The Montreux Healthcare Fund PLC
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The Montreux Healthcare Fund Plc (“the Fund”) – Notice to Investors – Update

Dear Investor

Further to our letter of 31 May 2024, we have received the Joint Administrators’ proposals report in relation to ACG Holdco Limited (copy enclosed for your full information) and the Board wishes to provide a further update on the situation.

Background

The Board would firstly wish to summarise the background to the current position:

- As investors are aware, the Fund was closed for subscriptions and redemptions in October 2022 with a view to achieving the sale of the underlying asset, the Active Care Group.
- As part of the sale process, a new closed-ended fund was established in Jersey in August 2022 with a view to purchasing the asset, following which the investors would be offered a number of options including a redemption of their investment, participation in a new asset to start the investment cycles again and to indirectly invest in the Jersey structure to participate in the growth of this business over the next 3-5 year period.
- Credit Suisse Asset Management Limited - Private Fund Group – Capital Solutions were engaged to manage the process to raise funding to allow this sale to proceed and as part of the process identified StepStone Group Real Estate LP (StepStone) as a potential participant in this process. StepStone entered a 2-month period of exclusivity with a view to carrying out a full due diligence process on the asset. However, on 9 June 2023 StepStone withdrew from the process citing a deteriorating trading environment for the Active Care Group as the primary reason for the withdrawal.
- Meanwhile Credit Suisse Group AG was acquired by UBS Group AG under the instructions of the Swiss Government to avoid bankruptcy of Credit Suisse Group AG and its potential negative impact on the Swiss financial sector. As a result the Credit Suisse arm managing the sales process was disbanded in June 2023 thus ending the process.
- While this process was underway, Liz Truss was appointed Prime Minister of the UK on 6 September 2022 and, during her tenure to 25 October 2022, the policies implemented by the UK Government effectively resulted in a disaster in the financial markets causing an immediate global increase in interest rates and the start of a high inflation period. The impact of this had the potential to significantly impact the proposed group hospital sales and the refinancing process, as increased interest rates would directly impact the price that could be achieved for the hospitals and would also directly impact the terms at which any refinancing could be carried out. Ultimately, the hospital sales process failed, as the amount offered did not come near to an acceptable offer by way of value. The refinance project, however, continued but with the added target of achieving the full amount required to replace the senior lenders. Rothschilds advised that the refinancing process could take up to 6 months to complete.

- On 20 June 2023, the Board and investors of the Fund were advised of the failure of the proposed sale to the Jersey closed ended vehicle and were further advised that a number of actions were being undertaken to stabilise the Active Care Group. These actions included the potential sale of a group of hospitals for potentially £100m and the refinance of the remaining debt at more attractive terms than were currently in place. NM Rothschilds & Sons Ltd (Rothschild) were engaged to achieve both elements of the transaction.
- In June 2023, Keith Browner was appointed CEO to the Active Care Group to improve the commercial performance of the Active Care Group (replacing Sylvia Tang who had held the position since April 2021).
- On 21 August 2023, a waiver letter was signed by all lenders in respect of any breaches in the existing loan covenants under the existing loan agreements due to breaches in leverage levels and their relationship to EBITDA, which was being impacted by the struggling operating performance of the Active Care Group.
- On 21 October 2023, a Standstill Agreement was entered into by all lenders to allow the refinancing process to be completed by Rothschild.
- In November 2023, a detailed analysis of the current performance of the Active Care Group and the impact of the current economic environment on this performance was issued by the Fund's Investment Advisor - Montreux Capital Management (UK) Limited - to investors in the Fund plus a detailed analysis of the proposed 3 year recovery plan, which would allow the business to recover to an EBITDA of £40m in the financial year 2026.

Current Position

The events leading up to the current position are as follows:

- On 24 January 2024, the Board wrote to investors in the Fund advising that additional finance was required to maintain the investment in the Active Care Group and that it was proposed to issue £50m in Preference Shares, which would be used to provide working capital and to reduce the existing debt facilities. The original date for responses to the proposal was 15 February 2024 when investors of the Fund were asked to indicate whether they (a) would agree in principle to the issue of Preference Shares and (b) in principle be interested in subscribing for said Preference Shares. However, due to delays in receipt of this notice by certain investors this date was extended to 11 March 2024. Having reached the relevant date, a sufficient majority of investors that voted indicated an agreement to the issue of the Preference Shares, but the number indicating a commitment to subscribe was very low and did not justify the costs involved in instructing lawyers to draft the necessary documentation to allow the Preference Shares to be issued. As a result, alternative funding was deemed to be required.
- The Board were advised that while the issue of Preference Shares was outstanding with investors, discussions were ongoing between the Investment Advisor and a number of existing large investors in the Fund and that there were at least two possible alternative solutions being explored along with the potential Preference Share issue.
- It was decided that Barry Monks would represent the Fund on a number of the Active Care Group non-operating company Boards (as a non-executive director) to ensure that the Fund would be kept apprised of developments. This appointment occurred on 22 February 2024.
- On 20 and 21 March 2024 meetings were arranged with all lenders to make a number of presentations to lenders and to seek approval for a proposed reorganization of current debt facilities. At these presentations Rothschilds presented the outcome from their refinancing process advising that while the process was still ongoing it was highly unlikely that the process they were running would be successful in achieving the refinancing of super senior and senior lenders. Keith Browner, at that time the CEO of Active Care Group, presented the 3 year business plan that would achieve the full recovery of the performance of the group and the

ability to repay all debt facilities on the successful completion of the recovery plan. He also advised that the current working capital requirements needed to be resolved by end of June 2024. The Investment Advisor represented that, on the basis Rothschilds had been unsuccessful in achieving a refinancing of the existing debt facilities, there were potentially two solutions that would achieve the best outcome for the Investors Active Care Group and the lenders. At these meetings, the super senior and senior lenders advised that they were open to discussions around entering into new lending arrangements which would be in line with the recovery plan.

