

CORPORATE GOVERNANCE 2016



GENERATION
HEALTHCARE REIT

Corporate Governance

APN Funds Management Limited is the Responsible Entity of Generation Healthcare REIT. APN Funds Management is a wholly owned subsidiary of APN Property Group Limited, an ASX listed company.

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Guidelines), unless otherwise stated.

The Directors of APN Funds Management Limited during or since the end of the financial year are:

Geoff Brunsdon

B.Com, CA, F Fin,
FAICD

Independent Non-
Executive Chairman

- A Director since 2009.
- Chairman since 2012
- A member of the Audit, Compliance & Risk Management Committee and the Nomination & Remuneration Committee.

Geoff has had a career in investment banking spanning more than 25 years. Until June 2009 he was Managing Director and Head of Investment Banking of Merrill Lynch International (Australia) Limited. He is Chairman of Sims Metal Management Limited (director since 2009), IPE Limited (director since 2004) and MetLife Insurance Limited (director since 2011).

Jennifer Horrigan

BBus, GradDipMgt,
GradDipAppFin, MAICD

Independent Non-
Executive Director

- A Director since 2012
- Chairman of the Nomination & Remuneration Committee and a member of the Audit, Compliance & Risk Management Committee.

Jennifer brings 25 years' experience across investment banking, financial communications and investor relations. She was most recently the Chief Operating Officer in Australia of the independent investment bank Greenhill & Co. She has extensive experience in enterprise management, including the supervision and management of compliance, HR and financial management.

Jennifer is also a director of QV Equities (ASX: QVE), Redkite (national children's cancer charity) and the Breast Cancer Institute of Australia/Australia & New Zealand Breast Cancer Trials Group.

Michael Johnstone

BTRP, LS, AMP
(Harvard)

Independent Non-
Executive Director

- A Director since 2009.
- Chairman of the Audit, Compliance & Risk Management Committee and a member of the Nomination & Remuneration Committee.
- A member of the Investment Committee for APN's Development Fund No.2.

Michael has 40 years of global business experience in chief executive and general management roles and more recently in non-executive directorships. He has lived and worked in overseas locations including the USA, has been involved in a range of industries and has specialised in corporate and property finance and investment, property development and funds management. His career has included lengthy periods in corporate roles including 10 years as one of the Global General Managers of the National Australia Bank Group. He has extensive experience in mergers and acquisitions, capital raising and corporate structuring.

Michael is a non-executive director of the Responsible Entity of the listed Folkestone Education Trust (since 2004) and a non-executive director of a number of companies in private environments including the not for profit sector.

Howard Brenchley ▪ A Director since 1998.

BEC

Executive Director
and Chief
Investment Officer

Howard has a long history in the Australian property investment industry with over 30 years' experience analysing and investing in the sector.

Howard joined APN in 1998 and was responsible for establishing the APN Funds Management business. In this capacity he developed a suite of new property securities and direct property funds, including the flagship APN Property for Income Fund, one of the largest property securities funds in Australia.

Prior to joining APN, Howard was co-founder and research director of Property Investment Research Pty Limited, one of Australia's leading independent research companies, specialising in the property trust sector.

Howard is also a director of APN Property Group Limited (since 1998); and National Storage Holdings Limited (since 2014) and National Storage Financial Services Limited (since 2015), both listed as National Storage REIT (ASX: NSR).

Michael Groth ▪ An Alternate Director since 2014.

BCom, BSc, DipIFR, CA

Executive Alternate
Director for Howard
Brenchley

Michael's professional career includes over 7 years with KPMG Melbourne, where he worked closely with a number of major listed companies and stockbrokers before moving to the United Kingdom to work in the financial services industry and for a government regulatory body. Since joining APN in 2006, Michael has had broad exposure across all areas of the Group, and was appointed Chief Financial Officer in June 2014. Michael is responsible for accounting, taxation and treasury across the business and a key contributor to setting the business's direction and strategy.

Company Secretary

John Freemantle • Company Secretary since 2007.

B. Bus, CPA

John has been involved in the property industry since 1977. Before joining APN in 2006, he worked with Dillingham Constructions, Jennings Property Group and Centro Property Group, where he held the roles of Chief Financial Officer and Company Secretary for 17 years.

Generation Healthcare REIT is an externally managed Fund

Generation Healthcare REIT does not directly employ staff. It is managed by APN FM as responsible entity and Generation Healthcare Management Pty Limited (GHM) and Generation Healthcare Management (Hurstville) Pty Limited (GHMH) to whom the responsible entity has delegated day to day management of the Fund. APN FM, GHM and GHMH were members of the APN Property Group for all of the financial year, except that on 27 June 2016 GHM and GHMH were acquired by Canadian listed NorthWest Healthcare Properties Real Estate Investment Trust (NorthWest).

