Presbyterian
Investment Fund

Annual Report
Year ended 30 June 2025

Together we can generate returns to support mission

Key points from the 2024 / 2025 year

- Account balances of $194 million (last year $190m)
- $6.9m paid in On Call interest (last year $7.2m)
- Average On Call interest rate for the year of 4.8% (last year 5.4%)
- On Call rate as at 1 July 2025 of 3.5% (last year 5.5%)
- $1.5m Long Term Interest paid for the year at 3.0% (last year $1.4m)
- $1.5m Long Term Inflation Interest paid at 2.65% (last year $1.8m at 3.3%)
- $0.7m Long Term Reserve Interest (unrealised gains/losses) paid for the year at +1.5% (last year $1.2m at 2.2%)
- A total of $9.0m lent to congregations and trusts as at year end (last year $6.2m)
- Healthy reserves of $9.3m or 4.8% of account balances (last year $6.9m or 3.6%)

✓ Together we benefit from investing as a group
✓ An On Call investment options with attractive ‘on call’ interest rates
✓ Online access to funds without notice (except for high-value withdrawals)
✓ A Long Term Fund that both inflation-proofs capital and provides regular income
✓ Low operating expenses – less than 0.40% of funds

HOW IS THE PIF MADE UP?

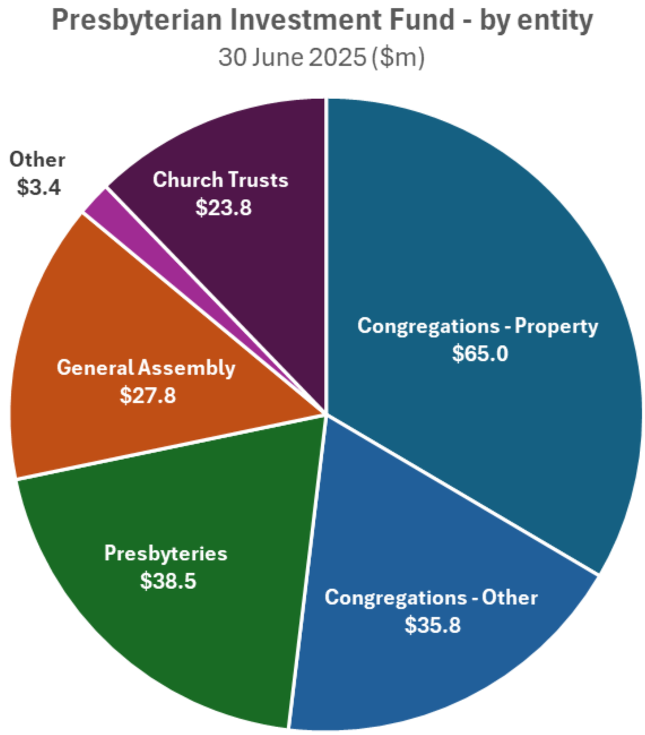
The Presbyterian Investment Fund (PIF) holds funds on behalf of congregations, Presbyteries, the General Assembly, The Presbyterian Church Property Trustees, and other entities associated with the Presbyterian Church of Aotearoa New Zealand. Property funds held on behalf of congregations are primarily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

Chart 1 provides a breakdown of the various groups that hold funds in the PIF. It shows that $65.0 m is held as Property Capital (generated from the sales of properties) on behalf of congregations (down from $68.9m last year). Congregations hold a further $35.8m in the PIF (up from last year at $34.6m).

Presbyteries hold $38.5m (up from $33.2m last year and $29.2m two years ago) and the General Assembly $27.8m (up from $26.2m last year). The Trustees hold $23.8m on behalf of the various trusts they administer (up from $23.1m last year). A further $3.4m is held on behalf of related entities (down from $4.0 last year).

