



## Quarterly Catch-Up

Autumn Newsletter 2020

Financial Services organisations such as Fund Managers Otago Ltd are classified as essential services under the current COVID-19 event. Therefore we will be open during normal business hours being 8.30am to 5pm. If we are working remotely a contact number will be provided on our normal phone line 03 471 6500 or Toll Free 0800 800 212.



### From The Managing Director



**Peter Hutchison**

COVID-19 is without a doubt the dominant feature on everyone's horizon right now. The New Zealand Government appear to be doing their level best to keep us safe from this virus. As to the threat it represents to our economy, it has taken bold moves to help ease the terrible cost of the actions necessary to beat the outbreak. The Official Cash Rate (OCR) significant cut was the first of

welcome news followed by more announcements of further support packages for New Zealanders and business.

How might this affect NZ Mortgage Income Trust (No.2 Fund) ("the Scheme") from both its borrower and investor client's perspective? The short answer is that our business model does not change. It is robust and has stood the test of time. We have always written quality loans, with appropriate servicing ability and security backing, in order to ensure a consistent return to our investors. Please see the key statistics on Page 2 of this newsletter.

The property sector so far is not exhibiting the volatility we are seeing in equity markets. At this time, there is no reason to believe this will change and commentators are speculating that property values might fall by 3% over the next 12 months. If this is the case, then such a drop would not have a material impact on our Scheme.

We expect that mortgage and term deposit interest rates will remain low so we continue to offer a considerable premium to our investors. The setting of our investment rate is primarily dependent on the rates we lend at. Our only exposure to the OCR is through the cash liquidity we hold within the Fund, and therefore very limited.

The good news is that this quarter your investment earned a return equivalent to 4.5% per annum before tax but after the deduction of all of the expenses of running the No.2 Fund.

This was achieved after the prudent retention of some earnings to cover any unforeseen costs that may or may not arise for the balance of this calendar year.

As far as government imposed mortgage relief for borrowers goes, we wish to clarify that this doesn't mean the Scheme forgoes its interest entitlement. The interest payment is not forgiven, it is simply added to the loan to be collected at a later date. As we have already demonstrated on Page 2 we have a strong LVR spread making this possible.

Your continued support is appreciated and if you would like to talk with me about your investment just call toll free on 0800 800 212 or visit our website [www.nzmit.co.nz](http://www.nzmit.co.nz)

**4.5% p.a.**  
return for the quarter ending  
31/03/2020

**BACKED BY REGISTERED FIRST MORTGAGE SECURITIES**

**NZ MORTGAGE  
INCOME TRUST**  
— No. 2 Fund —

**26** Serving Investors  
**YEARS**

\*Terms apply, see back page.

**0800 800 212**

Call or visit our website for a copy of our Product Disclosure Statement

**[www.nzmit.co.nz](http://www.nzmit.co.nz)**



In times like these it is facts that are important. When it comes to the NZ Mortgage Income Trust (No.2 Fund) Group Investment Fund's mortgage portfolio statistics, they speak for themselves. Now we appreciate that everyone is anxious about the future, but rest assured that we created this mortgage portfolio over many years to be as resilient as possible in difficult times.

### What asset backing is there behind our investment?

The asset backing is made up of the equity in the properties upon which we have written mortgages. So, the asset backing is equity in the property against the registered first ranking mortgages over land and buildings on the loan to valuation ratios (LVR). Please see the following table: -

Description	No. of Mtges	% of Portfolio	Value of Mtges	% of Portfolio
Loans with an LVR less than 0 - 50%	31	50%	2,861,529.79	30%
Loans with an LVR less than 51% - 60%	7	11%	1,509,817.81	16%
Loans with an LVR less than 61% - 70%	6	10%	916,017.97	9%
Loans with an LVR less than 71% - 79%	15	24%	3,226,175.92	33%
Loans with an LVR of over 80%	3	5%	1,176,398.85	3%

The loan to valuation ratio is the amount owing under a mortgage divided by the value of the land and buildings at the time it was written.

