



STATEMENT OF INVESTMENT POLICY AND OBJECTIVES (SIPO)

Dated: 1 April 2024

MIDLANDS FUNDS MANAGEMENT LIMITED

Statement of Investment Policy and Objectives (“SIPO”) for the Midlands Income Wholesale Fund (the “Fund”)

EFFECTIVE DATE: 1 April 2024

The most current version of the SIPO is available from Midlands Funds Management Limited (“Manager”).

DESCRIPTION OF THE FUND

The Fund is a wholesale managed investment scheme. The Fund is not registered under the Financial Markets Conduct Act 2013.

The Fund was established on 21 July 2021, pursuant to a trust deed between Trustees Executors Limited (“Trustee”) and the Manager dated 21 July 2021 (“Trust Deed”).

Roles and Responsibilities

The Manager is, among other things, responsible for managing the Fund’s investments and under the Trust Deed must ensure that the Fund has a statement of investment policy and objectives. The purpose of the statement of investment policy and objectives is to provide details of:

- the nature or type of investments that may be made, and any limits on those;
- any limits on the proportion of each type of asset invested in; and
- the methodology used for developing and amending the investment strategy and for measuring performance against the investment objectives of the Fund.

The Trustee is, among other things, responsible for holding the Fund’s assets and for supervising the performance by the Manager of its functions and obligations.

The Fund invests solely in units in a group investment fund called the Midlands Smarter PIE Fund (“MSPF”) (with the exception of a small amount of cash (typically less than \$5,000) held by the Fund for transactional purposes, and cash as required for the periodic payment of PIE tax). The Manager is also the manager of the MSPF. The MSPF invests in loans secured by first mortgages of land and buildings in New Zealand, within defined lending ratios. The MSPF also invests in cash and cash equivalents with registered banks. The Manager generally has the discretion as to which authorised investments are acquired, held or disposed of in and for the MSPF.

The relationship between the Fund and the MSPF means that an understanding of the MSPF’s investment policy and objectives is necessary to provide a complete picture of an investment in the Fund. The remainder of this SIPO provides relevant information for both the Fund and the MSPF. More information about the MSPF can be found in its product disclosure statement, which is available from the Manager.

Midlands Income Wholesale Fund (Fund)	Midlands Smarter PIE Fund (MSPF)
INVESTMENT OBJECTIVES	
Investment objective	
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.	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.
Investment policy	
The investment policy is to invest the Fund 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 Fund invests in the MSPF on the same basis as any other investor in the MSPF.	The policy of the Manager in relation to mortgage lending is to establish and maintain a broad range of mortgage investments with a mix of mortgage types, interest rates, maturity dates and physical locations of the mortgaged properties. Cash and cash equivalents may be held with any registered bank (as defined under the Banking (Prudential Supervision) Act 1989). The policy of the Manager in relation to investing in cash and cash equivalents is to have a minimum of 5% held in cash and cash equivalents, as determined in accordance with GAAP, (target range is 5% - 25%) for the purpose of managing liquidity and pending investment in loans, and to have a variety of short term deposits up to 90 days to provide a balance between greater liquidity and higher interest returns.

