

CORPORATE GOVERNANCE

INTRODUCTION

Corporate governance is the systems under which an organisation is guided, managed and measured. Good corporate governance is important to promote market and investor confidence. Ultimate responsibility for corporate governance of Vital resides with the Board of Directors of the Manager. The Board acknowledges strong corporate governance and stewardship as fundamental to the strong performance of Vital. As a result, they have a commitment to the highest standards of business behaviour, transparency and accountability wherever possible.

With these objectives in mind the Board has adopted its current framework which, in the Board's opinion materially complies with the NZX Corporate Governance Code (NZX Code) and the Financial Markets Authority (FMA) corporate governance principles and guidelines, unless otherwise stated.

THE TRUST AND TRUSTEE

Vital Healthcare Property Trust (Vital) is a unit trust established under the Unit Trust Act 1960 by a Trust Deed dated 11 February 1994 as subsequently amended and replaced. Vital became a registered managed investment scheme under the Financial Markets Conduct Act 2013 on 29 November 2016. Vital units are listed on the New Zealand Stock Exchange (NZX code: VHP).

The Trustee of Vital is Trustees Executors Limited. The Trustee is required to be licensed by the FMA under the Financial Markets Supervisors Act 2011 to act as a trustee of a unit trust. The Trustee's role is to supervise the administration and management of Vital in accordance with the Trust Deed, and to ensure that the Manager complies with its duties and responsibilities under the Trust Deed.

The Trustee holds title to the assets of Vital in trust for the unitholders, subject to the terms and conditions of the Trust Deed. The Trustee also has certain discretions and powers to approve investment and divestment proposals recommended to it by the Manager and reviews and authorises all payments made by Vital.

THE MANAGER

The Manager of Vital is Vital Healthcare Management Limited, a wholly owned subsidiary of NWI Healthcare Properties LP. The Manager has responsibility for the management of Vital in accordance with the Trust Deed.

The Manager's responsibilities include the day-to-day management of Vital's portfolio of properties and assets, negotiating the acquisition and disposal of assets, development and construction planning and management, treasury and funding management, ensuring Vital meets its financial, reporting and other statutory and regulatory obligations and communicating with unitholders and the market.

Vital does not engage or employ any Directors or employees of its own. The Manager provides a highly experienced and diverse range of professionals with expertise across a range of areas.

PRINCIPLE 1 - ETHICAL BEHAVIOUR

Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation.

The Board considers it particularly important to manage all real or perceived conflicts of interest that may arise during the ordinary course of business. From a corporate governance perspective managing conflicts of interest, perceived or otherwise, typically attracts some of the greatest levels of scrutiny.

The Manager has established internal policies and procedures that govern behaviour of its Directors and employees. The aim of these policies is to support good corporate governance and promote investor and market confidence.

Code of Conduct

All Directors and employees of the Manager must abide by its Code of Conduct policy. The Manager recognises the importance of a work environment which actively promotes best practice and does not compromise business ethics or principles. The purpose of the Code of Conduct is to uphold the highest ethical standards, acting in good faith and in the best interests of unitholders at all times. The Code of Conduct outlines the Manager's policies in respect of conflicts of interest, fair dealing, compliance with applicable laws and regulations, maintaining confidentiality of information, dealing with Vital's assets and use of Vital's information.

The policy provides a practical set of guiding principles and operates in conjunction with other policies relating to minimum standards of behaviour and conduct. Compliance with this policy is a condition of employment with the Manager.

PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE

To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives.

The Board of Directors

The role of the Board of Directors is to set the strategic direction of Vital and to support management in monitoring the delivery of this against specific performance objectives. The Board also ensures that all business risks are appropriately identified and managed and that all regulatory, statutory, financial, health and safety and social responsibilities of the Manager are complied with.

Board Composition

The Manager is committed to having an effective Board providing a balance of independent skills, knowledge, experience and perspectives. The Constitution of the Manager provides for there to be not more than seven Directors, or less than three Directors. All the members of the Board are Non-Executive Directors. All bring a significant breadth and depth of expertise and have the composite skills to optimise the financial and portfolio performance of Vital and returns to unitholders.

Attendance and Appointment Dates

Attendance at Board Meetings		Date of Appointment
Graeme Horsley (Chair)	7 of 7	20 August 2007
Andrew Evans	7 of 7	20 August 2007
Claire Higgins	7 of 7	16 January 2012
Paul Dalla Lana	7 of 7	16 January 2012
Bernard Crotty	7 of 7	16 January 2012

The Board does not impose a restriction on the tenure of any Director as it considers that such a restriction may lead to the loss of experience and expertise from the Board.

