Presbyterian
Investment Fund

Annual Report
Year ended 30 June 2024

Together we can generate returns to support mission

Key points from the 2023 / 2024 year

- Account balances of $186 million
- $7.2m paid in On Call interest
- Average On Call interest rate for the year of 5.4%
- On Call rate as at 1 July 2024 of 5.5%
- Long Term Interest for the year of 3.0% ($1.4m paid)
- Long Term Inflation Interest for the year of 3.3% ($1.8m inflation-proofing)
- Long Term Reserve Interest for the year of +2.2% ($1.2m unrealised gains)
- $6.4m lent to congregations and trusts as at year end
- Reserves gradually being rebuilt

✓ Together we benefit from investing as a group
✓ Two investment options
✓ Online access to funds without notice
✓ Attractive 'on call' interest rates
✓ Low operating expenses – less than 0.40% of funds

HOW IS THE PIF MADE UP?

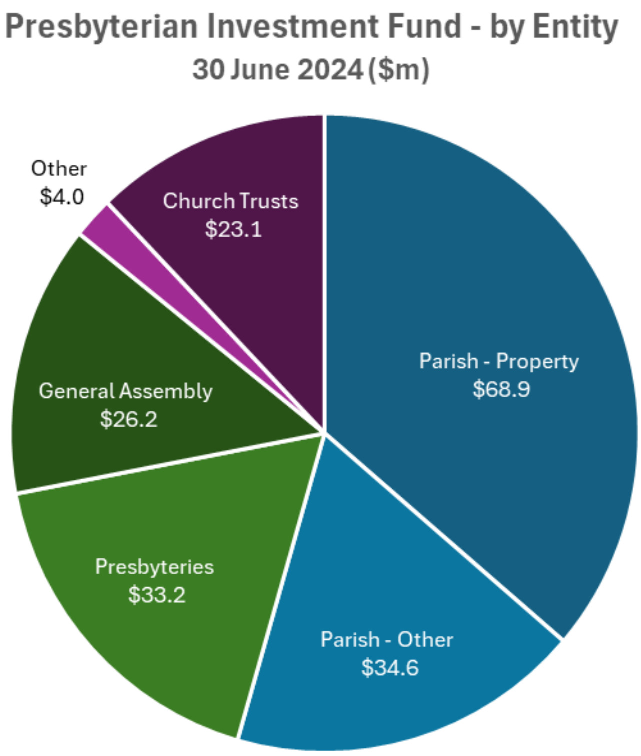
The Presbyterian Investment Fund (PIF) holds funds on behalf of parishes, Presbyteries, the General Assembly, The Presbyterian Church Property Trustees, and other entities associated with the Presbyterian Church of Aotearoa New Zealand. Property funds held on behalf of parishes are primarily held for property-related use.

Chart 1 provides a breakdown of the various groups that hold funds in the PIF. It shows that $68.9m is held as Property Capital (generated from the sales of properties) on behalf of parishes (last year $65.6m). Parishes hold a further $34.6m in the PIF (unchanged from last year at $34.6m).

Presbyteries hold $33.2m (last year $29.2m) and the General Assembly $26.2m (last year $25.5m). The Trustees hold $23.1m on behalf of the various trusts they administer (last year $21.2m). A further $4.0m is held on behalf of related entities.

Account holders can invest in either or both the On Call Fund and the Long Term Fund.

Chart 1: PIF Account Breakdown as at 30 June 2024



Parish funds make up 54% of the PIF, with 36% held in property accounts

Table 1 below provides a breakdown of the balances between the On Call and Long Term Funds over the last three years. The table shows that the PIF reached a record size by year end as capital contributions outweighed withdrawals, and reserves continued to rebuild. It also shows the benefit of inflation-proofing capital in the Long Term Fund (which continues to grow as a proportion of the fund).

Table 1: Account balance comparison ($m)

	30 June 2022	30 June 2023	30 June 2024
On Call Fund	141.88	134.86	140.51
Long Term Fund	43.52	44.71	49.42
Total Accounts held	185.40	179.57	189.94
Reserves	3.85	5.52	6.88
Total Assets	189.25	186.10	196.81

PIF account-holder balances and reserves grew over the year to reach a record size

ON CALL FUND

The PIF On-Call Fund provides an on-call facility that is invested in high quality, short-duration securities, predominantly managed by Harbour Asset Management. PIF loans to parishes make up the rest of the On Call Fund assets.

