MIDLANDS NEWSLETTER

JUNE 2021

INVEST WITH MIDLANDS

4.00%*

ANNUALISED PRE-TAX QUARTERLY RETURN

Managing risk is as important to us as delivering a consistent return. We take a long-term, pragmatic view to our investment strategy, a strategy that is designed to weather market volatility. We do not seek high-risk investment opportunities that might produce higher returns, instead, we craft bespoke financing solutions to projects we have thoroughly vetted. It is a defensive strategy that resonates well in the market.

As a result, this quarter our fund has grown nearly 7% to $88 million, our rate of return has increased to 4.00%* and our risk indicator has reduced to 1 (the lowest possible ranking).** We strive to be responsible, reliable, and conservative and this ranking is representative of our approach.

As we grow the fund, we are also growing our team, improving our technology and systems, and introducing new product lines. Safeguarding our business to ensure attractive returns for you in the future.

If you have any questions, please do not hesitate to contact us and we will happily assist you.

Newsletter written 23rd June 2021.
*Annualised pre-tax June quarterly return. Paid quarterly. Past performance is no guarantee of future performance.
**The risk indicator reflects how much the value of a fund goes up and down. A risk indicator of 1 does not indicate a risk-free investment. Please see the Product Disclosure Statement for more information.

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CEO COMMENT

Anton Douglas
CEO

We constantly strive to outperform the banks' 1-year term deposit rates, providing our investors with a consistent rate of return whilst carefully managing risk. Balancing the risk, the return and growing the fund takes careful management and constant oversight but as we have witnessed over the last quarter delivers results. Our rate of return has increased to 4.00%*, the fund has grown by nearly 7% to $88 million, and our risk indicator has been reduced to 1 (the lowest risk ranking).**

The higher return over this quarter has been driven by a lower level of liquidity (cash held) rather than any increase in our risk profile. The overall quality of our loan book is high. Whilst we could potentially obtain a higher rate of return by making investments in lower quality or higher risk projects, we believe in taking a responsible approach to your investment over the long term.

Risk is something we take very seriously. We not only look at the risk associated with individual loans and our overall portfolio but external factors as well.

We are, therefore, carefully monitoring the impact of the Government's recent housing policy announcements and looking for the finer details to emerge following the public consultation process. The RBNZ has already implemented loan-to-value (LVR) restrictions and will now have the ability to implement debt-to-income (DTI) restrictions. Whilst these changes might introduce some uncertainty in the market, our steadfast approach to lending, and cautious approach to risk, helps us deliver a consistent return over the long term. Midlands LVR across the portfolio is currently just below 50% based on historical valuations.

Our experienced loans team not only provide innovative financing solutions but undertake due diligence, meeting with our borrowers, inspecting properties and analysing their finances. Prudent lending is a top priority.

We continue to see a broad mix of lending opportunities across the residential, commercial, and rural sectors, spread throughout the country. This ensures the portfolio experiences balanced growth and remains well diversified, further reducing the risk from any category of loans or geographical location.

As Midlands grows, we continue to invest in the business through the addition of experienced and skilled team members, and improving technology, systems and security. In keeping with this I am pleased to announce that Miles Standeaven has joined the team in the newly created position of Senior Credit Manager. Miles joins Midlands from a career in banking, where he was most recently a senior credit officer for one of the main banks. Miles will also be a member of the Investment Committee.

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Mark Hardman
Senior Loans Manger

WHY NON BANK?

There are several reasons why someone might specifically choose a non-bank lender like Midlands over a main bank.

WE HAVE A NUMBER OF ADVANTAGES

Firstly, we have a more nimble structure and more agile lending criteria. A bank can be weighed down by excessive and changeable regulation and a rigid corporate structure. This can mean that banks will change their lending policy or criteria resulting in borrowers being excluded through no fault of their own. Some good projects, with good security, simply no longer fit within the banks more conservative policy direction.