Appointments

Unitholders have the opportunity to nominate two of the Independent Directors of the Manager required by NZX Listing Rule 3.3.1.(c). Unitholders are able to nominate and vote on one Independent Director of the Manager each year. The nominee receiving the most votes will be approved as a Director of the Manager by the Manager's shareholders, and will hold the position for a two-year term.

The terms of a Directors appointment are contained within the Board Charter. The purpose of the Charter is to set out the role, composition and responsibilities of the Board, and how its powers and responsibilities will be exercised and discharged. The Charter reaffirms that the Directors must comply with their duties as set out in the Companies Act 1993, including to act in good faith, together with other duties which include (but are not limited to) conducting themselves in an appropriate manner.

The table below shows all relevant interests of Directors in Units including legal and beneficial interests.

	Holdings (number of units) non-beneficial	Holdings (number of units) beneficial
Graeme Horsley	48,972	284,304
Andrew Evans	284,304	418,433
Claire Higgins	73,676	
Paul Dalla Lana ¹	105,977,178	
Bernard Crotty		

¹ Paul Dalla Lana (Chairman, CEO and trustee) and Bernard Crotty (President and trustee) are Officers and/or shareholders of NorthWest Healthcare Properties Real Estate Investment Trust (a trust organised under the laws of Ontario, Canada). NorthWest Healthcare Properties Real Estate Investment Trust directly or indirectly holds approximately 106.0 million units in Vital Healthcare Property Trust.

Independent Directors

The Manager recognises that Independent Directors are important in assuring unitholders that the Board is properly fulfilling its role and is diligent in holding management accountable for its performance. Directors Independence is

determined by whether they are independent of management and free of any business or other relationships that could materially interfere with, or could reasonably be perceived to materially interfere with, exercising their unfettered and independent judgement.

As defined in the NZX Listing Rules, the Board has determined that three of its members: Graeme Horsley (Chairman), Claire Higgins and Andrew Evans are Independent Directors. Paul Dalla Lana and Bernard Crotty are considered not to be independent.

Biographies of each Board member including their skills, experience and expertise are included in the Board of Directors section on pages 20-21.

Diversity

At a Board level diversity of experience is critical to ensure a healthy exchange of ideas and opinions to deliver higher quality decision making and outcomes. All Board appointments are based on merit and diversity (including gender and ethnicity).

A key feature of Vital's external management structure is that all employee costs are the responsibility of the Manager, not Vital. The Manager is committed to providing a positive working environment where diversity in all its forms is respected and embraced.

As at 30 June 2017 the Manager has one female Director out of the five appointed Directors and both of the Officers of the Manager are male. This is unchanged from the prior period.

Healthcare real estate is a specialised sector and the Board believes it is important to have members with a diverse range of backgrounds, skills and experience to ensure robust discussion. It is also important to balance skills and knowledge gained through length of tenure on the Board and the value of fresh ideas in decision-making. The table on the following page summarises the skills, experience and length of service of the current Board.

A majority of the Directors are members of professional organisations such as the Institute of Directors (or equivalent) and other industry specific and relevant organisations that support the ongoing education and training of professional directors.

Board and Director Performance

Assessment of the Board and each Directors' performance is determined by the Chairman and takes into account overall attendance, contribution and experience of each individual member concerned.

Chairman and Chief Executive Officer

The role of Chairman and Chief Executive Officer (CEO) are separated to increase accountability and facilitate more effective monitoring and oversight of management. At the financial year-

Gender diversity	2017				2016			
	Male	Female	Proportion Male	Proportion Female	Male	Female	Proportion Male	Proportion Female
Directors	4	1	80%	20%	4	1	80%	20%
Officers	3	0	100%	0%	3	0	100%	0%
Leadership	4	0	100%	0%	4	0	100%	0%
All Employees	9	4	69%	31%	8	5	62%	38%

Skills & Experience	Graeme Horsley	Andrew Evans	Claire Higgins	Bernard Crotty	Paul Dalla Lana
Accounting / finance / economics		•	•	•	•
Commercial real estate / asset management / valuation	•	•	•	•	•
Corporate governance	•	•	•	•	•
Legal / regulatory	•		•	•	•
International business	•	•	•	•	•
Tenure (years)	10	10	5.5	5.5	5.5

end and at the date of this report, Graeme Horsley is Chairman and David Carr is CEO of the Manager. Graeme's role as Chairman is to provide leadership to the Board of Directors and is accountable to the Board. David's primary role is to ensure management's delivery on the strategy approved by the Board.

