

The Funeral Trust

Trust Chairman's report

The reporting period has been a very busy one for the trust.

During the reporting period, the Trust supported families during times of grief by making a total of 1,595 payments to beneficiaries totalling \$9,714,509.64.

For New Plan the Trust paid 955 benefit payments totalling \$7,092,948.92 and in addition made 367 payments to estates totalling \$1,009,674.16. For Old Plan the Trust paid 193 benefit payments totalling \$1,279,553.42 and in addition made 80 payments to estates totalling \$332,333.14.

The reporting period has been marked by continuation of the fiscal measures governments around the world have employed to stimulate markets and protect jobs and people's livelihoods. Official interest rates reached a low point during the year and now are showing signs of some upward movement. We expect this upward movement to be faster than previously thought as interest rates return to normal levels sometime in 2023. In this point in the investment cycle, as discussed in last year's report, returns are lower than normally expected and the risk of capital reduction is present. This is due to newly issued fixed interest bonds and term deposits coming onto the market with higher interest coupons than those held in the portfolio. To protect the Trust's portfolio from this risk, trustees have, in consultation with JB Were, its investment advisers, kept the duration of bonds and term deposits held short and diversified the portfolio into growth assets – to the extent of 10% as discussed with members at last year's AGM. Bonds and term deposits will return their par value when they mature, protecting the portfolio from the accounting valuation loss being realised. Gross investment income of the Trust was \$1,333,226. An unrealised revaluation loss of \$118,298 was also recorded.

During preparation of the financial statements, Trustees found that income was under reported in previous years. This was as a result of reports having netted taxable fees from accounts against non-taxable distributions credited to applicants accounts from the fund each year. In making appropriate adjustments, a provision for taxation of \$560,940 was included in the accounts. Tax on the reporting year's earnings is \$430,178.

During the renewal process of the Trust's partial exemption from some of the AML/CFT requirements, the Trust's administrator advised that there had been breaches of the terms of the partial exemption. The Trustees moved quickly to investigate the extent of the breaches and advised the Financial Markets Authority that they had engaged BDO to undertake a full compliance audit. This process is currently being worked through and the Trust's engagement with the FMA is expected to be completed in the coming months.

Costs associated with resolving both the previous years' income statements and compliance with the AML/CFT regulations has caused the result to be a deficit of \$764,933. However, Trustees expect the performance of the trust to return to surplus in coming years as this year's abnormal level of expense passes and the total investment funds continue to grow.

Trustees have continued their focus to strengthen the Trust for the future. The Trust has invested in more cost effective automated software architecture which will deliver a much simplified and improved service quality at all touchpoints for applicants and beneficiaries alike.

As I advised in last year's report, trustees seek to sustainably provide purchasers of pre-paid funerals with maintained buying power of their funerals over the medium

Under the trust's Statement of Investment Policies and Objectives (SIPO), the portfolio's investments include a mixture of high quality fixed interest, bonds and cash in a diversified, low risk portfolio. The trust's diversified portfolio of investments have returned 2.03% (pre-tax) for the reporting period. While this is a sound result in the market conditions, the focus will continue on avoiding capital loss risks as interest rates rise a little as discussed above. Your trustees and investment advisers are currently focussed on mitigation strategies to maintain the trust's earnings performance through this period.

The inflation adjustment for the year to 30th June 2021 has been set at 0.5% (broadly following cumulative CPI over the past five years) against a background of no fees being charged on new plan accounts. This "fees free" initiative is designed to attract a wider, younger segment of the market. To provide an even easier approach for younger applicants, the Trust also has introduced a periodical payment option, to allow making provision for their funerals a modest incremental expense during their working life rather than a major one off expense in old age.

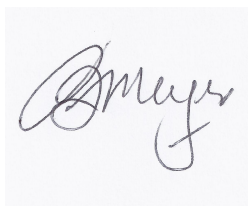
As I have mentioned previously, it is important to note that the Trust is not an investment vehicle but the provider of a prepaid service. Investment returns help maintain the buying power of that service.

The Client Relationship Management (CRM) system went live this year and is streamlining transaction management. This means that members are now able to access their own data, to enter new clients and manage existing ones. However, more work needs to be done to optimise these functions and automate as far as possible the regulatory requirements for such a service. This includes compliance with the Anti Money Laundering /Countering the Financing of Terrorism regulations.

I take this opportunity to thank my fellow trustees, Gary Taylor, Neil Little and Stephen Dil, for their wise counsel, experience, strategic thought and their valuable commitment to serving the beneficiaries of the trust and the profession more widely. The value of their service on your behalf is immeasurable.

I also offer sincere thanks to David Moger, our departing Chief Executive. David leaves us to further his career elsewhere and the trustees warmly acknowledge his application to this critical area of the trust's operations, in addition to his wider membership engagement in providing valuable leadership in his strategic responsibilities.

Lastly, I thank the Funeral Directors Association Board for the honour of serving you and the profession over the reporting period and for their vital support for the trust.

A handwritten signature in black ink, appearing to read 'Phillip Meyer', is centered within a light blue rectangular box.

Phillip Meyer
The Funeral Trust Chairman