Chair’s Address, Vital Healthcare Property Trust Annual Meeting, 20 December 2018

The following is the address of the Chair of NorthWest Healthcare Properties Management Limited for the Vital Healthcare Property Trust Annual Meeting held at Ellerslie Event Centre, 80 Ascot Ave, Auckland on Thursday 20 December 2018 commencing at 2.00pm.

[Slide 1 – Cover slide]

[Welcome]

Welcome ladies and gentlemen to the 2018 Annual Meeting of Vital Healthcare Property Trust.

My name is **Claire Higgins,** I am the Chair and an Independent Director of your Trust’s Manager.

Under the terms of the Trust Deed and with the agreement of the Trust’s Supervisor I have been appointed the Chair of this meeting.

[Notice of Meeting]

The Notice of Annual Meeting has been circulated to all Unitholders. It sets the scope of what we are scheduled to discuss today and includes the details of the various resolutions we are due to consider.

[Quorum & Proxies]

I am pleased to confirm that there is a quorum present and I declare the 2018 Annual Meeting of Unitholders of Vital Healthcare Property Trust open.

[Slide 2 – Meeting Agenda]

[Meeting process/agenda]

The order for the meeting is as follows:

- I will start with some introductions;

- I will then give my address looking at strategy, performance and focus for the year ahead. In addition I will also speak to two current items of interest to unitholders, being governance matters that relate to the Proposals in the Notice of Meeting and the Healthscope Real Estate opportunity;
- David Carr, the Chief Executive Officer of the Manager will then speak, briefly recapping our 2018 results, and also provide you with an update of activities for the year to date;
- After David's address we then move to the formal business, including the appointment of either Graham Stuart or Paul Mead as an independent director and consider the five individual Proposals by ACC, ANZ and Mint Asset Management;
- I will then invite you to ask any residual questions you may have regarding the Trust;
- We will then conclude the meeting, following which there will be refreshments, and I invite all Unitholders to remain and enjoy these with us.

The Annual Report and Financial Statements for the year ended 30 June 2018 have been circulated to all Unitholders and are now formally tabled at the meeting.

Copies of the minutes of last year's Annual Meeting are available for inspection at the entrance to the room.

[Slide 3 – Introductions]

[Slide 4 - Board of Directors]

Before going any further I would like to take the opportunity to introduce my fellow Directors.

To my right is **Graham Stuart,** to his right is **Andrew Evans** and next to Andrew is **Bernard Crotty**. Due to business commitments, attending via conference call is **Paul Dalla Lana**. Good afternoon Paul. Next to Bernard is **David Carr**, who is an Executive Director and Chief

Executive Officer. David will be stepping down as Executive Director following the Annual Meeting.

For those of you that attended last year's Annual Meeting, you'll notice the Board composition has changed from last year following the retirement of Graeme Horsley in May, so our sincere thanks on behalf of the Board and all unitholders for his contribution to Vital over all these years.

[Slide 5 – In attendance today]

I would also like to introduce our Chief Financial Officer and Company Secretary, **Stuart Harrison** who is seated next to David.

Also present today are:

1. **Alex Wainwright and Justine Wealleans** from Trustees Executors Limited, the Supervisor of Vital Healthcare Property Trust

2. **Silvio Bruinsma, Audit Partner** from Deloitte, the auditors for the Trust and

3. **Toby Sharpe** from Bell Gully, the legal advisers to the Manager

[Slide 6 – Chair's address]

Ladies and gentleman, over the past few years we've taken the opportunity to share with you a video clip of one of our properties or a key partner relationship. Today, I'd like to do the same.

[Slide 7 – Wakefield]

We have a clip to share with you from one of our largest ever development projects, the rebuild of Wakefield Hospital in Wellington, which will commence early in 2019.

Vital acquired Wakefield, Bowen and Royston Hospitals from the Acurity Health Group on a sale and leaseback basis in December 2017.

Acurity is one of New Zealand's largest for profit private hospital operators and an excellent new long term partner to Vital.

