

26 Serving Investors
YEARS

Quarterly Catch-Up

Winter Newsletter 2020

It is business as usual for Fund Managers Otago Ltd under Level 1. We are working in the office and remotely during our usual hours of 8.30am to 5pm. Contact numbers for staff can be found on our website www.nzmit.co.nz. Our Toll Free phone is 0800 800 212.

COVID-19 Update

From The Managing Director



Peter Hutchison

It is very much business as usual for Fund Managers Otago and the NZ Mortgage Income Trust (No. 2 Fund). Our business model remains robust and has stood the test of time for over a quarter of a century. The mortgage investment policies and procedures have assisted us to build and maintain a mortgage portfolio that consistently produces competitive returns to our investors that is structured to grow in a prudent and risk averse manner for the benefit of all investors and stakeholders.

Sadly, COVID-19 is still without a doubt the dominant feature

on everyone's minds right now. The New Zealand Government has made some bold moves to help beat the COVID-19 outbreak. We continue to monitor the emerging economic impact of COVID-19 both internationally and domestically.

Our attention now will need to be on the economic impact as this is sure to emerge over the coming months. The OCR reduction to 0.25% during the past quarter was further welcome news followed by the prospect of an unprecedented move to a negative OCR announcement in early 2021.

With bank term deposit interest rates at record low levels and the volatility continuing in the equity markets, it is a great time to invest in this Scheme which is secured against registered first ranking mortgages over New Zealand property assets, the quality of which is demonstrated on page 2 and 4 of this newsletter.

We have made a small positive amendment to the Lending Policies and Guidelines (LPG) allowing the Scheme to write loans over residential cross-lease titles. This is standard for all other known mortgage backed schemes and this amendment simply brings us in line with other schemes. The revised LPG can be found on our website www.nzmit.co.nz.

Good News

This quarter ended 30 June, your investment earned a return equivalent to 4.50% per annum before tax but after the deduction of all the expenses of running the No. 2 Fund which equates to an annualised return for the past 12 months of 4.69% per annum.

We expect that bank mortgage and term deposit interest rates will remain at the unprecedented low levels for an extended period of time meaning that the Scheme will continue to offer a solid and considerable premium over bank term deposit rates to investors.

The setting of our investment rate is primarily dependent on the interest rates that we lend at.

Our only direct exposure to the OCR is through the cash liquidity we hold within the Scheme, and therefore very limited.

By the time you receive this newsletter you will have received your tax certificate for the year ended 31 March 2020. As from 1 April 2020 the investment income reporting requirements from the Inland Revenue Department has impacted the need to supply Resident Withholding Tax Certificates and in future these will only need to be supplied to investors who have not provided the Scheme with their IRD number.

The unit price dipped during June 2020 from 95.2 cents per unit to 94.5 cents per unit as a result of settling the only impaired loan within the mortgage portfolio. This was a disappointment and was due to unforeseen additional expenditure necessary to achieve settlement. We await the judgement to be released of the Court of Appeal hearing on the Instrument Forfeiture Order litigation and remain hopeful of a further positive outcome for unitholders.

Your continued support is appreciated, and we encourage you to invest or recommend the Scheme to your friends and family.

A replacement Public Disclosure Statement (PDS) has been lodged on the Disclose Register as at 9 June 2020. To review the PDS please go to our website, www.nzmit.co.nz.

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

4.69%* p.a.

For year ending 30/06/2020

BACKED BY REGISTERED FIRST MORTGAGE SECURITIES



NZ MORTGAGE
INCOME TRUST
No. 2 Fund



*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

During settled and unsettled times, it is the facts that are centrally important. When it comes to the NZ Mortgage Income Trust (No. 2 Fund) Group Investment Fund's mortgage portfolio, it is important to keep you posted on the structure of the mortgage portfolio which, in our opinion, is well-balanced towards a risk averse position.

What asset backing is there behind this investment?

The asset backing is made up of the equity in the land and buildings over which we have registered first ranking mortgages. Using the loan to valuation ratios (LVR) described in the table below: -

Description	No. of Mtges	% of Portfolio	Value of Mtges	% of Portfolio
Loans with an LVR less than 0 - 50%	32	52%	2,910,982	31%
Loans with an LVR less than 51% - 60%	6	10%	1,298,312	14%
Loans with an LVR less than 61% - 70%	9	13%	1,582,721	17%
Loans with an LVR less than 71% - 79%	14	23%	3,366,027	35%
Loans with an LVR of over 80%	1	2%	286,400	3%

Note: Data is as at 10/06/2020.

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

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 the original advances were made which makes the valuation on average 2-5 years old. Therefore, as at the time of writing the true position is likely to be stronger.

We cannot ignore the fact that the current pandemic could impact property values, however, we believe that we have a substantial buffer against a drop in property values. We regularly run different stress tests 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 materially adversely affect the Scheme.

