first news

Issue 97
March 2024

first mortgage trust

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

7.29% p.a. Group Investment Fund and PIE Fund

Past returns are not a reliable indicator of future performance.

I am pleased to report that our fund has maintained steady performance over the last quarter, achieving an annualised pre-tax return of 7.29%. Whilst this represents a slight drop from the previous quarter's 7.31%, it's important to view this within the broader context of our loan book's overall performance and the current economic landscape.

Delivering Consistent Investment Returns: Reflecting Our Robust Loan Book

The main reason for the decrease is the fund's higher-than-usual cash holdings in recent months, attributed largely to loan repayment rates exceeding forecasts. Additionally, a period of slower lending was influenced by market uncertainty following last year's election, compounded by the traditionally quieter lending months of late December, January and early February.

The higher levels of repayment reflect the quality of our loan book; borrowers have opted to make repayments earlier than required, indicating their capacity to do so. Although there were lending opportunities, they did not meet the quality standards we target, and we were prepared to be patient.

Our current 90-day plus loan arrears sit at an impressive ratio of 0.8%, reflecting the quality and diversification within our loan book and aligning us with New Zealand's main trading banks. In a tougher economic environment and with higher interest rates, we have noticed a slight increase in short-term loan arrears. We actively manage these loans, and the vast majority do not transition into longer-term issues.

Increased Positivity in the Lending Market

Despite a slow start to the year, we have a solid pipeline of transactions, and liquidity is now returning to within our target range.

We have noticed more competition entering the lending market; however, we are generally maintaining our competitive lending rates.

Property Lending Sector Continues to Expand

Growth in our sector continues. Recent RBNZ statistics show that in the last five years, lending completed by banks has grown at 3% per annum, whereas lending outside of banks has grown at 19% per annum. We expect this trend to continue (albeit at a slightly lower rate), in line with international trends.

Our Strategic Focus: Resilience and Growth

We are actively investing in our team and technological infrastructure to improve our service quality further for both investors and borrowers. Andrew Western has recently joined us as our new CFO, and Matt Tucker has taken on the newly created role of Chief Technology Officer, as we continue to develop our technology roadmap. This includes continuous enhancements to our cybersecurity framework. Additionally, we plan to add several new roles this year to support further growth on both the investment and lending sides of our business.

Alongside investing in our people, we continue to heavily invest in technology to ensure the best possible customer experience.

Despite the challenging operating environment, FMT continues to perform well. The FMT brand is growing in both our investment and lending areas of the business, and we still see great opportunities – hence our continued investment into FMT.

Once again, thank you for the trust you place in FMT.

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.

Do you have a Trust? Make sure you're up to date with the proposed tax rate changes.

The top Trust tax rate is expected to increase from 33% to 39% on 1 April 2024 to bring it in line with the top personal tax rate. This adjustment aims to address a discrepancy that became prominent after the top personal tax rate increased in 2021, prompting some high earners to shift income to trusts to enjoy a lower tax rate.

Tax laws include exceptions that could mitigate the new rule's impact.

Exceptions include:

- **Low Income Trusts:** Trusts with an income of up to $10,000 per year are expected to continue to be taxed at 33 per cent rather than the top rate of 39 per cent.

- **PIE Investments:** Trusts investing in Portfolio Investment Entities (PIEs) can benefit from a flat PIE tax rate of 28%, depending on the trust's expense accounting and distribution practices. For trusts currently investing in our First Mortgage Trust Group Investment Fund, assessing the potential benefits of switching to our First Mortgage PIE Trust could be advantageous. We recommend discussing this with your accountant or tax adviser.

- **Beneficiaries:** If a trust distributes all its income to adult beneficiaries, the tax is calculated at the individual beneficiaries' personal tax rates, which, depending on their income, could be a lower rate than the 39%. For trusts already doing this, the new tax rate change will not alter their tax obligations.

Will it affect me?

