

FMCA Compliance Annual Report 2020

DETAILS OF THE SCHEME

The Scheme is the Vital Healthcare Property Trust (**Scheme** or **Vital**) which is a managed investment scheme for the purposes of the Financial Markets Conduct Act 2013 (**FMCA**).

The Scheme is managed by NorthWest Healthcare Properties Management Limited (**Manager**) and supervised by Trustees Executors Limited, a supervisor licensed under the Financial Markets Supervisors Act 2011 (**Supervisor**).

The offer of interests in the Scheme was originally made under the Unit Trust Act 1960. The Scheme transitioned to compliance with the FMCA on 30 November 2016. Accordingly, a Product Disclosure Statement has not been prepared for the Scheme as no regulated offers of units have been made pursuant to the FMCA. The Scheme units are listed on the New Zealand Stock Exchange (NZX code:VHP).

Vital's latest financial statements and the auditor's report for those statements were lodged with the Disclose Register on 30 September 2020.

DESCRIPTION OF THE SCHEME

Vital's main function is to identify, acquire and manage healthcare properties that are leased or for lease to operators across the healthcare continuum. From time to time, Vital may undertake the design, refurbishment or development of healthcare properties for particular health service operators. Vital may invest directly in real property, or in companies or trusts (listed on a recognised stock exchange or unlisted) which themselves own, directly or indirectly, real property with healthcare related qualities.

The Scheme was a unit trust established under the Unit Trust Act 1960 by a Trust Deed dated 11 February 1994, as amended by subsequent Deeds of Variation and Restatement. Vital became a registered Managed Investment Scheme under the Financial Markets Conduct Act 2013 on 29 November 2016.

INFORMATION ON COMPOSITION OF THE SCHEME

This Annual Report covers the accounting period from 1 July 2019 to 30 June 2020.

The number of managed investment products, being units in the Scheme (**Units**) on issue at the start of the accounting period was 446,346,087. The number of Units on issue at the end of the accounting period was 453,782,695.

CHANGES RELATING TO THE SCHEME

Material changes to the nature of the Scheme, the Scheme property, the investment objectives and strategy, or the management of the Scheme over the accounting period are as follows:

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (SIPO)

The SIPO was lodged on 29 November 2016. Amendments were made on 9 August 2018, including details on Vital's investment objectives and relevant performance monitoring benchmarks. There have been no further amendments made during the current accounting period.

A copy of the current SIPO is available on Vital's website www.vhpt.co.nz under the section About/Governance.

TRUST DEED

During the period 1 July 2019 to 30 June 2020, Vital's Trust Deed was changed by a deed of amendment and restatement with effect from 7 November 2019. The amendments to the Trust Deed, as approved by the Manager, Unitholders and the Supervisor (on 31 October 2019) were made so that the Trust Deed complies with the updated NZX Listing Rules dated 1 January 2019, as well as other minor amendments for consistency. Other material changes were made to the remuneration of the Manager. These changes are set out below under the Fees section – Remuneration of the Manager.

A copy of the amended and restated Trust Deed is available on Vital's website www.vhpt.co.nz under the section About/Governance. It is also available on the Disclose Register accessible on the Companies Office website at (<https://disclose-register.companiesoffice.govt.nz/disclose>).

RELATED PARTY TRANSACTIONS

During the period 1 July 2019 to 30 June 2020 there were no changes to the nature and scale of related party transactions.

There were no related party transactions that were not on arm's-length terms.

Further details of the related party fees paid by Vital to the Manager and its related parties can be found in note 22 of Vital's financial statements which have been lodged with the Registrar.

TERMS OF THE OFFER OF UNITS

There was no applicable offer of units during the reporting period.

VALUATION AND PRICING METHODOLOGIES

There was no change to the valuation and pricing methodologies for the Scheme during the reporting period.

FINANCIAL CONDITION AND PERFORMANCE OF THE SCHEME

2020 has been a challenging year globally due to COVID-19. Notwithstanding these challenges, Vital's defensive portfolio helped Vital record a 5.1% total return in FY20, outperforming the S&P/NZX REIT Index by 13.4%.

