first news

Issue 95
September 2023

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

7.02% 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 bring you the latest update on the performance of the First Mortgage Trust Group Investment Fund and First Mortgage PIE Trust for the third quarter of 2023. As always, we appreciate your trust and confidence and we're pleased to share our latest investment return rate with you.

An impressive 7.02% return achievement

We are really proud to announce that our fund's distribution has continued its upward trend, reaching an impressive annualised pre-tax return of 7.02% for the September 2023 quarter. The steady increase in return is primarily driven by the repayment of older loans at lower rates, which is lifting our overall loan portfolio interest rate. Our dedication to our core principle of optimising investor returns remains unwavering as we maintain our focus on originating high quality loans.

Record investor returns

We're excited to announce over the last year, we've distributed more than $100 million in returns to our investors. This is the first time we've reached this level of distribution, and it highlights the ongoing growth and success of our fund. It also underscores our dedication to providing consistent returns.

Positive rate outlook

We're also very positive about the future and anticipate our investor return will maintain the upward trend as additional historical loans on lower interest rates are repaid and are replaced by loans priced at current market levels.

Since December 2022, our returns have increased at a greater rate compared to the average 12 month term deposit, as per data from the Reserve Bank. It is important to remember a 12 month term deposit will still yield the same return rate in 12 months time, while our returns over the last three quarters have continued to increase and we expect this to continue.

It is also worth highlighting that our return is ahead of the rate of inflation, allowing your wealth to grow while safeguarding your capital. This further enhances the significance of our performance and the potential for future increases.

People-first approach

At FMT, our investors are at the heart of everything we do and our team is available to help and answer your questions about your investment. The team and I look forward to seeing many of you at our upcoming investor meetings, where we can share insights, and answer any questions you may have. Our recent meetings in Christchurch and Auckland were a great success, thanks to those that attended and we plan to host more events in these locations next year.

Thank you for your trust

The team and I want to express our thanks for your confidence in FMT. Our commitment to delivering exceptional customer service, consistent returns, and peace of mind remains steadfast. We value your partnership and look forward to continuing to provide you with peace of mind investing to help you protect and grow your wealth.

Paul Bendall,
CEO

Ensuring a Secure and Compliant Environment

In an ever-changing world around financial security and compliance, it might seem unnecessary when we ask you for your valid ID, particularly if you have had a long-standing relationship with us. However, the reality is that this practice (known as "Know Your Customer") is mandatory here in New Zealand, and in many other parts of the world too.

In short, the process is designed to verify the identity, suitability and risks involved with maintaining a business relationship with a customer - and as you would expect, this ties into the broader anti-money laundering and counter terrorism financing regulations that shape our sector. So, please bear with us when you are asked for your valid ID, as there are a number of good reasons why we do this, including:

1. **Regulatory Adherence:** we must adhere to regulations designed to maintain the integrity of our financial systems. Regular ID verification helps us stay in line with these requirements.
2. **Updated Information:** Just as you update your contact details when they change, verifying your ID ensures we have your latest information on record.
3. **Risk Management:** Periodic verification allows us to assess and manage potential risks associated with financial activities.
4. **Security Enhancement:** Keeping your ID current adds an extra layer of security, protecting both your account and our systems.
5. **Audit and Reporting:** Maintaining accurate and up-to-date records is vital for internal audits and reporting to regulatory authorities.
6. **Consistency:** Applying ID verification uniformly to all clients, old and new, maintains a consistent approach.
7. **Adaptation to Changes:** As regulatory and technological landscapes evolve, periodic verification enables us to adapt to these changes effectively.
8. **Client-Centric Approach:** Ensuring updated information reflects our commitment to providing you with the best customer service possible.

In summary, requesting valid ID, even from our long-term clients, is a necessary procedural step to ensure compliance, security, and consistency. While on the surface it may be seen as impersonal and unnecessary, at a deeper level it underscores our dedication to maintaining a safe and trustworthy financial environment for all our clients.

