

The Montreux Healthcare Fund PLC

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Date: 24 July 2024

The Montreux Healthcare Fund Plc (“the Fund”) – Update to holders of participating shares of the Fund (the “Shareholders” and each a “Shareholder”)

Dear Shareholder

Further to recent correspondence including a circular to Shareholders dated 12 July 2024 (the “Circular”) and an update letter dated 12 July 2024 (the “July Update Letter”), we have received a number of questions in relation to the proposed members’ voluntary winding-up of the Fund (the “MVL”), as further set out in the Circular and the July Update Letter.

In the interests of transparency and in order to keep all Shareholders informed of developments, we have set out below the questions we have received to date along with our responses (as far as we are able to answer the same at this time).

Important Information: Delivery of Form of Proxy

The Board of directors of the Fund (the “Board”) has considered a query in relation to the delivery of the form of proxy as contained in the Circular (“Form of Proxy”), namely whether the Form of Proxy can be delivered electronically via email in a scanned format as opposed to delivering an original by hand or by post.

Taking into account the above and pursuant to article 25.8 of the Fund’s Articles of Association, the Chairman of the Board (being the Chairman of the scheduled Member’s Meeting) has exercised her discretion and can confirm that a duly completed and signed Form of Proxy may now be validly delivered either by hand or by post to Suntera Fund Services (IOM) Limited, PO Box 227, Peveril Buildings, Peveril Square, Douglas, IM99 1RZ, Isle of Man or electronically by email to montreux@suntera.com.

1. What is the approximate amount of capital to be distributed among all Shareholders?

The Fund has approximately £4 million at the present time which represents approximately 1% of the most recent available indicative Net Asset Value of the Fund, as calculated on 31 October 2023.

2. How many shareholders does the Fund have?

The Fund has 991 holders of participating shares (“Participating Shareholders”) and 1 holder of management shares.

3. What is the estimate cost / remuneration for Craig Mitchell / CKM Consultants Limited?

Craig Mitchell’s remuneration will be paid on a time spent basis, in line with CKM Consultants Limited’s standard charge out rates in force at the time.

4. Can you confirm the timeframe for the wind-up of the Fund if the special resolution passes, i.e. is it six (6) weeks after 7 or 8 August?

The meeting of the shareholders of the Fund (the “**Members’ Meeting**”) is to be held on 7 August 2024 (subject to the relevant quorum requirements being met). If the quorum requirements are not met, then the Members’ Meeting will be re-scheduled to the following business day, being 8 August 2024.

If the special resolution is passed approving the MVL (the “**Special Resolution**”) then a notice confirming the same must be advertised in two or more newspapers published and circulating in the Isle of Man within seven days.

Once Craig Mitchell has been appointed liquidator of the Fund pursuant to the Special Resolution, he will then determine the relevant timeline of the MVL by adjudicating proof of debts and then either paying an interim or final distribution of funds from the Fund. There are various factors which he will need to take into account and so it is not possible at this stage to confirm a precise date on which any distribution may be made.

5. By when approximately, can Shareholders expect the liquidation payment?

The final payment will be made following completion of the MVL as outlined in point 4.

6. Are there any repercussions for Shareholders who do not return the form of proxy?

Shareholders who do not return the Form of Proxy or attend the Members’ Meeting will not be able to vote in respect of the Special Resolution. If the Special Resolution is passed, it will be binding on all Shareholders irrespective of whether or not they attended and/or voted in favour of the Special Resolution at the Members’ Meeting.

7. How many forms of proxy need to be returned with a positive vote in order for the Special Resolution to pass?

The quorum for the Members’ Meeting is one or more shareholders together representing at least 5% of Voting Rights in the Fund. Shareholders have one vote for each share held (this includes both Management Shares and Participating Shares).

If the Members’ Meeting is not quorate on 7 August 2024, it will stand adjourned to the same time and place on the next Business Day (8 August 2024). At the adjourned meeting, any shareholder present will constitute a quorum.

A quorum may comprise a single shareholder present in person (in the case of a shareholder who is an individual) or by a duly appointed representative (in the case of shareholder who is a body corporate) or by a proxy (in either case) in which case such person may pass a resolution of the shareholders and a certificate signed by such person accompanied, where such person is a proxy, by a copy of the proxy instrument, shall constitute a valid resolution of the shareholders.

The Special Resolution is required to be passed to approve the MVL. This will be passed if it is approved at the Members’ Meeting by a shareholder or shareholders holding at least 75% of the Voting Rights exercised in relation to the Special Resolution.

“Voting Rights” in relation to above simply means all the rights to vote on a poll on a resolution of the shareholders (or class thereof).

8. What will happen if the Special Resolution does not pass?

If the Special Resolution is not passed then the Board will have to consider what other options are available, but ultimately, if new capital is not raised, the Board has no option but to continue to keep the Fund closed during which period the remaining capital will eventually be eroded.

9. What is the current role of the Investment Advisor?

Montreux Capital Management (UK) Limited (the “Investment Advisor”) continues to advise the Board on the various options and updates it has issued to Shareholders. However, as the Board is the governing body for the Fund all the updates have been issued by the Board.