If you have a trust, it's important to understand whether these changes impact you. We advise consulting with your lawyer, accountant, or financial adviser.

Please note that at the time of writing, the necessary legislation hadn't been passed, and there is always the possibility of change until that happens.

First Mortgage Trust is not a financial or tax adviser, and the benefits of investing in a PIE will depend on each investor's personal circumstances. This information is of a general nature, and we strongly recommend that you talk to your financial or tax adviser to determine what type of fund is right for you. Tax laws are subject to change.

First Mortgage Trust Loan Book - key facts

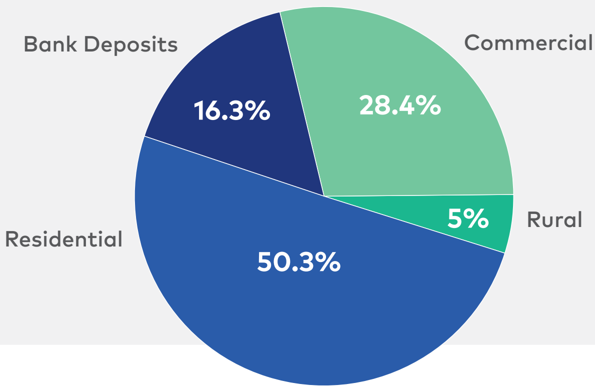
Our loan book is diversified across property types and location.

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%.

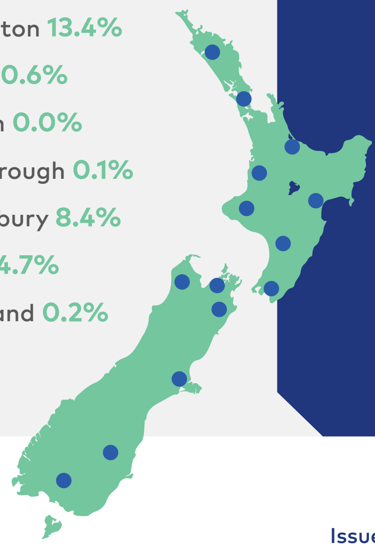
The following information provides details of our loans by region and investments by type as at 7 March 2024, demonstrating our diversity.

Investments by Type



Loans by Region

Northland 0.2%
Auckland 57.8%
Bay of Plenty 7.6%
Waikato 5.9%
Taranaki 0.1%
Hawkes Bay 0.5%
Manawatu-Wanganui 0.5%
Wellington 13.4%
Nelson 0.6%
Tasman 0.0%
Marlborough 0.1%
Canterbury 8.4%
Otago 4.7%
Southland 0.2%



Loan Summary

Number of loans
639

Loans secured over
1,350+ properties

Average loan size
$2.22m

Average LVR
46.1%

Average loan term
20.6 months

Loan origination in last 12 months
$898m

fmt

New Chief Financial Officer appointed for FMT

We are pleased to announce the appointment of Andrew Western as Chief Financial Officer.

CEO, Paul Bendall, says, "We are thrilled to welcome someone with Andrew's extensive experience and expertise as we embark on the next phase of our growth. We have significant growth opportunities in both the investment and lending sides of our business and Andrew will be a key part of our team."

Andrew brings over two decades of expertise in finance, with significant roles in New Zealand, Singapore, and the United Kingdom. He has a strong history of leading finance teams through challenging environments and building units that are not only effective but highly motivated.

Paul adds, "We are focused on executing a long-term strategic plan designed to ensure First Mortgage Trust thrives amid a complex operating environment, including macroeconomic challenges and regulatory changes, and that we are ready to take advantage of future opportunities. Andrew's skills and his strategic acumen will be pivotal in developing, refining, and implementing our strategies as we look to the future and continued growth of FMT."

We asked Andrew what appealed to him about working at FMT.

Andrew says, "I was first attracted to FMT because of its strong market reputation as a purpose-led organisation, supported by solid values. I also really like that they put people at the heart of everything they do.

