We are pleased to report another solid quarterly performance.

Our return to investors of 5.50%* for the September quarter was an increase of 0.50% on the previous quarter.

5.50%
Annualised pre-tax cash return for quarter ended 30th September 2022

Newsletter written 19 September 2022.
*Annualised pre-tax September quarterly return. Paid quarterly.
Past performance is not a reliable indicator of future performance.

MIDLANDS
FUNDS MANAGEMENT

MESSAGE FROM THE CHAIRMAN

Peter Ellis
Chairman

Following nearly two years as our CEO, Anton Douglas has resigned and left the business to pursue other personal opportunities. We are immensely grateful for the contribution that Anton has made to management of the Midlands Income Fund. During his period of leadership, the fund has grown by $54 million. There has also been a material improvement in the quality of the loan book, the systems and processes and regulatory oversight required to best protect your investment. During this time the risk indicator of the fund has also reduced from three to one as disclosed in the product disclosure statement on the website (note that a risk indicator of 1 does not mean a risk free investment).

I am very pleased to announce that the Board of Midlands Funds Management has appointed Rhys Trusler as Anton's successor as CEO. Rhys started in his new role in late September. Rhys, who has significant financial services sector experience, joins us from Southern Cross Partners, where he was a Managing Partner and prior to that he held senior executive roles with Wells Fargo and GE Capital.

I would also like to welcome Ethan Manson to the team as our financial accountant.

If you have any questions about these changes or any other matter concerning the fund, please do not hesitate to contact me through our head office.

Miles Standeaven
Acting CEO

QUARTER IN REVIEW

We are pleased to report another solid quarterly performance.

The return of 5.50%* and the increase of 0.50% on the previous quarter were both consistent with the conservative investment strategy we have had in place since late 2021. (See my comments under senior credit manager's commentary for a detailed overview of the portfolio).

Towards the end of the quarter, we had a build-up in liquidity (cash as a percentage of funds under management) due to a few large scheduled loan repayments.

LOOKING FORWARD

The portfolio is well diversified across all metrics and the most recent increase in our base lending rate (0.5%) was effective from 15 September and should be reflected in the return for this quarter.

Given all our loans are floating, we have the ability to increase our lending rates with sufficient notice. This notice period however provides a lag and does not correlate directly with movements in the Official Cash Rate. Prior to any rates increase we are having proactive discussions with our borrowers to ensure they have time to adapt and to also clarify the rationale for rates increases.

Regards

Miles Standeaven

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INVESTMENT TEAM COMMENTARY

Elliott Jackson & Sandy Gernhoefer
Relationship Managers

It has been a year since we have seen the onset of interest rate rises and increased inflation.

Over the last quarter we have received many phone calls from our investors enquiring what these rate rises could potentially mean for their future returns.

In general terms we have moved our base lending rates higher as the RBNZ has changed the Official Cash Rate (OCR). This means that returns may improve over time but will not necessarily mirror the changes in the OCR.

In short, it is a fine balancing act between looking after our borrowers, not becoming uncompetitive in the lending market, and showing a sustainable increase in investor returns.

The quarterly return of 5.50%* reflects the diligence of our credit team and again stands as a testament to our investment strategy.

While we continue to welcome new investors, we have seen increased withdrawal activity this quarter. There have been several reasons for this including people taking advantage of travel opportunities now that the borders are open, upgrading their vehicles, utilising the falling property market to buy property and for some an income top up as inflation bites into the economy.

As always, many thanks for your support.

	Quarterly pre-tax returns (annualised)	**Fund size**	**Unit price**
30 JUNE 2021	**4.00%**	**$88.2m**	**92c**
30 SEPT 2021	**4.10%**	**$92m**	**92c**
31 DEC 2021	**4.30%**	**$99.6m**	**92c**
31 MAR 2022	**4.80%**	**$102.5m**	**92c**
30 JUNE 2022	**5.00%**	**$112.4m**	**92c**
30 SEPT 2022	**5.50%***	**$111.9m** *at 19 September 2022*	**92c**

