

2018 annual review

Senior Trust Capital



SENIOR TRUST
CAPITAL





Contents

Annual review 2018

Letter from the Directors	02
Year in Review - Highlights	04
Industry Overview	06
Villages	08
Governance	10
Investor Care & Trading History	14
The Team	16
The Grove - Orewa	18
Corporate Directory	20

This 2018 Annual Review is a concise summary of our activities and financial performance. All figures are expressed in New Zealand currency unless otherwise stated.



Letter from the Directors

Dear Shareholder,

Welcome to the 2018 Senior Trust Capital Annual Review. This year we are pleased to again outline a year of considerable growth for Senior Trust Capital (STC), supported by continued adherence to our investment principles.

We have continued, this year, in achieving our goal of providing STC investors with steady long term income returns, each quarter, and for the fifth consecutive year achieving the 8 cents pre-tax targeted distribution rate. \$1.1m dollars in distributions were paid out to shareholders in the 2017/18 year under-pinned by a 23% increase in operating* revenue, a 27% increase in the value of our net loans, and the addition of \$2.6m new shares being issued.

As directors, the most satisfying aspect has been the ability to meet the expectations of our shareholders, by delivering a regular and attractive income return. The return, coupled with the strong prospect of future capital growth (from our 80% ownership of The Grove – Orewa) has driven higher demand for ownership of shares in 2017/18. The number of shares on issue grew 20% during the financial year. Senior Trust Capital was also able to facilitate the sale of almost \$0.8m shares (during the financial year) on behalf of departing shareholders, whilst maintaining both share price and the aforementioned growth in shareholding.



*Operating revenue excludes the impact of fair value gain.

The growing list of retirement villages we fund is very much focused on providing superior homes and environments to an increasingly discerning segment of retiring New Zealanders, each of whom desire something better than the average, and have the financial capacity to meet that desire. We believe this segment of the market is a long term defensible position to hold.

The year to come will see STC continuing to work on building its portfolio and spread of loans alongside the placement of additional direct investment into village developments should those opportunities present themselves and meet our criteria for equity investment. The future balance of loans and direct equity investment is seen as a key strategy to creating additional value and returns over and above the targeted 8 cents pre-tax per annum, per share, for our investors.

STC has a pipeline of further high quality lending and investment opportunities over the next 12 to 24 months

which will enable us to re-affirm our commitment to provide you steady, attractive income returns backed by superior retirement village assets.

The environment in which we are lending has been strong and continues to show strength over the short to medium terms, despite an orderly slowing of the property market over the past 6 months. The Directors are continually monitoring the sales performance of the villages as we move away from the recent peak in the property cycle. Expansion of the villages occurs in accordance with the proven growing demand in the sector and committed sales from new residents.

As always, STC holds a medium to long term view to investment in any retirement village development in order to maximise the return to shareholders and optimise the exit of any investment. Through this investment period various economic cycles will occur. The retirement village industry has a history of stability through past downturns and has a long term trend of steady growth.

STC is a continuous issuer of shares and as such should you wish to invest further, you can contact us at any time, online or by phone to invest.

We hope you find this year's review useful and informative and would once again like to thank you for your support and investment over the year.

