MIDLANDS MORTGAGE TRUST

GROUP INVESTMENT FUND

STATEMENT OF INVESTMENT POLICY AND OBJECTIVES (SIPO)

Dated: 16 December 2020

This Statement of Investment Policy and Objectives document sets out the investment governance and management framework, philosophy, strategies and objectives of the Midlands Mortgage Trust Group Investment Fund.

FUND MANAGERS CENTRAL LIMITED

Statement of Investment Policy and Objectives ("SIPO") for the Midlands Mortgage Trust Group Investment Fund (the "Fund")

EFFECTIVE DATE: 16 December 2020

The most current version of the SIPO is available on the Disclose register at www.business.govt.nz/disclose.

DESCRIPTION OF THE FUND

The Fund is a pooled investment vehicle established under the Trustee Companies Act 1967.

The Fund was established on 1 October 2004, pursuant to a trust deed between Trustees Executors Limited ("Supervisor") and Fund Managers Central Limited ("Manager") as varied by deed dated 21 August 2007 and a deed of amendment and restatement dated 22 November 2016 ("Trust Deed"). The Fund is to continue until 28 September 2084 unless earlier wound up.

Roles and Responsibilities

The Manager is, among other things, responsible for managing the Fund's property and investments and must ensure that the Fund has a statement of investment policy and objectives that provides adequately for the following matters:

- the nature or type of investments that may be made, and any limits on those; and
- 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 Supervisor 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 in loans secured by first mortgages of land and buildings in New Zealand, within defined lending ratios. The Fund also invests in deposits with registered banks. The Manager generally has the discretion as to which authorised investments are acquired, held or disposed of in and for the Fund.

INVESTMENT OBJECTIVES

Investment objective

The investment objective is to provide investors with an income return at a level which is better than with New Zealand registered commercial banks' 1 year term deposit rates.

Investment policy

The policy of the Manager in relation to the 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.

The policy of the Manager in relation to investing in deposits with registered banks is to have a mixture of on-call deposits and term deposits (with maturities of up to 6 months).

INVESTMENT STRATEGY

Restriction on investments

There are restrictions on the types of investments the Fund can make, as set out in its Trust Deed. These restrictions align with the investments required for the Fund to retain its character as a designated group investment fund under the Income Tax Act 2007. Under that Act, designated group investment funds must primarily invest in first mortgage securities.

Under the Trust Deed, the Fund must always be invested in "authorised investments", which are defined as follows:

- Loans made upon the security of any mortgages or mortgage backed securities;
- Cash, deposits with, loans to, or other debt securities of any registered bank under the Reserve Bank of New Zealand Act 1989 or a bank authorised to carry on general banking business in New Zealand ("bank") whether secured or unsecured;
- The acquisition of any mortgages or mortgage backed securities by way of transfer or assignment of the mortgagee or chargeholder's interest in the mortgage or security;
- Property which comes into the possession, ownership or control of the Supervisor by virtue of the exercise of the powers, authorities and discretions vested in the Supervisor by any mortgage or mortgage backed security held by the Supervisor;
- Public sector securities; and

- Any trust which invests primarily or wholly in one or more of the investments referred to in the preceding bullet points.

To meet the designated group investment fund requirements referred to above, until such time as the Manager and Supervisor agree otherwise, the Fund shall:

- primarily be invested in loans made upon the security of mortgages or mortgage backed securities; and
- 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 HR3(6) of the Income Tax Act 2007,

with the intent that (unless agreed by the Manager and the Supervisor) the Fund shall always be a designated group investment fund for taxation purposes.

Notwithstanding the range of authorised investments described above, the Manager shall only invest the Fund's property pursuant to the specific policy guidelines, benchmark asset allocations, and lending limits described further below.

