

IMPORTANT: By downloading this document you agree that you are a professional client only, information is not intended for retail clients.

Octopus Healthcare Fund

ESG, Sustainability and Impact Report

May 2022



octopus real estate

A brighter way

Disclaimer:

This document is issued by Octopus Investments Limited (“Octopus”) on a strictly confidential basis under article 14 of The Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) Exemptions) Order 2001 to investment professionals who have professional experience of participating in unregulated schemes and the units to which this communication relates are available only to such persons. Any persons without professional experience including retail clients should not rely on it. Octopus is authorised and regulated by the Financial Conduct Authority with registered office at 33 Holborn, London EC1N 2HT. Registered in England and Wales No. 03942880.

Restrictions:

This document contains proprietary information and is confidential to its recipient and, subject to applicable law requiring its disclosure by the recipient, may not without the prior written consent of Octopus be reproduced, sold or redistributed, or its contents otherwise disclosed, in whole or part by any recipient to any person other than the recipient’s professional advisors. This document may not be distributed in any jurisdiction where it is unlawful to do so and remains the property of Octopus ©2022.

No offer:

This document is provided for information purposes only and does not constitute an offer to sell (or solicitation of an offer to purchase) the investments mentioned or to participate in any particular trading strategy. Any offering of securities shall only be made through the relevant offering or placement memorandum and/or other offering documentation which sets forth the terms and conditions of such offering and contains the information needed to evaluate the potential investment and provides important disclosures regarding risks, fees and expenses.

Risks:

Octopus products will place capital at risk and investors may not get back the full amount invested.

Registered in England and Wales No. 03942880. We record telephone calls. Issued: May 2022.

ORE104

Find it fast

About this report	4
About Octopus Healthcare Fund	4
OHF Real Estate Portfolio	5
Our mission	6
Our Progress	6
Verification and disclosure	8
Net zero Carbon commitment	9
Looking ahead	10
Impact	10
Clinical Assurance	12
We are fully committed to ESG	13
Appendix 1. Fund targets	14

About this report

This ESG, Sustainability and Impact report includes the actions that have been taken by Octopus Real Estate ('ORE') in regard to Octopus Healthcare Fund ('OHF' or the 'Fund').

All data in this report is based on the Fund's Investor Report for the year to 31 December 2021 unless otherwise stated. The reporting extends to the real estate assets that are owned by the Fund and where operational data has been made available by the tenants. This includes energy, water, waste and carbon data.

This report has been prepared in accordance with INREV Sustainability Reporting Guidelines, of which Octopus Group is a member and aligns with best practices, including the Taskforce for Climate Related Disclosures (TCFD) recommendations. It has been verified by Envision.

About Octopus Healthcare Fund

OHF is one of the largest unlisted healthcare real estate funds in the UK, managing over £1.0bn assets comprising of 69 trading care homes (5,095 beds) and 13 homes under construction.¹ The Fund works with 25 care operators throughout the UK.

Verificaton statement

Envision has carried out an independent verification of the ESG and Sustainability section² of this Octopus Healthcare Fund: ESG, Sustainability and Impact Report, to provide the audience with assurance of the validity and accuracy of statements made within this report, in line with INREV Sustainability Guidelines,³ and verification of the GHG emissions reported, in accordance with ISO 14064-3.⁴

