction level, our front-line team is supported by a dedicated credit resource and every loan application is reviewed by a credit manager. This segregation of duties reinforces our commitment to quality decision-making.

Not only do we constantly monitor and report internally, but our performance is also scrutinised by independent third parties as we are supervised by Trustees Executors Ltd and Public Trust.

What's your outlook on the non-bank sector?

There is an ever-increasing need for a robust non-bank market, this is particularly evident as main banks have become more cumbersome in their approach to lending. This is not to say that non-bank lenders like FMT have a greater risk profile, we simply operate with the freedom and resource to make quality pragmatic lending decisions.

While non-bank lending is expanding as a sector it represents a small portion of the total overall lending in New Zealand. Countries such as Australia, the UK and the US are serviced by much larger non-bank markets, showing the potential for growth in New Zealand.

Recipe: Anzac Crumble

Turn the Anzac biscuit recipe into the topping for a dessert with a difference.

INGREDIENTS (SERVES 6)

- 1 cup flour
- 1 cup rolled oats
- ½ cup white or well-packed soft brown sugar
- ½ cup desiccated coconut
- 100 grams butter, slightly softened
- 2 tablespoons golden syrup
- 1 tablespoon boiling water
- 1 teaspoon vanilla essence or extract
- ½ teaspoon baking soda
- Poached tamarillos, feijoas, apples or pears, freshly cooked and hot (ensure poached fruit is hot before using as otherwise the crumble won't cook up crispy)

METHOD

1. Preheat the oven to 180°C (160°C fan bake). Set the rack in the centre of the oven.
2. Stir the flour, rolled oats, sugar and coconut together in a large bowl. Rub in the butter until the mixture looks like moist crumbs.
3. Mix together the golden syrup, hot water, vanilla essence or extract and baking soda. Use a knife to just cut the wet ingredients into the oat crumb mixture.
4. Place the fruit in a 6-cup capacity ovenproof dish. The fruit should be hot and half-fill the dish. Sprinkle the crumble on top. Bake in the preheated oven for 20–25 minutes or until the crumble is golden.

Recipe source: Extracted from The Baker's Companion by Allyson Gofton. Photo: Lottie Hedley.

Retirement Village Residents Plan Mass Skydive to Raise Funds for St John Ambulance

Residents of Greenwood Park Retirement Village in Tauranga are organising a group skydive to raise funds for a St John Ambulance.

The idea was sparked by 95-year-old resident and experienced skydiver, Jean Crabtree, who noticed that another retirement village had a St John Ambulance branded with their name.

Jean wanted to achieve the same for Greenwood Park Retirement Village and set up planning how to raise the $300,000 needed for a fully kitted ambulance.

The organisers of the skydive event approached First Mortgage Trust to be one of the sponsors of the skydive. We gladly accepted the opportunity to support this cause and are looking forward to the upcoming jump to see the skydivers in action.

The skydive is scheduled for 18th April at Tauranga Airport. The group now has 18 jumpers, including residents, friends, families, and staff members, boasting a remarkable combined age of 1,120 years.

If you would like to donate to help raise funds for the St John ambulance or learn more about the skydive please visit: **www.skydive95.com**

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 Timaru
- 1 individual Otorohanga
- 1 individual Te Awamutu
- 1 individual Te Puke
- 1 individual Tauranga
- 1 individual Mount Maunganui

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 First Mortgage Trust 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 (it is also sent on the rear of our postal correspondence and as an attachment to our email correspondence).

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

Last date for processing withdrawals for June quarter: Monday 26 June 2023.

We will need to receive completed and signed Notices of Withdrawal on or before Thursday 22 June 2023.

Next processing date for withdrawals: Monday 3 July 2023.

We will need to receive completed and signed Notices of Withdrawal on or before Thursday 29 June 2023.

Easter Hours

Our offices will be closed from 5:00pm Thursday 6th April and will reopen on Tuesday 11th April at 9:00am.

Anzac Day

Our offices will be closed on Tuesday 25th April.

first mortgage trust

Talk to us
0800 321 113 | team@fmt.co.nz fmt.co.nz