

# 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 6.50%\* for the  
September quarter was an increase of  
0.20% on the previous quarter.

**6.50%**

Annualised pre-tax cash  
return for quarter ended  
30th September 2023



**MIDLANDS**  
FUNDS MANAGEMENT

Newsletter written on 16th of September 2023.

\*Annualised pre-tax September 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 an annualised (after fees but before tax) return of 6.50% for the September quarter.

This quarter has been one of relative stability for Midlands, following a tumultuous 12 months, involving significant declines in property prices, multiple adverse weather events including Cyclone Gabrielle, and the highest inflation rate since the heights of The Great Inflation period ending around 1982.

As is often the case during periods of relative calm, we have taken the opportunity to conduct a self-assessment to determine whether we are truly providing value for our investors. The results of this deep dive highlighted that we are on the right track and the business is flourishing, returns remain strong, our investors are benefiting, and we're giving back to the community. These results were ratified by our supervisor when we went through a newly introduced value for money assessment. The results of this assessment validated that Midlands' fees are not unreasonable for the size of the fund, returns have been stable while outperforming returns from cash deposits or term deposits, all while maintaining capital stability. Not a bad combination for such a turbulent economy.

Lending remains strong and we continue to achieve strong returns while maintaining discipline to the lending strategy which has held up so well during this downturn. This strong performance in lending flows through in the form of distributions which we've managed to grow for you quarter on quarter for the past 10 distributions.

Investments over this quarter have remained steady and in line with expectation. If you've transacted with us recently you'll be aware we track the purpose for withdrawals. Many withdrawals have been related directly to this year's weather events, helping family during this cost-of-living crisis, or simply changes in life stage where people are downsizing their home but wish to purchase before selling their own home. Whatever the reason, people invested for a rainy day, and when that day arrived, their investment with Midlands was there to assist. This year alone (across March, June and September distributions) Midlands has paid over \$5m (after fees but before tax) in distributions to our investors. This has supported our investors in maintaining current lifestyle, helping friends and family, or simply taking a well-deserved holiday. I'm not a financial adviser, but if ever there was a case to validate the importance of investing for the future, then this year has highlighted that importance.

On a final note, it is with sadness that we share that our Chairman of the last 7 years Peter Ellis died peacefully earlier this month surrounded by family following a hard fought battle with cancer. We are very grateful for the contribution that Peter made to Midlands. Peter steered Midlands through a period of great change and growth seeing the fund grow from less than \$40m to nearly \$110m where it sits today. Under Peter's guidance, Midlands has evolved into the innovative but conservative modern independent fund manager that it is today.

Peter had recently announced his retirement and at our AGM on 16 September our shareholders and directors unanimously voted 'yes' to the appointment of John Rae as incoming Chair. Rest assured Midlands is left in safe and capable hands with John now taking over one month earlier than originally planned. John joined Midlands as an independent director in November 2022 and brings a wealth of commercial and governance experience along with a clear vision for the future of Midlands.

John asked me to pass on sincere condolences on behalf of all of the Midlands team and its directors to Peter's wife Fiona and the rest of the Ellis family. Our thoughts are with Fiona and the Ellis family at this time.

We thank you all for your continued support and look forward to seeing what we can deliver for you in the run up to Christmas.

**Regards**  
*Rhys Trusler*

\*Annualised pre-tax September 2023 quarterly return. Paid quarterly. Past performance is not a reliable indicator of future performance.

## Mark Hardman and Andrew Sanders

Business Development Managers

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Winter is traditionally a time of hibernation when lending volumes can slow as projects are put on hold until warmer months. However, this year we are coming off what was a very active and productive quarter.

We have been very visible in our favoured locations of Auckland, Waikato, Bay of Plenty, Hawke's Bay, Christchurch, Queenstown and Dunedin. In addition to regular mortgage broker interactions, we have presented at broker conferences and participated in a Property Investor seminar.

This increased exposure resulted in July being our most successful loan month in the last two years – not what you would normally expect in the middle of winter. Continued disbursements in August led us to lending almost every dollar we had available, and at higher average interest rates than ever before.

All of this results in a higher return to our investors, and while still maintaining our conservative strategy.

Looking forward, springtime is traditionally a busy lending period with higher demand and we are expecting a similar outlook, particularly once the upcoming election is out of the way and borrowers have more certainty. We are well placed to take advantage of this period and the opportunity to maximize the return to our investors.

We will continue to focus on the main centres and maintain a high presence with our trusted and loyal broker network, to ensure they understand our products and expectations and to maintain and constantly improve the quality of our lending.

## Jill Shipp

Compliance Manager

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Anti-Money Laundering is always at the forefront of my mind in my role, and we are currently completing a review of all the AML identity information held for our customers, both investors and borrowers. As a result, you may hear from us in the coming weeks and months if we need to request updated documentation from you to keep our records updated.