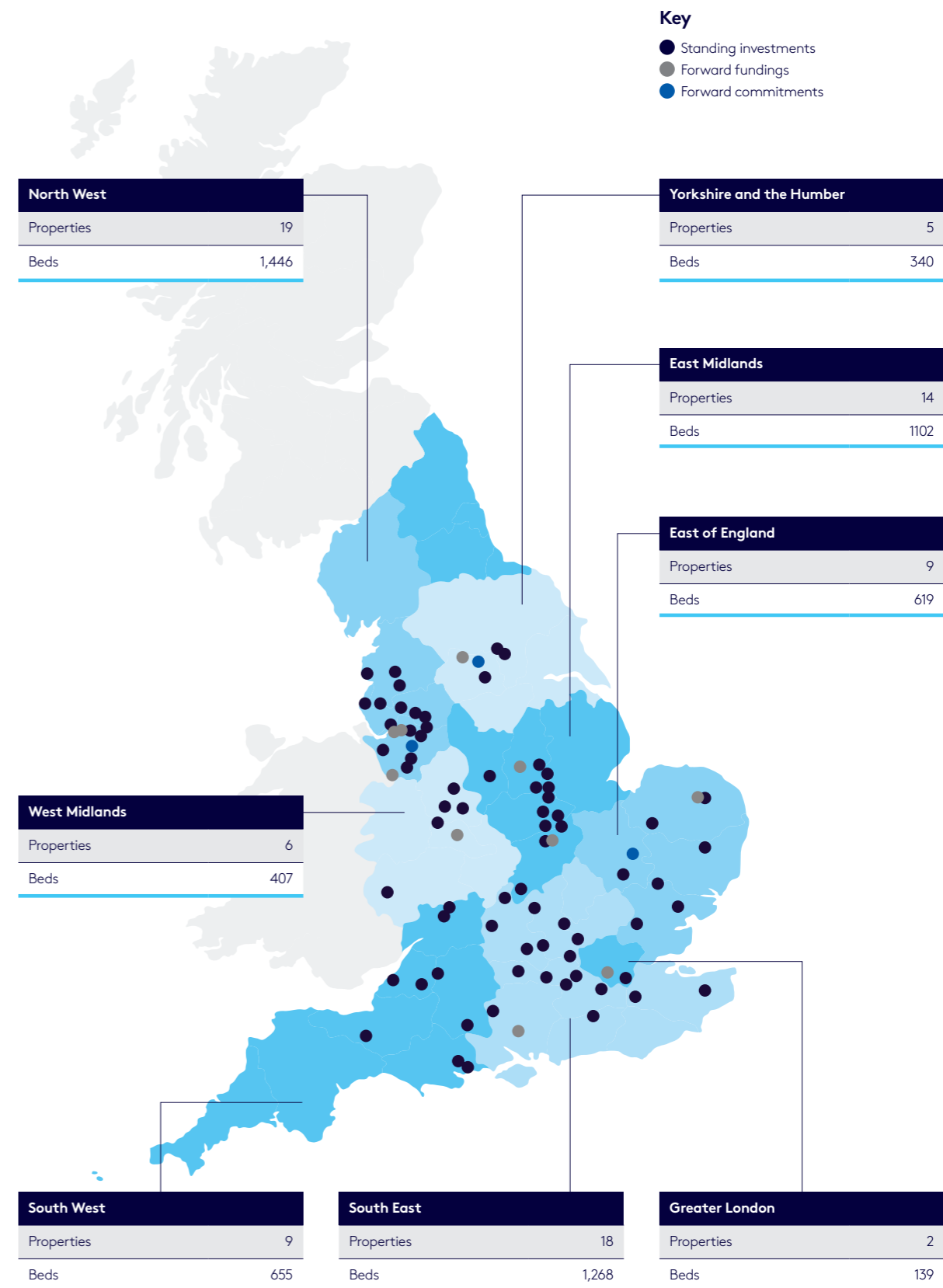
Based on a detailed review of sources of the data and information presented in this report, Envision confirms this provides a true and honest account of ESG activities undertaken during the reporting period (year to 31 December 2021) and the ESG performance data is materially correct and a fair representation, prepared in accordance with ISO 14064-1.⁵

Simon Rainsford
Director, Envision
Sustainability Ltd
March 2022



¹10 homes forward funded and 3 homes committed to acquire. ²KPMG completed a separate verification of the Impact Report (www.octopus-realestate.com/operatingprinciples/). ³INREV Sustainability Reporting Guidelines, November 2019. ⁴BS EN ISO 14064-3:2012 Greenhouse Gases – Part 3: Specification with guidance for the validation and verification of greenhouse gas assertions. ⁵BS EN ISO 14064-1:2018 Greenhouse Gases – Part 1: Specification with guidance at the organisation level for quantification and reporting of greenhouse gas emissions and removals.

OHF Real Estate Portfolio¹



Our mission

We strive to create exceptional care facilities, investing in best-in-class care homes that can also be a catalyst for positive change and impact in a community. Our care homes combine the highest standards for quality and care. Discrete design features further support wellbeing, along with safety.

We are committed to ensuring that the properties in our portfolio meet our ESG and sustainability goals. Through our signatory status with B Corp, Operating Principles of Impact Management and as a signatory of the UN Principles of Responsible investment, we are taking a comprehensive lead in managing our Environmental, Social and Governance ('ESG') commitments.

From 2030, all newly developed assets will be net zero, with residual emissions offset via high quality carbon sequestration projects. The Fund is also committed to ensuring that all assets in the portfolio are at a net zero position by 2040.

