

Looking for regular income? Invest with Midlands

Funds designed by experts, with you in mind.

We are pleased to report a strong quarterly performance across all areas of the Fund, resulting in an increased return of 4.30%*(annualised) and 7.6% growth in funds under management to \$99.6 million.

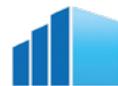
Importantly, our focus is not just the rate of return, but improving the quality of our investments and execution of our portfolio strategy.

Newsletter written 15th December 2021.

*Annualised pre-tax December quarterly return. Paid quarterly.
Past performance is not a reliable indicator of future performance.

4.30%*

Annualised pre-tax cash
return for quarter ended
31st December 2021



MIDLANDS
FUNDS MANAGEMENT

CEO REPORT

Anton Douglas
Chief Executive Officer



QUARTER IN REVIEW

This quarter I am particularly pleased with the quality of the investments we have made and the execution of our portfolio strategy. The increase in return to 4.30%* was driven primarily by:

1. Our ability to manage to a lower level of liquidity (cash as a percentage of funds under management), thanks to the hard work of our expanded lending team.
2. Our ability to increase pricing for new lending, as credit appetite across the bank and non-bank lender markets appears to be tightening.
3. Our ability to reprice existing loans due to nearly all our loans being floating rate. This is a key factor for investor returns going forward as it allows us to continue increasing lending rates if/as interest rates rise.

OUR INVESTMENT STRATEGY

We maintained a deliberately conservative strategy in response to the various Government and Reserve Bank initiatives to combat residential house price increases and the beginning of what will most likely be a prolonged cycle of interest rate (OCR) increases. As we believe many of these changes, particularly increasing borrowing rates, have yet to feed through into the market we will maintain our current investment strategy for now.

LOOKING FORWARD

We start the next quarter in the position of being close to fully invested, with another rate rise (0.25%) across existing floating rate loans being effective from 1st January 2022. In addition, returns from higher priced loans that have only just come into the portfolio will be fully reflected in returns going forward.

With funds under management rapidly approaching \$100 million we would again like to thank you for your support and the trust you place in us to manage your investment.

Regards

Anton Douglas

SENIOR CREDIT MANAGER'S COMMENTARY

Miles Standeven
Senior Credit Manager

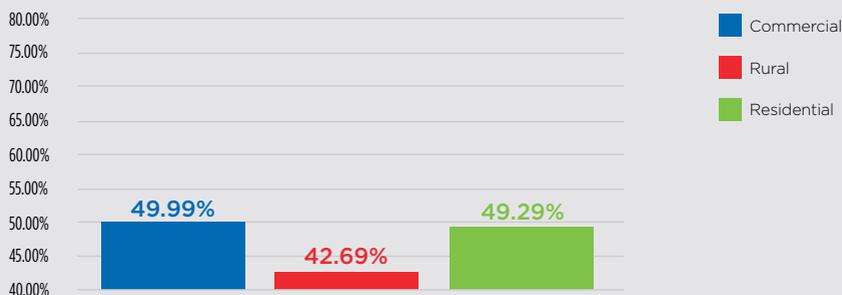


Despite a continued lift in annual house prices there is an overall easing of annual house price inflation as a result of several housing headwinds.

We continue to take a conservative approach with our portfolio strategy and credit criteria, namely:

