

# Market Release

1 April 2019

## Vital announces agreement on governance and fee review Claire Higgins steps down as Chair and as a Director

The Independent Directors of NorthWest Healthcare Properties Management Limited (**NWM**), the manager of Vital Healthcare Property Trust (**Vital**), today announced it has reached conditional agreement on a new governance and fees structure.

The new structure, agreed with the Manager's parent NorthWest Healthcare Properties REIT (**NWH REIT**), is based on discussions over the past three months and market information from various sources, including a research report by EY which included feedback from key unitholders representing approximately 40% of the register (excluding NorthWest).

### Key elements of the proposed new structure:

- NorthWest to permanently remove its unilateral right to remove Independent Directors (clause 30.11 of the Trust Deed) and to increase fees (clause 22.5 of the Trust Deed);
- A tiered base fee (replacing the current flat base fee of 75 basis points) as follows:
  - 65 bps up to \$1bn of Vital's gross asset value (**GAV**);
  - 55 bps from \$1bn to \$2bn of GAV;
  - 45 bps from \$2bn to \$3bn of GAV;
  - 40 bps over \$3bn of GAV.
- Incentive fee based on changes in Net Tangible Assets (**NTA**) as defined in the Schedule to this release and calculated as 10% of the average annual increase in Vital's NTA over the respective financial year and the two preceding financial years;
- Detailed activity based fee structure as detailed in the Schedule to this release.

The Manager's Independent Directors confirmed that they believe the proposed new governance and fees structure is in the best interests of, and on balance fair and reasonable to, unitholders in the circumstances.

The Independent Directors said that they felt that it "provides Vital with a solid basis from which to move forward, so that our focus can fully revert to the generation of superior financial performance. This matter has been fully and duly considered, recognising the responsibilities of the Board of the Manager and the role of the Independent Directors. The process leading to this outcome has been robust and the Independent Directors acknowledge that NWH REIT has traded off existing contractual and economic entitlements to achieve this proposed new governance and fee structure."

The Independent Directors have expressed their thanks for unitholders' patience and ongoing support whilst these various strategic issues have been under consideration.

NWM is now in a position to focus on the Healthscope real estate opportunity and potentially agree terms with NWH REIT that could see Vital participate in a Healthscope transaction. The Board expects to provide a further update on the extent of any participation in the Healthscope opportunity by the end April 2019.

The agreement reached today contemplates changes to Vital's Trust Deed, and so is subject to any necessary approvals to make such changes. Vital's Trust Deed can be amended in the manner contemplated in the Financial Markets Conduct Act 2013, including with the approval of the Supervisor or unitholders. The Manager will work through the detail of how these changes are implemented with the Supervisor in the coming weeks.

In the meantime, the Manager has agreed to procure that its fees do not exceed those that would have been charged if the amendments had been effective from 1 April 2019 (other than in respect of the incentive fee, for which it needs to be 1 July 2019 given the financial year based formulation). If the amendments are ultimately not approved, adjustments will be made to reverse this interim arrangement.

The agreement will terminate if the changes have not been implemented by the end of calendar 2019 or if NorthWest gives written notice cancelling the agreement because of a significant change<sup>1</sup> event.

## Resignation of Claire Higgins

Claire Higgins, Independent Chair of the Manager, has resigned with effect from today. In doing so, Ms Higgins expressed her deep appreciation to her board colleagues and management team for their commitment and support.

The new governance arrangements include that Mr Bernard Crotty (President of NWH REIT) will assume the Chairman role. To ensure that board decisions continue to benefit from a majority of independent votes, one of the remaining Independent Directors will hold a casting vote in the event of an equality of votes.

**ENDS -**

## ENQUIRIES

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<sup>1</sup> The definition of "significant change" involves (a) someone issuing a "restricted transfer notice" (which is similar to a takeover offer); (b) a unitholder stakebuilding above 6% where it is considered material and adverse; (c) commencement of a co-ordinated campaign by unitholders to re-open the fees and governance review; or (d) the commencement of material regulatory intervention.

## About Vital Healthcare Property Trust

Vital Healthcare Property Trust (NZX: VHP) is Australasia's largest listed investor in healthcare real estate. Tenants include hospital operators and healthcare practitioners who deliver a wide range of medical and healthcare related services. The Manager of Vital Healthcare Property Trust is NorthWest Healthcare Properties Management Limited.

[vitalhealthcareproperty.co.nz](http://vitalhealthcareproperty.co.nz)

## Schedule – Activity Fees

<b>Acquisition fee</b>	A fee of 1.5% of the purchase price
<b>Disposition fee</b>	A fee of 1% of the sale price. Where an external agent has been engaged, the total fee payable will not exceed 1% of the purchase price or other consideration.
<b>Leasing fees – new leases</b>	<ul style="list-style-type: none"> <li>• A minimum fee of \$2,500 per lease.</li> <li>• For leases with a term of less than 3 years, 11% of the annual rental.</li> <li>• For leases with a 3 year term, 12% of the rental.</li> <li>• For leases with a term exceeding three years, 12% of the annual rental plus 1% for each year or part thereof, up to a maximum of 20% of annual rental.</li> </ul>
<b>Leasing fees - renewals</b>	50% of the applicable fee for new leases
<b>Rent review fees</b>	<ul style="list-style-type: none"> <li>• For structured (non-market) reviews and for any market review which does not result in a rental increase an administration fee of \$1,000 will be payable.</li> <li>• Open market reviews: 10% of the rental increase achieved in Year 1 of the review, subject to a minimum fee of \$1,000.</li> </ul>
<b>Property management fee</b>	A fee of 1%-2% of gross income depending on the type of property.
<b>Facilities management fee</b>	A market fee for similar services at similar properties.
<b>Development fee</b>	A fee of 4% of committed spend.
<b>Project management fee</b>	A fee of 2% of committed spend where Vital is the project lead. 1% of committed spend where Vital is not the project lead but has an oversight role.
<b>NTA definition</b>	NTA as reported, adjusted for unrealised movements in currency reserves, derivatives and new equity subscriptions during the financial period