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 6.00%* for the March quarter was an increase of 0.30% on the previous quarter.

6.00%
Annualised pre-tax cash return for quarter ended 31st March 2023

MIDLANDS
FUNDS MANAGEMENT

Newsletter written on 14th of March 2023.
*Annualised pre-tax March quarterly return. Paid quarterly.
Past performance is not a reliable indicator of future performance.

CEO REPORT

Rhys Trusler
Chief Executive Officer

Welcome to the first newsletter of 2023.

Despite recent weather events I'm pleased to announce an annualised pre-tax distribution of 6%* for the first quarter of 2023. I returned to work after Christmas, 3 months into my career with Midlands, with a clear idea of how I wanted to tackle the new year. New Zealand was emerging from the suffocation of COVID, and had begun the process of learning how to live with COVID. Inflation, while not under control, seemed to have peaked, and the economy, while heated, seemed to be maintaining a steady re-set as opposed to something more dramatic. Then La Nina decided to make her presence known. We've had the flooding event in Auckland, and subsequently Cyclone Gabrielle tear through the upper north island, along with what seemed to be a continuous stream of wet weather over the summer months. While we, the team at Midlands, were all affected in some way by the weather, we all got off lightly compared to some of you who experienced very real loss from these events. Our thoughts are with you through these difficult times.

As we emerged from these weather events, we began to see a banking crisis unfold in the US, with the collapse of several large banks, along with Credit Suisse, teetering on the edge. Not even top economists can forecast exactly how that situation will play out but it's important to have some context before drawing any conclusions. There was a very specific set of circumstances which resulted in the collapse of Silicon Valley Bank. Credit Suisse have struggled for several years, and deficiencies in financial reporting on that scale are always going to result in large red numbers.

In New Zealand following the GFC (Global Financial Crisis), the RBNZ (Reserve Bank of New Zealand), and subsequently created Financial Markets Authority, spent a lot of time and effort dissecting the events which led up to the GFC, both at home and abroad. They went about establishing a much more resilient financial market by increasing transparency, tightening rules around disclosures, increasing protections for retail investors, and importantly increasing the capital requirements for main banks resulting in much lower leverage in the New Zealand banking system. Risks still remain, but New Zealand is much better placed to face these than it has been historically.

WHAT DOES THAT MEAN FOR THE MIDLANDS INCOME FUND?

To start with, the fund has no leverage whatsoever. We lend out a maximum of 95% of investor funds but target closer to 90%. The difference is held in cash and cash equivalents, and is there to facilitate new lending and/or investor withdrawals depending on the requirements at the time. The fund has strong cashflows with very limited capitalised lending, and, as a conservative lender, the trend of our portfolio LVR over time speaks to the conservative nature of how/where/when we lend.

For our investors for whom we have e-mail addresses, you will have seen our approach to identifying and managing risk through the communications we sent out during the recent weather events. Our approach involves identifying the risk, being transparent about what we're doing to mitigate any risk to your investment, and then to follow through on our commitments. We believe this is the right approach but welcome any feedback or suggestions, whether it's a call to one of our investment team, a call to myself or sending questions to any update we provide via e-mail.

These recent weather events combined with heavily embedded inflation, have contributed to increased activity in the fund which is great to see. On the withdrawal side we've seen increased activity for a number of different reasons. A number of withdrawals have been a bridge to the settling of insurance claims. We've seen an increase in withdrawals related to property

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purchases, with some investors feeling it's a good time to buy property. Others have simply withdrawn a portion to help out relatives who are struggling financially and I'm proud of how we have contributed to that support.

On the deposit side we've seen people upgrade/downgrade their property, so they have withdrawn funds for their deposit, to settle the purchase, and then when they've sold their existing property, on most occasions they have re-invested their residual funds. Others have believed in the way Midlands has handled the double whammy weather events, and others just want a higher return than what they currently receive from their funds held in cheque or savings accounts. Whatever the reason, we're Kiwis helping Kiwis navigate interesting times and we're always happy to help.

On a final (personal) note. I'm proud to announce my wife and I have joined the club by investing with Midlands. My wife is conservative by nature, so you could say 6 months as CEO has allowed me to conduct thorough due diligence on the fund. In placing our investment, my wife and I join the 50% of Midlands staff who already invest personally in the fund. Staff are subject to much stricter withdrawal conditions than standard investors, and rightly so (we have inside knowledge of the workings of the fund after all). This information should not be taken as a recommendation to invest but the high rate of employee investors show, as Kiwis helping Kiwis get ahead financially, we believe in what we do. I wish you all the best as we head deeper into autumn and hopefully as La Nina departs our shores we can enjoy some settled weather for a change.

