



**Impact**  
Healthcare  
REIT

# Investing in UK care homes for everyone

2023 Annual report and financial statements



# About us

Impact Healthcare REIT plc is a specialist and responsible owner of care homes and other healthcare properties across the UK.

We take a long-term view and look to generate secure and growing income. This has allowed us to offer attractive and progressive dividends to our shareholders, and the potential for capital growth.

## Our purpose

Our purpose is to work with tenants to provide quality, affordable and sustainable care homes in order to deliver an attractive risk adjusted return.

## Our values

- We focus on the long-term sustainability of our business.
- We are open and transparent with our stakeholders.
- We are a dependable partner who's trusted to deliver.
- We combine the strengths of a listed company with entrepreneurship.



Find us online:

[www.impactreit.uk/](http://www.impactreit.uk/)



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- Includes Minster and Croftwood, which are subsidiaries of Minster Care Group, and Melrose, which is an affiliate of Minster Care Group.
- Includes properties invested in via loans to operators where the Group has an option to acquire.
- Contracted rent roll is a defined term in the Glossary, this includes contractual rent on temporarily varied leases (including Melrose).

## Key statistics at 31 December 2023

### Properties

140 +3.7%

2022: 135

### Beds

7,721 +5.2%

2022: 7,336

### Tenants<sup>1</sup>

14

2022: 14

### Portfolio valuation

£651.3m +14.5%

2022: £568.8m<sup>2</sup>

### Contracted rent roll<sup>3</sup>

£48.8m +13.2%

2022: £43.1m

### Weighted average unexpired lease term

20.8 years +5.6%

2022: 19.7 years

### Leases that are inflation linked

100%

2022: 100%

### Pence per share dividend for 2023

6.77p +3.5%

2022: 6.54p

### Assets rated EPC B or better based on English equivalent ratings

57% +4% pts

2022: 53%

### Tenant CQC ratings – Good or Outstanding

80.6% +2.6% pts

2022: 78.0%

We're helping to meet the growing need for care beds for the elderly

# The UK needs more care beds for the elderly

We're a real estate company that's deeply immersed in the social infrastructure of this country.

The UK has an ageing population, with the number of over 75s set to nearly double in the next 50 years. Demand for care home beds is therefore rising, but supply has changed little for almost three decades. This has important implications for the care older people receive, as well as for our wider healthcare system. Many thousands of older people find themselves stuck in hospital because there are no free care home beds or step-down care places to take them.

Our society needs a thriving care home sector, which can provide the care older people need and relieve the pressure on the NHS. In short, the care home sector is vital to the health and wellbeing of everyone in the UK.

## Our purpose and strategy reflect the need for more care beds for the elderly

Our purpose is to work with tenants to provide quality, affordable and sustainable care homes in order to deliver an attractive risk adjusted return. This purpose and our business model determine our strategic priorities. These are to:



### Grow our business

By adding assets to the portfolio while carefully managing risk, so we can invest in care home beds for more of the people who need them;

See more on pages 12 to 17



### Work with our tenants

To form long-term, mutually beneficial partnerships, so we can grow together;

See more on pages 18 to 22



### Focus on quality

By investing in our buildings and supporting our tenants to provide quality care to their residents;

See more on pages 23 to 28



### Maintain affordability

By seeking to set initial rents at affordable levels, which our tenants can afford both now and in the long term. This in turn helps them to charge fees that are likely to be more affordable to residents; and

See more on pages 29 to 33



### Increase our sustainability

By continuing to improve our portfolio's social and environmental sustainability.

See more on pages 34 to 38

## We're helping to meet the growing need for care beds for the elderly continued

### We have opportunities to create value

We currently own 1.7% of a highly fragmented market. Successfully implementing our strategy gives us substantial scope for long-term growth. Our focus on generating secure income from a growing portfolio allows us to offer attractive and progressive dividends to our shareholders, alongside the potential for capital growth. In the process, we add value for our tenants by helping them to grow their businesses, so they in turn can provide high standards of care to more people.

Impact Health Partners LLP, our Investment Manager (IM), plays a vital role in our success. Its senior team has decades of experience of owning and operating healthcare real estate, and their knowledge, skills and relationships give us an important advantage in our market.



## 2023 in brief

Our financial performance was robust and we made further progress with our strategy

### Putting our purpose into practice: delivering attractive risk-adjusted returns

Our objectives are to generate:

- a progressive dividend that's fully covered by adjusted<sup>1</sup> earnings per share (EPS); and
- an average total accounting return of 9.0% per annum<sup>2</sup>.

Achieving these goals requires us to grow our profit, cash earnings and the value of our assets, to produce an attractive overall return.

Despite some risks materialising in the year, we were able to deliver our highest total accounting return of the past five years and a growing dividend fully covered by adjusted EPS.

### Our performance highlights in 2023 included the following

- We met our dividend target for 2023 of 6.77 pence per share, with the total dividend being 108% covered by adjusted EPS and 123% by EPRA EPS.
- The value of our property investments rose by 4.1% on a like-for-like basis (2022: (8.1)% like-for-like reduction). This was mainly due to inflation-linked rental growth which contributed to NAV per share increasing by 4.7%.
- Total accounting return improved by over seven percentage points to 10.82%, reflecting more stable asset values compared with 2022<sup>2</sup>.
- Our dividend target for 2024 is 6.95 pence per share, up 2.66%<sup>2</sup>.

### The Group performed well in 2023, as shown below:

#### Dividends declared per share

**6.77p**  
+3.5%

2023	6.77p
2022	6.54p
2021	6.41p
2020	6.29p
2019	6.17p

#### Adjusted EPS<sup>1</sup>

**7.28p**  
+2.4%

2023	7.28p
2022	7.11p
2021	6.68p
2020	5.93p
2019	5.26p

#### Profit before tax

**£48.8m**  
+188.8%

2023	£48.8m
2022	£16.9m
2021	£32.0m
2020	£28.8m
2019	£26.3m

#### EPRA EPS<sup>1,3</sup>

**8.33p**  
(0.5)%

2023	8.33p
2022	8.37p
2021	8.05p
2020	7.25p
2019	6.95p

#### Property investments<sup>3</sup>

**£651.3m**  
+14.5%

2023	£651.3m
2022	£568.8m
2021	£496.9m
2020	£418.8m
2019	£318.8m

#### Net asset value (NAV) per share

**115.38p**  
+4.7%

2023	115.38p
2022	110.17p
2021	112.43p
2020	109.58p
2019	106.81p

#### Total accounting return<sup>3</sup>

**10.82%**  
+7.0% pts

2023	10.82%
2022	3.78%
2021	8.42%
2020	8.46%
2019	9.46%

#### EPRA (net) LTV

**27.85%**  
+3.8% pts

2023	27.85%
2022	24.10%
2021	23.17%
2020	17.06%
2019	–

1. Adjusted EPS strips out non-cash and one-off items. See note 11 on page 83 for the calculation.

2. This is a target only and not a profit forecast. There can be no assurance that the target will be met and it should not be taken as an indicator of the Company's expected or actual results. Total accounting return reflects the dividend we pay and growth in the value of our assets (see page 121 for the calculation). We expect higher valuations to mainly result from rising rents and our asset management projects, rather than relying on wider market improvements.

3. For further discussion of these metrics, see page 121. EPRA alternative performance measures have been calculated in line with EPRA best practices recommendation, see pages 115 to 120.

## 2023 in brief continued

### Putting our purpose into practice: growing the business so we can invest in much-needed care home beds

We continued to grow the portfolio during the year, with a net increase of five homes. This resulted from:

- buying a portfolio of six homes for £56 million, on a net initial yield<sup>1</sup> of 7%; and
- selling one non-core asset for £1.25 million, in line with its book value.

At the year end, the key indicators of growth in our portfolio compared to the prior year were as follows:

<b>Properties</b>		
140	2023	140
+3.7%	2022	135
<b>Completed beds</b>		
7,721	2023	7,721
+5.2%	2022	7,336
<b>Portfolio let</b>		
100%	2023	100%
	2022	100%
<b>Contracted annual rent roll</b>		
£48.8m	2023	£48.8m
+13.2%	2022	£43.1m

### Working with our tenants

We work closely with our tenants to identify ways we can grow together, while keeping a close eye on their financial and operational performance. During 2023:

- higher occupancy and strong fee increases (see below) contributed to improved financial performance for most of our tenants;
- one tenant, Silverline, got into financial difficulties. We took firm action and successfully transferred their seven homes to another tenant<sup>2</sup> on variable rent. Trading in these homes has shown good signs of improvement since the transfer. Silverline's issues reduced our rental income for 2023 by £1.2 million;
- we expanded our relationship with Welford, which operates the six care homes we bought in 2023. Welford now runs 18 of our homes with 1,094 beds, making it one of our largest tenants; and
- our long-term partnership approach to our tenants is reflected in weighted average unexpired lease term (WAULT)<sup>3</sup> of 20.8 years at 31 December 2023 (31 December 2022: 19.7 years), with the increase reflecting new 30 and 35-year leases entered into during 2023.

### Putting our purpose into practice: our focus on quality Improving the quality of our assets

We continue to invest in our assets to improve the environment for residents and staff, enable our tenants to broaden their offer (for example, by adding specialist dementia beds) and to make them more environmentally sustainable. We typically rentalise these inflation-linked investments at 8%, which means we earn an extra £8 in annual rent for every £100 we invest.

In 2023:

- we approved £11.7 million new asset management projects;
- delays to some projects resulted in our actual investment in existing asset management projects in the year being lower than expected, at £4.7 million; and
- at the year end, we had four projects in the pipeline, with anticipated funding of £9.5 million over the next two to three years.

In addition to our total accounting return and the WAULT, the quality of our portfolio is reflected in the following metrics:

<b>EPRA topped up net initial yield (NIY)<sup>4</sup></b>		
6.92%	2023	6.92%
(6) bps	2022	6.98%
<b>Bed occupancy</b>		
88.2%	2023	88.2%
+1.6% pts	2022	86.6%

- The NIY indicates the portfolio's ability to generate income, in comparison to its market value. It has improved during the year, reflecting a general trend of larger, better specified homes in our area of the market seeing improvement in their valuation yield.
- Occupancy continued to recover from the lows during the pandemic, showing our assets remain attractive to potential residents. We've seen signs that tenants are prioritising fee increases (see below) over filling empty beds, resulting in occupancy remaining around half a percent below the pre-pandemic average.

### Our tenants continue to provide good care

While the quality of our assets is important, the quality of care our tenants provide to their residents is paramount: poor care in a great building is still poor care.

At the end of 2023, 80.6% of our homes were rated good or outstanding by the regulator. This was above the national average of 79% for comparable homes<sup>5</sup>.

### Putting our purpose into practice: maintaining affordability

With our leases running for up to 35 years, it's vital that our rents remain affordable to tenants in the long term. We therefore look to set initial rents at sustainable levels and then increase them only with inflation each year. Almost all our leases set out minimum and maximum annual increases, which are typically 2% and 4% respectively.

We monitor affordability using the following metrics:

<b>Rent cover<sup>6</sup></b>		
2.00x	2023	2.00x
+0.20x	2022	1.80x
<b>Average rental growth</b>		
4.1%	2023	4.1%
+0% pts	2022	4.1%
<b>Rent collection</b>		
99%	2023	99%
(1)% pts	2022	100%

1. The net initial yield is the annual rent generated by the assets, less non-recoverable property costs, divided by the assets' value.  
 2. These leases were transferred to Melrose, an affiliate of a related party, Minster Care Group.  
 3. The WAULT is the average unexpired lease term of the property portfolio, weighted by annual passing rents. The passing rent is the actual rent a tenant is paying at that point in time.  
 4. This is the net income from the portfolio (rent less irrecoverable property costs) divided by the total amount a purchaser would have to pay to buy the assets (the market value plus the estimated costs the purchaser would incur). See page 119 for the full calculation.

5. Homes outside of England are inspected by different regulatory bodies and rated on a separate system, in our reported metric we have aligned these ratings to those used by the CQC.  
 6. Rent cover is a defined term in the Glossary, it is our tenants' EBITDARM (earnings before interest, tax, depreciation, amortisation, rent and management charges) divided by total annual rent. EBITDARM is a useful approximation for our tenants' cash earnings, which they can use to pay their rent. This has been adjusted to exclude seven turnaround homes and one new home in build-up.

## 2023 in brief continued

### Putting our purpose into practice: maintaining affordability continued

- Rent cover is one of our most important key performance indicators. The increase in the year reflects improved occupancy, and in particular, our tenants' ability to continue to increase their fees in line with or ahead of inflation. The average weekly fee across the portfolio increased by 13.3% to £1,049 during 2023.
- Our tenants' staff costs have benefited from reduced agency staff use, which declined from an average of 8.9% of their revenue to 4.7% in the year. The rate of inflation for other key costs such as energy and food came down in the second half of the year.
- Rent reviews in the year increased rents by 4.1% on average, adding £1.6 million to the contracted rent roll.
- One test to measure the sustainability of our rents over the long life of our leases is the percentage of their revenues our tenants pay in rent, with anything over 15% being potentially too high. In 2023 on average they paid 12.6% of their revenues to us in rent, down from 13.2% in 2022.
- We collected 99% of rent due in respect of the year, with all tenants other than Silverline paying in full.

### Putting our purpose into practice: increasing our sustainability

We continued to focus on improvements to the environmental sustainability of our portfolio with a target to achieve net zero status by 2045. During 2023, we continued to improve the energy efficiency of homes through asset management projects and improved energy performance certificate (EPC)<sup>1</sup> ratings through further energy efficiency projects.

We are also focusing on reducing the carbon emissions per m<sup>2</sup>. During the year these increased slightly from 50kg to 54kg which is in part explained by the increased occupancy over the past two years while the improvements we are focusing on are taking time to embed. Reducing this metric remains a core focus, with an interim target to reduce by 15% by the end of 2025.

We also carried out "deep-dive" sustainability surveys of six homes, to inform our net zero delivery plan and ensure that our tenants' businesses and the care they provide can continue sustainably.

#### Carbon emissions (kg CO<sub>2</sub>e per m<sup>2</sup>)

**54kg**  
+8%

2023	54
2022	50

#### EPC B and above

**57%**  
+4% pts

2023	57%
2022	53%

### Prudently financing the business

We use debt financing to support our growth and increase returns, while making sure we have a strong balance sheet at all times.

We use the following metrics to monitor our financial position:

#### Net debt<sup>2</sup>

**£181.4m**  
+41.3%

2023	£181.4m
2022	£128.3m

#### EPRA (net) LTV<sup>2</sup>

**27.8%**  
+3.7% pts

2023	27.8%
2022	24.1%

During 2023 we:

- increased our revolving credit facility (RCF) with NatWest by £24 million to £50 million, extended the term from 2024 to 2028, and extended the term on our £75 million RCF with HSBC by one year to 2026;
- paid off the remaining £15 million of our term loan with Metro Bank, which was our most expensive debt; and
- increased our interest rate hedging by a net £75 million.

At the year end:

- the increase in LTV during 2023 was largely to finance the acquisition of a portfolio of six care homes in January 2023 (see page 17). This acquisition was accretive to earnings during the year after taking into account these additional financing costs;
- we had committed bank facilities of £250 million, with a weighted average term (excluding options to extend) of 6.3 years;
- we had significant liquidity available to us, with £65.2 million of undrawn facilities and £9.4 million of cash, against commitments of £16.2 million;
- the average cost of our drawn debt was 4.56%, with 95% of our drawn facilities fixed or hedged against interest rate rises; and
- our LTV was well within the maximum in our policy of 35%.

### Outlook

We're well positioned to continue to deliver long-term sustainable returns to shareholders. As the economy recovers from 2023's high inflation and interest rate rises, and as the government sees the role that this sector can play in both health and the economy, we believe that we'll see more opportunities for growth in the future.

1. An EPC rates a property's energy efficiency from A (most efficient) to G (least efficient). See page 37 for further explanation on the country level alignment of EPCs.

2. EPRA (net) LTV is calculated using net debt to gross portfolio valuation. See page 120 for the full calculation.

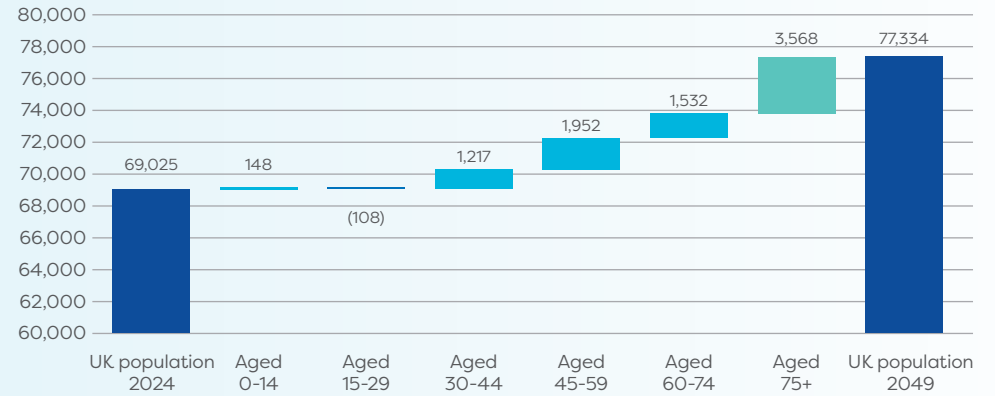


# The social need for care beds for the elderly

Demand for care beds for the elderly is rising

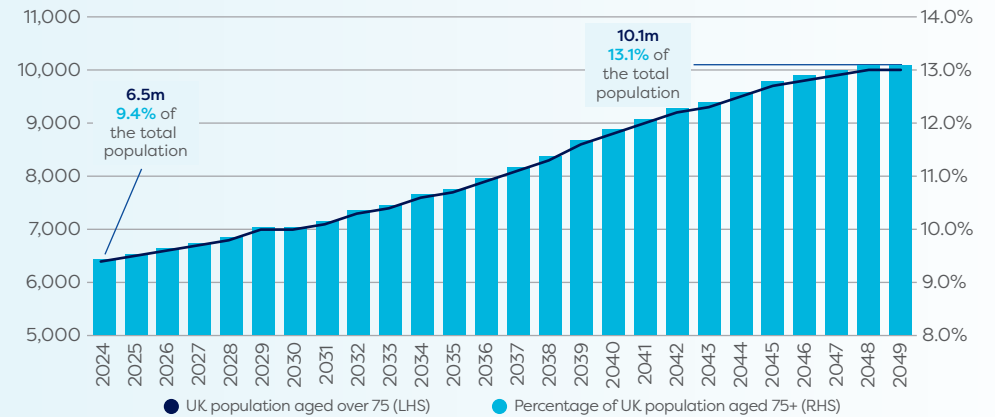
There are 6.5 million people aged over 75 living in the United Kingdom in 2024. That number is forecast to increase by 55%, to 10.1 million over the next 25 years. The over 75s are the fastest growing part of the UK population. These increases will happen during the lives of our long leases.

Demand: UK elderly population growth, 75 years + (000s)



Source: ONS.

Projected UK population aged over 75 (000s)

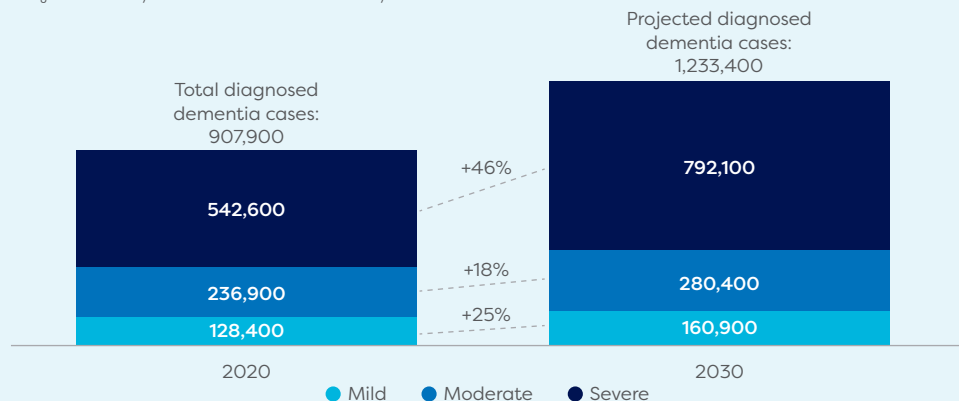


Source: ONS.

# The social need for care beds for the elderly continued

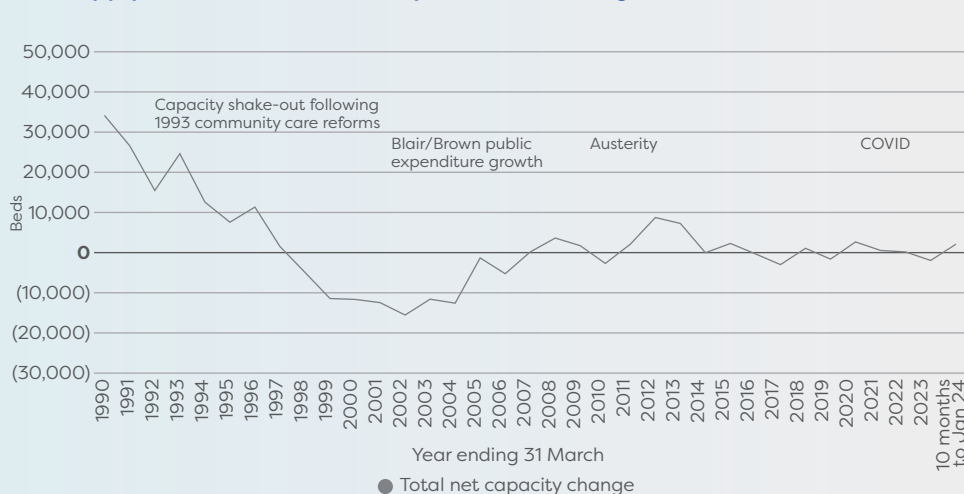
## Increase in people living with dementia in the UK

Projections by the Alzheimer's Society



Source: Alzheimer's Society.

## Bed supply hasn't increased to respond to forecast growth in demand



Source: LangBuisson.

### Care needs are becoming more complex

While rising life expectancies are good news, the downside is that most people will spend the last 15 years of their life with some ill health. Around 10% of people over 80 have care needs that make it difficult for them to live at home.

Many people end up stuck in hospital beds, which means they're in the wrong setting for the type of care they need, particularly if they have dementia, and this increases costs for the NHS. On average during 2023 there were just over 12,000 people in hospital every night who had no clinical reason to be there but could not be safely discharged. Half of those people, nearly all of them elderly, had been waiting more than 21 days to be discharged. This "bed blocking" also has a knock-on effect on other patients in the NHS, who can't be admitted to hospital without a vacant bed.

Since the COVID-19 pandemic, there's evidence that people are moving into care homes later than before, that they're more likely to be frail or ill and that their stays are shorter. This is creating a longer term shift in the industry, with increasing demand for care providers who can deliver higher acuity care.

Dementia is the most common acute condition affecting people in care homes. Around 70% of care home residents suffer from some form of memory loss, which ranges from being mildly confused to severe dementia. The Alzheimer's Society projects that the number of people with some form of dementia in the UK will rise from just over 900,000 in 2020, to over 1.2 million in 2023, with the greatest rise being amongst people who have a severe form of the condition. By 2022 dementia and Alzheimer's diseases had already replaced heart disease and cancer as the leading cause of death in England and Wales.

### The number of care beds isn't responding to demand

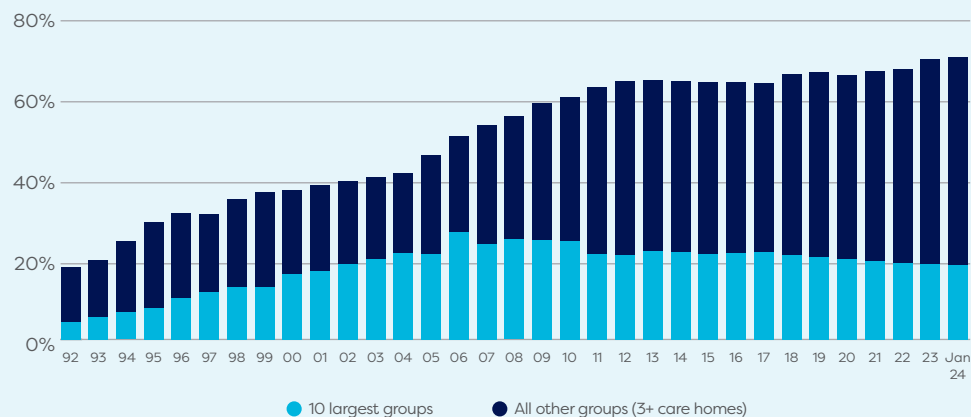
Despite the ageing population and rising acuity, the number of available care beds for elderly care has been stagnant. Between 2012 and 2021, the number of beds in nursing and residential care homes fell from 11.3 per 100 people aged over 75 to 9.4 – a 17% decrease. Looking at longer-term trends, an estimated 25% of over 85s lived in care homes for the elderly in 1996. By 2017, this had fallen to 15%. This reflects several factors, including a shift in social care policy towards home care. It might also reflect an element of rationing in the care system, as many older people struggle to access the care they need.

Although the care home market is attractive, for existing care homes the economics make it difficult to create much new supply.

Construction costs have risen substantially over the past two years, making it difficult to deliver a high quality new care home for less than £200,000 per bed. In contrast, an older home with an established record for providing good quality care can cost less than £100,000 per bed, which we believe offers a better risk adjusted return. Given the higher capital costs of brand new homes, tenants have to pay higher rents – up to 20% of their revenues as opposed to our average of 12.6% – which means that they in turn have to pass these costs on by charging higher fees to their residents. Higher fees do not automatically translate into better quality care, which depends more on the quality and stability of the team than the building.

# The social need for care beds for the elderly continued

## Highly fragmented operator market



Source: LangBuisson.

### The number of care beds isn't responding to demand continued

Staffing rotas are highly regulated and tend to be similar in new and older homes. The higher fees needed by newly built care homes limit the number of resident who can afford this, restricting the size and growth of this segment of the market.

Slightly older homes also offer opportunities to add value, by updating them, adding facilities and improving their environmental performance, which is another reason we favour this part of the market over new builds (see page 13 for more on our investment criteria).

### The market is highly fragmented

There are currently just over 12,000 registered care homes in the UK. Our market is unusually fragmented. Over the past 15 years that fragmentation has increased as the market share of the top-10 care providers in the UK has declined from a peak of 27% in 2006, to 19% in 2023. The market share of sole traders operating one or two care homes has also declined, from over 80% in the early 1990s, to under 30% today.

Where there has been growth is of mid-sized care providers operating between three and 80 homes. Developing partnerships with operators in this space has given us the opportunity to acquire good quality assets at attractive yields.

### Government policy and funding for care is complicated

To put it mildly, government policy and funding for adult social care is a complicated field. There is no national government budget for adult social care in England. A person's care needs might be met by their local authority's social services budget or by their local NHS Trust, and the individual or their relatives may also have to contribute to the cost.

Most local authorities support their adult social care costs through a council tax levy and, in certain situations, local authority or NHS funding is means tested. The system is ripe for reform, but successive governments have failed to implement it, despite numerous white and green papers, plus industry reports. Our tenants are experienced at delivering care in this complex environment while also running sustainable businesses.

<sup>1</sup> Source: LangBuisson.

# Delivering attractive risk-adjusted returns | Our business model

Our business model allows us to generate attractive returns, with managed risk.

We consider risk from many angles, from ensuring our balance sheet stays strong, to the way we pick tenants and make sure they're performing well, to our focus on sustainability and creating a positive social impact.

## What we do

### Select tenants

We have a diversified portfolio of tenants that includes national, regional and local businesses. When selecting a new tenant we consider:

- track record and financial performance;
- the strength of their business plan;
- their ability to provide high-quality care to residents; and
- their ability to deliver strong trading returns over the longer term, that will support our investment.

More information: adding tenants and growing with them (page 19).

### Identify and appraise assets

Sometimes tenants bring new opportunities to us and sometimes we select assets we'd like to acquire and determine which current or new tenant will operate them. We then check every aspect of the homes, including reviewing their local market and the building's environmental sustainability. Our disciplined approach means we can buy at attractive prices, which are often less than the cost of replacing the asset.

More information: choosing which assets to buy (page 13), where we buy assets (page 14), who funds our tenants' residents (page 15).

### Agree leases

Our leases are typically for 25 years or more and balance rental growth with ensuring rent remains affordable to tenants (see page 30). The leases require tenants to spend a minimum amount every year on repairs and maintenance, and all our leases since 2020 include "green" clauses, to help us work with tenants on our ESG objectives.

More information: choosing the length of our tenant relationships (page 20), ensuring our tenants maintain our buildings (page 25).

### Monitor tenants' performance

We keep a careful watch on many aspects of our tenants' performance, including their financial results and the quality of their care, which we discuss with our tenants on a quarterly basis.

More information: monitoring our tenants' performance (page 20), monitoring the quality of care (page 26).

### Work with tenants to improve our assets

We agree plans with our tenants to upgrade and extend our homes. This makes them better places to live and work, increases their capacity, improves their sustainability and can broaden their offer, for example by adding specialist dementia beds. We can also work with tenants to develop new homes in areas with strong demand. These activities increase our rent, the value of our homes and our tenants' revenues.

More information: increasing quality by investing in our assets (page 24).

### Optimise portfolio

We regularly review our assets and categorise them as core, value-add or non-core. Value-add assets are candidates for asset management. We may sell non-core assets, so we can reinvest the proceeds and create more value, while improving overall portfolio quality.

More information: improving quality through asset management (pages 27 and 28)



# Delivering attractive risk-adjusted returns | Our business model continued

## Our competitive advantages

Our strategy delivered by our Investment Manager is our main source of competitive advantage. In particular, we benefit from:

- our strategic focus on upper mid-market care homes which we can acquire at below replacement cost with rents at affordable rates;
- the IM's deep sector knowledge and understanding of how care businesses work, which helps with everything from buying the right assets to forming and maintaining supportive tenant partnerships;
- the IM's relationships with care-home owners who might want to sell, the agents they work with and with potential new tenants. Great relationships and a proven track record can help us to buy assets off-market or beat the competition even when we're not the highest bidder; and
- the IM's asset management and development skills, so we can identify how to improve a care home before we buy it, successfully complete each project and improve returns by developing new homes.

## The value we create

Our high-quality business generates attractive and sustainable value for our stakeholders.

### Tenants

Tenants can grow their business alongside ours, in a long-term relationship with affordable rents, which benefits both of us.

### Residents and their carers

Residents benefit from security, stability and high-quality care and their carers benefit from a stable environment in which to receive training alongside potential career progression in a vocational sector supporting vulnerable members of their community. As a landlord we seek to support both residents and their carers through our willingness to invest in their homes to improve the spaces they live and work in to create a lasting social impact.

### Lenders

Our lenders can provide long-term finance to us on attractive terms, knowing we have a secure and resilient business, with strong cash flows.

### Shareholders

Our model delivers predictable and rising revenue, so we can pay a progressive, fully covered dividend (see page 4). There is also the potential for capital growth, which supports an attractive total return.

Careful cost control enables us to benefit from economies of scale as we grow. Many of our costs are fixed and some variable costs will step down as our asset value rises (including the IM fee which reduces from 1.0% to 0.7% of NAV above £500 million). Along with our conservative approach to debt finance, this helps to maximise the cash we can distribute to shareholders.



# 1 | Growing the business so we can invest in much-needed care home beds

## Beds

7,721 +5.2%  
2022: 7,336

## Properties

140 +3.7%  
2022: 135



# 1 | Growing the business so we can invest in much-needed care home beds continued

## Growing our business requires us to make strategic choices that influence our returns and the risks we face.

These choices include the types of assets we buy, where they are and how we use debt finance to finance our growth.

### Strategy: choosing which assets to buy

Our investment policy (see page 126) allows us to invest in different types of healthcare properties. Given the growing demand for care beds for the elderly (see page 7), we've chosen to focus on care homes, in particular existing homes in the mid-market. These are attractive to us because:

- they provide a good setting for quality care;
- they're affordable for many more people than high-end homes, so they have a larger target market, which should mean fewer unfilled beds for our tenants;
- they're lower risk than new developments, as the capital cost is significantly less per bed (see page 8) and they don't need to build their occupancy and staff team from scratch; and
- they often give us scope to add value through asset management (see page 24).

In January, we invested in a portfolio of six homes in Shropshire and Cheshire, for £56 million. The homes have 438 high-quality beds, a track record of strong operational performance and good sustainability credentials. We funded 80% in cash and the remainder by issuing 9.6 million shares at 116.62 pence per share. We made the initial investment by lending the money to Welford, an existing tenant of ours.

This allowed Welford to buy the companies that owned the homes and immediately take over running them, rather than having to wait several months for Care Quality Commission<sup>1</sup> (CQC) approval to come through. This minimised disruption for residents and made sure Welford could focus on care. The CQC approved the transfer in June, allowing us to take up our option to buy the homes from Welford and complete the 35-year leases we'd already agreed, at an initial rent of £3.9 million a year.

Approving the completion of the deal was one of the board's key decisions in the year and we describe it in detail on page 59 of the 2022 annual report. We also sell non-core assets, as the business model explains on page 10. During 2023, we sold Mulberry Manor, a 49-bed care home in Mexborough, which we acquired as part of the portfolio we bought following our IPO in 2017. The home wasn't a strategic fit for either us or the tenant, hence it wasn't classified as core and we disposed of it for £1.25 million, in line with its book value. We expect to make further disposals of non-core assets in 2024.

The transactions in 2023 increased our portfolio by a net five homes, from 135 at 31 December 2022 to 140 at the year end.

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### Stakeholders' interests: long-term impact and the environment

We sign long leases with tenants and as directors, we require extensive due diligence, both before we start working with them and careful monitoring once they're running our homes (see page 20).

In this case the directors concluded that Welford was a good partner for us, that the acquisition would further strengthen both businesses and that it was appropriate to agree 35-year lease terms.

The directors also have a keen interest in the assets' sustainability and we discussed the cost, strategy and regulations associated with decarbonising the homes and improving their energy performance certificate (EPC) ratings and alignment with our net zero delivery plans, before approving the acquisition.

See our Section 172 statement on page 47

<sup>1</sup> The CQC is the independent regulator for health and social care in England.

# 1 | Growing the business so we can invest in much-needed care home beds continued

## Measuring our progress

Information on our dividends and total accounting return in 2023 and our dividend target for 2024 can be found in the 2023 in brief section on page 4. We also use the following key performance indicators (KPIs) to monitor our returns from the portfolio.

### Profit before tax

£48.8m 2022: £16.9m

2023	£48.8m
2022	£16.9m

Profits have been enhanced by rental income growing at a faster rate than expenses as shown in the Group's reducing cost ratios. However, the key driver this year has been the valuation gains reversing the fair value losses seen in the previous period.

### NAV

£478.1m 2022: £445.9m

2023	£478.1m
2022	£445.9m

Primarily driven by steady yields across the portfolio with rent reviews feeding directly into valuation growth.

### NAV per share

115.38p 2022: 110.17p

2023	115.38p
2022	110.17p

Total NAV of the Group grew by 7.22% to £478.1 million and the NAV per share grew by 4.73% to 115.38p. The reduced growth per share is reflective of the incremental 9.6 million shares issued in January 2023 as part (£11.2 million) of the consideration for the acquisition of six care homes.

### Adjusted earnings per share

7.28p 2022: 7.11p

2023	7.28p
2022	7.11p

The Group's adjusted earnings (closely aligned to cash profits) continued to increase in 2023 owing to inflation-linked rent reviews improving cash revenue while administrative costs further reduced as a percentage of income (see further detail of cost ratios on page 43) and the Group's well-hedged debt position mitigated the effects of high interest rates.