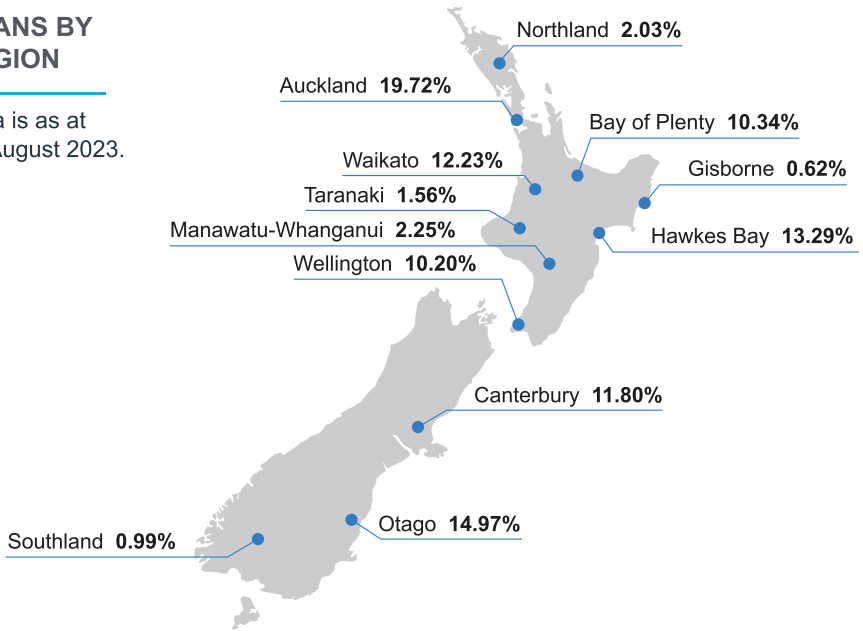
My role also involves delivering regular training to the team to maintain our compliance obligations and this quarter I have facilitated both Whistleblower Training and an AML Refresher Session in our team meetings.

Midlands' office will close this year on **Friday 22nd December**, and therefore the last day that withdrawals will be processed before the holiday period will be **Thursday 21st December**. The office will reopen on **Monday 8th January**.



## LOANS BY REGION

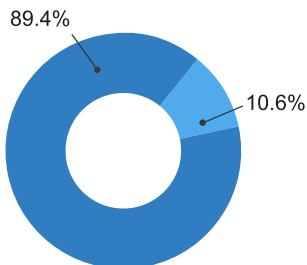
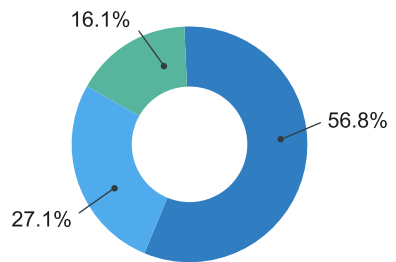
Data is as at 31 August 2023.



## LOANS BY SECTOR

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

● Residential ● Commercial ● Rural



## FUND ASSET ALLOCATION

At 31 August 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 picked up pace where July provided our strongest lending month over the past 24 months, and this activity, combined with a pricing increase across the portfolio, has resulted in an improved weighted average rate of return.

Towards the end of August and early September, repayments of loans via refinance to main banks has provided good churn and has allowed us to build a pipeline of new lending for next quarter.

Midlands has continued to stick to its credit strategy ensuring our portfolio is diversified across sectors and locations. Included within this strategy is a focus on quality assets in main urban centres and further growth in the South Island centres of Christchurch, Dunedin and Queenstown.

Our strategy also includes not targeting bare land securities unless there is an accompanying uncorrelated saleable security. Currently bare land lending makes up 5% of our portfolio and is predominantly in main centres.

Given continuing commentary surrounding the cost of construction and in particular the levels of liquidations evident in the construction industry, we maintain a cautious approach towards development and construction lending where currently these lending sectors make up 4% of our portfolio.

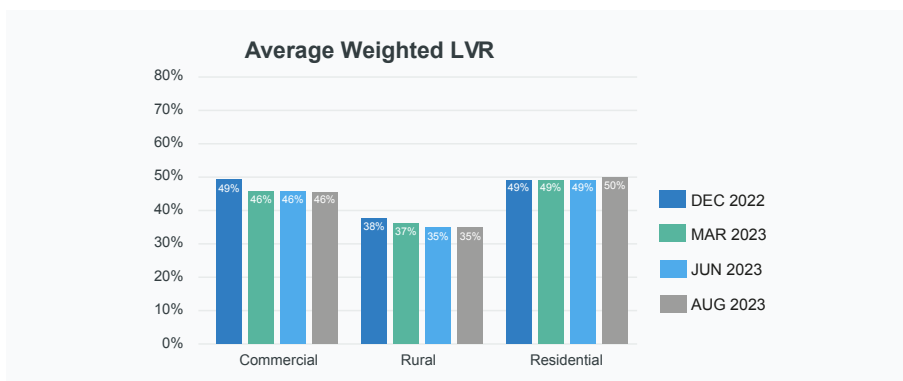
Where a borrower's exit strategy is through the sale of a marketed secured property, we may consider capitalising the interest, however our preference remains the serviceability of the loan via a borrower's cashflow. Currently capitalised lending makes up 12% of our portfolio.

