



**MIDLANDS**  
FUNDS MANAGEMENT

# MIDLANDS NEWSLETTER

MARCH 2024

return\*  
**6.80%**

Annualised pre-tax cash  
return for quarter ended  
31st March 2024

We are pleased to report  
another solid quarterly  
performance.

Our return to investors of 6.80%\*  
for the March quarter was  
an increase of 0.15% on  
the previous quarter.

Smarter  
investing  
starts  
here

Newsletter written on 21st  
March 2024. \*Annualised  
pre-tax March quarterly return.  
Paid quarterly. Past performance  
is not a reliable indicator of  
future performance.

**0800 870 326**

[www.midlandsfundsmanagement.co.nz](http://www.midlandsfundsmanagement.co.nz)

# CEO Report

## Rhys Trusler

Chief Executive Officer



Welcome to our first newsletter of 2024 and the last of our 2024 financial year.

This quarter marks yet another milestone for Midlands in that we have continued to improve our distribution to you for 12 consecutive quarters delivering a solid 6.80% (annualised before tax).

This past financial year was one of extreme highs and lows for us here at Midlands. We saw repeated extreme weather events, the sudden loss of our Chairman and general market volatility as the cost of living crisis began to bite. On the positive side, the fund has proven itself to be incredibly resilient, and despite the challenges with the economy and Mother Nature, the fund has continued to grow, and improve returns to our investors.

As the manager, we have been busy this past quarter, not just with day to day fund operations, but also proactively responding to the proposed trust tax changes which are due to take effect from April 1st. You would have seen our communication around this change, and hopefully had the chance to attend one of our events and ask questions.

One item, which wasn't discussed at the events, is the unique opportunity this change presented to us. As part of electing into the PIE tax regime, we have been able to utilize some tax credits held by the Fund to make a tax free capital distribution to retail investors. The resultant outcome for our retail investors is that they will be receiving a **CASH RETURN of 6.80%** for this quarter, with no tax deducted.

This is a one off instance only and our way of saying thank you to our investors.

### What does 2024 hold for Midlands?

2024 is already shaping up to be another strong year for Midlands. That's not to say there won't be headwinds. Inflation proves to be more persistent than first thought, and the RBNZ having only 1 tool to combat it means the possibility of further OCR rate hikes.

Property prices, however, are stable and rising in some regions again as record migration exacerbates the mismatch between housing supply and demand.

This works in our favour by strengthening the security position of the fund, however, we continue to remain cautious. The economy is in a delicate state, and we are seeing stresses emerging in certain sectors.

We continue to review and assess our strategy/portfolio and returns to maintain what we believe to be the optimal balance between risk and return.

On a final note, we have begun scoping the possibility of creating an investor portal and with the considerable work involved in launching the PIE fund now behind us, we will have a little more time to focus on providing more options for accessing and reviewing your investment.

We look forward to providing you further updates as this project progresses.

Thank you for your continued support.

Rhys

A handwritten signature in blue ink, appearing to read 'Rhys Trusler', written over a light blue background.

Welcome  
to the  
Midlands  
Smarter PIE  
Fund

# Key Facts

## OUR INVESTING PRINCIPLES

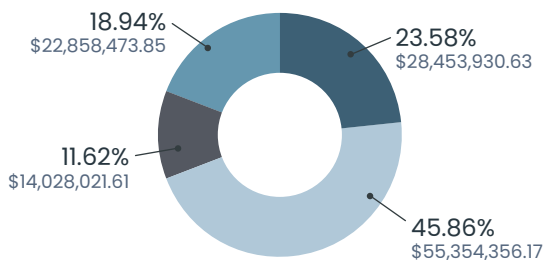
Midlands' conservative lending principles help protect our investors:

- **Secured** - Loans are always secured by 1st mortgages over NZ property.
- **Diversified** - Loan portfolio is diversified across property types and location.
- **Conservative** - We maintain conservative LVR limits.
- **Experts** - Our specialist team of experts has over 200 years of experience.

## LOANS BY SECTOR

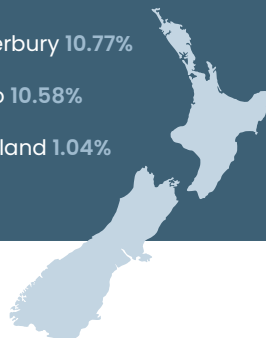
The loan assets are spread between commercial, rural, residential and cash as follows:

- Commercial 23.58%
- Rural 11.62%
- Residential 45.86%
- Cash and cash equivalents 18.94%



## LOANS BY REGION

- Northland 2.06%
- Auckland 27.39%
- Bay of Plenty 8.43%
- Waikato 14.31%
- Gisborne 0.64%
- Hawkes Bay 11.16%
- Taranaki 1.90%
- Manawatu - Whanganui 1.39%
- Wellington 10.33%
- Nelson 0.00%
- Canterbury 10.77%
- Otago 10.58%
- Southland 1.04%



## LOAN SUMMARY

Average Loan Size	<b>\$921,398</b>
Average Weighted LVR	<b>48.06%</b>
Loan Originations last 12 months	<b>\$51m</b>

It's not all work

# Get to know our team

Name: **Mark Hardman**

Position: **Loans & Business Development Manager**



## 1. What do you do for Midlands?

I work with my referral base to source first mortgage investments on prime real-estate, what does that mean? I get to talk (a lot) to a bunch of interesting people who advocate lending opportunities across NZ, I then get to meet another bunch of interesting people (the borrowers) who show me around their property and share with me their future plans and aspirations.