Julie McCullough
Head of Compliance and Quality Assurance

First Mortgage Trust Loan Book - key facts

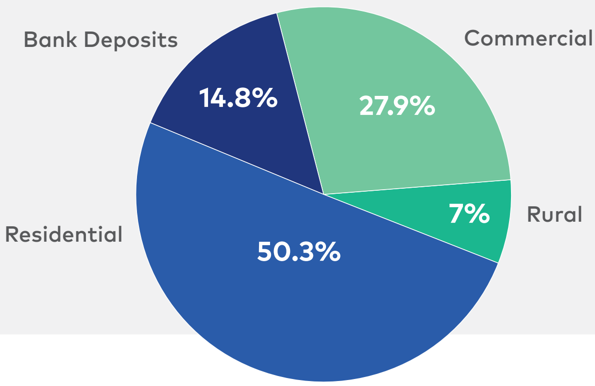
Our loan book is diversified across property types and location.

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 47%.

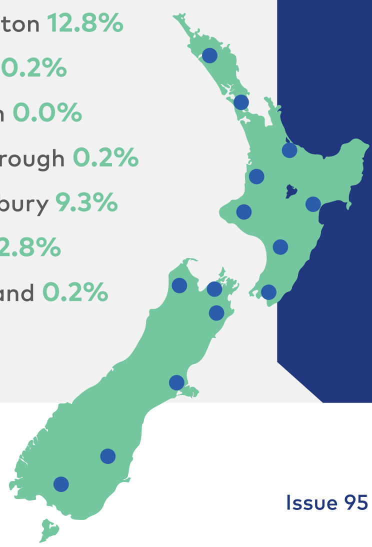
The following information provides details of our loans by region and investments by type as at 5 September 2023, demonstrating our diversity.

Investments by Type



Loans by Region

Northland 0.5%
Auckland 62.5%
Bay of Plenty 5.7%
Waikato 4.8%
Taranaki 0.1%
Hawkes Bay 0.5%
Manawatu-Wanganui 0.4%
Wellington 12.8%
Nelson 0.2%
Tasman 0.0%
Marlborough 0.2%
Canterbury 9.3%
Otago 2.8%
Southland 0.2%



Loan Summary

Number of loans
646

Loans secured over
1,300+ properties

Average loan size
$2.19m

Average LVR
46.5%

Average loan term
16 months

Loan origination in last 12 months
$900m

Cyber Security
Taking Care at Home

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 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.

Prudent Risk Management: A Look Inside FMT's Strategies

In times of heightened market volatility and uncertainty, we understand that safeguarding your investments is of utmost importance. At First Mortgage Trust, your peace of mind is not just a priority, it's embedded in every part of our business.

As Head of Lending, I would like to take this opportunity to share some of the processes and measures we use to minimise risk and protect your investments.

Our Loan Approval Process

We follow a strict three-step assessment process, involving separate parties. This process is all about protecting our investors' interests.

1. Local Expertise: Firstly, our team of experienced Business Development Managers, spread across key areas in New Zealand, thoroughly evaluate each loan opportunity. Their knowledge of their respective regions is a big part of why we're successful and this sets us apart from many others in the non-bank lending industry.
2. FMT Credit Process: Secondly, if a transaction meets our strict criteria, our Business Development Managers write a detailed credit submission for our credit team. This team works independently and meticulously analyses the strength of each transaction and also considers its impact on diversification of the wider portfolio.
3. Final Sign-off: Finally, each transaction is then signed off by our supervisor, ensuring it aligns with our Statement of Investment Policy & Objectives (SIPO), providing an additional layer of oversight and assurance before proceeding with the loan approval.

Our Commitment to Prudent Management

It's in our name. I sometimes get asked whether we offer second mortgages. The answer is a resounding "No." We take a relatively conservative approach to lending, and we only offer loans backed by first mortgages.

Our conservative approach to lending is guided by maximum gearing thresholds as outlined in our SIPO. Presently, we operate well below these levels and over the past three months, our loans have been originated with an average LVR of less than 50%.

Diversification is a well established risk mitigation strategy and in an FMT context a superior spread of loans provides protection to our investors. This has been a key contributor to our long term success. Not only is the diversification of the loan portfolio considered as part of any individual loan application, we also review diversification at a portfolio level monthly at our Assets and Liabilities Committee, which includes some of our board members. This ongoing diligence demonstrates how actively we manage the portfolio, ensuring diversification across loan numbers, loan types, and geographical locations is maintained.