This was further enhanced through my interactions with Paul and the board during the recruitment process. They have a clear vision on where they want to take the business, the market opportunities, and a real desire to ensure the things that made FMT special remain. All these factors made my decision to join FMT easy, I am looking forward to being part of the next phase of the FMT story."

Andrew takes over from long-serving CFO Roger Ford. Roger was with FMT for over ten years, when Roger joined the fund was $200 million, today we are at over $1.65 billion and growing. Roger has been instrumental in that growth, and we appreciate his hard work over the years. We wish him the best and hope he enjoys the extra time with his family.

Empowering Tomorrow's Leaders: Nominate a Star for the FMT $3,500 Youth Sponsorship Grant

We are looking for our next outstanding young individual to be the recipient of our Youth Sponsorship grant.

For almost 20 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.

We want to help our next generation of stars. If you or someone you know would benefit from this grant, we'd love to hear from them. Visit our website at **fmt.co.nz** to learn more or to complete the application form to enter.

N.B. Where sponsorship funds or donations are made by the Manager, these do not come out of investor funds. Sponsorship funds and donations are paid for by the Manager.

Strengthening Cybersecurity: Essential Strategies for Safeguarding Your Digital Presence

At FMT we are legally required to keep our system safe, secure and compliant, and so we undertake a broad range of initiatives and actions to achieve this.

While we do our part to deter cyber criminals, we encourage you to do the same so that your cyber risk is minimised as well.

Some items on the list below may be known to you, but some might be new. If there is anything in the list that you're not sure about, we encourage you to contact CERT NZ (cert.govt.nz) or Netsafe (netsafe.org.nz). CERT NZ works to support businesses, organisations and individuals who are affected (or may be affected) by cyber security incidents and Netsafe is New Zealand's independent, non-profit online safety organisation providing online safety support, expertise and education.

Some golden rules of thumb:

1. Do not click on any links that you're not certain are legitimate. Unless you're 100% sure, don't click. If you receive a link from someone you don't know, no matter how inviting it is, don't click on it.
2. Double check the email address that any email has come from. Often you can tell that the email is fraudulent due to dubious spelling or an odd domain name.
3. Make all your passwords unique and hard to guess and avoid using the same password across multiple platforms. A strong password typically includes a combination of uppercase and lowercase letters, numbers, and special characters. Consider using a password manager to securely store and generate passwords for you.
4. Never give your passwords to anyone and never verify your account details either. Remember that banks and other companies (like FMT) will not contact you for passwords by email, text or phone. If you receive a request like this, delete it or hang up.
5. Enable Two-Factor Authentication (2FA) whenever available. This adds an extra layer of security by requiring a second form of verification, such as a code sent to your mobile device, in addition to your password.
6. If someone contacts you out of the blue via social media or email, it's likely to be a scam. More so if they are pressurising you to make a quick decision and asking you to make payment for something in an unusual way.
7. Don't take calls from people you don't know and don't engage with them. It's ok to hang up even if it's against your nature to do so. Also note that some cold calls with investment offers are illegal in New Zealand, so if an offer is made, hang up immediately.
8. Be cautious on social media. What you post on social media can give cyber criminals information that they can use against you. Set your privacy so only friends and family can see your details.
9. Regularly update your operating system, applications, and antivirus software. Software updates often include security patches that address known vulnerabilities, reducing the risk of exploitation by cybercriminals. Enable automatic updates whenever possible to ensure you have the latest security enhancements. Additionally, keep your devices, such as smartphones, tablets, and computers, protected with reliable security software.
10. Be cautious while visiting websites and avoid clicking on suspicious or unknown links. Verify that websites use secure HTTPS connections (look for the padlock icon in the address bar) before entering sensitive information.
11. Implement a regular backup strategy for your important data. This ensures that even if you experience a cyber incident or data loss, you can recover your files. Store backups securely, preferably offline or in the cloud with strong encryption.