Yours faithfully,

John Jackson

Aidan Craig

Tracey Goodin

Year in Review Highlights

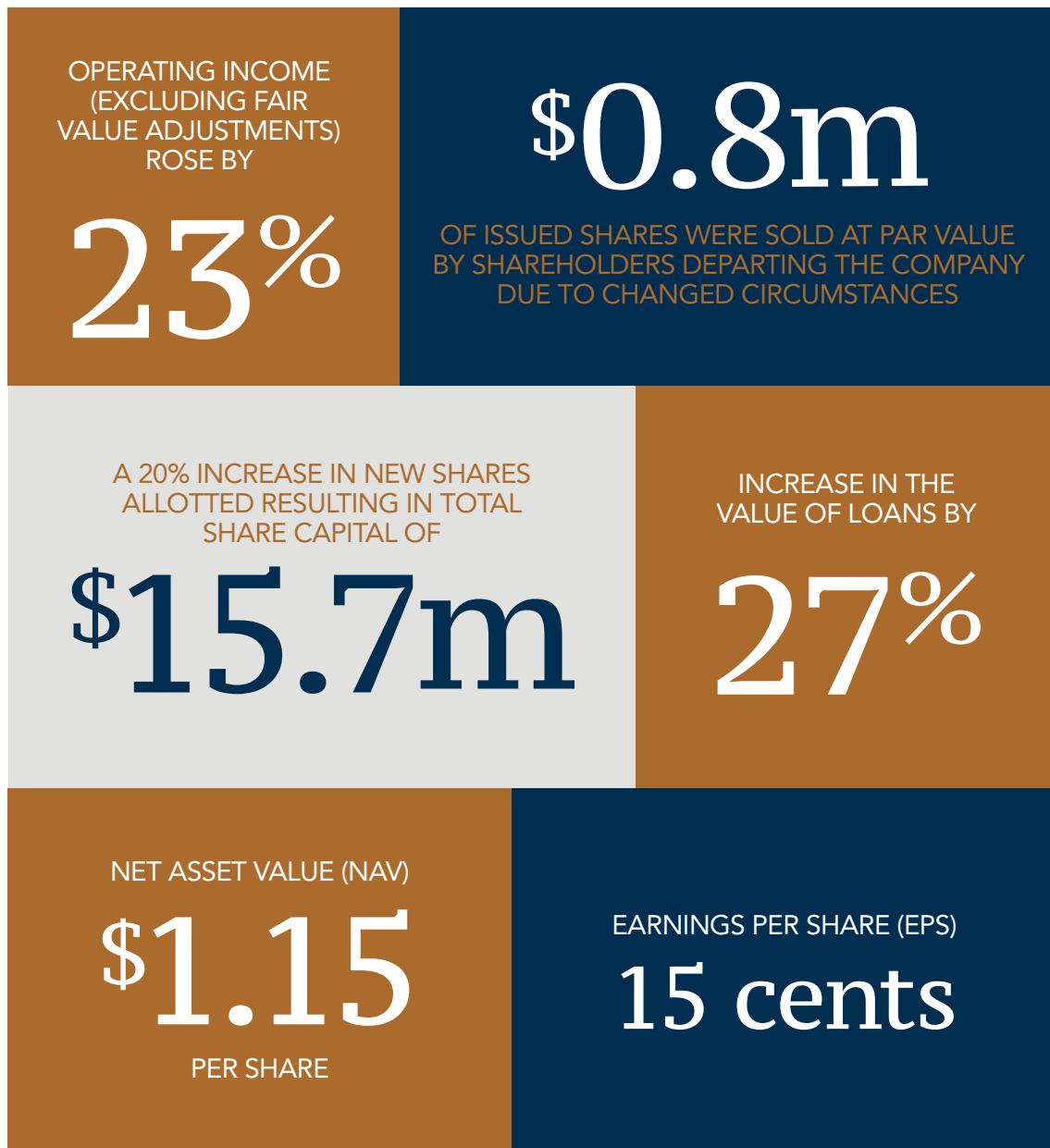
During the 12 months to March 2018 the villages which Senior Trust Capital lends to and invests in, continued to grow and prosper despite a slowing residential property market. This growth translated into an increased demand for STC's financial support and underpins the increasing value of the company.

The expansion of each village we support is controlled in response to market demand. Over the past year this demand has remained in-line with expectation and has been evidenced by new resident commitment.

During the reporting period STC also invested in additional resources across the management team and marketing activities. This decision reflects management's response to the growth being experienced and the prospects of further growth. With the appropriate resource now in place, we look forward to improving operating efficiencies in the coming financial year as increased loans and revenues are managed within our new operating model.

Over the year there were significant highlights for Senior Trust Capital on behalf of our shareholders:





The orderly growth of Senior Trust Capital's loan book is a key contributor to our steady performance as evidenced by the 5 year Financial Trends displayed below.