RISK INDICATOR FOR THE MIDLANDS INCOME FUND

◀ Potentially lower returns — Potentially higher returns ▶

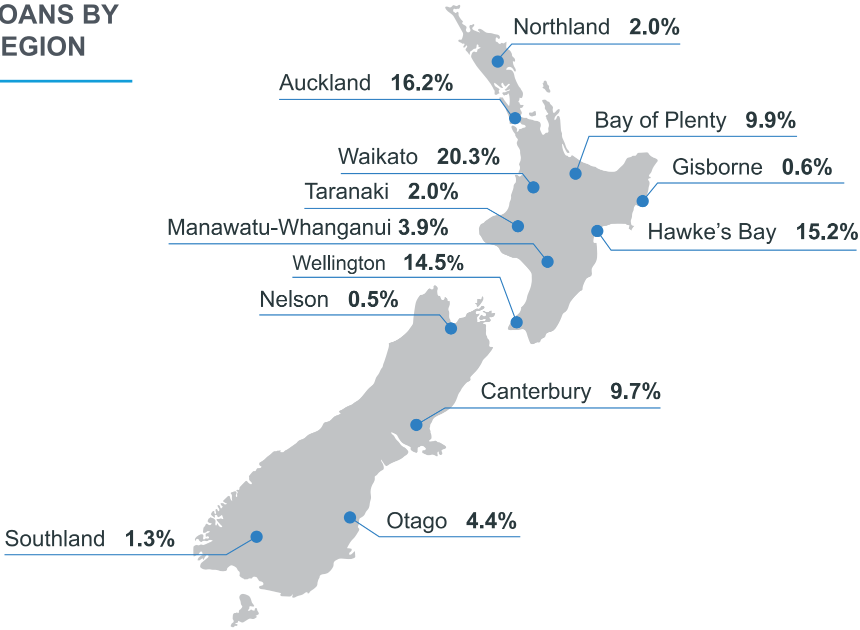
1 2 3 4 5 6 7

◀ 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.**

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

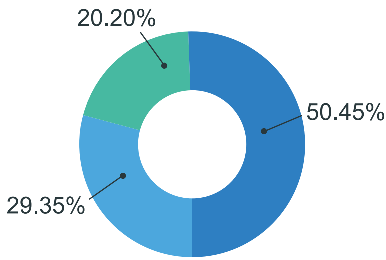
LOANS BY REGION

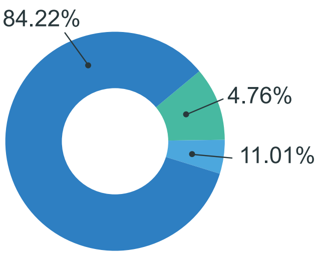


LOANS BY SECTOR

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

Residential Commercial Rural





FUND ASSET ALLOCATION

At 19 September 2022 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
5.50%*	819	$136,647	$111.9M	$3.5M	129	$740,002	$17.8M

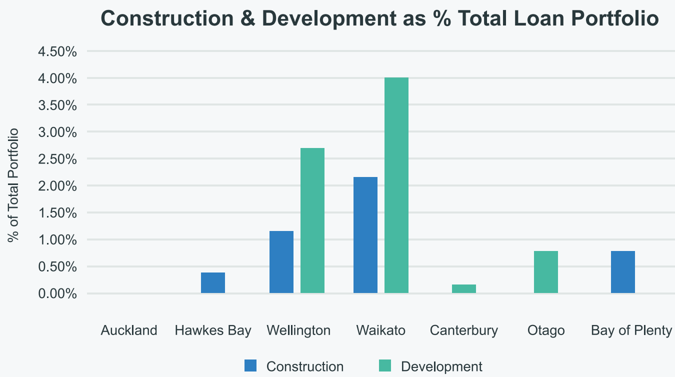
*Annualised pre-tax September quarterly return. Paid quarterly. Past performance is not a reliable indicator of future performance.

SENIOR CREDIT MANAGER'S COMMENTARY

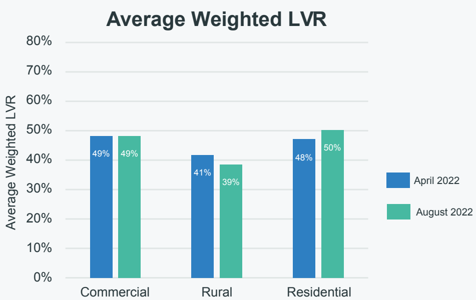
Miles Standeaven
Senior Credit Manager

As further evidence surfaces around a cooling housing market, we have continued to stick to our credit strategy to ensure our portfolio is diversified across sectors and locations.