Please remember that property values have been increasing steadily year on year for almost a decade and that the loan to valuation ratios above are based on the valuation at the time of the original advance were made which makes the valuation on average 2-5 years old. Therefore, the true position is in fact even stronger.

We cannot however ignore that the current crisis could impact property values. Again, we believe we have a substantial buffer here. We run different scenarios all the time to see what impact various drops in value would have and this drives our provisioning for unforeseen movements in asset values. We believe that adequate provisioning has been made and it would take a real catastrophe to affect the Scheme.

### Which sectors of the property market are the mortgages written against?

It must also be remembered that the supply and demand mismatch that continues in New Zealand helps underpin the values in the residential rental and home loan market. This makes up most of our mortgage portfolio as is evidenced below.

#### Portfolio Allocation

Commercial Mortgages	28%
Residential Rental Mortgages	6%
Housing Mortgages	61%
Farming/Rural Mortgages	5%

### What other terms help underpin the asset backing of the mortgage portfolio?

Another consideration is the fact that 50% of the loans that make up our mortgage portfolio are on principal and interest repayment terms meaning that every year the loan to valuation ratio strengthens further by the extent of those principal repayments.

Description	No. of Loans
Principal Interest Repayment Terms	31
Interest Only Repayment Terms	31

### What about debt servicing capability of the mortgagors?

We have one of the stricter debt servicing policies within the banking and financial services sector lending on home loans at 3 times a single person's gross income and 3.5 times joint borrowers' gross incomes. This is much lower than our competitors who are frequently at 5 times and up to as much as 7 times borrower's gross incomes. For commercial, farming/Rural and residential rental loans we stick to traditional interest cover servicing criteria and again this is at the stricter end of the scale.

The portfolio has just 3 loans in arrears and all but one is near resolution at the time of writing. As we move through this current crisis take heart in these statistics as they speak to the asset backing behind your investment.



## Have Your Say

At Fund Managers Otago we appreciate hearing from our clients. On our website you will find a form where you can submit your views and general feedback. We'd love to hear from you.



Check out [www.sorted.org.nz](http://www.sorted.org.nz)

a government funded investment tool for investors to make comparisons and find out more about investment products.





## Japanese Black Rice Salad

*Recipe thanks to Shaun Campbell*

Fast, healthy, and surprisingly addictive, this salad could easily become your go-to dish for BBQs and potlucks. It comes together in minutes but be sure to leave time for the salad to chill and the flavours to meld before serving. Serves 4.

### Ingredients:

Black Rice 1 cup  
Water 2 cups  
Edamame (Young Soy Beans) removed from pods 1 cup  
Carrot 1, cut into Edamame size  
Cucumber 1 \*cut into Edamame size  
Spring Onion 1 \*thinly sliced  
Toasted Sesame Seeds 1 tablespoon

### Dressing Ingredients:

Rice Vinegar 2 tablespoons  
Soy Sauce 2 tablespoons  
Ginger 1 small piece, finely chopped  
Sugar 1 teaspoon  
Sesame Oil 1 to 2 teaspoons

### Method:

1. Cook Black Rice according to the instruction on the package. I just cook 1 cup of Black Rice with 2 cups of water in the rice cooker.
2. Combine all the dressing ingredients in a bowl, add Edamame and Carrot to marinate for 30 minutes.
3. Drizzle the dressing with the Edamame and Carrot over the cooked warm rice, add Cucumber and mix to combine.
4. Sprinkle finely sliced Spring Onions and Toasted Sesame Seeds over and serve.

### REMINDER

## Get Your Investor News Straight to Your Inbox

Investors can help to reduce the operating expenses by providing your email address to receive all future correspondence. All cost savings made possible through switching to email communication help us to improve the return to our investors.



