

# Looking for regular income? Invest with Midlands

Funds designed by experts,  
with you in mind.



We are pleased to report another solid quarterly performance.

Our return to investors of 6.30%\* for the June quarter was an increase of 0.30% on the previous quarter.



**MIDLANDS**  
FUNDS MANAGEMENT

Newsletter written on 16th of June 2023.

\*Annualised pre-tax June quarterly return. Paid quarterly.

Past performance is not a reliable indicator of future performance.

## CEO REPORT

**Rhys Trusler**  
Chief Executive Officer



We are pleased to announce another strong distribution this quarter with an annualised pre-tax return for the June quarter of 6.30%\*

Compared with the March quarter, this most recent period has been one of relative stability in terms of business operations. This period of stability has allowed us to focus on risk mitigation and optimising returns to our investors, as well as taking a breath and plan for the future. Part of this planning exercise highlighted the benefits of evolving our finance function to meet future business needs and as such I'm pleased to welcome James Brownlie into our newly created Chief Financial Officer role.

James has returned to Hawke's Bay following 20+ years overseas working with some of the biggest names in International Finance across Europe and Asia. James joining the Midlands team is already beginning to pay dividends as he works to expedite the launch of a new product offering being a retail PIE fund with an expected go live date in October 2023\*\*. This project has been a long time in the pipeline but James brings a renewed vigour and belief in the potential value this new offering will bring to some of our loyal investors especially on the back of the budget announcement around changes to Trust Tax Rates. We look forward to communicating more with you as we get closer to launch date.

Lending activity has been strong this past quarter after a long period of trepidation. Property investors are starting to see a silver lining to all the negative property news we've seen over the past 12-18 months with some feeling we're nearing the bottom of the cycle. With the Reserve Bank slowing down on rate hikes, inflation beginning to come back down, and record levels of net migration, we've seen a notable increase in lending enquiry which is encouraging to see. This view on the market cycle has led some lenders to get back into construction lending however Midlands continues to take a cautious approach while cherry picking only the best deals for the fund. We still see downside risk in the construction sector so will stick with our current lending and investment strategy which has fared extremely well through an economic downturn, significant drop in property values across the country and multiple adverse weather events. The success of our current strategy is reflected in our weighted portfolio LVR currently sitting at 45%, arrears sitting at <1% while at the same time we're returning to our investors the strongest quarterly distribution in many years.

In other news Ken Horner one of our founding shareholders has recently sold Halliwells one of the 3 legal firms who merged their nominee companies into what is now Midlands Funds Management. Ken is looking to spend more time with family but will remain an active director on the Midlands board and will retain his shareholding in Midlands. As always, Ken remains a vocal advocate for our loyal Taranaki investors.

On a final note, just prior to us finalising the content of our newsletter the announcement was made that New Zealand is in a technical recession. The news is not surprising but it does raise an obvious question for our investors which is what does that mean for

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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.

Midlands? Well the short answer is that it doesn't impact Midlands or the fund at all. Property prices have been declining for the best part of 18 months now and our lending practices have evolved to not just meet this stage of the cycle but to thrive. We don't lend to families or individuals who are sensitive to interest rate changes, we consciously have very limited exposure to any form of construction borrowing, and we work hard to diversify our lending geographically, and by security type. With the borders now open and forecasts of record net migration all these people will need a place to live. While there was a post COVID surge in consent and construction activity housing deficits span decades and both major political parties. All this means that building, development and construction activity will continue to be in demand, yes some firms will fail but often a downturn is where the marginal businesses fail but the stronger ones flourish and this is ultimately good for the market. So back to the question, what does a technical recession mean for Midlands? Opportunities will present themselves, Midlands will stay the course with our current strategy and we will continue to work hard to provide our investors competitive returns.

Regards  
*Rhys Trusler*

## **BDMs: A WEEK IN THE LIFE OF...**

**Mark Hardman and Andrew Sanders**  
Business Development Managers



Many of our communities have a long recovery in front of them due to the weather events in the first quarter. Thankfully though, we saw more settled weather in the June quarter which meant we were able to be much more proactive and outward looking.

This has involved getting back in front of a large number of our broker referral network – both one on one and in team settings. We've been able to join broker team meetings as well as receiving invites to attend a number of annual conferences. These invites are great recognition of the reputation we have in the broker market and are also an opportunity to develop our reach even further.