All of the above conveys our investor-first ethos. At FMT, the investor is always at the forefront in all we do, resulting in nearly three decades of zero capital losses - a testament to our unwavering commitment to safeguarding and growing your wealth. We strive to provide you with peace of mind so that you can rest assured your investments are in good hands. If you have any questions about our loan book or lending strategy, please don't hesitate to contact me at team@fmt.co.nz.

Sam Burgess - Head of Lending

Honouring New Zealand Soldiers

There's more than World Cup Rugby on New Zealanders minds in France this month. Sadly, as a nation, we have an estimated 12,500 WWI soldiers buried on the Western Front - a heart wrenching and heavy loss which experts and volunteers have looked to honour by way of building a Museum on the ground in France.

Local war history expert and project lead Willie Lynch from Waihi Beach says that the project which is named "The New Zealand Liberation Museum - Te Arawhata", is New Zealand's first memorial museum in Europe.

The Museum has two objectives, he says. "Firstly, we want to honour the sacrifices that the soldiers and their families made, and secondly, we want to help tell the story of the liberation of the people of Le Quesnoy by the New Zealand soldiers." To help achieve this, the museum will feature an immersive and emotive storytelling experience from Weta Workshop.

Responsible for delivering the project is the New Zealand Memorial Museum Trust - Le Quesnoy, chaired by the Rt. Hon. Sir Don McKinnon and assisted by many generous Kiwis and companies. The Trust's focus is on driving this project to honour and remind us of the debt of gratitude we owe our war veterans.

"It will be a place that honours our past, highlights the importance World War One continues to hold, and tells the extraordinary stories of Kiwi men and women who served in Europe," Sir Don McKinnon said.

The museum opening is set for 11 October in Le Quesnoy, France with the timing to coincide with the Rugby World Cup so that the many Kiwi visitors and dignitaries in the region can attend.

For those travelling to Europe in the future, Willie encourages a visit to the museum. "This is a 'Project of National Significance' when you consider where we are now and where we would otherwise be if New Zealand's allies hadn't been successful in the war effort," he says.

To learn more about the museum and to help towards the fundraising efforts should you wish, please visit www.nzliberationmuseum.com

FMT is pleased to profile this initiative and to honour those New Zealanders who served and died in the first World War. Lest We Forget.

Housing cycle upward leg has started

Article by Tony Alexander,
Independent Economist

In the last article I wrote here three months ago I gave an expectation that the Reserve Bank would start cutting interest rates slowly from about the middle of next year, and that the housing market was being supported with buying by young people and pressures from net migration above 72,000. The view I have at the moment is not much different, but we have a lot more data in hand to show the strength of the upturn in the housing market on average around the country.

For instance, we can look at data from REINZ. In seasonally adjusted terms the number of properties sold around New Zealand has increased by about 8% over the three months to August after rising near 20% in the three months to May. The average number of days taken to sell a dwelling is falling. Average prices have risen 2.1% since bottoming out in May.

In Auckland prices have risen 3.1%, Wellington 3.5%, Canterbury 3%, and elsewhere around the country on average the gain has been less than 1%. I mention these numbers because one firm view I have been expressing for the past year has been that when the upturn in the housing market gets underway in New Zealand it will be led by the cities and Auckland in particular. My view in that regard has strengthened.

The net migration gain for New Zealand now sits at 96,000 people in the year to July. This is equivalent to a 1.9% boost to the population and history tells us that when people come to live in New Zealand they largely go to Auckland with some spillover into Wellington and Christchurch. The regions might benefit but that can be after a few years.

With regard to the almost record net loss of Kiwis from the country over the past year of 40,000, these people come from all over the country and not just the three main cities. Therefore at the moment and probably for the next couple of years we will see stronger population growth in our three main urban centres then in the regions.

But it is not just because of migration flows that a divergence is going to open up between housing markets in the three cities and the regions on average. 1/3 of New Zealand's export receipts come from China and the Chinese economy is slowing down for a whole variety of reasons we don't have space to go into here. The impact here is reduced volumes of some of our exports to China along with reductions in commodity prices.

This is most notable in the dairy sector where Fonterra over the past month and a half have cut their projected payout for the season from $8 per kilogramme of milksolids to $6.75 as a midpoint of their predicted range.

