



## Information Memorandum

### Midlands Income Wholesale Fund

1 April 2024

**Important Note: This offer by Midlands Funds Management Limited is limited to persons who are wholesale investors for the purposes of the offer in terms of clause 3(2) or 3(3)(a) of Schedule 1 of the Financial Markets Conduct Act 2013. No product disclosure statement for the purposes of that Act has been prepared and none is required for a wholesale offer. Ask questions, read all documents carefully, and seek independent financial advice before committing yourself.**

**This Information Memorandum has been prepared for general information purposes only. Investors should carry out their own independent review, investigations, analysis, and assessment of the information in this document and seek financial and tax advice before deciding to invest.**

## 1 Key investment highlights

- The Midlands Income Wholesale Fund (**Fund**) invests solely in the Midlands Smarter PIE Fund (with a small working capital cash holding).
- Provides exposure to loans secured by first mortgages over commercial, residential and rural property.
- Broad mix of mortgage types, interest rates, maturity dates and location.
- Targets returns pre-tax (but after fees and expenses) that exceed the average of the four main New Zealand registered banks' 90-day term deposit rates.
- Lower fees than direct investment in the Midlands Smarter PIE Fund (for larger investments and / or longer investment terms).
- The Fund's PIE tax structure provides tax benefits for investors on marginal income tax rates higher than 28%.

## 2 The Midlands Income Wholesale Fund

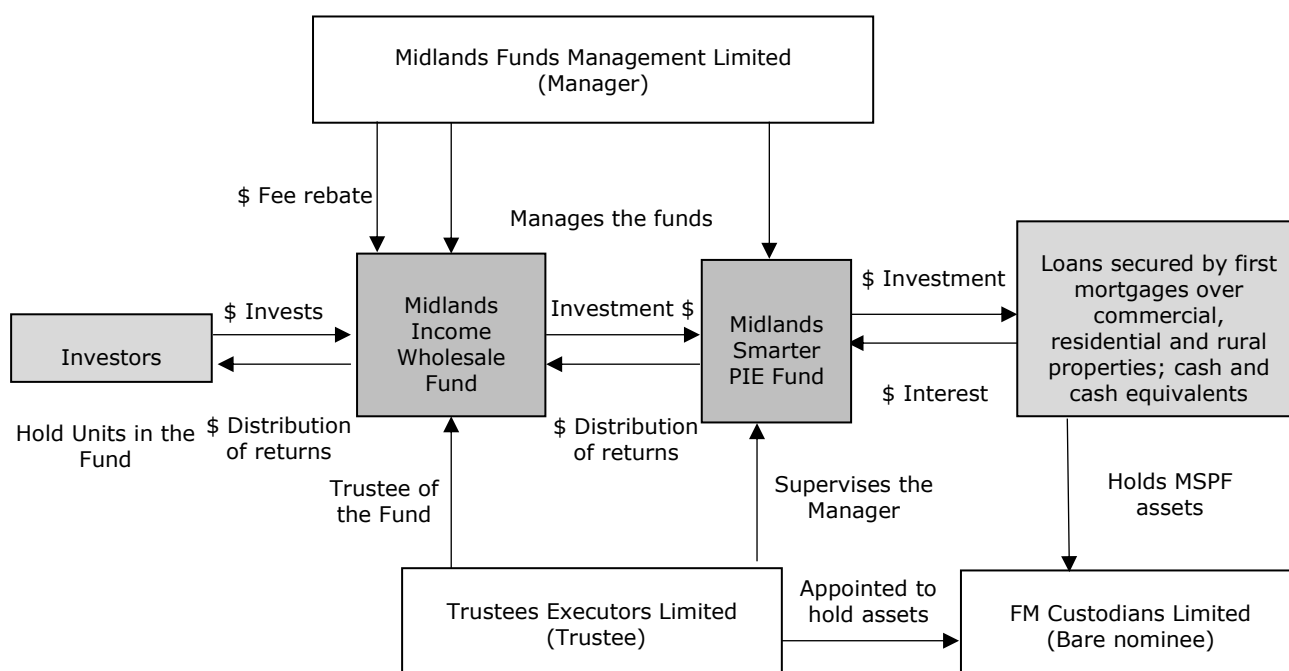
- 2.1 This is an offer by Midlands Funds Management Limited (**Midlands**) of units in the Fund, a wholesale managed investment scheme. The Fund is a trust established by a trust deed dated 21 July 2021 between Trustees Executors Limited (**Trustee**) and Midlands (**Trust Deed**).