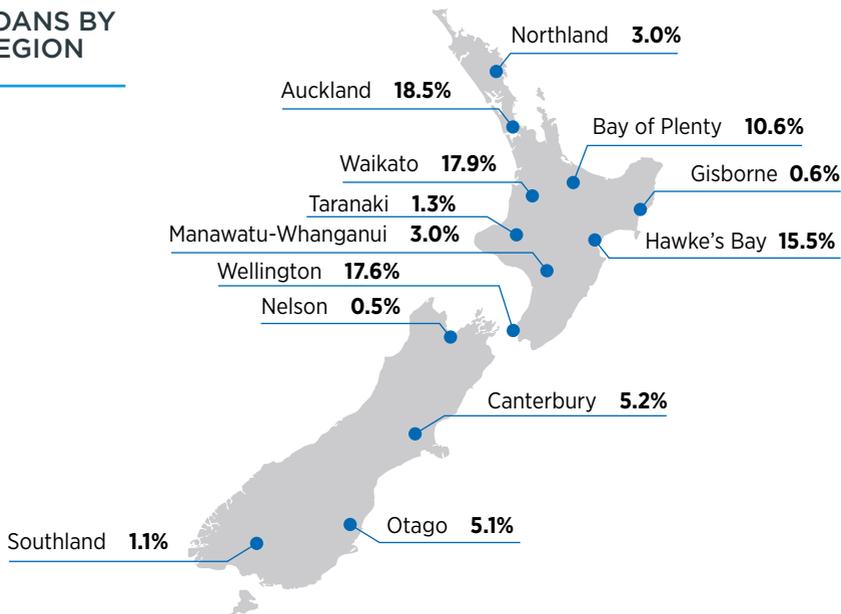
- Our portfolio is well positioned with weighted LVRs of 49.99% for Commercial Assets, 42.69% for Rural Assets and 49.29% for Residential Assets. Further comfort is provided via geographic diversity where no one single region represents more than 20% of our portfolio.
- Macro-prudential policies aimed at residential investors has seen an increased appetite for new build investment properties which allow for transferable interest deductibility over a 20-year horizon.
- Rising interest rates have resulted in us increasing our stress testing floors to ensure servicing can be maintained in the current environment as well as higher interest rate environments.
- The inflationary pressure exerted on the construction industry has seen construction costs spiral, further exacerbated by supply chain disruption, material and labour shortages. A lack of net migration is seeing housing supply quickly catching up with demand with many commentators suggesting a neutral position may be achieved by late 2022. For these reasons we have pushed pause on residential construction lending. Our portfolio is well balanced with construction lending representing only 9% of our loan book.

WEIGHTED AVERAGE LVR



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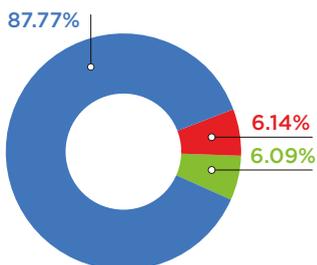
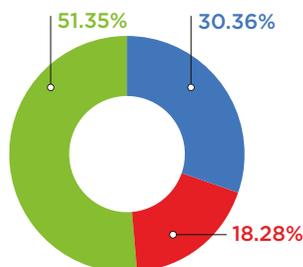
LOANS BY REGION



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 15 December 2021 the Fund's assets comprised:

- Unlisted property (*loans secured by first 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
4.30%*	772	\$128,475	\$99.6m	\$3.5m	128	\$698,860	\$13m

as at 15 Dec 2021

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INVESTMENT TEAM COMMENTARY

Sandy Gernhoefer
Relationship Manager



I have had the pleasure of speaking with many investors during my first quarter with Midlands and look forward to speaking with more of you in the New Year. Please feel free to contact me if you have any questions.

Details are still being finalised on the introduction of Midlands' PIE fund**; we're aiming to provide an update in the next quarter. This will be an exciting complement to our existing wholesale and retail fund in 2022.

Mobile **027 724 4554**

E-mail **sandy@mmt.net.nz**



Elliott Jackson
Relationship Manager

Another year has flown by! During this time, some financial commentators asserted that the New Zealand economy is growing beyond its resources, with inflation becoming a major concern. These sentiments appear to have resonated in some way with the Reserve Bank, which increased the official cash rate (OCR) by 0.25% in November 2021. Many believe this will be the start of further rises in 2022 and beyond.

What does this mean for Midlands? Most of our loans are on floating interest rates so, if the OCR rises, we can factor this into our pricing model. This is reflected in Midlands' latest quarterly annualised return of 4.30*. Additionally, our funds under management have grown to over \$99m, and our wholesale fund has grown to \$5.5m invested since its inception in August.