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 2025



Parish funds make up 52% of the PIF, with 33% 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 2023	30 June 2024	30 June 2025
On Call Fund	134.86	140.51	140.84
Long Term Fund	44.71	49.42	53.40
Total Accounts held	179.57	189.94	194.24
Reserves	5.52	6.88	9.35
Total Assets	186.10	196.81	203.59

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 lowered the OCR to end the financial year at 3.25%. The PIF On Call rate commenced the 2025 financial year at 5.50% p.a. and finished at 3.50% p.a. as at 30 June 2025 (see Table 2). As a result, less On Call interest was paid this year than last year.

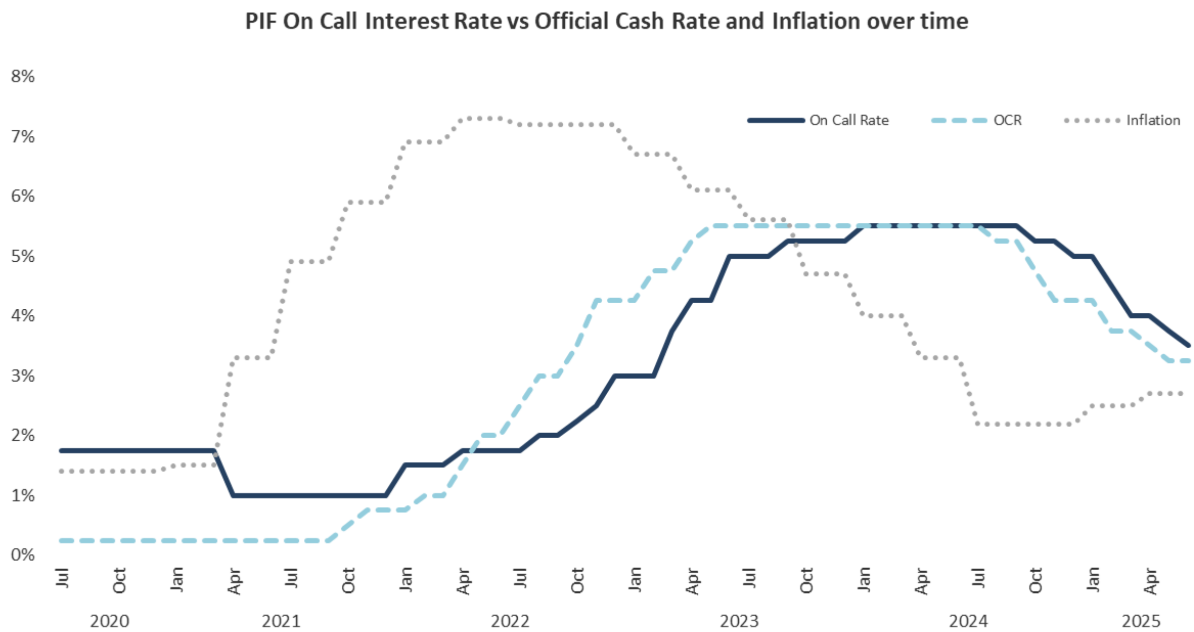
Table 2: On Call Fund Performance Summary:

	2023	2024	2025
Closing Interest Rate	5.00%	5.50%	3.50%
Average Interest rate	3.10%	5.44%	4.81%
Interest credited to accounts	$4,259,831	$7,155,653	$6,860,252
Transferred to / (from) Reserves	$1,673,433	$1,359,832	$2,474,531

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 again. The good news is that the Reserves are now back within the target range.

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 during Covid, and after lagging the OCR as it rose, is now running above the OCR. It also illustrates how the 'real return', i.e., the return after inflation, from the On Call Fund is narrowing to a more normal level.

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



The PIF On Call rate continues to follow the Official Cash Rate down

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: PIF Lending Summary

PIF Lending	2023	2024	2025
Number of loans			
New loans	3	2	2
Loans at close	5	5	6
Value of loans	**$**	**$**	**$**
New loans (principal)	4,215,000	2,050,000	3,659,621
Loans (principal) repaid	16,406	2,514,768	922,443
Loans at close (incl. interest)	6,769,534	6,350,893	9,090,376
Loan interest rate	**%**	**%**	**%**
Close	6.89	7.27	5.22

The PIF loan portfolio increased in size over the year

Table 3 provides a summary of loan activity over the last three years. As at 30 June 2025 there were six loans outstanding totalling $9.1m: five to congregations (including one with interest capitalised) and one loan to the Clark Estate Trust. One loan is secured by presbytery guarantee, with the remainder secured by a 1st mortgage. The average interest rate fell quite sharply, reflecting the fall in the Official Cash rate over the year.