- 2.2 The Fund provides indirect exposure to first ranking mortgages (and cash and cash equivalents) by investing directly into the Midlands Smarter PIE Fund (**MSPF**), a retail managed investment scheme. Midlands is the issuer (and manager) of the MSPF, and a product disclosure statement for the MSPF is available from us.
- 2.3 The Fund offers a lower fee option for wholesale investors who agree to invest larger amounts in the Fund, and / or who commit to retaining their investment in the Fund for a specific term. The specific fees charged are subject to agreement between Midlands and each investor. Typically, Midlands will offer lower fees for larger investments and / or longer investment terms.

### 3 The Fund

#### Overview

- 3.1 The following diagram shows how the Fund works, and the relationship with the MSPF and between the parties involved:



- 3.2 Investors will acquire and hold units in the Fund. Units are issued at the unit value on the business day before the business day on which the application for units is received. The unit price is the Fund value divided by the number of units on issue (rounded down to two decimal places). The Fund value is the net value of the Fund's assets (units in the MSPF and any cash held). The value of the Fund is therefore linked to the value of the MSPF.
- 3.3 The value of the MSPF is, in summary, the aggregate of cash and cash equivalents and the market value of loan investments, less the aggregate of undistributed MSPF income, reserves and liabilities. The MSPF's income may be used to replenish or increase reserves which may reduce distributions to the Fund and (in turn) to investors, and reserves may be used to offset losses which would have the effect of increasing distributions to the Fund and (in turn) to investors.
- 3.4 Because the MSPF, and by association the Fund, is a pooled investment vehicle, investors' risk is spread across cash and the whole loan portfolio. This gives investors a more diversified exposure to the mortgage lending market than investing directly in a single property loan. Accordingly, if there is a poor return or loss of loan principal on any one mortgage loan, the impact is spread across the whole portfolio and may be less likely to have a significant effect on the returns earned on investors' investments or the value of units in the MSPF and Fund, when compared with an investment in a single loan.

#### *Investment amount and investment term*

- 3.5 Investments in the Fund can be made by completing the application form available from Midlands and submitting that form to Midlands. The investment amount and investment term must be agreed with Midlands. The minimum investment is \$100,000 and the minimum investment term is 30 days, although Midlands may also agree to accept investments at call and may accept smaller investments in its discretion.
- 3.6 The management fee to be paid will also be agreed with Midlands, and recorded in the application form. Reductions from the standard management fee are facilitated by way of a fee rebate paid by Midlands. For more information, refer to section 7 of this Information Memorandum.

#### *Distributions*

- 3.7 Net income distributions on units (being the net income earned on the Fund's investments after the payment of tax, and reflecting fees, expenses, and any reserve fund contributions within the MSPF) are paid out to investors quarterly. At the date of this Information Memorandum, distributions are paid on 31 March, 30 June, 30 September and 31 December or, if that is not a business day, on the previous business day. The date distributions are paid could be changed. Any change will be notified to investors by Midlands.
- 3.8 Distributions of income are in cash unless Midlands allows an investor to request, and the investor does request, that their entitlement is distributed to them by the issue of additional units. Such requests (if allowed) must be submitted to Midlands in writing not less than 30 days prior to the expiry of the relevant distribution period.
- 3.9 If an investor's distribution is less than \$25 then Midlands may allocate that income entitlement by the issue of additional units irrespective of whether the investor has elected to receive distributions in that manner.
- 3.10 At times, the MSPF may operate a reserve fund which is designed to mitigate against a fall in distributions or the MSPF unit value because of defaults by borrowers or other events affecting investment returns. Note, the reserve fund may not be sufficient or available to off-set losses in all situations and therefore is not a guarantee against falls in distributions or unit value. Allocations into and out of the reserve fund are made at Midlands' discretion based on the current loan portfolio and macro-economic environment – there is no set amount. Contributions to the reserve fund may reduce overall returns.

