

FUND MANAGERS OTAGO LTD

26 Serving Investors
YEARS

Quarterly Catch-Up

Spring 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

Sadly COVID-19 still dominates much of our daily lives and has put immense strain on families and the economy, creating great uncertainty throughout 2020. However, we have been able to remain firm in our resolve to provide the very best service to our customers. It has very much been business as usual here. We can report that demand for mortgage funding remains steady and with careful selection we have been able to write good quality mortgage

proposals. The mortgage portfolio statistics on the back page show just how strong the portfolio is performing at present.

Despite this good work liquidity remains elevated at present but we do have further mortgage investments in the pipeline ready to draw down meaning that surplus liquidity will be gainfully employed in the near future.

During the quarter just ended we advised you of our intention to make a further adjustment to the Statement of Investment Objectives (SIPO). The adjustment is being to the mortgage portfolio mix to better reflect where we, as Manager, feel the Scheme should be invested. To that end we have changed the commercial component down from the range of 15 - 75% of the net asset value of the Scheme to 0% - 50% of the net asset value of the Scheme. We no longer feel that commercial mortgages should be as prominent in our investing activities. We will be favouring residential mortgages spread throughout New Zealand avoiding any employment sectors of the economy connected to either tourism or hospitality as we see these as having elevated risk factors at present. We have only one exposure in the entire mortgage portfolio to these sectors at present. The revised SIPO can be found on our website www.nzmit.co.nz.

A new Product Disclosure Statement will be registered on 1 October 2020 to bring this up to date with the new mortgage portfolio mix criteria.

We are very pleased to report to you that for the quarter ended 30 September 2020, your investment earned a return equivalent

to 4.15% 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 4.55% per annum.

As expected, bank term deposit interest rates have dropped even further and the commentators continue to predict this will be the case for some considerable time, so we continue to offer a considerable premium to investors over bank rates. We continue to attract and write sound first mortgages at very attractive interest rates allowing us to provide an attractive return at the current level. At the time of writing, there is some downward pressure on mortgage interest rates in our sector but not as rapid as we have witnessed in the prime banking arena. Our return has held up well to date but the future is hard to predict.

The Appeal Court hearing on the Instrument Forfeiture Order litigation was released during the quarter and sadly went against the Scheme. This now draws this matter to a close and further reference to this matter will be removed from the Public Disclosure Statement and website as of 1 October 2020.

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

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

4.55%* p.a.

For year ending 30/09/2020

KEEP YOUR SAVINGS ON TARGET

**BACKED BY REGISTERED
FIRST MORTGAGES**

 **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

Fund Managers Otago Limited, the issuer, is not a registered bank under the Reserve Bank of New Zealand Act.

How can I get a copy of the Fund's Annual Report?

2020 Financial Statements and Annual Report

The Manager is required under section 96 of the Financial Markets Conduct Act 2013 to prepare the financial statements and annual report on the affairs of the scheme for the accounting period ending 31 March in each year and lodge this report with the Disclose Register no later than 31 August each year.

Due to the COVID-19 pandemic the FMA created an exemption allowing issuers to extend the filing date to 30 September 2020. We confirm that we applied to rely on that exemption and were granted the extra time. Subsequently, the financial statements were completed in line with this exemption for the financial year ending 31 March 2020.

Each unitholder has a right to receive a copy of the financial statements and the annual report if notice is given within 15 working days of receipt of this Newsletter by making a request to the Manager by emailing the request to enquiries@mortgagefund.co.nz or simply download from our website www.nzmit.co.nz or from the Disclose Register <https://disclose-register.companiesoffice.govt.nz>.