We have seen a minimal increase in delayed loan payments (payments that are not made on the due repayment date) to on average three per month, but these are usually cured within five days and are reflective of timing issues.

We currently have 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 to the fund.

Recent economic commentary suggests the pace of residential property decline has slowed with many commentators suggesting that values have plateaued and prices are expected to slowly increase for the remainder of this year and into next year. As a result of this, we have increased our appetite for higher Loan to Value Ratio (LVR) residential lending in main centres to 65% - 75% LVR.

The portfolio remains conservative in weighted LVRs as confirmed in the below graphs.



## INVESTMENT TEAM COMMENTARY

**Sandy Gernhoefer**  
Relationship Manager

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It is an interesting time with an election just around the corner and every politician regaling us with promises and accusations, but it has been business as usual for us here at Midlands and we have been enjoying a busy quarter.

In line with our strategy, we continue to keep a close watch on our business and minimize any unnecessary risks whilst continuing to grow and maintain our client base. We have welcomed a number of new investors to the Midlands family this quarter and continue to see our existing investors growing their investments. Our funds under management remain constant, and have not experienced highs and lows despite the current environment.

We farewelled Elliott in July as many of you know, and for those of you who dealt with Elliott directly, I'm sure you will join us in wishing him well in his new career. I am looking after both the Wholesale and Retail Income Funds, and rest assured you will still receive the same great service.

We had the privilege of attending the President's Triples Tournament at Kia Toa Bowling Club and presented prizes to the talented competitors. As mentioned in our earlier newsletter Midlands has sponsored Kia Toa and it was humbling to experience how very welcome the club members made us feel.

Our CFO and I presented at a recent meeting of the Property Investors Association. We welcomed the opportunity of promoting our company and the services we offer. Whilst in attendance it was enlightening to hear some of the many challenges currently faced by our property investors.

James Brownlie (CFO) and I proudly attended the Napier Girls' High School Careers Day and shared our individual career journeys with approximately 40 young women. We hope we inspired them to what could be achieved, and they could very well become the next influential minds shaping our future.

We have updated and improved our key fund documents; namely the SIPO (Statement of Investment Policy and Objectives) and the PDS (Product Disclosure Statement). These documents are available on our website or you can request a copy, which we are more than happy to email or post to you. Note in particular, our updated investment objective, which is to provide investors with an income return (net of fees, pre-tax) at a level which exceeds the average return of the four main New Zealand registered banks' 90-day term deposit rates. This is more relevant than our previous reference to New Zealand banks' one year term deposit rate returns, because it better reflects how we operate.

It is with great pride we present you with the September quarterly distribution and trust you will be as happy with the result as we are.

We are always open for business. If you would like to refer anyone to us, we would be more than happy to welcome them.

**James Brownlie**  
Chief Financial Officer



Spring is certainly in the air and it's been a very busy quarter at the Midlands HQ on Karamu Road. The team has been working hard to bring in a number of very positive changes including upgrading and restructuring many of our internal functions and controls.

We published our financial statements for the year to 31 March 2023 for Midlands Funds Management and its funds. I am happy to report an unqualified audit report as expected.

After we wrapped up the 2023 financial year, we then appointed a new auditor. We have chosen PriceWaterhouseCoopers as we believe it's important that we have a top tier assurance firm carrying out our audit. We see this as a very positive step forwards as we continue to give our investors confidence in the robustness of our financial statements. The audit will be led by PWC's Hawkes Bay office.

We have outsourced our accounting function to Nexia Hawkes Bay (formerly Moore Markhams), a well-known and reputable accounting firm based in Hawkes Bay. Nexia Hawkes Bay has recently joined the Nexia group, a top 10 global network of independent professional services firms. Nexia Hawkes Bay are specialists at providing outsourced accounting and already have a number of other listed companies, investment funds, and similarly regulated entities as clients. We are very excited about this partnership and we are already seeing benefits as we upgrade our internal controls. We have a number of exciting upcoming improvements and efficiencies in the pipeline that we will implement together with Nexia Hawkes Bay as we tap into their extensive knowledge and expertise.

Away from my desk I have particularly enjoyed being involved in a number of events this quarter along with my Midlands colleagues. We have met some wonderful and engaging people as we attended a number of community events, as well as events with current and future Midlands investors.





**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 870 326**

**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.