Generation Healthcare REIT – 2014 AGM

Chairman's speech

[Slide 1 - Cover]

[Introduction]

Good morning Ladies and Gentlemen and welcome to the Annual Unitholder Meeting for **Generation Healthcare REIT**. As it is now 10:00 am and we have a quorum present, I have pleasure in declaring the meeting open.

[Slide 2 - Agenda]

My name is Geoff Brunsdon and I am the Independent Chairman of APN Funds Management Limited, the Responsible Entity of your Fund, Generation Healthcare REIT.

The meeting today has four principal objectives:

- To present the results and activities of the Fund for the 2014 financial year;
- Review the Fund's recent activities and performance;
- To vote on five proposed resolutions, three being ordinary resolutions and two being special resolutions; and
- To give you the opportunity to ask any questions you may have of Directors, Management or Advisers who are present here today.

Shortly I will hand over to the CEO of the Fund, Miles Wentworth. Miles will provide you with an overview of the year to 30 June 2014 and update you on the Fund's recent activities.

[Slide 3 - Directors]

I would now like to introduce my fellow Directors of the Responsible Entity. Our Independent Directors:

- **Michael Johnstone** – who has been a Director since 2009 and is also Chairman of the Audit, Compliance & Risk Management Committee.
- **Jennifer Horrigan** – who has been a Director since 2012 and is also a member of the Audit, Compliance & Risk Management Committee.

- Our fellow Director, **Howard Brenchley** is not able to join us today. Howard has been a Director of APN Funds Management Limited and Chief Investment Officer of APN Property Group since 1998.

[Slide 4 – GHC Directors and Company Secretary]

I would also like to welcome **Miles Wentworth** who is the CEO of your Fund and who will be known to most of you, Chris Adams, Director of Generation Healthcare Management; and **John Freemantle**, Company Secretary of APN Funds Management Limited.

Also present in the audience are our external advisers:

- **Peter Caldwell** - from our auditor, Deloitte; and
- **John Hutchinson** - from our legal counsel, Hall & Wilcox.

[Slide 5 - GHC]

[Slide 6 – Highlights]

[Financial highlights]

Ladies and Gentlemen, Generation Healthcare REIT delivered another strong result for the 2014 financial year reflecting the defensive nature of the sector and active management of the Fund.

Most notably, Underlying Net Operating Income increased 53% from the previous year, to $10.4 million which was largely attributable to solid growth in rental income from the portfolio, coupled with new acquisitions, completion of a project and lower finance costs. Distributions per unit totalled 8 cents for the year, up 9% on the previous year and representing an 86% payout ratio to underlying net operating income.

The Fund delivered a total return (being the movement in the unit price plus distributions) of 30% for the 12 months to 30 June 2014, significantly outperforming the S&P/ASX 300 A-REIT Accumulation Index by 19 percent and consistently outperforming the Index on a one, three and five year basis.

The Fund's exposure to the unique and growing demand for healthcare services which are predominantly a need and not a want, sees the Fund well positioned to provide investors with an attractive risk adjusted return. We have a solid balance sheet, are well supported by our debt providers and continue to focus on enhancing and growing the property portfolio of the Fund in a value adding way. The management team has completed two successful acquisitions, progressed several key projects and undertaken several significant capital management initiatives over the last year which positions the Fund to deliver enhanced value and asset diversification for investors.

With one project that is due to complete on 2 February and a number of projects that are well advanced in their planning and design phase, unitholders can look forward to 2015 with a level of confidence. These projects are positioned to add to future earnings growth supported more broadly by the defensive nature of the health sector.. We confirm our current guidance for the underlying net operating income for the full year to 30 June 2015 of 9.20 cents per unit and for a distribution of 8.40 cents per unit which represents a 91% payout ratio and a 5% increase on that of FY14.

[Slide 7 – Fund Review Miles Wentworth]

I would now like to hand over to Miles, who will take you through the operational highlights of FY14 and provide you with an update on activities since year end.

[Refer separate presentation attached]

[Slide 36 – GHC Slide]

[Concluding address after Miles' speech]

Thank you Miles.

[Slide 37 – Performance Fee Review]

[Performance Fee change]

Before I move on to the formal business of the meeting, I would like to update unit holders on the implementation of the recently announced proposed changes to the Manager's performance fee structure.

By way of background, Generation Healthcare REIT's performance fee regime was established at the formation of the Fund in 2006. In February 2014, the Manager recommended a review of the performance fee which the Responsible Entity supported. The purpose of the review was to ensure that two key principles were underpinning the performance fee continued to hold; namely that it:

- Continues to appropriately incentivise the Manager to outperform and
- Continues to be aligned with the objectives of the Fund's unit holders.

The review was undertaken in three parts:

- engagement with key stakeholders of the Fund;
- review of what current market based performance fee regimes are; and
- an independent assessment of a proposal received from the Manager to vary the performance fee structure for the Fund.

[Slide 38 – Changes to Performance Fee]

The detail of the proposed performance fee structure is now set out on the screen

The proposal by the Manager is to implement an annual cap to the fee, noting that currently there is no cap. The proposed cap is for the annual base fee and performance fee to be no more than 1.5% of total assets.

The independent assessment of the proposed performance fee structure concluded that:

"... (the) proposed performance fee structure is consistent with market practice and aligned with the two stated objectives. It is in the best interest of unit holders to approve the proposed changes to the performance fee structure of Generation Healthcare REIT".

The Responsible Entity and Manager have undertaken to apply this performance fee structure with effect from 1 July 2014.

[Slide 39 – GHC Slide]

I will now move to the formal business of the meeting.

[Slide 40 – Resolution One]

[First item for resolution]

The first item of business to be considered today is ***a resolution to approve the issue of units in the Fund which occurred on 19 November 2013 to institutional and sophisticated investors for the purpose of Listing Rule 7.4 to refresh the Fund's capacity pursuant to Listing Rule 7.1***.

Under the institutional placement, 9,649,123 units at an issue price of $1.14 per unit were issued to institutional and sophisticated investors via a placement arranged by Macquarie Capital and Morgans Corporate. The units issued were fully paid ordinary units in the Fund ranking equally with all other ordinary units and having identical rights to existing ordinary units quoted on the ASX. The funds raised were used to fund the development of the Casey stage 1 project.

Under Listing Rule 7.1, GHC may issue up to 15% of its issued capital without the need for unitholder approval in any 12 month period. The issue of Units pursuant to the Institutional Placement did not exceed the 15% threshold. Without the approval under this resolution, the Units issued under the Institutional Placement would count towards the 15% limit under Listing Rule 7.1.

