

## **Asia Healthcare Opportunities Fund (AHOF)**

Real Estate | Healthcare | Asia | ESG

Listed healthcare real estate fund targeting healthcare growth assets in emerging middle-class economies in Asia

Summary

August 2019

### **Listed healthcare real estate fund targeting healthcare growth assets in emerging middle-class economies in Asia:**

- Strong fundamentals supporting private healthcare demand in Asia
- Public healthcare infrastructure development not meeting demand, being met by private healthcare facilities with higher expectations from growing middle-class
- Segments include non-communicable-disease rise and elderly-care related treatments and accommodation across Asian countries, in particular India, Sri Lanka, China, Thailand, and Malaysia
- CAGR of 19%+ over past 5 years
- London Stock Exchange listed vehicle focusing on growth healthcare equities in Asia healthcare market targeting provider-led senior housing, dementia care facilities, private healthcare facilities, and OPD facilities
- Working alongside two expert operators across Asia for diverse and clear opportunity pipeline for acquisitions and development
- Expected average yield of 8-12%\*
- IPO Market Cap £200m

# Asia Healthcare Real Estate Market

## Overview

Rising middle-class incomes and demand for better medical care have made Asia's health-care sector a lucrative bet for foreign investors and private-equity firms. The global health-care market could expand to \$10.1 trillion by 2022 from \$7.7 trillion in 2017, Deloitte forecasts. Health-care spending in Asia and Australasia is likely to grow faster over that stretch, the firm said, rising 37% to more than \$2.4 trillion. A report released in January by Baker McKenzie and Oxford Economics forecast a 7% rise in the value of health-care mergers and acquisitions this year, to \$331 billion. That total includes Takeda Pharmaceuticals Co.'s planned \$58 billion acquisition of Europe's Shire PLC.

## Healthy pipeline of acquisition and development opportunities

With Asia's growth, developers have been active in building required infrastructure to support service requirements, creating a stable inflow of assets and new development opportunities. We have seen active trading from private equity and institutional investors in this area, with large portfolio acquisitions, strong performance, and an emergence of market specialization in China, India, Malaysia, Singapore, Thailand and Vietnam.

## Conservative approach

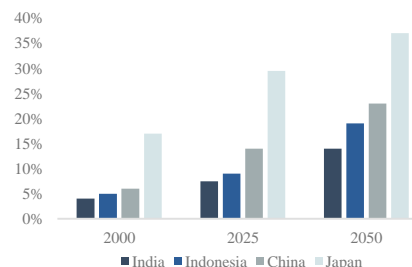
With a blossoming of opportunities, we want to take a conservative approach whilst building exposure, first taking an opportunistic debt approach, with only very selective convertible mezz or equity positions. We also want to build strong relationships and investments with the growing leading healthcare players in these markets, which represent the largest growth in middle class globally, where the collective GDP and consumption from this segment will outgrow Europe and the Americas over the coming 10-20 years.

## Focus area

We aim to focus on the following market segments: senior living accommodation; private-healthcare centres; outpatient facilities; sub-specialty facilities including post-acute rehabilitation and dementia care. We are further encouraged by the active trading environment of these sectors, with a healthy mix of Western and Asian private equity sources.

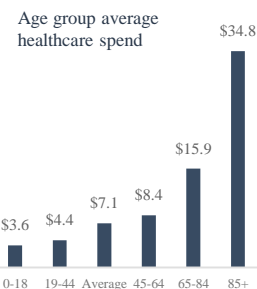
## Asia Demographic Change

Percentage of Population 65 and over



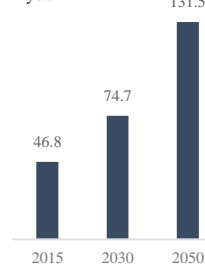
*The changing age demographic globally are putting an onus on elderly care, senior living, and predominantly focusing on NCDs. Asia is seeing this demographic shift at a faster rate than Europe and the US, whilst also having a slower epidemiological shift from communicable diseases to NCDs. The largest volume developments have been focused around senior living in the past 3-5 years as a result, where Asia presents that largest global population, and largest middle-class in coming 10-20 years. This demographic change both by age and wealth will radically transform the healthcare sector.*

## Growing sectors

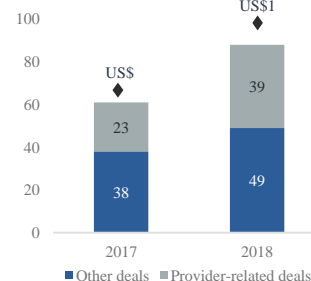


*Sectors under particular attention are senior living, dementia-specific care, and post-acute rehabilitation. This in addition to new private hospital groups to bridge healthcare standards and expectations gap from rising GDP per capita but slower public healthcare infrastructure capacity. We are particularly interested in senior living portfolios and hospital developments, where new groups such as Columbia Asia have proven an ability to grow portfolios within relatively short time periods.*