## Strategy: where we buy assets

We manage risk by spreading the portfolio around the UK, so we don't rely on a small number of local markets. Most of our homes are in areas where asset prices are more attractive, there's strong demand for care and often less competition. This makes our homes an even more important part of their local communities.

At 31 December 2023, we owned homes in the following locations:

Location	Number of properties	2023 change in properties	2023 change in Beds	% of portfolio market value
<b>England</b>				
East Midlands	8	—	405	6.0%
East of England	9	—	547	10.0%
North East	12	—	767	8.9%
North West	33	—	1,348	14.3%
South East	4	—	318	6.0%
South West	10	—	537	9.9%
West Midlands	14	+6	860	14.1%
Yorkshire & The Humber	11	(1)	693	6.3%
<b>Northern Ireland</b>				
	5	—	340	3.4%
<b>Scotland</b>				
	32	—	1,805	20.4%
<b>Wales</b>				
	2	—	105	0.7%
<b>Total</b>	<b>140</b>	<b>+5</b>	<b>7,721</b>	<b>+385</b>



# 1 | Growing the business so we can invest in much-needed care home beds continued

## Strategy: financing our growth

We can grow the portfolio more quickly and increase returns by using an appropriate amount of debt. We're very aware of the risks of having too much leverage, so our policy is to have a maximum loan-to-value<sup>1</sup> (LTV) ratio of 35% at the time we drawdown the debt and to hedge at least 75% of our drawn debt against rising interest rates. We have also updated our hedging policy to ensure we have adequate hedging in place to manage the risk of interest rate increases within our risk tolerance. At the year end, 95% of our drawn debt was hedged against interest rate increases.

In June, we increased our revolving credit facility (RCF) with NatWest by £24 million to £50 million, and extended the term from 2024 to 2028. The interest rate on this RCF is 200 basis points above SONIA. We also extended the term of our £75 million RCF with HSBC by one year to 2026. At the same time, we agreed lower interest cover covenants with both banks.

Increasing the NatWest RCF enabled us to replace the last £15 million of our loan from Metro Bank. This was our most expensive debt, at 265 basis points above SONIA<sup>2</sup>.

To manage our interest rate costs, we took out two interest rate caps in the year. These each hedge the cost of £50 million of debt, with the first capping SONIA at 3.0% until January 2025 and the second capping SONIA at 4.0% until August 2025. In June, a hedge which capped the interest rate on £25 million of debt expired. At the year end, we therefore had either fixed rates or caps on £175 million of debt or 95% of our drawn debt, in line with our policy.

You can find full information on our debt facilities and interest costs in the financial review on page 44.

## Strategy: who funds our tenants' residents

We like our portfolio to have a good balance of funding for tenants' residents, from local authorities, the NHS and private pay. This helps to make our tenants' revenues more resilient than relying on one source of fees and means, we earn a predictable income from our assets.

Funding for our tenants' fee income changed only modestly during the year and remained well balanced:

### Source of tenant income

#### Local authorities

<b>58.8%</b>	<b>2023</b>	<b>58.8%</b>
	<b>2022</b>	<b>60.2%</b>

#### Private pay

<b>31.3%</b>	<b>2023</b>	<b>31.3%</b>
	<b>2022</b>	<b>31.7%</b>

#### NHS

<b>9.9%</b>	<b>2023</b>	<b>9.9%</b>
	<b>2022</b>	<b>8.1%</b>

## How we monitor our financing

We use the following KPIs to monitor our debt position:

### Net debt

**£181.4m** 2022: £128.3m

<b>2023</b>	<b>£181.4m</b>
<b>2022</b>	<b>£128.3m</b>

The increase was predominantly due to £44.8 million cash consideration to acquire the portfolio of six assets acquired in January 2023 (see page 17 for further detail).

### EPRA (net) LTV

**27.8%** 2022: 24.1%

<b>2023</b>	<b>27.8%</b>
<b>2022</b>	<b>24.1%</b>

Increased in the year owing to an acquisition and capital expenditure on the existing portfolio, partially tempered by growing portfolio valuation.



1. The gross LTV is our gross debt as a percentage of our gross asset value. See page 121 for the full calculation.
2. The interest costs on our variable rate debt are linked to an interest rate benchmark called the Sterling Overnight Index Average (SONIA), which in turn is driven by the Bank of England's base rate.

# 1 | Growing the business so we can invest in much-needed care home beds continued

## Engaging with our shareholders and lenders

While all our stakeholders have an interest in the growth of our business and our financial stability, our shareholders and lenders are the most directly affected. Our engagement with our tenants and their residents is discussed on pages 19 and 26 respectively.

### Understanding our shareholders' interests

The IM leads our investor relations programme and, along with our corporate brokers, ensures the board is kept well informed of shareholder views.

The Chair also offered meetings to our largest shareholders in the year. See page 54 in the governance review for more information.

### Understanding our lenders' interests

The IM also regularly engages with our debt providers, providing quarterly information that shows we're complying with the covenants in our debt facilities and reporting on the performance of the tenants and the homes the facilities are secured against. In 2023, the IM was in regular contact with NatWest and HSBC, as it negotiated the increased and extended RCFs discussed above.

During the year, the IM took the lenders to visit several of the homes in their security pool to provide full transparency of the intended asset management works and environmental criteria we are upgrading these properties to. This regular and open engagement with our lenders, along with improved familiarity with the properties, has allowed us to increase and extend these facilities efficiently.

## Key board decision – refining the dividend policy

£172

### Relevant stakeholders: shareholders

Dividends are a key attraction for shareholders in real estate investment trusts (REITs), with the UK REIT rules requiring us to pay out at least 90% of the profits from our property rental business each year. Paying an attractive and progressive dividend is therefore one of our most important objectives.

In 2018, the board adopted a policy of increasing the target dividend each year in line with the inflation-linked rental growth in the previous year. The board reviewed this policy in 2023.

While the policy gave shareholders certainty about dividend growth, the directors concluded that it was in shareholders' interests for the policy to be more flexible and forward looking.

The board therefore agreed an updated policy, to seek to maintain a progressive dividend that's covered by adjusted earnings. The directors continue to see adjusted earnings as the best yardstick for dividend payments, as they more closely reflect the Company's cash earnings than the IFRS or EPRA measures.



# 1 | Growing the business so we can invest in much-needed care home beds continued

## Case study

# Morris Care

### What was the opportunity?

To acquire a group of six homes in Shropshire and Cheshire, with a focus upon the wider Shrewsbury catchment area. We were attracted by the high specification of the assets, their local reputation and weighting towards higher acuity care provision.

Whilst the vendor was looking for a clean exit from the elderly care market, they were keen to ensure continuity of care for the residents. Operational and local management would remain with the business post completion and Welford agreed a licence to continue to use their well-established local brand name for at least three years after completion.

The IM identified an existing portfolio tenant, Welford Healthcare, as the best fit for the transfer of the operational businesses. Welford's own due diligence aligned with the IM's assessment regarding the potential for the portfolio and as a result, we were able to provide confidence to the vendor regarding continuity of care.

### How did the timeline unfold?

The transaction was agreed in principle in mid-2022, with exchange targeted for the end of September. Unfortunately, the mini-budget in September 2022 created a market-wide hiatus and the transaction was paused by joint agreement. The terms were then revised to reflect the rise in the cost of capital after the mini-budget and agreement was reached in early December 2022, with completion occurring in January 2023. Given the increase in the cost of debt, the vendors' agreement to take 20% of the consideration in new shares issued by Impact at NAV was critical to ensure that the acquisition would be accretive to our earnings in 2023.

#### Value uplift since acquisition

£3.3m +5.8%

### What has gone well?

Both Welford and ourselves saw opportunity within the trading performance, focusing on fees, occupancy and staffing. In particular, by extending an overseas recruitment campaign, there was scope to reduce the use of agency staffing in the short term. Coupled with some revenue growth as refurbished beds in one of the homes were filled, the business plan was expected to improve profit, and hence rent cover to over two times, within 6 – 12 months.

The latest available data demonstrates outperformance against the original business plan, with strong rent cover in the context of the portfolio overall. As a result of trading performance, despite wider market conditions, asset value is showing a healthy return against the original purchase price.

Looking forward, there are significant potential development concepts at two of the properties, including one that incorporates planning permission for a solar farm, which will help advance our ESG strategy.

#### % of Group's portfolio by market value

9.1%



## 2 | Working with our tenants

WAULT

20.8 years +5.6%

2022: 19.7 years

Bed occupancy

88.2% +1.6% pts

2022: 86.6%

## 2 | Working with our tenants continued

**We don't run our care homes, so we need to partner with tenants who will operate them well and who share our focus on providing high-quality, and increasingly higher-acuity, care (see page 26).**

We keep in close contact with our tenants throughout the year, receive detailed monthly and quarterly reporting from them and carefully monitor their performance.

The business model on page 10 describes our process for selecting tenants. We also have important choices to make as we grow our portfolio. In particular, we need to determine the right balance between adding new tenants and growing with existing tenants, as well as deciding how long we want our tenant relationships to be.

### Strategy: adding tenants and growing with them

When we buy assets, we can select a new tenant to run them or increase the number of homes an existing tenant operates. Adding new tenants manages risk by reducing our reliance on individual tenants. However, growing with an existing tenant strengthens their business and supports our long-term partnership.

The acquisition we made during the year (see page 17) further increased the number of assets run by Welford, which has been a tenant since 2018. Over that time, we've expanded our relationship from an initial two homes to the current 18 homes with 1,087 beds, making Welford one of our largest tenants.

There was one change to our tenant base during the year, as we replaced Silverline with Melrose<sup>1</sup>. See the key board decision on page 21 for more information and the case study on page 22.

At the year end, our tenant base was as follows:

Tenant	Contracted rent (%)	Homes	Beds
Minster <sup>1</sup>	22	31	1,774
Welford	20	18	1,094
Holmes	14	21	1,129
Croftwood <sup>1</sup>	12	27	1,118
Careport	5	9	439
MMCG	5	7	508
Prestige	5	5	444
Electus	4	5	340
Carlton Hall	3	2	86
Melrose <sup>1</sup>	3	7	394
Belmont	2	2	168
Renaissance	2	2	128
Optima	2	2	99
NHS	1	2	–
	100	140	7,721

<sup>1</sup> Minster and Croftwood are part of Minster Care Group. Melrose is an affiliate of Minster Care Group.

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#### Stakeholders' interests: business relationships

The directors must consider the Group's business relationships, including with our tenants. In addition to receiving regular updates and detailed reports from the IM on each of our tenants, the directors all took part in calls with tenants during the year.

This allowed them to hear first-hand what tenants think of the Company as a landlord, and to discuss the issues tenants are facing. See page 54 for more information.

**See our Section 172 statement on page 47**

## 2 | Working with our tenants continued

### Strategy: choosing the length of our tenant relationships

The length of new leases is an important decision for us. We favour leases of 25 years or more, since this generates long-term and growing income for our shareholders, encourages tenants to take a partnership approach, and gives residents and care home staff a stable environment to live and work in. Leases of this length also require us to be very selective when signing new tenants.

During the year, new leases came into effect on 18 assets. These were:

- the 35-year leases with Welford on the six homes we acquired in January 2023; and
- 30-year leases on 12 care homes we originally invested in through a loan to Holmes. We had an option to buy the homes following regulatory approval, which we exercised in June 2023.

### How we measure our progress

The portfolio's weighted average unexpired lease term (WAULT) is a KPI for us.

KPI	At 31 December		Comment
	2023	2022	
WAULT	20.8 years	19.7 years	The WAULT increased by one year during 2023, due to the new 30 and 35-year leases described above. This was partially offset by the passage of time reducing the remaining period of existing leases.

### Monitoring our tenants' performance

The IM engages with tenants on a weekly and monthly basis and in more depth each quarter, when it receives reports from them setting out their financial and operating performance.

Three main factors affect our tenants' financial performance and their ability to pay our rents: their occupancy; the fees they charge for the care they provide; and the cost and availability of staff. Trends in occupancy and fees were positive in 2023 and most tenants reported improved financial performance and higher rent cover (see pages 20 and 31).

In 2022, tenants struggled to recruit permanent staff and used more agency staff as a result. Encouragingly, we've seen clear signs since that tenants are getting these issues under control.

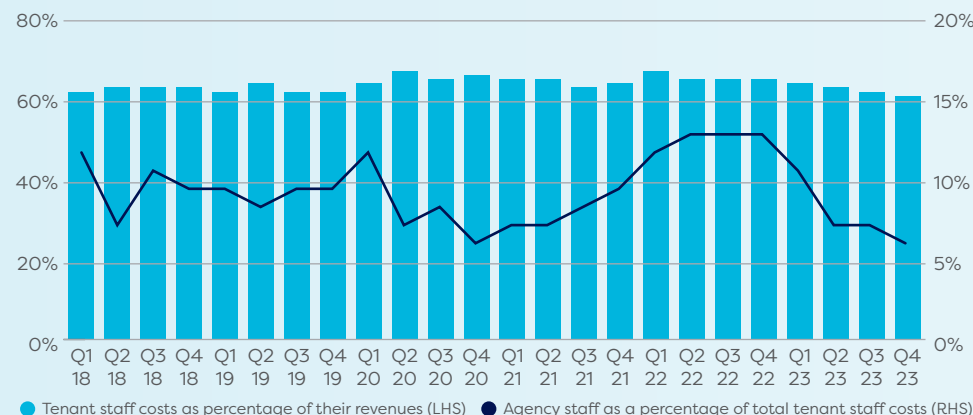
Their spending on agency staff fell from an average high of 14% of their total spending on staff at the beginning of 2022, to an average of 8% at the end of 2023.

With our largest tenants, we can also track whether they're maintaining staffing levels. Hours worked per occupied bed were stable at 36 hours a week, showing that while costs were rising sharply as inflation surged tenants were not cutting back on their main cost, staff.

Among other important costs, food prices rose but were steady as a percentage of tenants' revenues, and energy costs fell back to more normal levels in the second half of 2023.

More information on how we engage with tenants can be found in the quality section on pages 24 to 26.

#### Impact Group tenant staff cost



## 2 | Working with our tenants continued

### Key board decision – replacing Silverline with Melrose

#### Relevant stakeholders: shareholders, lenders, tenants, tenants' residents

Despite the generally positive backdrop for our tenants in 2023, it became apparent at the start of the year that Silverline was in financial difficulties and in January 2023 they asked us for a six-month rent holiday.

Silverline rented seven homes from us – four in Scotland and three in Yorkshire – for £1.6 million per year. The IM reviewed the situation in detail, including why the homes were underperforming, and continued to engage with Silverline about its financial position.

The board and the IM considered several options for the homes and were clear throughout these discussions that the solution had to minimise disruption for residents and staff. Ultimately, the board decided it was in the best interests of all stakeholders to replace Silverline as the operator. After running a competitive process, the board agreed with the IM's recommendation to replace Silverline with Melrose, an affiliate of a related party – Minster Care Group Limited (our largest tenant), at the beginning of June 2023. For further detail of this transfer of operations please see Note 22 to the financial statements on page 95.

#### The lessons learnt

Between the Company's inception in 2017 and the end of 2022 our rent collection record was 100%. This was the first time we have had a problem with rent collection. Following Silverline, we've reviewed and updated the due diligence we carry out on potential new tenants (see page 10).

We first started working with Silverline when we bought the three Yorkshire homes in 2020. These homes were bought as a turnaround project on pricing that reflected their under-performance. We thought they had the potential to do much better. Silverline had a plan for turning them around but unfortunately failed to do so. Clearly the COVID pandemic made delivering a successful turnaround much more challenging. While we may buy homes that need turning around in the future, we'll only do this with an existing tenant and probably not with an operator we haven't worked with before.

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#### Stakeholders' interests: community impact and business reputation

The directors must consider how their decisions could affect the community, and whether they could harm the Group's reputation for high standards of business conduct. A fundamental stakeholder consideration in the board's decision making, is the conflict of interest risk as a result of the related party relationship between the Investment Manager and Minster, the Group's largest tenant. The directors take this very seriously as explained in more detail on page 55.

These issues were relevant to Silverline. One option available to the Group would have led to the homes closing and then reopening under a new tenant. This would have caused the most disruption to the local community, given its impact on residents and staff, and could also have harmed the Group's reputation, which is important for attracting new tenants.

[See our Section 172 statement on page 47](#)



## 2 | Working with our tenants continued

### Case study

# Silverline

Silverline was a tenant of the Group, operating three of our homes in Bradford with turnaround opportunities identified, and four in or near to Glasgow. The Bradford homes were acquired immediately prior to COVID, resulting in delays to the planned turnaround strategy at these homes. The acquisition of the four homes in Scotland was expected to help deliver growth for both Impact and Silverline; however, there were delays to the completion of this portfolio which was compounded by a material change in the broader business activity of the Silverline group. As a result, they requested a rent payment holiday for six months from the beginning of January 2023. Following a five-month period during which several solutions were considered, we decided that the best outcome for the residents, employees of the homes and our wider stakeholders was a consensual transfer of the Silverline operations to Melrose, an affiliate of a related party, Minster Group, who has been operating the homes since June 2023. In identifying the best alternative operator to partner with, both new and existing operators were approached. Ultimately, Melrose was selected due to a number of factors, including their significant experience operating mid-market homes in both England and Scotland, track record in turnarounds and the competitive cost structure offered to the Group.

To support the transfer of these operations to Melrose and the continued investment in the turnaround of the individual homes, we agreed a variable rent structure and provided a £1.6 million loan facility accruing interest at 8% on drawn funds.

Since transferring the operations of the homes, their underlying performance has improved, albeit at a faster pace in the assets located close to Glasgow than in Bradford, confirming our conviction in the quality of the homes. We will continue to work closely with all parties involved to secure the long-term future of the homes and to ensure the essential care services provided within the homes remain unaffected.

Whilst there is still a lot of hard work to do at each of the homes, we are proud to say that one year on from the failure to pay rent, the homes are now cash flow positive and each with their own future ahead. This unfortunate event helps demonstrate the positive impact we as landlord can have on the residents and staff who live and work within our buildings.



Number of beds

394

(properties: seven)

% of Group's portfolio by market value

2.6%



# 3 | Our focus on quality

Capex invested in improving homes  
for residents and staff

£4.69m



## 3 | Our focus on quality continued

### Quality has two main aspects for us: care and buildings. The quality of care is paramount for both us and our tenants.

We focus on the buildings which will best support our tenants in providing care. Both the quality of care and the building itself determine how full the homes are, how much our tenants can charge and how secure our income is.

Our strategic choices include how much capital we should allocate to asset management, what sort of improvements we should target, and the extent to which we should fund new developments. Our tenants are responsible for repairing and maintaining the buildings and for their quality of care. We monitor both of these and discuss them with our tenants on at least a quarterly basis.

### Strategy: increasing quality by investing in our assets

Everyone gains from successful asset management: the residents who live in our homes; the staff who work there, our tenant who operates the home; and us as its owner. When we invest to improve our homes, the lease terms typically allow us to rentalise the investment at 8% with potential for valuation uplift on the capital invested, giving a rate of return above just the yield alone. The returns on asset management are therefore higher than on most asset acquisitions. These projects are also generally lower risk, since we and the tenant have a good understanding of the home and how the project will improve its performance.

However, we have to carefully consider how much to invest each year and which projects to favour, since:

- we want to continue to grow the portfolio and need to retain enough capital to buy assets; and
- our tenants have to balance a project's longer-term benefits with the short-term disruption to the home, which can reduce their income while rooms are upgraded and disturb residents. We therefore need our tenant's permission for a project to go ahead.

Our portfolio management process identifies homes with the potential to add value through asset management. Where we acquire homes as part of a portfolio, this may include non-core assets that have limited credentials for a long-term hold and will be earmarked for disposal. We then target projects that:

- improve the home for residents and staff, such as adding ensuite bedrooms and upgrading kitchens, laundries and other facilities
- improve the environmental performance of the home and future-proof the home against obsolescence;

#### Our progress in 2023

During the year, we approved £11.7 million to asset management projects of which £2.2 million was spent in the year and £9.5 million remains outstanding. The largest projects are shown in the table below:

Asset and tenant	Amount committed	Project benefits
<b>Mavern House</b> Welford	£1.9m	Eight new bedrooms and improved EPC rating (C to B).
<b>Elm House</b> Croftwood	£3.0m	Extension with 21 high-specification bedrooms with wet rooms, upgraded bathrooms for five existing bedrooms, and improved EPC rating (C to B).
<b>Amberley</b> Minster	£2.5m	16 new bedrooms with wet rooms, upgrades to 10 existing bedrooms and bathrooms, and improved EPC rating (C to B).
<b>Yew Tree</b> Prestige	£2.5m	New 25-bed building on land we already own, increasing beds at Yew Tree to 101.

- expand the services our tenants can offer, such as adding specialist beds for dementia care; and/or
- improve the home for residents and staff, such as adding ensuite bedrooms and upgrading kitchens, laundries, outside spaces and other facilities.

We made good progress with our ongoing project at Fairview House and Court in Bristol, where we have invested £3.2 million to link the two buildings, add bedrooms and improve the environmental performance. When we bought Fairview in 2018, the rent was £356,000. After five years of inflation-linked rent increases and rentalising our investment in the home, we've grown the annual rent to £690,000. At the same time, the home's improved trading position has seen its rent cover rise.

The asset value has, as a result, grown by more than the capital investment.

Overall, however, we did not invest as much in asset management as we intended in 2023. Some larger projects were delayed, for example because increased build costs meant we needed to revisit the plans, while several smaller projects also started later than we expected. In total, we invested £4.7 million in asset management in the year.

Our pipeline currently has 24 such projects at various stages. The total funding for these projects is up to £31 million over the next two to three years, which we will support if it enhances the quality of care and environment, is accretive to shareholder returns and we have adequate financial resources available to deploy.

## 3 | Our focus on quality continued

### Ensuring our tenants maintain our buildings

Regular repairs and maintenance protect the value of our homes and keep them up to standard for residents and staff.

Our leases specify the minimum amount our tenants need to spend and we monitor this carefully, looking at spend in the current year and the total over the last three years. The IM regularly visits homes to inspect them and check progress, with over 110 visits taking place in 2023.

In addition, our valuer, surveyors, environmental specialists and other advisers support the IM in reviewing the quality of our buildings. Collectively, they undertook 197 home inspections in the year.

Where we identify concerns either by tenants falling behind on their repairs and maintenance commitments against our covenant requirements, or more generally a concern that the home does not meet the fully repairing standards expected, we will engage proactively with those tenants to resolve these issues.



### How we measure our portfolio quality

The following KPIs reflect the overall quality of our assets. Our total accounting return (page 4) and the WAULT (page 20) are also important measures of quality:

#### EPRA topped-up net initial yield (NIY)

6.92% 2022: 6.98%

2023	6.92%
2022	6.98%

The EPRA topped-up NIY has been steadily reducing over the year as the property values have stabilised following a sudden outward move at the end of 2022. This has been benefited further by the acquisition of high-quality assets during the year alongside continued improvements to the existing portfolio.

#### Year-end bed occupancy

88.2% 2022: 86.6%

2023	88.2%
2022	86.6%

Occupancy across the portfolio continued to increase during the year, although it was still around half a percent below pre-COVID levels at the year end. Tenants have prioritised passing on cost inflation rather than discounting fees to fill beds, which is reflected in the 13.3% average increase in their fees in 2023 (see page 32).

#### Impact Group average adjusted bed occupancy<sup>1</sup>

Looked at over a longer period, the chart below shows how occupancy has steadily recovered since the COVID low point of 79% in January 2021, but has not yet fully returned to pre-COVID levels of 90%.



<sup>1</sup> Excludes one new home in build-up and three turnaround assets which have not reached maturity.

## 3 | Our focus on quality continued

### Monitoring the quality of care

The IM tracks reports and ratings from regulators, and regularly reviews customer feedback on the homes.

During 2023, the regulator inspected 27 of our homes. If the regulator rates a home as inadequate or requires improvement, the IM reviews the report in detail and discusses the findings with the tenant's operations director.

This allows us to understand the issues, the actions the tenant is taking and whether there are any broader operational concerns the tenant is looking to address. Where appropriate, we'll seek independent support to help resolve any ongoing issues.

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#### Stakeholders' interest: community impact and business reputation

In addition to the financial implications of building and care quality discussed above, the directors must consider how these issues can affect the community and the Group's reputation. Poor buildings or care have a direct impact on residents' quality of life and the working environment for staff and therefore the community within which they operate. Badly maintained buildings and poor care could do significant damage to tenants' reputations, which in turn could harm perceptions of the Group.

[See our Section 172 statement on page 47](#)

### How we measure our tenants' care quality

The regulator's ratings are a KPI for us:

#### Home rated good or outstanding by CQC

80.6% 2022: 78.2%

2023	80.6%
2022	78.2%

The proportion of good or outstanding homes improved during the year and is above the sector average of 79%. At the year end, two homes were rated inadequate and 23 required improvement.

### Taking account of residents' interests

Our tenants are responsible for their residents and we don't directly engage with them, except when we meet them during home visits. The main ways we look after residents' interests are through our oversight of care quality ratings and ensuring the homes are well maintained, as described above.



3 | Our focus on quality continued

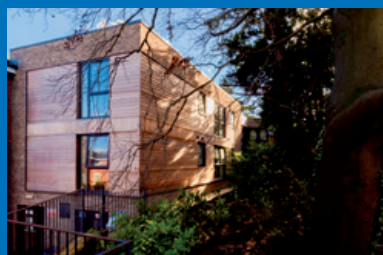
## Case study

## Asset management timeline



Works commence at Mavern, Wiltshire to add eight new bedrooms and residents lounge

**January**



Handover of link block incorporating 11 new bedrooms at Fairview, Bristol, enabling improved operational efficiency

**May**



Works commence on new 25-bed care home alongside the existing Yew Tree Care Centre in Redcar

**July**



Works commence at Elm House, Cheshire, to add 21 bedrooms, resident lounge and sensory garden

**October**



Handover at Mavern

**December**

**February**

Works commence at Golborne, adding new bedrooms and wet rooms

**June**

Handover at Isle Court Shropshire, creating three new premium rooms

**August**

Works commence at Amberley House, Truro, to create 16 new bedrooms, laundry and improved resident day space

**November**

Handover at Golborne

## 3 | Our focus on quality continued



### Mavern – refurbishment and extension in progress

We approved an extension and extensive refurbishment of Mavern in January 2023 which is due for completion in early 2024. The refurbishment will modernise the care home ensuring it can continue to provide high quality care over the term of the lease while delivering improved energy efficiency in line with our ESG strategy.

- Beds: +8 beds to 62 beds.
- New resident lounge.
- EPC improvement from C to B – including air source heat pumps and solar pv.
- Capital expenditure of £1.9 million.
- Target value uplift of £0.5 million.

“We are so pleased with the investment in our home and the wonderful new bedrooms and day spaces that have been created. We are sure that residents and staff will benefit from the improvements and further enhance our reputation locally.”

Justine Old, Registered Manager

### Freeland Lodge – three years on

Construction of Freeland Lodge, a 46-bed care home, was completed in 2020. Located adjacent to Freeland House the home offers nursing, dementia and residential care. Three years after opening, the home is delivering in line with projections with strong occupancy and similar fees from both self-funded and publicly funded residents, reflective of the quality of environment and care provided.

- Beds: 46.
- Capital expenditure: £5.2 million.
- Value uplift since completion £1.6 million<sup>1</sup>.
- Year-end occupancy: 93.5%.
- AWF: £1,480.
- Carehome.co.uk: 9.5/10.
- CQC: Good.
- EPC: B37.

<sup>1</sup> This includes uplifts on the existing property, Freeland House.

“We are so pleased with the progress we have made over the last three years. Residents and staff really love the light and airy spaces and the wonderful views out over the gardens and beyond.”

May Hernandez Vidal-Payne, Registered Manager



# 4 | Our focus on affordability

Rent cover

2.0x +11.7%

2022: 1.8x



## 4 | Our focus on affordability continued

For our business to be sustainable, our tenants must be able to afford our rent and their fees must be affordable to a sufficient number of potential residents, both private and publicly funded

Our strategic choices relate to the rents we set when we first agree leases and how we structure our rent review clauses.

### Strategy: setting initial rents and ensuring sustainable rental growth

We believe that all our stakeholders will be better off in the long run if we make sure rents remain affordable. With this in mind:

- we typically set initial rents to ensure strong rent cover from day one; and
- all our leases include annual inflation-linked rental growth, with minimum and maximum increases each year. For most leases, these are set at 2% and 4% respectively.

This structure shares risk between us and our tenants. It guarantees that our income will grow every year, including when inflation is low, while protecting our tenants when inflation is high, as it has been over the last 12 to 18 months.

#### Impact leases inflation linkage



#### Impact leases caps and collars



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#### Stakeholders' interests: long-term impact and business reputation

The way we set initial rents and structure rent reviews are good examples of our focus on the long term. If rents become too high, we'll lose tenants and hence income, causing major disruption to residents and staff,

reducing the value of our assets and risking damage to our reputation. Balancing rental growth with affordability is therefore a key part of providing sustainable returns for shareholders.

See our Section 172 statement on page 47

<sup>1</sup> This includes the seven leases with Melrose which have been temporarily amended to variable rent.



# 4 | Our focus on affordability continued

## How we measure affordability

Rent cover is one of the most important KPIs for our business. We also track our rental growth and the amount of rent that's overdue:

### Last 12 Months (LTM) Rent cover

2.00x 2022: 1.80x

2023	2.00x
2022	1.80x

Rent cover increased throughout the year and was the highest we'd recorded at the year end. This reflects our tenants' success in passing on inflationary cost pressures through higher fees, and the fact that fees grew faster than rent due to the caps in our leases.

### Average rental growth from rent reviews

4.1% 2022: 4.1%

2023	4.1%
2022	4.1%

Across both years, all the Group's care home rents had increased in line with the rent review cap in their lease.

### Rent collection

99% 2022: 100%

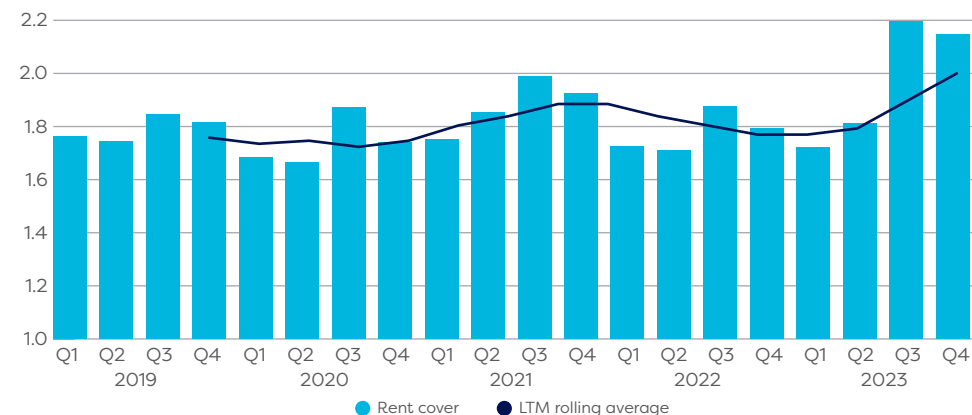
2023	99%
2022	100%

In the first half of 2023 Silverline stopped paying rent, the homes were re-tenanted by June 2023, although this was partially mitigated by a rental deposit held by the Group; it resulted in £236,000 rent written off.

<sup>1</sup> Rent cover excludes seven turnaround homes which were previously operated by Silverline and were re-tenanted in June 2023 and one new home in build-up stage. The adjustments are consistent with reporting in previous periods.

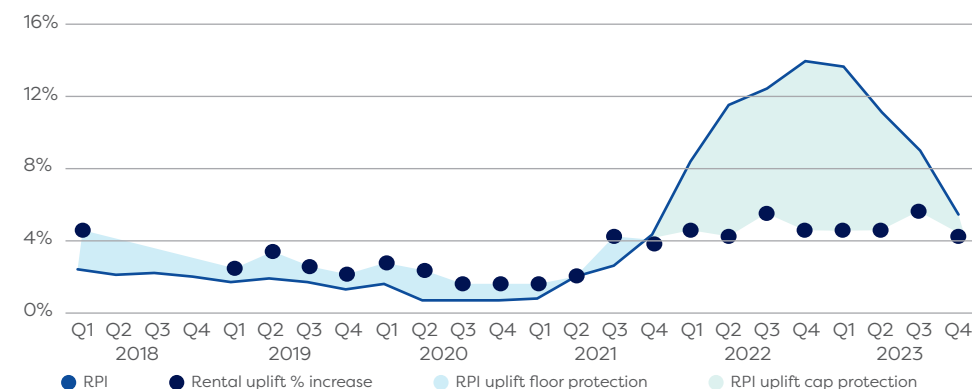
The chart below shows rent cover over time, demonstrating that rents have been consistently affordable for our tenants, as well as the scale of the improvement this year:

### Impact Group rent cover<sup>1</sup>



The next chart sets out the rental growth we've achieved over the last six years and compares the percentage increase with the rate of inflation. It shows that we've received above-inflation increases for much of this period, with our tenants being protected more recently from high inflation. In total, rent reviews added £1.6 million to our contracted rent in 2023.

### Inflation-linked rent with floor and cap

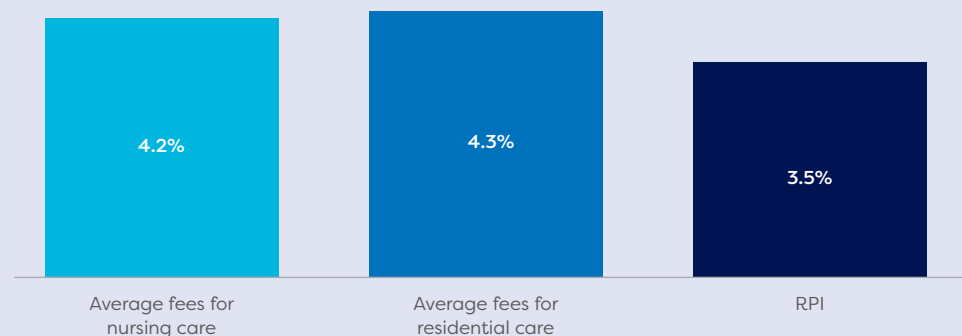


## 4 | Our focus on affordability continued

### Affordability of our tenants' rent

An important indicator of whether our tenants' rent is affordable, is whether they can increase their fees at or ahead of the rate of inflation. As shown below, care home operators have a long history of achieving this:

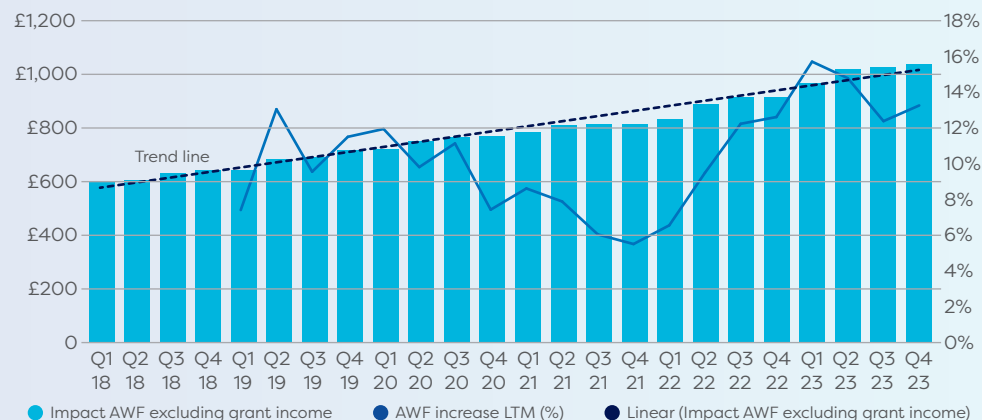
Average annual fee increase 1998-2022



Source: Laingbuisson/ONS.