*STC: 5 Year Financial Trends**

	2014	2015	2016	2017	2018
Earnings per Share	\$0.10	\$0.11	\$0.09	\$0.18	\$0.15
Net Asset Value per Share	\$1.00	\$1.02	\$1.01	\$1.10	\$1.15
Profit for the Year	\$0.8m	\$1.3m	\$1.2m	\$2.3m	\$2.1m
Distribution (pre-tax)	\$0.5m	\$1.0m	\$1.2m	\$1.1m	\$1.1m

*Information sourced from Audited Financial Statements



Industry Overview

Overall, the New Zealand Retirement Village industry continues its strong and steady growth underpinned by generally favourable market conditions, increasing demand and a well-structured sector who are diligently supported by operators, the industry association and regulators alike. The sector's operating environment is continuing to improve and be refined through common understanding of the constraints and opportunities that lie ahead, and its impact on social and economic issues.

A recent PWC industry report commissioned by the NZ Retirement Villages Association ("Retirement village contribution to housing, employment, and GDP in New Zealand, March 2018") goes a long way to outlining the influence, impact and success the industry is having on its future, as well as for the New Zealand economy and wider society.

Currently, there are an estimated 30,000 retirement village units (excluding Own Your Own units) across New Zealand. This includes 25,000 Independent Living Units and apartments, and 5,000 serviced apartments. Approximately 6,500 new units (excluding OYO units) have been developed since 2013, equivalent to growth of 6% per year.

A key contributor to the growth is the increased acceptance of the retirement village lifestyle by senior New Zealanders. This acceptance is measured by the "penetration rate" being the percentage of 75 year olds and above living in villages. The Australian publication, The Weekly

Source, has offered the following commentary under the heading of "New Zealand Forges Ahead in Retirement Village Penetration".

Issued on 27 March 2018:

"The New Zealand village sector has been very successful in building the basic structures with consumer investors and government for a mature industry. Think Code of Conduct, accreditation, trust and constant sales. In Australia we don't have any of these and the impact for us is declining penetration (or participation). Few people have the confidence of New Zealanders. The customers are there. The sector has a choice: become increasingly marginalised and ultimately irrelevant or follow New Zealand by investing in the fundamentals of building a strong cohesive sector".

The sector is continuing to benefit from the rising older population, changing social needs, a strong housing market and a government under pressure to fund the growth and the demands of the sector. Private retirement village operators are making a significant contribution to the growth of the industry. This is the segment of the retirement village industry that Senior Trust Capital focuses on; supporting and funding experienced, capable retirement village operators who deliver high quality retirement village living at the premium end of the market.

The retirement village sector employs approximately 19,000 people across its villages to support day-to-day operations. On average, for every 100 retirement village units, there are 64 staff to support operations. Over the next 7-8 years, approximately 9,500 new jobs will be created from construction of new villages.

In 2017, day-to-day operations in the retirement village sector added around \$1.1b to New Zealand's

GDP, accounting for roughly 0.4% of national GDP. This is approximately equivalent to the value add from department stores, or the motor vehicle retailing industry in 2016.

At a more industry level, the growth in the 75+ age group is accelerating with 15,000 people per year reaching that age over the next 10 years. This is more than double the 2012 to 2017 growth. Industry penetration rates of the 75+ age group have increased from 9.8% in 2008 to 13.5% in 2017.

There is a clear Auckland focus from both listed companies and non-listed corporates and independent operators. Listed companies have maintained a mostly stable pipeline over the last 2 years at 6300 units and 1200 beds while

independent and non-listed companies have increased their pipeline from 1000 units to 1800 units over that time.

Care bed development has slowed considerably, especially in Auckland, most likely due to rising land and building costs putting pressure on feasibilities.

These trends remain encouraging and as always a prudent approach needs to be taken by the industry and operators alike.