- During the ensuing period, the Board was kept apprised of the position being advised that discussions were ongoing, and the Investment Advisor believed that at least one of the proposals being put to the lenders would be successful. The most promising proposal involved an initial investment of £30m which would be provided by one of the existing lenders/investors and an additional investment of up to £50m which the Investment Advisor had committed to raise in the following 3-6 months.
- Barry Monks attended weekly updates to the ACG Topco Limited board (the non-operating company through which the Fund indirectly held its investment) where it was advised that discussions were ongoing and appeared positive. However, on 23 May 2024 the executive directors advised that they were no longer willing to share information regarding the refinancing process with the non-executive directors, as they perceived that there was conflict between the interests of the executive directors who represented the interests of the company while the non-executive directors had a much broader focus, including those of the Fund investors. The executive Directors also advised that they had signed Non-Disclosure Agreement in relation to discussions in respect of the discussions around the refinancing process. This placed the non-executive directors in an untenable position effectively forcing all three non-executive directors to resign.
- On 24 May 2024, the Board instructed Squire Patton Boggs (UK) LLP to write to the Active Care Group requesting a full update on the financial restructuring process, full financial update including cash flow forecasts and to appoint Ita McArdle to the board of certain Active Care Group companies. On the same day, prior to the email being sent, the Board became aware that Joint Administrators had been appointed to ACG Holdco Limited, which preempted sending the email.
- Based on the Joint Administrators' proposals report (copy enclosed), contingency work commenced on the 4 May 2024 with a view to enforcement by one of the lenders, Sequoia IDF Asset Holdings (Sequoia), having engaged Alverez and Marsal Europe LLP (Alvarez) to carry out this work despite the ACG Holdco Limited board being advised that discussions were ongoing and positive. The report also states that Alvarez had in fact been engaged by Sequoia on 12 October 2023 to carry out an analysis of their options under their loan facility.
- The Joint Administrators advised that they were contacted by the NHS on 21 May 2024, who advised that they had placed an embargo on the Active Care Group whereby it would not be placing any additional service users with the group. Due to the potential impact this would have on the occupancy levels at the Active Care Group the administration process of ACG Holdco Limited was accelerated resulting in the enforcement by Sequoia and the ultimate prepack of the assets (as detailed in the Joint Administrators' proposals report) on 29 May 2024. This meant that a sale of the assets (as detailed in the Joint Administrators' proposals report) to a new company established by Sequoia or a related party had already been prearranged at an agreed price of £62m plus the agreement to repay the existing senior debt of approximately £100m giving an effective price of £162m plus the agreement to provide additional funding of £35m. This information was kept from the Board.
- A resignation letter was received from Keith Browner from the ACG Topco Limited Board as the shares in the underlying company, ACG Holdco Limited had been sold.
- Formal notice of the administration of ACG Holdco Limited was received from Alvarez on 31 May 2024.

Conclusion

The Board had been advised that the refinancing process was required to be completed by the end of June, and were also advised on an ongoing basis that discussions around the proposal presented by the Investment Advisor were ongoing and appeared to be positive. However, it is now clear there were parallel discussions ongoing with regards to placing ACG Holdco Limited into administration. It is also clear that these discussions could not have taken place without the participation of all the lenders and their advisors and senior management/executive directors of the Active Care Group. This view appears to be endorsed by the refusal of the executive directors to engage with the non-executive directors on 23 May 2024.

The Board has consulted with Squire Patton Boggs (UK) LLP and Gowling WLG (UK) LLP with regards to any potential challenge to the administration process, and have been advised that any challenge would have a low chance of success and could potentially be very expensive.

As a result of the above actions by Sequoia the underlying asset, the Active Care Group, which had been owned by the Fund is now owned by Sequoia and the only remaining asset in the Fund is the residual cash held for working capital purposes. Following the settlement of all outstanding creditors and on the basis that a liquidation of the Fund is approved, the residual cash will be distributed to the investors as soon as possible.

The Board have had a number of discussions with the Investment Advisor, a number of investors and various professional advisors in respect of a number of possible scenarios namely:

1. Allow the Investment Advisor to engage with a number of investors to see if there is a potential to raise additional funding to fund the repurchase of the asset from Sequoia which would require investor funds of £50m to be raised alongside a similar amount of external debt;
2. Purchase an alternative asset which had already been identified at a cost in the region of £45-£50m of which approximately £30m would need to be raised from investors;
3. Place the Fund into liquidation and distribute any remaining assets after this process to shareholders.

Following these discussions, the Board has concluded that options 1 and 2 are not viable options as it believed that it is unlikely that investors would commit additional funding in the current circumstances. Therefore, the Board believes it is in the best interests of the investors to place the Fund into liquidation and to distribute the residual assets to investors as quickly as possible.

A formal notice will be issued to investors shortly.

The finalisation of the audit of the Fund's financial statements for the year ending 30 September 2023, which had been delayed by the refinancing process, can now be completed. The Fund Board has met with the auditors and instructed them to complete the outstanding audit as a priority.

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

Barry Monks

On behalf of the Fund