This continued in 2023. Across our portfolio, the average weekly fee (AWF) rose by 13.3% to £1,049, contributing to rising tenant profitability and rent cover.

### Impact portfolio demonstrates significant AWF growth



## 4 | Our focus on affordability continued

### Case study

# Q&A with our tenant – Careport

#### Q: What are your main aims as a business?

A: Our principal aim is to ensure that Careport is the preferred provider of dementia care in all areas where we operate.

#### Q: How do you do that?

A: We need to show we can deliver on three fronts: we provide good quality care; we are a reliable partner for our staff, residents and the people paying for their care; and we manage well-invested care homes where people want to live and work.

#### Q: What are your plans for 2024 and beyond?

A: During the COVID pandemic we really focused on being a reliable and trusted care provider during a very challenging period. Then, in 2023, we had to concentrate on managing cost inflation. We are now moving into the next period where we are thinking about the investment required to enable our business to perform over the longer term.

#### Q: What kind of investments are you considering?

A: We are already quite advanced in rolling out modern digital care management tools and want to take that investment further. Our aim is not to reduce staff, but to ensure the staff we have work consistently better and have more job satisfaction.

That leads into the second major area of investment – our staff – where we are putting in place measures to be able recruit the best people, train them and offer a career with real potential.

#### Q: Over 75% of the residents you care for are funded by their local council or NHS on lower fees than are typically paid in the private market. Can you afford to invest?

A: We aim to deliver excellent care at affordable rates and never forget that in order to be a sustainable organisation we also need to be a profitable business. Since we started our relationship with Impact in 2018, our rent cover has been consistently better than two times during some very challenging times.



### Careport summary

Number of care homes with us	2023 average occupancy
9	96%
Public/private fee split	Average EBITDARM margin (since January 2020)
74%/26%	26%

#### Q: There are significant capex programmes agreed with Impact due to start in 2024. What's the best project you've worked with Impact on so far?

A: The completion of the large-scale project we undertook to convert Blackwell Vale, a weak and underinvested care home bought in partnership with Impact, into what is now Riverwell Beck has been transformational. Impact supported us by envisioning the potential in Blackwell Vale and assisting us to undertake a complete overhaul of the internal layout, including a refurbishment and an extension which culminated in an additional five bedrooms and a significant improvement in the building specification and energy efficiency.

We worked with Impact to agree an affordable rent from day one which provided headroom for further investment. On Riverwell Beck, Impact challenged us to be more optimistic on the extent of the refurbishment and we are delighted we took this risk as performance has outperformed our initial expectations.

#### Q: And of course Impact have also worked with you on sustainability improvement programmes...

A: We are fully aware of the need for greener and more sustainable properties and have embarked on projects across our entire portfolio to enhance the energy efficiency of our buildings; a consequence of which has been lower energy costs. Impact has been instrumental in providing us with the tools and funding to improve our buildings' sustainability. This is an area of capex that we continue to explore, such as installing solar PV on many of our properties.

## 5 | Increasing our sustainability

EPCs improved

12

8 of which moved up to a higher band

Carbon Intensity  
(kg CO<sub>2</sub>e per m<sup>2</sup> per year)

54kg  
(2022: 50kg)

Carbon intensity has increased, in part due to increased occupancy, while energy efficiency measures take time to embed.

## 5 | Increasing our sustainability continued

**We believe that high quality, affordable care should be accessible to all.**

Care homes are an essential part of the UK's social infrastructure and have a crucial part to play in their communities. Our care homes can also free up much-needed bed space in hospitals, improving people's lives by reducing the time they spend in hospital and providing them with a more appropriate setting for community-based care. Our homes also benefit the wider community and sustain and create local employment. We believe that our long-term investment in these homes delivers positive social outcomes for residents, their families and the staff providing their care in a community setting.

Homes for publicly funded residents have traditionally had less investment than those for private payers.

As a long-term investor and partner to care home operators, ensuring our rents are at appropriate levels helps enable our tenants to provide affordable care for residents who may have less choice which aligns with our purpose.

As discussed on page 30, we set rents at levels that enable operators to provide quality care and value for money to residents, irrespective of whether they are funded privately or by the local authority and NHS.

Alongside supporting tenants to deliver excellent care, we are focused on improving the environmental performance of our portfolio, by increasing our EPC ratings and by achieving net zero by 2045. We are engaging with tenants to identify areas where energy consumption can be reduced in line with our net zero milestones and targets. While the EPC rating of our homes improved in the year our energy intensity increased from 50kg CO<sub>2</sub>e/m<sup>2</sup>/year to 54kg CO<sub>2</sub>e/m<sup>2</sup>/year. This can in part be explained by the increased occupancy in our homes, and increased carbon factors for energy compared to 2022. Energy efficiency measures will take time to embed and we recognise that our 2025 interim target of a 15% like-for-like reduction in carbon emissions is challenging.

We remain committed to identifying areas to invest in measures to achieve this and are engaging with our tenants to seek alignment of reducing energy use and carbon emissions in a managed and affordable way.

Building on our materiality assessment completed in 2022, the priorities (listed below) informed our ESG strategy, both of which we referenced in last year's report. During 2023, we have made good progress with embedding these priorities in our day-to-day operations and our decision-making, as well as setting ourselves performance targets where appropriate. Our challenge, as for many businesses, is that we do not have direct control over certain areas. We also need to ensure that everything we do is set within a commercial context.

We were pleased to retain our EPRA sBPR Gold award for the fourth year running, demonstrating our commitment to transparent disclosure on the environmental performance of our portfolio. In 2023, our initial Carbon Disclosure Project report received a D grade. This is a good platform for a first submission and we are looking to build on this in the future. The IM is a signatory to the UN Principles of Responsible Investment (UN PRI) and has embedded those principles in its risk management and investment decision-making processes.



	Environmental	Social	Governance
Direct influence	Energy efficiency management Carbon reduction and net zero strategy	Close collaboration with care home operators Refurbishment of care homes Provision of affordable care	Governance and policies for our operations, acquisitions and disposals Stakeholder engagement Transparent reporting
Indirect influence	Physical impacts of climate change Water and waste management	Residential care and wellbeing Employee wellbeing, training and retention	Responsible management of care homes

Environment	Social	Governance
Strategic investment in our portfolio to improve environmental impact.	Having a positive impact on the people living and working in our homes.	Robust governance and transparent reporting to all stakeholders.
Improving EPCs through enhancements to our properties' energy efficiency and reduction in carbon emissions in line with our net zero pathway.	Recognising the vital social role care homes play and investing in homes that provide high-quality care to a range of residents.	Maintain effective partnerships with key stakeholders and providing clear and accountable data.
Aligns with the following UN Sustainable Development Goals.	Aligns with the following UN Sustainable Development Goals.	Aligns with the following UN Sustainable Development Goals.

## 5 | Increasing our sustainability continued

### Key pillars of our ESG framework


#### ESG Pillar 1 Strategic Investment in our portfolio to improve environmental impact.

Objectives	How we do it	Metrics	Update
<p>Ensure all assets achieve a minimum of EPC Grade C by 2026 and a minimum of B by 2030.</p> <p>Ensure our portfolio is net zero by 2045 with interim targets of:</p> <ul style="list-style-type: none"> <li>15% reduction in absolute carbon emission on a like-for-like basis by the end of 2025; and</li> <li>50% reduction in absolute carbon emission on a like-for-like basis by the end of 2030.</li> </ul> <p>Ensure our portfolio is resilient to climate change.</p>	<p>Investing in assets that are highly energy efficient or have the potential to be with further capex.</p> <p>Modelling the carbon footprint of the portfolio and implementing our net zero strategy and plan.</p> <p>Investing in asset management projects to improve energy efficiency.</p> <p>Climate change scenario planning.</p>	<p>Percentage of assets with EPC of C or higher.</p> <p>Number of assets with improved EPC.</p> <p>Carbon intensity of portfolio in kg CO<sub>2</sub>e/m<sup>2</sup>/year.</p> <p>Embodied carbon associated with developments and extensions.</p> <p>Percentage of assets with green leases.</p> <p>Absolute carbon emissions.</p> <p>Capex deployed on environment improvements.</p>	<p>93% of portfolio rated C or higher. (2022: 88%)<sup>1</sup>.</p> <p>12 homes with improved EPCs (2022: 5).</p> <p>Carbon intensity has increased to 54 kg CO<sub>2</sub>e/m<sup>2</sup>/year (2022: 50).</p> <p>Asset specific carbon mapping underway on potential capital projects.</p> <p>17% (2022: 13%).</p> <p>15,923 tCO<sub>2</sub>e (2022: 13,768).</p> <p>£741,000 capital deployed on sustainability measures in 2023 (2022: n/a).</p>

#### Pillar 2: Having a positive impact on the people living and working in our homes.

Objectives	How we do it	Metrics	Update
<p>Support health and well-being of vulnerable people.</p> <p>Ensure access to quality and value for money care for both the publicly funded and private-pay sectors.</p>	<p>Investing in quality buildings and actively monitor care provider performance.</p> <p>Developing close partnerships with operators through formal and informal engagement.</p> <p>Conducting detailed due diligence on long-term need for care.</p> <p>Maintaining balance of private and publicly funded residents.</p>	<p>Tenant satisfaction survey.</p> <p>Affordability of rental payments to tenants.</p> <p>Proportion of publicly funded and private-pay residents.</p> <p>Independent impact report.</p> <p>CQC ratings.</p>	<p>82% rate relationship with Impact as moderately or very satisfied (2022: 87%).</p> <p>Rent cover 2.0x (2022: 1.8x).</p> <p>69% of tenant income funded by NHS/LA (2022: 69%).</p> <p>Not commissioned for 2023.</p> <p>80.6% of homes rated Good or Outstanding (2022: 78%).</p>

#### Pillar 3: Robust Governance and transparent reporting to all stakeholders.

Objectives	How we do it	Metrics	Update
<p>Be transparent with all stakeholders.</p> <p>Maintain robust corporate governance.</p> <p>Proactively listen and engage with public and private stakeholders.</p>	<p>Maintain clear disclosures on operational performance.</p> <p>Maintain policies on supplier code of conduct, anti-money laundering and bribery.</p> <p>Manage the business in accordance with our responsible investment policy.</p> <p>Engage with tenants on good governance practices.</p>	<p>Investment Manager's UN PRI submission.</p> <p>EPRA sustainability rating.</p> <p>Carbon Disclosure Project rating.</p>	<p>UN PRI Signatory Status (2022 N/A).</p> <p>Gold rated (fourth year running).</p> <p>D rated (2022: F).</p> <p>Signatory of:</p> 

<sup>1</sup> Based of English equivalent data for Scottish EPCs.

## 5 | Increasing our sustainability continued

### Delivering on a credible net zero delivery plan

In 2022, we published our commitment to achieving net zero by 2045, following a specialist consultancy's desktop analysis of the care homes in our portfolio, using the widely adopted CRREM toolkit. We also included interim targets for 2025 (15% reduction against 2022 baseline) and 2030 (50% reduction against 2022 baseline), mindful that it's important that we demonstrate progress in the near to medium term whilst balancing the affordability of the investment for our tenants. Over time we expect the affordability and efficiency of low carbon technologies to improve, however we are focusing on what measures can also be achieved today to help deliver against these targets.

In 2023, our CO<sub>2</sub>e emissions on a like-for-like basis increased on a m<sup>2</sup> basis. Occupancy is a key driver of energy intensity and this has increased over the past two years, however our target remains to reduce this overall and as we implement energy efficiency measures through asset management projects we expect these emissions to fall.

During 2023, we have continued to research and refine our path to net zero to ensure that we're creating a credible net zero delivery plan. We've conducted on-site energy audits in six homes, which are representative of our portfolio. The audit results are helping us to engage more effectively with our tenants to agree a practical, sustainability-related capital expenditure programme, which takes into account our tenants' considerations.

We continue to improve our data collection for energy consumption from our tenants. We have 85% coverage, with estimates based on previous years for where we don't have up to date data. As the quality and quantity of our data improves, we're in a better position to engage with tenants to identify opportunities where we can increase energy efficiency, reduce harmful CO<sub>2</sub> emissions and reduce running costs.

In 2023, the energy use intensity and carbon emissions of our portfolio were as follows:

	2023	2022
Like-for-like building energy intensity (kWh per bed)	<b>10,966</b>	10,615
Like-for-like greenhouse gas emissions from building energy consumptions (tCO <sub>2</sub> e per bed)	<b>2.02</b>	1.99
Like-for-like total indirect greenhouse gas emissions (kg CO <sub>2</sub> e per m <sup>2</sup> )	<b>53</b>	50
Total indirect greenhouse gas emissions (kg CO <sub>2</sub> e per m <sup>2</sup> )	<b>54</b>	50

Our report against the TCFD framework is set out on pages 105 to 112.

### Improving the energy performance of our portfolio

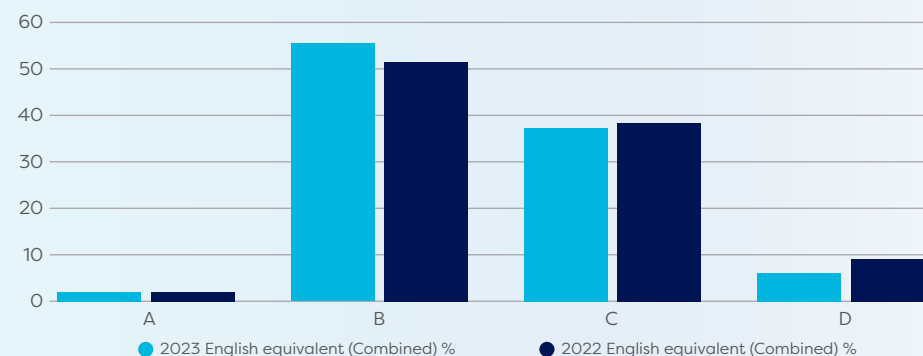
In 2022, we also set out our target to improve the EPC ratings across our portfolio. Our objective is to achieve a minimum B rating (or Scottish equivalent) by 2030, with an interim target of 50% by 2025.

During 2023, we continued to assess where EPC ratings can be improved through interventions such as building fabric improvements, more efficient LED lighting and more efficient heating systems. Where we have implemented measures like these, we have updated the EPC in accordance with current building regulations. As a result, we're pleased to report a positive movement in the proportion of our homes rated EPC B or higher across the portfolio.

Percentage of assets with an EPC of B or above<sup>1</sup>:

Year	Target	Progress in 2023
2025	50%	57%
2030	100%	

#### EPC Breakdown English equivalent for UK wide portfolio<sup>1</sup>



<sup>1</sup> This data is derived using the English equivalent EPC ratings for all properties including Scotland as documented by the published EPC Certification. The full breakdown of EPCs in Scotland, based on Scottish methodology, is C (3%), D, (15%), E (59%), F (12%) and G (12%).

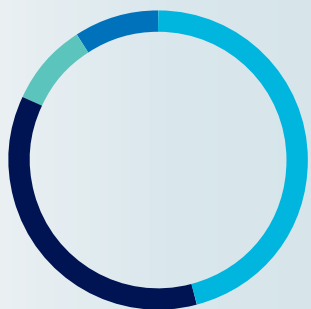
## 5 | Increasing our sustainability continued

### Charitable causes

In 2023, we were delighted to establish a partnership with the Care Workers Charity. It supports care workers in times of need, particularly with mental health support, financial grants and advocating for care workers generally. We look forward to supporting its work throughout 2024.



### Satisfaction with Impact as long-term partner



Very satisfied	46%
Moderately satisfied	36%
Neutral	9%
Not satisfied at all	9%

### Tenant survey

In 2023, we have again conducted a tenant survey, facilitated by an independent external body. We are pleased to report a 92% response rate of which 81% of tenants reported having a positive relationship with Impact and viewed us a good long-term partner and 91% reported satisfaction with Impact's level of engagement with them. We are always keen to get feedback from tenants and we seek to maintain and grow our positive relationships with them.

### Progress with our climate resilience

In last year's report, we included our initial response to the Task Force on Climate-related Financial Disclosures (TCFD) methodology. We examined the possible physical climate change risks of three IPCC warming scenarios: RCP 2.6 (1.5-2 degrees), RCP 4.5 (2-3.5 degrees) and RCP 8.5 (4 degrees) across a representative sample of 20 properties from our portfolio and considered the wider climate transition risks and opportunities. The findings, alongside the concurrent work on our net zero strategy, helped to inform our financial planning and risk management processes.

During 2023 we have made good progress with developing our understanding, management, measurement and decision-making in regard to climate action.

The IM has established an ESG committee to drive actions and monitor progress and improved EPC ratings. From a risk and opportunity perspective, "deep-dives" have been undertaken into four material issues, namely:

- physical risk of flooding;
- stranded assets due to an inability to satisfy MEES requirements;
- the associated costs involved in improving energy efficiency and fulfilling our net zero delivery plan; and
- initial consideration of carbon pricing mechanisms.

Our TCFD reporting for 2023 can be found on pages 105 to 112.





# Risk management is integral to the way we manage our business

**Our purpose is to deliver attractive risk-adjusted returns.  
To achieve that, we've built risk management into everything we do.**

The board sets our risk appetite, which then guides the IM's actions when implementing our strategy. While our appetite for risk will vary over time, in general we maintain a balanced overall level of risk, which is appropriate for achieving our strategic objective; working with tenants to provide quality, affordable and sustainable care homes (see pages 18 to 38). The board reviews our risk appetite each year. Further details of the risk management process are provided on pages 127 to 129.

The diagram on the right shows the Group's principal risks and uncertainties, in order of the residual risk that remains after taking account of the mitigations we have in place.

As the diagram shows, two of our risks are outside our risk appetite and we're looking to mitigate them further:

- for significant tenant default, our target is for no tenant to account for more than 25% of our contracted rent. The Minster Group and its affiliates are currently 37% of our contracted rent. We aim to continue adding new tenants over time, to further diversify our income (see page 19); and
- for underinvestment in care homes, the board is working with the IM to understand the cost and delivery plan for achieving our net zero carbon target by 2045. We're looking at whether we can do this by investing in the homes in return for higher rents, whether our tenants could fund the work through increased fees for residents, or, in the worst case, if it could be an irrecoverable cost for us.

Risk appetite	Business impact	Infectious diseases	Significant tenant default	Underinvestment in care homes	Economic disruption	Political events	Reputational damage	Investment Manager fails
Accepting	Critical	^	^				^	
Flexible	Significant			^	^			^
Cautious	Moderate	○	○	○	○	○	○	○
Minimalist	Minor							
Averse								

- Key**
- ^ Unmitigated risk
  - ✓ Mitigated risk
  - Risk tolerance

**Risk tolerance:** Our appetite for risk has been reviewed to assess whether we are operating within our risk tolerance. Risk tolerance is a continuum and the range for some risks extends over more than one of these categories.

**Risk appetite:** We have defined risk appetite from high to low in the following categories: 'Accepting' (where we are focused on maximising opportunities); 'Flexible' (willing to consider all options); 'Cautious' (where we are willing to tolerate a degree of risk); 'Minimalist' (preferring options with low inherent risk); and 'Averse' (where we avoid risk and uncertainty).

# Risk management is integral to the way we manage our business continued

## Infectious diseases

Probability: Medium	●●●○
Impact: Moderate	●●○○
Change in the year: No change	↔
Risk appetite: Cautious	●●○○

An outbreak of a significant new infectious disease would clearly place care home residents, who are naturally vulnerable, at significant danger. It may result in lower care home occupancy, reduced tenant profitability and higher costs. All of these would impact on the ability of our tenants to pay us rent, the value our portfolio and our ability to work with tenants successfully.

### How we manage this risk

COVID-19, together with other illnesses, means care home operators have experience of managing infectious diseases. Since the outbreak of COVID-19, we have increased our monitoring of occupancy statistics to a weekly format, giving us rapid feedback on this KPI. Also, having an affordable rent, and thus strong rent cover, enables our tenant operating partners to react better to unforeseen changes. In an extreme outbreak we would expect the government to support operators as they did through COVID-19; however, should they not provide this support, we have ensured that our business can sustain a delay in rent collection.

We continually work with our tenants to explore improvements to the homes, this can include ensuring the home is better protected to help with infection control, including air filtration, temperature sensors and unitisation of the home, to help with isolating outbreaks.

We believe that, especially with the learnings from the recent pandemic, the mitigations are sufficient to reduce the risk to moderate, and to be within our risk tolerance.

### Opportunity

None.

## Significant tenant default

Probability: Medium	●●●○
Impact: Moderate	●●○○
Change in the year: No change	↔
Risk appetite: Cautious	●●○○

This is the risk that either a single large tenant (more than 10% of rent roll) defaults or several smaller tenants default. Any tenant failure is likely to cost us money (as the Silverline situation shows), but some tenants are larger than others. Failure of most tenants would have a moderate impact on us, but a Minster Group failure, as by far the largest group (37% of rent, including affiliates), would be critical and is why the risk is outside of our risk tolerance. This could reduce our revenues and asset values.

### How we manage this risk

Our close monitoring of tenants' performance enables us to spot issues quickly and we have shown we can replace a tenant if needed. Most tenants have seen improved profitability this year.

Our strategy is for no tenant to account for more than 25% of our contracted rent. Accordingly, we aim to continue adding new tenants over time, to further diversify our income (see page 19). We also maintain close contact with Minster and the IM receives quarterly accounts which they discuss in detail with the tenant, confirming its financial health.

### Opportunity

None.

## Underinvestment in care homes

Probability: Medium	●●●○
Impact: Moderate	●●○○
Change in the year: No change	↔
Risk appetite: Cautious	●●○○

Underinvestment could occur if: tenants don't invest in maintaining the properties, which could reduce the quality of care they can provide; the market or regulation may demand enhanced or different facilities (such as limiting the size of a care home); or, failure to consider the effects of climate change which could accelerate obsolescence of our care homes (both physical and low carbon transition risks) including minimum requirements for EPCs (see page 37) and to meet our net zero target by 2045.

### How we manage this risk

All of our leases have full repair and maintenance obligations, as described above (see page 25). In extreme circumstances, we could replace a tenant who fails to comply.

We identify asset management opportunities before we buy assets and where appropriate we commit with our tenants to ensure this works begins in the first 12 to 18 months.

The board is working with the IM to understand the cost and delivery plan for achieving our net zero carbon target by 2045. We are looking at whether we can do this by investing in the homes in return for higher rents, whether our tenants could fund the work through increased fees for residents, or, in the worst case, if it could be an irrecoverable cost for us. While we continue this work and await guidance on future regulation, we have put this risk slightly outside of our risk tolerance and we keep it under close review.

### Opportunity

We can fund building extensions or other improvements, in return for an increase in rent.

## Economic disruption

Probability: High	●●●●
Impact: Moderate	●●○○
Change in the year: No change	↔
Risk appetite: Cautious	●●○○

An economic downturn could have a moderate to significant impact on the business, but we believe that our mitigations are sufficient to bring it within our risk tolerance.

Difficult economic conditions could put further pressure on local authority funding, affecting our tenants' fees and their ability to pay our rent.

High inflation has led to sharp increases in interest rates, hitting property valuations across all sectors and placing pressure on the financial covenants of our debt facilities which if breached, could result in the banks taking security over our assets. While inflation has come down, interest rates are not expected to return to the previous very low levels.

### How we manage this risk

We can limit the impact of this risk by buying well, ensuring our tenants have strong rent cover and managing the assets to increase their value.

Tenant profitability and long-term affordable rents are the key to a sustainable business (see pages 30 to 32). We regularly assess our tenants' financial performance, particularly their rent cover (see page 31). The Care Act 2014 places responsibilities upon local authorities to support individuals who need care, which helps to mitigate this risk.

The board agrees cash flow and debt levels, maintaining a cautious leverage in line with our risk appetite. Our LTV cap is 35% and we are aiming to keep our debt levels below this cap. We also have a policy to limit our exposure to increases in interest rates through fixed rate debt and interest rate caps. Our inflation-linked leases ensure our income grows every year, which supports property valuations.

### Opportunity

Reduced asset valuations and/or higher debt costs may create attractive buying opportunities.

# Risk management is integral to the way we manage our business continued

## Political events

Probability: Medium	●●●○
Impact: Moderate	●●○○
Change in the year: No change	↔
Risk appetite: Cautious	●●○○

Changes to government in the next 12 months are likely to heighten the risk of changes in policy and funding that affect our market. Increased regulation, changes to immigration or changes to care worker pay levels alongside the risk of alternative ways of providing care could make it harder for our tenants to pay their rent, reducing the value of our properties.

### How we manage this risk

We see this risk as moderate, because if government were to change regulation that increases operational costs in care homes (for whatever reason) it would have to accept that fees would rise to pay for this – the alternative being tenants losing money and homes closing, which would be politically unacceptable and disastrous for local authorities and the NHS. We have enhanced our knowledge of likely future developments in the health service and sought contact with opinion formers to increase their understanding of the sector.

### Opportunity

Increased government funding could help the sector to grow and provide more opportunities for us to support adult social care.

## Reputational damage

Probability: Medium	●●●○
Impact: Moderate	●●○○
Change in the year: No change	↔
Risk appetite: Minimalist	●○○○

Circumstances that could damage our reputation include our tenants providing poor care or breaching standards around matters like minimum wage or modern slavery. In addition, Minster Group is a related party to the IM. If there is a breakdown in trust on related party disclosures, this could damage our reputation.

We have also set targets to deliver net zero carbon by 2045, failure to deliver against our carbon reduction strategy could damage our reputation with investors and the community within which our care homes operate.

### How we manage this risk

We are a responsible company and so conscious of reputational risks, which we think could be critical if unmitigated, but are minor after the measures we take. We monitor tenants carefully for the quality of the care, through regular meetings, care home visits and CQC ratings. We select only tenants with high standards.

The board ensures we transparently disclose related party activities and take decisions in the best interest of stakeholders. The board also oversees the monitoring of our progress against our ESG targets.

### Opportunity

None.

## Investment Manager fails

Probability: Low	●○○○
Impact: High	●●●●
Change in the year: No change	↔
Risk appetite: Minimalist	●○○○

We rely on the IM's capabilities to execute our strategy and support our day-to-day relationships. If the IM fails to retain the key staff, this could result in poor relationships with stakeholders and, ultimately, failure to collect rent and a reduction in value of our portfolio.

### How we manage this risk

The service requirements are set out in the Investment Management Agreement which the board monitors annually through the management engagement committee and more regularly through board member interactions with the IM. The IM is a well-run partnership closely bound into the success of the Company. In the last resort, the board believes that it could find an alternative manager to take over. The net risk is therefore within our risk tolerance.

### Opportunity

None.

# Risk management is integral to the way we manage our business continued

## Other risks

There are several other risks that we monitor closely but we don't believe are principal risks for us. These include:

**Taxation risk** – We're a UK REIT and have to comply with certain rules to maintain that status. Any change to our tax status or in UK tax legislation could make it harder to achieve our investment objectives.

**Cyber security** – We need to protect our customer and company data from cyber attacks. Losing sensitive information could materially harm our financial condition. We have relatively few IT systems, as the IM runs our business and the Administrator runs the accounting and banking systems. The risk committee reviews our internal controls and provides assurance to the audit committee that they're effective. The audit committee also reviews our internal controls once a year.

**Financial management** – There's a risk that our budgets and plans are inaccurate, that we've made unrealistic assumptions or not applied them correctly, leading to our financial position deteriorating. The board reviews our financial results and any differences to our forecasts at least once a quarter, so we can investigate any issues.

**Development activity** – Developments are inherently risky and can face unexpected cost overruns and delays. High inflation and global supply chain delays have increased this risk over recent years. Through careful planning, site optimisation and ensuring our forward-fund commitments are capped, we seek to ensure all developments remain accretive to investors even if risks materialise.



# Financial review

## Portfolio valuation reflects stabilising asset values

Cushman & Wakefield independently values our portfolio in accordance with the RICS Valuation - Professional Standard (the “Red Book”).

As at 31 December 2023, the portfolio was valued at £651.3 million (31 December 2022: £532.5 million), up £118.8 million or 22.3%. The increase was made up as follows:

	Contribution to valuation increase	
	£'m	%
Acquisitions completed	91.7 <sup>1</sup>	17.2
Acquisition costs capitalised	1.8	0.3
Capital improvements	4.7	0.9
Disposals	(1.3)	(0.2)
Valuation movement	21.9	4.1
<b>Total</b>	<b>118.8</b>	<b>22.3</b>

The like-for-like valuation increase of £21.9 million equates to 5.30 pence per share. Of this, 5.22 pence per share resulted from inflation-linked rental growth, with 0.08 pence per share due to market value movements.

### Resilient financial performance

Net rental income for the year increased by 17.0% to £49.4 million (2022: £42.2 million). Under IFRS, net rental income includes some rent we're required to recognise as income before we receive it, reflecting the minimum uplift in rents over the lease terms, on a straight-line basis. Our cash rental income for the year increased by 18.5% to £42.5 million (2022: £35.9 million). The issue with Silverline (see page 22) resulted in written off rental income of £0.2 million for the year.

In addition to our net rental income, the total income we earned from the portfolio in the year included interest on the loans we'd made to Holmes in December 2021 and Welford in January 2023, to finance asset purchases. This income totalled £3.7 million in 2023 (2022: £3.2 million) and is included within our interest income (see below). Having exercised our options to buy the assets in June 2023, this finance income came to an end and was replaced by rental income from that date.

Our administrative and other expenses totalled £7.1 million (2022: £7.0 million), which led to a total expense ratio of 1.54% for the year (2022: 1.67%). The EPRA cost ratio reduced to 14.4% (2022: 16.6%). Adjusting revenue to include interest income from our loans to operators and exclude the Silverline rent write-off reduces the cost ratio further to 13.4% (2022: 15.4%)<sup>2</sup>.

Finance costs were £12.0 million (2022: £5.4 million), mainly reflecting the increase in SONIA. Interest income was £3.8 million (2022: £3.2 million), which was largely from the operator loans and also included £0.1 million of interest on deposits.

The change in the fair value of investment properties was a gain of £14.8 million (2022: £(14.5) million loss), contributing to profit before tax of £48.8 million (2022: £16.9 million).

Earnings per share (EPS) for the year was 11.79 pence (2022: 4.33 pence) and EPRA EPS was 8.33 pence (2022: 8.37 pence per share). Adjusted EPS, which strips out non-cash and one-off items, was 7.28 pence (2022: 7.11 pence).

These EPS figures are all on both a basic and diluted basis. More information on the calculation of EPS can be found in note 11 to the financial statements.

### Attractive and fully covered dividends

As a REIT, the Company must distribute at least 90% of its qualifying profits each year. The Company has therefore declared four quarterly dividends of 1.6925 pence each in respect of 2023, meeting the total dividend target of 6.77 pence per share, up 3.5% on the 6.54 pence paid in respect of 2022. All four dividends were Property Income Distributions.

The details of these dividends were as follows:

Quarter to	Declared	Paid	Cash cost £'m
31 March 2023	25 April 2023	19 May 2023	7.0
30 June 2023	9 August 2023	20 September 2023	7.0
30 September 2023	20 October 2023	24 November 2023	7.0
31 December 2023	30 January 2024	23 February 2024	7.0
<b>Total</b>			<b>28.0</b>

The total dividend for 2023 was 123% covered by EPRA EPS and 108% covered by adjusted EPS.

At 31 December 2023, the Company had distributable reserves of £97.2 million.

<sup>1</sup> This includes the acquisition of a portfolio of nine assets which were invested in via a loan to operator in December 2021, where the Group had an option to acquire upon certain regulatory requirements being met. This option was exercised in June 2023, see note 16 for further detail on page 88.

<sup>2</sup> Further discussion of these cost ratios can be found on pages 117 and 121.

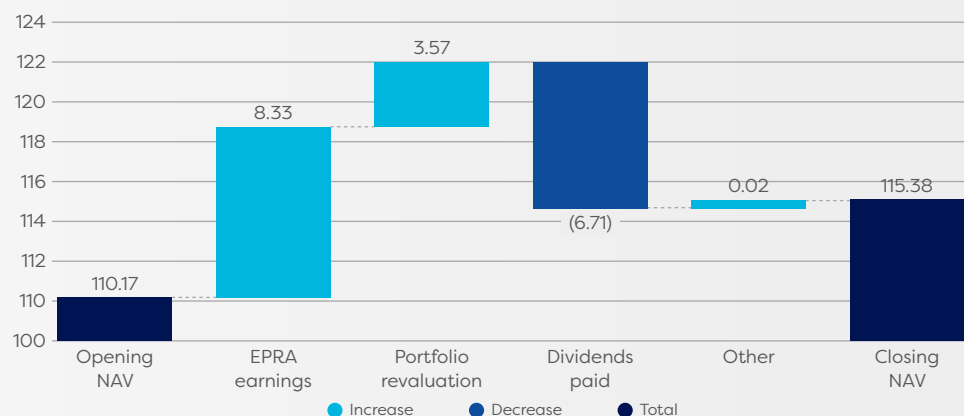
## Financial review continued

### Portfolio valuation drives higher net asset value

The NAV at 31 December 2023 was £478.1 million, up 7.2% (31 December 2022: £445.9 million). NAV per share was 115.38 pence (31 December 2022: 110.17 pence per share), with the growth rate of 4.7% reflecting the share issue as part of the portfolio acquisition in January (see page 17), which increased the number of shares in issue by 2.4%.

The chart below shows the main contributors to the movement in NAV per share. As we're required to pay out the large majority of our property rental earnings, the portfolio revaluation was the largest factor.

#### NAV per share (pence)



### Strong and prudent balance sheet

During the year, we increased the size and duration of our RCFs, repaid our £15.0 million term loan with Metro Bank and put further interest rate caps in place. As a result, our facilities at the year end were as follows:

	Expiry	Facility size (£'m)	Drawn at 31 Dec 2023 (£'m)	Propco interest cover covenant	Propco LTV covenant
<b>CYBG</b>					
RCF	Dec 2029	50.0	32.5	200%	50%
<b>HSBC</b>					
RCF	Apr 2026	75.0	47.0	200%	55%
<b>NatWest</b>					
RCF	Jun 2028 <sup>1</sup>	50.0	30.3	175% <sup>2</sup>	50%
<b>Private placement</b>					
Senior secured notes	Dec 2035	37.0	37.0	250%	55%
Senior secured notes	Jun 2035	38.0	38.0	250%	55%
<b>Total</b>		<b>250.0</b>	<b>184.8</b>		

<sup>1</sup> With the option to extend for up to two years to June 2030, subject to NatWest's agreement.

<sup>2</sup> Interest cover covenant is 175% until June 2025 after which it will increase to 200% for the remainder of the term.

At the year end, our debt facilities had an average maturity of 6.3 years (31 December 2022: 6.3 years). If we exercise the extension options on the NatWest facility, this increases to 6.7 years.