Villages

*The Grove: Orewa, Auckland**

STC is an 80% owner of The Grove. The village has 14 existing villas and consent to build 69 apartments over an 8300sqm site in central Orewa. Consents were achieved in 2017 and construction began on the first stage of 27 apartments and village amenities in April 2018. Total loan facility is \$10.9m with current lend as at 31 March 2018 at \$7.7m. BNZ has also been secured as development funder.



*Roys Bay Estate: Wanaka**

73 townhouses and clubhouse on a 3.0ha green-fields site on the lake edge in Wanaka. Resource and building consents were achieved in 2018 with construction starting on stage one (21 architecturally designed townhouses) in April 2018. Total loan facility is \$8.35m with current lend as at 31 March 2018 at \$3.12m.

*Artist impression as the village is under development.



Ranfurly Village: Mt Roskill, Auckland

A well-established, full service, retirement village and care facility in central Auckland. Home to more than 160 residents across 130 apartments. Total loan facility is \$2.0m with current lend as at 31 March 2018 at \$2.0m.

Quail Ridge Country Club: Kerikeri

A 233 villa and apartment development on 17 ha of park-like grounds in Kerikeri. The development, when complete, will include a 40 bed care facility and expansive clubhouse. Total loan facility is \$4.0m with current lend as at 31 March 2018 at \$2.4m.



Whitby Lakes Village: Whitby

A well-established retirement village on the Kapiti Coast that is home to more than 153 residents over 105 units. Now in the last stages of development (25 apartments due to be completed in 2018) this village has cemented its place within the local market with the support of STC over the past 5 years. Total loan facility is \$5.0m with current lend as at 31 March 2018 at \$1.6m.

Governance

The Board of Directors is charged with providing strategic leadership and oversight, upholding the integrity of the decision-making process, and ensuring that the company's strategic focus, policies and practices are ethical and consistent, and delivering on our commitment to shareholders.

As STC is a continuous issuer of shares the Board's corporate governance framework takes into account both the Financial Markets Conduct Act 2013 and the best practice code issued by the New Zealand Institute of Directors. The Board recognises that having an effective corporate governance framework is critical if the company is to deliver on behalf of its shareholders. Continual strengthening of the corporate governance framework remains a key focus for us.

The board delegates responsibility of the day to day management to the Executive Directors, who are ably supported by the Head of Finance and Compliance and a select group of consulting experts for compliance, tax, audit and legal requirements.

The Board, and its members, are entrusted to ensure that Senior Trust Capital is soundly managed for the benefit of its shareholders, through the Executive Team, and a continued focus on the four pillars of Governance, being:

1. Determination of Purpose:

Ensuring the Board adds value to its shareholders by setting and signing off a strategy to achieve the company's goals.

2. Governance Culture:

Working as an effective team which deals with the right issues at the right time within a high-performance culture that challenges, debates and creates commitment, trust and candour.

3. Holding to Account:

A Board that holds Management to account through informed, astute, effective, and professional oversight that ensures purpose and strategy are understood and implemented according to a clear plan.

4. Compliance:

The Board ensures the company operates within New Zealand's Regulatory framework, remains solvent, has probity of financial reports, and accuracy and appropriately identifies and manages risk.

The Board's governance framework includes the following 8 key principles and approaches which guide and instruct our activities:

Governance Principle	Objective	STC Governance Approach
Ethical Standards	Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for delivering these standards throughout the organisation.	<p>Senior Trust Capital has a Code of Ethics with 5 key values that inform, remind, and guide the Board and Executive as to how we run the business and all its activities. Those values are:</p> <ol style="list-style-type: none"> 1. Do the right thing 2. Champion our investors 3. Connect with our stakeholders 4. Keep it simple 5. Talk straight
Board Composition & Performance	To ensure an effective Board there should be a balance of skills, knowledge, experience, independence, and perspectives.	<p>Senior Trust Capital has a Board Charter which clearly outlines the role and behaviours of the Board during its daily course of business. Senior Trust Capital deals with many complex issues, compliance and business needs each day. For this reason, an even balance of skills is required from 4 key areas:</p> <ol style="list-style-type: none"> 1. Retirement Village Industry knowledge and skill 2. Compliance, Risk, and Regulatory knowledge 3. Banking expertise 4. Financial Management and analysis <p>The directors seek a minimum of at least one non-executive director and one independent director and include members with a range and balance of skills, experience, and attributes to successfully contribute to the governance of Senior Trust Capital. The Board meets a minimum of 10 times per year.</p> <p>The Board number should be a minimum of 3 members with an optimum of 4 members. If the Board feels it is under represented in certain areas it seeks to remediate these through either:</p> <ol style="list-style-type: none"> 1. Specific training, both as a group or as individuals and recorded in our training registers and reviewed yearly against 10 core competencies 2. Recruitment of executive or Board members 3. Regular review of the Boards skills and competencies as outlined in our Training Policy



Governance Principle	Objective	STC Governance Approach
Board Committees	The Board should use committees where this will enhance its effectiveness, in key areas, while still retaining Board responsibility.	At present the Board has actively elected not to have committees. This is simply due to the smaller nature of the business, and Board, and a desire to have all members involved in the decisions ensuring the broadest possible perspective is maintained and the full complement of skills and knowledge is used.
Reporting Disclosure	The Board should demand integrity in report financial and non-financial reporting, and in the timeliness and balance of its disclosures.	Disclosure reporting is monitored, tracked, and reported against at monthly Board meetings. Between Board meetings the executive are responsible to the Board for ensuring any reporting is timely, accurate and appropriate. A minimum of two Directors need to sign their approval prior to any disclosure. The Head of Compliance is responsible for ensuring processes are being adhered to and the reporting as per FMA and Investor expectations are being met on a monthly basis.
Remuneration	Remuneration of Directors and Executive should be transparent, fair, and reasonable.	The Board maintains a policy to list the remuneration of all Directors and Executive as part of its audited year end accounts and noted at the annual investor AGM. The Board approve all Executive and Board the remuneration.
Risk Management	Directors should have a sound understanding of the key risks faced by the business, and should regularly verify there are appropriate processes to identify and manage these.	<p>The STC Board has a Risk and Compliance Framework Policy which outlines and guides the Board in its management of risk. This Framework defines and sets out the process and key risks to be managed for the company, being:</p> <ol style="list-style-type: none"> 1. Credit risk 2. Liquidity risk 3. Concentration risk 4. Operational risk 5. Security risk 6. Development risk <p>A Risk Register is maintained and reviewed and updated each month for each loan as well the broader company risks. All risks are clearly outlined in the STC PDS. The STC Head of Compliance is responsible for reporting and managing this process within the company.</p>

Governance Principle	Objective	STC Governance Approach
Auditors	The Board should ensure the quality and independence of the external audit process.	The STC Board meets with the Auditor each year to discuss the up-coming audit requirements and expectations, review the previous audit, outline, and agree improvements and areas of clarification, set expectations, timelines & fees, and approve the Auditor for the upcoming year.
Shareholder relations & Stakeholder interests	The Board should respect the rights of Shareholders, and foster constructive relationships with shareholders and stakeholders. Shareholders should be encouraged to engage with the entity.	<p>Shareholder relations and all stakeholder interests are taken very seriously within STC. It is a cornerstone of the Senior Trust Capital Ethic's Policy. Our first three values;</p> <ol style="list-style-type: none"> 1. Do the right thing 2. Champion our investors 3. Connect with our Stakeholders. <p>relate to shareholder relations and inform our Ethics Policy which guides Director decision making.</p> <p>STC focusses on maintaining the most direct communication route with stakeholder possible by not outsourcing any communication channels to third parties, holding annual AGM's open to all investors, producing an annual review each year, providing quarterly newsletters, ensuring all information on our website, PDS, newsletters, EDM's and Disclose website are as simply worded, transparent, up to date and accurate as possible. All marketing material is approved and signed off by two Directors prior to being issued to the market.</p>



Investor Care

At the heart of STC's strategy is providing a good experience and outcome for our shareholders. We call this Investor Care and endeavour to achieve a very positive relationship with our shareholders through regular, open and honest communication, while ensuring accessibility and responsiveness to shareholder requirements.