#### *Withdrawing your investment*

- 3.11 Fixed term investments cannot be withdrawn during the fixed term unless agreed with Midlands, on terms and conditions specified by Midlands.
- 3.12 To withdraw from the Fund (where permitted) an investor must complete a Withdrawal Notice (available from Midlands). Subject to its right to suspend or defer withdrawals, Midlands must ensure that within 90 business days after receipt of the Withdrawal Notice, or such other notice period agreed with the investor (which would be recorded in the application form), the investor is paid the withdrawal amount in respect of the units referred to in the Withdrawal Notice. In practice, unless a notice period has been agreed, withdrawals are normally actioned within 5 business days after receipt of the Withdrawal Notice.
- 3.13 A Withdrawal Notice:
- (a) may not be given for fewer than 1,000 units (or the whole amount of an investor's investment, if fewer than 1,000 units); and
  - (b) may not be given if it would cause an investor to hold fewer than 1,000 units.

- 3.14 If, by reason of financial, political or economic conditions applying in respect of any financial market, the nature of an investment or the occurrence of any other circumstance relating to the Fund, units specified in a Withdrawal Notice cannot be redeemed, then Midlands may suspend withdrawals.
- 3.15 If a Withdrawal Notice or a series of withdrawal notices is received in respect of the same holding of units within a period of 3 months and relate to more in total than 5% of the number of units on issue and Midlands believes that it is in the best interests of all investors to defer immediate redemption of the total units requested then the units may be redeemed by instalments over a period set by Midlands or redeemed in total at the expiry of a period set by Midlands.
- 3.16 Midlands has essentially the same suspension and deferral rights for the MSPF. If withdrawals from the MSPF were suspended or deferred then it is almost certain that withdrawals from the Fund would also be suspended or deferred. This is because Midlands would not be able to fund withdrawals from the Fund if it could not withdraw a corresponding amount from the Fund's investment in the MSPF.
- 3.17 The withdrawal restrictions outlined above apply regardless of whether your investment has an agreed fixed term. This may limit your ability to withdraw your investment at the end of a fixed term.
- 3.18 Other than a transmission of units in the Fund to the executors or administrator of a deceased investor or a transfer by operation of law to any person having authority to administer the estate of a mentally disordered person, and to any person becoming entitled to units in consequence of the death, bankruptcy or liquidation of any investor, units in the Fund are not transferable without the written consent of Midlands and then subject to such terms and conditions as Midlands may in its discretion impose.

#### *Maturity of fixed term investments*

- 3.19 Midlands will normally contact you before the end of a fixed term to discuss your investment. Either way, if you wish to withdraw your investment at the end of the fixed term you will need to provide a Withdrawal Notice.
- 3.20 Midlands may agree to a further fixed term for your investment, and a corresponding reduction from the standard management fee. If a further fixed term is not agreed, your investment can be withdrawn by completing a Withdrawal Notice, subject to the restrictions set out under the heading *Withdrawing your investment* above. The agreed management fee will continue to apply unless you and Midlands agree otherwise.

#### *Compulsory redemption*

- 3.21 Midlands may compulsorily redeem any units held by an investor by written notice to the investor, including during the fixed term of any investment, where Midlands considers it necessary or desirable to do so, including where this is needed for the Fund to maintain its PIE status. Midlands is not required to pay any compensation for any compulsory redemption. It is expected that Midlands would only ever exercise this power as a last resort, where it was necessary to do so for PIE compliance or to prevent the returns of the MSPF being suppressed by excess cash holdings.