Regards

Rhys Trusler

BDMs: A WEEK IN THE LIFE OF...

Mark Hardman and Andrew Sanders

Business Development Managers

The March quarter was one that will unfortunately be remembered for its destructive weather. First there was Cyclone Hale in late January which brought flooding to Auckland and some other parts of the upper North Island.

Only a few short weeks later in mid-February Cyclone Gabrielle devastated the east coast of the North Island as well as dealing a second blow to parts of Auckland.

Although established and based in Hawke's Bay, Midlands' recent growth means that we have investment and loan customers right across New Zealand.

After both events the efforts of the Midlands lending team pivoted to focus solely on the wellbeing of our potentially impacted existing loan clients. We phoned, emailed, texted and in some cases visited our Auckland, Waikato, Bay of Plenty, Gisborne, and Hawke's Bay clients during the period after both cyclones.

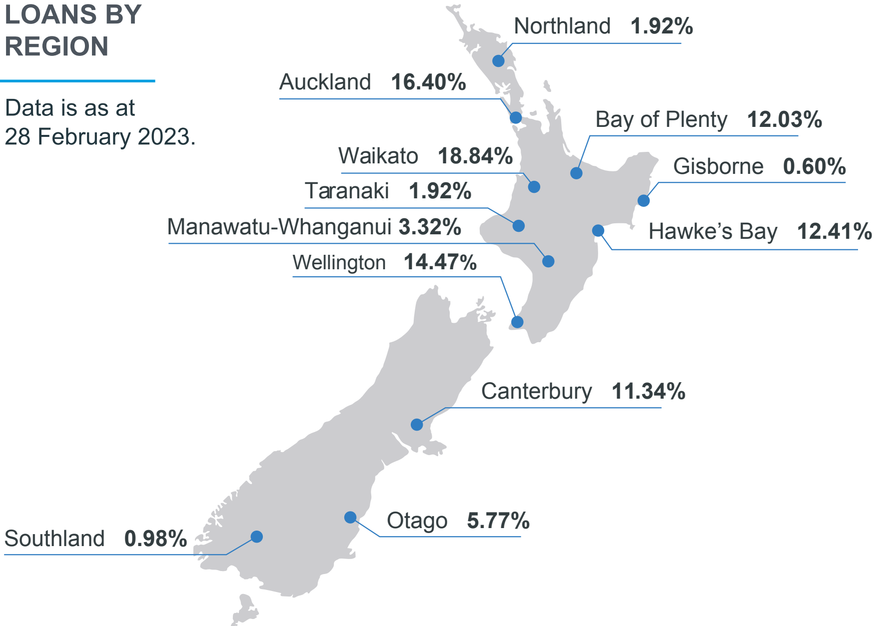
Thankfully, we discovered that all of our clients, their families and property were safe. In addition, we received very positive feedback from our clients for reaching out to them.

As is mentioned elsewhere in this newsletter, our strategy of diversifying our portfolio has served us well. And the geographical spread of our staff, along with our ability to work remotely, meant that Midlands was operational throughout both weather events. This ensured we maintained the quick response times that we are known for throughout our broker network. It was heart-warming to also have many brokers and customers contacting us to check our wellbeing.

Pleasingly all Midlands staff and property are in decent shape and now operating at full strength, although well aware there will be a long road to recovery for many of our communities.

LOANS BY REGION

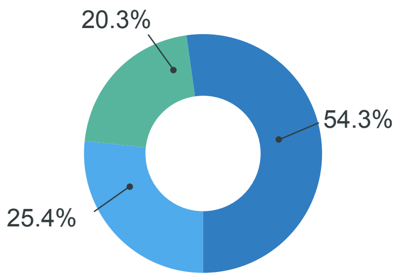
Data is as at
28 February 2023.