## 2. Career highlight?

Being promoted to Regional Director for a top FTSE 100 Company in the UK, developing and introducing Pre Paid credit cards into the Australasian market & managing half the South Island for Westpac, to name but a few.

## 3. What is the best investment advice you ever received?

If it has 4 legs don't bother.

## 4. What was your first job?

The Royal Signals – Signalman Hardman, as you can imagine my drill sergeant had a lot of fun with my surname. I did a whole lot of marching, running & drinking as I recall & my mum is still amazed to this day at how well I can iron a shirt and polish my shoes! Oh yes and I made some life long friends along the way.

## 5. If you were Prime Minister for a day what would you do?

That's a difficult one, because there would be so much I would want to do, but I think the first thing would be to bestow the highest honour on my wife for putting up with me for the last 30 odd years.

## 6. Best kept Tauranga secret?

I returned to Tauranga a couple of years ago to be closer to my referral base in the upper North Island – Memorial Park is the best kept secret, there is so much to do, particularly if you have kids. They have a rideable model railway, that they have been building for over 30 years and today it's probably one of the best in New Zealand. I remember taking my daughter on it when she was 3 or 4 years old and this summer I had the privilege of taking my granddaughter on the very same train!

## 7. Something your colleagues don't know about you?

Well I can't beat Rhys dancing with Pamela Anderson, but I did spend an afternoon with Richie McCaw when I was working for Westpac. I still can't think why he laughed when I asked how England would fare in the World Cup that year.

## 8. Cats or Dogs?

Dogs, my 7 year old Lab/cross is always by my side.

## 9. Marmite or Vegemite?

I don't particularly like either, to be honest.

## 10. Pineapple or no pineapple on your pizza?

Definitely no pineapple for me, thank you.

# Things we love

and you might too

## Matangi Beef “Bred with Purpose”

Matangi Angus Beef is an award winning boutique producer of 100% Grass Fed Angus Beef based in the Tuki Tuki Valley in Hawke's Bay. Matangi is the only high quality beef producer in New Zealand who has full control over the curation of their product, from breeding and farming of their herd, to ageing 21 days on the bone and creating the best fine cuts with their own team of artisan butchers.

Matangi has built a strong following by connoisseur retail clients and top Chefs around New Zealand through their online store [www.matangi.co.nz](http://www.matangi.co.nz). They are now excited to have recently opened their newly built boutique butchery and showroom at 308 Heretaunga Street Hastings, and invite you to visit them and learn more about the Matangi experience!

Full retail offering available Thursday and Friday 9am - 3pm.



## Brave Brewing

Brave Brewing Co. is a family owned brewery and taproom situated in the Hastings CBD. From the centrally located space, the team busily works to produce small batch award winning beer. Brave also has an onsite taproom and eatery, where you can taste a variety of different beers, view the brewery team at work through the beautiful big windows, and enjoy great food that pairs well with a beer. Brave has become a bustling meeting place for the local community.

A favourite pick of many is their Tigermilk IPA. A light bodied, easy drinking IPA brewed with a blend of both old and new school hop varieties. The result is a delicious cocktail of citrus and tropical fruit. Tigermilk is bold, but affectionate.

You can purchase Brave beer by visiting the taproom or their online store ([www.bravebrewing.co.nz](http://www.bravebrewing.co.nz)). If you're lucky you might find some at your local bottle store, supermarket or favourite bar/eatery too.



*Just so you know, no money changed hands in the making of this page.  
We just thought it was a nice idea to support local businesses doing great things.*

# Maximizing Tax Benefits

### Investing Smartly as Trust Tax Rates Increase to 39%

The trustee tax rate for trusts with trustee income of over \$10,000 is set to increase from 33% to 39% on the 1 April 2024, aligning it with the top marginal tax rate applicable to individuals earning over \$180,000 pa. The proposed changes were part of a Labour tax bill that Prime Minister Luxon confirmed in the weeks leading up to the election that a National-led Government would look to reintroduce, seeing the trustee tax rate for trusts with trustee income of over \$10,000 moving to 39% on 1 April 2024.