All three hospitals acquired have value add brownfield development opportunities and David will update you on the progress in his presentation later.

The Wakefield Hospital development will have a total development cost in excess of $100m, of which $88m will be funded by Vital and the balance by Acurity.

Let's now take a look at the video clip please.

[Slide 8 - PLAY VIDEO]

We are very pleased to be embarking on this development. We believe it will help contribute to the health and wellbeing of the Wellington community long into the future. We look forward to sharing this with you as this vision becomes a reality.

[Slide 9 – Strategy]

[Slide 10 – Strategy]

With respect to strategy, the key overarching messages we wish to share with you today is that Vital:

1. has a strong track record of performance and has provided a long term sustainable distribution;

2. is focused on long term value creation through scale and diversification;

3. maintains a clear, consistent, and prudent strategy focused on healthcare real estate;

4. has established unique, market leading portfolio attributes; and

5. is supported by an experienced and aligned manager

Recognising these five key points, I'll now speak to the core drivers of how we have wrapped all these elements into a succinct and highly relevant framework.

[Slide 11 – Strategic Drivers]

Each of the building blocks are quite important in their own right.

My intention over the next few slides is to show how, over both the medium and long term, delivery to the core strategic drivers has produced strong results for unitholders.

From the left, we have:

- Maintained a high quality pure-play Australasian healthcare real estate portfolio with exceptional and unique leasing arrangements that are not available anywhere else in the market, with embedded growth, backed by market leading operators and tenants.

  This continues to be underpinned by undeniable long term trends in demand for healthcare services - driven by a growing and ageing population;

- Next, we continue with the brownfield development programme which we expect to continue into the foreseeable future – ultimately generating, as it has historically, very attractive returns.

  Over the past 2.5 years we have invested over $70 million in brownfield developments, that continue to enhance rental income. These often also provide an opportunity to renegotiate and extend lease terms building further long term sustainability into the portfolio;

- Acquisitions remain a core feature of our scale and diversification strategy. Vital has the largest pure hospital real estate portfolio in the region. I want to assure you that this is not a 'buy anything and everything strategy'.

- We remain considered and prudent around all investment decisions. By way of example, we have not participated in excess of $400m of healthcare real estate transactions this year as certain opportunities have not met our investment criteria, whether that be price, tenant or asset quality, or location.

- With gearing at 38.2% as at 30 September we continue to manage our balance sheet requirements within what the Board considers an acceptable framework.

- And from a management team perspective, the core team remains in place, and was in fact further strengthened at the start of the year with the integration of the NorthWest team in Australia. This has provided an even greater depth of skills and experience.

  Managing healthcare real estate requires a unique set of skills, and I personally consider the team as market leaders in this regard.

  The last, and the most important part of this equation is the blue circle on the right hand side of this slide which is our core focus, and that is the sustainability of the distribution and long term value creation.

These core drivers have delivered the following performance outcomes across a number of metrics.

[Slide 12 – Vital's unit price performance]

Vital's ongoing total return outperformance compares favorably against both the wider market and our real estate peers over the past 10 years.

As you can see as at 30 November 2018, the last 10 years has produced a compounded total annual return of 14.5%.

With a commitment to continue our scale and diversification strategy, we remain focused on a continuation of exceptional asset management driving long term performance.

[Slide 13 – Distribution Sustainability]

Long term distribution sustainability has been part of Vital's stated framework now for many years.

As can be seen Vital has a 5 year track record of delivering a higher rate of distribution growth relative to the New Zealand listed property sector.

In my view this reflects a long term balanced, and responsible approach to managing desired equity returns with the capital requirements and demands of the business in delivering on its stated strategy.

[Slide 14 – Investment Activity]

This chart paints a clear picture of Vital's track record of delivering on our stated scale and diversification strategy and how that has correlated to not only increased cash distributions but, importantly, also to an improvement in the quality of earnings.

This has enabled the Board to provide unitholders with increased cash returns (and strong total returns) over time, whilst still underpinning the sustainability of such.