If you think you've been scammed or are being scammed, then stop all contact immediately and don't send any payments or personal details. Contact CERT NZ or Netsafe, and if you have made a payment, contact your bank or service provider you sent the money through immediately.

Interest rate wobbles

Article by Tony Alexander, Independent Economist

Since a set of bank economists predicted an extra 0.5% tightening of monetary policy some six weeks ago, confusion has reigned in people's minds regarding where borrowing costs are headed.

No other economist agreed with their prediction and when the Reserve Bank reviewed its cash rate on February 28, they left it unchanged and removed a warning that it might go up again. Why was it not reasonable to expect extra interest rate rises, and also, why aren't bank wholesale borrowing costs back to where they were before the bad interest rate forecast was made?

Monetary policy takes between 18 and 24 months to affect inflation. While the first rise in the cash rate came 29 months ago in October 2021, the initial increases were only small 0.25% rises. Increases of 0.5% did not start until 23 months ago in April 2022. But more importantly, the large 0.75% rise and warning of recession did not happen until October 2022. That is just 17 months ago.

Only now are we entering the period when the greatest tightening of monetary policy can be expected to have its greatest impact on inflation. So, predictions of further rate rises were more akin to the kids in the back of the car screaming "Are we there yet" when you've only been on the road two hours and the journey takes much longer.

But what about the fact that the likes of the cost to a bank of borrowing money at a fixed rate for lending fixed two years still sits near 4.85% from 4.6% at the start of the year? The recent peak was 5.2%. We can put this down to developments in the United States.

Early this year the markets had a strong expectation that there would be six cuts to the Federal Reserve main interest rate over 2024. The Federal Reserve however kept saying only three cuts are likely and now that some economic numbers have been less weak than the markets hoped their expectations have changed to line up with those of the Federal Reserve. US monetary policy is likely to be eased this year but only with cuts adding up to 0.75%, not 1.5%.

I've started this article with a discussion about recent NZ interest rate movements because it is relevant to something which is happening in the housing market. In the middle of 2023, a wave of buyers entered the market causing sales to rise by 20% seasonally adjusted in the June quarter. Prices began rising at an average of 0.8% a month.

But since that surge sales have flattened and most recently edged lower while prices in January on average were the same as they were in October. Why has the market's cyclical recovery stalled for now?

One reason I can tell from the monthly survey of real estate agents which I run with NZHL is that buyers have become newly nervous about interest rates. They have the ANZ to thank for that. A second reason is that buyer worries about employment and incomes have jumped up. This is important because it tells the Reserve Bank that their tightening efforts are affecting the labour market and much slower wages growth lies just around the corner.

The third and probably biggest factor is this. I have for the past year and a half noted that there is a two-year queue of frustrated buyers who will get activated and propel the market forward. Some have been active but many more are still sitting on their hands. What has happened is that the 2-3 year queue of sellers has also become activated by the signs of rising house sales and prices, and they have swamped the market.

The number of properties listed online for sale with realestate.co.nz has risen to just under an eight year high of 29,000 from 24,700 in July. For the moment there are more sellers than buyers, FOMO has retreated, and we are solidly back in a buyer's market again.

When will that change again? Probably not until interest rates are solidly seen as falling. When might that happen? Probably before the end of this year with the price impact helped by falling house building and rapidly rising population. Interesting times lie ahead – but they've been pushed out about nine months in time principally by the wave of sellers looking to transact.

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

Supporting Lifesaving Efforts with Coastguard Tauranga

In February, Coastguard Tauranga officially welcomed its newest fleet member - the state-of-the-art TECT Rescue. First Mortgage Trust is a proud sponsor of Coastguard Tauranga, and this new vessel is a game-changer for the region's maritime safety.

For those of you who attended our investor meetings in 2022, you may recall Coastguard Operations Manager Dane Robertson's presentation, where he spoke about this initiative and the fundraising efforts to make it a reality.