Fees of the Responsible Entity and its related parties

In accordance with the Fund's constitution the Responsible Entity (including GHM) is entitled to receive:

- fund management fees of up to 0.6% of the gross asset value of the Fund, payable monthly in arrears; GHM also receives property management fees at commercial rates;
- performance fees equating to 5% of the dollar amount by which the Fund's actual performance exceeds the S&P/ASX300 Property Accumulation Index, plus 15% of outperformance above 2% per annum, calculated on 31 December and 30 June. The amount paid in any period is subject to a cap (fund management fee plus performance fee) of 1.5% of the monthly average gross assets, with amounts in excess of the cap being rolled forward to future periods and payable subject to the Fund's total return for that period being positive. Amounts rolled forward are also payable immediately in limited circumstances.

- project management services fees of up to 2% of the project cost for each project in respect of which project management services are provided;
- acquisition fees of up to 2% of the total amount paid for each acquisition (including transaction costs);
- development management services fees of up to 3% of the project cost for each project in respect of which development management services are provided; and
- reimbursement of fund expenses incurred on behalf of the Fund.

GHMH is entitled to property/asset management fees in relation to services provided to Cortez Enterprises Pty Ltd (Cortez). Cortez is a special purpose entity established to hold, amongst other assets, the debt and other rights associated with Waratah Private Hospital.

Fees paid to the responsible entity and its related parties in relation to the financial year ended 30 June 2016 are set out on page 82 of the 2016 Annual Report.

Board Independence

APN Funds Management Limited (APN FM) is a wholly owned subsidiary of APN Property Group Limited (APN PG), a company listed on the Australian Securities Exchange (ASX). Both companies have separate Board structures and each operates independently of the other. Importantly, all directors of APN FM have a legal obligation to put the interests of investors in the fund ahead of their own and those of APN FM's sole shareholder, APN PG.

The company secretary is accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.

The Board of APN FM comprises four Directors, three of whom including the Chairman, are independent of the business and of the board of APN PG. The names and biographical details of the Board members are set out above.

The Board of APN Funds Management Limited has adopted the following Corporate Governance policies and procedures:

Role and Responsibilities

Without limitation to the duties and responsibilities of directors under the Corporations Act, the Constitution and all applicable laws, in order to ensure that APN FM complies with its responsibilities, the Board has adopted a board charter setting out its roles and responsibilities (including the roles and responsibilities of the Chairman). In accordance with the board charter, the Board is responsible for:

- the oversight of APN FM, including its control and accountability systems;
- subject to its overriding duties to securityholders in the respective APN Funds, setting the aims, strategies and policies of APN FM;
- where appropriate, ratifying the appointment and the removal of senior executives including, but not limited to the fund managers of the respective APN Funds;
- providing input into and final approval of management's development of strategy and performance objectives in respect of the APN Funds;
- reviewing, ratifying and monitoring systems of risk management and internal compliance and control, codes of conduct and legal compliance, particularly in respect of the APN Funds;
- identifying conflict of interest situations within APN FM's business and the business of the APN Funds and:
 - determining whether the conflict of interest situation is to be avoided or whether it can be appropriately controlled; and
 - if the conflict of interest situation can be appropriately controlled, determining and implementing the procedure necessary to control the conflict;
- monitoring senior management's performance and implementation of strategy and ensuring appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures in respect of the APN Funds;
- approving the issue of disclosure documents in respect of the respective APN Funds; and

- approving and monitoring financial and other reporting obligations of the respective APN Funds, in particular ensuring compliance with the continuous disclosure obligations of the respective APN Funds under the Corporations Act and the Listing Rules.

A copy of the Board Charter is available at the Company's website at:

www.generationreit.com.au/investing/governance

Terms of appointment

The Board has adopted a letter of appointment that contains the terms on which non-executive directors are to be appointed, including individual Directors' roles and responsibilities and the basis upon which they will be indemnified by the Responsible Entity. Non-executive Directors are entitled to take independent advice at the cost of the Responsible Entity in relation to their role as members of the Board.

Review of Board Performance

The performance of the Board is reviewed at least annually by the Board. The evaluation includes a review of:

- the Board's membership and the charters of the Board and its committees;
- Board processes and its committee's effectiveness in supporting the Board; and
- the performance of the Board and its committees.