Should you have any queries about this fund please contact me on **027 523 3425** or e-mail **elliott@mmt.net.nz**. As always, many thanks for your support and have a great festive season.

PERFORMANCE SNAPSHOT

	Quarterly distributions (annualised)	Fund size	Unit price
1 JAN 2021	3.80%	\$75.5m	92c
1 APR 2021	3.50%	\$82.5m	92c
1 JUL 2021	4.00%	\$88.2m	92c
1 OCT 2021	4.10%	\$92m	92c
1 JAN 2022	4.30%*	\$99.6m <i>at 15 December 2021</i>	92c

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**No money is currently being sought for the PIE fund, and units cannot currently be applied for. The offer, if made, will be made in accordance with the Financial Markets Conduct Act 2013.

CHIEF OPERATING OFFICER'S COMMENTARY

Doug Bailey
Chief Operating Officer



2021 has been a huge year for Midlands as we've built greater sophistication into the business. At the heart of this was a major IT upgrade that will allow Midlands to operate more digitally, and the cybersecurity needed to protect the business as it operates increasingly 'in the cloud'. These improvements will create efficiencies for us and, more importantly, better access for you. Improved tools also mean we can build processes that are more sophisticated and forward-looking, to improve customer outcomes.

Implementing new systems and processes can have its challenges, no matter how well planned. We acknowledge that some electronic communications over the last quarter had inaccuracies, for which we apologise.

An application we have implemented to make identity verification more accurate and easier to do is AplyID. This comes to you from Midlands as a text on your mobile phone and guides you through photographing your driver licence and then taking a 'selfie', all on your phone. AplyID then completes a biometric assessment of the photos and goes off to check Government databases to verify your identity details, address, and other information we are obliged to collect. All this takes about four minutes to complete. Once Midlands receives the report of the verification, all details are wiped from AplyID within 5 seconds.

We have noted one issue with the AplyID experience; if you are using Wi-Fi for your phone data, the process can be interrupted. Switching off Wi-Fi normally resolves the issue. Of course, we still accept certified paper copies for verification for those who do not have mobile phones.

RISK INDICATOR FOR THE MIDLANDS INCOME FUND

◀ Potentially lower returns

Potentially higher returns ▶



◀ Lower risk

Higher risk ▶

The Risk Indicator is rated from 1 (low) to 7 (high). The rating reflects how much the value of the fund's assets goes up and down (volatility). A higher risk generally means higher potential rate of returns over time, but more ups and downs along the way. **A risk indicator of 1 does not indicate a risk-free investment.**

INTRODUCING

Andrew Sanders
Business Development Manager



We'd like to welcome Andrew Sanders to the Midlands team. Andrew has over 25 years' experience in the banking and finance industry. He has a background in residential and business lending having held relationship and management roles with ASB and Westpac. He holds a Bachelor of Commerce from the University of Auckland. Andrew is responsible for assisting loan customers in the Lower North Island and South Island.

MEET THE TEAM



Anton Douglas



Jill Shipp



Elliott Jackson



Sandy Gernhoefer



Miles Standeven



Wendy Babe



Mark Hardman



Doug Bailey



Andrew Sanders



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Looking for a conservative investment with regular income?

Invest with Midlands

The Midlands Income Fund has a conservative strategy designed to weather market volatility and provide investors with consistent quarterly income from a diversified portfolio of residential, commercial and rural loans secured by first ranking mortgages over land & buildings throughout NZ.

4.30%

Annualised pre-tax cash return for quarter ended 31st December 2021

The Midlands Income Fund has a Risk Indicator of 1 (low).
A risk indicator of 1 does not indicate a risk-free investment.



Get in touch with your local experts

0800 870 3260

midlandsfundsmanagement.co.nz

Cash returns are paid quarterly. **Returns are not guaranteed and past performance is not a reliable indicator of future performance.** Midlands Funds Management Limited, the issuer of the Midlands Income Fund, is not a registered bank. The product disclosure statement for the Midlands Income Fund is available from our website.