PRINCIPLE 3 – BOARD COMMITTEES

The Board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.

The Board uses a number of committees to assist in the delivery of its duties and responsibilities. Board committees support the execution of the Board's responsibilities to unitholders. Each committee operates under a charter agreed by the Board, setting out its role, responsibilities, authority, relationship with the Board, reporting requirements, composition, structure and membership.

Audit Committee

The Audit Committee is responsible for overseeing the financial and accounting responsibilities of Vital. The minimum number of members on the Audit Committee is three. All members must be Directors, the majority must be Independent Directors and at least one member must have an accounting or financial background.

The members of the Audit Committee are Claire Higgins (Chair), Andrew Evans and Bernard Crotty.

The Audit Committee assists the Board in fulfilling its corporate governance and disclosure responsibilities with particular reference to financial matters, and internal and external audit, and is specifically responsible for:

- Recommending to the Board the appointment/removal of Vital's external auditor
- Supervising and monitoring external audit requirements
- Reviewing annual and interim financial statements prior to submission for Board approvals
- Reviewing and approving quarterly distributions with recommendation of the same for Board approvals
- Reviewing the performance and independence of the external auditor
- Monitoring compliance with the Unit Trusts Act 1960, Financial Reporting Act 2013, Companies Act 1993 and the NZX Listing Rules

Attendance at Audit Committee

Date of Appointment

Claire Higgins (Chair)	4 of 4	16 January 2012
Andrew Evans	4 of 4	14 November 2011
Bernard Crotty	4 of 4	16 January 2012

Employees and Directors who are not members may attend the audit committee meetings on an invitation only basis.

Remuneration Committee

The NZX Code recommends that a Remuneration Committee be established to benchmark remuneration packages for Directors and senior employees and that the information be disclosed to investors. A key feature of the external management structure that Vital operates under is that all employment expenses are the responsibility of the Manager, not Vital. Consequently, a Remuneration Committee is not considered necessary by the Board at this time.

Nominations Committee

Unitholders have the opportunity to nominate two of the Independent Directors of the Manager and can nominate and vote on one Independent Director of the Manager each year. As a result of this current structure a nominations committee is not considered necessary by the Board at this time.

Due Diligence Committee

From time to time the Board establishes Due Diligence Committees (DDC) to report on the due diligence process in relation to any potential transaction for Vital of material size or complexity. An example would be a material portfolio acquisition or equity capital raising. A DDC will normally include all Directors, relevant management staff and external consultants appropriate for the transaction.

PRINCIPLE 4 – REPORTING & DISCLOSURE

The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.

Continuous Disclosure

It is important that the market and investors feel confident in the timing or manner of any buying or selling of Vital Units. As a NZX issuer, the Manager is acutely aware of the need to ensure the market, investors and regulators remain fully informed of any and all material or price sensitive information relevant to Vital. The Board and all management employees are aware of the NZX Continuous Disclosure requirements and Vital has internal procedures in place to ensure compliance with them.

All governance documents are available on Vital's website.

Environment & the community

Vital is in the process of reviewing the most appropriate non-financial reporting framework for its business.

PRINCIPLE 5 – REMUNERATION

The remuneration of directors and executives should be transparent, fair and reasonable.

Manager's Remuneration

Stipulated within the Trust Deed is the basis on which the Manager is entitled to receive management fees and incentive fees.

Management fees are charged, in respect of each month, a base fee equal to 0.75% per annum of the monthly average of the Gross Value of the assets of Vital for the quarter ended on the last day of that month. The incentive fee is an amount equal to 10% per annum of the average annual increase in the Gross Value of Vital over the relevant financial year and two preceding financial years.

The Manager is required to apply the incentive fee in subscribing for new Units in Vital issued at the weighted average price. The remuneration of the Manager is subject to an overall limit of 1.75% per annum of the Gross Value of Vital and includes the remuneration of the CEO and management team.

The Manager and the Trustee are each entitled to be reimbursed out of the Trust Fund for all expenses, costs or liabilities incurred by them respectively in acting as Manager or Trustee.

Trustee's Remuneration

The Trustee is entitled to receive fees in respect of its services based on the average gross value of the assets of Vital as follows: 0.10% per annum on the first \$100m, then 0.08% per annum on the next \$25m, then 0.05% per annum on the next \$25m and 0.03% per annum on any amount over \$150m. The Trustee is also entitled to reasonable reimbursement for special attendances.