**4 Investment strategy**

<p><b>Summary of Investment Objective and Investment Strategy</b></p>	<p>The investment objective is to provide investors with an income return pre-tax (but after fees and expenses) at a level which exceeds the average of the four main New Zealand registered banks' 90-day term deposit rates.</p> <p>The Fund invests solely in units in the MSPF (with the exception of a small amount of cash (typically less than \$5,000) which may be held by the Fund for transactional purposes, and cash as required periodically for the payment of PIE tax). The MSPF then invests in loans secured by first mortgages over land and buildings and a minimum of 5% held in cash and cash equivalents for the purposes of managing liquidity and pending investment in loans. The MSPF has agreed the following target investment mix with its supervisor (who is also the Trustee):</p> <ol style="list-style-type: none"> <li>1 Cash and cash equivalents held at one or more registered banks – 5% to 25% of the MSPF value;</li> <li>2 Residential first mortgage lending – 10% to 75% of the MSPF value;</li> <li>3 Commercial first mortgage lending – 15% to 75% of the MSPF value; and</li> <li>4 Rural first mortgage lending – no minimum and a maximum of 50% of the MSPF value.</li> </ol>			
<p><b>Investment Policies</b></p>	<p>The Fund invests solely in units in the MSPF (with the exception of a small amount of cash (typically less than \$5,000) which may be held by the Fund for transactional purposes, and cash as required periodically for the payment of PIE tax).</p> <p>The MSPF invests in loans secured by first mortgages over land and buildings in New Zealand, within defined lending ratios. The MSPF also invests in cash and cash equivalents (that is, term deposits of up to 90 days) with registered banks.</p> <p>Midlands' policy in relation to mortgage lending is to establish and maintain a broad range of mortgage investments. Midlands aims to maintain a mortgage portfolio with a mix of mortgage types, interest rates, maturity dates and physical locations of the mortgaged properties. The target investment mix (by secured property type) is set out above.</p> <p>The mortgage loan portfolio is geographically spread. Please refer to the latest fund update for the MSPF (available from Midlands) for more details of the geographical spread. The loans are generally made at a floating interest rate.</p> <p>Midlands' policy in relation to investing in cash and cash equivalents with registered banks is to have a minimum of 5% held in cash and cash equivalents for the purpose of managing liquidity and pending investment in loans.</p> <p>The MSPF has loan to value (LVR) lending limits, based on the amount of the loan when compared with the value of the mortgage security property at the time of loan approval, as follows:</p> <table border="1" data-bbox="483 1868 1399 1953"> <tr> <td style="text-align: center;"><i>Residential Mortgages</i></td> <td style="text-align: center;"><i>Commercial Mortgages</i></td> <td style="text-align: center;"><i>Rural Mortgages</i></td> </tr> </table>	<i>Residential Mortgages</i>	<i>Commercial Mortgages</i>	<i>Rural Mortgages</i>
<i>Residential Mortgages</i>	<i>Commercial Mortgages</i>	<i>Rural Mortgages</i>		

	Fee simple and cross lease land and buildings:  up to 75% LVR	Fee simple and cross lease land and buildings:  up to 66.7% LVR	Fee simple and cross lease: up to 60% LVR  Property used for dairy farming (fee simple and cross lease): up to 66.67% LVR provided collateral security is obtained over co-operative shares.
	Leasehold: up to 50% LVR	Leasehold: up to 50% LVR	Leasehold: up to 50% LVR
	Vacant land: up to 50% LVR	Vacant land: up to 50% LVR	Vacant land: up to 50% LVR

4.1 The information in this section is current as at the date of this Information Memorandum, and is subject to change. Current information is available by contacting Midlands.

## 5 Midlands and its role

5.1 Midlands is responsible for management of the Fund. Midlands also manages the MSPF. Midlands is a licensed manager of registered schemes that invest in first ranking mortgages and cash, although this licence does not cover the management of the Fund (as it is a wholesale offer). Midlands is not a registered bank. Midlands does not guarantee investments in the Fund, or any level of returns from the Fund.