Our ESG policy is available on the Octopus Real Estate website and ensures that we are not only compliant with current ESG-related legislation but drives our commitment to continuous improvement in ESG performance. We are also aligned with the Octopus Group's Responsible Investment Policy, which outlines the ESG responsibilities, oversight and approach for all Funds within the Group.

Our Targets

In January 2021, the Fund committed to a series of short, medium and long term ESG targets that are material to the operations of the Fund. The targets are intended to focus the actions of the Fund, ensuring it is having the most impactful contribution.

The targets will be reviewed and updated periodically, to ensure they remain stretching, fit for purpose and reflect any regulatory changes.

A full list of targets can be found in Appendix 1 with progress to date of a number of these targets are detailed below.

Our Progress

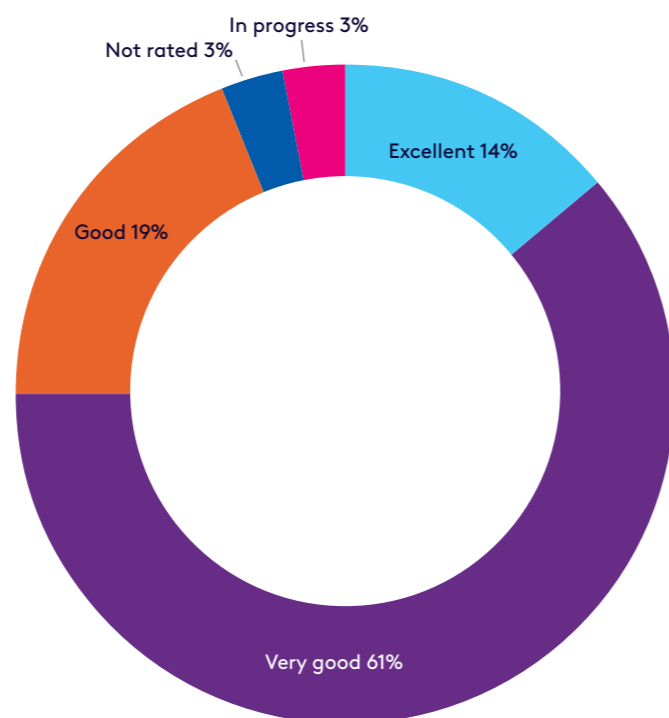
Asset Certification

BREEAM¹

In 2021, the Fund was the first healthcare fund to enter into a 10 year portfolio agreement with the Building Research Establishment ('BRE'). The agreement ensures that all assets in the Fund will maintain their certification against BREEAM in Use for the term of the agreement. BREEAM in Use provides a measure of how sustainable and efficient an asset is.

The Fund targeted the certification of all assets in the portfolio against BREEAM in Use. Within three years of January 2021, it is targeted that 75% of assets will be rated as BREEAM 'Very Good' or better and for 10% to have achieved a rating of BREEAM 'Excellent'.

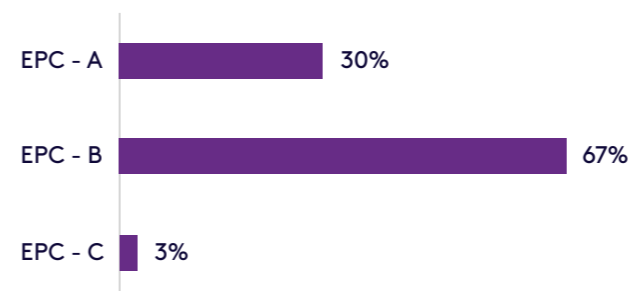
The current BREEAM ratings for the Portfolio are shown below.



¹Calculations based on number of assets.

EPC¹

The Fund's target over three years for the EPC rating of the assets in the Fund is for 97.5% of assets to be B Rated (or higher) and 25% of assets to be A Rated, with all new assets requiring an EPC rating of B or higher (both from 1 January 2021). The current EPC ratings of the portfolio are shown below.



The Fund is 100% compliant with the Minimum Energy Efficiency Standard which came into force in 2018 and on track to being compliant with the more stringent requirements due to come into force in 2030.

Green lease clauses¹

The target over one year is for all new assets coming into the Fund to include green lease clauses, and 95% of all Fund leases to include them within three years (both from 1 January 2021).



¹Calculations based on number of assets.