As a short-duration fund, the interest rate earned by the PIF's assets, and passed on to account-holders, is strongly linked to the Official Cash Rate (OCR). The Reserve Bank of NZ held the OCR steady over the last year at 5.50%. The PIF On Call rate commenced the 2024 financial year at 5.0% p.a. and finished at 5.50% p.a. as at 30 June 2024 (see Table 2). Four times as much interest was paid this year as was in 2022.

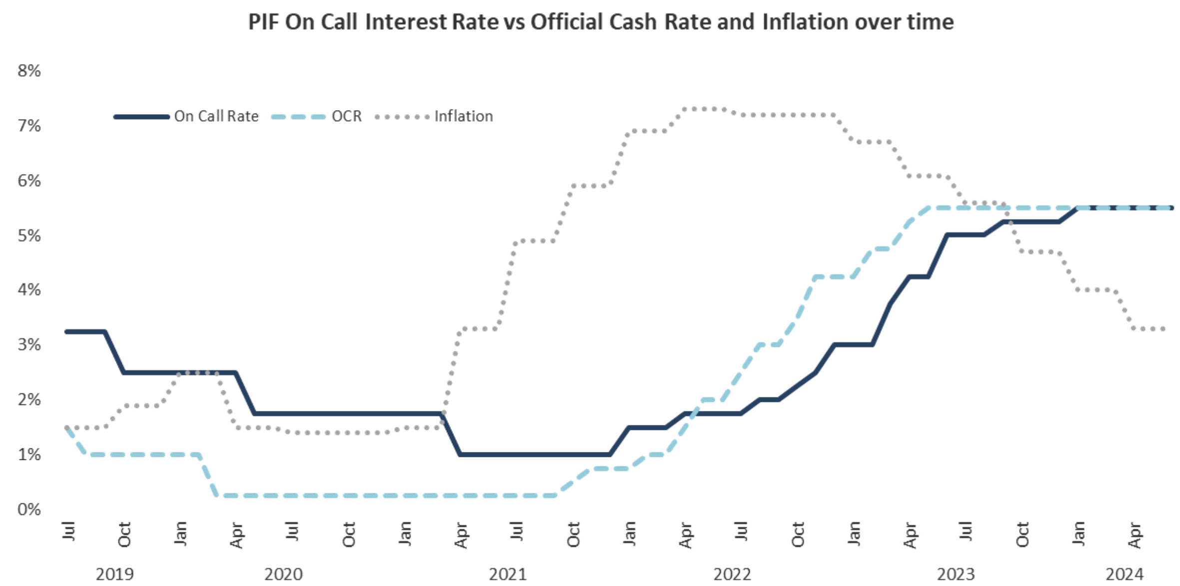
Table 2: On Call Fund Performance Summary:

	2022	2023	2024
Closing Interest Rate	1.75%	5.00%	5.50%
Average Interest rate	1.30%	3.10%	5.44%
Interest credited to accounts	$1,825,445	$4,259,831	$7,155,653
Transferred to / (from) Reserves	($4,779,926)	$1,673,433	$1,359,832

While the Trustees expect to provide a return higher than the OCR (and more in line with 6 - 12 month term deposits) over the medium-term, the PIF rate might lag the OCR over short-term periods, particularly when the OCR rises sharply, as it did over 2022 and 2023. The Trustees elected to use some of the PIF's reserves to support the On Call rate when interest rates were at their lowest and as rates rose – and are now in the process of slowly replenishing those reserves.

Chart 2 below tracks the PIF On Call Interest Rate, the Official Cash Rate (OCR), and inflation over the last five years. It illustrates how the On Call Fund interest rate did not fall as far as the OCR, and after lagging the OCR as it rose, has now caught up again.

Chart 2: Annual PIF Interest Rates versus the Official Cash Rate and Inflation



The PIF On Call rate has caught up with the Official Cash Rate after lagging on the way up

PIF Lending

A lending facility was introduced within the PIF On Call Fund during the year ending 30 June 2020. This facility enables eligible PIF investors to also borrow from the PIF. The aim is to enhance returns to the PIF, while at the same time reducing the cost of borrowing for parishes and other church entities. Floating interest rates are set on a case-by-case basis. Loans must be secured by the first mortgage or a presbytery guarantee and fall within prudential limits set by the Trustees.

Table 3 provides a summary of loan activity over the last two years. As at 30 June 2024 there were 5 loans outstanding to four congregations and one loan to the Clark Estate Trust, totalling $6.4m. The average interest rate increased slightly.