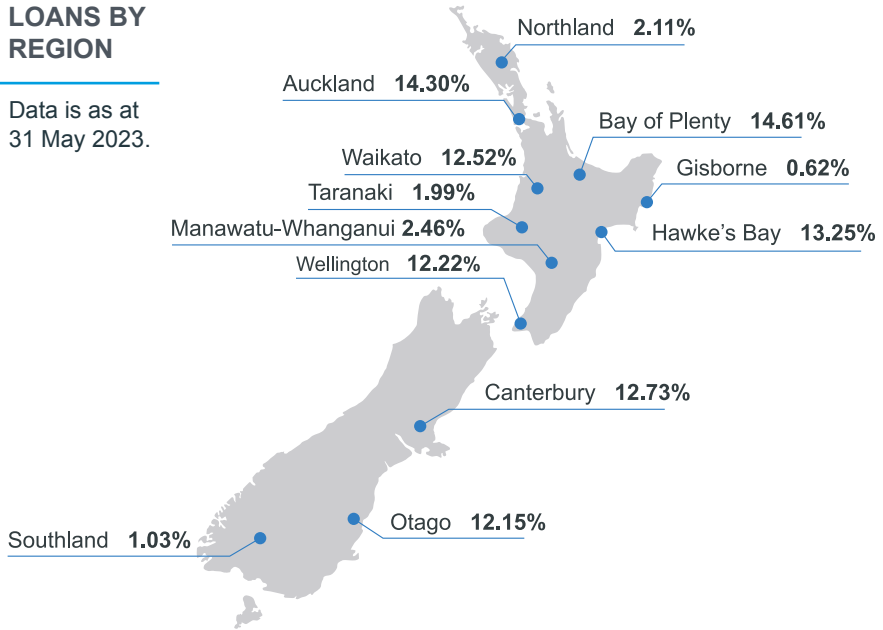
We also utilise all broker interactions to educate around the types of loan applications we are looking for and our current strategy.

As further evidence of our enhanced outreach over the last quarter, our CEO Rhys has joined us at many of our meetings. It's been great getting Rhys out of the office and also refreshing for our brokers to hear our message from a different voice.

Our travels have taken us to places including Auckland, Taupo, Tauranga, Hawke's Bay, Christchurch, Queenstown and Dunedin. And pleasingly, all of this work has resulted in a lot of quality referrals and a record lending month in May for this financial year.

## LOANS BY REGION

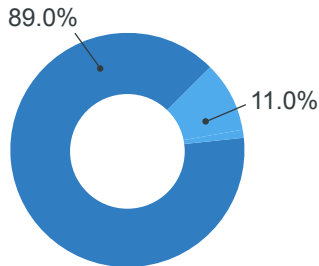
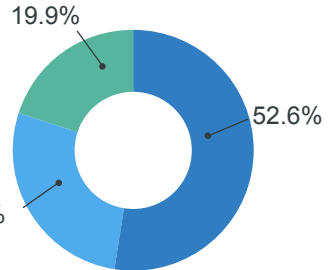
Data is as at 31 May 2023.



## LOANS BY SECTOR

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

● Residential ● Commercial ● Rural 27.5%



## FUND ASSET ALLOCATION

At 31 May 2023 the Fund's assets comprised:

● Loans secured by first mortgage  
● Cash and cash equivalents

## SENIOR CREDIT MANAGER'S COMMENTARY

Miles Standeaven  
Senior Credit Manager

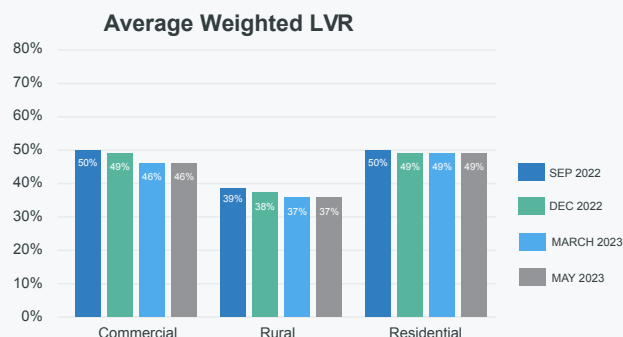


Over this quarter lending activity has increased resulting in an improved weighted interest return. Midlands has continued to stick to its credit strategy ensuring our portfolio is diversified across sectors and locations. Part of our diversification strategy has been to increase our profile in the South Island focusing on Christchurch, Dunedin and Queenstown. The South Island now makes up 26% of our portfolio reflecting an increase of 10% since August 2022. Our lending focus outside of the South Island has been towards the main urban centres.

We maintain a cautious approach towards development and construction lending where currently these lending sectors make up only 6% of our portfolio.

Overall, the portfolio is in good shape with only one loan in arrears reflecting less than 1% of our portfolio, however we continue to increase our impairment provisioning to ensure we mitigate default risks.

The portfolio remains conservative in weighted LVRs (Loan to Value Ratio) as confirmed in the below graph.



## INVESTMENT TEAM COMMENTARY

Elliott Jackson & Sandy Gernhoefer  
Relationship Managers



It has been an eventful quarter with several well attended Investor evenings held in Hawke's Bay and Taranaki. We have seen an increased level of Investor activity from Investors both placing funds with us and making withdrawals to assist family members achieve their property goals, travel, or for property investment opportunities.