However, Listing Rule 7.4 provides that where Unitholders subsequently approve an issue, the issue will be treated as having been made with approval for the purpose of Listing Rule 7.1. Therefore, the Fund's 15% capacity will be refreshed and the Fund will be able to issue further Units up to that limit.

The resolution is documented in the Notice of Meeting and shown on the screen behind me. The resolution is an ordinary resolution and will be passed if more than 50% of the votes of those present and eligible to vote are cast in favour of the resolution.

Does any shareholder wish to speak in relation to the resolution or ask any questions?

[Questions / Discussion]

Thank you.

[Proxies]

For this resolution, proxy instructions have been received by the Company Secretary. A summary of these instructions is set out on the screen behind me.

I intend to vote all open proxies that I hold **in favour** of the resolution.

I now put to the meeting the resolution ***"to approve pursuant to Listing Rule 7.4 the units issued pursuant to the Institutional Placement which occurred on 19 November 2013"***.

[Slide 41 – Resolution Two]

[Second item for resolution]

The second item of business to be considered today is ***a resolution to approve the issue of units in the Fund which occurred on 3 June 2014 to institutional and sophisticated investors for the purpose of Listing Rule 7.4 to refresh the Fund's capacity pursuant to Listing Rule 7.1***

Under the institutional placement, 5,750,000 units at an issue price of $1.20 per unit were issued to institutional and sophisticated investors via a placement arranged by Macquarie Capital and Morgans Corporate. The units issued were not entitled to the distribution for the half year period ending 30 June 2014 and initially traded under the ASX code "GHCNA". On commencement of trading on Thursday 26 June 2014, all units trading as GHCNA commenced trading as ordinary GHC units and ranked equally with all other existing fully paid ordinary unit quoted on the ASX. The funds raised used to fund the acquisition of 55 Little Edward Street, Brisbane, the refurbishment and expansion of Epworth Freemasons Clarendon Street, and associated transaction costs.

Under Listing Rule 7.1, GHC may issue up to 15% of its issued capital without the need for unitholder approval in any 12 month period. The issue of Units pursuant to the Institutional Placement did not exceed the 15% threshold. Without the approval under this resolution, the Units issued under the Institutional Placement would count towards the 15% limit under Listing Rule 7.1.

However, Listing Rule 7.4 provides that where Unitholders subsequently approve an issue, the issue will be treated as having been made with approval for the purpose of Listing Rule 7.1. Therefore, the Fund's 15% capacity will be refreshed and the Fund will be able to issue further Units up to that limit.

The resolution is documented in the Notice of Meeting and shown on the screen behind me. The resolution is an ordinary resolution and will be passed if more than 50% of the votes of those present and eligible to vote are cast in favour of the resolution.

Does any shareholder wish to speak in relation to the resolution or ask any questions?

[Questions / Discussion]

Thank you.

[Proxies]

For this resolution, proxy instructions have been received by the Company Secretary. A summary of these instructions is set out on the screen behind me.

I intend to vote all open proxies that I hold **in favour** of the resolution.

I now put to the meeting the resolution ***"to approve pursuant to Listing Rule 7.4 the units issued pursuant to the Institutional Placement which occurred on 3 June 2014"***.

[Slide 42 – Resolution Three]

[Third item for resolution]

The third item of business to be considered today is ***a resolution to approve the issue of units in the Fund which occurred on 23 June 2014 to the vendor of the freehold property interest over 55 Little Edward Street, Brisbane for the purpose of Listing Rule 7.4 to refresh the Fund's capacity pursuant to Listing Rule 7.1***

Under the vendor placement, 1,231,487 units at an issue price of $1.20 per unit were issued to the vendor of the freehold property interest over 55 Little Edward Street, Brisbane via a placement arranged by Macquarie Capital and Morgans Corporate. The units issued under the offer are subject to an escrow period of 18 months until 23 December 2015. The units were not entitled to the distribution for the half year period ending 30 June 2014 and initially traded under the ASX code "GHCNA". On commencement of trading on Thursday 26 June 2014, all units trading as GHCNA commenced trading as ordinary GHC units and ranked equally with all other existing fully paid ordinary unit quoted on the ASX. The funds raised were used to partially fund the acquisition of 55 Little Edward Street, Brisbane and associated transaction costs.

Under Listing Rule 7.1, GHC may issue up to 15% of its issued capital without the need for unitholder approval in any 12 month period. The issue of Units pursuant to the Institutional Placement did not exceed the 15% threshold. Without the approval under this resolution, the Units issued under the Institutional Placement would count towards the 15% limit under Listing Rule 7.1.

However, Listing Rule 7.4 provides that where Unitholders subsequently approve an issue, the issue will be treated as having been made with approval for the purpose of Listing Rule 7.1. Therefore, the Fund's 15% capacity will be refreshed and the Fund will be able to issue further Units up to that limit.

The resolution is documented in the Notice of Meeting and shown on the screen behind me. The resolution is an ordinary resolution and will be passed if more than 50% of the votes of those present and eligible to vote are cast in favour of the resolution.

Does any shareholder wish to speak in relation to the resolution or ask any questions?

[Questions / Discussion]

Thank you.

[Proxies]

For this resolution, proxy instructions have been received by the Company Secretary. A summary of these instructions is set out on the screen behind me.

I intend to vote all open proxies that I hold **in favour** of the resolution.

I now put to the meeting the resolution ***"to approve pursuant to Listing Rule 7.4 the units issued pursuant to the Institutional Placement which occurred on 3 June 2014"***.

[Slide 43 – Resolution Four]

[Fourth item for resolution]

The fourth item of business to be considered today is a special resolution to allow the Fund to issue an additional 10% of the Fund's issued capital by way of placement over a 12 month period from the date of this meeting without using the Fund's 15% annual placement capacity under Listing rule 7.1.

The ASX introduced new fund raising rules to provide more flexibility for smaller listed entities to raise capital in a more simplified and potentially less costly manner. The rules permit eligible entities like the Fund, with investor approval, to issue equity securities up to 10% of their issued capital through placements over a 12 month period. The 10% limit is in addition to the Fund's 15% placement capacity under ASX Listing Rule 7.1.

It should be noted that the issue of new units is not presently intended. However, your approval today will ensure that the Fund maximises its flexibility to raise capital in order to respond quickly to new opportunities which may arise in the future.

The resolution is documented in the Notice of Meeting and shown on the screen behind me. The resolution is a special resolution and will be passed if more than 75% of the votes of those present and eligible to vote are cast in favour of the resolution.

Does any shareholder wish to speak in relation to the resolution or ask any questions?

[Questions / Discussion]

Thank you.

[Proxies]

For this resolution, proxy instructions have been received by the Company Secretary. A summary of these instructions is set out on the screen behind me.

I intend to vote all open proxies that I hold **in favour** of the resolution.