However, unfortunately for farmers, there is another factor now in play. There is a 70% chance that New Zealand will experience a deep El Nino weather pattern this coming year. This means strong westerly winds hitting the country which tend to produce drought on the eastern coasts. The reduction in farm output will encourage an even greater version of what is already happening in the countryside. Farmers are closing their wallets.

In the cities we may not notice weakness in the rural sector for a year or longer. But eventually the weakness does feed through and the impact is likely to be some extra downward pressure on the country's rate of inflation and therefore interest rates over 2024. This view may sound a bit different from that which the newspapers were discussing after Treasury released their Pre-election Economic and Fiscal Update which was interpreted as meaning there could be extra upward pressure on interest rates.

But what the media failed to realise was that Treasury compiled their forecasts as at the 2nd of August before learning about falls in export commodity prices and before concerns grew about El Nino.

Because of weakening economic activity in the regions and the improving chances for interest rate falls next year there will be an extra boost to the housing market from this source. It pays to note that at the moment there are many people, young ones in particular, who have a deposit big enough to allow them to buy their first house. But they are unable to complete the purchase because the high test interest rates banks are using means they cannot meet debt servicing requirements. When interest rates fall next year they will be able to.

Another factor likely to push up house sales and prices through 2024 and 2025 will be continuing strong net migration into New Zealand. It looks like we haven't yet reached the annual peak which appears set to exceed 100,000 people quite comfortably. After that numbers will tail off but we could still be looking at a net population gain from migration flows over 2024 of well over 50,000 people. That is an extra 1% boost to the population.

This becomes important when we consider that house construction is falling away because many buyers have backed away from buying off the plan, scared by stories of people losing their deposits. Many projects are being cancelled because the costs have risen so much they simply are no longer viable. Bank finance is also a lot harder for developers to get.

This will change in 2025 when the combination of strong population growth and falling availability of already constructed properties leads buyers to switch back to considering a new build again. But until then the combination of rising demand from firm population growth and falling new supply will lead to extra upward pressure on prices.

Are house prices going to soar at a 20% rate as we have sometimes seen in the past? That is not my expectation given that interest rates are likely to fall only slowly over 2024 and 2025. But after rising on average about 5% this calendar year I anticipate average gains through 2024 near 10% with capacity for that gain to reach 15% in 2025.

Earlier I made a reference to extra data allowing us to flesh out the picture of a recovering housing market. Specifically, my monthly survey of real estate agents shows that FOMO has returned, there has been a big decline in people's worries about house prices falling, concerns have grown very quickly about poor availability of listings, and investors are no longer deserting the market.

In fact, my latest monthly survey of mortgage advisors for the first time since before the end of 2020 shows a net 24% of advisers seeing more investors in the market. One thing encouraging the return of investors is evidence of house prices rising again and anticipation of a potential change in government on October 14 which will lead to the slow return of full interest expense deductibility and a decrease in the bright line test from 10 years back to two years.

All up, the housing market in New Zealand has now entered the upward leg of its cycle.

Tony Alexander is an independent economist.
This article is general information only.

If we split, who gets the investment portfolio?

Separation can be a difficult process. There are likely to be a lot of emotions involved. Working out who gets what is often more complex than you may expect, especially with blended families.

The Property (Relationships) Act 1976 ("PRA") applies to marriages, civil unions or de facto relationships of three years or more, including upon death. In limited circumstances, the PRA can also apply to relationships of shorter duration. The PRA defines relationship property and separate property.

Relationship Property or Separate Property?

Contrary to popular belief, whether you owned the home, car or boat before the relationship, and even if they are owned in only one partner's name, this does not always stop these assets being classified as relationship property. Relationship property is divided equally between both parties to the relationship upon separation or death (subject to certain limited exceptions).

Superannuation schemes (including KiwiSaver), shares, investments, business interests, life insurance policies, investment properties, rights in respect of a trust and bank accounts may also be relationship property even if they are owned in the name of only one partner.

Investment portfolios can become relationship property if they are started during your relationship or either of you contribute to the portfolio during the course of the relationship. If you and your new partner start a new investment portfolio together during the relationship, even with funds that each of you had prior to the relationship, this investment will be considered relationship property.

Generally, any property that is not relationship property is separate property. Separate property does not need to be divided between the parties to the relationship.

Contracting Out Agreements

A Contracting Out Agreement ("COA"), colloquially known as a "Pre-Nup", is the best way to safeguard certain assets as separate property, not to be divided equally upon separation or death.