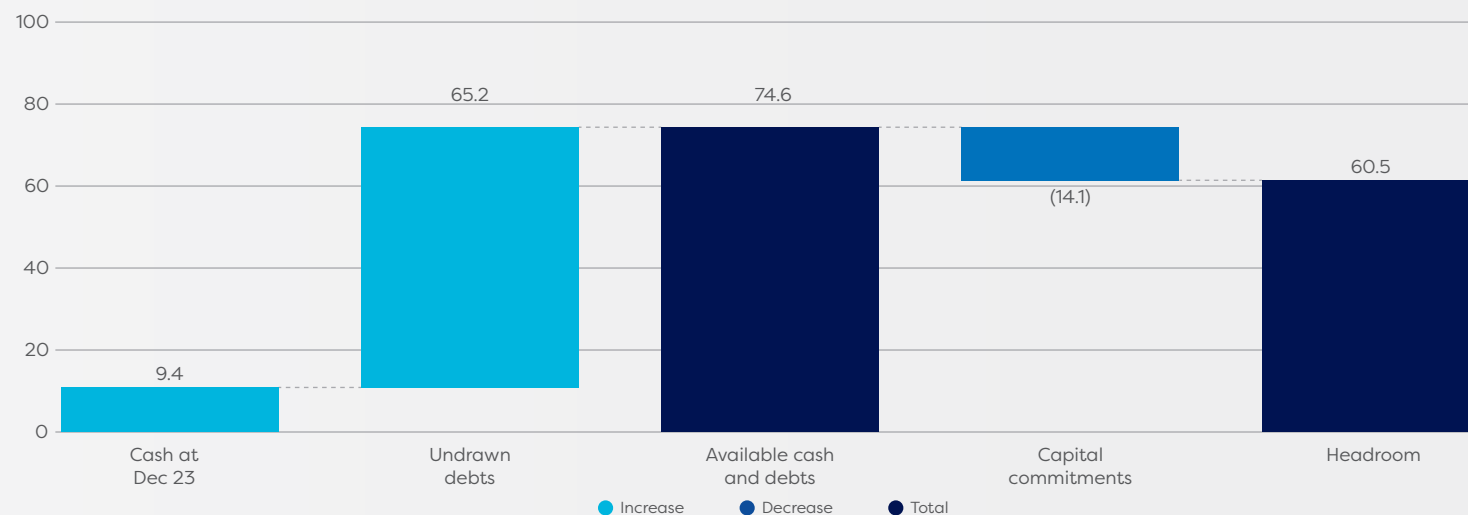
See page 15 for more information on our debt financing, including our gross LTV at 31 December 2023 and our interest rate hedging arrangements.

## Financial review continued

### Strong and prudent balance sheet continued

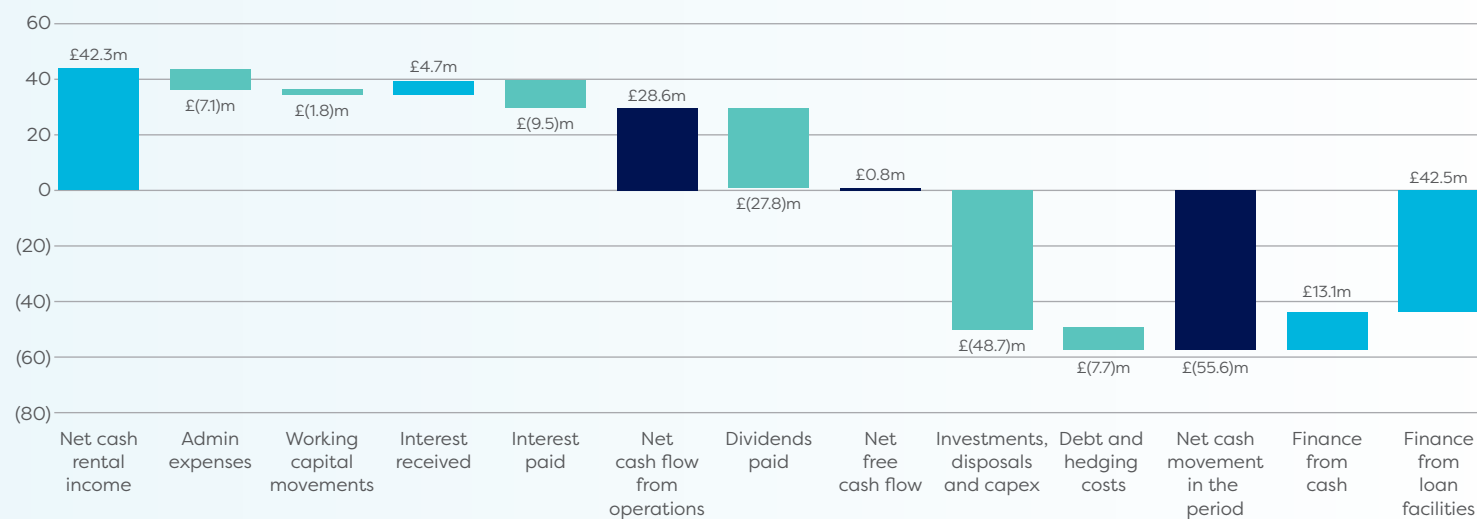
We had significant liquidity at 31 December 2023, with cash and cash equivalents of £9.4 million and undrawn debt facilities of £65.2 million. This gave us total headroom of £60.5 million, after accounting for our capital commitments.

#### Liquidity bridge (£'m)



### Dividends and net interest costs fully covered by operating cashflows:

Our cash movements in the year show that our dividends and net annual interest payments are fully covered by operating activities.



## Going concern

The board regularly monitors the Company and Group's ability to continue as a going concern and its longer-term viability. The going concern assessment covers the 12-month period to 31 March 2025. Summaries of the Group's liquidity position, actual and prospective compliance with loan covenants and the financial strength of its tenants are considered at the scheduled quarterly board meetings. As part of the Group's assessment, the modelling includes (but is not limited to) the identification of uncertainties facing the Group, including:

- the risks of default of the Group's tenants, taking into consideration current rent cover. We review the occupancy performance of each tenant over the preceding 12 months and then run sensitivities by the tenant, including a drop in occupancy of 5%, an increase in staff costs by 5% and other costs by 10% and the effect these sensitivities have on rent cover and appraise the risk of a tenant default as low, medium or high; and
- the risk of a fall in investment property values. This may be because of a multitude of risks (as outlined on pages 39 to 42). We review the resulting impact on the Group's debt covenants and the remedial action that may be taken, including the extent of the resources available to the Company to cure covenant breaches.

The Group's forecasting model includes a variety of stress tests including reduction in investment property valuations, restriction of income from tenants (i.e. non-payment of rent), the inclusion of increases in underlying costs and increases in interest rates. Reverse stress tests have been prepared to evaluate how much valuations or net income would need to fall to trigger defaults in each of the security pools.

Mitigating actions including corresponding reductions in costs as valuations fall, the use of unsecured properties to prevent covenant breaches and stopping dividends were also considered. The sensitivity scenarios reviewed by the audit committee and the board include:

- non-payment of rent for all medium and high-risk tenants for six months while increasing SONIA and bank base rates to 5.5% on variable interest rate loans;
- assessing the level of loss of rents that could be sustained within a security group before each covenant or default level is triggered; and
- assessing the loss of rents or valuation that could be sustained before the Group's unsecured assets would be fully utilised in application to cure rights within debt facilities.

The detailed scenario modelling is performed by the IM and presented to the audit committee and board for review, challenge and debate. The projections and scenarios considered in connection with the approval of this financial information had particular regard to stresses arising from rising inflation and interest rates and, in particular, the impact on the trading and financial strength of the Group's tenants as highlighted above.

Property values would need to fall by more than 38% before loan-to-value covenant breaches would arise with all facilities being fully drawn. Rental income would need to fall by 36% before interest cover covenant breaches would arise, with all facilities being fully drawn.

### Going concern statement

The board has weighed up the risks to going concern set out above, together with the ability of the Company to take mitigating action in response to those risks.

The board considers that the combination of their conclusions as to the tenants' prospects, the headroom available on debt covenants and the liquidity available to the Group to deal with stressed scenarios on income and valuation outlook, leads to a conclusion that the Company and the Group are each able to continue in business for the foreseeable future.

In 2024, the Company's Articles of Association require the board to propose an ordinary resolution at the Annual General Meeting (AGM) for the Company to continue in its current form. This will be the first continuation vote since the Company's inception, if the vote is passed the Company will continue its business as presently constituted and the continuation vote will be held at every fifth AGM thereafter. If the vote is not passed the directors shall within three months after the date of the resolution, put forward proposals to members to the effect that the Company be reconstructed, reorganised or wound up. The board are not aware of any significant or material issues raised by shareholders in relation to this continuation vote but will continue to engage with shareholders as the 2024 AGM approaches. In the event that a continuation vote was not passed, and the Group instructed to wind up, there would be a process of selling off the Group's assets and exiting its current business agreements, this would be expected to take at least 12 months following the AGM so the Company would continue to be a going concern.

The board therefore consider it appropriate to adopt the going concern basis in the preparation of this financial information.

### Viability statement

The period over which the directors consider it feasible and appropriate to report on the Group's viability is the five-year period to 31 March 2029. This period has been selected because it is the period that is used for the Group's medium-term business plans. The board considers the resilience of projected liquidity, as well as compliance with debt covenants, under a range of inflation and property valuation assumptions. These scenarios include stress tests and reverse stress tests consistent with those described in the paragraphs preceding the going concern statement and include a consideration of mitigating actions that may be taken to avert or mitigate potential threats to viability.

Given the longer period of assessment covered by the viability review, further analysis is conducted in order to test the reasonableness of the key assumptions made and to examine potential alternative outcomes and mitigating actions relating to those risks and assumptions.

These included:

- debt re-financings during the forecast period. In relation to additional refinancing obligations within the period of the viability assessment, the directors have reasonable confidence that extensions or replacement debt facilities will be put in place; and
- furthermore, the Group has the ability to make disposals of investment properties to meet its future financing requirements; however, this assessment did not assume any disposals took place.

Having considered the forecast cash flows and the impact of the sensitivities in combination, the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period ending 31 March 2029.



## Section 172 statement

Section 172 of the Companies Act 2006 gives the directors several duties relating to the matters shown in the table below. During 2023, the directors consider that they've acted in good faith and in the way that would be most likely to promote the Company's success for the benefit of shareholders, while also considering the broad range of stakeholders who interact with our business.

Matter	Response
a) The likely consequence of any decision in the long term.	See pages 13 and 30.
b) The interests of the company's employees.	The Company doesn't have any employees, so this doesn't apply.
c) The need to foster the company's business relationships with suppliers, customers and others.	Tenants: see pages 19, 21 and 54. Service providers: see pages 54 and 55.
d) The impact of the company's operations on the community and environment.	See pages 13, 21 and 26.
e) The desirability of the Company maintaining a reputation for high standards of business conduct.	See pages 21, 26 and 30.
f) The need to act fairly between members of the Company.	The directors must ensure they treat all shareholders fairly when making their decisions. The board wasn't required to make any decisions in 2023 where any group of shareholders could be treated differently from others, so this issue didn't arise.

### Key board decisions

The board's key decisions in the year included approving:

- the portfolio acquisition in January (page 17);
- the revised dividend policy (page 16); and
- replacing Silverline as a tenant (page 21).

The other significant matters the directors considered are shown on pages 52 to 54.

This strategic report was approved by the board on 22 March 2024 and signed on its behalf by:

**Simon Laffin**  
Chair

# Governance

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## Our board



M N R

### Simon Laffin

Chair,  
aged 64

#### Appointed

1 January 2023 to the board, 1 April 2023 as Chair

#### Skills and experience

Experienced Chair, executive and non-executive director in large and small, public and private companies. Career has spanned healthcare real estate, property development and management, retail, consumer goods, financing, restructuring, financial services and private equity. Corporate governance expertise from 30 years on boards. He published a book "Behind Closed Doors. The Boardroom: How to Get In, Get On and Make a Difference", mentors senior executives and presents on governance. Former finance director of a FTSE 100 company and qualified accountant

The Boardroom: How to Get In, Get On and Make a Difference", mentors senior executives and presents on governance. Former finance director of a FTSE 100 company and qualified accountant

#### Previous roles

- Chair of Assura plc, Flybe Group plc and Hozelock Group
- Non-executive director at Watkin Jones plc, Dentsu Group Inc, Quintain Estates and Development plc, Aegis Group plc, Mitchells & Butlers plc and Northern Rock (as part of the rescue team)
- Adviser to CVC Capital Partners
- Group finance & property director of Safeway plc

#### Other current roles

None



A M N R

### Rosemary Boot

Senior independent non-executive director,  
aged 61

#### Appointed

16 January 2017

#### Skills and experience

Experienced board director and committee member, across a range of sectors. Strong financial background, as a former corporate finance adviser to large listed companies and through chief financial officer roles. Deep interest in sustainability, having worked for and founded organisations focused on tackling climate change as a business issue

#### Previous roles

- Chief financial officer/finance lead of Future Cities Catapult, Low Carbon Contracts Company and Carbon Trust
- Executive director and strategy adviser at Circle Housing Group
- Executive director at UBS Warburg
- Non-executive director, Southern Water
- Trustee of The Green Alliance

#### Other current roles

- Non-executive director of Urban&Civic plc and Triple Point Energy Transition plc
- Co-founder and director of Chapter Zero Limited



A M N R

### Amanda Aldridge

Independent non-executive director,  
aged 61

#### Appointed

1 March 2019

#### Skills and experience

Extensive risk and governance experience including LSE and AIM requirements, public sector governance and reporting, M&A and fundraising. Conversant with evolving ESG reporting requirements and best practice approaches in a range of sectors, including government incentives for investment to accelerate net zero. Experience of working with listed and private companies, public sector businesses and not-for-profit organisations. Fellow of the Institute of Chartered Accountants in England and Wales

#### Previous roles

- Audit and advisory partner at KPMG
- Non-executive director of Headlam Group plc and Places for People

#### Other current roles

- Non-executive director of The Brunner Investment Trust Plc, Staffline Group plc, Low Carbon Contracts Company, The Electricity Settlements Company and Helical PLC (from 1 April 2024)

### Key

- A** Audit committee
- M** Management engagement committee
- N** Nomination committee
- R** Remuneration committee
- C** Committee Chair

Our board continued**Philip Hall**

Independent non-executive director,  
aged 69

**Appointed**

16 January 2017

**Skills and experience**

More than 25 years' experience in the healthcare sector in the UK and internationally, including real estate acquisitions and sales, portfolio strategy and valuation. Advised on restructuring of Southern Cross, as well as on lease and loan restructuring transactions, asset management and turnaround strategies. Author of "The Valuation of Care Homes, Valuation: Principles into Practice". Member of the Royal Institution of Chartered Surveyors

**Previous roles**

- Founder and director of Deben Healthcare Consultancy
- Chair for healthcare at Jones Lang LaSalle
- Founder and managing director of Taylors Business Surveyors and Valuers

**Other current roles**

None

**Chris Santer**

Independent non-executive director,  
aged 50

**Appointed**

13 May 2021

**Skills and experience**

Around 25 years of real estate investment and development experience in the UK and Continental Europe, in both listed and private equity funds, making or managing direct and indirect real estate investments. Particular focus on healthcare real estate, including primary care, medical centres, senior living and care homes. Previous healthcare experience includes joint ventures with Sunrise Senior Living Inc. to develop and operate premium, private pay care homes in the UK. Member of the Royal Institution of Chartered Surveyors

**Previous roles**

- Chief investment officer for Primary Health Properties PLC
- Director of portfolio management at PGIM Real Estate and MGPA

**Other current roles**

- Portfolio manager for Schroders Capital Real Estate Impact Fund

**Cedi Frederick**

Independent non-executive director,  
aged 66

**Appointed**

With effect from 1 April 2024

**Skills and experience**

Over his 40-year career, Cedi has held a number of senior management, chief executive and board member positions in the healthcare and housing sectors across the public, private and not-for-profit arenas. He is currently Chair of NHS Kent and Medway, Chair of the Health and Europe Centre, Co-Chair of Inspire for Black Londoners, and Non-Executive Director of Sage Homes. He is also owner and Managing Director of Article Consulting Ltd, which works with and supports the 'Leaders of Today and Tomorrow', and the CEO of a health tech start-up. Previously, Cedi was a non-executive director of two specialist NHS Mental Health Trusts, Chair of an NHS Hospital Trust and Governor of Canterbury Christ Church University as elsewhere

**Previous roles**

- Chief Executive of Avante Partnership
- Chief Executive of Adepta

**Other current roles**

- Chair of NHS Kent and Medway
- Chair of the Health and Europe Centre
- Co-Chair of Inspire for Black Londoners
- Managing Director of Article Consulting
- CEO of Consiliaris Digital Systems



Male	3
Female	2



0-5 years	3
6-8 years	2



**For more information see:**  
[www.impactreit.uk/esg/](http://www.impactreit.uk/esg/)

# Corporate governance review

## We believe strongly in good corporate governance because it is an important contributor to making good decisions that will benefit all our stakeholders.

The AIC Code of Corporate Governance is a sensible set of principles, based on the UK Corporate Governance Code, but adapted to the specific circumstances of externally managed investment companies. In 2023, we complied with all its principles and provisions.

The table on pages 113 and 114 shows how we've complied with each provision and where you can find the relevant disclosures. You can download the AIC Code from [www.theaic.co.uk](http://www.theaic.co.uk).

### Board membership

We discussed the board's composition and succession planning. Our longest-serving directors joined the board when the Company was formed in 2017 and have therefore served six years. It's important that we continue to refresh the board, balancing continuity with renewal. During 2023, Rupert Barclay stood down as Chair in March and Paul Craig retired at the AGM. Philip Hall also indicated that he planned to retire at the AGM in 2024. The board would like to thank them all for their significant contribution to the board and the Company. They helped to establish Impact as a stable, respected and profitable REIT.

I joined the board in January 2023 and took over as Chair in April. I am delighted to announce that Cedi Frederick has agreed to join the board with effect from 1 April 2024 as a new independent non-executive director. The search was based on careful consideration of the skills and experience we'll need in the years ahead. The board identified a gap in our current experience around public policy in healthcare, and particularly residential care. Although we're a property company, we invest exclusively in UK healthcare, making us an integral part of the UK's health infrastructure. Health policy and funding are therefore crucial components of our success. We believe Cedi Frederick will provide the board with the expertise sought and I would like to welcome him to the board.

Diversity of thought and experience are also important to good decision-making. This, together with the concern that some groups in society face unfair barriers to serving on boards, means that we look hard for female and ethnic-minority candidates.

Cedi Frederick's appointment adds to the board ethnic diversity, and we continue to meet the FCA gender diversity target.

We also meet the FCA's target to have at least one of the senior positions of our board held by a female with Rosemary Boot filling the Senior Independent Director role.

Inclusion is as important as diversity, so it's very important to me that all directors feel listened to and respected. This was reviewed as part of our board effectiveness work.

Other than Philip Hall, all the directors will be standing for re-election and Cedi Frederick will stand for election at the AGM. Rosemary Boot, Amanda Aldridge, Chris Santer and Philip Hall all remain independent and I was independent when I became Chair.

### Our meetings

The table below shows the directors' attendance at board and committee meetings. There are also sub-committee meetings on specific topics. We are increasing slightly the number of board meetings, as I would prefer to have full board and committee meetings, rather than sub-committees. Consequently some board and committee meetings are called at short notice or are more routine in nature. Directors who are unable to attend an individual meeting are invited to give their views in advance.

Director	Board	Audit committee	Management engagement committee	Nomination committee	Remuneration committee
Simon Laffin	20/20	—	1/1	4/4	1/1
Rosemary Boot	18/20	7/7	1/1	4/4	1/1
Amanda Aldridge	20/20	7/7	1/1	3/4	1/1
Philip Hall	19/20	7/7	1/1	3/4	1/1
Chris Santer	18/20	7/7	1/1	2/4	1/1
Rupert Barclay <sup>1</sup>	4/7	3/4	—	1/1	—
Paul Craig <sup>2</sup>	6/8	—	—	—	—

<sup>1</sup> Stepped down from the board with effect from 31 March 2023.

<sup>2</sup> Stepped down from the board with effect from 17 May 2023.

## Corporate governance review continued

### What the board discussed during the year

As you would imagine, the rest of this annual report covers many of the topics that the board has discussed during the year. However, some key highlights were:

#### Purpose

At our May meeting, we discussed and approved an update to the Company's purpose (see page 2). Although we agreed that the Company's overall objective as a listed REIT is to deliver an attractive return to shareholders, we cannot act solely as a financial investor. We also have a social purpose to provide vital infrastructure to the residential care sector, so we must consider the impact of our decisions on tenants and residents in our homes. Moreover, we will only deliver a return to shareholders if we work effectively with tenants and ensure that our assets are the right quality, affordable and sustainable.

We debated what quality really means in the residential sector, agreeing that it doesn't mean just asset quality, as the quality of personal care is even more important. For example, the care provided by the carer in bathing a resident is extremely important. Having an ensuite bathroom may be less important to a resident who needs help, and so in any case may need the greater space afforded by a larger shared facility.

There is also little point in providing great assets, or even great care, if people simply can't afford them. So, we discussed the importance of tenants' ability to pay the rent and whether their fees offered value for money to residents and to the public sector.

#### Tenants

We pay careful attention to our tenants and their financial and care quality performance, which we review at every quarterly board meeting. We are not directly responsible for our tenants, but we work together with our tenants to encourage best practice, spot early signs of difficulties and to improve the assets.

When one of our tenants, Silverline, found itself unable to pay its rent, we discussed this with the IM, including; options for replacing them; the potential financial impact; the causes of Silverline's problems; how we can protect the residents and staff from the problem; what we can learn; and what we will do differently in the future. We had to test all our options against the paramount need to protect residents and staff at the homes. At our meeting in June, we approved the IM's proposal to replace Silverline, as described on page 21, reviewing carefully the possible conflict of interest. The result has been lost rent to us, but the homes have continued to trade under new, more efficient management, which has secured both residents' care and staff jobs.

### Acquisition

In January, the board approved the acquisition of six care homes from Morris Care. Among other things, we considered the homes' recent trading, how changing market conditions might have affected their value, and the strategy and cost for decarbonising the assets and improving their EPC ratings. With the emergence of the Silverline issue, we particularly discussed the importance of ensuring the successful operation and management of the homes by the tenant.

### Asset management

We receive regular updates on the Company's asset management strategy and progress with key projects. During the year, we approved investments at Mavern House, Yew Tree Care Centre, Amberley House, Elm House, Golborne, Parklands, Croft Bank, Isle Court and Wombwell Hall. Our business cases look at the impact on all stakeholders, and how the projects affect the environment and climate change.

We also regularly reviewed whether tenants were meeting their obligations to keep the homes properly maintained, which is vital for keeping them fit for residents and preserving the value of the asset.

### Sustainability

We discussed the Company's ESG strategy several times, including its objectives, KPIs and external reporting. Among other things, we considered:

- the Company's target date for reaching net zero and the trade-off between achieving this more quickly and higher costs;
- tenant appetite for environmental improvements;
- EPC ratings across the portfolio;
- how the Company can measure its positive social outcomes; and
- managing ESG risks and how the IM could ensure stakeholders were addressing issues such as modern slavery, diversity and inclusion.

### Dividend policy

We reviewed our dividend policy, which tied the increase in the dividend to the previous year's rental growth, and decided to change the policy to be more flexible. The new policy is to seek to maintain a progressive dividend that is covered by forecast adjusted earnings.

## Corporate governance review continued

### Financing

The board considered the Company's financing on several occasions, including the options for funding further growth, recycling capital from disposals of non-core assets, share buybacks and the appropriate level of gearing, which balanced increased returns to shareholders against the risks of higher debt. We also discussed and approved the extension to credit facilities and supported further hedging to protect against interest rate rises.

### Risk management

We reviewed the Company's approach to risk management at a number of meetings. We adopted the bow-tie method of evaluating and understanding risk, threats and consequences. This gave us a modified set of risk events and a work programme to evaluate and prepare ways to avoid and mitigate risks. The board also discussed our risk appetite at a dedicated meeting and compared it to our perception of the gross and mitigated risks. We agreed a programme of work arising from this.

Pages 127 to 129 and 39 to 42 provide a full description of the Company's risk management framework and principal risks.

### Policies

We reviewed the Company's process for escalating events of unpaid rent, and a range of other policies including hedging, modern slavery, conflicts of interest, inside information, gifts and hospitality.

### Board committees

All directors are members of the management engagement, nomination and remuneration committees. Although I'm not a member of the audit committee, the committee usually invites me to attend its meetings. This structure means all of us know about each committee's work.

The board reviewed the committees' terms of reference during the year and made only minor changes.

The terms of reference are available at <https://www.impactreit.uk/about/corporate-governance>.

### Board and committee evaluation

We think it is important that we stop and think about our own performance as directors, both individually and collectively. Given that I had only recently become Chair and we'd had a lot of change on the board, we decided to conduct an internal evaluation this year. We asked all directors, plus Andrew Cowley and David Yaldron from the IM, to complete an anonymous online questionnaire, which we had devised specifically for Impact to review and evaluate the effectiveness of the board its committees and Chair.

I reviewed the responses and discussed the key themes with each participant. Rosemary Boot, as our SID, also discussed my performance with the other directors and fed back to me. I then presented the findings to the board and the IM. Overall, the feeling was that the board and committees were becoming more effective, but we could still improve further. In particular, we decided to:

- enhance our sector and policy awareness. We asked the IM to keep us up to date by summarising and sharing sector reports, as well as working more on policy issues;
- appoint a new non-executive director, with specialist knowledge of healthcare policy;
- enhance our risk management and think more about our risk appetite;
- improve further the quality, timing and volume of board papers; and
- get a better understanding of the IM's culture and ensure it aligns with the board's. We asked the IM to give us more exposure to its wider team.

### Progress with the 2022 evaluation recommendations

Last year's board evaluation produced the following recommendations, which we acted on during the year:

Recommendation	Action
Improvements to meeting papers, including their timeliness.	We worked with the IM and the Company Secretary to improve the papers. This improved but remains a work in progress.
Explore the potential to delegate more to the IM.	We reviewed the matters reserved for the board and the delegated authorities during the year and updated the limit in the delegated authority for acquisitions to be 3% of net asset value, rather than the former £5 million. More broadly, the board has focused on ensuring the decisions we're required to make are at a strategic level.
Increase the board's strategic focus, including implementing strategic KPIs.	We've rebalanced our board agendas and allocated more time to discussing strategy, both at our regular meetings and at the strategy day. We've worked with the IM to identify KPIs that align to our strategic priorities and these are now included in our quarterly board packs.
Increase our focus on ESG.	The board has spent more time on ESG this year, as discussed in the sustainability section of the board's activities on page 52. We have an ESG strategy and net zero target. We are working to understand better our social impact, and we have improved further our corporate governance.

## Corporate governance review continued

### Stakeholder engagement

We take decisions having thought through the impact on all our stakeholders. The IM leads day-to-day engagement with the Company's stakeholders, as discussed in the strategic report. The board also engages directly with key stakeholders.

#### Tenants

In the second half of the year, the directors held calls with each tenant. Every director took part in at least two calls, without the IM being present. We encouraged an open debate, asking about:

- how their business is going;
- how important sustainability was to them, their residents and their other stakeholders;
- how they rated the Company as a landlord and their working relationship with the IM; and
- the challenges they were facing.

We all shared file notes on each call and discussed the feedback at our November board meeting.

#### Shareholders

Mahesh Patel, Andrew Cowley and David Yaldron from the IM meet regularly with investors and analysts. I also had discussions with seven large shareholders and offered myself for further contact if shareholders would like to. Both the IM and our brokers keep us updated on investor relations, including shareholder feedback from meetings and calls, and analyst reports.

At our November board meeting, we reviewed the proposed shareholder engagement strategy for 2024, including board engagement with shareholders.

### Reviewing our service providers

As the Company outsources its operations, we are very reliant on our service providers. We review their performance through the management engagement committee (MEC) and the board and committee evaluation, which also looks at how well the IM and Company Secretary support us.

At the MEC meeting in October, we asked for some changes, but agreed that JTC was improving its service as the Administrator and Company Secretary and that we should continue its appointment. We noted that our lead Company Secretary, with the support of their team, continues to do a good job. We also reviewed the Company's other service providers (other than our external auditor, which is reviewed by the audit committee) and decided that they were effective and their appointments should continue.

**Simon Laffin**  
Chair

22 March 2024

### Director confirmations

The directors confirm that:

- we have undertaken a robust assessment of the Group's emerging and principal risks, including those that could threaten its business model, performance, solvency or liquidity. See the strategic report (pages 39 to 42) and how we manage risk (pages 127 to 129);
- the audit committee has reviewed the risk management and internal control systems and confirmed to the board that they are effective. See page 59; and
- the annual report and accounts taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy. See page 59.



## Working with the Investment Manager

### Our operations are outsourced to the IM, Impact Health Partners LLP.

The IM role includes: sourcing and reviewing investment opportunities and making recommendations to the board; carrying out approved transactions; and monitoring the progress of the Company's assets. It also devises and implements the asset management strategy.

The Investment Management framework defines responsibilities. It includes:

- matters reserved for the board (see page 63);
- the Investment Management Agreement (IMA); and
- delegated authorities, which set out the decisions the IM can make without needing our approval.

We reviewed the framework during the year and made minor changes.

The IM must also work within the Company's Investment Policy (see page 126) and the board's other policies, such as ESG.

Andrew Cowley, David Yaldron, and other members of the IM's team as required, attend our board and committee meetings. Board members also meet individually with the IM, from time to time, and on specific matters. The Chair has a regular monthly meeting with Andrew Cowley, as well as ad hoc calls with other members of the IM team.

There is a potential conflict of interest as one of the IM's Managing Partners, Mahesh Patel is also majority owner of Minster Care Group Limited, the Company's largest tenant. Accordingly, the IMA places a number of additional restrictions on the IM without specific board agreement and reserves other rights to the board, such as first refusal on investment opportunities (see page 64 for more details). The board discussed this relationship several times through the year. In addition to the potential conflicts, the board noted many unique advantages, as the IM has deep insight into the operations of a care home business. In particular, this year Mahesh Patel was able to provide great assistance by using his resources to manage the Silverline homes after that company defaulted on its rent. The board expressed its gratitude for this intervention, which worked considerably to the benefit of all stakeholders.

The MEC in October confirmed that the IM had complied with the IMA and the Investment Policy. The committee discussed the IM's performance, and agreed that it had been very satisfactory. The MEC also considered the IM's team structure and how the teams interacted, as well as its succession plan and its desire to make its leadership more diverse. The committee agreed that it would set specific objectives for the IM for 2024, to help benchmark performance.

Following the review, the MEC concluded that it was in stakeholders' interests for the IM to continue in office. The board has since confirmed this decision.

Under the IMA, the IM receives a management fee and has reasonable expenses paid. The management fee is calculated as follows:

Net asset value (NAV)	Fee
£500 million or below	1% of NAV
Above £500 million	£5 million plus 0.7% of the amount by which the NAV exceeds £500 million

The fee is calculated and paid each quarter. The Company also pays the IM £95,000 a year to cover the costs of acting as the AIFM. The MEC reviewed the fee arrangements, compared them with similar REITs and concluded that they were reasonable.

## Working with the Investment Manager continued

### The Investment Manager's team



**Mahesh Patel ACA**  
Managing Partner

Mahesh is a qualified accountant with over 35 years' experience in healthcare-related industries and assets, including positions in finance. Prior to 2006, he built up and then sold three healthcare-related businesses.



**Andrew Cowley MA (Oxon)**  
Managing Partner

Andrew is an experienced fund manager, working in infrastructure and private equity investment since 2000. He was previously a senior managing director at Macquarie and deputy chief executive of the listed Macquarie Airports.



**David Yaldron FCA**  
Finance Director

David is a chartered accountant with more than 25 years' experience, having held senior financial roles in real estate and investment companies. He was previously a senior director at Grosvenor, Britain and Ireland.

**Alison Hayward**  
Office Manager

**Charlotte Finch**  
Investment Manager

**Chris Nicholson CGMA**  
Accountant

**Killian Currey-Lewis CA**  
Investment Director

**Martin Robb FRICS**  
Managing Director

**Sam Josland CFA, ACA**  
Director of commercial finance and reporting

**Shola Oso**  
Property Manager

**Simon Gould MRICS**  
Development Director

**Sophie Shrestha ACCA**  
Finance Manager



Male	8
Female	4



0-5 years	7
5+ years	5



White British or other White	8
Mixed/Multiple ethnic groups	1
Asian/Asian British	1
Black/African/Caribbean/Black British	1
Other ethnic group	1

# Nomination committee report



**Simon Laffin**  
Committee Chair

**I joined the committee at the start of 2023 and took over as committee Chair in April, after Rupert Barclay stepped down.**

During the year, we discussed a number of topics:

## Board composition and diversity

We reviewed the mix of the directors' skills and experience, as well as our diversity and inclusion. We believe the board had reasonable diversity at the year end, based on:

- different perspectives from directors with healthcare, financial and property backgrounds;
- three male (60%) and two female directors (40%), which is in line with the FCA target of at least 40% of the directors being female;
- one female director in a senior board position, in line with the FCA target, with Rosemary Boot as our SID; and
- following the appointment of Cedi Frederick with effect from 1 April 2024, one board member will be from a minority ethnic background in line with the FCA target.

The required diversity tables can be found on page 128.

## Succession planning and director recruitment

We discussed our own succession planning, as well as asking the IM to update us on its succession planning and plans to increase diversity in its senior team. With Rupert Barclay and Paul Craig having left the board this year, and Philip Hall intending to step down at the 2024 AGM, we reviewed the experience we needed in a new non-executive director. In particular, we decided to look for someone who has experience of and understands public policy development and application in healthcare.

To undertake the recruitment process, we selected a shortlist of three recruitment consultants and asked each to present a proposal on how they would conduct a search. We ranked them on factors including their diversity and ESG credentials and how widely they would cast a net to find a range of candidates, as well as the quality of their team and level of fee. The nomination committee appointed Nurole Ltd to lead the search. Nurole Ltd is not a traditional headhunter, as it makes greater use of a database and self-selection of candidates. We thought that this would assist our breadth of search and ensure more diversity. Nurole Ltd has previously led the process to recruit both Chris Santer and Amanda Aldridge, so it has a successful track record with us. Other than this, it has no connection with either the Company or individual directors. We asked Nurole Ltd to put special effort into finding candidates who were female and/or from ethnic minority backgrounds.

Following this process, the nomination committee recommended to the board for approval the appointment of Cedi Frederick with effect from 1 April 2024 and he joins with a proven track record in the healthcare sector.

## Directors' time commitment

One of the committee's jobs is to assess how much time the directors should devote to the Company and whether they're able to do so in practice. We asked JTC to analyse the directors' other roles and this showed little risk of anyone having too many other board commitments. We also concluded that the directors' attendance and their contribution to board and committee meetings in 2023, as well as the positive outcomes from the evaluation, showed that directors were able to provide the time and attention needed.

## Directors' training and development

We discussed what training the directors had and would like to have at our August meeting and asked JTC to log all the training directors received during the year.

**Simon Laffin**  
Committee Chair

22 March 2024

# Audit committee report



**Amanda Aldridge**  
Committee Chair

During the year, we continued to play a key role in the Group's governance and our main activities are summarised below.

## Committee membership

I chaired the committee throughout the year and Rosemary Boot, Philip Hall and Chris Santer were committee members throughout the year. Rupert Barclay stepped down from the committee when he left the board in March 2023. Simon Laffin, representatives of the IM, the Company Secretary and the external auditor (BDO LLP) are invited to attend all committee meetings.

Rosemary and I are considered to have recent and relevant financial experience, as we have audit, accountancy and/or chief financial officer experience, as well as experience from our other board directorships. All committee members keep up to date with financial accounting developments by attending technical update courses. I am a chartered accountant.

In addition, the board has concluded that the audit committee as a whole has competence relevant to the sector in which the Company operates, bringing a broad range of skills and experience to bear.

## Meetings

We met seven times during 2023 and attendance is set out on page 51.