I now put to the meeting the resolution ***"that the Fund may issue up to 10% of its issued capital, where the issue does not fall within one of the exceptions under Listing Rule 7.2"***.

[Slide 44 – Resolution Five]

[Fifth item for resolution]

The fifth and final item of business to be considered today is a special resolution to approve the proposed amendments to the Constitutions to amend the method by which payments are made to Unitholders. This includes changes to facilitate electronic transfers as the payment method for payments to Unitholders.

The resolution is documented in the Notice of Meeting and shown on the screen behind me. The resolution is a special resolution and will be passed if more than 75% of the votes of those present and eligible to vote are cast in favour of the resolution.

Does any shareholder wish to speak in relation to the resolution or ask any questions?

[Questions / Discussion]

Thank you.

[Proxies]

For this resolution, proxy instructions have been received by the Company Secretary. A summary of these instructions is set out on the screen behind me.

I intend to vote all open proxies that I hold **in favour** of the resolution.

I now put to the meeting the resolution ***"to approve the proposed amendments to the Constitution to amend the method by which payments are made to Unitholders, including changes to facilitate electronic transfers as the payment method for payments to Unitholders"***.

[Slide 45 – GHC Slide]

[General business]

Ladies and Gentlemen, this completes the formal business of the meeting. However, as I indicated earlier, I would be happy to take any general questions you may have.

[Questions]

[Meeting close]

If there are no further questions, I will call a close to the meeting.

Thank you for your attendance today and to those unitholders who participated by proxy.

The Directors and Management would be pleased if you would join them for light refreshments and an opportunity to ask additional questions.

CEO (Miles Wentworth) speech
2014 Generation Healthcare REIT AGM

Thank you Geoff and good morning ladies and gentlemen.

Firstly, thank you to you all for making the effort to come to today's Annual General Meeting of Generation Healthcare REIT.

In this morning's address to you today, I would like to cover the following:

[Slide 7 – Fund Review]

- Firstly, briefly touch on the Australian Health Sector and more specifically the performance of Healthcare property;
- Provide a summary of the Year in Review specifically highlighting the performance of the portfolio and our key achievements;
- Overview the organic growth projects that we are moving into the design, planning and delivery phase of; and to then leave you with
- An Outlook for the Fund.

Firstly, a brief overview of the health sector as a whole and more specifically how the Australian healthcare *property market* has performed over the past 7 years.

[Healthcare sector market overview]

[SLIDE 8 – Scale and Growth of Sector]

The healthcare industry is the largest employer in Australia. The spend on healthcare services currently represents 9.5% of the country's gross domestic product[1] at approximately $140 billion, making the sector a material component of the Australian economy.

The demand for healthcare services continues to grow, due to the unique characteristics underpinning the sector. They are:

- Australia's growing and fast ageing population. The age group 65 years and over is forecast to increase by 91% over the next twenty years. Not only is this age group growing materially but it also spends approximately four times more per person on

[1] The Australian Government entity called the Australian Institute of Health and Welfare produces a report on health spending. The most recent report is dated 2011/2012.

healthcare than people under the age of 65 - the over 85 year olds consume over nine times more;

- Secondly, the rising expectations of consumers for high quality medical services which is facilitated by advances in technology is resulting in a greater number of *and* improved health solutions; and thirdly
- The increasing prevalence of non-age related diseases such as obesity and diabetes is not only increasing the demand for medical attention but also resulting in a growing emphasis on preventative care.

[SLIDE 9 Scale Growth ...]

The scale of the sector and growing need for health care services will necessitate the need for ***new*** and ***improved*** healthcare infrastructure. And this is where Generation Healthcare is well positioned over the longer term – being able to capitalise on growth opportunities which generate attractive risk adjusted returns.

[Healthcare property performance]

[SLIDE 10 – Healthcare Property Outperforms]

In regard to healthcare property and its performance as an investment class, the independent research house IPD launched the Healthcare Property Index in March 2012. The Index now includes over $1.2 billion of Australian healthcare property from 5 participants including Generation Healthcare.

As you can see from the table, over a 7 year period stretching back to 2006, the total return (being income and movement in the underlying property value) from Healthcare Property outperformed all other classes of property. Not only did healthcare property have the highest total return but it also had;

- The highest risk adjusted return;
- The lowest risk; and
- The lowest downside risk.

This provides strong independent evidence of the attractive risk adjusted returns that well selected and managed **healthcare** property can generate.

[SLIDE 11 – Healthcare property's ...]

IPD also disclosed that healthcare property has been shown to demonstrate the lowest correlation with **all** other types of property providing a strong rationale for including healthcare property within a well diversified property portfolio.

[SLIDE 12 – Year In Review]

Now moving onto the Year in Review and the **Key Results and Performance** for the Year ended 30 June 2014.

[Key results and operating performance]

[SLIDE 13 – Key Results and Performance]

I am pleased to report a strong Underlying Net Operating Income result of $10.4 million for the year, up 53% on the prior year's result.

Net Property Income increased by more than 16% to $18.6 million, driven primarily by underlying rental growth of the portfolio, acquisitions and projects completed during the period.

All tenants bar one were subject to a rental review during the past 12 months. On a like-for-like basis rental income increased by 2.7%. Of the leases that were due to expire, we continued to experience a high level of tenant retention at over 89%.

[SLIDE 14 – Key results and performance]

On a like-for-like basis property values increased by 5% over the year. One exception was the Pacific Private Clinic in Southport, which experienced a decline in value of 2.4% due to a structural change in that market with the Gold Coast Public Hospital and the operator of Allamanda Private Hospital have and are relocating to the Parklands site.

[Total return to investors]

[SLIDE 15 – Total Return Performance]

In terms of returns to investors, Generation Healthcare REIT delivered a total return of 30% for FY14 (being distributions plus the change in unit price), outperforming the S&P / ASX 300 AREIT Accumulation Index by some 19 percent.

[SLIDE 16 - Distributions]

The Fund declared and paid two distributions totalling 8 cents per unit for the year, up 9% on the prior year. This represented an 86% payout ratio to the Underlying Net Operating Income. Unitholders also benefited from 98% of the distribution being tax deferred.

[Transactions during the period]

[SLIDE 17 - Transactions]

As Geoff has already touched on, it has been a very active year for the Fund, having completed, initiated or acquired a number of value adding transactions.

[SLIDE 18 – Transactions during the period]

Firstly, **in September last year** we entered into a Joint Venture arrangement with Evolution Healthcare to acquire a minority interest in a secured debt position associated with Waratah Private Hospital, previously known as Medica Centre, located in Sydney. The facility consists of 12,000 sqm of area including 7 operating theatres, radiotherapy, radiology, day oncology and 500 car parks. This is a turnaround opportunity over the medium to longer term with attractive upside potential.