Table 3: PIF Lending Summary

PIF Lending	2023	2024
Number of loans		
New loans	3	2
Loans at close	5	5
Value of loans	**$**	**$**
New loans (principal)	4,215,000	2,050,000
Loans (principal) repaid	16,406	2,514,768
Loans at close (incl. interest)	6,769,534	6,350,893
Loan interest rate	**%**	**%**
Close	6.89	7.27

The PIF loan position remained largely unchanged at year with new loans replacing loans repaid

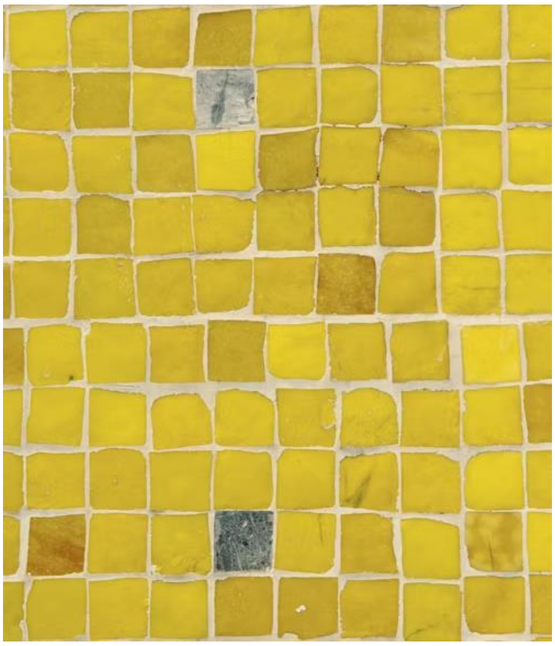
LONG TERM FUND

The Long Term Fund's objective is to provide a higher rate of return, whilst also providing growth to maintain the real inflation-adjusted value of the invested capital. The Fund is designed for those congregations and other investors who possess capital that they expect to hold for a lengthy period (at least five years).

As at 30 June 2024, 19 congregations have invested in the Long Term Fund, alongside the Trustees (on behalf of a number of trusts), the General Assembly (via a number of accounts), and one Presbytery.

The investments generate a volatile return (principally as share prices rise and fall). The Fund pays interest broken down into three components: Regular; Inflation; and Reserve. The Inflation component allows account-holders to inflation-proof their capital. The Regular interest component provides accountholders with a stable stream of income available for spending. The Reserve component fluctuates as investment market returns fluctuate. When market returns exceed Regular plus Inflation interest, Reserve interest will be positive. When market returns are not sufficient to match Regular plus Inflation Interest, Reserve interest will be negative.