Midlands Income Wholesale Fund (Fund)	Midlands Smarter PIE Fund (MSPF)
INVESTMENT PHILOSOPHY	
<p>The Manager’s investment style and philosophy should be regarded as active. The Manager’s investment strategy is to balance the competing objectives of optimising returns versus operating within acceptable risk and liquidity parameters (as outlined elsewhere in this SIPO). The Manager’s belief when executing the strategy is that a conservative approach is preferred. However, it should be noted that for the Fund this investment philosophy is achieved via a passive investment in the MSPF, which is actively managed.</p>	
INVESTMENT STRATEGY	
Authorised investments	
<p>Under the Trust Deed, the Fund may invest in “authorised investments” (as defined). Notwithstanding the range of investments permitted by the Trust Deed, the Manager will only invest the Fund in units in the MSPF and in cash, in each case in line with the parameters described elsewhere in this SIPO.</p>	<p>There are restrictions on the types of investments the MSPF can make, as set out in its trust deed and includes cash and cash equivalents and loans secured by a first-ranking mortgage.</p> <p>Under the MSPF’s trust deed, the MSPF must always be invested in “authorised investments” (as defined) and may only be invested in investments in which a group investment fund is permitted to invest in order to fall within the definition of a "designated group investment fund" as defined in section YA 1 of the Tax Act. In addition, for so long as the MSPF is a PIE, and until such time as the Manager and Trustee, as supervisor of the MSPF, agree otherwise, the MSPF shall only be invested in investments permitted for a PIE under section HM 11 of the Income Tax Act 2007 (or such other investments as may otherwise be permitted from time to time for eligibility to be a PIE under the PIE Rules).</p> <p>Notwithstanding the range of authorised investments described in the MSPF’s trust deed, the Manager shall only invest the MSPF’s property pursuant to the specific policy guidelines, benchmark asset allocations, and lending limits described further below.</p>
Specific policy guidelines	
<p>The Manager shall maintain a small amount of cash (typically less than \$5,000) in an on-call bank account with a registered bank for the Fund’s transactional purposes (such as facilitating investments and withdrawals), and cash as required periodically for the payment of PIE tax.</p> <p>There is no specific minimum or maximum amount, but the amount of cash held for this purpose is typically expected to be relatively small.</p>	<p>The specific investment policy guidelines determined by the Manager in relation to the MSPF are as follows:</p> <ul style="list-style-type: none"> • Interest rates and payment - most investments by the MSPF will be in mortgages with mostly floating interest rates but the Manager may maintain some fixed rate mortgages. Most borrowers pay interest on the first of each month. It is not the Manager’s general practice to permit borrowers to capitalise the interest for the term of the loan, however, for certain projects and subject to specific lending criteria it may be allowed from time-to-time. • Lending Limits - as set out below. • Cash and Cash Equivalents held for Operational Liquidity - The MSPF also holds cash and cash equivalents within the range of 5% – 25% of the MSPF’s fund value. The Manager shall maintain at least 5% of the MSPF value in cash and cash equivalents to meet redemption requests and for the payment of the MSPF’s running expenses. Greater amounts of cash and cash equivalents may be held in times when the Manager determines that the MSPF requires greater liquidity. The MSPF’s cash and cash equivalents (term deposits of up to 90 days) holdings may only be invested with registered banks. • Participating loans - The Manager may invite third parties to participate in lending opportunities identified by the Manager, on terms agreed with the Trustee, as supervisor of the MSPF. This could include the Manager participating in loans in its personal capacity, subject to compliance with the MSPF’s trust deed, the Financial Markets Conduct Act 2013 (“FMCA”), and any other relevant requirements. All such loans must fall within the guidelines set out above, except that the maximum exposure limits will be assessed by reference to the MSPF’s portion of the loan, not the full loan value.