Vital's defensive characteristics include its market-leading 18.1 year weighted average lease expiry term (WALE), high levels of government support for healthcare operators and healthcare spending being primarily non-discretionary or high-priority. The underlying strength of our tenants' income helped us achieve over 95% rent collection for FY20 in turn enabling us to meet our distribution guidance for FY20.

FY20 Highlights

- 7.5% increase in adjusted funds from operations (AFFO) from \$43.9m to \$47.2m.
- 5.6% increase in AFFO per unit from 9.90 cents per unit (cpu) to 10.45 cpu.
- 5.1% total return exceeding the S&P/NZX REIT Index by 13.4%.
- 2.9% increase in net tangible assets (NTA) per unit from \$2.31 to \$2.38.
- Distributions of 8.75 cpu paid or payable; an 83.7% AFFO payout ratio.
- Maintenance of market-leading weighted average lease expiry term (WALE) of 18.1 years.
- Board approval of a 5-year portfolio plan covering the period 1 July 2020-30 June 2025.
- \$75m of acquisitions completed and/or committed.
- Significant development progress including practical completion being reached at The Hills Clinic and Lingard Day Centre.
- 7.2% reduction in expenses and costs.
- Target FY21 AFFO of 2-3% above FY20 and distributions of 8.75 cpu.

As at 30 June 2020 Vital had net assets of \$1,079.0 million (2019: \$1,029.7 million), comprising total current assets of \$11.4 million (2019: \$94.3 million), total non-current assets of \$2,093.9 million (2019: \$1,837.2 million) and total liabilities of \$1,026.2 million (2019: \$901.8 million).

Total comprehensive income for the 12 month period to 30 June 2020 was \$76.3 million (2019: \$62.3 million), and total distributions relating to the period to Unit holders were \$39.9 million (2019: \$39.0 million), representing 8.75 cents per Unit (2019: 8.75 cents per Unit).

You can find a copy of Vital's financial statements, including information on distributions made by the Scheme on the Disclose register at: <https://disclose-register.companiesoffice.govt.nz/> Scheme number SCH11214. Further information on the financial results is provided in Vital's Annual Report at: www.vhpt.co.nz.

FEES

The following fees and expenses were charged in respect of the Scheme in dollars and as a percentage of the Scheme's property for the 12 month period to 30 June 2020.

	2020 \$000s	Percentage of Scheme's Property
Total fees and expenses incurred		
Management fees	12,233	0.58%
Manager's incentive fee	6,475	0.31%
Leasing / Licencing fees	346	0.02%
Property management fees	969	0.05%
AFSL fee	898	0.04%
	20,921	0.99%
Service fees capitalised		
Acquisition fees	980	0.05%
Development management fees	4,774	0.23%
Total fees charged by the Manager and associated persons	26,675	1.27%
Auditor's remuneration	218	0.01%
Supervisors fees	588	0.03%
Other operating income/expenses	3,754	0.18%
Total fees & expenses	31,235	1.48%

MANAGER'S FEES

Remuneration of the Manager

Vital pays fees to the Manager in accordance with the Trust Deed. Following Unitholder approval on 31 October 2019, the Trust Deed was amended to adopt the revised basis for fees (as outlined below) in accordance with the undertakings made in the Trusts' Fee and Governance Review announcement of 1 April 2019. Up until the Trust Deed was amended, the Manager procured that the fees charged would not exceed those that would have been charged if the amendments that were approved by unitholders on 31 October 2019 had been approved on 1 April 2019.

Current Fee Arrangements

In accordance with and from the effective date of the amended Trust Deed, the fee arrangements are as follows:

Base Fee

The Base Fee structure is as follows:

- 0.65% per annum of the gross value of the assets of the Scheme up to \$1 billion;
- 0.55% per annum of the gross value of the assets of the Scheme between \$1 billion and \$2 billion;

- 0.45% per annum of the gross value of the assets of the Scheme between \$2 billion and \$3 billion; and
- 0.40% per annum of the gross value of the assets of the Scheme over \$3 billion.