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 2025, 18 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 two Presbyteries.

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 interest.

Investment Market Performance

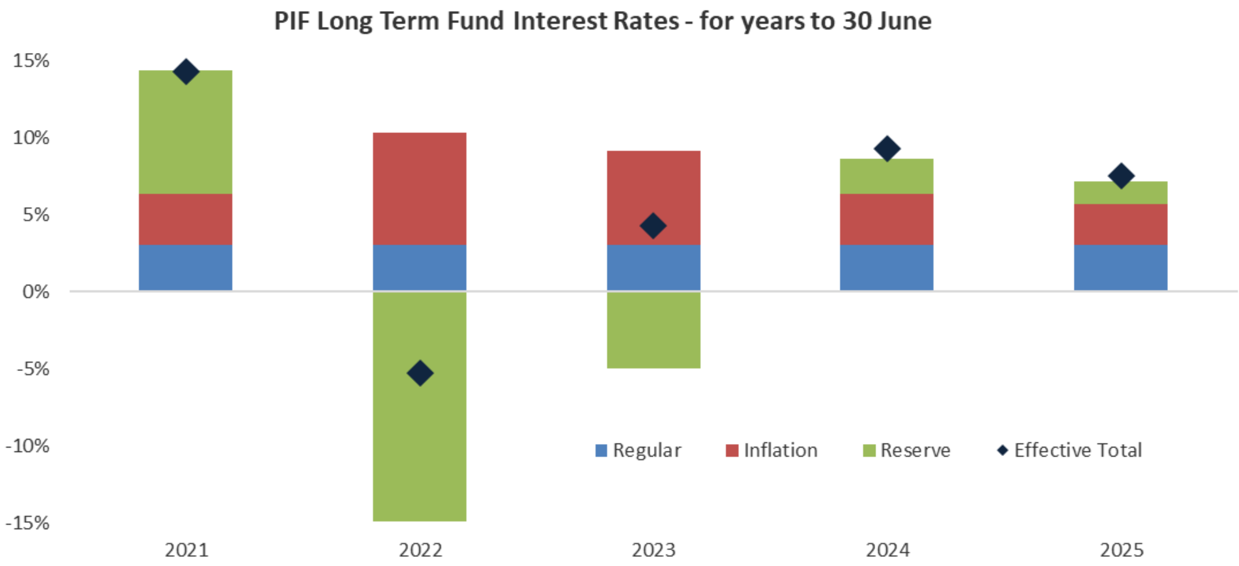
The Long Term fund invests in the Mercer Socially Responsible Investment Balanced Fund. This Fund has a target exposure to growth assets (shares, property and infrastructure) of 60%, with the remaining 40% in bonds and cash. The Fund incorporates exclusions to those sectors considered unethical by the 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 focus on responsible investing again weighed on the Long Term Fund over the last year, as investments in impact stocks (those companies seeking to create a positive difference) could not keep pace with the large US technology companies that the market continues to favour.

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 effective return. The total effective return assumes regular interest is withdrawn but also reflects the compounding impact of both inflation and reserve interest (which is why the effect total is not just a sum of the component interest rates).

Chart 3: Annual PIF Long Term Fund returns



2025 was another good (almost normal) year for the Long Term Fund

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 -5.25%. 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 4.3%. Returns to 30 June 2024 looked 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 9.3%.