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

Our mortgage portfolio is currently divided up as follows:-

Portfolio Allocation

Commercial Mortgages	20.5%
Residential Rental Mortgages	5.6%
Housing Mortgages	68.4%
Farming/Rural Mortgages	5.5%

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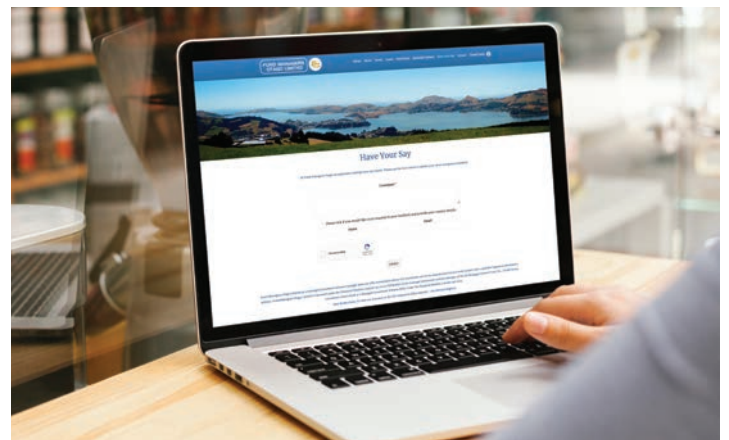
What other terms help underpin the asset backing of the mortgage portfolio?

Another consideration is the fact that over 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	Percentage of Loans
Principal Interest Repayment Terms	52%
Interest Only Repayment Terms	48%

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 limited to 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 lending up to 5 times and up to as much as 7 times borrowers' 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.



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.

<https://www.nzmit.co.nz/have-your-say>



Check out www.sorted.org.nz

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





Lemongrass & Garlic Roasted Pork Belly

This dish needs to be started 24 hours ahead.

Recipe by Claire Aldous | Photography by Aaron McLean

INGREDIENTS:

1 kg piece boneless pork belly, skin on
vegetable oil and sea salt

Paste:

1 large stalk of lemongrass
1 tablespoon chopped fresh ginger
2 cloves garlic, chopped
1 tablespoon vegetable oil

Soy & Lime Dipping Sauce:

Combine all the following ingredients in a bowl:

2 tablespoons each soy sauce, kecap manis and black vinegar
2 teaspoons lime juice
1-2 teaspoons chilli sauce
½ teaspoon grated fresh ginger
1 clove garlic, crushed

METHOD:

Prick the skin of the pork belly all over with the tip of a sharp knife. Place skin side up on a plate in the fridge and cover loosely with paper towels. Leave for 24 hours for the skin to dry out.

Paste:

Peel the tough outer layers from the lemongrass and grate the tender inner core on a fine microplane grater.

Place in a mortar with the ginger and garlic and pound to a paste. Stir in the oil. This can also be done in a small food processor.

Pork:

Preheat the oven to 220°C. Lightly score the flesh side of the pork, rub in the paste and season with salt. Make a basket of aluminium foil in a baking dish, slightly larger than the piece of pork and place the pork in it, skin-side up. Pour enough water into the basket to come halfway up the flesh. Do not pour the water over the skin. Brush the skin with oil and sprinkle generously with sea salt. Roast for 30 minutes then reduce the heat to 175°C and roast for another 30-40 minutes or until the pork is very tender, adding more water to the pan as needed. Don't let the liquids evaporate as this keeps the pork meat very tender. If, at the end of the cooking time, the skin hasn't crackled, place under a hot grill for a few minutes, taking care it doesn't burn.

TO SERVE:

Cut the pork into large bite-sized pieces and place on a platter. Serve with the soy and lime dipping sauce.
Serves 6-8 as part of a shared meal.

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.



 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

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

Medium

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

Hard

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



The statistics below are not intended to replace the Quarterly Update for the Scheme which can be found on our website www.nzmit.co.nz or on the disclose register under www.disclose-register.companiesoffice.govt.nz

Investment Portfolio Statistics

Scheme Size	\$12.94M
Unit Price as at 10 June 2020	\$0.945
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 10 June 2020 ³	21%
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.

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Mortgage Portfolio Statistics

Number of Mortgages	62
Value of Mortgages	\$9.44M
Average Mortgage Size	\$149,911.82
Portfolio Commercial Mortgages	20.5%
Portfolio Residential Mortgages	74.0%
Portfolio Farming Mortgages	5.5%
Geographic Spread: North Island	55%
Geographic Spread: South Island	45%
Top six exposures (% of the Scheme)	18.5%
No. of Loans in Arrears at 30-90 days	2
No. of Loans in Arrears at 90 days +	Nil
No. of Impaired Loans	Nil

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. 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 Scheme held in cash or liquid assets. ④ All information in this newsletter is current to 10 June 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 Scheme 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 Scheme which has a dilutive effect for all unitholders.