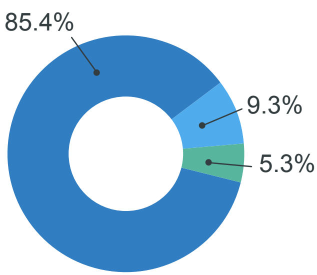


LOANS BY SECTOR

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

Residential Commercial Rural





FUND ASSET ALLOCATION

At 28 February 2023 the Fund's assets comprised:

- Loans secured by first mortgage
- Cash and cash equivalents
- New Zealand Fixed Interest

SENIOR CREDIT MANAGER'S COMMENTARY

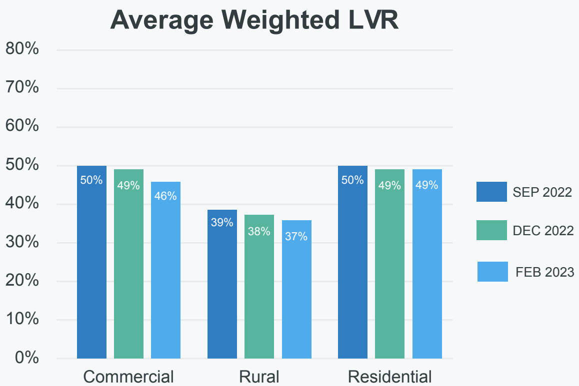
Miles Standeaven
Senior Credit Manager

Despite the continuing fall in the housing market, Midlands' commitment to sticking to our credit strategy and ensuring our portfolio is diversified across sectors and locations remains unwavering.

Our credit strategy has been focused on geographic diversification, and the importance of this has been exemplified by the recent weather events in the North Island. No individual region represents more than 20% of the portfolio.

Following these recent events, we contacted all borrowers in the impacted regions to check on their welfare, and assess any potential impacts on secured properties. Initial assessments confirmed positive welfare and no impact to our security.

We continue to stress test origination market values to 20% - 25%. This is in line with the wider economic forecast on the residential housing market decline. The results of these stress tests suggest we are well positioned to absorb further reductions, confirmed by our average weighted Loan to Value ratios.



We also stress test loan serviceability at increased rates to validate borrower affordability due to inflationary pressures, cost of living and rising interest rates.

Also, we continue to increase our provisioning to ensure we mitigate default risks incorporating the continuing uncertainty in the domestic and global economic outlooks, and recent extreme weather events.

INVESTMENT TEAM COMMENTARY

Elliott Jackson & Sandy Gernhoefer
Relationship Managers

The first three months of 2023 have been very challenging for varying reasons, including increases in the Official Cash Rate along with rising inflation. News from offshore has also caused some concern with the collapse of Silicon Valley Bank and the subsequent take-over of Credit Suisse.

We have also had major weather events affecting New Zealand, one of which was Cyclone Gabrielle which brought widespread devastation to Hawke's Bay and other areas of the East Coast. We would like to extend our heartfelt sympathy to those who have been affected.

After the Auckland floods and Cyclone Gabrielle we have spoken to all of our borrowing clients and are very pleased to report that none have been unduly impacted. We have also managed to speak to a number of our investors in these areas to check in with them, some of whom have been affected.

As we move forward we envisage that there will continue to be challenges ahead whether they be economic, regional, or national, however, your dedicated team at Midlands will continue to work hard on your behalf.

The quarterly result for March 2023 shows a strong finish to the financial year. It is worth mentioning that there have been a number of withdrawals this quarter relating to some of our clients utilising their funds held with us to purchase property as prices move to more reasonable levels, or to help out family who may be struggling in the current environment.

We are proud to have been part of their investment journey and during this period, we have continued to see new funds and investors join us. Our door is always open to welcome new and existing investors. Please feel free to contact us should you have any queries or wish to make a further investment with us. As always we are pleased to receive new client introductions so do not hesitate to give us a call.

Jill Shipp
Compliance Manager

Since our last newsletter, Doug Bailey, Chief Operating Officer, has left Midlands to pursue other career opportunities and as a result, I have been appointed to the new role of Compliance Manager at Midlands.

I have been a part of the Midlands Team since October 2019, initially as a Loans Analyst, but I've always had an interest in risk and compliance, and I have considerable experience in this area from previous roles that I have held.

As Compliance Manager, I have responsibility for ensuring that Midlands complies with the ever-changing regulatory environment, including reporting to our supervisor, the Financial Markets Authority and other regulators.

I work with our Audit committee to ensure our risk registers are up to date, and that the accompanying controls and record keeping are maintained, and I also work closely with both the Loans and Investment teams to ensure that processes, including those relating to anti-money laundering, are being followed, with regular training scheduled to keep everyone's knowledge current and up to date.

	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

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.**

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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.

6.00%
Annualised pre-tax cash return for quarter ended 31st March 2023

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.