5.2 Midlands employs a professional team, which includes experienced mortgage lenders, credit specialists and relationship managers. Midlands has managed the MSPF since 2004 and aims to operate as a solutions-based lender with a specific emphasis on understanding borrowers and undertaking rigorous due diligence for every loan.

## 6 The Trustee and its role

6.1 Trustee Executors Limited has been appointed as trustee of the Fund to hold the assets of the Fund (being units in the MSPF and any cash held) on trust for investors. The Trustee is also the supervisor of the MSPF.

6.2 Because the Fund is a wholesale fund, the Trustee has a reasonably limited role in overseeing Midlands' management of the Fund. The Trustee does not guarantee investments in the Fund, or any level of returns from the Fund.

## 7 Fees

7.1 The fees associated with an investment in the Fund are as follows:

<b>Midlands' fee</b>	<p>Midlands charges a management fee agreed between Midlands and each investor. The amount of the fee each investor pays will be set out in the application form, but may be changed by agreement between Midlands and the investor. Typically, Midlands will offer lower fees for larger investments and / or longer investment terms.</p> <p>Midlands' basic fee of 1.78% per annum of the MSPF value is deducted from the MSPF. Midlands will pay each investor a quarterly fee rebate (by way of an issue of additional units in the Fund) to reflect the difference between Midlands' basic fee deducted from the MSPF and the management fee agreed with each investor.</p>
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<b>Trustee's fee</b>	<p>0.17% per annum of the MSPF value up to \$50 million, 0.12% per annum of the MSPF value up to \$100 million and thereafter 0.09% of the MSPF value (but with a minimum fee of \$50,000) is payable to the Trustee, as a supervisor's fee, for its role as supervisor of the MSPF.</p> <p>A separate trustee fee is payable for the Fund, but is paid for by Midlands and not out of the Fund.</p>
<b>Other management and administration charges</b>	<p>Estimated to be 0.18% per annum, based on historic rates.</p> <p>Midlands is paid out of the MSPF a fee of 50% of the default interest collected from borrowers in default. For the avoidance of doubt, if default interest is not collected from the borrower, no fee is paid to Midlands.</p> <p>Administration charges are also payable by the MSPF. These include audit, bank charges, cost of communication to investors, legal and professional fees, and IT expenses.</p> <p>Any additional administration charges relating to the Fund (for example, audit fees) are paid for by Midlands and not out of the Fund.</p>

- 7.2 All fees are inclusive of GST, where applicable.
- 7.3 Midlands' basic fee is calculated daily and paid monthly in arrears out of the MSPF's assets. This fee is the remuneration to which Midlands is entitled for the provision of management services to the MSPF. There is no separate management fee for the Fund.
- 7.4 The Trustee's fee is calculated daily and paid monthly in arrears out of the MSPF's assets. This fee is the remuneration to which the Trustee is entitled for the provision of trustee and supervisory services to the MSPF.
- 7.5 Default interest fees are charged monthly. They contribute to Midlands' costs of managing loans that are in arrears.
- 7.6 Administration charges are charged to the MSPF as they are incurred.
- 7.7 There is no performance fee in relation to the Fund or the MSPF.
- 7.8 No withdrawal fees are charged by the Fund or the MSPF.
- 7.9 Investors are not charged establishment or brokerage fees. However, if you invest in the Fund through a financial adviser or other broker Midlands may pay them a fee. These fees are payable by Midlands, and not out of either the Fund or the MSPF. You can obtain details of any fees from your adviser or broker.
- 7.10 These fees are subject to change. The current fees and how they are calculated are available by contacting Midlands.

## 8 Risks

8.1 All investments carry risk. There are a number of general and specific risks associated with the Fund which could mean that you do not receive the expected returns, or do not recover the full value of your investment.