The committee and Simon Laffin met with our valuer, Cushman & Wakefield (CW), in January 2023 and February 2024, to discuss the respective 31 December valuations in detail. We held parts of these meetings without any other attendees. CW also attended the August committee meeting, to discuss the June valuation.

I had several discussions with the IM's Finance Director and the external auditor, to ensure they delivered the services we required and were well placed to hold constructive discussions with the committee. The committee also met with the external auditor twice during the year, without other parties present.

## Terms of reference

We reviewed the committee's terms of reference and concluded that we did not need to make any significant changes.

## Financial reporting and significant judgements

One of our key responsibilities is to consider significant areas of complexity in the financial statements, and the judgements and estimations made in preparing them. We received reports and recommendations from the IM and the external auditor, setting out the significant areas. We discussed the judgements and estimations with the IM during the year and with the auditor, both when we reviewed and agreed the Group audit plan and when the audit team presented its findings from the year-end audit.

The only significant judgement or estimation relates to the fair values of investment properties. The section below describes how we concluded that the relevant judgements and estimates were appropriate.

## Valuation of property portfolio

CW valued the property portfolio as at the end of each quarter in 2023. We discussed the half-year and year-end valuations with the valuers to understand CW's approach to valuing the assets, the assumptions underlying the property valuations and the valuation of individual properties highlighted by the valuer and raised by committee members. We discussed the number of properties CW had physically inspected and asked CW to confirm that neither the Company nor the IM had applied undue influence in reaching its conclusion.

We and the auditor discussed its review of the valuation, referred to in the independent auditor's report on pages 68 to 73. The auditor's methodology included meeting the valuer, assessing its independence, assessing the valuation for each property against the auditor's expected range of values (based on its experience and externally available metrics) and agreeing the valuation inputs to source documentation.

The committee was satisfied that the judgements and estimates underlying the valuation reflected in the accounts were appropriate.

## Other areas considered by the committee

### (i) The related party transaction

During the year, the Group transferred the operation of seven care homes from Silverline to Melrose Holdings Limited (MHL). This was a related party transaction, as MHL is owned by parties connected to Mahesh Patel, who is a Managing Partner in the IM. We considered the disclosures in respect of the related party transaction, in particular, whether the disclosures properly reflect the underlying transactions and the process undertaken during and following the change of tenant at the relevant homes. See page 21 for more on the transfer of operations.

### (ii) Adjusted earnings per share

We considered the implications of reporting adjusted earnings per share that are different to IFRS and EPRA calculations. We reviewed the reported adjusted earnings, to ensure that they reflect the Company's underlying sustainable cash earnings, and satisfied ourselves that it was appropriate to disclose the non-statutory earnings per share measure and that its disclosure did not have undue prominence.

# Audit committee report continued

## Other areas considered by the committee continued

### (iii) TCFD disclosures

Although the Group is not required to report under TCFD, we have chosen to do so from last year. The committee reviewed the relevant disclosures and ensured that they were consistent with information presented to the board by the IM.

### Fair, balanced and understandable statement

The board asked the committee to advise on whether we consider that the Company's annual report and accounts, taken as a whole, are fair, balanced and understandable, as required under the AIC Code. The process for putting together the Company's annual report and accounts is comprehensive, with input from a range of contributors including the IM, external consultants and the board. We considered the detailed reviews undertaken at various stages of the production process by the IM, Administrator, external auditor and the audit committee, which are intended to ensure consistency and overall balance.

We discussed the process for compiling the annual report and accounts with the IM and Administrator and received a series of drafts of the document, which we thoroughly scrutinised and discussed.

We also sought additional comfort from the IM and Administrator, by asking them to provide representation letters in relation to the conclusion of the board.

As a result of this work, we have concluded and reported to the board that the annual report and accounts for the year ended 31 December 2023, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The board's conclusions in this respect are set out on page 54.

### Review of risk framework and internal control

The board has ultimate responsibility for effectively managing risk for the Group, including determining its risk appetite and identifying key strategic and emerging risks. Pages 127 to 129 provide an overview of the risk management process and pages 39 to 42 discuss the principal risks and uncertainties identified.

### Internal audit

We discussed the need for an internal audit function. The IM and the external auditor contributed to the discussion. We considered the assurance received from third parties under the risk management framework, which includes ISAE 3402 reports for the Administrator and the Depository, together with the work of the IM's risk committee and the compliance work by the IM over tenants. Based on this, we were satisfied that the internal controls and risk management were adequate and effective and decided that there was no current need for internal audit.

### External auditor

The Company appointed BDO as auditor after a formal tender, as part of the IPO in March 2017. This was a competitive process and involved BDO, EY and Grant Thornton. Under current FRC guidance, the next audit tender will be required in respect of the year ending 31 December 2027. Until then, we will continue to monitor the auditor's performance and make any appropriate recommendations. Charles Ellis took over as lead audit partner for the 2022 financial year, so this is his second year in the role.

### (i) Audit planning

At our meeting in November we discussed the audit plan with BDO, considering the overall planning materiality and BDO's assessment of the audit risks, including the additional requirements for auditors in relation to ISA 315, Identifying and Assessing the Risks of Material Misstatement. We also discussed BDO's analysis of the valuation, involving its in-house valuation specialists and review of independent market data, and held separate meetings to discuss the valuation with CW.

We considered the audit timetable and our ability to deliver the audit work streams, to satisfy ourselves that the timetable was appropriate for meeting the reporting requirements for the 2023 annual report and accounts and the external audit.

### (ii) External auditor independence and effectiveness

BDO has formally confirmed its independence as part of the annual reporting process, and we considered and agreed that BDO, the engagement team and other partners and directors conducting the audit had complied with relevant ethical requirements, including the FRC's Ethical Standard, and that we considered them independent of the Company.

We discussed BDO's effectiveness as auditor, with input from the IM, and agreed that the auditor had adhered to high professional and ethical principles and demonstrated the appropriate skills and knowledge about the business, industry and environment, together with the regulatory and legal frameworks in which the Company operates. We also agreed that the audit partner demonstrates experience in the REIT sector and is well informed about topical issues with the FRC and that the audit team as a whole demonstrates an appropriate level of challenge to the board and the IM in fulfilling its role.

We concluded that we had no concerns with BDO's effectiveness.

The audit committee has recommended that a resolution to re-appoint BDO is proposed to shareholders at the next AGM.

### Non-audit services

We authorised £17,000 (2022: £16,000) of non-audit fees in the year, in relation to the agreed procedures for the Company's interim report. Non-audit fees of £nil (2022: £66,100) were approved in relation to reporting accounting services.

Total audit fees for the period were £302,000 and non-audit fees were £17,000. Non-audit fees as a percentage of audit fees were 5.6% (2022: 29.3%). All fees are inclusive of irrecoverable VAT.

### Committee evaluation

The committee's activities formed part of the evaluation of board effectiveness performed in the year. Details of this process can be found in the corporate governance review on page 53.

### Amanda Aldridge Committee Chair

22 March 2024

# Directors' remuneration report



**Rosemary Boot**  
Committee Chair

**We have continued to apply Principles P and Q of the AIC Code 2019, which means we have a formal and transparent procedure for developing our remuneration policy.**

## Annual statement

The committee reviewed the directors' fees and the Company's remuneration policy during the year.

The Investment Manager updated the independent benchmarking analysis undertaken in 2022 and this showed that the directors' fees remain in line with the Company's peers. We also took stakeholder interests into account in the current challenging market conditions and concluded that we would not increase the directors' fees for 2024. We have continued to apply Principles P and Q of the AIC Code 2019, which means we have a formal and transparent procedure for developing our remuneration policy, no director was involved in discussing his or her own remuneration, and we have designed our remuneration policy to support the Company's strategy and promote its long-term success.

The Company's proposed remuneration policy is set out below. Having reviewed the existing policy, we determined that it remained appropriate but that it should be shortened and simplified. As shareholders last approved the policy at the AGM on 12 May 2021, we are asking shareholders to consider and approve the policy at the upcoming AGM, on 21 May 2024. I will be at the AGM to hear shareholders' views and to answer any questions on the policy.

The committee also reviewed the Company's Expenses Policy, including ensuring that it is aligned to the Company's ESG objectives, and approved some minor amendments. In addition, we agreed that the Company should have a separate Gifts and Hospitality Policy. The board reviewed and approved this policy at its meeting in November.

## Directors' proposed remuneration policy

The Company's policy is to pay the directors fixed annual fees. The Articles of Association limit the total annual pay for the directors to £500,000.

The remuneration committee reviews the directors' fees each year, which can include independent benchmarking. The committee may adjust the fees so they continue to attract and retain the directors with the experience needed to oversee the Company effectively.

When setting the directors' fees, the committee will consider:

- the experience of the board as a whole;
- the time commitment;
- the responsibilities of each role; and
- fairness and comparability to non-executive directors of similar companies.

The Chair of the board and the audit committee Chair receive additional fees, reflecting their greater responsibilities.

The Company may pay additional fees to the directors if their duties go beyond those normally expected. If this happens, the board will provide details of why the additional fees were paid in the next annual report.

The directors do not receive any performance-related pay, share options or pensions from the Company or take part in long-term incentive plans.

The directors are entitled to be paid reasonable expenses they incur on the Company's business.

The directors' appointments can be terminated without compensation.

## Recruitment

We apply the same remuneration policy for recruitment purposes.

## Consideration of shareholder views

We are committed to engaging with shareholders and will seek major shareholders' views before making any significant changes to the remuneration policy or how we implement it. Our shareholder engagement this year has not revealed any concerns about the directors' fees.

## Company-wide considerations

The Company has no Executive Directors or employees, so there are no statements to make on consultations, comparisons or pay and employment conditions.

## Directors' remuneration report continued

### Annual report on remuneration

#### Implementation of the remuneration policy in 2023 and 2024

As we set out in the 2022 annual report, the committee adopted the following fees for 2023:

- £40,000 for the non-executive directors;
- an additional £20,000 for the Chair of the board; and
- an additional £6,000 for the audit committee Chair.

These fees will continue to apply in 2024.

#### Directors' fees for 2023 (audited)

The directors' fixed fees are shown in the table below. The directors' expenses for 2023 totalled £213 (2022: £884) and no other remuneration or taxable benefits were paid or payable for the year.

	2023	2022
<b>Director</b>		
Simon Laffin <sup>1</sup> (Chair)	<b>£55,068</b>	–
Rosemary Boot	<b>£40,000</b>	£35,000
Amanda Aldridge	<b>£46,000</b>	£41,000
Philip Hall	<b>£40,000</b>	£35,000
Chris Santer	<b>£40,000</b>	£35,000
<b>Former directors</b>		
Rupert Barclay <sup>2</sup>	<b>£14,795</b>	£48,500
Paul Craig <sup>3</sup>	<b>£15,014</b>	£35,000

1. Mr Laffin joined the board on 1 January 2023 and became Chair on 1 April 2023. Prior to becoming Chair, Mr Laffin's fees were consistent with other non-executive directors at £40,000 p.a. and these fees increased from 1 April 2023 to £60,000 p.a.

2. Mr Barclay stepped down on 31 March 2023, having been Chair of the board for six years.

3. Mr Craig stepped down on 17 May 2023, having served as a director for nearly six years. He was previously an employee of the Company's largest shareholder and elected to pay his net director's fee to charity while he held that position.

The Company maintains and pays for directors' and officers' liability insurance cover on the directors' behalf.

### Payments to past directors or for loss of office (audited)

There are no payments to disclose. Under the directors' remuneration policy, there would be no compensation for loss of office.

### Directors' shareholdings (audited)

At the year end, the directors' shareholdings were as follows:

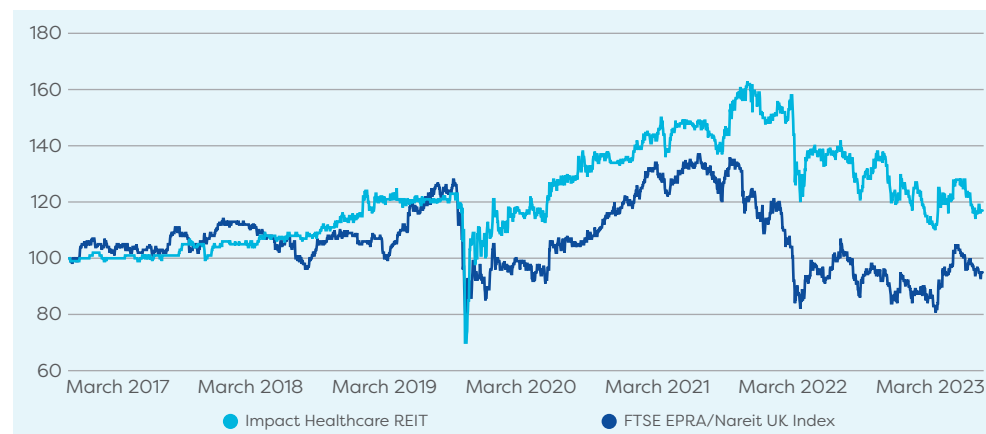
Director <sup>1</sup>	Number of shares	Percentage of share capital
Simon Laffin (Chair)	100,000	0.024%
Rosemary Boot	30,000	0.007%
Amanda Aldridge	–	–
Philip Hall	30,000	0.007%
Chris Santer	14,137	0.003%

<sup>1</sup> Includes shareholdings of directors and persons closely associated (as defined by the UK Market Abuse Regulation).

The directors are not required to hold shares in the Company. Their shareholdings are not significant and do not compromise their independence. The directors' shareholdings were unchanged between the year end and the date of this report.

### Total shareholder return

The graph below shows the Company's total shareholder return relative to a return on a hypothetical holding in the FTSE EPRA/NAREIT UK Index. The Company's shares are included in this index, which tracks the performance of real estate companies listed on the London Stock Exchange, making it useful for comparing the Company's performance:



## Directors' remuneration report continued

### Relative importance of spend on pay

The table below compares the directors' remuneration to the Investment Manager's fee and distributions to shareholders.

	2023 £'m	2022 £'m	Change %
Directors' remuneration	0.28	0.25	12.4
Investment management fee	4.81	4.58	5.0
Dividends	27.8	25.7	8.1

### Committee composition and external advice

We benefit from the remuneration and nomination committees having the same membership, giving us full visibility of succession planning. I have relevant experience to chair the committee, having served on remuneration committees for other organisations. I am currently a member of one other remuneration committee.

We did not seek any external advice during the year.

### Statement of voting

The directors' remuneration report was subject to an advisory vote at the 2023 AGM. Shareholders also voted to approve the directors' remuneration policy at the 2021 AGM. The results of those votes are shown below:

	Votes for	Votes against	Votes withheld
Approve the directors' remuneration report – 2023 AGM	99.96%	0.04%	166,581
Approve the directors' remuneration policy – 2021 AGM	99.99%	0.01%	66,047

### Rosemary Boot

Remuneration committee Chair

22 March 2024



## Directors' report

### The directors' report, together with the strategic report, comprise the “management report”, for the purposes of disclosure guidance and transparency Rule 4.1.5R.

#### Statutory information contained elsewhere in the annual report

Information required to be part of this directors' report can be found elsewhere in the annual report and is incorporated into this report by reference, as indicated below:

- Financial results and dividends, pages 43 to 45.
- Future developments, pages 7 to 9.
- Engagement with suppliers, customers and others with business relationships with the Company, pages 19, 21 and 54.
- Corporate governance statement, pages 51 to 54.
- Manager and service providers, pages 54 to 56.
- Directors' names and board of directors, pages 49 and 50.
- Directors' and officers' liability insurance, page 61.
- Directors' interests in shares, page 61.
- Related-party transactions, note 22, pages 94 and 95.
- Financial instruments, note 19, pages 91 to 93.
- Share capital, note 21, page 94.
- Events subsequent to the year-end date, note 28, pages 97.
- Going concern statement, page 46.

There are no disclosures required in accordance with LR 9.8.4 R.

#### Corporate governance disclosures

This section of the directors' report contains required corporate governance disclosures that are not covered in the corporate governance review or the committee reports on pages 51 to 62. The tables on pages 113 and 114 set out where in the report the information required by each principle of the AIC Code can be found.

#### The directors' powers and responsibilities

The board manages the Company's business and may exercise all the Company's powers, subject to the Articles of Association, the Companies Act and any directions given by the Company by special resolution.

The board has a schedule of matters specifically reserved for its decision, which it reviews annually. These include:

- approving the Group's annual profit and loss and cash flow budget;
- any decision likely to have a material impact on the Group, including financial, operational, strategic or reputational matters;
- strategic direction, objectives, budgets and forecasts, authority levels for approving expenditure, and any material changes to them;
- starting, materially expanding, diversifying or stopping any of the Group's activities;
- regulatory, financial and material operational policies;
- changes to the Group's capital, corporate management or control structures;
- material capital or operating expenditures, outside predetermined criteria or the delegated authorities;
- any material contract or joint venture and material arrangements with customers or suppliers;
- approving the financial statements and published reports;
- approving equity and debt fundraising;
- overseeing potential conflicts of interest; and
- approving new investments over 3% of net asset value that are leased to existing tenants, and all new investments leased to new tenants.

The board may delegate some functions to its committees, which each have board-approved terms of reference, setting out their roles and responsibilities. The board also delegates to the IM, the Administrator, the Company Secretary and the Registrar. In particular, the board has delegated day-to-day management of the portfolio to the IM, under the board's supervision.

The responsibilities of the Chair and the senior independent director (SID) have been agreed by the board and are set out in writing.

The full set of matters reserved to the board, the responsibilities of the Chair and the SID, and copies of the committees' terms of reference are available at <https://www.impactreit.uk/about/corporate-governance/>

## Directors' report continued

### Corporate governance disclosures continued

#### Appointment and replacement of directors

A director may be appointed by ordinary resolution of the shareholders in a general meeting following nomination by the board or a member (or members) entitled to vote at such a meeting. In addition, the directors may appoint a director to fill a vacancy as an additional director, provided that the individual retires at the next AGM.

A director may be removed by the Company in certain circumstances set out in the Company's Articles of Association or by an ordinary resolution of the Company.

Full details of the processes by which directors can be appointed or replaced are set out in the Articles of Association.

#### Directors' service contracts

The directors hold their office in accordance with the Articles and their appointment letters. They do not have service contracts with the Company.

#### Diversity policy

The Company's diversity policy applies to the board and its committees. It recognises that diversity includes, and makes good use of, differences in knowledge and understanding of relevant geographies, peoples and their backgrounds, including race or ethnic origin, sexual orientation, gender, age, disability or religion, as well as individuals' different experiences and knowledge.

When making appointments to the board, the directors emphasise the importance of diversity in drawing up lists of candidates, while maintaining their approach of appointing the best possible person for the role, considered against objective criteria and in accordance with the Equality Act 2010. The directors review diversity in the context of complementing and expanding the skills, knowledge and experience of the board as a whole.

#### The Investment Management Agreement (IMA)

The IMA imposes restrictions on the IM and its associates from acquiring, developing, leasing or operating residential healthcare services without the prior written consent of the Company. This ensures the board can effectively manage any potential conflict of interest, given that one of the IM's Managing Partners owns Minster Care Group Limited, which is the Group's largest tenant.

The IMA also:

- a) grants the Group pre-emption rights in respect of any investment opportunities within its investment policy, of which the IM or its associates become aware;
- b) grants the Group the right to terminate the agreement if:
  - any tenant in which any principal of the IM (from time to time) has a beneficial interest, fails to pay rent or any other sums due under the leases in excess of £50,000; or
  - any tenant, in which any principal of the IM or any of its associates (from time to time) has a beneficial interest, is wound up or liquidated;
  - the financial report provided to us by Minster Care Group Limited shows that its rent cover is less than 1.1 times in two consecutive quarterly financial reports or in any two quarterly financial reports in any 12-month period;
- c) grants the Group the right to seek advice from a third-party property adviser, when the IM is conflicted; and
- d) prohibits the IM from taking any decision or making any recommendation to the board relating to enforcement of the Group's rights, on certain covenant breaches by a tenant in which any principal of the IM or any of its associates (from time to time) has a beneficial interest.

Either party may terminate the IMA on 12 months' notice, or immediately in certain circumstances, such as a material breach that is not remedied.

#### Administrator and Company Secretary

JTC (UK) Limited is the Administrator and Company Secretary.

As Administrator, JTC is responsible for (on the directors' behalf):

- maintaining books and records;
- preparing management and financial accounts;
- managing cash movements; and
- calculating the Company's net asset value, in conjunction with the IM.

As Company Secretary, JTC ensures regulatory compliance and supports the board's corporate governance processes and continuing obligations. In addition, JTC liaises with the Company, the IM and the Registrar in relation to dividend payments, as well as general secretarial functions required by the Companies Act.

Under the Administration and Company Secretarial Services Agreement, JTC is entitled to an annual fee of £141,750.

Either party can terminate the agreement on at least three months' written notice, or immediately in circumstances such as a material breach or the insolvency of a party.

#### Advice for directors

The directors have access to JTC's advice and services. Where necessary for carrying out their duties, the directors may seek independent professional advice and services at the Company's expense.

## Directors' report continued

### Depositary

Indos Financial Limited is the Company's Depositary.

### UK Alternative Investment Fund Manager Directive (UK AIFMD)

The Company is an Alternative Investment Fund for the purposes of the UK AIFMD regulation. The IM is the Company's AIFM.

### Substantial shareholdings

The Company has one class of share. As at 21 March 2024, the Company is aware of the following substantial shareholdings, which were directly or indirectly interested in 3% or more of the total voting rights in the Company's issued share capital:

Investor	Number of ordinary shares	% holding of issued share capital
Quilter Investors Limited	57,596,438	13.89%
Schroder & Co Limited	27,921,454	6.74%
Gravis Advisory Limited	22,513,730	5.43%
Brooks Macdonald Asset Management Limited	21,317,988	5.14%
Royal London Asset Management Limited	18,823,339	4.54%
Premier Fund Managers Limited	18,326,384	4.42%
Integrated Financial Arrangements Limited	17,135,000	4.14%
Hargreaves Lansdown Stockbrokers	13,169,423	3.18%
Legal & General Investment Management Limited	12,826,782	3.10%

Based on 414,368,169 ordinary shares in issue as at 31 December 2023.

No individual underlying shareholder or fund owns more than 10%.

### Powers in relation to the Company issuing its shares

Subject to Company law and the Articles of Association, the directors are authorised to issue shares of such number of tranches and on such terms as they determine, provided that such terms are consistent with the provisions of the Articles.

### Non-pre-emptive share issuance

Over the past three financial years, the Company's non-pre-emptive share issuance increased the issued share capital by 18.9%.

In April 2021, 31,690,327 new ordinary shares were admitted at a placing price of 111.5 pence per share, a discount of 2.5% at the placement proposal date. The £35 million proceeds (£34.63 million net of share issue costs) were used to repay amounts drawn under revolving credit facilities and to fund new investments.

In July 2022, 19,032,420 new ordinary shares were admitted at a placing price of 117.0 pence per share, a discount of 4.6% at the placement proposal date. The proceeds of £22.3 million (£21.4 million net of share issue costs) were used to repay amounts drawn under revolving credit facilities and to fund new investments.

In January 2023, the Company issued 9,603,841 new ordinary shares at a price of 116.62 pence per share, as part of the consideration payable for the acquisition of six care homes from Morris Care Limited.

### Restrictions on transfer of securities in the Company

There are no restrictions on the transfer of securities in the Company, except as a result of:

- the FCA's Listing Rules, which require certain individuals to have approval to deal in the Company's shares; and
- the Company's Articles of Association, which allow the board to decline to register a transfer of shares or otherwise impose a restriction on shares, to prevent the Company or the IM breaching any law or regulation.

The Company is not aware of any agreements between holders of securities that may result in restrictions on transferring securities in the Company.

### Securities carrying special rights

No person holds securities in the Company carrying special rights with regard to control of the Company.

### Change of control

The Company is not aware of any person who, directly or indirectly, owns or controls the Company, or any arrangements which may result in a change in control of the Company.

There are no agreements between the Company and the directors for compensation for loss of office as a result of a takeover.

### Directors' share dealings

The directors have adopted a code of directors' dealings in ordinary shares, which is in accordance with the Market Abuse Regulation. The board is responsible for taking all proper and reasonable steps to ensure any dealings by directors, or persons closely associated with them, are in compliance with the Market Abuse Regulation.

## Directors' report continued

### Energy and carbon reporting

The Group is a low energy user and therefore exempt from the Streamlined Energy and Carbon Reporting regulation. During 2023, the Group had no directly reportable emissions, as:

- any emissions from the Group's properties are the tenants' responsibility rather than the Group's, so the principle of operational control has been applied;
- any emissions produced from the Company's registered office or from offices used to provide administrative support are deemed to be the IM's responsibility; and
- the Group has not leased or owned any vehicles which fall under the requirements of Mandatory Emissions Reporting.

As discussed in the sustainability section on pages 34 to 38, the Group does have scope to enhance the energy efficiency of its portfolio and thereby reduce the emissions incurred by its tenants (see GHG emission data on page 37). We voluntarily report against the TCFD framework (pages 105 to 112) and have net zero targets for our portfolio's emissions (page 37). We also report information on tenant emissions in the Group's annual EPRA sustainability reporting (retaining the EPRA sBPR gold award for the 2022 submission) which is available at <https://www.impactreit.uk/about/sustainability/>.

### Political donations

The Group made no political donations during the year.

### Employees

The Group has no employees and therefore no employee share scheme, policies for the employment of disabled persons or employee engagement.

### Articles of Association

These are available on the Company's website at <http://www.impactreit.uk/about/corporate-governance/> or by application to the Company Secretary. Amendments to the Company's Articles of Association require a special resolution of the Company's shareholders.

### Overseas branches

The Company does not have any branches outside the UK.

### Independent auditor

BDO LLP has expressed its willingness to continue as auditor for the financial year ending 31 December 2024.

### Disclosure of information to the auditor

The directors who were members of the board at the time of approving the directors' report have confirmed that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is not aware; and
- each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Annual General Meeting

The Company's AGM is scheduled to be held at 9 am on 21 May 2024.

Shareholders who would like to contact the Chair or the Company before the AGM can email the Company Secretary at [Impact.CoSec@jtgroup.com](mailto:Impact.CoSec@jtgroup.com).

Signed on behalf of the board by

**Simon Laffin**  
Chair

22 March 2024

# Statement of responsibilities

## Directors' statement of responsibilities

The directors are responsible for preparing the annual report and the Group and Parent Company financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare the Group and Company financial statements for each financial year. The Group financial statements have been prepared in accordance with UK-adopted international accounting standards. The Company financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group and Company for that year.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with UK-adopted international accounting standards, subject to any material departures disclosed and explained in the Group financial statements;
- for the Company financial statements, state whether they have been prepared in accordance with Financial Reporting Standard 102 (FRS 102), subject to any material departures disclosed and explained in the Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that its financial statements comply with the Companies Act 2006.

They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, a strategic report, a directors' remuneration report and a corporate governance statement that comply with that law and those regulations. These can be found on pages 63 to 66, inside front cover to page 47, 60 to 62 and 51 to 54, respectively.

## Website publication

The directors are responsible for ensuring the annual report, including the financial statements, is made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website (at <https://www.impactreit.uk>) is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

## Directors' responsibility statement, pursuant to DTR4

We confirm that to the best of our knowledge:

- the financial statements have been prepared in accordance with UK-adopted international accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole; and
- the management report includes a fair review of the development and performance of the business and the financial position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the board by:

**Simon Laffin**  
Chair

22 March 2024

# Independent auditor's report

## to the members of Impact Healthcare REIT plc

### Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Impact Healthcare REIT plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2023, which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and notes to the consolidated financial statements, the Company statement of financial position, the Company statement of changes in equity, notes to the Company financial statements, including material and significant accounting policy information. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK-adopted international accounting standards.

The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is United Kingdom Accounting Standards, including Financial Reporting Standard 102, The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

### Independence

Following the recommendation of the audit committee, we were appointed by the directors in September 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including retenders and re-appointments is seven years, covering the years ended 31 December 2017 to 31 December 2023. We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Group or the Parent Company.

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- using our knowledge of the Group and the Parent Company and its market sector, together with the current general economic environment, to assess the directors' identification of the inherent risks to the Group's and Parent Company's business and how these might impact the Group's and Parent Company's ability to remain a going concern for the going concern period, being the period to 31 March 2025, which is at least 12 months from when the financial statements are authorised for issue;
- obtaining an understanding of the directors' process for assessing going concern, including an understanding of the key assumptions used;
- assessing the appropriateness and accuracy of the directors' cash flow forecasts by reference to current cash reserves, available finance, contractual rental income, debt service cost obligations and other committed or expected cash flows;
- evaluation of the directors' assessment of the ability of each material tenant to satisfy its future contractual rent obligations based on historic and current occupancy and profitability levels;

- evaluation of the sensitivity analyses and reverse stress tests performed in relation to the Group and Parent Company's liquidity and loan covenant compliance; and
- assessment of the identified options that would be available to mitigate the impact of any future substantial non-payment of rent on the Group and Parent Company's liquidity and the Group's and the Parent Company's ability to continue to operate within its loan covenants.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group or the Parent Company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

In relation to the Parent Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

# Independent auditor's report continued

## to the members of Impact Healthcare REIT plc

### Overview

<b>Coverage</b>	100% (2022: 100%) of Group profit before tax	
	100% (2022: 100%) of Group revenue	
	100% (2022: 100%) of Group total assets	
<b>Key audit matters</b>	2023	2022
	Valuation of investment properties ✓	✓
<b>Materiality</b>	<b>Group financial statements as a whole</b>	
	£6.7m (2022: £6.0m) based on 1% (2022: 1%) of Group total assets	

### An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the directors that may have represented a risk of material misstatement.

The Group operates in one segment, investment property, structured through a number of subsidiary entities and therefore we treated the Group as one significant component. The Group audit engagement team performed all the work necessary to issue the Group and Parent Company audit opinion, including undertaking all of the audit work on the risks of material misstatement identified in the key audit matters section below.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the scope of our audit addressed the key audit matter
<p><b>Valuation of investment properties</b></p> <p>As detailed in note 13 to the consolidated financial statements, the Group owns a portfolio of investment properties which are carried at their fair value.</p> <p>The Group's accounting policy for these properties is described in note 3 to the consolidated financial statements.</p> <p>The key judgements and estimates in arriving at the fair values are set out in notes 2.2 and 13 to the consolidated financial statements.</p>	<p>The Group owns care home investment properties that are leased to tenant operators under long-term rental agreements. The properties are independently, externally valued using the income capitalisation method in accordance with RICS methodology and IFRS 13: Fair Value Measurement.</p> <p>The valuation of investment property requires significant judgement and estimates by the directors and their independent external valuer and is therefore considered a significant risk due to the subjective nature of certain assumptions inherent in each valuation.</p> <p>Our audit procedures included, but were not restricted to, the following:</p> <p><b>Experience of the valuer and relevance of its work</b></p> <p>We assessed the valuer's competence and capabilities (both for the firm and the individuals) and read their terms of engagement with the Group, to identify any matters that could have affected their independence and objectivity or imposed scope limitations upon them.</p> <p>With the assistance of our real estate experts, we read the valuation reports and assessed whether the valuations had been prepared in accordance with applicable RICS valuation guidelines and IFRS 13 and they were appropriate for determining the carrying value in the Group's financial statements.</p> <p><b>Data provided to the valuer</b></p> <p>We inspected that the data provided to the valuer by the Investment Manager was consistent with the information provided to, and tested by, us. This data included inputs such as current rent and lease term, which we have agreed on a sample basis to executed lease agreements.</p>

# Independent auditor's report continued

## to the members of Impact Healthcare REIT plc

### An overview of the scope of our audit continued

#### Key audit matters continued

Key audit matter	How the scope of our audit addressed the key audit matter
<p><b>Valuation of investment properties</b> <small>continued</small></p> <p>Any input inaccuracies or unreasonable bases used in the valuation judgements (such as in respect of estimated rental value and yield profile applied) could result in a material misstatement of the Group financial statements.</p> <p>There is also a fraud risk that the directors may influence the judgements and estimates in respect of property valuations in order to achieve property valuations and other performance targets to meet market expectations.</p> <p>The valuation of investment properties was therefore considered to be a key audit matter.</p>	<p><b>Assumptions and estimates used by the valuer</b></p> <p>We developed yield expectations for each property using available independent industry data, reports and details of relevant comparable transactions in the market around the year-end date, and an understanding of the properties.</p> <p>We compared the key valuation assumptions against our independently formed market expectations and challenged the external valuers where significant variances from these expectations were identified. We corroborated their responses to supporting documentation where appropriate. The key valuation assumptions were the net initial yields, which we evaluated by reference to market data based on the location and specifics of each property.</p> <p>Alongside our real estate experts, we met with the Group's external valuers to discuss and challenge the valuation methodology and key assumptions and considered if there were any indicators of undue directors' influence on the valuations.</p> <p><b>Key observations:</b></p> <p>Based on the procedures performed, we did not identify any indicators to suggest that the valuation of the Group's investment properties was inappropriate.</p>

### Our application of materiality

We apply the concept of materiality, both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent Company financial statements	
	2023 £'m	2022 £'m	2023 £'m	2022 £'m
<b>Materiality</b>	6.7	6.0	4.9	4.3
<b>Basis for determining materiality</b>	1% of total assets			
<b>Rationale for the benchmark applied</b>	We determined that total assets would be the most appropriate basis for determining overall materiality as we consider it to be one of the principal considerations for users of the financial statements in assessing the financial performance of the Group and the Parent Company.			
<b>Performance materiality</b>	5.0	4.5	3.7	3.3
<b>Basis for determining performance materiality</b>	75% of materiality			
<b>Rationale for the percentage applied for performance materiality</b>	The level of performance materiality applied was set after having considered a number of factors including our risk assessment, together with our assessment of the Group's and Parent Company's overall control environment and our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements in the prior period and management's willingness to investigate and correct these.			



# Independent auditor's report continued

## to the members of Impact Healthcare REIT plc

### Our application of materiality continued

#### Specific materiality

We also determined that for any items that could affect the calculation of the Group's European Public Real Estate (EPRA) earnings, a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. We consider EPRA earnings to be a key performance measure of the Group. EPRA earnings excludes the impact of the net surplus on revaluation of investment properties, profit on disposal of investment properties and changes in the fair value of interest rate derivatives. As a result, we determined materiality for these items based on 5% of EPRA earnings, amounting to £1.73 million (2022: £1.63 million) for the Group. We further applied a performance materiality level of 75% (2022: 75%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

#### Reporting threshold

We agreed with the audit committee that we would report to them all individual audit differences in excess of £336,000 (2022: £300,000) for the financial statements as a whole, and in excess of £89,000 (2022: £81,500) for specific items. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

#### Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and financial statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Corporate governance statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Parent Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements or our knowledge obtained during the audit.

#### Going concern and longer-term viability

- The directors' statement with regard to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified, set out on page 46.
- The directors' explanation as to their assessment of the Group's prospects, the period this assessment covers and why the period is appropriate, set out on page 46.

#### Other Code provisions

- The directors' statement on fair, balanced and understandable, set out on page 54.
- The board's confirmation that it has carried out a robust assessment of the emerging and principal risks, set out on page 54.
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems, set out on page 54.
- The section describing the work of the audit committee set, out on pages 58 and 59.