Midlands Income Wholesale Fund (Fund)	Midlands Smarter PIE Fund (MSPF)												
Limitation on borrowings													
While borrowing is permitted by the Trust Deed (within defined limits), the Manager does not intend for the Fund to borrow.	The MSPF may borrow, if the Manager (with the permission of the Trustee, as supervisor of the MSPF) believes it is appropriate. The aggregate of the principal moneys borrowed and outstanding in respect of the MSPF or secured against the investments of the MSPF may not exceed 25% of the MSPF's fund value.												
Benchmark Asset Allocation Ranges													
Benchmark allocation ranges are not applicable to the Fund, because it invests solely in the MSPF with a small amount of cash held for the purposes described elsewhere in this SIPO. There is no specific minimum or maximum amount, but the amount of cash held is typically expected to be relatively small.	<p>The MSPF will be spread between first mortgages against residential, commercial and rural properties, and cash and cash equivalents, within the following proportions (as to value) of the MSPF value:</p> <table border="1" data-bbox="715 591 1385 848"> <thead> <tr> <th data-bbox="715 591 802 689"></th> <th data-bbox="802 591 956 689">RESIDENTIAL</th> <th data-bbox="956 591 1125 689">COMMERCIAL</th> <th data-bbox="1125 591 1220 689">RURAL</th> <th data-bbox="1220 591 1385 689">CASH AND CASH EQUIVALENTS</th> </tr> </thead> <tbody> <tr> <td data-bbox="715 689 802 848">Limits of the MSPF value</td> <td data-bbox="802 689 956 848">10% - 75%</td> <td data-bbox="956 689 1125 848">15% - 75%</td> <td data-bbox="1125 689 1220 848">0% - 50%</td> <td data-bbox="1220 689 1385 848">5% - 25%</td> </tr> </tbody> </table>		RESIDENTIAL	COMMERCIAL	RURAL	CASH AND CASH EQUIVALENTS	Limits of the MSPF value	10% - 75%	15% - 75%	0% - 50%	5% - 25%		
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Lending Limits (Valuation)													
Lending limits are not applicable to the Fund, because lending is undertaken by the MSPF.	<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="715 1003 1385 1585"> <thead> <tr> <th data-bbox="715 1003 938 1070">RESIDENTIAL MORTGAGES</th> <th data-bbox="938 1003 1161 1070">COMMERCIAL MORTGAGES</th> <th data-bbox="1161 1003 1385 1070">RURAL MORTGAGES</th> </tr> </thead> <tbody> <tr> <td data-bbox="715 1070 938 1451">Fee simple and cross lease land and buildings: up to 75% LVR</td> <td data-bbox="938 1070 1161 1451">Fee simple and cross lease land and buildings: up to 66.7% LVR</td> <td data-bbox="1161 1070 1385 1451"> 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 </td> </tr> <tr> <td data-bbox="715 1451 938 1518">Leasehold: up to 50% LVR</td> <td data-bbox="938 1451 1161 1518">Leasehold: up to 50% LVR</td> <td data-bbox="1161 1451 1385 1518">Leasehold: up to 50% LVR</td> </tr> <tr> <td data-bbox="715 1518 938 1585">Vacant land: up to 50% LVR</td> <td data-bbox="938 1518 1161 1585">Vacant land: up to 50% LVR</td> <td data-bbox="1161 1518 1385 1585">Vacant land: up to 50% LVR</td> </tr> </tbody> </table> <p>In addition, at the time of lending the following maximum exposure limits must be met:</p> <ul style="list-style-type: none"> ▷ No more than 5% of the MSPF value will be invested in any one mortgage or advanced to any one borrower or related group of borrowers. ▷ The total of the six largest exposures (including loans to a related group of borrowers) will not exceed 20% of the MSPF value. <p>Registered valuations are required for all loans in excess of 50% of the rating valuation of a property. The rating valuation is only relied on when the property is inspected by the Manager (or their nominee). Where a registered valuation is required, it must be no older than 90 days prior to the date of loan approval.</p>	RESIDENTIAL MORTGAGES	COMMERCIAL MORTGAGES	RURAL MORTGAGES	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
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Midlands Income Wholesale Fund (Fund)	Midlands Smarter PIE Fund (MSPF)
	As referred to above, all lending limits are determined and are solely applicable as at the initial loan approval date and at the date of any renewal of a loan. The value of any individual loan or the proportionate value of a loan in relation to the MSPF value may change subsequent to initial approval or renewal and, as a result, the above limits may sometimes be exceeded after those dates. This will not constitute a breach of the MSPF's SIPO.
OTHER INVESTMENT POLICIES	
There are no other separate investment policies for the Fund.	<p>Rebalancing policy</p> <p>The assets of the MSPF should be invested in line with its benchmark asset allocation. New lending determinations take these allocations into account. However, the allocation to each asset class will vary, due primarily to market movements, within the ranges set.</p> <p>Given the relatively illiquid nature of mortgage loans, cash flow (either to or from the MSPF) is the primary mechanism for ensuring that the asset allocation is maintained broadly in line with the benchmark asset allocation weightings for each asset class.</p> <p>The exposure to the various asset classes is monitored monthly by the Manager's senior leadership team. If, at the end of a month, the allocation to a particular class has moved outside the ranges set out for that class, steps will be taken to bring back the asset allocation within the permitted ranges. This will typically occur through new lending in other asset classes, meaning there can be some lag in completing the rebalancing. A practical approach is taken to any rebalancing, with one of the objectives being to minimise transaction costs.</p> <p>Hedging policy</p> <p>The Manager does not hedge the MSPF's interest rate exposures.</p> <p>Conflict of interest policy</p> <p>The Manager will only enter into transactions with related parties with the consent of the Trustee, as supervisor of the MSPF, and if the Manager certifies that any such transaction is on arm's length terms.</p> <p>Liquidity and cash flow management policy</p> <p>The Manager will maintain at least 5% of the MSPF value in cash and cash equivalents to meet redemption requests and for the payment of the MSPF's running expenses.</p>
METHODOLOGY FOR MONITORING, AMENDING AND DEVELOPING INVESTMENT STRATEGY	
<p>The Manager monitors the Fund's investment performance as a continuous process and at least monthly. The Manager monitors the Fund's absolute performance, as well as its quarterly performance against the stated investment objective.</p> <p>The Manager gives monthly reports to the Trustee. The monthly reports include confirmation that all investments have been properly applied in accordance with the authorised investments of the Fund, that all calculations of the entitlements of investors and the valuation of units have been carried out in accordance with the Trust Deed provisions and that all proper accounting and internal control procedures have been maintained. In addition, it specifies the unit value, the aggregate number</p>	<p>Monitoring of underlying securities</p> <p>The Manager closely reviews the loans once they are made to ensure that borrowers pay interest and principal as scheduled. Credit control and recovery functions are undertaken if payments are not made.</p> <p>The Manager makes appropriate general and specific provisions for loss on the mortgage portfolio and these provisions are discussed with and reviewed annually by the auditor of the MSPF.</p> <p>Investment performance monitoring</p> <p>The Manager monitors the MSPF's investment performance as a continuous process and at least monthly. The Manager monitors the MSPF's absolute performance, as well as its quarterly performance against the stated investment objective.</p> <p>The Manager gives monthly reports to the Trustee, as supervisor of the MSPF. The monthly reports include confirmation that all investments have been properly applied in accordance with the authorised investments of the MSPF, that all calculations of the</p>