Senior Trust Capital is committed to ensuring a direct personal connection to investors via phone, email, digital channels or most importantly, in person, wherever possible.

In the 2017/18 year our focus was on providing improved processes for investing with STC through our partners, Link Market Services Limited, creating simple but effective processes to meet the statutory requirements for anti-money laundering and compliance adherence to ensure a streamlined, single contact, approach when investors buy or sell our shares. We also wished to provide clarity and accuracy in all our marketing and communications, and improve the awareness and ability of shareholders to sell their shares through us if they needed to.

There was \$2.65m of new shares issued over the period and almost \$1.0m of shares traded directly through STC to new and existing shareholders.

It has been a positive year on many fronts with a strong level of support from our shareholders reflected in the increase in the number of shares issued and our share capital increasing by 20% to \$16.0m.

Compliance processes are continually reviewed and improved and our website was greatly improved with the application process streamlined resulting in an overall better experience and more investors applying on-line through the website.

Trading History

Share Trades over the 12 months to 31 March 2018

	Shares
<i>Balance as at 1 April 2017</i>	13,418,739
<i>New Shares Allotted</i>	2,823,618
<i>Off-Market Transfers:</i>	
Issued shares sold	-773,400
Issued shares purchased	773,400
Shares acquired by ESOP	-171,775
<i>Balance as at 31 March 2018</i>	16,070,582



The Team



John Jackson

Executive Director

Aidan Craig

Executive Director





Tim Mangold

Head of Finance & Compliance



Tracey Goodin

Independent Director



Clive Jimmieson

Compliance Consultant

The Grove – Orewa

The Grove – Orewa is Senior Trust Capital's first equity investment, as outlined in last year's annual review. STC, through Senior Trust Capital Orewa Limited, owns 80% of the village with its partner, and village operator, Orewa Village Limited. Over the last 12 months progress on The Grove has been very pleasing. Although the consenting process was much longer than anticipated, this work has now been accomplished and the development of the village has begun in earnest.

Securing the resource consent for 69 apartments and the building consent for stage one (27 apartments and common amenities) was a key milestone in cementing the potential for the project and realising future value.

In February 2018 demolition began on the existing residential houses that bordered the main village to make way for the stage one apartments, basement carpark and ground floor village amenities. The official sales launch also began and within weeks 10 sales out of the 27 apartments had been secured. Interest was high and demand from local retirees was positive reflecting the need for a smaller, boutique village, close to the sea and local shops.

Over this time, Jo Robertson, our new Village Manager, did an outstanding job of lifting the standard within the existing original village of 14 villas, improving gardens, refurbishing units

and engaging the residents and local community with outings and activities.

This has paid dividends in the response the village has had over the past few months in sales of both villas and apartments, not to mention creating a positive and greatly improved environment for our existing residents.

Kalmar Construction are now commencing the earthworks, piling and construction of the new apartments with an estimated build time of 18 months.

Along this journey funding support for the development was secured from BNZ who are joining the funding team as first mortgagee to help progress the development through the next phase. This gives the partnership access to all the funding required for stage one and ensures an appropriate debt structure is in place to support the village over the next few years.

The official launch of the village was held on May 6th with local MP Mark Mitchell presiding and over 100 locals and partners in attendance.

We look forward to updating you again in 12 months time and in being able to point to the more tangible progress of actual construction, well advanced.



The Grove – Orewa

Artist impression as the village is under development.

Corporate Directory

Directors of Senior Trust Capital Limited

John Jackson
Aidan Craig
Tracey Goodin

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Accountant

Staples Rodway
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Bankers

Bank of New Zealand

Share Registrar

Link Market Services Limited
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80 Queen Street
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Telephone: 09 375 5998

Auditors

William Buck Christmas Gouwland
Level 4
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Auckland







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