In order for a COA to be legally binding, it must be recorded in writing and signed by both parties. Each party needs to have instructed a lawyer to provide independent legal advice from them and have that same lawyer certify that they have done so, as well as fully explaining the effects and implications of the COA before signing.

If you separate from your partner, or if one of you passes away and there is no COA in place, the PRA applies. This may mean that assets you had intended to be left for your children, end up being shared with your ex-partner.

It can be an expensive, drawn out and stressful process of negotiations or, worst case, Court hearings, post relationship if there is no COA in place. Your assets could be tied up for months or even years before settlement is reached, with large amounts of money spent on legal costs. A COA will give you and your partner clarity and peace of mind as to how your assets and liabilities will be divided in the event of your separation or death.

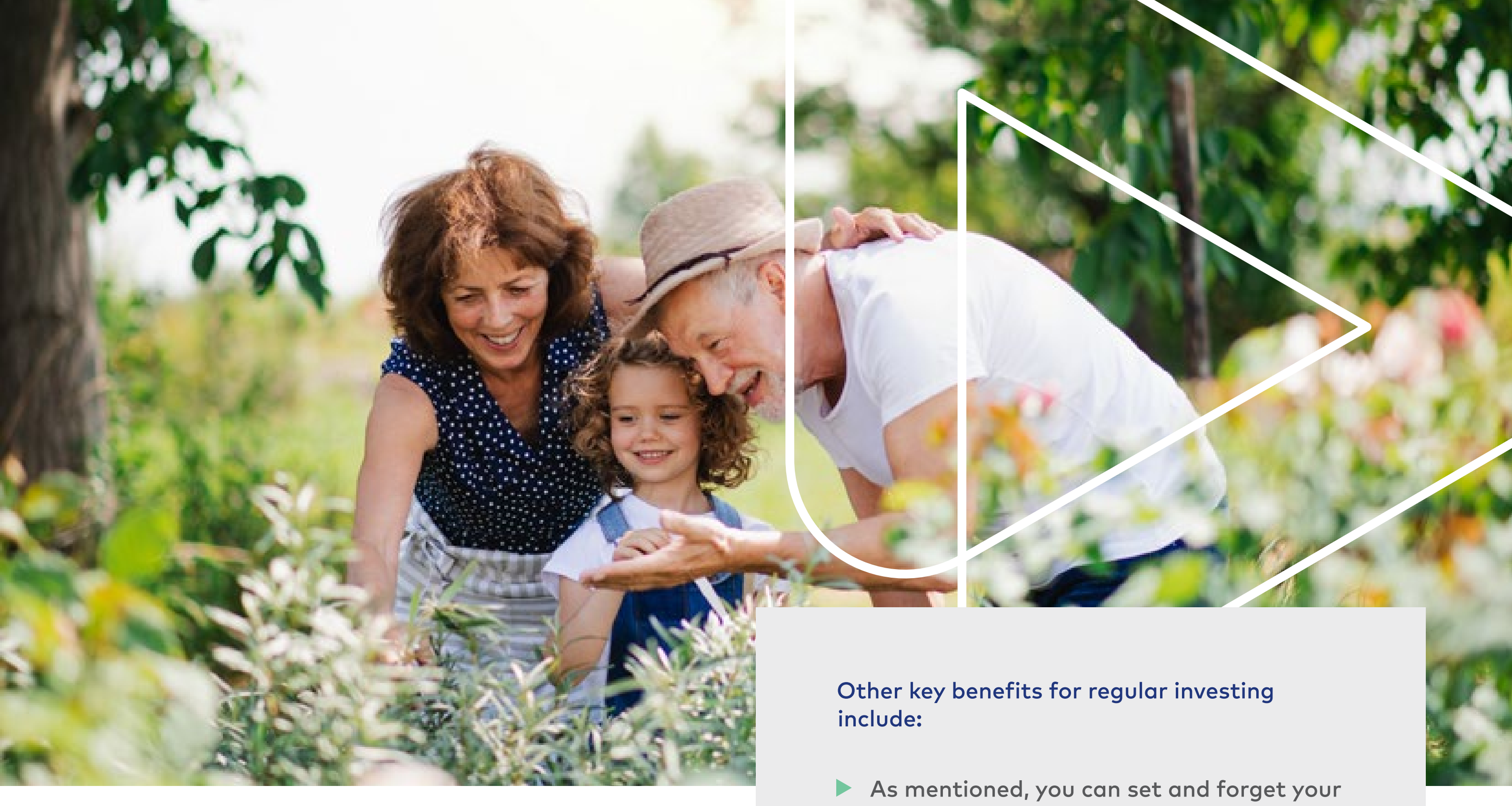
Key point

If you have assets and you are in a relationship, you should be considering whether you are wanting to retain certain assets as your separate property even before you have been together for three years. The best and most cost-effective way to do so is to enter into a valid Contracting Out Agreement prepared by lawyers.

If you have any queries, would like to enter into a Contracting Out Agreement, or need assistance in dealing with relationship property division post separation, please reach out to us at Holland Beckett Law.

HOLLAND BECKETT
LAW

Article provided
by Michelle Carey
- **Holland Beckett Law**



Growing Your Savings Wisely with Regular Investments

One of the key benefits of investing with FMT is that the fund is actively managed and does not experience the same volatility as alternative investment options like shares or equities.

Not only does this mean 'peace of mind investing' for all investors, but for those wanting to invest regularly, it means you don't need to spend time and effort trying to time your investments in an attempt to even out variable costs (which is otherwise known as dollar-cost-averaging, a tactic whereby investors purchase the same share at different price points at different periods, essentially looking to even out price volatility as they go).

In short, there's no "right time" or "wrong time" to put in your money with FMT - that's because our unit price is stable and consistent, so any time is good!

Over and above this, there are some key advantages to putting away 'little and often' as well as investing larger lump sums when you're in a position to do so.

First and foremost, the benefit of making regular deposits is that your money starts working for you from the day it is received. Secondly, for those opting to reinvest the income that is earned each quarter, the benefit of compounding returns can be enjoyed too. This is often called the "eighth wonder of the world", for investors it means that the income you are earning then goes on to generate income in the future. It's like having your money make money on repeat.