Directors remuneration

The basis for Directors fees are set out in the Board Charter which seeks to pay market level remuneration which is fair and reasonable. The Manager believes it is important to attract and retain high quality directors who can bring a valuable and diverse set of skills and experience to the trust.

A key feature of the external management structure that Vital operates under is that all Directors expenses are the responsibility of the Manager, not Vital.

Insurance and Indemnities

In accordance with the Board Charter, the Manager has provided insurance and indemnities to, its directors and officers for any liability / losses arising in respect of actions or omissions occurring during the normal carrying out of their duties.

PRINCIPLE 6 – RISK MANAGEMENT

Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.

Risk Management

The Board of Directors maintains a sound understanding of key risks faced by Vital. Effective management of all financial and non-financial risks is fundamental to the delivery of the Board's strategy.

As part of its framework, the Board and Audit Committee work closely with management and external auditors to support the identification, management and reporting of certain financial and non-financial risks to Vital. In addition, the Manager will engage other external advisers as appropriate to deal with specific risks.

Insider Trading and Restricted Persons Trading

The Manager's Directors, officers and employees, their families and related parties must comply with the Insider Trading policy and the Restricted Persons Trading policy. The Manager is committed to ensuring compliance with legal and regulatory requirements with respect to insider trading and restricted persons trading.

To assist with such compliance, the Manager's Insider Trading and Restricted Persons Trading policies identify circumstances where Directors, officers and other restricted persons are permitted to trade, or are prohibited from trading, units in Vital. Compliance with these policies is monitored by the Board. In addition, all trading by Directors and officers of the Manager is required to be reported to NZX in accordance with the Financial Markets Conduct Act 2013. The holdings of Directors of the Manager are disclosed on page 25.

Health and Safety

The Directors and Manager of the Trust are committed to ensuring that as far as practical, it provides a safe and healthy working environment for all employees, tenants, contractors and others who may visit our properties. The Audit Committee monitors the ongoing implementation of and adherence to the health and safety policy guidelines. The Trust's Health & Safety policy which can be found on our website, aims to reflect this commitment.

PRINCIPLE 7 – AUDITORS

The Board should ensure the quality and independence of the external audit process.

EXTERNAL AUDITORS

In addition to the formal charter under which the Audit Committee operates, the Audit Committee has also developed a Charter of Audit Independence, which sets out the procedures that need to be followed to ensure the independence of the Trust's external auditor.

The Audit Committee is responsible for recommending the appointment of the external auditor and maintaining procedures for the rotation of the external audit engagement partner. Under the Audit Charter, the external audit engagement partner must be rotated at least every five years.

The charter covers provision of non-audit services with the general principle being applied that the external auditor should not have any involvement in the production of financial information or preparation of financial statements such that they might be perceived as auditing their own work. It is however

appropriate for the external auditor to provide services of due diligence on proposed transactions and accounting policy advice.

External audit for Vital – following careful consideration and recommendation from the Audit Committee, the Board appointed the firm of Deloitte as the Trust's statutory auditor. External audit of the Manager – the firm of KPMG has been appointed as the auditor of the Manager.

PRINCIPLE 8 – UNITHOLDER RIGHTS & COMMUNICATION

The Board should respect the rights of unitholders and foster constructive relationships with unitholders that encourage them to engage with the issuer.

A key focus of investor relations is to ensure the market and investors are informed of all details necessary to assess their investment and Vital's performance as specified by NZX Listing Rules. The Board aims to foster constructive communications and encourages all stakeholders to engage with Vital.

Website

A key element of corporate communication is the Trust's website at www.vhpt.co.nz. The website enables all existing and potential new unitholders to view information including: an overview of the business and corporate structure, a history of financial and investment performance, key calendar dates and the ability to access and download all NZX announcements, presentations and investor forms. The website also includes key corporate governance documents including the Board Charter, Statement of Investment Objectives (SIPO) and other key policy documentation.

The Manager also actively encourages engagement through a communication strategy which includes:

- The Annual Meeting for the unitholders to meet with and ask questions of the Board, the Trustee, management and external auditors
- Any other meetings called to obtain approval for the Managers action as appropriate
- Results webcasting providing all investors with the ability to listen and ask questions of management
- Various investor communications including Annual and Interim Reports
- Newsletters and periodic investor roadshows
- Regular reminding to unitholders they have the option to receive communications electronically
- Periodic and continuous disclosure to NZX
- Notices and explanatory memoranda for Annual and Special Meetings

Vital also has a toll-free contact number (0800 225 264) and general service and enquiry email address (enquiry@vhpt.co.nz) for the Manager to receive any market or investor enquiries.