[Slide 15 – Healthscope opportunity]

With respect to the Healthscope real estate opportunity.

Generally, the situation can be broken down as follows:

- This is a real time generational opportunity in its purest form, noting that this is a portfolio entirely comprised of private hospitals concentrated in major metropolitan cities, with considerable brownfield development opportunity.
- Given the size of the portfolio, Vital and the NorthWest REIT agreed to pursue this opportunity equally.
- As we sit here today, we have a 50% interest in a 13.41% stake in Healthscope. Whilst there are some risks that come with that, I can assure you we have not blindly made that decision. The risks have been, and are, duly considered; and where appropriate we have limited the

downside risk and capped the upside to provide a balanced position relative to the business and the opportunity.

- Also remember that, as it stands today, we have an ingoing average price of the shares we control of just over $2.36, and there have been a number of offers for the Company this year at that figure as a minimum, with the current offer by Brookfield Capital Partners under a Scheme of Arrangement at $2.585.
- I can assure you that we are operating within the requirements of the Statement of Investment Policy and Objectives and the Trust Deed.
- The benefit of the 13.4% interest is that we have had a seat at the table of most interested parties, and we continue to believe that the stake will give us the strongest chance of unlocking the opportunity.
- However, without getting ahead of ourselves, clearly the investment decision if the opportunity crystallises is yet to be made by the Board. And whilst we have a number of scenarios that may play out, we are as yet unable to speak to any potential outcome and what result that will have on Vital.
- It may well be that the investment decision isn't satisfactory and we don't end up acquiring any assets.
- So in summary, yes the strategic initiative was deliberately taken by the Board with full awareness of the opportunity and the risks, but absolutely balanced by the potential benefits to secure an interest in Healthscope's underlying portfolio of high quality hospital real estate.

We continue to work through this opportunity and will update investors as it progresses further.

[Slide 16 – Governance Update]

Much has been said over recent weeks and following the release of the Notice of Meeting in relation to Vital's governance, the fee review and the unitholder proposals.

Each of these Proposals will be dealt with in due course today.

Firstly, I want to speak to any unit holders who have been upset or concerned by telephone calls they have received in regards to the Proposals and voting today.

As this is a very important meeting for Vital, for all unitholders, we felt it was important to reach out and remind you of the importance of your vote. Historically we have had a low voting turnout of approximately 34%, compared to this year at 56%.

At no time did we instruct anyone to try to convince people to change their vote, but we did seek feedback about voting intentions or reasons why, should anyone wish to provide that feedback.

You will have, no doubt, read the Proposals from ACC, ANZ and Mint Asset Management which they will speak to shortly.

I want to explain to you why the Board did not support these Proposals.

Since coming into the role as Chair on 1 May, we have been working with the proposers on a number of questions that they have had with the governance and structure of Vital. In addition, we have been engaged with a number of other investors.

The Manager has, I believe in good faith, held a number of discussions with the proposers, including options for a fee review. A number of the questions raised have already been addressed, these being:

- Updating the board charter;
- The Statement of Investment Policy and Objectives was also updated;
- The Conflicts Policy has been amended; and
- A third independent director appointment has been made.

Unfortunately, we were unable to agree on elements of the fee review and other matters and hence why the Manager announced on 23rd November the fee review to be completed by 31 March 2019, together with the suspension of their rights under the contract to remove the independent directors or to unilaterally change the fees.

So whilst the Proposals are quite specific in this regard, we believe we have largely agreed to do what has been asked.

The announcement on 23 November also described the review as being a board led review and that it would include engagement with unitholders.

What this means is that the review will be led by a majority of independent directors.

This is absolutely where the role of the independent director is so crucial. We will endeavor to negotiate an outcome in the best interests of all unitholders. No outcome will be achieved without the agreement of the Manager as they own the contractual rights.

I also want to be clear, we have never said that we would not seek independent advice. Also, we are not in breach of our board charter with respect to convening a committee of independent directors – we may well do this. And, we have not said that we will not seek submissions or input.