Other key benefits for regular investing include:

- As mentioned, you can set and forget your investment without the worry of fluctuation and volatility and you can change the amount deposited at any time (without penalty).
- You can align your savings with your long-term plans, with your funds accessible and not locked in for a specific period of time. Small amounts put away regularly can add up to a large amount when it comes time to retire or purchase larger-ticket items.
- With a regular savings plan in place, your investment dollar comes out first and foremost, helping you resist real life temptations which can otherwise see your savings plan thwarted.

▶▶ At FMT, we're here to make investing simple and stress-free, so you can build up your savings effortlessly.

If you would like to set up regular payments into your account, please chat with our friendly investment team for more information.

First Mortgage Trust doesn't offer financial advice. To determine if regular investments or investing with us aligns with your investment plans, you should talk to a financial adviser.

2023 Investor Meetings

Following successful investor meetings in Christchurch and Auckland, we now return to the Waikato and the Bay of Plenty where we have growing investor numbers. Please bring your questions and be ready for some interesting economic insights as we settle into post-election New Zealand. We look forward to catching up with both existing and new investors in these areas.

We are also pleased to welcome special guests to join us at these events.

▶▶ At the Matamata and Te Awamutu events we will be joined by the Save the Kiwi team, who will provide us an update on their work to save our native bird.

▶▶ And for the Tauranga and Katikati events we are pleased to have economist Tony Alexander join us. Tony will give his thoughts and insights on the economy.

How to register

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. Please feel free to bring a friend, family member or colleague.

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

Matamata - Wednesday 25 October

Te Awamutu - Thursday 26 October

Tauranga - Wednesday 8 November

Katikati - Thursday 9 November

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!

Christmas Hours

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

first mortgage trust

Talk to us ▶▶

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

Investment Transactions: Depositing and Withdrawing Funds

Depositing to Your Investment:

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

Withdrawing from Your Investment:

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

Last date for processing Withdrawals in December: Monday 18th December 2023. We will need to receive completed and signed Notices of Withdrawal on or before Thursday 14th December 2023.

Next processing date for Withdrawals in January: Thursday 11th January 2024. We will need to receive completed and signed Notices of Withdrawal on or before Tuesday 9th January 2024.