Number of Dementia/Alzheimer's patients by year



## Transaction Activity



*Asia healthcare is proving a growing investment area, with investments almost doubling between 2017 and 2018. These include pharmaceutical technologies, hospital group portfolios, senior living portfolios, diagnostic technologies, and medical technologies. Our goal is to focus on hospital groups, senior-living accommodation, OPD facilities and specialist post-acute rehabilitation centres. These will be 'Class A' facilities, focused on middle and middle-upper classes where margins and demand are buffeted by lower human-resourcing costs, availability of prime sites and availability of skilled professionals.*

# Selected Pipeline

## Overview

The transaction pipeline focuses on core investments, including opportunistic healthcare development opportunities among established operators expanding their portfolios. Platform seeks to expand strategy through future raises upon initial stable asset composition.

### Selected Pipeline (Aug '19)

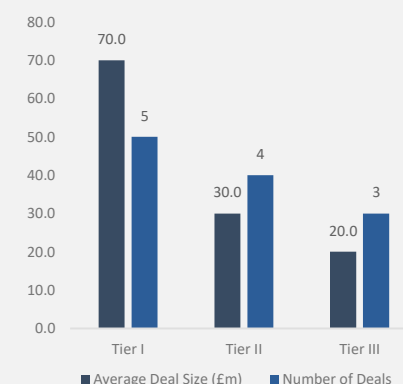
Tier	Name	Country	Size (£m)	Status	Type	Sector	Transaction
I	Kings Hospital	Sri Lanka	30	Operating	Core	Private Hospital	Acquisition
I	ColumbiaAsia – Portfolio Acquisition	China	50	Operating	Core	Senior Living	Acquisition
I	Apollo	India	150	Operating	Core	Senior Living	Acquisition
III	Kings Hospital Ph II	Sri Lanka	20	Planning Approval	Opportunistic	Private Hospital	Project Finance

### Transactions being sought

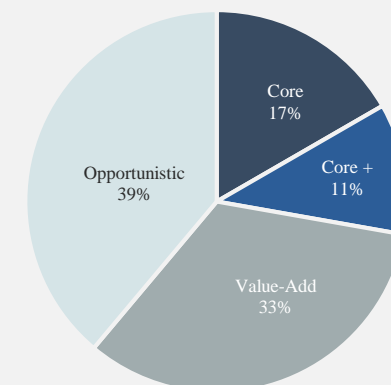
I	Core Hospital Acquisitions	India, China, Sri Lanka, Thailand		Operating	Core	Private Hospital	Acquisition
I	Senior Living Accommodation	China, Thailand, Vietnam, Sri Lanka		Operating	Core	Senior Living	Acquisition
I	OPD Facility/ Diagnostic Portfolios	Sri Lanka, India, Vietnam, China		Operating	Core	OPD Facilities	Acquisition
I	Post-acute rehabilitation facilities	Sri Lanka, India, Vietnam, China		Operating	Core	Post-Acute Rehabilitation	Acquisition
II/ III	Private Hospital Expansion and Development	Sri Lanka, India, Vietnam, China		Planning Approval	Value-Add/ Opportunistic	Private Hospital	Project Finance

### Examples transactions (2017-2018)

Brookfield Business Partners' acquisition of Australian Hospital Provider Healthscope \$4.1bn
CDH Investments and China Grand Pharmaceutical and Healthcare Holdings acquired Sirtex Medical, developer of small particle technology in oncology treatments, \$1.4bn
KKRs Asia Fund III closed \$9.3bn funding in mid-2017
Permira's purchase of I-Med, Australian diagnostic imaging company for \$1bn
Bain Capital's acquisition of DSM Sinochem, now known as Centrient, manufacturer of active pharmaceutical ingredients and finished drug products for \$690m
Consortium \$1bn acquisition of Indian health insurer Star Health and Allied Insurance composed of WestBridge Capital and Madison Capital Partners
TPG acquired portfolio of 39 pathology laboratories from Healthscope for \$207m with intentions to add Innovative Diagnostics
KKR invested in Max Healthcare through portfolio company Radiant Life Care, one of largest hospital networks in northern India
Ireland Strategic Investment Fund Series C funding round totaling \$200m in WuXi NextCode, a genomic information company
ChrysCapital, GIC, Canada Pension Plan Investment Board invested \$350m for 10% stake in Mankind Pharmaceuticals, deriving majority revenue from OTC drugs as India's fifth-largest drug-maker
WestBridge Capital and Madison Capital Partners acquired Star Health and Allied Insurance from consortium of PE investors for \$1bn
Navis Capital purchased Device Technologies, Australia's largest independent medical technology provider, for \$509m



Average deal size between Tiers I – III ranges from c.£20m-£100m, with average deal size for core and core+ at £57.3m (higher proportion of portfolio)



Fund is targeting income properties, and will therefore focus on core and core+, however has assembled pipeline including value-add and development opportunities for future core+ pipeline.