Green lease clauses have been incorporated into 100% of newly drafted Agreements for Lease within 2021. In total, 28% of assets in the Fund have green lease clauses.

Tenant Engagement

In 2021, the Fund released a 'Care Home ESG Guide' which was distributed to all tenants. The guide included information on best practice in respect of ESG in the care home sector, the social impact that the Fund is having and the ways in which OHF and the tenant groups can collaborate.

Following the release of the guide, tenants were invited to attend a webinar on the topic of ESG in the care home sector. Hosted in partnership with Envision, this was a good opportunity to share best practice, educate, and further develop relationships.

See Clinical Assurance Section for further information.

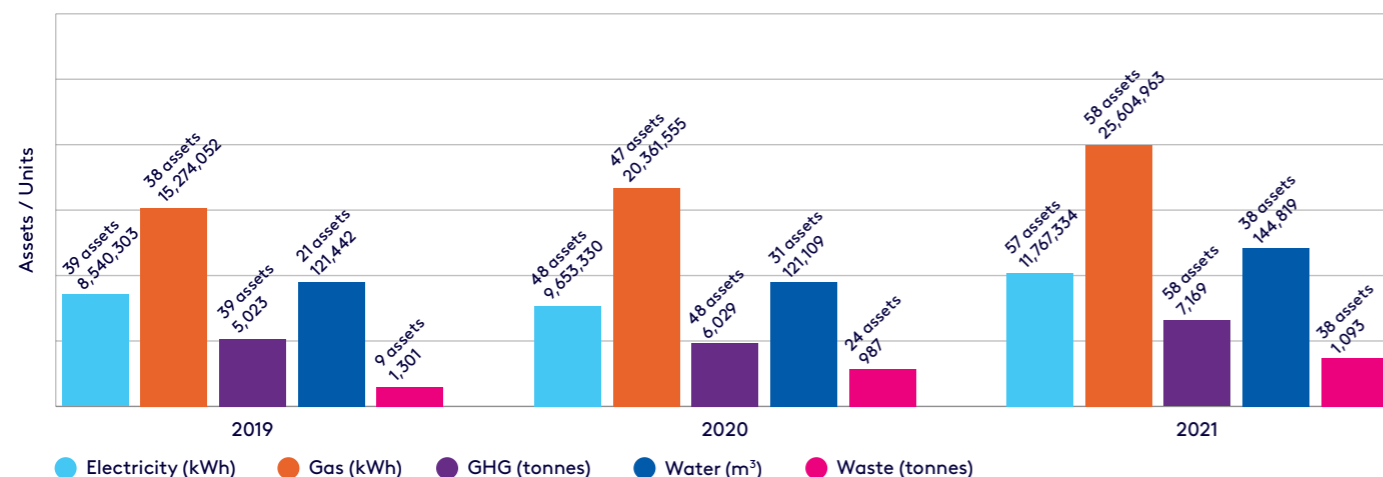
Green Book

In 2019, the Fund drafted a Green Book which outlines the expected sustainability design standards for assets entering the Fund. The document has been updated annually to ensure it stays ahead of advancements in the sustainable design. The Green Book was made public in H1 2021.

Portfolio data

In order to understand the operational impact of the assets, we have been focused on improving the data coverage across the portfolio. The graph below shows the progression in energy, water, waste and carbon emissions of those assets where data was made available in 2019, 2020 and 2021.

Energy, water, waste and carbon emissions of select assets



Data analysis tools

In January 2022, the Fund started working with Measurabl to enhance data coverage and accuracy. This also made the process of data collection from tenants easier through the varied means of data processing. The tool will also allow for improved reporting moving forward.

Verification and disclosure

All data generated is reviewed for consistency and coherence internally prior to reporting. External verification is completed by the Funds retained environmental and sustainability consultants, Envision. Impact data is separately verified by KMPG.

Disclosure

In 2021, the Fund reported its performance against several international ESG benchmarks, the results of which demonstrate that the Fund is competitive against both its peers and other funds internationally.