Midlands Income Wholesale Fund (Fund)	Midlands Smarter PIE Fund (MSPF)
<p>of units in the Fund on issue and such other information as the Trustee may request.</p> <p>The Manager also gives quarterly reports to the Trustee on the performance of the Fund and adherence with the SIPO, including whether there have been any limit breaks. A limit break is a material breach of any limits set out in this SIPO in relation to the nature or type of investment that may be made or the proportion of each type of asset in which the fund is invested.</p>	<p>entitlements of investors and the valuation of units have been carried out in accordance with the MSPF trust deed provisions and that all proper accounting and internal control procedures have been maintained. In addition, it specifies the unit value, the aggregate number of units in the MSPF on issue and such other information as the Trustee, as supervisor of the MSPF, may request.</p> <p>The Manager also gives quarterly reports to the Trustee, as supervisor of the MSPF, on the performance of the MSPF and adherence with the SIPO, including whether there have been any limit breaks. A limit break is a material breach of any limits set out in this SIPO in relation to the nature or type of investment that may be made or the proportion of each type of asset in which the fund is invested.</p> <p>In accordance with the requirements of the FMCA and the Financial Markets Conduct Regulations 2014, the Manager will report to the Trustee, as supervisor of the MSPF, as soon as is practicable, any limit breaks that have not been corrected within 5 business days after the date that the Manager became aware of the limit break.</p> <p>Note that a limit break or other breach of the MSPF's SIPO will not necessarily be a breach of the Fund's SIPO.</p>
Investment strategy review and amendment	
<p>This SIPO is formally reviewed by the directors of the Manager annually and may also be reviewed at any other time if the Manager considers that a review is required as a result of the prevailing market conditions or for any other reason.</p> <p>This SIPO will also be formally reviewed whenever there is an amendment to the MSPF's SIPO. This review will be carried out in tandem with a review of the MSPF's SIPO.</p> <p>In the course of the review the Manager's executive team will consider whether the Fund's investment strategy remains appropriate. The Manager's executive team will make recommendations to the Manager's directors, who will then consider such recommendations and implement as necessary.</p> <p>The Manager may amend or replace this SIPO only with the consent of the Trustee. If the Manager proposes to alter the SIPO in a manner which materially affects existing investors then the Manager must, prior to effecting any such alteration, give at least 30 days' written notice to investors.</p>	<p>The MSPF's SIPO is formally reviewed by the directors of the Manager annually and may also be reviewed at any other time if the Manager considers that a review is required as a result of the prevailing market conditions or for any other reason.</p> <p>In the course of the review the Manager's executive team will consider whether the MSPF's benchmark asset allocations remain appropriate given the prevailing market conditions. Consideration will also be given as to whether the MSPF's liquidity policy remains appropriate once again given prevailing market and economic conditions. The Manager's executive team will make recommendations to the Manager's directors, who will then consider such recommendations and implement as necessary.</p> <p>In accordance with the FMCA, the Manager may amend or replace the MSPF's SIPO only with the consent of the Trustee, as supervisor of the MSPF. If the Manager proposes to alter the MSPF's SIPO in a manner which materially affects existing investors then the Manager must, prior to effecting any such alteration, give at least 30 days' written notice to investors.</p>



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