# Structure: LSE listed fund

## Listing

The fund is listed on the London Stock Exchange. This aims to provide clear compliance, regulatory, and governance oversight, whilst giving access to global markets for future raises as the portfolio grows.

## Management

AHOF is structured around four key pillars: CIO, CLO, CFO, and the General Manager. These four pillars give strong investment origination and evaluation, international legal expertise, strict fiscal discipline, and strong internal governance and administrative foundations. These operations are managed by the Board of Directors, where an independent Investment Committee and International Advisory Panel oversee all investment decisions.

## Tax & Legal

The management company has offices in London, Hong Kong and China. The Fund's auditing partner is PwC, and legal counsel is Fieldfisher UK.

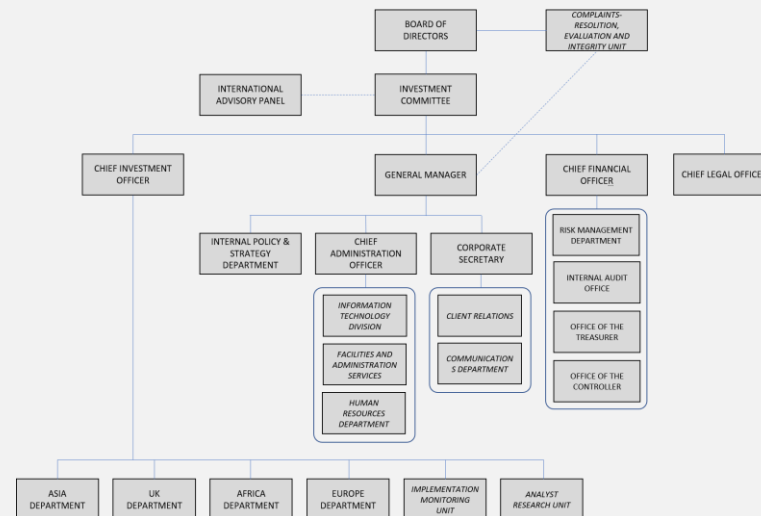
## Three-Tier Structure

Given the range of investment climates across our target markets, the structure is set up in three tiers: Tier I (low risk); Tier II (medium risk); Tier III (high risk). The description and categorization of each tier is illustrated below. Customisation is offered for investors with specific preferences regarding markets, type and level of risk exposure.

	Tier I	Tier II	Tier III
Category	Low Risk	Medium Risk	High Risk
Customisation			
Type	- Core	- Core - Value-added	- Core - Value-added - Opportunistic
Allocation Cap (%)	54	31	15
Economies	- High Income	- High Income - Upper-Middle Income	- High Income - Upper-Middle Income - Lower-Middle Income
Average Local IRR (%)	9.21%	14.25%	30.59%
Term	>5 years	>5 years	3-5 years

## Organisation

The firm structure is modeled on Asia Infrastructure Investment Bank, with respect to leadership, policies and directives, accountability, and transparency, all aimed at improving investment outcomes. The fund aims to become a leading financial institution supporting healthcare infrastructure development and growth in Asia.



## Locations

The firm has offices in London, Hong Kong and China, giving sufficient breadth of access and expertise in originating and executing investment strategy.