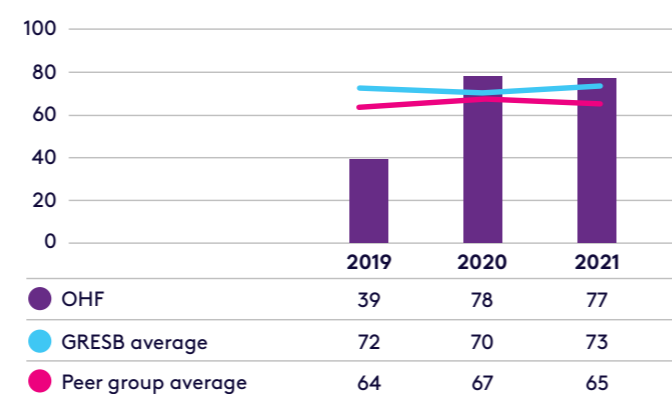
While the results of the UNPRI reporting remain outstanding from the 2021 reporting period (for which the Fund contributes to the Real Estate module on behalf of Octopus Investments), the Fund continued to report to the Global Real Estate Sustainability Benchmark ('GRESB').

Since implementation at the start of 2020, the Fund has continued to drive forward its comprehensive ESG

strategy; the progress has been reflected in the overall scoring of the Fund in the annual GRESB reporting. In the last two years, the Fund has continued to outperform both its Peer Group (European Healthcare Senior Homes) and the overall GRESB average. While the Funds score reduced by one point in 2021 compared to 2020, this was similarly reflected in a reduction in the Peer Group average (falling 2 points). This reduction is understood to be as a result of an increase in the number of participants during COVID-19 and the resource availability at tenant level impacting ability to provide comprehensive data sets for energy, water and waste.

The score was further impacted by the merger of the Fund with MedicX Healthfund II in January 2020 which reduced the availability for like for like data.

OHF GRESB Average Score



Net zero Carbon commitment

ORE is committed to ensure that OHF is operated in a way to minimise its carbon emissions. The nature of our strategy allows carbon production to be monitored throughout the asset's lifecycle.

We will take steps to introduce additional measures to reduce embodied carbon in the construction process with immediate effect, and by 2030, all newly developed assets will be net zero, with residual emissions offset via high quality carbon sequestration projects.

In the short term, we will continue work to ensure the assets are operated in the most energy efficient way. Working with our tenants, we will be aiming to minimise gas usage in homes as well as switching to green tariffs and direct renewable sources on site. Our strategy will target a reduction in the portfolio's carbon emissions aligned with the Science Based Targets by 2030 compared with the 2020 baseline, and a net zero position by 2040 on all assets.

In 2021, OHF has been working with Octopus Healthcare Development and a number of different

parties to design and build the first net zero care home through design and operation. The development is intended to complete in 2023. This development and acquisition of the Hinckley care home demonstrates the early stages of the Fund on its journey to net zero.

Case study: Hinckley

In 2021, Octopus Healthcare Fund was presented by an existing tenant with the opportunity to acquire and fund the development of a 67-bed care home in Hinckley. Following an initial review of the development against the OHF Green Book which details the technical ESG expectations of an asset, a number of areas were identified which could be further enhanced.

Working closely with the tenant, developer and external consultants, a commitment was provided to target a 'BREEAM in Construction' certification rating of 'Excellent'. Electric vehicle charging points were included in the site and the use of gas at the property was eliminated through the inclusion of an air source heat pump system.



CGI of the finished care home in Hinckley

Looking ahead

In addition to a continuation of the work and practices that have been completed to date to assess and benchmark acquisitions, developments and the existing portfolio, the Fund will be working to advance its ESG commitments as outlined below in the short term.



Environment

- Renewables
- EV Charging
- Digital Twinning of portfolio
- Climate Risk Improvement Strategies
- Biodiversity
- Carbon Reduction
- Design and build of net zero care home



Social

- >1,000 care beds commitment per year
- Supply chain
- Tenant Guide and webinar
- Charities/volunteering



Governance

- 100% portfolio clinical oversight
- Clinical data collection and reporting
- Policies and reporting
- SFDR/SDR
- TCFD

Impact

From 1 January 2021, Octopus Investments Ltd (the Fund's Investment Adviser) became a signatory of the International Finance Corporation's Operating Principles for Impact Management (the "Impact Principles"), with the Fund committing to operate as a mainstream impact fund in line with the Impact Framework.