In November 2013, we commenced Stage 1 at Casey being a $19.2 million cancer focussed Specialist Centre. With Casey being one of Victoria's largest and fastest growing Local Government Areas and the site being located directly opposite the Casey Public Hospital, this has strong strategic rationale. We are currently 76% pre-committed, including the most recent undertaking by St John of God for the Pathology, Pharmacy and Cafe, and are in process of leasing the doctor consulting space. The project is progressing well and is on budget and on time, with doors set to open on 2 February next year.

May of this year was an exceptionally busy month as we completed a number of transactions:

- The first being the acquisition of a quality medical office building located in an established health precinct on the fringe of Brisbane CBD in Spring Hill for $44.5 million. Anchored by two leading healthcare providers, Queensland Eye Hospital and Queensland Fertility Group and supported by 484 on site car parks, the building is well positioned for further value enhancement, through the conversion of current office tenants to health tenants, rebranding the building and renegotiating the car park lease.
- The second transaction was making an additional investment of $12.5 million into the refurbishment and expansion of the Epworth Freemasons Private Hospital Clarendon St here in Melbourne, in which the Fund owns a 50% interest. The return on the additional investment is 8.25% and the existing lease term was extended by 8 years to 20 years.
- The third transaction saw the Fund enter into an agreement for lease with Epworth Foundation for a new $25 million integrated cancer centre which I will talk to shortly.

[SLIDE 19 – Post Balance Date Announcements]

Post year end, a number of further transactions have been announced.

These include:

[SLIDE 20 - Post Balance Date Announcements]

- On 2 July, a series of transactions were announced which included two existing tenants representing 49% of the rent roll at the joint venture owned Frankston Private selling their businesses to Healthscope Limited and those leases being extended by 18 years to 20 years as part of the transaction. Interdependent with this, we entered into an Agreement for Lease with Healthscope to undertake a circa $35 million expansion of Frankston Private, on a 20 year head lease basis at an 8.50% return on cost, **and** entered into an unconditional contract to acquire an adjacent 2,000 sqm site for medium term growth.

[SLIDE 21 - Post Balance Date Announcements]

- On 20 August, we announced the signing of a Memorandum of Understanding with St John of God Health Care, who are Australia's largest not-for-profit hospital operator, for a $120 million Stage 2 project at Casey, which I will discuss more fully shortly;

[SLIDE 22 - Post Balance Date Announcements]

- And lastly, on 16 October, we announced that we had contracted with National Australia Bank Limited to enhance the terms of the Fund's Head Trust debt facility. This included a renegotiation of the pricing (being line and margin) which saw a 51 basis point reduction on approximately 61% of the Fund's debt. The Fund also took the opportunity to extend the remaining 4 year term of a $38.9 million debt tranche out to 5 years. This extended the weighted average duration of the debt facilities from 2.7 years to 3.0 years.

[SLIDE 23 – Capital Management]

I would now like to review the **capital management initiatives** that we have undertaken during the year.

[Capital management]

[Equity raisings]

[SLIDE 24 – Capital Management Initiatives]

Two equity raisings totalling $82.8 million were undertaken throughout the year. We were once again very pleased with the level of interest received from the market, with the institutional placements being heavily oversubscribed from both existing and new institutional investors and strong support from retail investors.

In December, we completed an $18 million fully underwritten equity raising at an issue price of $1.14 per unit via an institutional placement and unit purchase plan to fund the $19.2 million Casey Stage 1 project.

In June this year, we completed a $64.8 million fully underwritten institutional placement and entitlement offer at $1.20 per unit to fund the acquisition of the medical office building in Spring Hill, Queensland as well as the services renewal, refurbishment and expansion of Epworth Freemasons Private Hospital.

We very much appreciate **your** ongoing support for the Fund and are pleased that the market has responded positively, with us currently trading at $1.43, some 19% up on the most recent issue price of $1.20 in June.

The distribution reinvestment plan, otherwise known as the DRP remains active with a 2% discount, and in the 2014 financial year raised an additional $2.5 million.

[Debt]

[SLIDE 25 – Capital Management Initiatives]

On the debt side of Capital Management, two of the Fund's three debt facilities totalling $119 million were renegotiated on enhanced terms. These negotiations have resulted in an extension of the debt expiry, diversification of maturity dates and a reduction in the weighted cost of debt by 42 basis points.

As a result of fully equity funding the transactions in the 2014 financial year, this positions the balance sheet with the majority of the capacity to undertake the new projects with debt whilst staying within our targeted debt to total asset ratio of 40 to 45% over the medium to longer term. The level of net debt to total assets as at 30 June 2014 was just over 31%.

[SLIDE 26 – Organic Growth Projects]

[Organic Growth projects]

[SLIDE 27 – Project Model]

I would now like to spend a few minutes talking about our model of delivering development projects, and to talk about the projects that are now moving into the design, planning and delivery phase.

To begin, I wanted to briefly overview our most commonly used project delivery model being a return on cost model with all or most of the facility being pre-committed.

In general terms, in healthcare property one does not build it and then market the space, that is adopt a "build it and they will come approach". The risks associated with this would not be worth contemplating.

Our projects are structured such that upfront we secure a high quality tenant or tenants, design, plan and cost the project. We negotiate a rental yield with the tenant, and assuming the operational business case is supported as a going concern, the project is delivered using a return on total project cost which has a direct correlation to the valuation of the property. We contract and deliver the project with a high quality and experienced builder.

We are firmly of the view that this model aligns the landlord and tenant, whilst minimising risk for both.

[SLIDE 28 – 1. Frankston Private Hospital]

The first of the organic growth opportunities is at Frankston Private Hospital in Frankston, Victoria. This high quality, cancer focused facility is 50% owned by the Fund.

Last year, we acquired an adjacent high profile 2,775 sqm site identified in green shading **[refer to slides]**. As previously mentioned post year end we announced a pre-commitment via a 20 year head lease from Healthscope, Australia's second largest private hospital operator, to undertake a major expansion to provide inpatient beds, additional operating theatres, medical consulting and car parking.

We also contracted to acquire an adjoining development site of 2,021 sqm that provides medium term expansion opportunities with the site to be leased initially to Healthscope for 10 years and used for medical consulting. The project is a return on cost model with the return negotiated at 8.50% and the 20 year lease to have annual reviews to the lower of 2 times CPI and 3%.

Over the next six to twelve months, the focus will be to undertake the hospital design, obtain town planning approval, tender construction contracts and initiate the project.