# Independent auditor's report continued

## to the members of Impact Healthcare REIT plc

### Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

<b>Strategic report and directors' report</b>	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none"> <li>the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and</li> <li>the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.</li> </ul> <p>In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.</p>
<b>Directors' remuneration</b>	<p>In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.</p>
<b>Matters on which we are required to report by exception</b>	<p>We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:</p> <ul style="list-style-type: none"> <li>adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or</li> <li>the Parent Company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or</li> <li>certain disclosures of directors' remuneration specified by law are not made; or</li> <li>we have not received all the information and explanations we require for our audit.</li> </ul>

### Responsibilities of directors

As explained more fully in the directors' statement of responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

### Non-compliance with laws and regulations

Based on:

- our understanding of the Group and the industry in which it operates;
- discussion with management and those charged with governance; and
- obtaining and understanding of the Group's policies and procedures regarding compliance with laws and regulations.

We considered the significant laws and regulations to be the Companies Act 2006, UK Listing Rules, the REIT tax regime requirements and legislation relevant to the rental of properties.

Our procedures in respect of the above included:

- review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- review of correspondence with regulatory and tax authorities for any instances of non-compliance with laws and regulations;
- review of financial statement disclosures and agreeing to supporting documentation;
- involvement of REIT tax experts in the audit; and
- review of legal expenditure accounts to understand the nature of expenditure incurred.

## Independent auditor's report continued

### to the members of Impact Healthcare REIT plc

#### Auditor's responsibilities for the audit of the financial statements

##### continued

##### Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- obtaining an understanding of the Group's policies and procedures relating to:
  - detecting and responding to the risks of fraud; and
  - internal controls established to mitigate risks related to fraud.
- review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- discussion amongst the engagement team as to how and where fraud might occur in the financial statements;
- involvement of forensic specialists in the audit to assess the susceptibility of the financial statements to material fraud;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- considering remuneration incentive schemes and performance targets and the related financial statement areas impacted by these.

Based on our risk assessment, we considered the areas most susceptible to fraud to be the valuation of investment property, management bias and override of controls, existence of and/or inappropriate treatment of investment property capital improvements.

Our procedures in respect of the above included:

- testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation;
- assessing significant estimates made by management for bias, which included the valuation of the Group's investment property as detailed under the key audit matters; and
- testing a sample of investment property improvement additions to supporting documentation and evidence that the work has been completed and they have been appropriately classified.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Charles Ellis (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor  
London, UK

22 March 2024

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Financial statements

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## Consolidated statement of comprehensive income

For the year ended 31 December 2023

	Notes	31 December 2023 Total £'000	31 December 2022 Total £'000
Gross rental income	5	49,659	42,242
Bad debts written off	5	(236)	–
Insurance/service charge income	5	871	704
Insurance/service charge expense	5	(871)	(704)
<b>Net rental income</b>		<b>49,423</b>	42,242
Administrative and other expenses	6	(7,137)	(7,009)
(Loss)/profit on disposal of investment properties	13	(16)	130
<b>Operating profit before changes in fair value</b>		<b>42,270</b>	35,363
Changes in fair value of put option		–	(1,811)
Changes in fair value of investment properties	13	14,788	(14,456)
<b>Operating profit</b>		<b>57,058</b>	19,096
Finance income	8	3,761	3,200
Finance expense	9	(11,988)	(5,408)
<b>Profit before tax</b>		<b>48,831</b>	16,888
Tax charge on profit for the year	10	–	–
<b>Profit and total comprehensive income (attributable to shareholders)</b>		<b>48,831</b>	16,888
<b>Earnings per share – basic and diluted (pence)</b>	11	<b>11.79p</b>	4.33p

The results are derived from continuing operations during the year, the Group had no other comprehensive income in the current or prior year.

The accompanying notes to the consolidated statement of comprehensive income can be found on pages 79 to 97.

## Consolidated statement of financial position

As at 31 December 2023

	Notes	31 December 2023 £'000	31 December 2022 £'000
<b>Non-current assets</b>			
Investment property	13	616,006	504,318
Interest rate derivatives	18	1,750	–
Trade and other receivables	14	39,237	68,131
<b>Total non-current assets</b>		<b>656,993</b>	572,449
<b>Current assets</b>			
Trade and other receivables	14	907	1,181
Interest rate derivatives	18	–	363
Cash and cash equivalents	15	9,389	22,531
<b>Total current assets</b>		<b>10,296</b>	24,075
<b>Total assets</b>		<b>667,289</b>	596,524
<b>Current liabilities</b>			
Borrowings	17	–	(14,814)
Trade and other payables	16	(6,915)	(9,126)
<b>Total current liabilities</b>		<b>(6,915)</b>	(23,940)
<b>Non-current liabilities</b>			
Borrowings	17	(179,937)	(122,382)
Put option	16	–	(1,811)
Trade and other payables	16	(2,330)	(2,471)
<b>Total non-current liabilities</b>		<b>(182,267)</b>	(126,664)
<b>Total liabilities</b>		<b>(189,182)</b>	(150,604)
<b>Total net assets</b>		<b>478,107</b>	445,920

	Notes	31 December 2023 £'000	31 December 2022 £'000
<b>Equity</b>			
Share capital	21	4,144	4,048
Share premium reserve	21	376,716	365,642
Capital reduction reserve	21	24,077	24,077
Retained earnings		73,170	52,153
<b>Total equity</b>		<b>478,107</b>	445,920
<b>Net asset value per ordinary share (pence)</b>	23	<b>115.38p</b>	110.17p

The accompanying notes to the consolidated statement of financial position can be found on pages 79 to 97.

The consolidated financial statements for Impact Healthcare REIT plc (registered number: 10464966) were approved and authorised for issue by the board of directors on 22 March 2024 and are signed on its behalf by:

**Simon Laffin**  
Chair

## Consolidated statement of cash flows

For the year ended 31 December 2023

	Notes	31 December 2023 £'000	31 December 2022 £'000
<b>Cash flows from operating activities</b>			
Profit for the year (attributable to equity shareholders)		48,831	16,888
Finance income	8	(3,761)	(3,200)
Finance expense	9	11,988	5,408
Loss/(profit) on disposal of investment properties	13	16	(130)
Changes in fair value of put option	18	–	1,811
Changes in fair value of investment properties	13	(14,788)	14,456
Net cash flow before working capital changes		42,286	35,233
<b>Working capital changes</b>			
Increase in trade and other receivables		(6,308)	(5,952)
(Decrease)/increase in trade and other payables		(2,618)	207
<b>Net cash flow generated from operating activities</b>		<b>33,360</b>	<b>29,488</b>
<b>Investing activities</b>			
Purchase of investment properties		(44,799)	(69,217)
Proceeds on sale of investment property		1,234	2,625
Acquisition costs capitalised		(1,765)	(2,661)
Capital improvements		(3,375)	(11,195)
Loan advanced to operator		(1,600)	–
Loan associated costs		–	(478)
Interest received		3,695	3,270
<b>Net cash flow used in investing activities</b>		<b>(46,610)</b>	<b>(77,656)</b>

	Notes	31 December 2023 £'000	31 December 2022 £'000
<b>Financing activities</b>			
Proceeds from issue of shares	21	–	62,269
Issue costs of ordinary share capital	21	(30)	(1,757)
Borrowings drawn	17	82,500	85,074
Borrowings repaid	17	(40,000)	(57,362)
Loan arrangement fees paid		(2,827)	(1,265)
Loan commitment fees paid		(528)	(628)
Purchase of derivative		(3,238)	–
Interest payments received on interest rate derivatives	18	1,035	112
Interest paid on bank borrowings		(8,990)	(3,281)
Dividends paid to equity holders	12	(27,814)	(25,724)
<b>Net cash flow generated from financing activities</b>		<b>108</b>	<b>57,438</b>
Net (decrease)/increase in cash and cash equivalents for the year		(13,142)	9,270
Cash and cash equivalents at the start of the year		22,531	13,261
<b>Cash and cash equivalents at the end of the year</b>	15	<b>9,389</b>	<b>22,531</b>

The accompanying notes to the consolidated statement of cash flows can be found on pages 79 to 97.

## Consolidated statement of changes in equity

For the year ended 31 December 2023

	Notes	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
<b>1 January 2023</b>		<b>4,048</b>	<b>365,642</b>	<b>24,077</b>	<b>52,153</b>	<b>445,920</b>
<b>Total comprehensive income</b>		–	–	–	48,831	48,831
<b>Transactions with owners</b>						
Dividends paid	12	–	–	–	(27,814)	(27,814)
Share issue	21	96	11,104	–	–	11,200
Share issue costs	21	–	(30)	–	–	(30)
<b>31 December 2023</b>		<b>4,144</b>	<b>376,716</b>	<b>24,077</b>	<b>73,170</b>	<b>478,107</b>

For the year ended 31 December 2022

	Notes	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
<b>1 January 2022</b>		<b>3,506</b>	<b>305,672</b>	<b>24,077</b>	<b>60,989</b>	<b>394,244</b>
<b>Total comprehensive income</b>		–	–	–	16,888	16,888
<b>Transactions with owners</b>						
Dividends paid	12	–	–	–	(25,724)	(25,724)
Share issue	21	542	61,727	–	–	62,269
Share issue costs	21	–	(1,757)	–	–	(1,757)
<b>31 December 2022</b>		<b>4,048</b>	<b>365,642</b>	<b>24,077</b>	<b>52,153</b>	<b>445,920</b>

The accompanying notes to the consolidated statement of changes in equity can be found on pages 79 to 97.



# Notes to the consolidated financial statements

For the year ended 31 December 2023

## 1. Basis of preparation

### General information

The consolidated financial statements for the year ended 31 December 2023 are prepared in accordance with UK-adopted international accounting standards.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, the put option and interest rate derivatives, which have been measured at fair value.

The Group has chosen to adopt EPRA best practices recommendations guidelines for calculating key metrics such as earnings per share.

The Company is a public listed company incorporated and domiciled in England and Wales. The Company's ordinary shares are listed on the Premium Listing Segment of the Official List and trade on the premium segment of the main market of the London Stock Exchange. The registered address of the Company is disclosed in the corporate information.

### Convention

The consolidated financial statements are presented in Sterling, which is also the Group's functional currency, and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

### Going concern

The strategic report describes the Group's financial position, cash flows and liquidity position. The principal risks are set out on pages 39 to 42 and note 19 to the financial statements also provide details of the Group's financial instruments and its exposure to liquidity and credit risk.

The ongoing effect of the high inflation and interest rate environment has been considered by the directors. The directors have reviewed the forecasts for the Group taking into account the impact of heightened interest rates and rising costs on trading over the 12 months from the date of signing this annual report. The forecasts have been assessed against a range of possible downside outcomes incorporating significantly lower levels of income and higher costs; see going concern and viability for further detail.

The directors believe that there are currently no material uncertainties in relation to the Group's ability to continue for a period of at least 12 months from the date of approval of the Group's financial statements. The board is, therefore, of the opinion that the going concern basis adopted in the preparation of the annual report is appropriate.

## 2. Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosures. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amount of the assets or liabilities in future periods.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are disclosed below.

## 2.1. Judgements

### Operating lease contracts – the Group as lessor

The Group has acquired investment properties that are subject to commercial property leases with tenants. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, particularly the duration of the lease terms and minimum lease payments, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the leases as operating leases.

The leases, when signed, are for between 20 and 30 years with a tenant-only option to extend for one or two periods of 10 years. At the inception of the lease, management do not judge any extension of the leases to be reasonably certain and, as such, do not factor any lease extensions into their considerations of lease incentives and their treatment.

## 2.2. Estimates

### Fair valuation of investment property

The valuations have been prepared in accordance with the RICS Valuation – current edition of the global and UK standards as at the valuation date, or the RICS "Red Book" as it has become widely known.

The basis of value adopted is that of fair value being "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" in accordance with IFRS 13. The concept of fair value is considered to be consistent with that of market value.

The significant methods and assumptions used by the valuers in estimating the fair value of the investment properties are set out in note 13.

Gains or losses arising from changes in the fair values are included in the consolidated statement of comprehensive income in the period in which they arise. In order to avoid double counting, the assessed fair value may be increased or reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives and/or guaranteed minimum rent uplifts at the inception of the lease.

The nature of uncertainty regarding the estimation of fair value as well as sensitivity analysis has been considered as set out in note 13.

## 3. Summary of material accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below or alongside the relevant note.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries drawn up to 31 December 2023. Subsidiaries are those entities, including special purpose entities, controlled by the Company. Control exists when the Company is exposed, or has rights, to variable returns from its investment with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

## Notes to the consolidated financial statements continued

For the year ended 31 December 2023

### 3. Summary of material accounting policies continued

#### Segmental information

The board is of the opinion that the Group is engaged in a single segment business, being the investment in the United Kingdom in healthcare assets. The board consider that these properties have similar economic characteristics and as a result, these individual properties have been aggregated into a single reportable operating element. Reporting on tenants providing greater than 10% of revenue is included in note 5.

### 4. New standards issued

#### 4.1. New standards issued with effect from 1 January 2023

No new standards have been applied that have had a material effect on the financial position or performance of the Group.

#### 4.2. New standards issued but not yet effective

There are no new standards issued but not yet effective that are expected to have a material effect on the Group.

### 5. Property income

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
<b>Rental income cash received in the year</b>	<b>42,513</b>	35,889
Rent received in advance of recognition <sup>1</sup>	141	170
Rent recognised in advance of receipt <sup>2</sup>	7,145	6,324
Rental lease incentive amortisation <sup>3</sup>	(140)	(141)
<b>Gross rental income</b>	<b>49,659</b>	42,242
Bad debts written off <sup>4</sup>	(236)	–
Insurance/service charge income	871	704
Insurance/service charge expense	(871)	(704)
<b>Net rental income</b>	<b>49,423</b>	42,242

- This relates to movement in rent premiums received in prior periods as well as any rent premiums received during the year, deemed to be a premium over the term of the lease.
- Relates to movement in both rent-free periods being recognised on a straight-line basis over the term of the lease and rent recognised in the period to reflect the minimum uplift in rents over the term of the lease on a straight-line basis.
- Lease incentives relate to the amortisation of payments made to tenants that are not part of any acquisition contractual obligations. These payments are made in return for an increase in rent.
- Bad debts written off relates to rental arrears due from one tenant who leased seven of the Group's properties, in the period these properties were re-tenanted, see note 22 for further detail.

For accounting purposes, premiums received are reflected on a straight-line basis over the term of the lease. In addition, the Group benefits from a minimum annual rental uplift of 1% or 2% on all care home leases. For accounting purposes these uplifts are also incorporated to recognise income on a straight-line basis.

Insurance/service charge relates to property insurance that is paid by the Group and recharged to tenants.

Minster Care Management Limited and Croftwood Care UK Limited are both part of the Minster Care Group Limited and together represent 38.4% of gross rental income:

	2023	2022
Minster Care Management Limited	<b>24.9%</b>	29.3%
Welford	<b>17.1%</b>	11.3%
Croftwood Care UK Limited	<b>13.5%</b>	15.4%
Holmes Care Group	<b>12.5%</b>	10.3%
Others	<b>32.0%</b>	33.7%

### Accounting policy

#### Rental income

Rental income arising on investment properties is included in gross rental income in the consolidated statement of comprehensive income and is accounted for on a straight-line basis over the lease term. The change in the RPI is reviewed annually, with the minimum uplifts being taken into consideration when accounting for the rental income on a straight-line basis upon inception of the lease. The resulting asset or liability is reflected as a receivable or payable in the consolidated statement of financial position.

When a contract includes both lease and non-lease components, the Group applies IFRS 16 to allocate the consideration under the contract to each component.

The valuation of investment properties is increased or reduced by the total of the unamortised lease, incentive and straight-line receivable or payable balances. Any remaining balances in respect of properties disposed of are included in the calculation of the profit or loss arising at disposal.

The initial lease rental payments and guaranteed rental uplifts are spread evenly over the lease term, even if payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, except for where, at the inception of the lease, the directors have no certainty that the tenant will exercise that option.

Increased rental payments arising from the variation of the lease on capital improvement licences are spread evenly over the remaining lease term from the date of signing the licence agreement.

At each rent review, the uplift in rent is calculated in accordance with the terms of the lease. If greater than the minimum uplift then the uplift above and beyond the minimum recognised is calculated and recognised in the period in which it arises, with there being no rebasing of the amounts to recognise over the remaining lease.

#### Service charges, insurance and other expenses recoverable from tenants

Income arising from expenses recharged to tenants is recognised in the year which the compensation becomes receivable. Service, insurance and other similar charges that are recoverable are included in gross rental income as the directors consider that the Group acts as principal in this respect.

## Notes to the consolidated financial statements continued

For the year ended 31 December 2023

### 6. Administrative and other expenses

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Investment Manager fees (see note 22)	4,810	4,581
Directors' remuneration (see note 7)	276	250
<b>Auditor's fees</b>		
- Statutory audit of the Company and Group (including subsidiaries)	302	280
- Agreed upon procedures for the Company's interim report	17	16
Total auditor's fees <sup>1</sup>	319	296
Administration fees	523	497
Regulatory fees	34	18
Legal and professional	912	630
Recruitment services and remuneration committee advice	32	70
Other administrative costs	231	667
	<b>7,137</b>	7,009

<sup>1</sup> In 2023, the auditor also received fees of £nil (2022: £66,000) relating to other advisory services in relation to share issues during the year. These fees have been recognised in share premium as share issue costs.

The amounts shown above include irrecoverable VAT as appropriate.

### 7. Directors' remuneration

The Group had no employees in the current or prior period. The directors, who are key management personnel of the Company, are appointed under letters of appointment for services. Directors' remuneration, all of which represents their fees for services provided during the year, are as follows:

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Simon Laffin (Chair)	55	–
Rupert Barclay (resigned)	15	49
Rosemary Boot	40	35
Philip Hall	40	35
Paul Craig (resigned)	15	35
Amanda Aldridge	46	41
Chris Santer	40	35
	<b>251</b>	230
Employer's National Insurance	25	20
	<b>276</b>	250

Directors' remuneration payable at 31 December 2023 amounted to £18,440 (2022: £10,242).

### 8. Finance income

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Bank interest	55	8
Loan interest	3,706	3,192
	<b>3,761</b>	3,200

Loan interest income relates to interest on loans made to operators to purchase property portfolios. Upon granting these loans, the Group enters into put and call option agreements that allows it to purchase the property-owning entity for £1 upon certain conditions being met.

### Accounting policy

#### Finance income

Finance income is accounted for on an accruals basis.

## Notes to the consolidated financial statements continued

For the year ended 31 December 2023

### 9. Finance expenses

		Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
	Note		
Interest payable on bank borrowings		9,584	3,985
Commitment fee payable on borrowings		528	599
Amortisation of loan arrangement fee		1,418	1,205
Changes in fair value of interest rate derivatives	18	458	(381)
		<b>11,988</b>	5,408

The total interest payable on financial liabilities carried at amortised cost comprises interest payable on borrowings, which was £184.8m at 31 December 2023 (2022: £142.3m). Amortisation on loan arrangement fees relates to capitalised fees being amortised over the term of the facility, in the year ended 31 December 2023 £1.2m was capitalised (2022: £2.6m).

#### Accounting policy

##### Finance expense

Finance expenses consist principally of interest payable, amortisation of loan arrangement fees and fair value movements on interest rate derivatives.

Loan arrangement fees are expensed over the term of the relevant loan. Interest payable and other finance costs which the Group incurs on bank facilities, are expensed in the period to which they relate.

### 10. Taxation

As a REIT, the Group is exempt from corporation tax on the profits and gains from its property investment business, provided it continues to meet certain conditions as per REIT regulations. For the year ended 31 December 2023 and the year ended 31 December 2022, the Group did not have any non-qualifying profits except interest income.

Tax charge in the consolidated statement of comprehensive income:

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
<b>UK corporation tax</b>	–	–

Reconciliation of the corporation tax charge:

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
<b>Profit before tax</b>	<b>48,831</b>	16,888
Theoretical tax at UK corporation tax rate 23.5% (2022: 19%)	<b>11,475</b>	3,209
Effects of:		
REIT exempt profits	<b>(8,860)</b>	(5,905)
Non-taxable items	<b>(2,615)</b>	2,696
<b>Total tax charge</b>	<b>–</b>	–

Under the UK REIT rules within which the Group operates, capital gains on the Group's UK properties are generally exempt from UK corporation tax, provided they are not held for trading. The Group also received income outside of the property rental business (not covered by the REIT tax exemptions), this was namely in the form of interest income on loans to operators for the acquisition of property portfolios where the Group had an option to acquire upon certain regulatory requirements being met. This income was offset by residual business expenses and carried forward losses so incurred no tax charge for the period.

#### Accounting policy

##### Taxation

The Group is a REIT in relation to its property investments and is therefore exempt from tax, subject to the Group maintaining its REIT status.

Current tax is the expected tax payable on any non-REIT taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date.

## Notes to the consolidated financial statements continued

For the year ended 31 December 2023

### 11. Earnings per share

Earnings per share (EPS) amounts are calculated by dividing profit for the period attributable to ordinary equity holders of the Company by the time-weighted average number of ordinary shares outstanding during the period. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
<b>Total comprehensive income (attributable to shareholders)</b>	<b>48,831</b>	16,888
Adjusted for:		
- Revaluation movement	<b>(21,934)</b>	8,103
- Rental lease incentive	<b>(140)</b>	(141)
- Rental income arising from recognising rental premiums and future guaranteed rent uplifts	<b>7,286</b>	6,494
Change in fair value of investment properties	<b>(14,788)</b>	14,456
Change in fair value of put option	-	1,811
Loss/(profit) on disposal of investment property	<b>16</b>	(130)
Change in fair value of interest rate derivative	<b>458</b>	(381)
<b>EPRA earnings</b>	<b>34,517</b>	32,644
Adjusted for:		
Rental income arising from recognising rental premiums and future guaranteed rent uplifts	<b>(7,287)</b>	(6,494)
Amortisation of lease incentives	<b>141</b>	141
Cash received on interest rate cap	<b>1,393</b>	112
Amortisation of loan arrangement fees	<b>1,418</b>	1,205
(Loss)/profit on disposal of investment property	<b>(16)</b>	130
<b>Adjusted earnings</b>	<b>30,166</b>	27,738
Average number of ordinary shares	<b>414,157,674</b>	390,058,661
<b>Earnings per share (pence)<sup>1</sup></b>	<b>11.79p</b>	4.33p
<b>EPRA basic and diluted earnings per share (pence)<sup>1</sup></b>	<b>8.33p</b>	8.37p
<b>Adjusted basic and diluted earnings per share (pence)<sup>1</sup></b>	<b>7.28p</b>	7.11p

<sup>1</sup> There is no difference between basic and diluted earnings per share.

The European Public Real Estate Association (EPRA) publishes guidelines for calculating adjusted earnings designed to represent core operational activities.

The EPRA earnings are arrived at by adjusting for the changes in fair value of investment properties and interest rate derivatives, and removal of profit or loss on disposal of investment properties.

#### Adjusted earnings:

Adjusted earnings is used by the board to help assess the Group's ability to deliver a cash covered dividend from recurring net income. The metric adjusts EPRA earnings by other non-cash items credited or charged to the Group statement of comprehensive income including the effect of straight-lining of rental income from fixed rental uplift adjustments and amortisation of loan arrangement fees. The metric also adjusts for any one-off costs that are not expected to be recurring and for cash items which are excluded from the EPRA earnings calculation such as interest income on hedging arrangement.

Fixed rental uplift adjustments relate to adjustments to net rental income on leases with minimum uplifts embedded within their review profiles. The total minimum income recognised over the lease term is recognised on a straight-line basis and therefore not supported by cash flows during the early term of the lease, but this reverses towards the end of the lease.

The board uses the adjusted earnings alongside the available distributable reserves in its consideration and approval of dividends.

Notes to the consolidated financial statements *continued*

For the year ended 31 December 2023

## 12. Dividends

	Dividend rate (pence per share)	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Fourth interim dividend for the period ended 31 December 2021 (ex-dividend – 25 February 2022)	1.6025p	–	6,181
First interim dividend for the period ended 31 December 2022 (ex-dividend – 5 May 2022)	1.6350p	–	6,307
Second interim dividend for the period ended 31 December 2022 (ex-dividend – 25 August 2022)	1.6350p	–	6,618
Third interim dividend for the period ended 31 December 2022 (ex-dividend – 3 November 2022)	1.6350p	–	6,618
Fourth interim dividend for the period ended 31 December 2022 (ex-dividend – 31 January 2023)	1.6350p	6,775	–
First interim dividend for the period ended 31 December 2023 (ex-dividend – 25 April 2023)	1.6925p	7,013	–
Second interim dividend for the period ended 31 December 2023 (ex-dividend – 9 August 2023)	1.6925p	7,013	–
Third interim dividend for the period ended 31 December 2023 (ex-dividend – 20 October 2023)	1.6925p	7,013	–
<b>Total dividends paid</b>		<b>27,814</b>	25,724
Total dividends paid in respect of the year		<b>5.0775p</b>	4.9050p
Total dividends unpaid but declared in respect of the year		<b>1.6925p</b>	1.6350p
<b>Total dividends declared in respect of the year – per share</b>		<b>6.77p</b>	6.54p

On 31 January 2023, the Company declared an interim dividend of 1.6350 pence per share for the period from 1 October 2022 to 31 December 2022 and was paid on 24 February 2023.

On 25 April 2023, the Company declared an interim dividend of 1.6925 pence per ordinary share for the period from 1 January 2023 to 31 March 2023 and was paid on 19 May 2023.

On 9 August 2023, the Company declared an interim dividend of 1.6925 pence per share for the period from 1 April 2023 to 30 June 2023 and was paid on 20 September 2023.

On 20 October 2023, the Company declared an interim dividend of 1.6925 pence per share for the period 1 July 2023 to 30 September 2023 and was paid on 24 November 2023.

## Accounting policy

## Dividends

Dividends are recognised when they become legally payable.

## 13. Investment property

In accordance with the RICS “Red Book” the properties have been independently valued on the basis of fair value by Cushman & Wakefield, an accredited independent valuer with a recognised professional qualification. They have recent and relevant experience in the locations and categories of investment property being valued and skills and understanding to undertake the valuations competently. The properties have been valued on an individual basis and their values aggregated rather than the portfolio valued as a single entity. The valuers have used recognised valuation techniques in accordance with those recommended by the International Valuation Standards Committee and are compliant with IFRS 13. Factors reflected include current market conditions, annual rentals, lease lengths, property condition, including improvements affected during the year, rent coverage, location and comparable evidence.

The valuers of the Group property portfolio have a working knowledge of the various ways that environmental, social and governance factors can impact the value of property. Concerning Governance, within the care sector in the UK, the valuers reflect the latest available regulatory reports from the various regulatory bodies within the UK (being CQC, CSSIW, Care Inspectorate and RQIA). With regards to Social, there are fewer established benchmarks in this area but the valuers are aware that care homes generally meet a social need to residents and are also employment providers.

Environmental and sustainability standards, which vary across parts of the UK are also referenced within the valuers’ report. The valuers also note that they continue to monitor the wider property market for evidence of transactional activity that evidences the views of market participants in this area.

The Group continues to share recently conducted physical climate and transitional risk assessments with the valuers, which they have reviewed and reflected in their valuations to the extent that current market participants would do so.

Valuers observe, assess and monitor evidence from market activities, including market sentiment, on issues such as longer-term obsolescence and, where known, future environmental, social and governance related risks. These may include, for example, the market’s approach to capital expenditure required to maintain the utility of the asset. In the absence of reliable benchmarking data and indices for estimating costs, specialist advice on cost management may be required. This is usually agreed with the valuer in the terms of engagement and without reasonable estimates, assumptions may be needed properly to reflect market expectations in arriving at the valuation.

The valuations are the ultimate responsibility of the directors. Accordingly, the critical assumptions used in establishing the independent valuation are reviewed by the board.

## Notes to the consolidated financial statements continued

For the year ended 31 December 2023

### 13. Investment property continued

All corporate acquisitions during the year have been treated as asset purchases rather than business combinations because they are considered to be acquisitions of properties rather than businesses.

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Opening value	532,479	459,442
Property additions	91,688	69,217
Property disposals <sup>1</sup>	(1,250)	(2,495)
Acquisition costs capitalised	1,765	2,591
Capital improvements	4,697	11,826
Revaluation movement	21,934	(8,102)
<b>Closing value per independent valuation report</b>	<b>651,313</b>	<b>532,479</b>
Guaranteed rent reviews debtor	(35,258)	(28,112)
Lease incentive debtor	(2,379)	(2,519)
Rent premium creditor	2,330	2,470
<b>Closing fair value per consolidation statement of financial position</b>	<b>616,006</b>	<b>504,318</b>

<sup>1</sup> In 2023 the carrying value of disposals was £1,250,000 (2022: £2,495,000), this combined with the loss on disposal of £16,000 (2022: £130,000 profit), makes up the total net proceeds shown in the consolidated statement of cash flows.

During the year, the Group acquired an additional £91.7m assets, of which £35.7m relates to a portfolio which was purchased via a loan to operator in December 2021 where the Group had an option to acquire, this option was exercised in June 2023 and £56m relates to the purchase of a portfolio in 2023 where 20% of the consideration was made up of shares in the Company, see note 21 for further detail.

The majority of the properties owned are freehold except for 11 properties which are long leasehold, eight of these are under a minimum of 999-year leases at a peppercorn rent and the remaining three are under 125-year leases at a peppercorn rent.

### Change in fair value of investment properties

The following elements are included in the change in fair value of investment properties reported in the consolidated financial statements:

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Revaluation movement	21,934	(8,102)
Rental lease incentive <sup>1</sup>	140	141
Rental income arising from recognising rental premiums and guaranteed rent uplifts	(7,286)	(6,495)
<b>Change in fair value of investment properties</b>	<b>14,788</b>	<b>(14,456)</b>

<sup>1</sup> Lease incentives relate to the amortisation of payments made to tenants that are not part of any acquisition contractual obligations. These payments are made in return for an increase in rent.

Rental income arising from recognising guaranteed rent uplifts and initial lease rental payment includes the adjustments to rental receipts for the period to reflect the total minimum income recognised over the expected lease terms on a straight-line basis. Rent premiums received are being reflected on a straight-line basis over the term of the lease. In addition, the Group benefits from a minimum annual rental uplift of 1% or 2% on all care home leases. These uplifts are also incorporated to recognise income on a straight-line basis. The elements are reported in the table below. Capital improvements funded by the Group are undertaken under Deeds of Variation to the leases. The period between signing the Deed of Variation and rent commencing is a rent-free period and rent is recognised on a straight-line basis from the signing of the Deed of Variation.

		Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
	Note		
Rent received in advance of recognition <sup>1</sup>	5	140	170
Rent recognised in advance of receipt <sup>2</sup>	5	7,145	6,324
<b>Rental income arising from recognising rental premium and future guaranteed rent uplifts</b>		<b>7,286</b>	<b>6,494</b>

<sup>1</sup> Rent premiums received in prior periods, as well as any rent premiums received during the year, deemed to be a premium over the term of the lease.

<sup>2</sup> Relates to both rent-free periods being recognised on a straight-line basis over the term of the lease and rent recognised in the period to reflect the minimum 1% or 2% uplift in rents over the term of the care home lease on a straight-line basis.

## Notes to the consolidated financial statements continued

For the year ended 31 December 2023

### 13. Investment property continued

Descriptions and definitions relating to valuation techniques and key unobservable inputs made in determining fair values are as follows:

#### Valuation techniques used to derive fair values

The valuations have been prepared on the basis of fair value which is defined in the RICS “Red Book” as the “price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date” in accordance with IFRS 13. The concept of fair value is considered to be consistent with that of market value. The valuation takes into consideration the current market conditions, including improvements effected during the year, annual rentals, lease lengths, property condition, rent coverage and location.

#### Unobservable inputs

These include: estimated average increase in rent based on both market estimations and contractual situations; equivalent yield (defined as the weighted average of the net initial yield and reversionary yield); estimated rental value (ERV) based on market conditions prevailing at the valuation date and the physical condition of the property determined by inspections on a rotational basis. A decrease in the ERV would decrease fair value. A decrease in the equivalent yield would increase the fair value. An increase in the remaining lease term would increase the fair value.

#### Sensitivity of measurement of significant unobservable inputs

The Group’s investment properties, which are all healthcare assets, are considered to be a single class of asset. Initial yields range from 3.6% to 12.5% across the portfolio, the average yield, as measured by the EPRA “topped-up” net initial yield for the portfolio, was 6.92% as at 31 December 2023. Annual rent roll for the portfolio as at 31 December 2023 was £47.2m and the total ERV was £48.2m. ERV per bed ranges from £2,300/bed to £12,000/bed.

A 0.25% movement of the valuation yield would have approximately a £22.6m impact on the investment property valuation. A 1% movement in the rental income would have approximately a £6.5m impact on the investment property valuation.

### Fair value hierarchy

The Group is required to classify fair value measurements of its investment properties using a fair value hierarchy, in accordance with IFRS 13: Fair Value Measurement. This hierarchy reflects the subjectivity of the inputs used, and has the following levels:

- Level 1 – unadjusted quoted prices in active markets;
- Level 2 – observable inputs other than quoted prices included within level 1; and
- Level 3 – unobservable inputs.

The following table provides the fair value measurement hierarchy for investment property:

	Date of valuation	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
<b>Assets measured at fair value:</b>					
Investment properties	31 December 2023	616,006	–	–	616,006
Investment properties	31 December 2022	504,318	–	–	504,318

There have been no transfers between any of the levels during the year.

### Accounting policy

#### Investment properties

Investment properties consist of land and buildings (principally care homes) which are held to earn rental income and for capital growth potential.

Investment properties are initially recognised at cost, being the fair value of consideration given, including transaction costs associated with the investment property. Investment properties are recognised when the risk and rewards on the acquired properties passes to the Group on completion of the purchase. Any subsequent capital expenditure incurred in improving investment properties is capitalised in the period incurred and included within the book cost of the property.

After initial recognition, investment properties are measured at fair value, with gains and losses recognised in the consolidated statement of comprehensive income in the period which they arise. Fair value measurement takes into consideration the improvements to the investment property during the year, taking into account the future cash flows from increases in rent that have been contracted in relation to the improvement and discounting them at an appropriate rate to reflect the percentage of completion of the works being undertaken and the risk to completion that remains.

Gains and losses on disposals of investment properties are determined as the difference between net disposal proceeds and the carrying value of the asset. These are recognised in the consolidated statement of comprehensive income in the period in which they arise.



Notes to the consolidated financial statements *continued*

For the year ended 31 December 2023

## 14. Trade and other receivables

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
<b>Non-current</b>		
Rent recognised in advance of receipt	35,258	28,112
Rental lease incentive	2,379	2,519
Loan receivable <sup>1,2</sup>	1,600	37,500
	<b>39,237</b>	68,131
<b>Current</b>		
Interest receivable on interest rate derivatives	358	–
Interest receivable on operator loan	66	–
Loan associated costs	–	671
Accrued income	142	–
Prepayments	196	510
Other receivables	145	–
	<b>907</b>	1,181
	<b>40,144</b>	69,312

<sup>1</sup> In December 2021, the Group entered into a loan agreement with the Holmes Care Group, in which the Group provided a term loan facility of £37,500,000 which bears interest at 8.57% per annum. The funds were lent to Holmes Care Group to acquire a portfolio of properties. Upon certain conditions being met, a put and call option for the Group to acquire this portfolio of assets for £1 is exercisable (see note 16 for further detail). In June 2023, the option was exercised and the portfolio was acquired by the Group.

<sup>2</sup> In June 2023, the Group entered into a loan agreement with Melrose Holdings Limited, a related party, where the Group provided a working capital loan of £1,600,000 which bears interest at 8.00% per annum (see note 22 for further detail).

No impairment losses have been recognised as at 31 December 2023 (2022: £nil), refer to note 19 for further detail. However, the Group did write-off £236,000 of rent in the period as a result of non-payment by one of the Group's tenants, see note 22 for further detail.