The Manager monitors a set of core KPIs to track its performance follows:

KPI Description	KPI Calculation (Data Sources)	Data Source
Number of quality care beds in OHF portfolio as % of all UK care beds	No. of quality care beds in OHF portfolio No. of UK care beds	Carterwood
Number of new quality care beds funded by OHF as % of all new care beds delivered in UK in period	No. of new quality care beds funded by OHF in period No. of UK new care beds delivered in period	Carterwood
Number of new quality care beds funded by OHF as % of UK shortfall of quality care beds	No. of new quality care beds funded by OHF in period Shortfall in UK care beds with en-suite wetrooms	Carterwood
Care Quality	Care Quality Commission ('CQC') Ratings; Octopus Clinical Assurance Team 'Watch List'	CQC
Real Estate Quality	See ESG KPIs	

Octopus Investments published their first annual disclosure statement on 31 January 2022 in line with the Impact Principles requirements. During 2021, the Fund contributed 15% (813 beds) of all new quality care beds delivered in the UK.

The Manager published its first externally assured Impact Alignment Statement on 31 January 2022, covering the 2021 calendar year. The statement has been externally assured by KPMG.

KPI Description	KPI Calculation ¹	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Number of quality care beds in OHF portfolio as % of all UK care beds	No. of quality care beds in OHF portfolio No. of UK care beds	$\frac{4,571}{461,393} = 1.0\%$	$\frac{4,571}{461,393} = 1.0\%$	$\frac{4,571}{461,283} = 1.0\%$	$\frac{4,999}{461,772} = 1.1\%$
Number of new quality care beds funded by OHF as % of all new care beds delivered in UK in THE period	No. of new quality care beds funded by OHF in the period No. of UK new care beds delivered in period	$\frac{388}{1,182} = 32.8\%$	$\frac{0}{1,264} = 0.0\%$	$\frac{0}{1,942} = 0.0\%$	$\frac{425}{1,050} = 40.0\%$
Number of new quality care beds funded by OHF as % of UK shortfall of quality care beds	No. of new quality care beds funded by OHF in period Shortfall in UK care beds with en-suite wetrooms	$\frac{388}{283,581} = 0.1\%$	$\frac{0}{276,245} = 0.0\%$	$\frac{0}{274,119} = 0.0\%$	$\frac{425}{272,597} = 0.2\%$

Definitions:

"Quality care beds" are defined as:

Quality Care: those homes that are not rated "Inadequate" by the CQC and do not feature as high risk on the Octopus Clinical Assurance Team "Watch List".

Real Estate: Assets which meet the following criteria: (a) a bedroom with an en-suite wetroom in a care home built (or converted) to modern standards and (b) operated by a care provider delivering quality care.

Please note: an asset is included in the calculation at the point in time that it reaches Practical Completion, or at the point of acquisition for standing investments.

¹UK data supplied by Carterwood.

Clinical Assurance

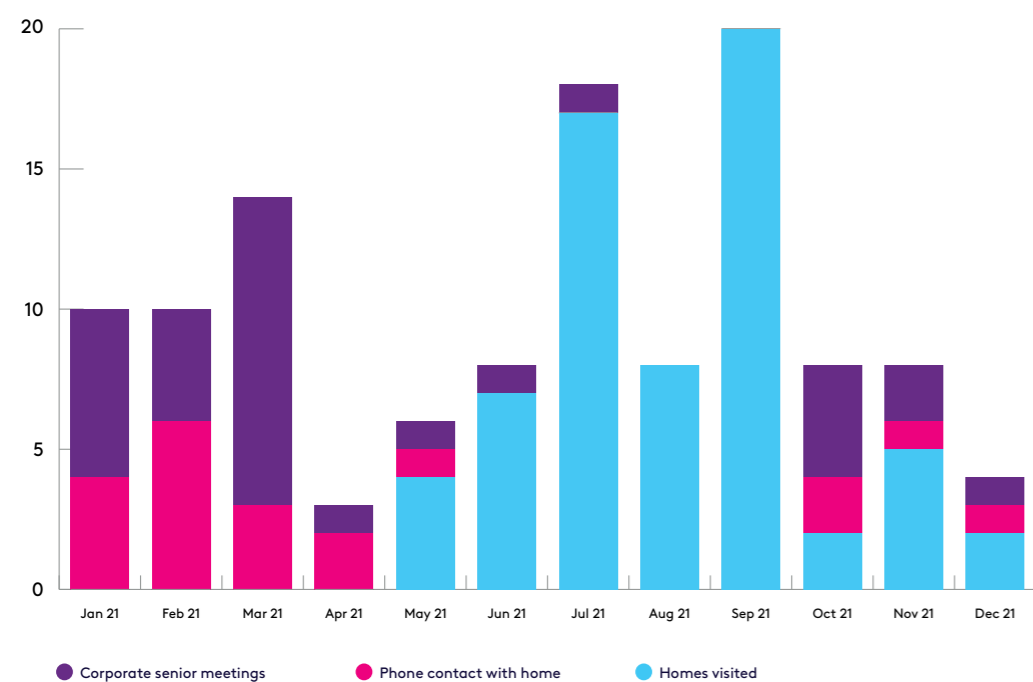
OHF has the benefit of an in-house Clinical Assurance team of two highly-experienced registered nurses with a ranging background in both the private and public sector.