Incentive Fee

The incentive fee is an amount equal to 10% per annum of the average annual increase in the Net Tangible Assets (as defined in the Trust Deed) of the Scheme over the relevant financial year and two preceding financial years subject to a three year high-water mark, with payment being made by way of subscribing for new units.

Activity Fees

The Activity Fee structure is as follows:

a) Leases or licences

Vital pays the Manager leasing or licence fees where the Manager has negotiated leases or licences instead of, or alongside, a real estate agent. These fees are charged at 11% of the aggregate annual rental for terms less than 3 years, 12% of the aggregate annual rental for terms of 3 years, and 12% plus an additional 1% for each year or part thereof for terms greater than three years (to a maximum of 20%), subject to a minimum fee of \$2,500.

Lease or licence renewals are charged at 50% of a new lease or licence fee.

b) Property management

Vital pays the Manager property management fees where the Manager acts as the property manager instead of, or alongside, a real estate agent. These fees are charged at 1%-2% of gross income depending on the number of tenants at the property and may be recovered from tenants if permitted under lease agreements.

c) Facilities management

Vital pays the Manager a facilities management fee on a cost recovery basis.

d) Project management

Vital pays project management fees to the Manager for managing capital expenditure projects where the purpose of the project is to upgrade, repair or otherwise extend the life of the property, including via the replacement or repair of major plant and equipment, structural items and building envelope. Project management fees for projects with a budget of between \$0.2m and \$2.5m are 2% of the committed spend where the Manager is the project lead and 1% of committed spend where the Manager has an oversight role, increasing to 4% and 2% respectively for projects with a budget greater than \$2.5m.

Additional Costs

The Additional Costs structure is as follows:

a) Acquisitions

Vital pays fees to the Manager for managing the due diligence, financing, legal aspects and settlement of the purchase of an investment or property instead of, or alongside, a real estate agent. These fees are charged at 1.5% of the purchase price.

b) Disposals

Vital pays fees to the Manager for managing the due diligence, legal aspects and settlement of the sale of an investment or property instead of, or alongside, a real estate agent. These fees are charged at 1% of the contracted sale price of the relevant investment or property actually received, provided that, if a real estate agent has been engaged to provide services for the disposal, then the fee payable to the Manager will be net of the third party agent's costs and commissions.

c) Development Management

Vital pays fees where the Manager acts as a development manager on Vital developments. These fees are charged at 4% of the committed spend (excluding land) approved by the Board of the Manager provided that, if a third party agent has been engaged to provide development management services, the fee payable to the Manager will be reduced by the non-rentalisable third party costs paid.

Historical fee arrangements

Prior to the unitholder approved amendments to the Trust Deed, the fee arrangements were:

Base Fee

The Base Fee was 0.75% per annum of the Gross Value (as defined at the time by the Trust Deed) of the Trust.

Incentive Fee

The annual Incentive Fee was 10% of the average annual increase in the Gross Value (as defined at the time by the Trust Deed) of the Trust Fund over the relevant financial year and the two preceding financial years.

Other amounts

In accordance with the Trust Deed, the Manager is permitted to engage related parties to provide services to the Trust, such as development management. The provision of these services is subject to compliance with the restrictions on related party transactions in the Financial Markets Conduct Act 2013.

EXPENSES CHARGED BY THE MANAGER & ASSOCIATED PERSONS

The Manager and the Supervisor are entitled to be reimbursed by Vital for all expenses, costs or liabilities incurred in acting as Manager or Supervisor as the case may be. Certain services are provided by the Manager in lieu of using external providers.

Any changes to fees and expenses charged by any person in respect of the Scheme during the accounting period require the approval of the Supervisor (or in certain circumstances, unitholders) and would be advised to unitholders via the NZX.