We are proud to announce that we have sponsored the Kia Toa Bowling Club for the next twelve months, as a major sponsor for upcoming tournaments and increasing

Midlands presence, and we are also pleased to have sponsored a court at the Greendale Tennis Club assisting eager young players. We look forward to keeping you updated over the coming quarters on other projects we have planned.

We recorded our Midlands adverts on Hawke's Bay radio stations this month, which was something new to us and whilst daunting, we really enjoyed the experience. The latest quarterly performance is something we are all very proud of and is a reflection of the combined efforts of the Midlands team. We are aware of a recent fraud that is circulating on the internet regarding fake term deposits. Please can we remind you to take extra care when online and ensure you verify exactly with whom you are dealing.

Please feel free to contact us should you have any questions regarding your investment, we always welcome the opportunity to have a chat.

**James Brownlie**  
Chief Financial Officer



I joined Midlands in April in a new role for Midlands as CFO. As this is my first newsletter, it's customary – and good manners – that I introduce myself.

After spending the last 22 years overseas, I moved back to New Zealand last year with my wife and 3 children. We moved back to give our children the kiwi experience of growing up in our great country with access to a wonderful lifestyle and great outdoors. It has been great to return to Hawke's Bay, to be closer to family and to reacquaint with old friends.

In terms of my industry background, I have extensive experience having worked in investment banking roles across London, Tokyo, Hong Kong and Singapore for JPMorgan, Merrill Lynch, Barclays, and Standard Chartered Bank. I have also worked in financial services in New Zealand for KPMG and as a residential and commercial mortgage adviser for Vega Mortgages. I am a qualified NZ Chartered Accountant, Lawyer, and Financial Adviser.

It has been a very interesting time to be in the lending industry, with the Reserve Bank putting the brakes on the economy to bring inflation under control. I would like to think we are now at the peak in terms of the Official Cash Rate ("OCR"), and the next questions are 1. how long will interest rates stay at their current elevated levels, and after that 2. what is our new "normal". However, one thing that recent times have taught us is that we don't know what is around the corner and we need to focus on financial resilience so we can weather unexpected storms (pun intended) and take opportunities as they present.

Rhys has hired me to maintain and strengthen the financial resilience of Midlands. This is a very important focus in the current environment where the wider economy is currently going through a constrained period driven by high inflation, a rising OCR and economic pessimism. I can reassure you that I am very positive about the future and the opportunities ahead for Midlands. We have a strong business model that enables us to deliver consistent returns to our investors. The loans in our lending portfolio are carefully managed and I have been impressed with the credit controls we have in place.

Since joining I have been working with Rhys to develop business plans for the next 12 months. A focus area is launching a retail Pie fund in October\*. I am excited about

\*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.

this new product launch as it creates another option for our investors and completes our product offering alongside our Income Fund and Wholesale PIE Fund. There are Income tax benefits on distributions from a PIE (Portfolio Investment Entity) fund where tax is normally capped at 28%, which provides a tax benefit to investors who may otherwise have been taxed at a higher tax rate. Speak to us and your accountant or tax adviser if you think this may be beneficial to your situation.



**Jill Shipp**  
Compliance Manager

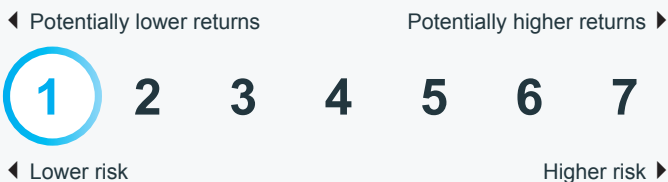
It has been a busy quarter for Compliance. As we operate under a licence issued by the Financial Markets Authority (FMA), our management of the fund is supervised by a supervisor licensed by the FMA. Our supervisor is Trustee Executors Limited who have just appointed a new client manager to look after us, and I have been spending time with his team in Auckland to ensure they are familiar with our business.

I also attended an Anti-Money Laundering summit whilst in Auckland where key speakers gave us updates about current issues in this area. Having strong compliance controls helps us detect and report suspicious activity and reduces risk against threats such as money laundering and other financial crimes. Thankfully, money laundering is not something we encounter very often at Midlands.

To round out a busy quarter, I have also completed the latest round of quarterly controls testing which ensure that we have a focus on constantly improving our control environment.

	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	92c
31 DEC 2022	5.70%	\$114.4m	92c
31 MARCH 2023	6.00%	\$105.7m	92c
30 JUNE 2023	6.30%*	\$106.3m	92c

**RISK  
INDICATOR  
FOR THE  
MIDLANDS  
INCOME FUND**



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.**

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## 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.



**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.