[SLIDE 29 – 2. Epworth Freemasons Clarendon Street]

The second of the organic growth projects is at Epworth Freemasons Private Hospital Clarendon Street. In May, the Fund entered into an agreement for lease with Epworth Foundation, for a 20 year head lease of a new $25 million integrated Cancer Centre. The centre is proposed to be built on a 745 sqm part of the Clarendon Street site which is to be sub-divided from the main site and is subject to development approval. Epworth has the right but not the obligation to fund any excess over $25 million and have a resulting ownership interest.

The site will link existing and proposed cancer services across the Clarendon Street campus including radiotherapy, chemotherapy and consulting.

We are currently in the design and planning phase of this project and hope to have it activated by the end of calendar 2015.

[SLIDE 30 – 3. Casey Health Campus]

The third organic growth project is at our 12,000 plus sqm site strategically located opposite the Casey Public Hospital, in the precinct of Casey, Victoria. The site was acquired by the Fund in February 2013 and as mentioned is located in one of Victoria's largest and fastest growing Local Government Areas. This site is approximately 45 kilometres south east of the Melbourne CBD, and is in close proximity to the Monash Freeway providing high visibility and strong access, as you can see [slide of the site and surrounding area].

Being located directly opposite the 229 bed Casey Public Hospital, that, subject to government funding is forecast to grow materially in size, provides a significant opportunity to develop a scale co-located health campus over time.

The site has planning approval for over 25,000 sqm of lettable area for health use and thereby provides the opportunity to build on a three stage basis what is likely to be $150 to $200 million of healthcare property.

[SLIDE 31 – Casey Health Campus]

Stage 1, known as the Casey Specialist Centre is currently under construction. The building will comprise 3,500 sqm of net lettable area across 4 levels. The fund has contracted agreements for lease for 63% of the total forecast tenancy income and includes key anchor tenants St John of God, GenesisCare and MIA Radiology. With the signing of a Memorandum of Understanding with St John of God for Stages 2 and 3, they have committed to the pathology, pharmacy and cafe areas taking total pre-commitment to 76%.

Leasing of the consulting space to doctors is now the focus. We believe the strategic location, strong local demographics and a state-of-the-art building will be an attractive proposition for medical practitioners and their businesses.

As mentioned, Stage 1 is currently on time and on budget with a forecast practical completion of the end of November, followed by a tenant fitout period. The property is forecast to be rent producing in February next year.

Following the announcement of the entering into a Memorandum of Understanding with St John of God in August, **Stage two at Casey**, being the larger of the three buildings on the master plan shown, located on the left hand side of the artist's impression is well into the design, planning and costing phase. This building will be a scale private surgical and medical hospital with provision to add additional beds, operating theatres and specialist consulting space over time into Stage 3 being the middle building, to meet the forecast demand from the catchment.

The Memorandum of Understanding with St John of God Health Care is subject to agreeing outstanding commercial terms and satisfaction of pre conditions, including respective Board approvals.

Stage 2 concept plans are to build a scale private hospital comprising 190 beds, six operating theatres, six birthing suites, a cardiac/vascular catheter laboratory, two endoscopy theatres, medical consulting suites and associated car parks. The total project cost is currently estimated at approximately $120 million with the base building (being the shell) and car park to be jointly owned and the building fit out of approximately $30 million to be owned by St John of God Health Care. What we have been able to do is shape what will be a major private health campus for Casey and the surrounding area, in a value adding manner for investors in the Fund.

[SLIDE 32 – Projects predominantly ...]

The organic growth projects that the Fund has, will be predominantly funded out of debt and are forecast to provide attractive upside potential to earnings on completion. All are very high quality projects with attractive leasing metrics, utilising the return on cost model.

[SLIDE 33 – Summary and Outlook]

[Summary and Outlook]

[SLIDE 34 – Summary and Outlook]

The Fund's strategy remains resolute – being to invest exclusively in high quality healthcare properties that provide investors with attractive risk adjusted returns.

The current portfolio of quality healthcare real estate offers attractive risk adjusted returns, with organic growth projects that are in the planning, design and delivery phase, providing upside potential to future earnings and additional longer dated organic growth in the pipeline.

With an 11.3 year weighted average lease term to expiry, strong leases subject to annual review and tenants operating in a defensive sector, Generation Healthcare REIT is well positioned.

Over the next 12 months, the team is focussed on delivering six key objectives:

1. Continue to grow operational earnings and distributions;
2. Continue to proactively manage the assets within the portfolio to drive value growth;
3. Deliver Stage 1 at Casey, a specialist medical centre, on budget and on time;

4. Progress the Epworth Freemasons Cancer Centre project and Frankston Private expansion project.
5. Advance Stage 2 at Casey with St John of God Health Care and continue the repositioning of Waratah Private Hospital

And lastly

6. Secure additional growth opportunities that add value to the Fund

In regard to our forecast earnings, as Geoff mentioned we reaffirm the guidance provided in August that we expect a 2015 financial year Underlying Net Operating Income per unit of 9.20 cents. The guidance for the distribution is 8.40 cents per unit paid equally between the first and second half, which is a healthy 5% increase on FY14.

[SLIDE 35 – GHC presents ...]

The Fund presents a defensive investment – backed by high quality assets, high occupancy rates, attractive long term rental flows and an experienced and committed management team. Beyond 2015, organic growth opportunities supported by a robust balance sheet are forecast to deliver attractive income streams.

Against a strong macro environment, we believe the demand for healthcare infrastructure will continue to grow strongly.

Ladies and Gentlemen, thank you for your time and for attending today's meeting.

[END]

GENERATION **HEALTHCARE** REIT
(ASX CODE: GHC)

ANNUAL GENERAL MEETING

23 OCTOBER 2014

GENERATION HEALTHCARE REIT

generationreit.com.au

AGENDA

Geoff Brunsdon
Chairman

- 2014 financial year results
- Recent activities and performance
- Five proposed recommended resolutions
- Questions

DIRECTORS

Michael Johnstone
Independent Director

Jennifer Horrigan
Independent Director

Howard Brenchley
Non-Executive Director, APN Funds Management

CEO, DIRECTOR GHM AND APN FM COMPANY SECRETARY

Miles Wentworth
Chief Executive Officer, GHC

Chris Adams
Director, GHM

John Freemantle
Company Secretary, APN Funds Management

GENERATION HEALTHCARE REIT

HIGHLIGHTS

- Underlying net operating income $10.4 million (increase of 53% from last year)
- **Distributions up 9%** to cents 8.0 cents per unit for the year
- 12 month **total return of 30%**
- Outperformed the ASX 300 AREIT Index by 19%
- Defensive sector : unique, growing demand for health services
- Balance sheet provides capacity
- Completed a number of acquisitions, progressed key projects and undertaken two significant capital management initiatives
- **Reaffirm FY15 guidance: 8.40 cpu distribution** (5% increase on FY14)