For more information in respect to the Fees, please refer to Vital's financial statements, on the Disclose register at <https://disclose-register.companiesoffice.govt.nz/disclose>, scheme number SCH11214.

SCHEME PROPERTY

The table below contains the assets of the Scheme extracted from the Consolidated Statement of Financial Position:

	2020 \$000s	2019 \$000s
Non-current assets		
Investment Properties	2,086,309	1,836,430
Derivative financial instruments	-	-
Other non-current assets	7,548	793
Total non-current assets	2,093,857	1,837,223
Current assets		
Cash and cash equivalents	5,265	6,068
Trade and other receivables	5,202	1,300
Other current assets	852	86,875
Derivative financial instruments	42	77
Total current assets	11,361	94,320
Total assets	2,105,218	1,931,543

CHANGES TO PERSONS INVOLVED IN THE SCHEME

The Manager appointed Dr Michael Philip Stanford as an Independent Director on 20 November 2019.

The Manager appointed Aaron Hockly (19 December 2019) as Fund Manager for Vital following Miles Wentworth's resignation as Interim Manager (9 December 2019). Michael Groth was appointed Chief Financial Officer (19 December 2019) following the resignation of Stuart Harrison (20 December 2019).

Mark Charles Darrow (2 October 2019) Sarah Mary Roberts (2 October 2019) and Matthew James Sale (17 December 2019), ceased being directors of the Supervisor during the accounting period. The Supervisor appointed the following directors during the accounting period Richard Kilpin (1 May 2020), Ryan Elliot Bessemer (2 October 2019), Victoria Grace (2 October 2019), Graeme Kirkpatrick (2 October 2019) and Laurence Stanley Kubiak (25 October 2019).

There have been no changes to the Registrar or the auditors involved in the Scheme during the accounting period.

HOW TO FIND FURTHER INFORMATION

Copies of documents relating to the Scheme, such as the Trust Deed, SIPO and the annual financial statements are available on the Disclose register at <https://disclose-register.companiesoffice.govt.nz/disclose>, scheme number SCH11214, on Vital's website www.vhpt.co.nz or on request from the Manager.

You have the right, free of charge and during normal office hours, to inspect that part of the Unit register that relates to your Units on giving 5 working days' notice to the Manager.

You also have the right, free of charge, on giving 5 working days' notice and during normal office hours, to inspect a copy of the Trust Deed, SIPO and annual financial statements at the Manager's registered office, which is located at: Level 16, AIG Building, 41 Shortland Street, Auckland. Alternatively, you can obtain a copy free of charge by writing to us at: PO Box 6945, Wellesley Street, Auckland 1141.

CONTACT DETAILS AND COMPLAINTS

Manager

NorthWest Healthcare Properties Management Limited
Level 16, AIG Building, 41 Shortland Street, Auckland
PO Box 6945, Wellesley Street, Auckland 1141
Attn: Company Secretary
Telephone: 0800 225 264
Email: enquiries@vhpt.co.nz
Website: www.vhpt.co.nz

Trustee and Supervisor

Trustees Executors Limited
Level 7, 51 Shortland Street, Auckland 1010
PO Box 4197, Auckland 1140
Attn: Client Services Manager – Corporate Trustee Services
Telephone: +64 9 308 7100

Registrar

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Takapuna
Private Bag 92119, Auckland 1142
Telephone: +64 9 488 8777
Facsimile: +64 9 488 8787
Email: vital@computershare.co.nz

Complaints

Complaints may be made to the Manager or the Supervisor at the contact details above. In addition, as a financial service provider registered under the Financial Service Providers (Registration and Dispute Resolution) Act 2008, the Manager is a member of an approved dispute resolution scheme (registration number FSP33302) to which complaints may be made.

Insurance & Financial Services Ombudsman Scheme Inc.

Level 8, 81 Molesworth Street, Wellington 6011
Telephone: +64 4 499 7612
Email: info@ifso.nz

There will be no fee charged to any complainant in connection with investigation or resolution of a complaint.