 Email [enquiries@mortgagetrust.co.nz](mailto:enquiries@mortgagetrust.co.nz)

## Sudoku

The object of the game is to fill all squares in the grid with the correct number.

The rules are:

- Every row, column and box must contain all the digits 1 to 9.
- Each number can only appear once in every row, column or box.

Every puzzle has only one correct solution!

### Easy

2	4		9	7	6	3		1
	6	3	5					2
	1		8	2			6	4
3	2	9	6		7			8
4		6		3	8		7	
				4	9	5		
		1				6		
6				8		9	4	
5			7	2				3

### Medium

	4						5	
1	9		5					
2				7	8		6	
	3		7	8				2
9		7	4	2	1		3	
	8		9			7		4
	1	5			6			7
	2					9		5
3				5		1		

### Hard

	1		6		8			
						4	6	1
	3	4			7			
				1				
		1	9	6				5
	7							9
9					1	3		
1				9		5		
				5	2	7		9



The statistics below are not intended to replace the Quarterly Update for the Fund which can be found on our website [www.nzmit.co.nz](http://www.nzmit.co.nz) or on the disclose register under [www.disclose-register.companiesoffice.govt.nz](http://www.disclose-register.companiesoffice.govt.nz)

## Investment Portfolio Statistics

Fund Size	\$13.4M
Unit Price as at 23 March 2020	\$0.9520
Number of Investors	656
Minimum Investment	\$100
Income Payments	Quarterly / floating rate of return / income can be compounded
Term of Investment	Medium to long term
Entry / Exit fees	Nil
Liquidity as at 23 March 2020 <sup>3</sup>	31%
Redemption Notice Period	A maximum of 90 business days (approximately 4.5 calendar months)

**Exit Fees:** The Manager has decided not to charge any withdrawal fees for the foreseeable future but reserves its right to do so. In any event there are no withdrawal fees for investors who withdraw after their second year of investment.

The statistics below are not intended to replace the Quarterly Update for the Fund which can be found on our website [www.nzmit.co.nz](http://www.nzmit.co.nz) or on the disclose register under [www.disclose-register.companiesoffice.govt.nz](http://www.disclose-register.companiesoffice.govt.nz)

## Mortgage Portfolio Statistics

Number of Mortgages	62
Value of Mortgages	\$9.69M
Average Mortgage Size	\$152,239
Portfolio Commercial Mortgages	28%
Portfolio Residential Mortgages	67%
Portfolio Farming Mortgages	5%
Geographic Spread: North Island	50%
Geographic Spread: South Island	50%
Top six exposures (% of the Fund)	17%
No. of Loans in Arrears at 30-90 days	1
No. of Loans in Arrears at 90 days +	1
No. of Impaired Loans	1

## Important Information

① The NZ Mortgage Income Trust (No. 2 Fund) return calculation is set out in the Product Disclosure Statement on Page 5 under the title 'Distributions' and on the NZ Mortgage Income Trust website [www.nzmit.co.nz](http://www.nzmit.co.nz). ② Past returns do not guarantee future performance in respect of the NZ Mortgage Income Trust (No. 2 Fund). ③ The liquidity percentage is that percentage of the total assets of the Fund held in cash or liquid assets. ④ All information in this newsletter is current to 23 March 2020, unless otherwise stated and the figures have not yet been audited. ⑤ For further information please contact our office to obtain a copy of the current NZ Mortgage Income Trust (No. 2 Fund) Product Disclosure Statement. ⑥ The value of each unit in the Fund increases or decreases in value as net income accrues during each quarter of the financial year. During the last week of each quarter an income distribution to investors for the prior quarter is determined and paid out on the first day of the next quarter. The effect of any distribution is to reduce the unit value by the amount of the income accrual following completion of the distribution. This process then repeats each quarter. A portion of each income distribution made to investors is reinvested in new units in the Fund which has a dilutive effect for all unitholders.