Investment Market Performance

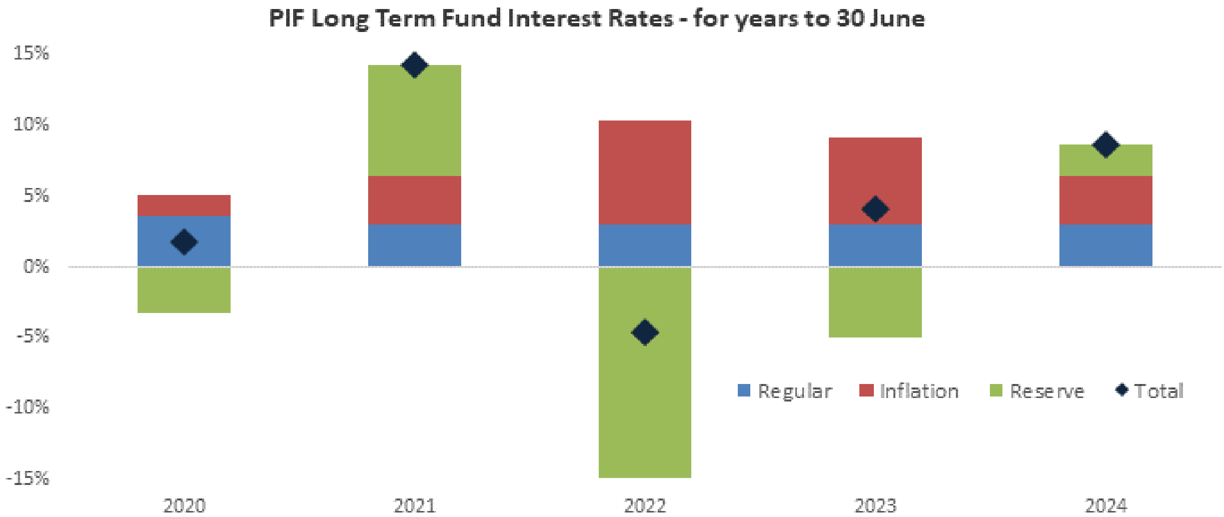


The Long Term fund invests in the Mercer Socially Responsible Investment Balanced Fund. This Fund has a target exposure to growth assets (shares, property and infrastructure) of 60%, with the remaining 40% in bonds and cash. The Fund incorporates exclusions to those sectors considered unethical by the Church. In addition, it seeks to invest in companies with a positive impact on society and the environment – and actively engages with directors and management to drive good outcomes. Mercer has committed to making its investment portfolios net zero carbon emissions by 2050 with material reductions in emissions by 2030. This approach cost the Fund somewhat in the year to June 2024 as it excluded well-performing oil and energy stocks.

Chart 3 below shows the variability of Long Term Fund returns over the last five years.

The chart shows stable regular interest returns (in blue) and just how much has been required to inflation-proof capital (in red). The green bars show the excess returns/losses after taking regular and inflation interest into account, with the black diamonds showing total return.

Chart 3: Annual PIF Long Term Fund returns



After a strong performance in the year to 30 June 2021, when the Long Term Fund paid a total of 14.3%, the 2022 financial year was a different story. In addition to unusually high inflation, which increased the earning's hurdle for the Fund, investment markets suffered sharp losses, leading to a total loss in the Long Term Fund for the year to 30 June 2022 of -4.6%. Fortunately, as interest rates approached their peak and inflation started to moderate, investment markets generated reasonable returns through to 30 June 2023 and the total Long Term return for the year to was 4.1%.

Returns to 30 June 2024 look much more like a 'normal year', with moderate inflation of around 3%, and excess reserve interest returns of 2.2% leading to a total return of 8.6%. Market returns were driven by global shares, which rose by close to 20% over the year. This strong return was due in large part to the performance of the Magnificent Seven: Amazon, Apple, Facebook, Google, Microsoft, Nvidia, and Tesla. The share prices of these companies have soared on expectations that they will benefit from their investment in artificial intelligence and the use of 'big data'.

Table 4 below provides a more detailed breakdown of returns over the last three years.

Table 4: Long Term Fund Performance Summary:

	2022	2023	2024
Closing Interest Rate	3.00%	3.00%	3.00%
Average Interest rate	3.03%	3.03%	3.03%
Long Term Fund Interest	$1,348,568	$1,303,715	$1,359,280
Inflation Interest Rate	7.30%	6.08%	3.33%
Long Term Fund Inflation Interest	$3,036,515	$2,936,226	$1,755,750
Reserve Interest Rate	-14.90%	-5.00%	+2.24%
Long Term Fund Reserve Interest	($7,399,075)	($224,691)	1,223,236
Total Long Term Interest Rate	-4.6%	+4.1%	+8.6%

Why does the Long Term Fund have three different types of interest?

The Long Term Fund provides three different types of interest to help account-holders manage the natural variability of returns from this type of investment.

Because the Fund is invested in a diversified fund, investment returns will vary quarter to quarter and year to year. If the PIF was to provide a single interest amount each quarter, this would also vary, making it difficult for parishes to know how much of the interest they could spend.

So, the PIF breaks down Long Term Interest into:

1. Inflation Interest – by separating this out, we know how much we need to increase the capital balance by to maintain the real spending power of the funds. As the capital balance increases over time to keep pace with inflation, so too does the regular Interest.
2. Regular Interest – is set at 3%, the expected average return (after inflation) from the Long Term Fund's investments over the long term (at least 7 years). This is the amount we believe parishes can spend each year and suggest this is transferred to the On Call Fund each quarter.
3. Reserve Interest – is the difference between what the Fund's investments deliver and how much is paid out in Inflation and Regular Interest. When market returns are higher (than the combined regular + inflation hurdle), Reserve Interest will be positive. When market returns are lower, Reserve Interest will be negative. We recommend parishes treat Reserve Interest much like an unrealised gain or loss: it is only really relevant if and when the parish decides to withdraw the balance.

WHERE TO FROM HERE FOR INTEREST RATES?

In last year's report we noted the consensus view that interest rates had reached their peak (with the OCR at 5.50%) and would likely remain at that level for some time. Some commentators were not expecting interest rates to fall until early 2025.