We want to keep all the tools in the toolkit that we can, and as we have not yet framed up the precise terms of reference it is too early to either rule in or out any particular approach.

What we will do is work through this task methodically, carefully and deliberately.

Each of the independent directors – Andy, Graham and I are committed to our roles. Graham summed it up very well in the media recently when he said ***'The basis of my independence is in my experience, in my reputation and in my integrity.'*** Andy and I would completely agree with this statement.

And with respect to the appointment of Graham Stuart as an independent director of the Manager, I would like to outline the process we went through to ensure the best outcome could be achieved for all unitholders.

Graham came through an independent search process that I auspiced with the help of Heidrick & Struggles – an international search firm.

Deliberately, we defined the search criteria to find an individual who was a New Zealander and who could chair the audit committee. This was a key criteria as I am currently fulfilling the role of both board and audit committee chair and we agree that this is not an ideal governance construct.

All up we considered in excess of 50 possible candidates. In building the candidate list we actively engaged with unitholders, the NZSA, institutional investors (including the Proposers), our auditors, legal advisors and other sources to ensure that the candidate list identified was fulsome.

Personally, I believe we have been successful in appointing an exceptional candidate who has substantial listed company experience and is an experienced audit committee chair.

In summary, we have been making progress in responding to questions raised. There remains quite some work ahead of us and we look forward to continuing the dialogue.

In the meantime, operationally, we will continue to build a platform of assets which will underpin the long term returns to unitholders.

In addition to all the above, as a team we remain absolutely focused on distribution sustainability and delivering on the Board's increased FY19 cash distribution guidance of 8.75 cents per unit.

I will now pass you over to David who will run through his presentation.

[Claire to pass the meeting to David].

[David's presentation]

Chief Executive Officer’s address

Slide 17 Chief Executive Officer’s address

Thank you Claire, welcome and good afternoon everyone.

It’s a pleasure to be here to update you on the activities of the Trust.

I have three overarching messages today:

- First, Vital’s underlying operating and portfolio performance remains strong, with many of our metrics market leading;
- Second, the undeniable longer term healthcare trends of a growing and ageing population remain intact notwithstanding some headwinds in parts of the Australian healthcare sector, whilst New Zealand remains an attractive and growing market;
- Third, as the Board announced in August, the 2019 cash distribution increased by 2.2% to 8.75 cents per unit, and through my presentation I’ll detail many of the portfolio characteristics that underpinned that decision.

I’ll now review some of the highlights from the 2018 results.

Slide 18 FY18 Results Summary

Slide 19 – FY18 Result Summary

As we announced in August, the Trust had a sound 2018 financial year, supported by consistent performance across all facets of the business.

Starting with financials, at the gross rent level we reported $93.7m, reflecting full and part year contributions from acquisitions, development completions and organic rent growth.

Net Distributable Income was 10.6 cents per unit and equated to a pay-out ratio of 81%.

In terms of "AFFO" (or available funds from operations) the result was $49.5m, up 4.5% on 2017.

As we increased the 4th quarter distribution, the full year 2018 cash distribution was 8.5625 cents per unit, ahead of the forecast guidance of 8.5 cents per unit at the start of the year.

And as I noted, the Board confirmed the full year 2019 distribution would increase to 8.75 cents per unit.

Slide 20 – Treasury and Capital management

Vital's LVR or Loan to Value Ratio was at 37.5% at 30 June and has increased slightly to 38.2% as at 30 September. However, at under 40%, our LVR remains well below our bank and Trust Deed covenants of 50%.

We have a 4.6% weighted average cost of debt, currently 80% hedged and a 7 year term.

During 2018 we put in place additional credit facilities of A$275m. I can confirm that the Board has today been provided with credit approved terms to extend its facility with its partner banks by a further A$150m to manage our future capital requirements.

We had strong Net Tangible Asset growth to $2.26 at year end, which has reversed slightly in the first quarter of this year on the back of a weaker exchange rate.