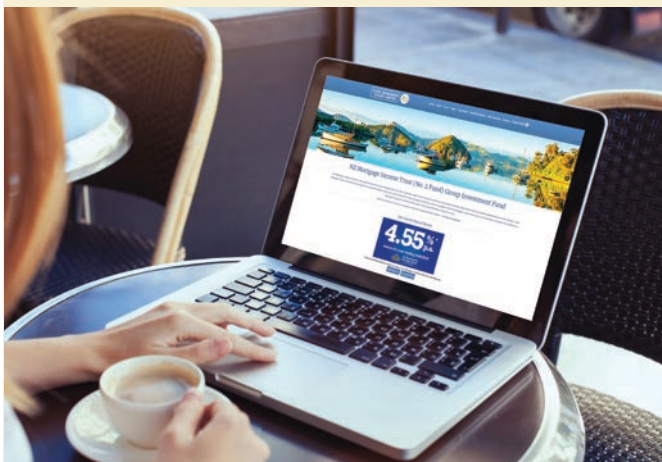
You can also request a copy be mailed out by the Manager free of charge.

Please don't hesitate to contact us if you would like to receive a copy.



New Product Disclosure Statement

The Manager constantly reviews the Scheme's Product Disclosure Statement (PDS) to satisfy itself that there has been no material change in the risks and operation of the Scheme that would require the Manager to update the disclosures within that offer document. In addition, the Manager, immediately after the completion of the audited financial statements, checks that the expense ratio is accurately recorded.



The No. 2 Fund Product Disclosure Statement is available to download from our website www.nzmit.co.nz

A new PDS was lodged on the 26 August 2020 to the Disclose Register and on our website and this new document had changes that we wish to draw your attention to. The disclosure surrounding the instrument forfeiture action has updated and we made several non-material adjustments to the editorial.

We recently wrote to all investors in the Scheme about another change that will take effect from 1 October 2020 and that was to the mortgage portfolio mix within the Scheme. The change proposed is expressed in the table below and is also recorded in the Statement of Investment Policies and Objectives that can be found on our website www.nzmit.co.nz.

Please do not hesitate to call us toll free on **0800 800 212** if you would like to invest and need us to send you out a copy.

Mortgage Type	Current Limits	New Limits
Commercial Mortgages	15-75% of the Portfolio	0-50% of the Portfolio



Pear Tarte Tatin

Recipe by Olivia Galletly | Photography by Olivia Galletly

INGREDIENTS:

100 grams caster sugar
70 grams butter, cut into cubes
½ teaspoon vanilla bean paste
5 pears, peeled, cored and quartered
300 grams good-quality flaky puff pastry
vanilla ice cream or custard, to serve

METHOD:

Preheat the oven to 180°C.

Place the sugar in a large oven-proof frying pan, approximately 25cm in diameter, and cook over a medium heat. Once it begins to dissolve, carefully shake the pan to evenly distribute. Heat until the sugar turns golden brown. Add the cubes of butter and vanilla bean paste and bring to a simmer, carefully shaking to combine. Neatly arrange the pears in the bottom of the pan – be careful as the caramel may spit.

On a lightly floured surface, roll out the pastry until roughly 5mm thick. Cut into a 25cm circle and gently lay on top of the pears. Tuck the edges of the pastry in around the fruit. Return to the heat for 2-3 minutes, or until the caramel just begins to bubble up around the edges. Use a sharp knife to poke 6 small holes in the top of the pastry.

Bake for 20-25 minutes, or until the pastry is golden brown. Set aside to cool for 10 minutes.

Gently run a knife around the edge of the pastry. Wearing oven gloves, place a large lipped plate on top of the frying pan and carefully flip over, inverting the tart onto the plate. Serve with vanilla ice cream or custard.

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

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

Medium

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

Hard

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



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	\$13.3M
Unit Price as at 18 September 2020	\$0.945
Number of Investors	589
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 18 September 2020 ³	26%
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	64
Value of Mortgages	\$9.88M
Average Mortgage Size	\$154,308
Portfolio Commercial Mortgages	19.4%
Portfolio Residential Mortgages	75.2%
Portfolio Farming Mortgages	5.4%
Geographic Spread: North Island	56%
Geographic Spread: South Island	44%
Top six exposures (% of the Scheme)	18.3%
No. of Loans in Arrears at 30-90 days	1
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 18 September 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.