10. When was the moment whereby the Board knew that the Active Care Group (“ACG”) had taken a turn from being a company with so much potential to one which lost so much value over such a short period of time to eventually being taken over by creditors?

There was no specific point when the Board became aware of a significant short-term deterioration in the performance and value of ACG. As set out in previous updates, ACG suffered from a number of factors that significantly impacted the performance of the Fund, including but not restricted to Brexit, increased costs of both labour and overheads, increased interest rates which absorbed free cash and prevented necessary expenditure on the continued maintenance and developments of real estate plus delays in obtaining increases in fees from the various NHS trusts. The combination of these factors with other commercial challenges resulted in a deterioration in performance over a period of time.

11. Just ahead of the October 2022 closure of the Fund, was the Board aware that the internal financials of ACG had already shown signs of deterioration especially in terms of its cashflow?

The decision to close the Fund in 2022 was taken when a decision was taken to sell the asset and a process was initiated with Credit Suisse to manage the process. At that point, the indications were that the sales process would achieve the necessary sales price to allow all Shareholders to achieve an exit at the prevailing Net Asset Value of the Fund as of that date. However, during this process, the impact of the negative factors outlined in point 10 had started to impact performance and ultimately the sales process failed.

12. Why are the Board recommending the liquidation of the Fund?

The Board is recommending that Shareholders vote in favour of the Special Resolution to approve the MVL, for as stated in the Circular, a number of alternative options had been considered in conjunction with the Investment Advisor and various professional advisors to the Fund and subsequently considered unviable.

A summary of the options that have been considered by the Board to date are set out below.

Option 1 – Additional capital raise

The Board considered whether an additional capital raise would be viable in terms of raising additional funding for the Fund. However, it was noted that the Board had previously written to all Participating Shareholders on 24 January 2024 proposing that £50 million could be raised through the issuance of preference shares in the Fund in order to satisfy cash requirements for the Fund's (then) asset, ACG (the "**Preference Share Proposal**").

The response to the Preference Share Proposal was insufficient to support proceeding with this proposal, as less than 10% of Participating Shareholders responded and less than 25% of those that responded indicated that they would participate in the Preference Share Proposal.

On the 29 May 2024 Richard Beard and Richard Fleming of Alvarez and Marsal Europe LLP were appointed by a lender to ACG, Sequoia IDF Asset Holdings ("**Sequoia**"), as Joint Administrators of ACG Holdco Limited. Following this appointment an immediate pre-packaged sale of (i) ACG Holdco Limited's shareholding in its subsidiary, ACG Midco Limited ("**Midco**"), and (ii) an intercompany loan due from Midco to ACG Holdco Limited occurred.

The Board subsequently wrote to Shareholders on 12 June 2024 explaining that three options had been explored, namely (1) engage with the Participating Shareholders to see if there is potential to raise additional funding to repurchase ACG from Sequoia ("**Additional Funding Proposal**"), (2) purchase an alternative asset which had already been identified at a cost in the region of £45-50 million of which approximately £30 million would need to be raised from Participating Shareholders and (3) place the Fund into a MVL.

The Board then issued the July Update Letter which detailed that a number of Shareholders had requested that the Additional Funding Proposal be explored further which could then be utilised as part of a package to repurchase ACG back from Sequoia and execute the 3-year recovery plan as previously outlined to Shareholders (the "**Rescue Proposal**").

As detailed in the July Update Letter, the Investment Advisor who carried out an analysis of the Rescue Proposal and its implications concluded that the sum of monies required to repurchase the debt and equity from Sequoia to repurchase ACG would be approximately £97 million as an opening position, coupled with approximately £95 million of additional debt from other lenders to ACG. On this basis, the repurchase of ACG would represent a 'day one' reacquisition multiple of approximately 20x EBITDA, which the Board were advised was significantly outside of a 'normal' market multiple for a sale of a large well integrated real estate backed business of 12-13x EBITDA. The Board therefore concluded that the Rescue Proposal did not represent a good value proposition.

In addition to the above, the Board have also been informed by various Participating Shareholders that they would be unwilling to subscribe for new shares in the Fund in the context of an additional capital raise without the commitment of all other Participating Shareholders, so as to avoid the situation where they are effectively subsidising those non-subscribing Participating Shareholders.

Option 2 – Purchase a new asset to replace ACG

The Board also considered the option of the Fund purchasing an alternative asset to replace ACG. An alternative asset had been identified at a cost in the region of £45-50 million but this would necessitate £30 million being raised from Participating Shareholders.

For the above reasons in relation to raising additional capital from Participating Shareholders, the Board considered this was also not a viable option.

Option 3 – MVL

In consideration of the above, namely all other options as set out above not being viable, the Board advised Shareholders within the Circular that the MVL remains the only option that is viable and which is, in the opinion of the Board, in the best interests of the Fund. It is for the aforementioned reasons that the Board is recommending Shareholders vote in favour of the Special Resolution and the MVL.

Conclusion

The Board recommends that Shareholders vote in favour of the Special Resolution to approve the MVL so that there can be an orderly process resulting in the winding down of the Fund in an efficient manner and to seek to ensure that the residual payments can be made as quickly as possible.

Shareholders who have any queries should contact the Investment Advisor by email to info@montreuxcm.com.

Barry Monks

On behalf of the Fund