TECT Rescue is a 14.8m foil-supported catamaran that brings unparalleled capabilities to Coastguard Tauranga. Among its impressive features are a cruising speed of 28 to 30 nautical miles per hour - significantly cutting down response times, and state-of-the-art technology that enables the vessel to generate search patterns automatically, enhancing the efficiency and effectiveness of rescue operations.

This vessel represents a $2.7m investment into the safety and security of the Bay of Plenty's waters, made possible by the generous contributions of FMT and other community partners. The collaboration of local businesses, trusts, and the community underlines a shared dedication to saving lives and ensuring the Coastguard's preparedness for any emergency.

TECT Rescue is a significant milestone for Tauranga, ensuring the continued high performance of Coastguard Tauranga's volunteers in their lifesaving missions. Last year alone, Tauranga Coastguard responded to over 23,662 radio calls and assisted more than 350 people to safety.

As a sponsor, FMT is proud to be part of this vital community service, reinforcing our commitment to the communities we live and work in.

We look forward to seeing the positive impact this vessel will have on the safety of all who enjoy the beautiful waters of the Bay of Plenty.

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

Anzac Cheesecake

Ingredients

- 1 1/4 cups rolled oats
- 3/4 cup plain flour
- 1/3 cup desiccated coconut
- 75g butter
- 1/4 cup golden syrup
- 1/3 cup brown sugar
- 500g cream cheese
- 1 teaspoon vanilla extract
- 2/3 cup caster sugar
- 3 eggs

Golden Syrup Caramel

- 60g butter
- 1/4 cup brown sugar
- 1/3 cup golden syrup
- 2 tablespoons thickened cream

Method

1. Preheat oven to 150C/130C fan-forced. Grease and line the base of a 20cm-round springform pan.
2. Combine rolled oats, flour and coconut in a bowl. Place butter, golden syrup and brown sugar in a small saucepan over medium heat. Cook, stirring, for 5 minutes or until melted and smooth. Stand for 2 minutes. Add butter mixture to coconut mixture. Mix well to combine. Stand for 5 minutes. Press mixture over base and side of prepared pan, leaving a 1cm border around top edge of pan.
3. Beat cream cheese, vanilla and sugar until light and fluffy. Add eggs, 1 at a time, beating until just combined. Pour mixture into pan, levelling top with spatula. Place pan on baking tray. Bake for 50 minutes or until filling is just set (cake will wobble slightly in the centre). Turn oven off. Cool cheesecake in oven for 1 hour with door slightly ajar. Cool at room temperature. Refrigerate overnight.
4. Meanwhile, make Golden syrup caramel: Place butter, brown sugar and golden syrup in a small saucepan over medium heat. Cook, stirring for 5 minutes or until smooth. Stir in cream. Bring to the boil. Simmer for 2 minutes. Remove from heat. Cool for 20 minutes. Transfer to a bowl. Cover. Refrigerate overnight.
5. Remove cheesecake from pan. Stand cheesecake and sauce at room temperature for 10 minutes. Drizzle golden syrup caramel over centre of cheesecake. Serve.

Source: www.delicious.com.au / Photo: Delious.

With Strings Attached - Exit Strategies for Small Business Owners

It is not an easy time to be selling a small business. High inflation and waning consumer demand has lead to compressed margins and reduced revenue for many.

Uncertainty in the global markets due to wars, protectionism and the changing geopolitical landscape has blunted the confidence of prospective purchasers.

Closer to home, sub 3% interest rates are now a fading memory and house prices have come off their peak, so fewer aspiring business owners can easily 'top up their mortgage' to fund the purchase of a business.

How can sellers respond?

Business owners looking to sell and wanting to achieve the best price for their business may need to consider options to reduce a purchaser's reliance on third party finance to fund the acquisition of their business. This may include:

▶ **Asset restructuring:** Premises, plant and equipment are restructured to reduce the capital investment required by a purchaser. For example, valuable machinery could be retained by the seller and leased to the purchaser, meaning that the purchaser does not have to finance the upfront cost of purchasing that asset.