Specific policy guidelines

The specific investment policy guidelines determined by the Manager in relation to the Fund are as follows:

- ***Interest rates*** - most investments by the Fund will be in mortgages with mostly floating interest rates but the Manager may maintain some fixed rate mortgages.
- ***Mix of mortgage types*** - the mortgage portfolio will be spread between residential, commercial and rural properties within the following proportions (as to value) of the Fund value:

  Residential – a minimum of 10% and a maximum of 75%

  Commercial – a minimum of 15% and a maximum of 75%

  Rural – a minimum of 0% and a maximum of 50%

- ***Lending Limits*** - there are limits that apply at the time the loan is approved on the maximum size of any mortgage in relation both to the value of the property provided as security and to the totalFund value. The limits are:

  Residential - 75% of an independent valuation for residential land and buildings in fee simple, 50% of the lessee's interest in approved leasehold land and buildings, and 50% for vacant undeveloped residential land;

  Commercial - 66.7% of an independent valuation for commercial land and buildings in fee simple (including developed commercial sections), 50% of the lessee's interest in approved leasehold land and buildings, and 50% for vacant undeveloped commercial land;

  Rural - 60% of an independent valuation for rural properties in fee simple (in some instances for dairy farming, this lending margin may be increased to 66.67% provided a collateral security is granted over co-operative shares), 50% of the lessee's interest in approved leasehold land and buildings, and 50% for vacant rural land. However advances to farming clients operating solely on leasehold land will be exceptions rather than the rule and the mortgagors will need to have substantial financial assets; and

At the time of lending:

▷ No more than 5% of the Fund 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 Fund value.

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 12 months prior to the date of loan approval.

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 Fund 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 this SIPO.

- ***Cash*** - The Fund also holds cash. The Manager shall maintain at least 5% of the Fund value in cash to meet redemption requests and for the payment of the Fund's running expenses. Greater amounts of cash may be held in times when the Manager determines that the Fund requires greater liquidity. The Fund's cash holdings may only be invested in on-call or term deposits (with maturities of up to 12 months) with registered banks.

Limitation on borrowings

The Fund may borrow, if the Manager (with the permission of the Supervisor) believes it is appropriate. The aggregate of the principal moneys borrowed and outstanding in respect of the Fund or secured against the investments of the Fund may not exceed 25% of the Fund's fund value.

Benchmark Asset Allocation Ranges

Lending limits (Mortgage Types)

	RESIDENTIAL	COMMERCIAL	RURAL
Limits of the Fund value	10% - 75%	15% - 75%	0% - 50%

Cash Limit

The Manager shall maintain at least 5% of the Fund value in cash deposits.

Lending Limits (Valuation)

The Fund has lending limits, based on the amount of the loan when compared with the value of the mortgage security property ("LVR") at the time of loan approval, as follows:

<table>
<tr><th>RESIDENTIAL MORTGAGES</th><th>COMMERCIAL MORTGAGES</th><th>RURAL MORTGAGES</th></tr>
<tr><td rowspan="2">Fee simple land and buildings:
up to 75% LVR</td><td rowspan="2">Fee simple land and buildings:
up to 66.7% LVR</td><td>Fee simple: up to 60% LVR</td></tr>
<tr><td>Property used for dairy farming (fee simple): up to 66.67% LVR provided collateral security is obtained over co-operative shares</td></tr>
<tr><td>Leasehold: up to 50% LVR</td><td>Leasehold: up to 50% LVR</td><td>Leasehold: up to 50% LVR</td></tr>
<tr><td>Vacant land: up to 50% LVR</td><td>Vacant land: up to 50% LVR</td><td>Vacant land: up to 50% LVR</td></tr>
</table>

The value of any individual loan or the proportionate value of a loan in relation to the Fund 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 this SIPO.

Benchmark Asset Allocation

The benchmark asset allocation is the long-term average expected weighting for each asset class.

For the Fund the benchmark asset allocation is as follows:

- Cash held at one or more registered banks – 5% to 25% of the Fund value;
- Residential first mortgage lending - 10% to 75% of the Fund value;
- Commercial first mortgage lending - 15% to 50% of the Fund value;
- Rural first mortgage lending - 0% to 50% of the Fund value.

