

19 March 2020

Vital Healthcare Property Trust (VHP)

The company will hold a Special Shareholders Meeting **10am Tuesday 31 March 2020**.

The location is the **Pullman Hotel Auckland, corner Princes Street and Waterloo Quadrant, Auckland**.

You can also join the virtual meeting. See details at <https://www.nzx.com/announcements/350094>

The purpose of the meeting is to approve a proposal to restructure the business.

Vital Healthcare Property Trust invests in health and medical-related properties in New Zealand and Australia. The Trust is externally managed by NorthWest Healthcare Properties Management Limited (NWHPM), a subsidiary of Toronto Stock Exchange-listed NorthWest Healthcare Properties REIT. It has a portfolio of 42 properties valued at NZ\$1.8B with around 75% by value located in Australia and around 25% in New Zealand. The portfolio has 139 tenants and over 2,600 beds. WALT (weighted average lease term) is 18.1 years and occupancy is 99.4%.

The Proposal involves separating VHP's New Zealand and Australian investments into separate holding vehicles, then Stapling the units of those vehicles to form the Stapled Group. New Zealand assets (25% of the portfolio) would be held through a New Zealand Portfolio Investment Entity (PIE) structure and Australian assets (75% of the portfolio) would be held through a managed investment scheme registered with ASIC under the Australian Corporations Act, which also qualifies as an Australian managed investment trust (MIT) for Australian tax purposes. Units in Vital NZ and Vital Australia will be Stapled together so they cannot be traded separately. These Stapled Units will be listed on both NZX and ASX.

A Notice of Special Meeting detailing the Proposal has been sent to Unitholders.

With 66% of the Unitholders domiciled in New Zealand, this proposal requires careful consideration on multiple fronts to ensure New Zealand investors are well informed prior to the vote and protected post the restructure.

We have read the documents, sought advice from experts and engaged in discussion with Vital Healthcare. Whilst there are many aspects to the proposal and we have reviewed them all, there are three overarching matters that NZSA believes will be most important to NZ domiciled Unitholders if a restructure is to go ahead:

- 1) The interests of NZ domiciled Unitholders must be protected.
- 2) NZ domiciled Unitholders should not be in a position that leaves them tax disadvantaged relative to their current tax status.
- 3) Vital's strategic focus should be centred around delivering optimal value for its NZ domiciled Unitholder majority.

Our conclusion is that whilst the Proposal has some merit, there are significant aspects that are inconsistent with the points above. We note that:

1. The Australian assets (75%) would no longer be subject to New Zealand regulation

- a. The Australian assets (75%) would no longer be subject to New Zealand regulation which requires an independent Supervisor to oversee the Manager as regards their conduct in managing the Trust and ensuring their actions are in the best interests of all Unit Holders.
- b. Under the Proposal these assets would be controlled by a Responsible Entity (RE).
We note the Notice of Meeting states “Vital Australia will have the Responsible Entity and the Australian Manager. The board of the Australian Manager will comprise the same individuals as the New Zealand Manager. It is intended that the board of the Responsible Entity will comprise Australasian based NorthWest executives.”
- c. We acknowledge there will still be partial independence achieved through governance and by the level of regulation provided for Australian managed investment schemes. However, it must also be noted that the past experiences of NZ domiciled Unitholders with the manager raise concerns over this aspect of the change in structure.

2. The Taxation aspects

- a. These are complex matters and we recommend Unitholders take advice from their taxation adviser. However, it is our belief that a significant number of unitholders could be tax disadvantaged in terms of the distributions they will receive relative to their current position.
- b. Feedback received from some of our members is that they would prefer to stay in a PIE structure, which is something the proposal does not achieve for 75% of the assets.

3. Implementing Vital’s strategy and delivering greater future value to NZ domiciled Unitholders

- a. The proposal concludes that what is put forward will support the implementation of the overall strategy and future success of the business. It suggests what is proposed is the best option to ensure Vital can attract capital and debt at lower levels of cost.
- b. While NZSA understands that there are potential benefits in the proposal, we also consider that Vital has performed relatively well with its current structure and to our knowledge capital has been able to be raised as and when required.
- c. NZSA see the claim of access to a lower cost of capital as key to this proposal, however it has proven difficult to obtain analysis to back up this claim, i.e. how significant would the additional savings be from the lower capital cost when further investment is envisaged?

The Resolution Before the Meeting

That the Proposal described in the notice of special meeting be approved, including the approval of:

- an arrangement relating to the rights of Unitholders for the purposes of clause 13(a)(ii) of Schedule 4 of the VHPT Trust Deed.
- the Variations, being the amendments to the VHPT Trust Deed as tabled at the Special Meeting and signed by the Chair for the purpose of identification, for the purposes of section 139(2)(a)(i) of the Financial Markets Conduct Act 2013 and clause 13(a)(iii) of Schedule 4 of the VHPT Trust Deed;

- the removal of the Manager and the Supervisor for the purposes of sections 185(1)(b) and 193(1)(c) of the FMC Act respectively.
- the cancellation of the registration of VHPT for the purposes of section 195(1)(c)(i) of the FMC Act; and
- the appointment of the Responsible Entity and the entry by the Responsible Entity into the Investment Management Agreement.

NZSA has considered all the above and noted that one leading independent analyst viewed the outcome of the proposal as neutral.

The capital markets environment is now dramatically changed and, on balance, due to the potential shortcomings we see for New Zealand Unitholders, for them the status quo is best maintained and NZSA will vote undirected proxies AGAINST the resolution.

Proxies

You can vote online or appoint a proxy at <http://www.investorvote.co.nz>

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **Sunday 29 March 2020.**

Please note you can appoint the Association as your proxy. We will have a representative at the meeting.

STANDING PROXIES - AUTOMATICALLY APPOINT NZSA AS YOUR PROXY FOR SOME OR ALL OF YOUR HOLDINGS WITHOUT HAVING TO FILL IN NEW FORMS EVERY TIME. MAKE YOUR VOTE COUNT!

DETAILS ON THE NZSA WEBSITE,

<http://www.nzshareholders.co.nz/shareholders-standing-proxies.cfm>

The Team at NZSA