**Accounting policy****Trade and other receivables**

Trade receivables comprise mainly lease income receivable.

Trade and other receivables are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost less impairment.

The Group applies the amortised cost basis as trade and other receivables are normally held with an objective to collect contractual cash flows, i.e. "held to collect"; which comprises payment of principal and interest on the principal amount outstanding.

## 15. Cash and cash equivalents

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
<b>Cash and cash equivalents</b>	<b>9,389</b>	22,531

Included as part of cash and cash equivalents is restricted cash of £nil (2022: £14.7m). This restricted cash relates to the proceeds of the loan notes issued and will be released upon addition of the designated properties into the security pool.

**Accounting policy****Cash and cash equivalents**

Cash and cash equivalents include cash at bank and deposits with maturities of three months, or less, held at call with banks.

Notes to the consolidated financial statements *continued*

For the year ended 31 December 2023

**16. Trade and other payables**

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
<b>Non-current</b>		
Rent received in advance of recognition	2,330	2,471
Put option	—	1,811
<b>Current</b>		
Trade and other payables	1,686	3,420
Interest payable	1,745	1,149
Withholding tax payable - (PID dividends)	606	609
Rental received in advance	—	1,949
Rental deposits	—	443
Capital improvements payable	2,878	1,556
	<b>6,915</b>	9,126
	<b>9,245</b>	13,408

To reconcile working capital changes in the consolidated statement of cash flows, the interest payable and capital improvements payable movements are excluded as these are allocated to financing activities and investing activities respectively.

On 23 December 2021, the Group entered into a loan agreement with the Holmes Care Group, in which the Group provided a term loan facility of £37,500,000 which bore interest at 8.57% per annum. The funds were lent to Holmes Care Group to acquire a portfolio of properties.

On the same date, put and call options were entered into between entities owned by Holmes Care Group and Impact Property 6 Limited which, upon certain conditions being met, gave the Group the right to acquire and Holmes Care Group the right to sell the company holding the portfolio of properties and the £37,500,000 loan liability, to the options' counterparty for consideration of £1.

This option became exercisable primarily upon Holmes Care Group receiving approval from the Care Inspectorate to re-register the operations of the care homes into another operating entity. This was considered to be a substantive condition to be met before the options was exercisable and therefore management did not consider there was any present ownership interest in the property company which may be acquired at a future date until the conditions were met. The fair value of the option reflects the underlying investment properties, offset by loan and interest due at each balance sheet date. The investment properties were valued on the same basis as the Group's investment property. In June 2023 the option was exercised, and the portfolio was acquired by the Group.

**Accounting policy****Trade payables**

Trade payables are initially recognised at their fair value and are subsequently measured at amortised cost.

**Put and call options**

Put and call option instruments, comprising the right for an operator to sell to the Group or Impact to acquire from the operator the share capital of a company holding a portfolio of properties, are measured at fair value.

Changes in fair value of put and call option instrument are recognised within the consolidated statement of comprehensive income in the period in which they occur.

The Group does not apply hedge accounting in accordance with IFRS 9.

**17. Borrowings**

A summary of the bank borrowings drawn in the period are shown below:

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
At the beginning of the year	142,260	114,548
Borrowings drawn in the year	82,500	85,074
Borrowings repaid in the year	(40,000)	(57,362)
<b>Total bank borrowings drawn<sup>1</sup></b>	<b>184,760</b>	142,260

<sup>1</sup> Total bank borrowings drawn are equal to its fair value.

As at 31 December 2023, the Group had £250m (2022: £241m) of available facilities of which £65.2m was undrawn (2022: £98.7m).

Notes to the consolidated financial statements *continued*

## For the year ended 31 December 2023

17. Borrowings *continued*

A summary of the bank borrowings by lender are shown below:

As at 31 December 2023:

	Clydesdale Bank PLC ('Virgin')	HSBC UK Bank Plc ('HSBC')	National Westminster Bank Plc ('NatWest')	Senior secured loan notes (tranche A)	Senior secured loan notes (tranche B)	Total
Facility type	RCF	RCF	RCF	Private placement	Private placement	
Size (£'m)	50.0	75.0	50.0	37.0	38.0	250
Drawn debt (£'m)	32.5	47.0	30.3	37.0	38.0	184.8
Start date	December 2022	April 2020	May 2017	December 2021	December 2021	
Expiry date	December 2029	April 2026	June 2028	December 2035	June 2035	
Margin	2.00%	2.00%	2.00%	N/A	N/A	
Fixed interest rate	N/A	N/A	N/A	2.93%	3.00%	
Independent valuation of secured properties (£'m)	118.2	163.6	129.2	171.3		582.3
Financial covenants:						
LTV <sup>1</sup>	50%	55%	50%	55%		
Interest cover <sup>2</sup>	2.00x	2.00x	1.75x	2.50x		

As at 31 December 2022:

	Metro Bank PLC ('Metro')	Clydesdale Bank PLC ('Virgin')	HSBC UK Bank Plc ('HSBC')	National Westminster Bank Plc ('NatWest')	Senior secured loan notes (tranche A)	Senior secured loan notes (tranche B)	Total
Facility type	Term loan	RCF	RCF	RCF	Private placement	Private placement	
Size (£'m)	15.0	50.0	75.0	26.0	37.0	38.0	241.0
Drawn debt (£'m)	15.0	17.0	10.0	25.3	37.0	38.0	142.3
Start date	June 2018	December 2022	April 2020	May 2017	December 2021	December 2021	
Expiry date	June 2023	December 2029	April 2025	June 2024	December 2035	June 2035	
Margin	2.65%	2.00%	2.00%	1.90%	N/A	N/A	
Fixed interest rate	N/A	N/A	N/A	N/A	2.93%	3.00%	
Independent valuation of secured properties (£'m)	53.9	110.9	146.8	64.7	128.9		505.2
Financial covenants:							
LTV <sup>1</sup>		50%	55%	50%	55%		
Interest cover <sup>2</sup>		2.00x	2.50x	2.50x	2.50x		

<sup>1</sup> Loan to value must not exceed the stated percentage.

<sup>2</sup> Passing rent from ringfenced properties divided by interest expense must exceed the stated cover ratio.

## Notes to the consolidated financial statements *continued*

### For the year ended 31 December 2023

#### 17. Borrowings *continued*

In June 2023, the Group repaid its £15m term loan with Metro Bank PLC.

In June 2023, the Group increased its RCF facility with NatWest from £26m to £50m, extended the facility term from June 2024 to June 2028 with a further two one-year extension options (subject to lender approval) to June 2030. In recognition of the maturity extension, the margin was increased to 200 bps above SONIA (previously 190 bps). The interest cover covenant was reduced from 2.50x to 1.75x in the first two years, after which it increases to 2.00x for the remainder of the term.

In June 2023, the Group agreed a one-year extension option to its HSBC RCF to April 2026. The interest cover covenant was reduced from 2.50x to 2.00x, with the margin remaining at 200 bps above SONIA.

The Group has been in compliance with all of the financial covenants of the loan facilities as applicable throughout the year covered by these financial statements.

Any fees associated with arranging the borrowings unamortised as at the year end are offset against amounts drawn on the facilities as shown in the table below:

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
<b>Borrowings drawn</b>	<b>184,760</b>	142,260
Arrangement fees – brought forward	(5,064)	(3,641)
Arrangement fees incurred during the year	(1,177)	(2,628)
Amortisation of loan arrangement fees	1,418	1,205
<b>Borrowings at amortised cost</b>	<b>179,937</b>	137,196
Borrowings at amortised cost due within one year	–	14,814
Borrowings at amortised cost due after one year	179,937	122,382

Maturity analysis of borrowings:

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Repayable within one year	–	15,000
Repayable between one and two years	–	25,260
Repayable between two and five years	77,260	10,000
Repayable in over five years	107,500	92,000
<b>Total</b>	<b>184,760</b>	142,260

The weighted average term of the Group's committed facilities is 6.8 years (2022: 6.3 years).

As at 31 December 2023, the nominal value of the Group's loans equated to £184.8m, the fair value of these loans, based on a discounted cash flow using relevant rates based on market conditions as at 31 December 2023, totalled £161.8m.

#### Accounting policy

##### Borrowings

All borrowings are initially recognised at fair value net of attributable transaction costs. After initial recognition, all borrowings are measured at amortised cost, using the effective interest method. The effective interest rate is calculated to include all associated transaction costs.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. The fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates within finance costs in the consolidated statement of comprehensive income.

#### 18. Interest rate derivatives

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
At the beginning of the year	363	94
Purchase of derivative	3,238	–
Change in fair value of interest rate derivatives	(458)	381
Payments received and accrued on interest rate derivatives	(1,393)	(112)
	<b>1,750</b>	363

To mitigate the interest rate risk that arises as a result of entering into variable rate linked loans, the Group has entered into interest rate caps.

In June 2018, the Group entered into an interest rate cap with the notional value of £25m and a strike rate of 1% which terminated in June 2023.

In January 2023, the Group purchased a two-year interest rate cap for £1.5m, which caps SONIA at 3% for a notional amount of £50m.

In August 2023, the Group purchased a two-year interest rate cap for £1.8m, which caps SONIA at 4% for a notional amount of £50m.

At 31 December 2023, the Group had loans of £109.8m (2022: £67.3m) which were exposed to interest rate risk.

#### Accounting policy

##### Interest rate derivatives

Derivative financial instruments, comprising interest rate caps for hedging purposes, are initially recognised at fair value and are subsequently measured at fair value.

Changes in fair value of interest rate derivatives are recognised within the consolidated statement of comprehensive income in the period in which they occur.

The Group does not apply hedge accounting in accordance with IFRS 9.

## Notes to the consolidated financial statements continued

For the year ended 31 December 2023

### 19. Financial instruments and financial risk management

The Group's principal financial assets and liabilities are those that arise directly from its operations: trade and other receivables, trade and other payables and cash held at bank. The Group's other principal financial assets and liabilities are borrowings and interest rate derivatives, the main purpose of which is to finance the acquisition and development of the Group's investment property portfolio and hedge against the interest rate risk arising.

Set out below is a comparison by class of the carrying amounts of the Group's financial instruments:

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
<b>Financial assets at amortised cost:</b>		
Loan receivable	1,600	37,500
Cash and cash equivalents	9,389	22,531
Trade and other receivables	711	–
<b>Financial assets at fair value:</b>		
Interest rate derivative	1,750	363
<b>Financial liabilities at amortised cost:</b>		
Borrowings	179,937	137,196
Trade and other payables	6,309	6,568
<b>Financial liabilities at fair value:</b>		
Put option	–	1,811

The interest rate derivative and put option are the only financial instruments that are measured at fair value through the Group's consolidated statement of comprehensive income.

The following table provides the fair value measurement hierarchy for the interest rate derivative and put option:

	Date of valuation	Total £'000	Level 1 <sup>1</sup> £'000	Level 2 <sup>1</sup> £'000	Level 3 <sup>1</sup> £'000
<b>Assets measured at fair value:</b>					
Interest rate derivative	31 December 2023	1,750	–	1,750	–
Interest rate derivative	31 December 2022	363	–	363	–
<b>Financial liabilities at fair value:</b>					
Put option	31 December 2023	–	–	–	–
Put option	31 December 2022	1,811	–	–	1,811

<sup>1</sup> The fair value categories are defined in note 13.

## Notes to the consolidated financial statements continued

For the year ended 31 December 2023

### 19. Financial instruments and financial risk management continued

#### Risk management

The Group is exposed to market risk (including interest rate risk), credit risk and liquidity risk. The board oversees the management of these risks. The board reviews and agrees policies for managing each of the risks that are summarised below.

#### Market risk (including interest rate risk)

Market risk is the risk that the fair values or future cash flows of financial instruments will fluctuate because of changes in market prices. The financial assets held by the Group that are affected by interest rate risk are principally the Group's cash balances and the interest rate derivative.

The Group monitors its interest rate exposure on a regular basis. A sensitivity analysis performed to ascertain the impact on profit or loss and net assets of a 50-basis point shift in interest rates on the Group's cash balances would result in a movement of £46,945 (2022: £112,660) in interest receivable for the year.

The financial liabilities held by the Group that are affected by interest rate risk are principally the Group's borrowings. The Group has entered into an interest rate derivatives to reduce its exposure to interest rate risk on its floating-rate debt (refer to note 18). A sensitivity analysis is performed to ascertain the impact on profit or loss and net assets of a 50-basis point shift in interest rates on the Group's unhedged borrowings would result in a movement of £48,800 (2022: £211,300) in interest payable for the year.

#### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

The Group is exposed to credit risks from its leasing activities. Credit risk is reduced by requiring tenants to pay rentals in advance under their lease obligations. The credit quality of the tenant is also assessed based at the time of entering into a lease agreement thereby reducing credit risk. Outstanding trade receivables are regularly monitored. There are no outstanding trade receivables at 31 December 2023.

Credit risk also arises with the cash balances held with banks and financial institutions. The board believes that the credit risk on current account cash balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit-rating agencies. The impairment loss identified on cash balances was considered immaterial.

#### Accounting policy

##### Expected credit losses

The Group applies the IFRS 9 simplified approach to measuring the expected credit losses (ECLs) for trade receivables whereby the allowance or provision for all trade receivables are based on the lifetime ECLs.

The Group applies the general approach for initial recognition and subsequent measurement of ECL provisions for the loan receivable and other receivables which have maturities of 12 months or more and have a significant finance component.

This approach comprises of a three-stage approach to evaluating ECLs. These stages are classified as follows:

##### Stage one

12-month ECLs are recognised in profit or loss at initial recognition and a loss allowance is established. For financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk at the reporting date, the loss allowance for 12 month ECLs is maintained and updated for changes in amount. Interest revenue is calculated on the gross carrying amount of the asset (i.e. without reduction for ECLs).

##### Stage two

If the credit risk increases significantly and the resulting credit quality is not considered to be low credit risk, full lifetime ECLs are recognised and includes those financial instruments that do not have objective evidence of a credit loss event. Interest revenue is still calculated on the gross carrying amount of the asset.

##### Stage three

If the credit risk of a financial asset increases to the point that it is considered credit impaired (there is objective evidence of impairment at the reporting date), lifetime ECLs continue to be recognised. For financial assets in this stage, lifetime ECLs will generally be individually assessed. Interest revenue is calculated on the amortised cost net carrying amount (amortised cost less impairment).

Rent-smoothing adjustments are not considered to be financial assets as the amounts are not yet contractually due. As such, the requirements of IFRS 9 (including the expected credit loss method) are not applied to those balances, although the credit risk is considered in the determination of the fair value of the related property.

## Notes to the consolidated financial statements continued

For the year ended 31 December 2023

### 19. Financial instruments and financial risk management continued

#### Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due, as the majority of the Group's assets are property investments and are therefore not readily realisable. The Group's objective is to ensure it has sufficient available funds for its operations and to fund its capital expenditure. This is achieved by regular monitoring of forecast and actual cash flows by the AIFM ensuring the Group has appropriate levels of cash and available drawings to meet liabilities as they fall due.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	<3 months £'000	3-12 months £'000	1-2 years £'000	2-5 years £'000	>5 years £'000	Total £'000
<b>31 December 2023:</b>						
Borrowings	–	–	–	77,260	107,500	184,760
Interest and commitment fees on borrowings	937	2,853	3,790	9,318	15,382	32,280
Trade and other payables	6,309	–	–	–	–	6,309
<b>31 December 2022:</b>						
Borrowings	–	15,000	25,260	10,000	92,000	142,260
Interest and commitment fees on borrowings	968	2,765	3,458	8,195	18,065	33,451
Trade and other payables	6,568	–	–	–	–	6,568

### 20. Capital management

The objective of the Group is to acquire, own, lease, renovate, extend and redevelop high-quality, healthcare real estate assets in the UK and lease those assets, under full repairing and insuring leases, primarily to healthcare operators providing residential healthcare services. This provides ordinary shareholders with an attractive level of income together with the potential for income and capital growth from investing in a diversified portfolio of freehold and long leasehold care homes.

The board has responsibility for ensuring the Group's ability to continue as a going concern and continues to qualify for UK REIT status. This involves the ability to borrow monies in the short and long term and pay dividends out of reserves, all of which are considered and approved by the board on a regular basis.

The Company achieved its increased targeted aggregate dividend of 6.77 pence per share for the year ended 31 December 2023 and its target aggregate dividend of 6.54 pence per share for the year ended 31 December 2022.

As at 31 December 2023, the Group remains within its maximum loan-to-value (LTV) covenant which is 35% of gross asset value of the Group as a whole. The Group has a further £65.2m of RCF facilities available from which it can draw.

To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or buyback shares for cancellation or for holding in treasury. Capital consists of ordinary share capital, other capital reserves and retained earnings.

Notes to the consolidated financial statements *continued*

For the year ended 31 December 2023

**21. Share capital, share premium and capital reduction reserve**

	Shares in issue Number	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Total £'000
<b>As at 31 December 2021</b>	<b>350,644,188</b>	<b>3,506</b>	<b>305,672</b>	<b>24,077</b>	<b>333,255</b>
Share issue	54,120,140	542	61,727	–	62,269
Share issue cost	–	–	(1,757)	–	(1,757)
<b>As at 31 December 2022</b>	<b>404,764,328</b>	<b>4,048</b>	<b>365,642</b>	<b>24,077</b>	<b>393,767</b>
Share issue	9,603,841	96	11,104	–	11,200
Share issue cost	–	–	(30)	–	(30)
<b>As at 31 December 2023</b>	<b>414,368,169</b>	<b>4,144</b>	<b>376,716</b>	<b>24,077</b>	<b>404,937</b>

The Company had 414,368,169 shares of nominal value of 1 pence each in issue at the end of the year (2022: 404,764,328).

On 13 January 2023, the Company issued 9,603,841 ordinary shares at a price of 116.62 pence per ordinary share raising gross proceeds of £11.2m. These shares were part consideration for the acquisition of a portfolio of six properties purchased in January 2023, the remaining consideration of £44.8m was paid in cash, see note 13 for further detail.

**Accounting policy****Share capital**

The share capital relates to amounts subscribed for share capital at its par value.

**Share premium**

The surplus of net proceeds received from the issuance of new shares over their par value is credited to this account and the related issue costs are deducted from this account. The reserve is non-distributable.

**Capital reduction reserve**

The capital reduction reserve is the result of the transfer of a portion of share premium into a distributable reserve.

**22. Transactions with related parties****Investment Manager**

The fees calculated and paid for the year to the Investment Manager were as follows:

	<b>Year ended 31 December 2023 £'000</b>	Year ended 31 December 2022 £'000
Amounts payable to Impact Health Partners LLP		
Net fee	<b>4,810</b>	4,581
<b>Gross fee</b>	<b>4,810</b>	4,581

Certain members of the Investment Manager are also directors of the Group's subsidiary companies. Neither they, nor the Investment Manager receive any additional remuneration in relation to fulfilling this role.

For the year ended 31 December 2023, the principals and Finance Director of Impact Health Partners LLP, the Investment Manager, are considered key management personnel. Mr Patel and Mr Cowley are the principals and Mr Yaldron is the Finance Director of Impact Health Partners LLP and they own 3.14%, 0.35% and 0.02% respectively (either directly, with related parties or through a wholly owned company) of the total issued ordinary share capital of Impact Healthcare REIT plc. Mr Patel also (directly and/or indirectly) holds a majority 72.5% stake in Minster Care Group Limited (MCGL). Mr Cowley also holds a 20% interest in MCGL. 41% of the Group's rental income was received from MCGL or its subsidiaries. No trade receivables were outstanding at the year end (2022: £nil).

During the year, the key management of Impact Health Partners LLP received the following dividends from Impact Healthcare REIT plc: Mahesh Patel £722,610 (2022: £723,130); Andrew Cowley £109,445 (2022: £91,871) and David Yaldron £11,137 (2022: £7,975).

**Directors' interests**

During the year, the directors, who are considered key management personnel, received the following dividends from the Company: Simon Laffin £5,078 (2022: £nil); Rupert Barclay (resigned on 31 March 2023) £2,997 (2022: £11,927); Rosemary Boot £2,014 (2022: £1,952); Chris Santer £949 (2022: £920) and Philip Hall £2,014 (2022: £1,952). In addition, funds which were managed by Paul Craig (resigned on 17 May 2023) received dividends from the Company of £1,070,323 (2022: £4,089,458).

Directors' remuneration for the year is disclosed in note 7 as well as in the directors' remuneration report.



## Notes to the consolidated financial statements continued

For the year ended 31 December 2023

### 22. Transactions with related parties continued

#### Minster Care Group Limited (MCGL)

MCGL, a tenant of the Group, is considered a related party as it is majority owned by the principals of the Investment Manager. As at 31 December 2023, the Group leased 58 properties to MCGL (2022: 59), all properties owned for over one year underwent an inflation-linked rent review in line with their lease provisions. In 2023, the Group entered into no new leases with MCGL (2022: no new leases) and disposed of one property let to MCGL to a third party, the lease, which was subject to annual rent of £166,035, was cancelled with 14 years remaining (2022: disposed of one property). In 2023, the Group spent £nil on approved capital expenditure on homes operated by MCGL (2022: £0.8m). These transactions were fully compliant with the Company's related party policy.

The Group had seven homes let to Silverline (3.4% of the Group's contracted annual income), who did not pay its contractual rent for the quarters to 31 March 2023 and 30 June 2023. This was partially covered by a £0.4m rent deposit. The Group had extensive discussions with alternative care providers to take over Silverline's responsibilities, following which it decided on 2 June 2023 that it was in the best interests of the Group's stakeholders that it enable the solvent sale of Silverline's tenant companies to Melrose Holdings Limited (MHL). MHL immediately took over responsibility for operating the seven homes. MHL is a new company, wholly-owned by connected parties of Mahesh Patel, and benefits from a service agreement with MCGL, under which MCGL supports the turnaround of these homes. To assist in the funding of Silverline's overdue liabilities to third parties other than the Group and to fund remedial capital expenditure, the Group agreed to provide a £1.6m loan facility for up to three years to MHL. This facility has an interest rate of 8.0% per annum on drawn funds and will be repaid in priority to rent from surplus funds in MHL. In the initial phase of the operational turnaround of these care homes, the existing leases have been temporarily amended to replace the fixed rent with a variable rent, payable once the loan has been repaid. The lease variations allow MHL to pay MCGL a fixed management fee of £1,000 per registered bed in the homes (approximately £400,000 per annum plus VAT) to cover the direct costs it incurs in overseeing the turnaround, payable only from any surplus cash generated by the seven homes. Any surplus cash after the management fee will first be used to repay the loan facility and accrued interest and, once the loan is repaid, will be paid as rent to the Group. Once the turnaround is complete, it is expected that the lease amendment will be cancelled by mutual consent and the rent payable will revert to the amount under the original lease.

### 23. Net asset value (NAV) per share

Basic NAV per share is calculated by dividing net assets in the consolidated statement of financial position attributable to ordinary equity holders of the Company by the number of ordinary shares outstanding at the end of the year. As there are no dilutive instruments outstanding, basic and diluted NAV per share are identical.

The Group has chosen to adopt EPRA net tangible assets (EPRA NTA) as its primary EPRA NAV measure as it most closely aligns with the business practices of the Group. The adjustments between NAV and EPRA NTA are reflected in the following table:

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Net assets per consolidated statement of financial position	478,107	445,920
Fair value of derivatives	(1,750)	(363)
EPRA NTA	476,357	445,557
Issued share capital (number)	414,368,169	404,764,328
<b>Basic NAV per share</b>	<b>115.38p</b>	110.17p
<b>EPRA NTA per share</b>	<b>114.96p</b>	110.08p

### 24. Operating leases

The following table sets out the maturity analysis of leases receivables, showing the undiscounted lease payments under non-cancellable operating leases receivable by the Group:

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Year one	48,541	40,477
Year two	49,409	41,125
Year three	50,158	41,901
Year four	51,046	42,509
Year five	51,761	43,270
Onwards	986,920	762,841
<b>Total</b>	<b>1,237,835</b>	972,123

The Group's investment properties are leased to tenants under the terms of property leases that include upward only rent reviews that are performed annually. These are annual inflation uplifts linked to either CPI or RPI. RPI-linked leases have a floor and cap at either 2% and 4% or 1% and 5%.

Notes to the consolidated financial statements *continued*

For the year ended 31 December 2023

**25. Reconciliation of liabilities to cash flows from financing activities**

	Notes	Borrowings £'000	Interest rate derivative £'000	Interest payable £'000	Total £'000
<b>As at 1 January 2022</b>		<b>110,907</b>	<b>(94)</b>	<b>474</b>	<b>111,287</b>
<b>Cash flows from financing activities:</b>					
Borrowings drawn	17	85,074	–	–	85,074
Borrowings repaid	17	(57,362)	–	–	(57,362)
Loan arrangement fees paid		(1,265)	–	–	(1,265)
Interest received	18	–	112	–	112
Interest and commitment fees paid		–	–	(3,909)	(3,909)
<b>Non-cash movements:</b>					
Amortisation of loan arrangement fees	17	1,205	–	–	1,205
Fair value movement	18	–	(381)	–	(381)
Loan arrangement fees accrued		(1,363)	–	–	(1,363)
Interest and commitment charge		–	–	4,584	4,584
<b>As at 31 December 2022</b>		<b>137,196</b>	<b>(363)</b>	<b>1,149</b>	<b>137,982</b>
<b>Cash flows from financing activities:</b>					
Borrowings drawn	17	82,500	–	–	82,500
Borrowings repaid	17	(40,000)	–	–	(40,000)
Loan arrangement fees paid		(2,827)	–	–	(2,827)
Interest received	18	–	1,035	–	1,035
Interest and commitment fees paid		–	–	(9,518)	(9,518)
Purchase of interest rate derivatives	18	–	(3,238)	–	(3,238)
<b>Non-cash movements:</b>					
Amortisation of loan arrangement fees	17	1,418	–	–	1,418
Fair value movement	18	–	458	–	458
Loan arrangement fees – reversal of accrual		1,650	–	–	1,650
Interest and commitment charge		–	–	10,114	10,114
Accrued interest receivable on interest rate derivatives		–	358	–	358
<b>As at 31 December 2023</b>		<b>179,937</b>	<b>(1,750)</b>	<b>1,745</b>	<b>179,932</b>

## Notes to the consolidated financial statements continued

### For the year ended 31 December 2023

#### 26. Capital commitments

At 31 December 2023, the Group had committed capital expenditure on one forward-funded development of a new property and on capital improvements to three existing properties; this amounted to £9.5m (2022: £9.2m).

The Group has committed to deferred payment agreements on two acquisitions in return for increased rent based on certain trading performance conditions being met by the tenant. As at 31 December 2023, the total capital commitment for these deferred payments is estimated at £4.6m (2022: £4.6m).

#### 27. Controlling parties

The Company is not aware of any person who, directly or indirectly, owns or controls the Company. The Company is not aware of any arrangements the operations of which may give rise to a change in control of the Company.

#### 28. Subsequent events

No significant events have occurred between the statement of financial position date and the date when the financial statements have been authorised by the directors, which would require adjustments to, or disclosure in, the financial statements.

## Company statement of financial position

As at 31 December 2023

**Company Registration Number: 10464966**

	Notes	31 December 2023 £'000	31 December 2022 £'000
<b>Non-current assets</b>			
Investment in subsidiaries	6	418,861	430,079
<b>Total non-current assets</b>		<b>418,861</b>	430,079
<b>Current assets</b>			
Trade and other receivables	7	60,994	18,862
Cash and cash equivalents	8	7,773	283
<b>Total current assets</b>		<b>68,767</b>	19,145
<b>Total assets</b>		<b>487,628</b>	449,224
<b>Current liabilities</b>			
Trade and other payables	9	(9,521)	(11,720)
<b>Total liabilities</b>		<b>(9,521)</b>	(11,720)
<b>Total net assets</b>		<b>478,107</b>	437,504
<b>Equity</b>			
Share capital	10	4,144	4,048
Share premium reserve	10	376,716	365,642
Capital reduction reserve	10	24,077	24,077
Retained earnings		73,170	43,737
<b>Total equity</b>		<b>478,107</b>	437,504

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The profit attributable to the Parent Company for the year ended 31 December 2023 amounted to £57,247,000 (2022: profit of £17,556,000).

The financial statements were approved and authorised for issue by the board of directors on 22 March 2024 and are signed on its behalf by:

**Simon Laffin**

Chair

The accompanying notes form an integral part of these financial statements.

## Company statement of changes in equity

For the year ended 31 December 2023

	Notes	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
<b>1 January 2023</b>		<b>4,048</b>	<b>365,642</b>	<b>24,077</b>	<b>43,737</b>	<b>437,504</b>
<b>Total comprehensive income</b>		–	–	–	57,247	57,247
<b>Transactions with owners</b>						
Dividends paid	5	–	–	–	(27,814)	(27,814)
Share issue	10	96	11,104	–	–	11,200
Share issue costs	10	–	(30)	–	–	(30)
<b>31 December 2023</b>		<b>4,144</b>	<b>376,716</b>	<b>24,077</b>	<b>73,170</b>	<b>478,107</b>

For the year ended 31 December 2022

	Notes	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
<b>1 January 2022</b>		<b>3,506</b>	<b>305,672</b>	<b>24,077</b>	<b>51,905</b>	<b>385,160</b>
<b>Total comprehensive income</b>		–	–	–	17,556	17,556
<b>Transactions with owners</b>						
Dividends paid	5	–	–	–	(25,724)	(25,724)
Share issue	10	542	61,727	–	–	62,269
Share issue costs	10	–	(1,757)	–	–	(1,757)
<b>31 December 2022</b>		<b>4,048</b>	<b>365,642</b>	<b>24,077</b>	<b>43,737</b>	<b>437,504</b>

The accompanying notes form an integral part of these financial statements.

# Notes to the Company financial statements

For the year ended 31 December 2023

## 1. Basis of preparation

### General information

The financial statements for the year ended 31 December 2023 are prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland (FRS 102) and in accordance with the Companies Act 2006, with comparatives presented for the year ended 31 December 2022.

### Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 102.

In preparing the separate financial statements of the Company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- a reconciliation of the number of shares outstanding at the beginning and end of the period has not been presented as the reconciliations of the Group and the Company would be identical;
- no statement of cash flows has been presented for the Company;
- disclosures in respect of the Company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group as a whole;
- the requirement to present related party disclosures between the Company and fellow subsidiaries where ownership is all 100%; and
- no disclosures have been given for the aggregate remuneration of the key management personnel of the Company as their remuneration is included in the totals for the Group as a whole.

### Convention

The financial statements are presented in Sterling, which is also the Company's functional currency, and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

### Going concern

After making enquiries and bearing in mind the nature of the Company's business and assets, the directors consider that the Company has adequate resources to continue in operational existence for the next 12 months from the date of approval of these financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The ongoing effect of the high inflation and interest rate environment has been considered by the directors. The directors have reviewed the forecasts for the Company, taking into account the impact of heightened interest rates and rising costs on trading over the 12 months from the date of signing this annual report. The forecasts have been assessed against a range of possible downside outcomes incorporating significantly lower levels of income and higher costs; see going concern and viability for further detail.

The directors believe that there are currently no material uncertainties in relation to the Company's ability to continue for a period of at least 12 months from the date of approval of the Company's financial statements. The board is, therefore, of the opinion that the going concern basis adopted in the preparation of the annual report is appropriate.

## 2. Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosures. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amount of the assets or liabilities in future periods.

The most significant estimates, assumptions and judgements relate to the determination of carrying value of unlisted investments in the Company's subsidiary undertakings. The nature, facts and circumstance of the investment are taken into account in assessing whether there are any indications of impairment. Provisions provided reflect any reduction in net asset value of subsidiaries in the year, typically as a result of dividends declared in the year.

## 3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out alongside the relevant note.

## 4. Taxation

The Company is exempt from corporation tax on the profits and gains from its property investment business, provided it continues to meet certain conditions as per REIT regulations. Any non-qualifying profits and gains however, will continue to be subject to corporation tax.

Tax charge included in total comprehensive income:

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
UK corporation tax	–	–

## 5. Dividends

Details of dividends paid by the Company are included in note 12 to the consolidated financial statements.

### Accounting policy

#### Dividends

Dividends are recognised when they become legally payable.

## 6. Investment in subsidiaries

	31 December 2023 £'000	31 December 2022 £'000
At the beginning of the year	430,079	392,486
Additions	165,234	93,425
Impairment	(176,452)	(55,832)
<b>At the end of the year</b>	<b>418,861</b>	<b>430,079</b>

## Notes to the Company financial statements continued

For the year ended 31 December 2023

### 6. Investment in subsidiaries continued

The Company has the following subsidiaries:

	Principal activity	Country of incorporation	Ownership %
Impact Property 1 Limited ('Propco 1') <sup>1</sup>	Real estate investment	England and Wales	100
Impact Property 2 Limited ('Propco 2') <sup>1</sup>	Real estate investment	England and Wales	100
Impact Property 3 Limited ('Propco 3') <sup>1</sup>	Real estate investment	England and Wales	100
Impact Property 4 Limited ('Propco 4') <sup>1</sup>	Real estate investment	England and Wales	100
Impact Property 5 Limited ('Propco 5')	Real estate investment	England and Wales	100
Impact Property 6 Limited ('Propco 6')	Real estate investment	England and Wales	100
Impact Property 7 Limited ('Propco 7') <sup>1</sup>	Real estate investment	England and Wales	100
Impact Property 8 Limited ('Propco 8') <sup>1</sup>	Real estate investment	England and Wales	100
Impact Property 9 Limited ('Propco 9') <sup>1</sup>	Real estate investment	England and Wales	100
Impact Finance 1 Limited ('Finance 1') <sup>1</sup>	Financing company	England and Wales	100
Impact Finance 2 Limited ('Finance 2') <sup>1</sup>	Financing company	England and Wales	100
Impact Finance 3 Limited ('Finance 3') <sup>1</sup>	Financing company	England and Wales	100
Impact Finance 4 Limited ('Finance 4') <sup>1</sup>	Financing company	England and Wales	100
Impact Finance 5 Limited ('Finance 5') <sup>1</sup>	Financing company	England and Wales	100
Impact Finance 6 Limited ('Finance 6') <sup>1</sup>	Financing company	England and Wales	100
Impact Holdco 1 Limited ('Holdco 1')	Investment holding company	England and Wales	100
Impact Holdco 2 Limited ('Holdco 2')	Investment holding company	England and Wales	100
Impact Holdco 3 Limited ('Holdco 3')	Investment holding company	England and Wales	100
Impact Holdco 4 Limited ('Holdco 4')	Investment holding company	England and Wales	100
Impact Holdco 5 Limited ('Holdco 5')	Investment holding company	England and Wales	100
Impact Holdco 6 Limited ('Holdco 6')	Investment holding company	England and Wales	100
Roseville Property Limited <sup>1,2</sup>	Property holding company	England and Wales	100
Romney Care Home Limited <sup>1,2</sup>	Property holding company	England and Wales	100
Cholwell Care (Nailsea) Limited <sup>1,2</sup>	Property holding company	England and Wales	100
Butterfly Cumbria Properties Limited <sup>1</sup>	Property holding company	England and Wales	100
The Holmes Care Holdings Limited <sup>1,2</sup>	Property holding company	England and Wales	100
Hollyblue Healthcare (Ulster) Limited <sup>1,2</sup>	Property holding company	England and Wales	100
Tower Bridge Homes Care Limited <sup>1,2</sup>	Property holding company	England and Wales	100

## Notes to the Company financial statements *continued*

For the year ended 31 December 2023

### 6. Investment in subsidiaries *continued*

	Principal activity	Country of incorporation	Ownership %
The Holmes Care Group GB Limited <sup>1,2</sup>	Property holding company	England and Wales	100
Hillcrest House Limited <sup>1,2</sup>	Property holding company	England and Wales	100
Carlton Hall (Lowestoft) Limited <sup>1,2</sup>	Property holding company	England and Wales	100
Abingdon Manor Care Centre Limited <sup>1,2</sup>	Property holding company	Northern Ireland	100
Larne Care Centre Limited <sup>1,2</sup>	Property holding company	Northern Ireland	100
Larne C C Limited <sup>1,2</sup>	Property holding company	Northern Ireland	100
Welford Bidco 5 Midco Limited <sup>1</sup>	Investment holding company	England and Wales	100
Morris Care Limited <sup>1</sup>	Property holding company	England and Wales	100
Kingdom Finco 1 Limited <sup>1</sup>	Investment holding company	England and Wales	100
Kingdom Homes Limited <sup>1</sup>	Property holding company	Scotland	100
Barrogil Limited <sup>1</sup>	Property holding company	Scotland	100
Eastleigh Care Group Limited <sup>1</sup>	Property holding company	England and Wales	100
Woodleigh Christian Care Home Limited <sup>1</sup>	Property holding company	England and Wales	100
Welford Bidco 2 Midco Limited <sup>1</sup>	Investment holding company	England and Wales	100
Welford Bidco 4 Midco Limited <sup>1</sup>	Investment holding company	England and Wales	100

<sup>1</sup> As at 31 December 2023 these entities were held indirectly by the Company.