The Clinical Assurance team provide a subjective view on the performance of the assets in the Fund and the operator, determining the quality of care.

During the COVID-19 pandemic, the Clinical Assurance team had to adapt the way in which they supported the homes at all levels, replacing physical visits with weekly/monthly phone conversations with home managers and members of the corporate team. The team also held 'cuppa and a catch up' events online which included roundups of regulatory changes and sharing of best practice and provided an opportunity for individuals across the sector to share their experiences during the pandemic, both positive and negative.

Prior to the pandemic and recommencing in person in the second half 2021, the Clinical Assurance team host bi-annual Quality Care Forums. Individuals from all tenant groups and partnerships are invited to attend a day of regulatory updates, sharing of best practice and open discussions on the healthcare sector.

Clinical Assurance Team home support



We are fully committed to ESG – it's key to who we are and how we invest



B Corp is an independent organisation that certifies companies operating at the highest standard of social and environmental performance, accountability and transparency. After a two-year process, Octopus became certified in 2021. In November 2021, Octopus Group signed up to the B Corp Climate Collective, committing to get to a net zero position by 2030.



PRI is the world's leading proponent of responsible investment, and Octopus is a signatory to their Principles. We have submitted our scores for 2021 and are awaiting our results which will indicate how good our responsible investment policies and practices are.



The Task Force on Climate Related Financial Disclosures releases disclosure recommendations to help companies provide better information to support informed capital allocation. Octopus follows these recommendations to ensure transparency, efficiency and resilience.



The Impact Principles provide a framework for investors to ensure that impact considerations are purposefully integrated throughout the investment life cycle. Octopus is a signatory to these principles.



Our real estate business is a member of the Global ESG Benchmark for Real Assets and we use GRESB data and analytical tools to monitor ESG opportunities, risks and impacts.



OHF has aligned its principles with the United Nations Sustainable Development Goals, in particular goals 3, 7, 11, 13 and 15.



BREEAM is a leading sustainability assessment method for real estate assets and octopus real estate aims to develop its new buildings to a high BREEAM standard.



Octopus is a member of the Sustainability Accounting Standards Board which guides us in the disclosure of financially material sustainability information, to our investors.

Appendix 1. Fund targets¹

Description		Targets				Status as at December 2021
		Short (Within 1 year)	Medium (Within 3 years)	Long (Within 5 years)	Longer (Within 10 years)	
Asset Performance						
Green Building Certifications	Assets certified to an industry recognised scheme (BREEAM) with minimum and aspirational standards (e.g. BREEAM to a level of Very Good, with an aspiration to achieve Excellent)	100% of the portfolio benchmarked and certified (assets held for more than 3 months)	75% of the portfolio to obtain BREEAM Very Good (or better) 10% to achieve BREEAM Excellent	To be confirmed Note: The BRE rating system is regularly updated.	To be confirmed	65 assets certified to date. Of those published: <ul style="list-style-type: none">• 14% Excellent• 61% Very Good• 19% Good
	Assets to achieve the highest EPC ratings	All new assets coming into the Fund to be B Rated (or higher)	97.5% of assets to be B Rated (or higher) 25% of assets to be A Rated	97.5% of assets to be B Rated (or higher) 40% of assets to be a minimum of A rated	To be confirmed	<ul style="list-style-type: none">• 30% A Rated• 67% B Rated• 3% C Rated
Fund Performance						
New Acquisitions & Green Leases	Continue to develop robust methods to appraise our investments, with green lease clauses included in lease agreements	All new leases to contain green lease clauses	95% of all portfolio leases to contain green clauses	To be confirmed	To be confirmed	28% of all leases in the portfolio include green lease clauses (7% as at 31 December 2020)
GRESB	Out-perform the Fund's peer group GRESB benchmark and ultimately achieve 5-star performance	Outperform our peer group average in European Non-Listed Healthcare	Achieve a 5-star rating in the GRESB global community			GRESB Score (2021): 77/100 Peer Group Average: 65/100
Disclosure and Reporting	Improve transparency and accountability to Investors (and relevant industry bodies), always seeking to incorporate best practices	Introduce ESG KPI/Target reporting into quarterly and annual reports. Undertake a materiality review of fund environmental impacts	All relevant KPI/Target data to be assured by an independent third party			KPIs/Targets introduced effective 1 January 2021. Progress reported on at high level quarterly and in depth annually. Materiality review commenced in H2 2021
Climate Resilience	Understand and aim to mitigate climate risk for the portfolio	100% of assets to be included in a preliminary climate risk mapping exercise	Stranding analysis ² to be undertaken in line with CRREM and action plans put in place for 'high risk' properties	All assets to have a climate risk action plan which sets out a 1.5°C pathway	All assets on track to meet 1.5°C pathway mitigation	Climate risk mapping exercise completed in Q4 2021. Asset exposure and action planning to be completed throughout 2022.