FUND REVIEW

Miles Wentworth
Chief Executive Officer, GHC

- Health sector review
- Healthcare property performance
- Year in review
- Overview of organic growth projects
- Outlook

SCALE AND GROWTH OF THE SECTOR

- Australia's largest employer
- Healthcare spend is 9.5% of GDP ($140 billion)
- Material component of the Australian economy

Unique demand characteristics:

- Rapidly ageing and growing population
- Rising expectations for high quality health solutions
- Increase in non-age related diseases
- Technology is driving more health solutions

Scale + growing demand for health services

New & improved infrastructure

GENERATION HEALTHCARE REIT

Well positioned to capitalise on growth opportunities and deliver attractive risk adjusted returns

HEALTHCARE PROPERTY OUTPERFORMS

- IPD Australian Healthcare Property Index launched in March 2012
- The Index represents approximately $1.2 billion of healthcare assets
- 5 participants, including GHC

Property sector performance over 7 years to June 2014

Property sector	Annual return	Return volatility	Downside risk
Healthcare	**11.2%**	**1.2%**	**0.1%**
Office	6.7%	3.5%	2.4%
Retail	7.0%	2.6%	1.5%
Industrial	6.5%	3.8%	2.6%
Hotel	9.0%	4.7%	2.8%

- **Highest risk adjusted return**
- **Lowest risk**
- **Lowest downside risk**

Source: IPD Research

Healthcare property’s low correlation with all other types of property provides a strong rationale for including healthcare property within a well diversified property portfolio

YEAR IN REVIEW ➤

KEY RESULTS AND PERFORMANCE

Underlying Net Operating Income up 53% to $10.4 million:

- Net property income ↑ 16% to $18.6 million
- Driven by:
  - underlying rental growth,
  - acquisitions, and
  - completed projects
- Like-for-like rental growth of 2.7%
- High tenant retention at 89%

KEY RESULTS AND PERFORMANCE

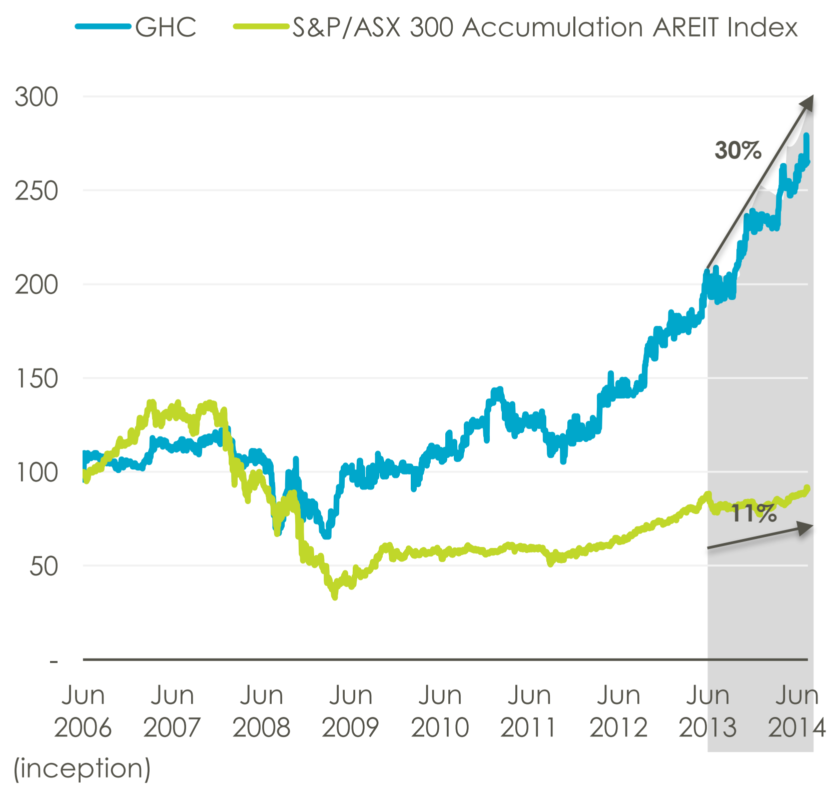
Revaluations:

- All property values increased with exception of Pacific Private
- Property values increased 5% (on a like-for-like basis)
- Pacific Private down 2.4% reflecting structural change in the Gold Coast market
- 72% of portfolio independently revalued over the past 12 months

TOTAL RETURN PERFORMANCE

GHC delivered a total return of 30% for FY14

	GHC	Benchmark	Over / (Under) Performance
1 year	30%	11%	19%
3 years	28%	15%	13%
5 years	24%	14%	10%
Since Inception	13%	-1%	14%



Source: Bloomberg as at 30 June 2014 close

1. Capital appreciation of GHC units during the year, assuming reinvestment of distributions paid

DISTRIBUTIONS

- FY14 declared and paid two distributions, totalling 8.0 cpu
- 9% increase on last year
- 86% payout ratio
- 98% tax deferred distribution

TRANSACTIONS ➤

TRANSACTIONS DURING THE PERIOD ➤

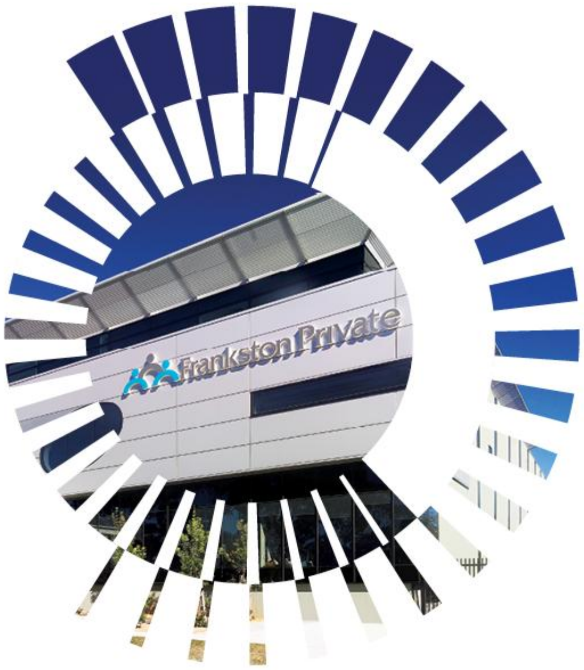
1. Joint Venture with Evolution Healthcare to acquire a minority interest ($6.15 million) in a secured debt position
2. Commenced $19.2 million Stage 1 project at Casey → On budget and on time for 2 February 2015 opening
3. Medical office in Spring Hill Brisbane acquired for $44.5 million
4. $12.5 million additional investment into the refurbishment and expansion of Epworth Freemasons Clarendon St Hospital
5. Signed an Agreement for Lease for a new $25 million cancer centre with Epworth Foundation