8.2 The key risks are as follows:

Risk	Explanation
Credit risk	<p>A borrower or several borrowers from the MSPF may default by not paying interest instalments when due or by failing to pay the loan balance at the end of the loan term.</p> <p>Borrower default has the following potential consequences:</p> <ul style="list-style-type: none"> <li>• Negative cash flow impact (meaning distributions to investors may be less or there may be no returns to distribute); and</li> <li>• Need to enforce the security held, including a sale of the property at a mortgagee sale. The sale price achieved on a mortgagee sale is often less than on an "open market" sale and may be less than the loan amount. Additional costs are also likely to be incurred in a mortgagee sale process.</li> </ul> <p>However as the MSPF lends only on first mortgage securities, it will rank first in returns from any mortgagee sale.</p>
Property sector risks	<p>The MSPF secures loans against residential, commercial and rural properties. Each of those property sectors has its own risks. A downturn in one or more of these sectors may have an adverse effect on the financial performance of the MSPF and in turn the Fund.</p> <p>Where a loan is secured against a tenanted commercial property, an economic downturn could mean the tenants in that secured property are unable to meet rental payments, consequently reducing the borrower's income (available to meet interest on borrowing from the MSPF) and so increasing the chance of borrower default. The economic environment can also affect the demand for tenancies and the loss of a tenant can reduce the value of the property if it is then sold.</p> <p>Rural lending will be impacted by rural commodity prices. Where rural commodity prices fall, the income earned by a borrower operating in the rural sector will likewise fall and borrower default is more likely.</p> <p>Residential lending will be impacted upon by general economic conditions and other factors influencing supply and demand such as migration, local employment and property zoning.</p> <p>In addition, a fall in property values may mean that security margins are lessened and the loan could exceed the value of the property.</p>
Concentration risk/Geographic risk	<p>Major shareholders of Midlands are associated with three law firms in Hawera, Waipukurau and Hastings and have referred a significant number of investors to the MSPF. Although these law firms have clients based more widely, most of these investors are geographically concentrated in these areas. Conditions peculiar to one of those regions or firms or the withdrawal of one of those firms from participation in Midlands could lead to significant redemption requests. Despite Midlands' ability to suspend redemptions for up to</p>



	<p>90 days, such a run of withdrawal requests could have significant adverse financial effects on an investor's investment.</p> <p>The MSPF's mortgage loan portfolio is geographically spread throughout New Zealand, with loan concentrations in Auckland, Hawkes Bay, Wellington, and Waikato regions. Any significant downturn in those property markets (causing an erosion of loan security margins) could have an adverse effect on the MSPF and in turn the Fund.</p>
Development lending risk	<p>The MSPF may, on occasion, lend for property development. The MSPF's lending criteria generally includes requiring that construction costs are locked in with a fixed price building contract, that the building contractor is reputable and satisfactory to Midlands, and that the borrower has sufficient experience and sources of funding to complete the development. Failure to complete a development can mean that the incomplete development fails on sale to achieve the amount of loan funding advanced on it.</p>
Land value risk	<p>There are risks associated with lending on the security of a property with a high unimproved land value. The MSPF may also, on occasion, lend on the security of entirely bare or undeveloped land. The unimproved land value component is exposed to risks associated with changes of zoning that could adversely affect value. In addition, in the case of natural disasters involving damage to land, there may be no adequate compensation or available insurance for the loss of the unimproved land value. This risk is mitigated by placing limits on the bare land lending conducted in the MSPF.</p>
Interest rate risk	<p>The market demand for loans secured by first mortgages may be affected by general movements in interest rates throughout the finance industry in New Zealand, which can be influenced by economic conditions and inflation. If interest rates decrease, returns from the MSPF (and in turn the Fund) may likewise decrease. Conversely, if interest rates increase, returns from the MSPF (and in turn the Fund) may increase.</p>
Liquidity	<p>There is a risk that the Fund will not have sufficient liquid assets to meet withdrawal requests, although Midlands is able to manage this risk to some extent in the way it sets investment terms for investments in the Fund.</p> <p>The ability of the Fund to redeem units in the MSPF is dependent on the amount of cash and cash equivalents held by the MSPF. The Fund invests in the MSPF which invests in loans secured by mortgages which, by their nature, are illiquid. If there are requests to redeem units having an aggregate redemption amount in excess of available cash and cash equivalents (and Midlands is not able to sell part of the MSPF's mortgage loan portfolio in a timely fashion), Midlands may need to suspend redemptions or require that redemptions are by instalments until cash reserves are increased.</p> <p>Midlands has agreed with the Trustee (in its capacity as supervisor of the MSPF) to maintain at least 5% of the MSPF value in cash and cash equivalents (term deposits of up to 90 days). This provides a buffer to help mitigate liquidity risk but a further suspension of withdrawals could still.</p> <p>When considering withdrawals, Midlands will prioritise the Fund on the same basis as other MSPF investors – the Fund is not prioritised ahead or deferred behind other MSPF investors. If withdrawals from the MSPF were suspended it is almost certain that withdrawals from the Fund would also be suspended.</p>