Slide 21 – Portfolio update

Slide 22 – Strong core portfolio

This slide shows our core portfolio metrics remain in great shape.

Our current occupancy of 99.3% maintains our track record of over 99% for the last 8 years.

This is a strong indicator of performance and one the team is proud of. It goes to the heart of both the quality of Vital's properties and the lasting nature of the partnerships we have with our tenants.

We have an average of 1.7% per annum of rents expiring over the next 10 years.

This is down from an average of approximately 3% per annum 4 years ago and shows that we have greatly reduced any material lease expiry risks over the next decade, providing a high degree of contracted rental income certainty over the long term, underpinning core earnings.

Slide 23 – Strong core portfolio

Our WALE (or Weighted Average Lease Term to Expiry) of 18.1 years is market leading.

Remember, the obvious natural decline in WALE by 12 months every year is not easy to arrest.

However as a result of some astute acquisition and lease transactions over the year, the team continues to focus on this important and uniquely differentiating metric, with Vital's WALE currently sitting at almost three times higher than the New Zealand listed property sector average of 6.6 years.

A long dated WALE recognises Vital's portfolio quality and long term suitability of our properties for our tenants and operators - as we have proven over recent years with a number of tenants signing new 30 year leases.

Lease terms of this length are effectively un-heard of in the wider commercial property market.

Ultimately a long dated WALE provides contracted long term rental income stability for investors, and directly supports the Board's distribution sustainability message.

Supporting these core metrics, this year we have approximately 85% of our rent reviews that fall due having fixed or CPI based increases and this provides for excellent underlying core income growth and historically has been a key factor in supporting increased distributions to investors.

Slide 24 – Portfolio Overview

Slide 24 provides a portfolio snapshot, really the only way we can now graphically show the whole investment portfolio on one slide.

With a strong geographic spread, we now have 42 core healthcare real estate properties, including a mix of different facilities, including acute, rehabilitation and mental health hospitals.

We also now have over 2,600 beds, culminating in the largest listed and most diverse healthcare real estate portfolio in Australasia.

Slide 25– Acquisitions update

This slide simply recaps the acquisitions we completed over the 2018 financial year.

We have previously reported on these so I won’t go through them again, but there are three key points I would like to make:

- First, as you can see, we haven’t acquired any hospital investment assets in calendar 2018.

  As Claire mentioned earlier, there has been over $400m of potential transactions that we have deliberately and consciously decided not to proceed with.

  This validates the prudent and methodical nature of the way we look at each investment opportunity and ultimately whether it makes good business sense and aligns with our strategy.

- The second point I’d like to make relates to the column of ‘ticks’ as you can see on this slide.

  In essence each of these acquisitions present future development opportunities that directly support the growth aspirations of our operating partners at each of those properties.

Remember this organic brownfield development potential has been the foundation and essence of Vital's performance now for 10 years.

With the growing forecast demand for healthcare services over coming decades we expect that this attractive brownfield development programme will continue to underpin Vital's overall performance by improving asset quality and operator performance at each of these hospitals.

- The third point that you'll see on this slide, is the reference to *"Land held for Development"*.

  This is where we have acquired adjacent properties around key assets, and is a unique feature of our strategy.

  It reflects our intent to protect and enhance the long term value of the hospital operating business and the underlying real estate by ensuring that we can actually accommodate future growth as required.

Slide 26 – Development update

On this slide you can see a summary of the 5 committed development projects that continue, where we're spending approximately $109m over coming years, building additional capacity in hospital beds, operating theatres and related facilities.

These capital investments continue to reposition and modernise the portfolio and entrench our long term strategic partnerships with high quality hospital operators.

For each of the New Zealand projects, you'll recall we formed a strategic partnership with Acurity Health Group in 2017, acquiring (on a 30 year sale and leaseback) Wakefield, Bowen and Royston Hospitals. On each I note that:

- Tenders have been invited for the first stage of redevelopment at Wakefield Hospital, with the construction contract expected to be awarded early 2019.