▶ **Vendor finance:** The seller advances a portion of the purchase price to the purchaser to be repaid by the purchaser over time. Vendor loans vary widely in terms of whether they bear interest, whether they are amortising (repaid gradually over the term) or repaid in a lump sum on a fixed date.

▶ **Earn Outs:** The purchaser agrees to pay part of the purchase price in instalments contingent on the business achieving certain financial targets. Payments could be fixed or adjusted based on the level of revenue generated by the business.

▶ **Vendor Shares:** The vendor retains shares in the business. The vendor might give the purchaser options to acquire 100% of the shares over time.

Objectives and risks

From a seller's perspective, the most common objective of using any of the above mechanisms is to achieve a better price for their business.

Compared to fully bank or finance company debt funded transactions, vendor funded transactions generally expose the seller to risk of purchaser default over a longer period. This is because repayment of vendor loans or achievement of earn-out targets depend on the success of the business under new ownership. These risks can be reduced by, for example:

- Requiring the purchaser to pledge security to the seller (mortgages, personal guarantees, registered security interests).
- Giving the seller a right to appoint a director for so long as they continue to hold shares in the business.
- Contractual provisions that exclude artificial reduction of gross profits for the purposes of earn out calculations.

Complexity and cost

If not managed well, transactions that include vendor funding mechanisms can be more complicated and take longer to negotiate than similar deals that are not vendor funded (and increased legal costs as a result). Also, the downstream consequences of vendor funding arrangements need to be carefully thought through to avoid unforeseen negative consequences. For example, if the vendor registers a security interest in the business assets, how will that affect the purchaser's ability to raise finance or obtain trade credit moving forward?

In our experience, the best outcomes typically start with a well-designed structure. Convoluted and legally complicated structures are generally less effective in practice than more straight forward, logical structures. Complexity can often be avoided if the transaction is properly designed from the outset.

Business owners considering vendor funding options should:

- Discuss potential structures with their business broker or lawyer to identify fit-for-purpose options that could be offered to potential purchasers;
- Focus on the characteristics of the business and the specific circumstances and objectives of the seller and buyer when designing a transaction structure - do not start with a particular structure in mind and adapt it to fit the circumstances (this is a recipe for legal complexity); and
- Try to aim for a structure that makes commercial sense and avoids risks being transferred to a party who cannot control it or who would not naturally be exposed to it.

A well designed vendor funding structure should be easy for all parties to understand and give the purchaser sufficient freedom and control to ensure the business remains successful while minimising the default risk faced by the seller.

Our commercial team at Holland Beckett is experienced in business sale transactions from $50,000 to $100 million including vendor funding arrangements of all types and would be happy to discuss how to make the sale of your business a success for you and your purchaser.

HOLLAND BECKETT

▶▶ Article provided by
Alex Elder / Associate,
Holland Beckett.

Do we have your email address?

To ensure we can provide your correspondence in a timely manner, email is the best option.

We can send your deposit/withdrawal confirmations, quarterly income statements and updates on Investor Meeting dates all via email.

If you haven't yet provided an email address, or if your email has changed, please send the following details to **team@fmt.co.nz**

1. Investor name
2. Investment number
3. Include: This is my/our request for correspondence via email

We will take care of the rest!
From the team at First Mortgage Trust

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.

Public Holiday Hours:

Our offices will close on the following days:

Good Friday - 29th March
Easter Monday - 1st April
Anzac Day - 25th April
King's Birthday - 3rd June
Matariki - 28th June

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 June:
Monday 24th June 2024. We will need to receive completed and signed Notices of Withdrawal on or before Thursday 20th June 2024.

Next processing date for Withdrawals in July:
Monday 1st July 2024. We will need to receive completed and signed Notices of Withdrawal on or before Thursday 27th June 2024.

first mortgage trust

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