

FMCA Compliance Annual Report 2021

Managed by NorthWest Healthcare
Properties Management Ltd

www.vhpt.co.nz

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The offer of interests in the Scheme was originally made under the Unit Trust Act 1960.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 21 September 2021.

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. Vital also undertakes the design, refurbishment or development of healthcare properties. Vital may invest directly in real property, or in companies or trusts (listed on a recognised stock exchange or unlisted) through financial products, other types of financial instruments or the provision of debt, 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 2020 to 30 June 2021.

The number of managed investment products, being units in the Scheme (**Units**) on issue at the start of the accounting period was 453,782,695. The number of Units on issue at the end of the accounting period was 519,752,625.

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)

There have been no amendments to the SIPO 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

There have been no amendments to the Trust Deed made during the current accounting period.

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 2020 to 30 June 2021 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

Vital continues to be a closed ended fund and does not continuously offer units for subscription. Vital offers units for subscription from time to time to raise equity capital and, during the period 1 July 2020 to 30 June 2021, Vital completed a placement and unit purchase plan pursuant to which it raised \$159.65 million to pursue strategic objectives. Vital also offers new units to Unit holders through participation in its dividend reinvestment plan, the terms of which remained unchanged during the current accounting period.

VALUATION AND PRICING METHODOLOGIES

There was no change to the valuation and pricing methodologies, as outlined in the Trust Deed, for the Scheme during the current accounting period.

FINANCIAL CONDITION AND PERFORMANCE OF THE SCHEME

2021 has been a challenging year globally due to COVID-19. Notwithstanding these challenges, Vital's defensive portfolio helped Vital record a 27.7% total return in FY21, outperforming the S&P/NZX REIT Index by 7.4%.

Vital's defensive characteristics include its market-leading 18.7 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.

Vital has continued to deliver on its strategies to develop and grow its unique healthcare portfolio in Australia and New Zealand, while providing significant growth in returns for its unitholders.

FY21 Highlights

- 21.8% increase in adjusted funds from operations (**AFFO**) from \$47.2m to \$57.5m;
- 10.4% increase in AFFO per unit from 10.45 cents per unit (**cpu**) to 11.54 cpu;
- 27.7% total unitholder return, exceeding the S&P/NZX REIT Index by 7.4%;
- 21.4% increase in net tangible assets (**NTA**) per unit from \$2.38 to \$2.89;
- Distributions of 8.875 cpu paid or payable; representing a prudent 76.9% AFFO pay-out ratio;
- Extension of market-leading weighted average lease expiry term (**WALE**) from 18.1 to 18.7 years;
- \$286m acquisitions (\$269m completed and \$17m committed);
- Significant development progress including practical completion of the expansion and upgrade at Royston Hospital (Hastings), a new oncology centre at South Eastern Private Hospital (Melbourne), and Stage 1 of Wakefield Hospital (Wellington);
- \$182.4m of new equity (net of costs) raised through a placement, UPP, 4 x DRPs and issue of incentive units;
- Appointment of an Independent Chair to lead a majority independent Board; and
- Retirement of long-standing Director Bernard Crotty, replaced with Craig Mitchell.

As at 30 June 2021 Vital had net assets of \$1,503.5 million (2020: \$1,079.0 million), comprising total current assets of \$21.5 million (2020: \$11.4 million), total non-current assets of \$2,641.1 million (2020: \$2,093.9 million) and total liabilities of \$1,159.1 million (2020: \$1,026.2 million).

Total comprehensive income for the 12 month period to 30 June 2021 was \$280.5 million (2020: \$76.3 million), and total distributions relating to the period to Unit holders were \$44.4 million (2020: \$39.9 million), representing 8.875 cents per Unit (2020: 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 2021.

	2021 \$000s	Percentage of Scheme's Property ¹
Total fees and expenses incurred		
Management fees	13,014	0.49%
Manager's incentive fee	12,402	0.47%
Leasing / Licencing fees	147	0.01%
Property management fees	1,500	0.06%
Disposal fees	1,011	0.04%
AFSL fee	995	0.04%
	29,069	1.09%
Service fees capitalised		
Acquisition fees	4,050	0.15%
Leasing / Licencing fees	1,345	0.05%
Project management fees	158	0.01%
Development management fees	3,447	0.13%
Total fees charged by the Manager and associated persons	38,069	1.43%
Auditor's remuneration	197	0.01%
Supervisor's fees	654	0.02%
Other operating income/expenses	2,923	0.11%
Total fees & expenses	41,843	1.57%

¹: Totals may not add due to rounding

MANAGER'S FEES

Remuneration of the Manager

Vital pays fees to the Manager in accordance with the arrangements set out in the amended Trust Deed approved by unitholders on 31 October 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 and related capitalised acquisition costs.

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.

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:

	2021 \$000s	2020 \$000s
Non-current assets		
Investment Properties	2,634,588	2,086,309
Derivative financial instruments	-	-
Other non-current assets	6,477	7,548
Total non-current assets	2,641,065	2,093,857
Current assets		
Cash and cash equivalents	6,880	5,265
Trade and other receivables	1,634	5,202
Other current assets	12,736	852
Derivative financial instruments	245	42
Total current assets	21,495	11,361
Total assets	2,662,560	2,105,218

CHANGES TO PERSONS INVOLVED IN THE SCHEME

The Manager appointed Craig Douglas Mitchell (29 June 2021) as a Director of Vital following Bernard Crotty's resignation as a Director (29 June 2021).

There have been no changes to the Supervisor involved in the Scheme during the accounting period.

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: c/- Bell Gully, Vero Centre, Level 21, 48 Shortland Street, Auckland. Alternatively, you can obtain a copy free of charge by writing to us at: PO Box 6945, Victoria Street West, Auckland 1142.

CONTACT DETAILS AND COMPLAINTS

Manager

NorthWest Healthcare Properties Management Limited
PO Box 6945, Victoria Street West, Auckland 1142
Attn: Company Secretary
Telephone: 0800 225 264
Email: enquiries@vhpt.co.nz
Website: www.vhpt.co.nz

Trustee and Supervisor

Trustees Executors Limited
Level 11, 51 Shortland Street, Auckland 1010
PO Box 4197, Auckland 1140
Attn: Client Services Manager – Corporate Trustee Services
Telephone: 0800 002 431
Email: cts@trustees.co.nz

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.