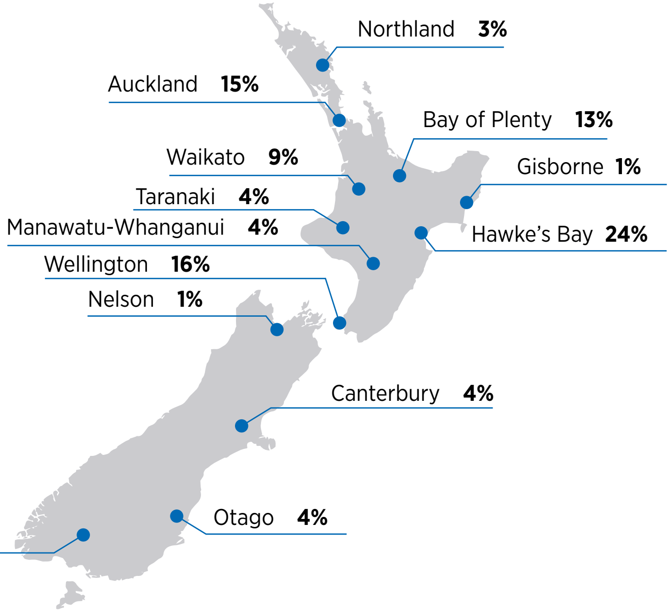
Secondly, we have the benefit of being both well regulated and having a structure that allows us to offer a more personalised customer service and a greater range of bespoke lending products. This flexibility allows us to meet our borrowers' needs precisely whilst ensuring our exposure to risk is effectively managed.

At Midlands our lending team have a high level of expertise in all forms of mortgage lending, this sets us apart from more traditional lenders. Put simply, we understand nuance and are adept at finding practical solutions.

Thirdly, we apply a 'common sense' approach to our lending criteria as opposed to 'the computer says no' of the main banks. This approach takes many forms but includes competitive interest rates, fees and features and we take pride in being nimble enough to offer these new and improved products and services in real time.

Our borrowers state they prefer our flexible, personalised approach over the more traditional financial institutions.

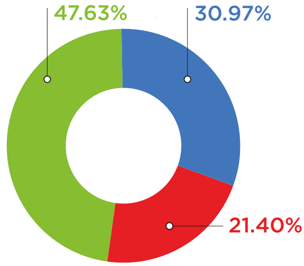
LOANS BY REGION

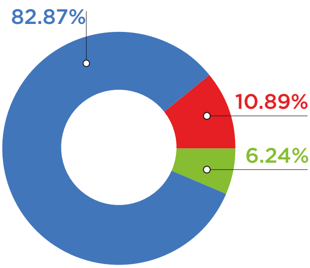


LOANS BY SECTOR

The loan assets are spread between commercial, rural and residential securities as follows:

Commercial loans Rural loans Residential loans





FUND ASSET ALLOCATION

At 23 June 2021 the fund's assets comprised:

- Unlisted property *(loans secured by 1st mortgage)*
- Cash and cash equivalents
- New Zealand Fixed Interest

INVESTOR RETURN	NUMBER OF INVESTORS	AVERAGE INVESTMENT	FUND SIZE	LARGEST LOAN	NUMBER OF LOANS	AVERAGE LOAN SIZE	CASH AND TERM DEPOSITS
4.00%*	**732**	**$120,607**	**$88.2m** *as at 23 June*	**$2.9m**	**114**	**$635,400**	**$15.4m**

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Elliott Jackson
Relationship Manager

As an avid reader of the financial press, I have noticed recently an increasing number of articles detailing the potential risk of inflation in the economy.

The current levels of economic growth are above market expectations and many business sectors, such as construction and manufacturing, are struggling to recruit staff. This can lead to inflation within the economy and to rising interest rates. It is a cycle and we have certainly seen it happen many times in the past.

What would higher interest rates mean to your investment?

In a nutshell higher interest rates leads to a higher return but at a greater risk.

As we manage both sides of this equation with professionalism, skill and expertise, we are well placed to weather any market volatility.

Our annualised return for this quarter is 4.00%* and our fund has grown to $88 million. There is an appetite in the market for a fund that provides a consistent rate of return with a careful and responsible attitude to risk. This approach will enable us to continue competing favourably against 1-year bank term deposit rates.

Whilst we work diligently to provide a favourable return it is perhaps our attitude to risk that elevates us in the market against our competitors. Every investment decision made is carefully considered. As a result our risk indicator was recently reduced to 1. This is the lowest ranking and is a strong endorsement of our lower-risk strategy.**

In the last Newsletter I mentioned that we are planning to launch two new products: a PIE fund and a wholesale fund.*** These matters are progressing, and I will have more of an update next time.