POST BALANCE DATE ANNOUNCEMENTS ➤

POST BALANCE DATE ANNOUNCEMENTS

50% Joint owned Frankston Private deal secured:

- Healthscope acquired Frankston Private Day Surgery and Peninsula Oncology Centre representing 49% of the rent roll and extended leases by 18 years to 20 years
- Agreement for lease with Healthscope
  - $35 million (approx) expansion
  - 20 year head lease
  - 8.50% return on cost
- Unconditional contract to acquire a 2,000 sqm adjacent site



POST BALANCE DATE ANNOUNCEMENTS

Casey Stages 2 and 3 – MoU with St John of God Health Care

- Non-binding memorandum of understanding (MoU) with St John of God Health Care in relation to Stages 2 and 3
- Subject to final approvals
- $120m total project cost
- Base building and car park to be jointly owned
- Building fit out to be owned by St John of God Health Care
- Stage 3 expansion over medium to long term

POST BALANCE DATE ANNOUNCEMENTS

Enhancement of debt facilities

- Renegotiation of pricing (line and margin) on $77.8 million reflective of the competitive market
- 51 basis point reduction on approximately 61% of the Fund's debt which is with NAB
- Extended the remaining 4 year term of a $38.9 million tranche out to 5 years
- Weighted average duration of the debt facilities extends from 2.7 years to 3.0 years

CAPITAL MANAGEMENT ➤

CAPITAL MANAGEMENT INITIATIVES

Equity

- Two equity raisings totalling $82.8 million
- Strong institutional and retail support
- Consisted of:
  - **December 2013** - $18 million fully underwritten Placement and Unit Purchase Plan at $1.14 per unit
  - **June 2014** - $64.8 million fully underwritten Placement and Entitlement Offer at $1.20 per unit

Market has responded positively

Closing price up 19% from latest issue price

CAPITAL MANAGEMENT INITIATIVES

Debt

- 2 of the 3 three debt facilities ($119 million) renegotiated with enhanced terms
- Term of debt extended, diversification of maturity and reduction in weighted cost of debt by 42 bps
- Debt ratio ↓ from 47.6% to 31.3%
- Medium to Long term target level of debt in the range of 40-45%
- Balance Sheet well positioned to undertake new projects

ORGANIC GROWTH PROJECTS

PROJECT MODEL

Most commonly used project delivery model

Tenant pre-commitment + Joint Design Planning & Costing + Return on total project cost ⟷ Property valuation + High Quality Builder

Alignment of landlord and tenant and low risk delivery of a high quality asset

1. FRANKSTON PRIVATE HOSPITAL

- 50% owned Joint Venture entity, Divine Logistics Trust entered into contracts with Healthscope:
  - Acquired businesses of two key tenants
  - Extended existing lease terms for 49% of rent roll by 18 years
  - Agreement for lease for major expansion
- Acquired the adjacent 2,775 sqm site last year and an adjoining development site of 2,021 sqm
- Pre-commitment via a 20 year head lease from Healthscope with 8.50% return on cost and annual rent reviews to the lower of 2x CPI and 3%

- Frankston development site
- Frankston Private
- JV has an unconditional contract to acquire the site

2. EPWORTH FREEMASONS CLARENDON STREET

- Signed an Agreement for Lease to build Epworth Foundation a new $25 million Cancer Centre subject to a 20 year head lease[1]
- 8.50% return on cost, annual rent reviews the higher of CPI and 3.5%
- Subdivision of 745 sqm of existing site
- Subject to development approval
- Integrated centre including radiotherapy, chemotherapy and consulting services

1. Aligned with the main hospital lease with the initial expiry being 2034

3. CASEY HEALTH CAMPUS

- 45 km South East of Melbourne CBD, directly opposite the Casey Public Hospital, with high visibility and strong access
- Catchment forecast to materially grow in size
- Opportunity to develop a scale co-located health campus
- Planning approval for 25,000+ sqm of lettable area

3. CASEY HEALTH CAMPUS

Stage one – Casey Specialist Centre

- Under construction, on time and on budget
- 3,500 sqm over 4 levels
- 76% pre-committed
- Leasing of doctor consulting space now the focus

Status as at October 2014

Stage two - $120m Private Hospital

- Planning and design are progressing well
- Private surgical and medical hospital with provision to grow and meet forecast demand
- Proposed JV with St John of God

Stage 2 Artists Impression

Projects predominantly funded via debt and are forecast to provide attractive upside potential to earnings on completion

SUMMARY AND OUTLOOK ➤

SUMMARY AND OUTLOOK

- Invest exclusively in high quality healthcare properties
- Attractive organic and value adding projects over the short, medium and longer term
- Focus over the next 12 months:
  1. Continue to grow operational earnings and distributions
  2. Proactively manage assets to drive value growth
  3. Deliver Stage 1 at Casey on time and on budget
  4. Progress the Epworth Freemasons Cancer Centre project and Frankston Private expansion
  5. Advance State 2 at Casey and continue the repositioning of Waratah Private Hospital
  6. Secure additional growth opportunities that add value
- FY15 distribution guidance: 8.40 cpu, a 5% increase on FY14

GHC presents a defensive investment backed by quality assets, high occupancy rates, attractive long term rents and an experienced, committed management team

GENERATION HEALTHCARE REIT ➤

PERFORMANCE FEE REVIEW

- At the half year the Manager undertook a review of the performance fee
- **Two key objectives** of the review :
  - To ensure it is aligned with GHC unitholders; and
  - Continues to incentivise the Manager to outperform
- **Engagement with key stakeholders** has been undertaken and **independent advice** has been received that verifies that the proposed changes are consistent with market practice and aligned with the two stated objectives
- Changes are:
  - Implement an annual fee (base + performance components) **cap of 1.5%** of monthly average gross assets
  - Any excess over the cap to roll forward
  - Excess to be paid out under given specific circumstances
- Rationale for change – to smooth the impact in any one period

CHANGE TO PERFORMANCE FEE

	EXISTING	PROPOSED
Benchmark	S&P/ASX 300 A-REIT Accumulation Index	S&P/ASX 300 A-REIT Accumulation Index
Measured	6 monthly	6 monthly
First tier percentage	5%	5%
Second tier percentage	15%	15%
Satisfaction of fee by	Issue of Units	Issue of Units
Fee cap on the monthly average Gross Assets for aggregate of base and performance fees	None	1.5% p.a.
Roll forward excess	N/A	Yes
Excess paid out / satisfied in units	N/A	➤ Subject to the current period fee and prior period excess or part thereof being within the cap for the period; ➤ Subject to GHC total return for the current period being positive; and ➤ Unit issuance price based on the relevant formula at the time that the entitlement crystalised as opposed to the date of issue
Immediate payout of excess in cash, based on the unit price at the time of financial close ((Excess dollar amount /unit price at entitlement date) x trade price at time))	N/A	➤ Takeover / Merger ➤ Internalisation of the Manager/RE ➤ Removal of the Manager/RE

GENERATION HEALTHCARE REIT ➤

RESOLUTION ONE

“ That, for the purpose of Listing Rule 7.4 and for all other purposes, the previous issue of 9,649,123 Units at an issue price of $1.14 per Unit, under a placement to institutional and sophisticated investors as detailed in the Explanatory Notes (November Placement) is approved.”