	Higher levels of liquid assets result in lower returns from the MSPF since interest rates on liquid assets are less than interest rates on mortgage loans.
Inflation	<p>Inflation reduces the real value of all investments. However, investing long-term in a fund with a greater proportion of cash, cash equivalents, and other relatively conservative investments (such as the Fund) does expose investors to a greater risk that the value of their investments will not keep up with inflation.</p> <p>Other than the risks referred to under the heading "General investment risks" (and which are reflected in the risk indicator) and the other specific risks referred to above Midlands is not aware of any specific factors that exist or are likely to arise that significantly increase the risk of returns to investors.</p>

8.3 This is not a complete summary of all known risks. In addition, other risks could arise that cannot be anticipated at the date of this Information Memorandum.

## 9 Tax

9.1 Tax can have significant consequences for investments. You should obtain your own advice on the tax consequences of investing in the Fund.

9.2 The Fund is a portfolio investment entity (**PIE**). The amount of tax you pay in a PIE is based on your prescribed investor rate (PIR). To determine your PIR, go to [www.ird.govt.nz/roles/portfolio-investment-entities/find-my-prescribed-investor-rate](http://www.ird.govt.nz/roles/portfolio-investment-entities/find-my-prescribed-investor-rate). If you are unsure of your PIR, we recommend you seek professional advice or contact the Inland Revenue Department.

9.3 It is your responsibility to tell Midlands your PIR when you invest or if your PIR changes. If you do not tell Midlands, a default rate may be applied. If the rate applied to your PIE income is lower than your correct PIR, you will be required to pay any tax shortfall as part of the income tax year-end process. If the rate applied to your PIE income is higher than your PIR, any tax over-withheld will be used to reduce any income tax liability you may have for the tax year and any remaining amount will be refunded to you.

9.4 If for any reason the Fund ceases to be a PIE in the future, for New Zealand tax purposes the Fund will be taxed as if it was a company under the Income Tax Act 2007 and income distributed to investors will be in the form of fully imputed dividends with resident withholding tax (RWT) withheld at the relevant rate.

## 10 How to invest

10.1 Expressions of interest can be made to Midlands (see the contact details in section 11 below). Applications will be accepted at the complete discretion of Midlands. As part of the application process, the investment amount and term of your investment, and the management fee you will pay, will be agreed with Midlands.

10.2 If your application is accepted, you will be required to complete the following documents:

- (a) the application form, confirming the specific details of your investment and your agreement to be bound by the trust deed for the Fund (among other things); and
- (b) a wholesale or eligible investor certificate (as applicable).

10.3 In addition, you may be required to provide Midlands with further information for tax and AML/CFT purposes.

## **11 Further information**

11.1 If you have any questions, or need further information, please contact Midlands:

Midlands Funds Management Limited, 1/111 Karamu Road North, Hastings 4122

Phone: 0800 870 326 / 06 870 326

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



# MIDLANDS



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