¹Targets set on January 1 2021. ²Stranding analysis will follow the Carbon Risk Real Estate Monitor (CRREM) method to identify how individual assets and the portfolio will perform against a 1.5 °C decarbonisation pathway. This will be done to identify the risks posed by potential write-downs in asset valuation due to direct climate change impacts and devaluations related to the transition to a 'low-carbon economy'.³As per data collated in 2021 for the 2020 period.

Description		Targets				Status as at December 2021
		Short (Within 1 year)	Medium (Within 3 years)	Long (Within 5 years)	Longer (Within 10 years)	
Portfolio Impacts¹						
Portfolio Emissions	Establish science-based targets applying fund emissions cap with the aim to limit and reduce scope 3 emissions in line with 1.5°C pathways	Data coverage of GHGs for at least 75% of assets	Use CRREM to develop a carbon trajectory for our portfolio	Set a fund emission cap which will not be exceeded, including scope 3 tenant emissions	Ensure the fund is on track to a pathway of 1.5°C	63% GHGs coverage across the portfolio (by Assets)
Portfolio Energy	Track tenant-controlled energy with a view to reduce absolute energy demand Deliver efficiencies in our portfolio to reduce energy intensity per bedspace	Accurate data coverage for 75% of assets	Accurate data coverage for 95% of assets			76% coverage across the portfolio (by Assets) Completed as part of the Climate Risk Heat map exercise.
		Develop an energy intensity metric per bedspace and publish a strategy for reducing intensity	To be confirmed			
Note: Following a preliminary materiality review, water and waste information is to be excluded from portfolio targets						
Manager Impacts						
Manager's Energy	Measure and control energy related to our corporate function with the aim to reduce our energy consumption over the longer term	As per Octopus Group				To be aligned with Octopus Group, subject to materiality assessment
Manager's Water	Measure and control water related to our corporate function with the aim to reduce our absolute water consumption over the longer term	As Per Octopus Group				To be aligned with Octopus Group, subject to materiality assessment
Manager's Waste	Measure and control waste production related to corporate functions with the aim to eliminate waste production over the longer term	As Per Octopus Group				To be aligned with Octopus Group, subject to materiality assessment
Governance						
Regulatory	Ensure compliance with changing legal and regulatory requirements	100% Minimum Energy Efficiency Standard (MEES) compliance				100% compliance
		100% of our properties will undergo external health, quality and sustainability audits by external property surveyor and clinical regulatory bodies				100% compliance
Training	Ensure all staff, agents and suppliers involved in the fund management receive regular ESG related training and are incentivised through sustainability targets both in contracts and appraisal processes	100% of the portfolio management and investment team directly working on the Fund are trained on ESG	100% of Fund Managers to have ESG targets and objectives			100% of Octopus employees working on the Fund are trained on ESG 100% of the portfolio management and investment team working directly on the Fund to have ESG targets and objectives
Engagement	Implement a tenant engagement programme with the objective to work more closely with our key stake holders	Introduce tenant ESG guide for all tenants to be accompanied by ESG webinar				Tenant ESG guide distributed in Q2 2021 with subsequent webinar in Q3 2021. The guide will be updated and distributed in Q2 2022 and further educational webinars scheduled for tenants in the year.

¹As per data collated in 2021 for the 2020 period.



0800 316 2295
healthcarefund@octopus-realestate.com
octopus-realestate.com



Octopus Real Estate
33 Holborn
London EC1N 2HT