Thank you for your continued support and do not hesitate to get in touch should you have any queries.

PERFORMANCE SNAPSHOT

	Quarterly distributions*	Fund size	Unit price
1 JUL 2020	**5.10%**	**$61.1m**	**92c**
1 OCT 2020	**4.50%**	**$67.4m**	**92c**
1 JAN 2021	**3.80%**	**$75.5m**	**92c**
1 APR 2021	**3.50%**	**$82.5m**	**92c**
1 JUL 2021	**4.00%***	**$88.2m** *at 23 June 2021*	**92c**

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***No money is currently being sought for the PIE and wholesale funds, and investments in these funds cannot currently be applied for. Offers of investments in these funds will be made in accordance with the Financial Markets Conduct Act 2013. The proposed wholesale fund will be limited to wholesale investors in terms of that Act.

Doug Bailey
Chief Operations Officer

In our last newsletter I discussed the improvements we were making to Midlands' infrastructure to support and enable our growth strategy. Our new Loan Management System and Customer Relationship Management system are now both installed and being run in parallel with the current system to ensure a smooth transition between the two systems. The new IT systems allow us much better reporting, making for better decision-making, and also allow us to more effectively communicate with you. As a result, from today onward, we will send our quarter-end documents to you electronically if we have your email address. This will be more convenient for you and also reduce our environmental footprint.

Please check we have your correct email address by simply emailing Elliott Jackson at: elliott@mmt.net.nz

Another change to the 'paper system' is the phasing out of cheques. Banks are no longer issuing cheques and we are therefore no longer able to take them as a form of payment.

Please make deposits to Midlands' bank account: 06-0701-00385070-003 using your name and Unit Fund / Loan number as references (e.g. Jones UF1234).

We have listened and understood your frustrations with regard to providing certified identification documents to satisfy our Anti-Money Laundering & Financing of Terrorism (AML/CFT) Act obligations. As a result, we have implemented AplyID.

This system simply and effectively uses your mobile phone to verify your identity using biometric imaging and checks this, and your details, against Government databases. It takes just a few minutes to complete. This new technology saves you finding, photocopying, certifying and posting documentation to us.

That said, we will still accept certified copies if you would prefer to continue to use this method.

MEET THE TEAM


Anton Douglas


Mark Hardman


Elliott Jackson


Doug Bailey

INTRODUCING

Miles Standeaven
Senior Credit Manager

Miles is our new Senior Credit Manager and a member of the Investment Committee. He has 15 years' experience in the banking and finance industry.

Prior to his joining Midlands, Miles was a Senior Corporate Analyst at Westpac. He has experience across corporate finance, lending, credit, and banking specialising in property finance and cash flow lending.

He holds a Bachelor of Science from the University of Auckland and he is a member of Economic Development New Zealand.

In his introduction, Anton mentioned the Government's new housing policy.

The announcement states that from the end of March residential property investors will no longer be able to deduct mortgage interest from their taxable income (with a phased introduction for existing borrowings). Additionally, the Reserve Bank has been given permission to introduce new debt to income tools.

As a result, we have introduced increased stress testing of residential rental incomes to ensure borrowers have sufficient cash available to service their debt in anticipation of the likely increases in tax.

For existing rental properties held prior to 27 March 2021, our approach is to scale rental income at 75% to allow for vacancy, rates, insurance, and to account for interest deductibility being phased in over four years with the current year being a transitional year.

For new rental properties acquired after 27 March 2021 we have taken a more cautious approach. We will scale the rental income at 65% as they will be subject to the new tax rules from the outset.

Our portfolio mix remains strong. We only have 12% of our book exposed to residential property investors. The average loan in this segment is 18 months and the average loan to value ratio is 48%*. This provides a significant buffer for any price correction in the market over the coming few years.

Miles Standeaven

Jill Shipp

Wendy Babe

Leoni Potgieter

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*The LVR rate means that on average there is over 52% equity in the properties we have invested in, based on the value at the time the loan was taken out. As all our investments are secured by first ranking mortgages, there is a significant buffer against the risk of default.

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