We have continued to invest in sound transactions outside of higher yielding construction and development which we pivoted away from late last year, given rapidly increasing material and labour costs and consent delays. The construction and development projects which we have been involved in are coming to conclusion inside timeframes and budgets with $1.5m of off-balance sheet committed lending remaining spread across ten loans. Currently development lending makes up 7.6% and construction makes up 4.5%. We have no exposure to Auckland in either of these sectors.



We continue to stress test origination market values by 15% in line with the wider economic forecast residential housing market decline. The results of these stress tests suggest we are well positioned to absorb this, further confirmed by our average weighted Loan to Value ratios.



We continue to stress test loan serviceability at higher rates to validate borrower affordability in an increasing interest rate environment.

FROM THE ROAD

Mark Hardman and Andrew Sanders
Business Development Managers

Our broker network is reporting a high level of enquiry, however conversion of this enquiry into applications is certainly taking longer. The lack of urgency we noted last quarter has definitely continued, creating a longer gestation period for successful loans.

Despite these headwinds, through perseverance we have had a solid lending quarter, built off what was a very strong July. In addition, we have seen a number of our existing loan clients request to extend their relationships with us beyond the planned expiry. Reviewing these requests allows us the opportunity to reset the interest rate, helping increase the return to our investors.

We continue to be very cautious with new loans and have abstained from development and construction lending as the risk profile of these loans is higher in the current environment. Our drive for quality and lower risk profiles in the market, continues to be our main goal.

We invite applications in our target main centre markets, while still keeping our eyes open for quality opportunities in other parts of the country. Both Andrew and Mark have been on the road and have been very successful at sourcing these opportunities.

With spring and summer traditionally our busiest time of year we are excited about what the warmer months will bring.

Doug Bailey
Chief Operating Officer

BUSINESS RELATIONSHIP

Midlands continues to play its part in ensuring New Zealand supports the global fight against money laundering and the financing of terrorism. One key responsibility is to verify the identity and address of new customers at the on-boarding stage, so we know who our customers are. Another key responsibility at that time is to record the nature and purpose of the proposed business relationship between the customer and Midlands, so we understand how the customer expects to transact with us. We are then required to monitor transactions on an on-going basis to identify any transactions that fall outside our expectations. Mostly, unusual transactions can be easily explained, but where they cannot, we are required to report them to the NZ Police's Financial Intelligence Unit.

Many of our customers were on-boarded with Midlands well before the Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) Act came into force in 2013. The Act required us to retrospectively identify our customers, which we did. Another body of work was to retrospectively record the nature and purpose of our business relationship, and this is on-going. If you are a long-time Midlands customer, our Relationship Managers, Elliott Jackson, and Sandy Gernhoefer, may well contact you over the next month or two to gather details on your transaction intentions. Please understand that this is a legislative requirement and help them out as best you can.

ESG

A hot topic in business currently is ESG. Increasingly, businesses are telling the public how they will behave in the areas of Environmental, Social and Governance. Examples are statements on how the business will reduce carbon emissions to fight climate change, uphold human rights, and provide skilled, transparent directors and committee members. Midlands has an ESG Policy in place and is currently expanding on the policy to give customers and potential customers a better idea of how we intend to continue as a good corporate citizen.

FUND CLOSURE DECEMBER 2022 - JANUARY 2023

On a final note, regarding the fund closure in December 2022: the last day for transactions will be the 19 December. The fund will be closed from the 20 December 2022 and reopening on the 6 January 2023.

MIDLANDS
FUNDS MANAGEMENT

At Midlands we balance a consistent rate of return with conservative risk management for your investments.

Invest with Midlands

The Midlands Income Fund has a conservative strategy designed to weather market volatility and provide investors with quarterly income from a diversified portfolio of floating rate loans backed by residential, commercial and rural first ranking mortgages.

5.50%

Annualised pre-tax cash return for quarter ended 30th September 2022

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

Midlands is licensed by the Financial Markets Authority (FMA) as a manager of registered schemes that invest in first ranking mortgages and cash. **FSP number FSP43686.** 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.