  The project will be delivered in stages to be completed in 2022, creating a brand new, high quality facility with eight operating theatres, 42 beds, a 3,000 square metre medical consulting building and supporting infrastructure.

  Wakefield will be base isolated to protect against seismic events in Wellington.

- At Royston Hospital in Hastings we have a capital commitment of $13m. Resource consent has been received for the development which will expand into adjacent properties owned by Vital.

  The development will incorporate the reconfiguration of patient admission and recovery areas, expansion of consulting space and two new operating theatres, with one to be commissioned immediately.

  The construction contract has now been awarded, with completion scheduled for mid-2020.

- In regard to Bowen Hospital in Wellington, works are almost completed for the development of the radiation oncology facility, including new linear accelerator bunkers, with the service operational in the New Year.

With Vital's Weighted Average Capitalisation Rate now at 5.74%, and these projects forecast to yield approximately 7%, this absolutely supports the value add investment proposition relating to current and future brownfield developments.

In terms of our outlook for development projects, we estimate that we'll likely commit on average $25m to $50m per annum as a result of continued demand for healthcare infrastructure.

Slide 27 – Portfolio Composition

This slide shows Vital's geographic and sector diversification by asset type.

We are comfortable with the diversification as shown here, and I note that we don't have any set policy or target weightings.

Our preference is to assess any new opportunities as they arise and within the over-arching context of whether it ultimately aligns with our core strategy.

This diversification also reinforces the quality of earnings, which gives the Board the confidence to sustain, and over time, look to enhance distributions to investors.

Slide 28 – Lease expiry profile

In essence this chart shows that over the next 10 years we have only 17% of our total current income expiring, with the balance 83% expiring between 2029 and 2047. This is an important metric when you think about it from a certainty of income perspective across the portfolio.

It also shows we have just under 3% of total income expiring in 2019, and based on historic renewal trends, as at today, I'd reasonably expect over 90% of these tenants will agree to stay on.

Be assured however that we are not resting there and we remain very focused on resolving these lease expiries early to ensure we further enhance this profile for years to come.

The other important point to quickly note on this slide is the light blue bars on the chart.

They basically show the largest single tenant lease to expire in any one year.

Here, you can also see that the largest expiry is less than 2%, in fact is just 1.6% in 2024 and relates to a core hospital asset that over the next few years I expect will evolve into another excellent value add brownfield development opportunity, with a new long term lease put in place.

Slide 29 - Sector drivers and trends

We'll now look at some of the sector drivers of demand and trends for healthcare services.

Slide 30 - Sector drivers and trends

Slide 30 is deliberately in 2 halves.

The top half reflects on some market and economic factors, with the Australian healthcare market currently facing some challenging conditions.

However, for example, whilst there has been a small decline in the percentage of the population covered by Private Health Insurance in Australia, the fact remains that due to population growth, the absolute number of people covered continues to increase.

Notwithstanding these headwinds, the benefits of a diversified portfolio becomes apparent, with the New Zealand Health Funds Association recently reporting the following statistics:

- private health insurance has now had 14 consecutive quarters of growth
- 2017-2018 experiencing the strongest annual increase in lives covered since 2001 and
- Total claims paid to the September 2018 year were up 7.6%.

The second half of the slide speaks to some of the underlying thematics, which continue to support longer term growth and the defensive nature of the sector. And remember, growth has only slowed, it is not negative.

On balance we retain a net positive long term outlook and don't expect changes to the fundamental structure and characteristics of healthcare services to change that view.

Slide 31 – Summary

Finally, Vital's strategy continues to deliver as we build on recent successes and future opportunities.

Healthcare real estate remains an attractive long term investment proposition.

Proactive asset and portfolio management is an essential and core part of our role as Manager and the team takes pride in delivering outcomes both the market and investors have come to expect.

We've successfully maintained our key point of difference which has seen the prudent execution of a number of off-market acquisitions, reflecting the strength of relationships Vital has with both existing and new partners and we remain excited about the future.

Thank you, I will now pass you back to Claire.