Summary of Proxy instructions				
	For	Open	Against	Abstain
Votes	43,324,491	1,741,130	274,426	990,314
Percentage	95.55%	3.84%	0.61%	-

RESOLUTION TWO

" That, for the purpose of Listing Rule 7.4 and for all other purposes, the previous issue of 5,750,000 Units at an issue price of $1.20 per Unit, under a placement to institutional and sophisticated investors as detailed in the Explanatory Notes (June Placement) is approved."

Summary of Proxy instructions				
	For	**Open**	**Against**	**Abstain**
Votes	38,984,356	1,762,744	274,426	973,314
Percentage	95.03%	4.30%	0.67%	-

RESOLUTION THREE

" That, for the purpose of Listing Rule 7.4 and for all other purposes, the previous issue of 12,083,333 Units at an equivalent issue price of $1.20 per Unit, under a placement to the vendor of the freehold property interest over 55 Little Edward Street, Brisbane as detailed in the Explanatory Notes (Vendor Placement) is approved."

Summary of Proxy instructions				
	For	**Open**	**Against**	**Abstain**
Votes	64,328,935	1,738,164	297,182	157,757
Percentage	96.93%	2.62%	0.45%	-

RESOLUTION FOUR

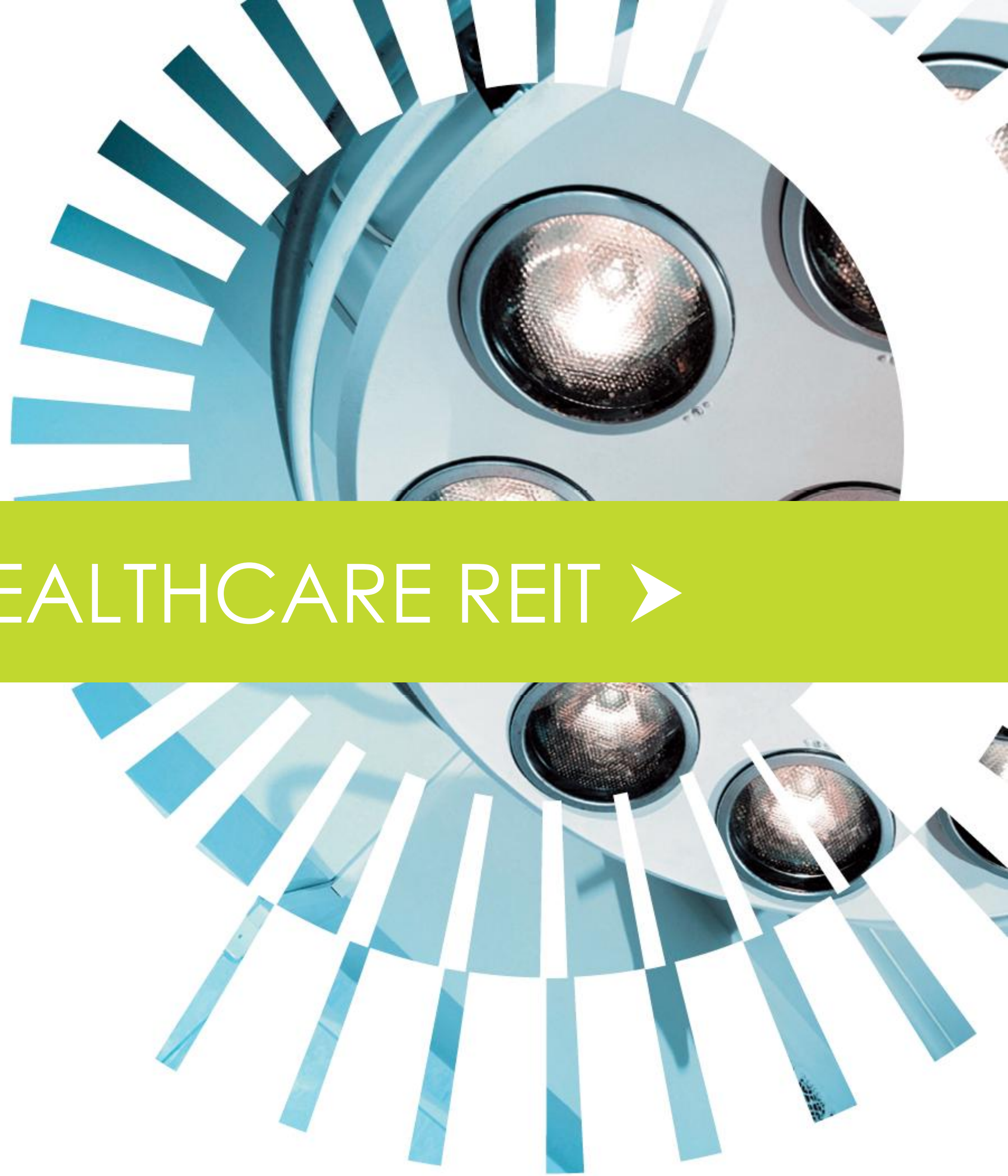
" That for the purpose of Listing Rule 7.1A and for all other purposes, the issue of Units totalling up to an additional 10% of the Units on issue, calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 and on the terms and conditions set out in the Explanatory Memorandum, is approved."

Summary of Proxy instructions				
	For	Open	Against	Abstain
Votes	69,498,149	1,761,411	7,229,398	116,413
Percentage	88.55%	2.24%	9.21%	-

RESOLUTION FIVE

" That the Constitution be amended as set out in the supplemental deed poll marked the 'Seventh Supplemental Deed Poll' and the Responsible Entity be authorised to do all things necessary to give effect to this resolution, including (without limitation) to execute and lodge with the Australian Securities and Investments Commission a supplemental deed in relation to the amendments referred to in this resolution."

Summary of Proxy instructions				
	For	Open	Against	Abstain
Votes	76,185,320	1,797,529	283,166	153,915
Percentage	97.34%	2.30%	0.36%	-



GENERATION HEALTHCARE REIT ➤