An annual review of each Director's performance is undertaken by the Chairman, after consultation with the other directors

Board Committees

Audit, Compliance and Risk Management Committee

The Board has appointed an Audit, Compliance and Risk Management Committee to oversee certain responsibilities of the Responsible Entity. The Committee's primary responsibility is to ensure a sound system of risk oversight and internal control. During the year, the Committee has received reports detailing the effectiveness of APN FM's current risk management programme from management and advised the Board accordingly. The specific responsibilities of the Committee include:

Audit

External audit

- to recommend to the Board the final financial statements in respect of each of the Funds and APN FM (in its own capacity);
- to recommend to the Board the appointment and removal of the Fund's external auditors (including providing the Board with fee proposals in relation to the external auditors);
- to monitor compliance with the Corporations Act 2001 (Cth) in relation to auditor rotation;
- to undertake periodic reviews in order to monitor the effectiveness, objectivity and independence of the external auditors;
- to advise the Board as to whether the Committee is satisfied that the provision of non-audit services by the external auditors is compatible with the general standard of independence, together with an explanation of why those non-audit services do not compromise audit independence, in order for the Board to be in a position to make the necessary statements required by the Corporations Act in the Funds' respective financial reports;
- to review, consider and advise the Board on the adequacy of the audit plan proposed by the external auditors;
- to review all of the external auditors' reports;
- to commission such enquiry by the external auditors as the Committee deems appropriate;
- to consider management's responses to matters that arise from external audits;
- to conduct regular reviews of management's activity pertaining to audit findings to ensure any issues are being dealt with in a timely manner; and

- to perform annual assessments of the auditors' compliance with any applicable laws, regulations and any other relevant requirements.

Financial statements

- to review the financial statements and related notes, and ensure they are consistent with information known to the Committee and that they reflect appropriate accounting principles, standards and regulations ^(Note 1);
- to review external auditors' reviews or audits of the Funds' financial statements and corresponding reports;
- to review accounting and reporting issues as they arise;
- to review, and advise the Board on, any disputes or issues that may arise during the course of an audit; and
- to advise the Board on any material matters that arise during an audit that the Committee becomes aware of.

Note 1

Prior to approval of the entity's financial statements for any financial period, the Committee receives from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Risk Management

- to monitor the management of risks relevant to APN FM and the Funds;
- to review and make recommendations to the Board regarding APN FM's current risk management program (including all internal policies developed and implemented to manage and identify all of the identified risks) and whether it identifies all areas of potential risk.
- to review and make recommendations to the Board on the strategic direction, objectives and effectiveness of APN FM's financial and risk management policies; and
- to oversee investigations of allegations of fraud or malfeasance and, where required, report details to relevant authorities.

Compliance

- to monitor the compliance of APN FM with:
 - the Corporations Act;
 - the compliance plan of each Fund;
 - the constitution of each Fund;
 - the Australian Financial Services Licence (AFSL) of APN FM; and
 - where a Fund is a Listed Scheme, the Listing Rules;
- to report to the Board any breach of the obligations listed above;
- to report to the Australian Securities and Investments Commission (ASIC) if the Committee is of the view that APN FM has not taken, or does not propose to take, appropriate action to deal with a matter reported;
- to assess at regular intervals whether each Fund's compliance plan is adequate;
- to report to the Board on its assessment of each Fund's compliance plan; and
- to make recommendations to the Board about any changes that it considers should be made to the Funds' compliance plans.

Related Party Transactions and Conflicts of Interest

- The Committee must monitor compliance with the Conflicts Policy adopted by APN PG and APN FM in respect of the APN Group and comply with the obligations under the Conflicts Policy.
- Without limiting its obligations under the Conflicts Policy, the Committee will ensure that:
 - any breach of the Conflicts Policy is noted on the compliance breach register;
 - the activity which caused the breach is reviewed and any steps necessary to ensure compliance with the Conflicts Policy in the future are taken; and
 - where necessary, ASIC is notified in accordance with section 912D(1) of the Corporations Act.

A copy of the Audit, Compliance and Risk Management Committee Charter is available at the Company's website at: www.generationreit.com.au/investing/governance

The Committee currently comprises three Directors, all of whom are independent as defined by the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. The names and biographical details of the Committee members are set out above.