Assuming the legislation is introduced and enacted on time, understanding the benefits of a Portfolio Investment Entity (PIE) should be a strategic consideration for all trustees and individuals earning over \$180,000. Commonly used for managed funds, unit trusts, and KiwiSaver accounts, a PIE can be a powerful tool for investors seeking to maximize returns while minimizing tax liabilities.

The amount of tax an investor is required to pay on their investment in a multi-rate PIE is known as their prescribed investor rate (PIR). For New Zealand tax resident individuals, there are currently three applicable PIRs to choose from: 10.5%, 17.5% and 28%. For Trusts there are four options, the same as the individual PIRs plus a 0% rate. Which PIR you elect would be dependent on your specific circumstances and IRD has a handy calculator to assist on their website: [Find my prescribed investor rate \(PIR\) \(ird.govt.nz\)](https://ird.govt.nz)

What is commonly misunderstood is that the 28% PIR rate is a final tax. That means that should your applicable income tax rate be higher than 28% (such as the 39% rate for individuals and the proposed 39% rate for trusts) the most tax you will pay on your investment is capped at 28%.

To illustrate this strategic tax advantage for investors, let's work through an example – you have \$100,000 invested with a return on investment (after any applicable fees) of 5% pa reinvested for three years. Your marginal personal tax rate is 39%.

YEAR ONE	Term Deposit	PIE	YEAR TWO	Term Deposit	PIE	YEAR THREE	Term Deposit	PIE
Initial Investment	\$100,000	\$100,000						
Return on Investment	\$5,000	\$5,000	Return on Investment	\$5,153	\$5,180	Return on Investment	\$5,310	\$5,366
Tax on Investment	\$1,950	\$1,400	Tax on Investment	\$2,009	\$1,450	Tax on Investment	\$2,071	\$1,503
Net Return	\$3,050	\$3,600	Net Return	\$3,143	\$3,730	Net Return	\$3,239	\$3,864
						Closing Investment	\$109,432	\$111,193

This is an illustration only. Everyone's tax position is different. We recommend that you seek independent tax advice to confirm the impact on your investment.

Over a three-year period, with compounding returns and an 11% lower tax rate, the same investor could have made an **additional \$1,761** by simply having their funds invested in a PIE instead of a term deposit. As investment sums increase or the investment time increases, the differential increases too. If you had a \$1 million investment, the PIE investment would have an additional \$17,616 over the term deposit (\$31,344 over five years).

So, if you are an individual earning over \$180,000 or a Trust that has investments, why would you not strategically consider a PIE?

From the 1st April, the **Midlands Income Fund** will be converting to a PIE Fund, which allows Midlands to provide PIE tax benefits to our investors. To reflect this change, our Midlands Income Fund will be renamed the **Midlands Smarter PIE Fund**.

Article provided by Ashleigh Gilmour, Nexia Hawkes Bay  
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**Disclaimer:** This article is generic in nature and is not intended as specific tax or investment advice. To discuss your specific situation, please contact your financial and tax advisers.

# Meet Sandy

## Sandy Gernhoefer

Relationship Manager



This is Sandy, our bright, bubbly and brilliant Investing Relationship Manager.

Sandy has 33 years of banking and investment experience and is passionate about 'treating our customers like real people, not numbers'.

If you are interested in investing with Midlands or have any questions about your existing investment, Sandy would love to see you.

Give her a call, drop her an email or even better, come into our office for a cuppa.

Sandy Gernhoefer

Mobile 027 624 4554

Email [sandy@mmt.net.nz](mailto:sandy@mmt.net.nz)

Phone 06 870 3260

Come & see us: Midlands, Tribune Building, 1/111 Karamu Road North, Hastings (behind Kindred Road Café).

Pop in  
and see us, no  
appointment  
necessary



## NZ Trust Tax Rates

Currently

33%

Before 1st April 2024

Proposed

39%

From 1st April 2024\*

about to  
increase

## Introducing the Midlands Smarter PIE Fund

From 1st April 2024, the Trust tax rates are increasing from 33% to 39%\*, for trusts with trustee income over \$10,000.

In order to mitigate this increase, Midlands is converting its current Income Fund to a PIE Fund. This change will provide tax benefits to many of our investors.

That's because the most tax NZ resident investors pay on their returns when they invest in a PIE Fund is 28%. Where as, if your investment is NOT in a PIE Fund, you could be paying up to 39% tax.

To reflect this change, we will be renaming the fund the **Midlands Smarter PIE Fund** from the 1st April 2024. Nothing else will change.

To find out more, feel free to pop in and see us or give us a call.

0800 870 326

Midlands, Tribune Building, 1/111 Karamu Road North, Hastings  
(behind Kindred Road Café).

\*This change is expected to be law on 1 April 2024. However, the proposals in the Bill are not law until enacted and are subject to change through the parliamentary process. There is a possibility that the proposed tax changes above to not eventuate or are passed into law in a different form.

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.