Appropriate benchmark index

The Fund is an exempt fund under the Financial Markets Conduct (Market Index) Exemption Notice 2018. That exemption notice exempts the Manager from providing market index comparisons to returns for the Fund if an appropriate market index is not available.

Prior to publication of the exemption notice, the Manager used the weighted average six month term deposit rate as published by the Reserve Bank of New Zealand for comparison. The Manager does not consider this to be an appropriate market index for comparison as the Fund issues managed investment products, not debt, and neither the Manager nor the Fund is a registered bank.

The Manager has also considered whether there is a peer group index which could be used for comparison purposes, but determined that there is not. There is no independently collated return index information prepared for mortgage funds in New Zealand. Overseas indexes are not considered appropriate given the differences between New Zealand and overseas mortgage lending markets.

Rebalancing policy

The assets of the Fund 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.

Given the relatively illiquid nature of mortgage loans, cash flow (either to or from the Fund) 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.

The exposure to the various asset classes is monitored monthly by the loans committee of the Manager. If, at the end of a month, the allocation to a particular class has moved outside the ranges set out for that class, the assets are rebalanced to bring back the asset allocation within the permitted ranges. A practical approach is taken to any rebalancing, with one of the objectives being to minimise transaction costs.

Hedging policy

There is no specific hedging policy, other than maintaining what in the Manager's opinion is a prudent mix of types of mortgages and cash as described previously in this document.

Conflict of interest policy

The Manager will only enter into transactions with related parties with the consent of the Supervisor and if the Manager certifies that any such transaction is on arm's length terms.

Liquidity and cash flow management policy

The Manager will maintain at least 5% of the Fund value in cash deposits and other liquid assets to meet redemption requests and for the payment of the Fund's running expenses.

Notwithstanding the minimum liquidity requirement, the Manager has targeted a minimum liquidity of 7.5% of the Fund value.

METHODOLOGY FOR MONITORING, AMENDING AND DEVELOPING INVESTMENT STRATEGY

Investment Policies

As referred to above, the Fund's investments are in loans secured by first mortgages of land and buildings and deposits with registered banks.

Cash may be held with any registered bank (as defined under the Reserve Bank of New Zealand Act) and the Manager's policy is to have a variety of deposit terms to provide a balance between greater liquidity and higher interest returns.

Monitoring of underlying securities

The Manager closely reviews the loans once they are made to ensure that borrowers pay interest and principal as scheduled. Credit control functions and recovery are undertaken if payments are not made.

The Manager makes appropriate general and specific provisions for loss on the mortgage portfolio and these provisions are discussed with and reviewed by the auditor of the Fund.

Investment performance monitoring

The Manager monitors the Fund's investment performance as a continuous process and at least monthly.

The Manager gives monthly reports to the Supervisor. The monthly reports include confirmation that all investments have been properly applied in 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 of units in the Fund on issue and such other information as the Supervisor may request.

The Manager also gives quarterly reports to the Supervisor 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.

In accordance with the requirements of the Financial Markets Conduct Act 2013 ("FMCA") and the Financial Markets Conduct Regulations 2014 ("Regulations"), the Manager will report to the Supervisor, as soon as is practicable, any limit breaks that have not been corrected within 5 working days after the date that the Manager became aware of the limit break.

The Manager compares the Fund's quarterly returns with information it sources from information published by the Reserve Bank of New Zealand www.rbnz.govt.nz/statistics/tables/b3.

Investment strategy review and amendment

This document 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.

In the course of the review the Manager's executive team will consider whether the Fund's benchmark asset allocations remain appropriate given the prevailing market conditions. Consideration will also be given as to whether the Fund'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.

In accordance with the FMCA, the Manager may amend or replace this SIPO only after having given reasonable prior written notice to the Supervisor.

MIDLANDS
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