# Governance: Highest International Standards

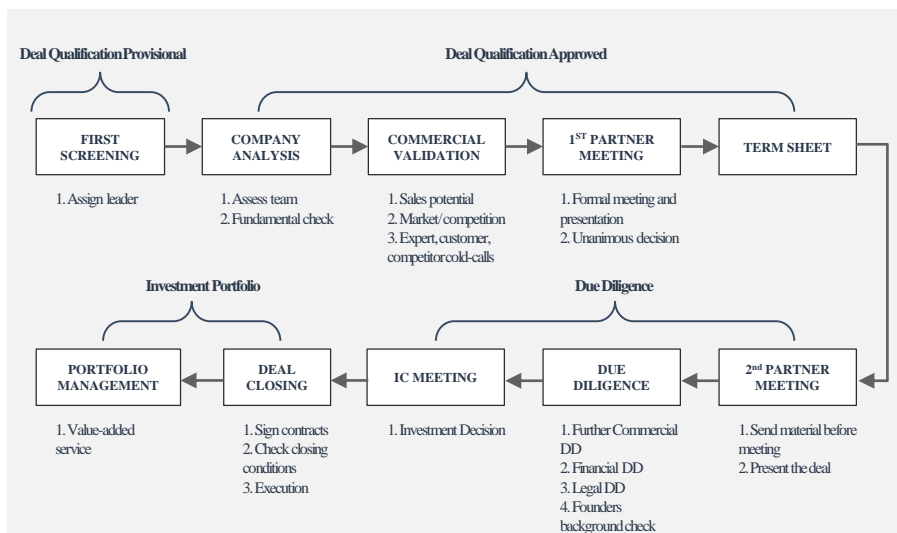
## Our Board

The Board is comprised of executive and non-executive directors. The non-executive directors are industry and country experts, forming the intelligence unit which contributes to due diligence process of transaction evaluation. The Board's areas of responsibility include establishing the vision, mission and values for the organisation; approving the strategy proposed by the Executive Committee and monitoring its implementation.

## Management

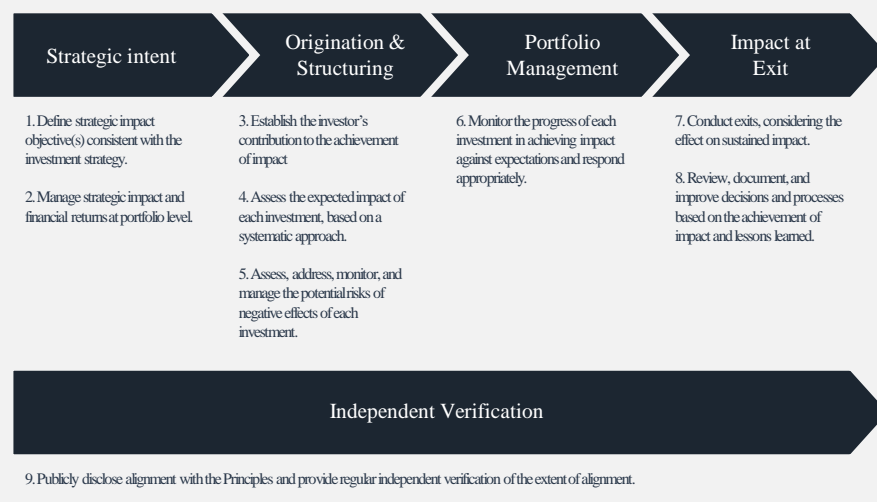
MU LLC is managed by a hands-on management team of tailored professionals, lead strategically by the Investment Committee. Remuneration is only calculated on profits generated. A management fee of 1.5% per annum absorbs all administrative and maintenance fees in handling pipeline, legal, deal-processing and underwriting, and operational management of each transaction.

The Manager has designed and implemented its own investment procedure, illustrated below. It believes this process ensures rigorous analysis and evaluation of potential investment opportunities. It is centred around the importance of due diligence and internal checks and balances.



## Adherence to the IFC's Operating Nine Principles for Impact Management

These provide investors with guidance on how to manage investments so that they contribute to measurable positive social, economic, or environmental impact, while simultaneously generating financial returns. The Principles have been designed from the perspective of an end-to-end process. The five elements of this process are: strategy, origination and structuring, portfolio management, exit, and independent verification. The nine Principles that fall under these five main elements are the key building blocks for a robust impact management system. As such, they aim to ensure that impact considerations are integrated into investment decisions throughout the investment lifecycle.



## Institutional Alignment

The fund is aligning itself with institutional leaders in infrastructure investment and development, particularly in Asia. This is similar to choosing strong regulatory boundaries as part of the conservative fiscal governance policy of the fund, and to ensure more careful screening of project sponsor partners.

IFC	AIIB	DIT	ADB	CDC Group
World Bank private equity principles	UK/ European structured Asia Development Finance Bank to support infrastructure development	Department for International Trade (UK) – international development principles and aligned economic growth strategy	Leading infrastructure debt finance principles and competitive terms	UK foreign investment vehicle, with sole shareholder the UK Department for International Development (DFID)

## Environmental, Social and Corporate Governance

The Fund is employing the highest standards when it comes to Environmental, Social and Corporate Governance principles, as part of a growing international trend to conscious and sustainable investing. This is particularly important for infrastructure investing in a fast changing world, where being innovative and at the forefront of this approach is actually a better investment for the future.

# Disclaimer

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