Nomination and Remuneration Committee

The Board has appointed a Nomination and Remuneration Committee to oversee the responsibilities of the Company for ensuring adequacy of the size and composition of the board of APN FM for itself and each APN fund. The specific responsibilities of the Committee include making recommendations to the Board about:

- the appropriate size and composition of the APN FM Board;
- the necessary and desirable competencies of Directors;
- the appointment, re-appointment and removal of Directors;
- formal and transparent procedures and criteria for the selection of candidates for, and appointments to, the APN FM Board;
- appropriate succession plans or arrangements for the APN FM Board and regularly (meaning at least annually) reviewing the plan approved by the APN FM Board;
- implementing induction procedures designed to allow new APN FM Board appointees to participate fully and actively in APN FM Board decision-making at the earliest opportunity;
- implementing induction programs that enable Directors to gain an understanding of:
 - financial, strategic, operational and risk management position of APN FM;
 - their rights, duties and responsibilities; and
 - the role of the APN FM Board and other committees;
- providing Directors and key executives with access to continuing education to update their skills and knowledge and provide them access to internal and external sources of information which enhance their effectiveness in their roles;
- an appropriate process for performance and remuneration evaluation of the APN FM Board, the Industria Co Board, their respective committees, Directors, and, to the extent applicable, key executives;
- appropriate remuneration and incentive policies from time to time which motivate Directors and management to pursue the long-term growth and success of APN FM or Industria Co within an appropriate control framework;
- to the extent applicable, the relevant policies which demonstrate a clear relationship between key executive performance and remuneration;
- the remuneration and incentive policies for senior management, including any eligibility criteria and performance hurdles for equity based plans and considering whether securityholder approval is needed for plans and for any changes to them;
- the remuneration packages of senior management and Directors and whether securityholder approval is needed for any change to remuneration of Directors;
- any report on executive remuneration that may be required by the ASX Listing Rules or the *Corporations Act 2001* (Cth) or proposed for inclusion in the annual report.

A copy of the Nomination and Remuneration Committee Charter is available on the Company's website at: www.generationreit.com.au/investing/governance

The Committee currently comprises three Directors, all of whom are independent as defined by the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. The names and biographical details of the Committee members are set out above.

Meetings of Directors

The number of meetings of Directors, including meetings of committees of directors, and number of meetings attended by each director during the financial year ended 30 June 2016, is set out below

	Geoff Brunsdon	Michael Johnstone	Jennifer Horrigan	Howard Brenchley	Michael Groth (alt for Brenchley)
Board Meetings:					
Total Attended	18	18	18	14 ⁽¹⁾	13 ⁽¹⁾
Total Held	18	18	18	18	18
Audit, Compliance & Risk Management Committee meetings					
Total Attended	9	9	9	n/a	n/a
Total Held	9	9	9	n/a	n/a
APN FM Nomination & Remuneration Committee meetings					
Total Attended	2	2	2	n/a	n/a
Total Held	2	2	2	n/a	n/a

⁽¹⁾ Abstained from attending due to conflict of interest

Diversity

APN Property Group, including APN Funds Management Limited embraces a practice of Workplace Diversity as follows:

What is Workplace Diversity?

Workplace diversity recognises and leverages the different skills and perspectives people bring to our organisation through their gender, culture, physical and mental ability, sexual orientation, age, socio-economic background, language, religion, education, and family / marital status. It also refers to diverse ways of thinking and ways of working.

Statement of Commitment

As an organisation we recognise the benefits to be gained from a diverse workforce where the differing skills, perspectives and experiences of individuals from different backgrounds can lead to more innovative and efficient business practices.

We are committed to creating an environment in which the principles of diversity are embedded in the culture and systems of the organisation and where every individual has the opportunity to excel.

Diversity Policy

APN Property Group has adopted a Diversity Policy (a copy of which is available at the Company's website (<http://apngroup.com.au/about-us/governance/>)). The aims of the Diversity Policy are:

- to articulate the APN Property Group's commitment to diversity within the organisation at all levels (including employee level, senior executive level and Board level); and
- to provide a framework for establishing objectives and procedures which are designed to foster and promote diversity within APN Property Group. This includes placing obligations on APN Property Group and the Board to set objectives, measure against those objectives and disclose progress at appropriate intervals.

Gender Diversity Objectives

In accordance with its Diversity Policy, APN Property Group has set measureable objectives to achieve gender and other diversity, and has appointed the Compliance Officer to monitor compliance with those objectives and to report to the Board of APN Property Group at least annually.