Inflation continued to moderate over the year to 30 June 2025, up 2.65%, which is good news for Long Term investors. At the same time, global shares prices continued to push higher. This was somewhat surprising given the economic and geopolitical uncertainty created by the introduction of hefty US tariffs. Once again, it was large US-based technology companies that saw their share prices rise the most. These companies are benefiting from huge investments in AI (artificial intelligence) capabilities and investors think this will continue to generate more and more profits into the future. Time will tell if this is right.

The good investment performance (coupled with falling inflation) enabled the Long Term Fund to pay an extra 1.5% in reserve interest, giving an effective total for the year of 7.5%.

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

Table 4: Long Term Fund Performance Summary:

	2023	2024	2025
Closing Interest Rate	3.00%	3.00%	3.00%
Average Interest rate	3.03%	3.03%	3.03%
Long Term Fund Interest	$1,303,715	$1,359,280	$1,509,113
Inflation Interest Rate	6.08%	3.33%	2.65%
Long Term Fund Inflation Interest	$2,936,226	$1,755,750	$1,468,718
Reserve Interest Rate	-5.00%	+2.24%	+1.46%
Long Term Fund Reserve Interest	($224,691)	$1,223,236	$734,914
Effective Long Term Interest Rate	+4.3%	+9.3%	+7.5%

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 that interest rates had already started to fall, with the consensus view that would continue to down to around 3.0% (although there was less clarity on the timing of future falls). As it happens, the economy has been weaker than anyone expected, in part due to fiscal tightening (cutting public sector jobs and cancelling infrastructure spending) by the government and the impact of US tariffs. As a result, commentators are now expecting interest rates to fall to around 2.5% or even lower. Indeed, the RBNZ has already cut the Official Cash Rate in August (by 0.25% to 3.0%) and by 0.50% in October.

The Trustees are hoping to hold the PIF rate at 3.50% for as long as they can, although we suggested congregations budgeted on annual On Call PIF interest for the year to 30 June 2026 of 3.0%. How far the PIF rate might fall will depend on how much lower the Official Cash Rate moves. It seems likely that some further cuts to the PIF rate will be required.

That said, it's worth remembering that our focus should be on the 'real' rate of return, which is the interest rate less inflation. While interest rates are lower, so too is inflation, although the gap has narrowed to around 1.0%. We expect a long term real rate of return of around 1.5% - 2.0%, which is still not very high, hence the need for congregations and presbyteries to consider the Long Term Fund.

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.

Last year we noted there was some reason to be hopeful. Somewhat unusually, our prediction came good, with the Fund paying a modest extra return of 1.5%. We are more cautious about the prospects for the year to 30 June 2026. Uncertainty remains the watchword for most market commentators. While inflation appears to be coming down, few central banks would profess that inflation is under control. At the same time, economies are cooling (although the New Zealand economy could best be described as cold). As a result, central banks are under pressure to lower interest rates to stimulate economic growth. But they don't want to cut too far if inflation is not really under control.

Add to this continued uncertainty as to the impact of US tariffs, ongoing geopolitical unrest, and the high prices of the leading technology stocks, and it's hard to see a clear path forward. Despite this, markets are priced in such a way that implies investors are not expecting any problems. This seems a little optimistic given the number of question marks hanging over us at the moment.

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. Apex Group (formerly 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 $748,236 to $762,548) 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 2024	5.50%	5.50%	3.00%		
July					
August	5.25%				
September				0.63%	
October	4.75%	5.25%			
November	4.25%				
December		5.00%		0.55%	+2.00%
January					
February	3.75%	4.50%			
March		4.00%		0.90%	-2.00%
April	3.50%				
May	3.25%	3.75%			
June 2025		3.50%		0.54%	+1.50%
As at 30 June 2025	3.25%	3.50%	3.0%		
		Return for the year	3.03%*	2.65%*	+1.46%*

* Interest is compounded for each type of interest. The effective total return will depend on the timing of interest payments and any cashflows. Inflation interest is applied to contributed capital only. Regular and Reserve Interest is applied to the total Long Term Fund balance.

The PIF On Call Interest Rate fell six times during the year, matching the number of falls in the OCR.

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