The good news for PIF On Call account-holders is that interest rates held up through to July 2024. The bad news is that the RBNZ cut the OCR by 0.25% in August and again by 0.50% in October, with another 0.50% cut expected in late November. If that comes to pass, the OCR will be 4.25% at Christmas and well on its way down to around 3.25% or even 3.0%, which is the consensus end point for the current cutting cycle.

This means that PIF On Call interest rates will also fall. The PIF rate was cut to 5.25% on 1 October and will inevitably follow the OCR down. While it's impossible to forecast what the average PIF rate will be for the year to 30 June 2025, it could well be around, or even less than, 4.0%. That said, it's worth remembering that our focus should be on the 'real' rate of return, which is the interest rate we earn, less inflation. Interest rates are following inflation down, so even though the nominal return is falling, congregations are probably still earning a similar real rate, which tends to be around 1.5% to 2.0%.

Long Term returns

The Long Term regular interest rate will likely remain at 3% plus inflation. The key question for Long Term Fund account-holders is, what will investment returns do? This will determine whether or not Reserve Interest will be positive or negative. If inflation remains under control at or around 2.0% p.a., it will be easier for investment returns to cover inflation, provide 3.0% regular interest, and maybe even generate excess returns by way of positive Reserve Interest.

There is some reason to be hopeful. While high interest rates and cuts in government spending have engineered a recession in NZ (to bring inflation down), the US appears to have tamed inflation without triggering a recession. This means that companies have continued to generate earnings and share prices have continued to rise (unlike NZ, where returns for shares were nil for 12 months to 30 June 2024).

If inflation remains under control, the US economy continues to grow, and the NZ economy starts to grow again, there is a good prospect that returns from diversified investment funds, like the Long Term Fund, will be OK. The US economy remains critical as US shares are by far the largest component of the global sharemarket. That said, some commentators are optimistic that emerging economies are re-emerging from a period of weakness, and also offer good investment opportunities.

As always, there are lots of ifs and buts, and it's impossible to predict market returns, which is why we encourage Long Term Fund account-holders to focus on the long term, confident that the 3% they can spend each year will keep pace, more or less, with inflation.

SERVICE PROVIDERS

The Trustees have outsourced the provision of various PIF services to a range of specialist organisations. Harbour Asset Management (HAM) has managed the PIF's On Call Fund investment assets since July 2016 under a 'segregated mandate', which is tailored to our specific requirement that a high level of security and liquidity in the PIF's assets be maintained (along with our responsible investment requirement). Assets in the Long Term Fund are managed by Mercer. Trustees Executors Limited acts as custodian for the PIF, holding the investment assets in safekeeping, and providing accounting services. Booster provides account administration and online access for parishes and other account holders from the Presbyterian family. Ernst and Young are the Fund's auditors. The Trustees' Office also carries out day to day administration of the Fund and oversees the loan portfolio.

Administration and management expenses rose over the year (from $717,862 to $748,236), but have remained relatively constant (as a proportion of assets under management) over time.

Thank you to all the account-holders and our service providers for another successful year for the Presbyterian Investment Fund.

Appendix - PIF Interest Rates

Interest from the PIF is credited to accounts each quarter (calculated on daily balances). Reserves (which are invested in the On Call Fund) are used to smooth returns over time and insulate the PIF from extreme market events where possible.

Table 5 below details the changes in rates over the course of the year.

Table 5: PIF Rate Changes over the year

	Official Cash Rate p.a.	On Call Interest Rate p.a.	Long Term Fund p.a.	Quarterly Inflation p.a.	Reserve Interest p.a.
As at 30 June 2023	5.50%	5.00%	3.00%		
July					
August					
September				1.79%	-5.00%
October		5.25%			
November					
December				0.48%	+5.00%
January		5.50%			
February					
March				0.64%	
April					
May					
June 2023				0.40%	+2.50%
As at 30 June 2024	5.50%	5.50%	3.00%		
Return for the year*		5.44%	3.03%	3.33%	-2.24%

* Interest is compounded for each type of interest. The Total return shown here is the sum of each type of interest. The actual total return will depend on the timing of interest payments and any cashflows. For the Long Term Fund, Inflation interest is applied to contributed capital (plus any earlier Inflation Interest) only. Regular and Reserve Interest is applied to the total Long Term Fund balance. It is likely that the contributed capital balance (plus inflation) will not be the same as the total Long Term Fund balance (if there is a Reserve Interest balance or Regular interest is retained in the Long Term Fund).

The PIF On Call Interest Rate rose twice over the year, to catch up to the Official Cash Rate.

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Full accounts are available at:
The Presbyterian Church Property Trustees: www.presbyterian.org.nz