For the financial year 2016/2017, APN Property Group has set the following measureable objectives for gender and other diversity:

- the selection process for Board appointments, having regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity will consider at least one female candidate wherever reasonably possible;
- the selection process for senior management appointments, having regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity will consider at least one female candidate wherever reasonably possible;
- the process for recruitment of new employees, having regard for the skills and expertise required for the role, will consider at least one female candidate wherever reasonably possible;
- flexible work arrangements to balance family and other commitments with the role will continue to be considered for all employees, where the requirements of the role permit;
- Mentoring support to be available to all staff;
- the Diversity Policy is available to all employees at all times; and
- all employees responsible for employment and promotion of employees will be reminded of the Diversity Policy and these objectives at least annually.

APN Property Group will report on the outcome of these measurable objectives each year.

For the financial year 2015/2016, APN Property Group set similar measureable objectives for gender and other diversity. These objectives and a report on the outcome are set out below:

- *the selection process for Board appointments, having regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity will consider at least one female candidate wherever reasonably possible.*

The Board of APN PG made one new appointment during the year. Mr Tony Young was appointed in December 2015 in accordance with the objective of transitioning to an independent Board. Mr Young was appointed following strong endorsement from a significant shareholder in APN. There were no changes to the Board of APN FM during the year.

- *the selection process for senior management appointments, having regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity will consider at least one female candidate wherever reasonably possible.*

There were three new senior management appointments in this financial year including the internal promotion of a female manager (33%).

- *the process for recruitment of new employees, having regard for the skills and expertise required for the role, will consider at least one female candidate wherever reasonably possible.*

Thirteen new appointments were made during the year of which five (38%) were female;

- *flexible work arrangements to balance family and other commitments with the role will continue to be considered for all employees, where the requirements of the role permit.*

Flexible work arrangements have been agreed with a number of employees in relation to family balance, maternity needs and illness;

- *the Diversity Policy is available to all employees at all times.*

The policy was available on the company intranet which is available to all staff at all times;

- *all employees responsible for employment and promotion of employees will be reminded of the Diversity Policy and these objectives at least annually.*

Employees were reminded on each occasion of a new appointment.

Gender Diversity in APN Property Group

At the date of this report, the proportion of women in APN Property Group was:

- Board of APN Property Group Limited: nil
- Board of APN Funds Management Limited: 25%
- Senior Management of the APN Property Group: 33%
- All employees of APN Property Group: 39%

Sustainability

APN Property Group, including APN Funds Management Limited believes that the sustainability of the business is intrinsically linked to the successful management of its financial, social and environmental risks, obligations and opportunities. We believe those companies that adopt sustainable practices are more likely to generate better long term returns for investors.

This philosophy is embedded in the culture of the business and monitored to ensure critical business risks are carefully managed. This is evidenced in the following key objectives:

Our Investors

- Prioritise the interests of investors;
- Separate Boards operating independently of each other to manage conflicts between the interests of investors in APN PG and investors in the funds we manage;
- Strong focus on investment performance;
- Regular and meaningful communications to investors.

Our Community

- Significant value attributed to 'sustainability conscious' companies in the investment decision process of the APN managed 'real estate securities' funds;
- Bias to 'green' rated direct property investments and development opportunities;
- Corporate values ethos required of all staff - integrity, passion, respect, accountability and professionalism.

Our Staff

- Demanding recruitment standards;
- Attractive remuneration incentives for strong performance;
- Focus on diversity;
- Employee engagement in overall business performance, including regular staff briefings;

Our Governance

- Independent Board to manage the Responsible Entity of APN's managed funds;
- Strict compliance regime to ensure compliance with legislative framework overseen by independent Board Compliance Sub-Committee;
- Documented compliance programme and Company Policies to regulate compliance requirements;
- Annual compliance audits.

Other corporate governance policies and charters

Refer to the fund website (www.generationreit.com.au/investing/governance) for:

- Board Charter;
- Audit, Compliance and Risk Management Committee Charter; and
- Nomination and Remuneration Committee Charter

and the following corporate governance policies, which have been adopted by all entities (including the Responsible Entity) within the APN Group in accordance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations:

- Securities Trading Policy;
- Continuous Disclosure Policy;
- Code of Conduct;
- Related Party Transactions and Conflicts of Interest Policy;
- Privacy Policy; and
- Communications Policy.

Compliance with ASX Corporate Governance Guidelines

The Responsible Entity complies with all of the ASX Corporate Governance Principles and Recommendations, including, as not specifically addressed above:

- That at each AGM, the external auditor attends and is available to answer questions from security holders relevant to the audit.
- That security holders have the option to receive communications from, and send communications to, the entity and its security registry electronically.
- That the Audit, Compliance and Risk Management Committee has reviewed the risk management framework during the financial year ended 30 June 2016.



Responsible Entity

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