<sup>2</sup> As at 31 December 2023 these entities are in the process of winding up.

The registered address for the above subsidiaries incorporated in England and Wales is: The Scalpel, 18th Floor, 52 Lime Street, London, EC3M 7AF, England

The registered address for the above subsidiaries incorporated in Northern Ireland is: 21 Arthur Street, Belfast, BT1 4GA, Northern Ireland

The registered address for the above subsidiaries incorporated in Scotland is: 177 Bothwell Street, Glasgow, G2 7ER, Scotland

Where the entity is in the process of winding up, the registered address is that of the liquidator appointed by the Company.

#### Accounting policy

##### Investments in subsidiaries

The investments in subsidiary companies are included in the Company's statement of financial position at cost less provision for impairment.



## Notes to the Company financial statements continued

For the year ended 31 December 2023

### 7. Trade and other receivables

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Loan to Group companies	60,797	18,658
Prepayments	197	204
	<b>60,994</b>	<b>18,862</b>

As at 31 December 2023, there were no trade receivables past due or impaired (2022: none). Loans to subsidiaries are interest free, repayable on demand and management expect them to be settled within the next 12 months.

#### Accounting policy

##### Trade and other receivables

Trade and other receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are initially recognised at fair value and subsequently measured at amortised cost. A provision for impairment is made when there is objective evidence that the Company will not be able to recover balances in full.

Balances are written off when the probability of recovery is assessed as being remote.

### 8. Cash and cash equivalents

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Cash and cash equivalents	7,773	283

None of the Company's cash balances are held in restricted accounts.

#### Accounting policy

##### Cash and cash equivalents

Cash and cash equivalents include cash at bank and short-term deposits.

### 9. Trade and other payables

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Loan from Group companies	7,781	9,977
Trade and other payables	1,740	1,743
	<b>9,521</b>	<b>11,720</b>

Loans from Group companies are unsecured, interest-free and are repayable on demand.

### Trade and other payables

Trade payables are initially recognised at their fair value and are subsequently measured at cost.

### 10. Share capital, share premium and capital reduction reserve

Details on movements in share capital, share premium and capital reduction reserve of the Company are the same as that of the Group and are included in note 21 to the consolidated financial statements.

#### Accounting policy

##### Share premium

The surplus of net proceeds received from the issuance of new shares over their par value is credited to this account and the related issue costs are deducted from this account. The reserve is non-distributable.

##### Capital reduction reserve

The capital reduction reserve is the result of the transfer of a portion of the share premium into a distributable reserve.

### 11. Transactions with related parties

The Company has taken advantage of the exemption provided by FRS 102 not to disclose transactions with other members of the Group as the Company's own financial statements are presented together with its consolidated financial statements.

See note 22 of the consolidated financial statements for disclosure of related party transactions of the Group.

### 12. Capital commitments

There were no capital commitments held by the Company (2022: £nil).

### 13. Contingent liabilities

On 21 December 2021, the Company guaranteed a long-term loan note issue made by a wholly owned subsidiary. The loan notes total £75m and mature in 2035. See note 17 of the consolidated financial statements for further detail.

### 14. Subsequent events

Significant events after the reporting period are the same as those of the Group. See note 28 to the consolidated financial statements.

No other significant events have occurred between the statement of financial position date and the date when the financial statements have been authorised by the directors, which would require adjustments to, or disclosure in, the financial statements.

# Additional information

## What's in this section

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## Reporting against the Task Force on Climate-Related Financial Disclosures framework

### Positive progress

In last year's report, we included our initial response to the Task Force on Climate-related Financial Disclosures (TCFD) methodology, where we reported across the framework's four key pillars of governance, strategy, risk management and metrics and targets and responded to the underlying 11 recommended disclosures. In line with the TCFD's suggested approach, we considered a 1.5-2 degrees warming scenario, based on the Intergovernmental Panel on Climate Change's (IPCC) defined Representative Concentration Pathway 2.6 and assessed the associated physical and transition risks. We also considered IPCC's RCP 4.5 (2-3.5 degrees warming) and RCP 8.5 (4 degrees warming). We have not repeated that analysis in this report.

During 2023 we have made good progress in terms of continuing to develop our understanding, management, measurement and decision-making in regard to climate action. The IM has established an ESG committee chaired by the Finance Director; we have continued to develop a credible climate net zero delivery plan and model the associated finances; and, building on last year's TCFD analysis, we have considered specific material risks and opportunities in greater detail (pages 108 to 110).

### Reporting against the TCFD Framework

The table below highlights how we have reported in line with the 11 recommendations of TCFD and includes our own informed assessment of our level of alignment. We recognise that this is an iterative process and have highlighted those areas where we still need to make improvement or continue to progress.

Recommended disclosure	Current status	Comment	Page ref
<b>Governance</b>			
Describe the board's oversight of climate-related risks and opportunities	●	We have included these disclosures in the report	39-42
Describe the management's role in assessing and managing climate-related risks and opportunities	●	We have included these disclosures in the report	39
<b>Strategy</b>			
Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	●	We have included these disclosures in the report	108-110




Recommended disclosure	Current status	Comment	Page ref
<b>Strategy continued</b>			
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning	◐	We have assessed the impacts of climate-related risks and opportunities from a qualitative perspective but have yet to translate this fully into quantifiable financial impacts. This will continue to be reviewed during 2024	108-110
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	◐	We have assessed the impacts of climate-related risks and opportunities and the actions we are taking to increase our resilience, however we have yet to translate this fully into quantifiable financial impacts and articulate our resilience on this basis. This will continue to be reviewed during 2024	108-110
<b>Risk management</b>			
Describe the organisation's processes for identifying and assessing climate-related risks	●	We have included these disclosures in the report	127
Describe the organisation's processes for managing climate-related risks	●	We have included these disclosures in the report	127
Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	●	We have included these disclosures in the report	127

#### Key



- Reporting in line with the recommendations.
- ◐ We have made disclosures but are not yet fully reporting in line with the recommendations.

## Reporting against the Task Force on Climate-Related Financial Disclosures framework continued

### Reporting against the TCFD Framework continued

Recommended disclosure	Current status	Comment	Page ref
<b>Metrics and targets</b>			
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management processes		We have included these disclosures in the report	36 and 112
Describe Scope 1, Scope 2 and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks		We continue to improve the accuracy of our reported Scope 3 emissions, which represents a significant proportion of our total emissions. We now collect over 85% of scope 3 emissions data from our tenants and continue to explore ways to improve the quality and quantity of this data capture and disclosure	112
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets		We have developed some headline targets but in 2024, we will consider further targets related to transition and physical risks and opportunities	36

**Key**

-  Reporting in line with the recommendations.
-  We have made disclosures but are not yet fully reporting in line with the recommendations.

## Reporting against the Task Force on Climate-Related Financial Disclosures framework continued

### Governance

The board sets our risk appetite and oversees our risk management, which the Investment Manager carries out on our behalf. This risk framework includes climate change and sustainability related matters. Twice a year, the board and the Investment Manager review our principal risks and consider emerging risks. Following the Board’s approval of the ESG Strategy in February 2023 the IM established an ESG Committee to provide further structure and formality to its ESG workstreams and to track progress against targets for climate related targets.

The IM’s ESG Committee, which meets on a quarterly basis and documents minutes and actions, is responsible for reviewing and advising on the recommendations made by the IM’s ESG Working Group, also established in 2023, chaired by the IM’s Development Director.

The IM’s ESG Committee is chaired by the IM’s Finance Director who, in partnership with the Development Director, oversees the operational and financial aspects of our sustainability programme. The IM’s Finance Director reports directly into the board and consults with the audit committee to ensure the relevant level of assurance is being provided. ESG/Sustainability is an item on the board agenda and a dedicated Board session takes place periodically.

More information on our governance of climate change considerations can be found within our reporting on Principal Risk (pages 36 to 41) and our Audit, Risk and Internal Control (pages 127 to 129).



#### Key

- Board level
- Investment Manager

# Reporting against the Task Force on Climate-Related Financial Disclosures framework continued

## Strategy

Having modelled a net zero strategy, which we reported on in our 2022 annual report, we used 2023 to develop further our net zero delivery plan. We identified six properties which were representative of the energy performance across our portfolio and commissioned detailed on-site energy audits to test our assumptions and associated financial modelling.

In tandem with our net zero delivery planning we continue to make good progress on making the necessary improvements to our properties to ensure that they comply with future MEES regulation.

Building on last year's assessments of risks and opportunities, we undertook a detailed review of the following areas which we considered material to our business (see below). Once again, to align with our business strategy, we have defined short term as one to three years, medium term as five to 10 years and a long-term timeframe as up to 25 years.

While we have assessed the potential financial impacts relating to our net zero planning and MEES compliance, we still need to quantify the financial impacts posed by physical risks of flooding and other risks and opportunities.

Following our review of climate related risks and opportunities in 2022 we have highlighted in the table below the most material risks and how we are managing these.

## Detailed review of risks and opportunities

### Flooding

<b>Probability:</b> Medium	●●●○
<b>Impact:</b> Moderate	●●○○
<b>Change in the year:</b> No change	↔
<b>Risk appetite:</b> Cautious	●●○○
<b>Timescale:</b> Medium/Long	●●●○

#### Disruption to provision of care or possible closure of care home

#### How we are assessing the risk

Using the Environment Agency (EA) current data, we have assessed all care homes within our portfolio for flood risk related to seas, rivers, surface and ground water. We have also cross-referenced IPCC longer-term data which we had mapped against a representative 20 care homes in our portfolio. As regards EA's current data, we have identified 12 assets which are potentially at high risk (greater than 3.3% chance of flooding each year), and within our longer-term assessment, we have identified three properties from our representative sample which are at high risk from rising sea levels under a high-emissions longer term scenario.

Flooding risk is also included in our due diligence sustainability reports for new acquisitions. During 2024, we will conduct a more detailed risk assessment for those considered high risk, reviewing aspects such as local authority flood defence planning.

#### How we manage this risk

All of our homes are fully insured against damage including loss of rent. Our tenants separately have insurance for loss of earnings for their own business. Where flood risk has been identified, or occurred, we look to work with our tenants and insurers to enhance the flood defences and safety for residents.

#### Opportunity

Increased investment in our homes and capital deployed in return for increased rent.

Improved long-term care of residents

### Additional capital expenditure

<b>Probability:</b> High	●●●●
<b>Impact:</b> Moderate	●●○○
<b>Change in the year:</b> No change	↔
<b>Risk appetite:</b> Cautious	●●○○
<b>Timescale:</b> Medium/Long	●●●○

#### Additional costs required to improve energy efficiency and realise net zero targets

#### How we are assessing the risk

We have mapped and estimated a capex profile from the present day until 2045 when we plan to be net zero. We are targeting approximately 15% of our asset management budget towards energy-efficiency improvements.

During 2023, we conducted a first round of on-site energy audits to verify our net zero modelling assumptions. These findings and costings are being incorporated into our climate transition planning.

#### How we manage this risk

Our leases with our tenants are fully insuring and repairing and require tenants to ensure the property is compliant with legislation. Therefore, as legislation comes in to align with these targets, our tenants will be responsible for the cost and have the ability to factor this in to the cost of their services.

We are working with our tenants to ensure our buildings are well prepared for future legislation and our ESG targets. We do this by having a good understanding of the environmental performance of our homes. We also ensure that any capital improvements that require our permission include some environmental enhancements.

#### Opportunity

Increased investment in our homes and capital deployed in return for increased rent.

Ability to utilise Improvements in technology to help reducing the carbon footprint of our portfolio

Improved long-term care of residents

# Reporting against the Task Force on Climate-Related Financial Disclosures framework continued

## Strategy continued

### Detailed review of risks and opportunities continued

#### Regulation

Probability: High	●●●●
Impact: Moderate	●●○○
Change in the year: No change	↔
Risk appetite: Cautious	●●○○
Timescale: Medium/Long	●●●○

**Potential loss of value for assets not meeting expected future standards. Assets may become “stranded” by evolving environmental legislation**

#### How we are assessing the risk

We work closely with environmental and political consultants to help us understand future proposals for any changes in regulation and we appraise our portfolio against these proposed regulations.

For new acquisitions, we have set ourselves a target of an EPC B rating or the ability to achieve a B rating in the short term. We also undertake environmental due diligence including CRREM analysis to model stranding year and key mitigations. An objective of our net zero delivery plan is to ensure our portfolio is upgraded to meet our targets.

We now have full visibility of EPCs across our entire portfolio of properties and have an active asset management improvements schedule in place to ensure we are compliant with anticipated 2030 MEES regulation. Our leases require our tenant operators to ensure the buildings are in compliance with legislation.

#### How we manage this risk

As explained above, our leases require our tenant operators to ensure the buildings are in compliance with legislation.

#### Opportunity

Increased investment in our homes and capital deployed in return for increased rent.

Ability to utilise Improvements in technology to help reducing the carbon footprint of our portfolio.

#### Cost of carbon

Probability: Medium	●●●○
Impact: Moderate	●●○○
Change in the year: No change	↔
Risk appetite: Cautious	●●○○
Timescale: Medium	●●●○

**Introduction of carbon levy by Govt to encourage reduction in carbon emissions that results in additional taxation liability for the Company**

#### How we are assessing the risk

The IM has held two workshops to discuss the possible options re carbon pricing/taxation and how best to introduce this into our business strategy and financial planning.

We continue to ensure we are capturing as much underlying data from our tenants on our Scope 3 emissions.

We will continue to monitor the situation in 2024 and also ensure that we are compliant with future ISSB/government guidance. We expect to start to embed an internal carbon price within our planning to inform decision-making

#### How we manage this risk

By understanding the legislation being applied in other countries we are able to model similar legislation being applied in the UK and ensuring this can be incorporated into our risk modelling in 2024.

#### Opportunity

With increased regulation there is the opportunity for our tenants to charge increased fees for their services and therefore enable us to increase our investment in our homes in return for an increased rent.

Reporting against the Task Force on Climate-Related Financial Disclosures framework continuedStrategy continued

## Additional Risk &amp; opportunities disclosed in 2022

## Water stress and heatwaves

Probability: Medium	●●●○
Impact: Significant	●●●●
Change in the year: No change	↔
Risk appetite: Cautious	●●○○
Timescale: Medium/Long	●●●○

Environment within assets is detrimental for wellbeing of residents and staff and additional capex is required to retro fit cooling and improve water use

## How we are assessing the risk

Our net zero strategy includes assumptions on additional cooling requirements for existing assets.

We will continue to work with our environmental consultants to help us understand the expected regular peak temperatures across the UK as a result of a 1.5° or more global increase in temperature and ensure this is factored into our design parameters when approving asset management activity.

## How we manage this risk

This continues to be work in progress to understand on an asset by asset basis what the implications could be and how we can mitigate these.

## Opportunity

Increased investment in our homes and capital deployed in return for increased rent.

## Market

Probability: Medium	●●●○
Impact: Moderate	●●○○
Change in the year: No change	↔
Risk appetite: Cautious	●●○○
Timescale: Medium	●●●○

Investors and markets increasing awareness of environmental performance. If we fail to communicate a strategy and implications for our portfolio investors are less likely to want to invest in our business

## How we are assessing the risk

We are undertaking a significant amount of work to ensure we can deliver against our ESG strategy and net zero targets and communicate the risks and opportunities that come with this.

We regularly engage with investors and ensure we are open and transparent about our business in our reporting to ensure we understand any investor concerns and address these.

## How we manage this risk

Alongside investor engagement we have already retained our EPRA sBPR Gold award for our sustainability reporting and a D rating for our initial Carbon Disclosure Project submission (a voluntary disclosure for companies seeking to be transparent on climate related risks and opportunities).

In 2024 we are looking to gain GRESB accreditation which will provide investors with incremental benchmarking about the quality of information we hold on our portfolio.

## Opportunity

By taking our environmental targets seriously and transparently reporting, more investors could be interested in investing in our business.

## Reputation

Probability: Medium	●●●○
Impact: Moderate	●●○○
Change in the year: No change	↔
Risk appetite: Minimalist	●○○○
Timescale: Short	●○○○

Investors, tenants and commissioners may have increasing expectations of real estate owners for environmental issues and if we fail to meet these or deliver against our objectives and net zero targets our reputation would be damaged and stakeholders may be less willing to engage with us

## How we are assessing the risk

We are continuing to appraise our portfolio and collect as much evidence as possible to be able to benchmark and report on our portfolio.

## How we manage this risk

We aim to be fully transparent and honest about our ESG targets, the activities we are undertaking and how we are performing against these. Our aim is to achieve these targets and provide comfort that the Company is committed to improving environmental standards.

## Opportunity

If we are successful in communicating and delivering against these targets, existing stakeholders will want to continue to work with us and potentially, more will be keen to work with us.



## Reporting against the Task Force on Climate-Related Financial Disclosures framework continued

### Risk management

**As a principal risk for the business, climate-related risks are subject to the same formal governance and review process as other risks on our risk register.**

The Investment Management team has a risk committee which assesses and reviews the company's risk register on a quarterly basis and reports to the audit committee. Prioritised risks are discussed and considered by the audit committee and board twice a year. Environmental regulation and impact of climate change is already a principal risk for the Group; the assessment has been maintained/changed from Probability: Medium, Impact: Low to Probability: Medium, Impact: Medium. Following a full climate risk analysis undertaken in 2022 we continue to review risks and opportunities. The key climate related risks and opportunities are shown on pages 108 to 110.

As part of our due diligence process for potential new acquisitions and asset management projects, environmental performance and opportunities to decarbonise are considered in detail. Risks around our portfolio and ability to decarbonise in accordance with our net zero delivery plan are assessed using the CRREM toolkit which measures the potential rate of decarbonisation against the Paris Climate Treaty 1.5 degree warming scenario. Assets with higher risks associated with this are reviewed annually as part of our portfolio stratification (Core, Value Add and Non-Core).

Looking ahead, this due diligence will continue to factor in possible identified risks and opportunities associated with climate change and a decarbonisation pathway.

### Metrics and targets

As part of our EPRA reporting responsibilities, we have been disclosing our energy consumption data since 2019 in accordance with the EPRA Best Practice Sustainability requirements. Impact's Scope 1 and 2 emissions are minimal with all reported emissions relating to tenant-obtained energy consumption falling under Scope 3. In this report we have included our GHG emissions for the 12 months to 31 December 2023 in order to provide as up-to-date information as possible.

We have been modelling our portfolio as part of our net zero strategy planning and have referenced our progress within this report. This net zero strategy incorporates projections and impacts based on the size of our current portfolio and on the size of our projected portfolio.

Last year, we published our incremental emissions reduction targets and longer-term net zero target. As we continue to gain greater insight into our Scope 3 emissions, we will continue to review and refine our metrics and targets.

In 2023 our CO<sub>2</sub>e emissions per m<sup>2</sup> increased slightly from 50kg to 54kg. This in part reflects the increased occupancy experienced over this period. It will take time for the improvement measures being implemented to embed in energy performance. We continue to explore how we can accelerate progress to meet our interim milestone of a 15% reduction in like-for-like emissions by 2025, whilst maintaining affordability for our tenant's businesses.

Our key climate related metrics are:

- EPC Ratings (page 37)
- Energy Intensity per bed (KWh per bed) (page 112)
- GHG Emissions Intensity (CO<sub>2</sub>e per bed) (page 112)
- Capex deployed on sustainability improvements (£pa) (page 36)
- Interim net zero targets (page 37)
- Proportion of leases with 'Green' obligations (page 36)

Reporting against the Task Force on Climate-Related Financial Disclosures framework continuedMetrics and targets continued

## Energy and carbon disclosures

Environmental performance measures<sup>1,2,3</sup>

Performance measure – Impact Healthcare REIT plc	Unit	Scope	2023	2022	Change
Electricity Absolute Consumption	kWh	3	21,197	18,077	17%
Electricity Total & like-for-like consumption	kWh	3	19,630	18,077	9%
Gas Absolute Consumption	kWh	3	60,502	52,592	15%
Gas Total & like-for-like consumption	kWh	3	54,464	52,592	4%
Other Fuels Absolute Consumption	kWh	3	5,424	2,758	97%
Other Fuels like-for-like consumption <sup>1</sup>	kWh	3	4,349	2,758	58%
Building energy intensity absolute <sup>1</sup>	kWh/bed/year	3	11,284	10,615	6%
Building energy intensity like-for-like <sup>1</sup>	kWh/bed/year	3	10,966	10,615	3%
Building energy intensity like-for-like	kWh/m <sup>2</sup> /year	3	286	268	7%
Total indirect greenhouse gas (GHG) emissions from tenant obtained fuel usage <sup>1</sup>	Tonnes CO <sub>2</sub> e	3	15,923	13,768	16%
Total indirect greenhouse gas (GHG) emissions from tenant obtained fuel usage like-for-like <sup>1</sup>	Tonnes CO <sub>2</sub> e	3	14,482	13,768	5%
Greenhouse gas (GHG) emissions intensity from building energy consumption	Tonnes CO <sub>2</sub> e /bed/year	3	2.06	1.99	3%
Greenhouse gas (GHG) emissions intensity from building energy consumption	Kg CO <sub>2</sub> e/m <sup>2</sup> /year	3	54	50	8%
Greenhouse gas (GHG) emissions intensity from building energy consumption like-for-like <sup>1</sup>	Tonnes CO <sub>2</sub> e/bed/year	3	2.02	1.99	1%
Greenhouse gas (GHG) emissions intensity from building energy consumption like-for-like <sup>1</sup>	Kg CO <sub>2</sub> e/m <sup>2</sup> /year	3	53	50	5%
Performance measure – Investment Manager	Unit	Scope	2023	2022	Change
Total electricity consumption	kWh	Total Investment Manager electricity	7,336	5,470	34%
Investment Manager energy intensity	kWh/FTE	Average kWh electricity consumption per FTE in year	734	521	41%
Total indirect greenhouse gas (GHG) emissions	tCO <sub>2</sub> e	Indirect - Scope 2 (location-based)	1.5	1.1	44%
Business travel – Land – Car	tCO <sub>2</sub> e	Scope 3 - Private vehicles (incl. WTT <sup>2</sup> )	4.0	3.7	8%
Business travel – Land – Air	tCO <sub>2</sub> e	Scope 3 - Flights (With RF incl. WTT <sup>3</sup> )	1.7	1.6	9%
Business travel – Land – Rail	tCO <sub>2</sub> e	Scope 3 - Rail (incl. WTT <sup>3</sup> )	0.2	1.2	(84)%
<b>Total Emissions</b>	<b>tCO<sub>2</sub>e</b>		<b>7.4</b>	<b>7.6</b>	<b>(3)%</b>

1. Like-for-like figures adjusted to exclude 3 biomass boilers which were not disclosed in 2022 based on available data at time of publication.

2. Well-to-tank (WTT) business travel – air conversion factors are used to account for the upstream Scope 3 emissions associated with extraction, refining and transportation of the aviation fuel to the plane before take-off.

3. Well-to-tank (WTT) conversion factors for passenger vehicles and business travel on land are used to report the upstream Scope 3 emissions associated with extraction, refining and transportation of the raw fuels before they are used to power the transport mode.

## Applying the AIC Code Principles

The table below explains how we applied the AIC Code's Principles during 2023.

Board leadership and Company purpose	
<b>Principle A</b> – A successful company is led by an effective board, whose role is to promote the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society.	Corporate governance review, pages 51 to 54 Business model, page 10 Principal risks, pages 39 to 42 Investment policy, page 126
<b>Principle B</b> – The board should establish the Company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	Corporate governance review, pages 51 to 54 Our values, inside front cover Our purpose, page 2 Board and committee evaluation, page 53
<b>Principle C</b> – The board should ensure that the necessary resources are in place for the Company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	Strategic report, inside front cover to page 47 How we manage risk, pages 127 to 129 Principal risks, pages 39 to 42 Working with the Investment Manager, pages 55 and 56 Audit committee report, pages 58 and 59
<b>Principle D</b> – In order for the Company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.	Corporate governance review, pages 51 to 54 Strategic report, inside front cover to page 47 Section 172 statement, page 47
Division of responsibilities	
<b>Principle F</b> – The Chair leads the board and is responsible for its overall effectiveness in directing the Company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the Chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.	Directors' report, pages 63 to 66 Corporate governance review, pages 51 to 54

<b>Principle G</b> – The board should consist of an appropriate combination of directors (and, in particular, independent non-executive directors) such that no one individual or small group of individuals dominates the board's decision making.	Board of directors, pages 49 and 50 Nomination committee report, page 57 Directors' report, pages 63 to 66
<b>Principle H</b> – Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold third-party service providers to account.	Corporate governance review, pages 51 to 54 Nomination committee report, page 57 Audit committee report, pages 58 and 59 How we work with the Investment Manager, pages 55 and 56
<b>Principle I</b> – The board, supported by the Company Secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	Corporate governance review, pages 51 to 54 Directors' report, pages 63 to 66
Composition, succession and evaluation	
<b>Principle J</b> – Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.	Corporate governance review, pages 51 to 54 Nomination committee report, page 57
<b>Principle K</b> – The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.	Board of directors, pages 49 and 50 Corporate governance review, pages 51 to 54 Nomination committee report, page 57
<b>Principle L</b> – Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.	Corporate governance review, pages 51 to 54

## Applying the AIC Code Principles *continued*

Audit, risk and internal control	
<p><b>Principle M</b> – The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of external audit functions and satisfy itself on the integrity of financial and narrative statements.</p>	<p>Audit committee report, pages 58 and 59</p> <p>Notes 2 and 3 to the financial statements, pages 79 and 80</p>
<p><b>Principle N</b> – The board should present a fair, balanced and understandable assessment of the Company's position and prospects.</p>	<p>Strategic report, inside front cover to page 47</p> <p>Corporate governance review, pages 51 to 54</p> <p>Audit committee report, pages 58 and 59</p> <p>Independent auditor's report, pages 68 to 73</p> <p>Financial statements, pages 75 to 103</p>
<p><b>Principle O</b> – The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the Company is willing to take in order to achieve its long-term strategic objectives.</p>	<p>How we manage risk, pages 127 to 129</p> <p>Principal risks, pages 39 to 42</p> <p>Viability statement, page 46</p> <p>Audit committee report, pages 58 and 59</p> <p>Note 19 to the financial statements, pages 91 to 93</p>
Remuneration	
<p><b>Principle P</b> – Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success.</p>	<p>Directors' remuneration report, pages 60 to 62</p>
<p><b>Principle Q</b> – A formal and transparent procedure for developing policy remuneration should be established. No director should be involved in deciding their own remuneration outcome.</p>	<p>Directors' remuneration report, pages 60 to 62</p>
<p><b>Principle R</b> – Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of Company and individual performance, and wider circumstances.</p>	<p>Directors' remuneration report, pages 60 to 62</p>

## EPRA performance measures

The table below shows additional performance measures, calculated in accordance with the Best Practices Recommendations of the European Public Real Estate Association (EPRA). We provide these measures to aid comparison with other European real estate businesses.

### 1. EPRA earnings per share

£34.5m

8.33p per share

for the year to 31 December 2023  
(for the year to 31 December 2022:  
£32.6m/8.37p per share)

2023	8.33p
2022	8.37p
2021	8.05p
2020	7.25p

#### Definition

Earnings from operational activities. The EPRA calculation removes revaluation movements in the investment portfolio and interest rate derivatives, but includes rent smoothing.

#### Purpose

A key measure of a company's underlying operating results are an indication of the extent to which current dividend payments are supported by earnings.

### 2.1 EPRA net reinstatement value (NRV)

£518.8m

125.20p per share

as at 31 December 2023  
(as at 31 December 2022: £479.7m/118.51p per share)

2023	125.20p
2022	118.51p
2021	120.84p
2020	118.04p

#### Definition

Net asset value adjusted for fair value of derivatives and transaction costs under the assumption they will not crystallise if the Company never sells assets.

#### Purpose

The aim of this measure is to represent the value required to rebuild the entity.

### 2.2 EPRA net tangible assets (NTA)

£476.4m

114.96p per share

as at 31 December 2023  
(as at 31 December 2022: £445.6m/110.08p per share)

2023	114.96p
2022	110.08p
2021	112.41p
2020	109.58p

#### Definition

Net asset value adjusted for fair value of derivatives as these will not crystallise if held to maturity.

#### Purpose

This represents the value of the Company assuming assets are bought and sold.

### 2.3 EPRA net disposal value (NDV)

£473.3m

114.22p per share

as at 31 December 2023  
(as at 31 December 2022: £440.9/108.92p per share)

2023	114.22p
2022	108.92p
2021	111.16p
2020	108.91p

#### Definition

Net asset value adjusted to align borrowings to their drawn amount. If the Company was in an immediate disposal scenario certain assets and liabilities are adjusted to show the full value if not held to maturity.

#### Purpose

This measure aims to show the shareholders' value under a disposal scenario.

EPRA performance measures continued**3.1 EPRA net initial yield (NIY)**

6.69%

as at 31 December 2023 (as at  
31 December 2022: 6.98%)

2023	6.69%
2022	6.98%
2021	6.71%
2020	6.57%

**Definition**

Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.

**Purpose**

This measure should make it easier for investors to judge for themselves how the valuation of one portfolio compares with another portfolio.

**3.2 EPRA "topped-up" NIY**

6.92%

as at 31 December 2023 (as at  
31 December 2022: 6.98%)

2023	6.92%
2022	6.98%
2021	6.71%
2020	6.71%

**Definition**

This measure adjusts the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives, such as discounted rent periods and step rents).

**Purpose**

This measure should make it easier for investors to judge for themselves how the valuation of one portfolio compares with another portfolio.

**4. EPRA vacancy rate**

0.00%

as at 31 December 2023 (as at  
31 December 2022: 0.00%)

2023	0.00%
2022	0.00%
2021	0.00%
2020	0.00%

**Definition**

Estimated market rental value (ERV) of vacant space divided by the ERV of the whole portfolio.

**Purpose**

A "pure" (%) measure of investment property space that is vacant, based on ERV.

## EPRA performance measures continued

### 5. EPRA cost ratio

# 14.37%

for the year to 31 December 2023  
(for the year to 31 December 2022: 16.59%)

2023	14.37%
2022	16.59%
2021	15.84%
2020	17.09%

#### Definition

Administrative and operating costs (including, and excluding, direct vacancy costs) divided by gross rental income.

#### Purpose

A key measure, to enable meaningful measurement of the changes in a company's operating costs. The EPRA cost ratio does not include the interest income received on the Group's property investments made via a loan to operator, adjusting for this gives a cost ratio of 13.4%.

### 6. Like-for-like rental growth

# 4.67%

for the year to 31 December 2023  
(for the year to 31 December 2022: 5.07%)

2023	4.67%
2022	5.07%
2021	5.74%
2020	4.26%

#### Definition

Rental growth on the portfolio of properties that have been owned and operational for two full reporting cycles.

#### Purpose

Growth of rental income excludes acquisitions and disposals, but includes increases in rent from inflationary uplifts and rentalised capital expenditure. This allows stakeholders to estimate the organic income growth.

### 7. EPRA (net) LTV

# 27.85%

as at 31 December 2023 (as at  
31 December 2022: 24.10%)

2023	27.85%
2022	24.10%
2021	23.17%
2020	17.06%

#### Definition

Debt drawn at nominal value net of cash and net payables divided by portfolio value.

#### Purpose

To assess the gearing of the shareholder equity within a real estate company.

## Notes to the EPRA performance measures

For the year ended 31 December 2023

### 1. EPRA earnings per share

	31 December 2023 £'000	31 December 2022 £'000
<b>Total comprehensive income (attributable to shareholders)</b>	<b>48,831</b>	16,888
Adjusted for:		
- Revaluation movement	(21,934)	8,103
- Rental lease incentives	(140)	(141)
- Rental income arising from recognising future guaranteed rent uplifts and rental premiums	7,286	6,494
Change in fair value of investment properties	(14,788)	14,456
Loss/(profit) on disposal of investment property	16	(130)
Change in fair value of put option	–	1,811
Change in fair value of interest rate derivatives	458	(381)
<b>Profits to calculate EPRA earnings per share</b>	<b>34,517</b>	32,644
Weighted average number of ordinary shares (basic and diluted)	414,157,674	390,058,661
<b>EPRA earnings per share – basic and diluted</b>	<b>8.33p</b>	8.37p

### 2. EPRA NAV measures

The EPRA best practice recommendations, released in October 2020, give three NAV metrics: EPRA net reinstatement value (NRV), EPRA net tangible assets (NTA) and EPRA net disposal value (NDV). NRV aims to show the value of assets on a long-term basis, adjusting for items that would not be expected to crystallise under normal circumstances, NTA is calculated on the basis that assets are bought and sold whilst NDV intends to show shareholders the value of assets and liabilities in the event they cannot be held until maturity. The Group has adopted NTA as its primary EPRA NAV measure as it most closely aligns with the Group's business practices.

As at 31 December 2023:

	EPRA NRV £'000	EPRA NTA £'000	EPRA NDV £'000
<b>Net assets at end of year</b>	<b>478,107</b>	<b>478,107</b>	<b>478,107</b>
Exclude:			
Fair value of derivatives	(1,750)	(1,750)	–
Include:			
Fair value of debt <sup>1</sup>	–	–	(4,823)
Transaction costs <sup>2</sup>	42,452	–	–
<b>Net assets (per EPRA measure)</b>	<b>518,809</b>	<b>476,357</b>	<b>473,284</b>
Shares in issue at 31 December (basic and diluted)	414,368,169	414,368,169	414,368,169
<b>Net assets per share (per EPRA measure)</b>	<b>125.20p</b>	<b>114.96p</b>	<b>114.22p</b>

As at 31 December 2022:

	EPRA NRV £'000	EPRA NTA £'000	EPRA NDV £'000
<b>Net assets at end of year</b>	<b>445,919</b>	<b>445,919</b>	<b>445,919</b>
Exclude:			
Fair value of derivatives	(363)	(363)	–
Include:			
Fair value of debt <sup>1</sup>	–	–	(5,064)
Transaction costs <sup>2</sup>	34,139	–	–
<b>Net assets (per EPRA measure)</b>	<b>479,695</b>	<b>445,556</b>	<b>440,855</b>
Shares in issue at 31 December (basic and diluted)	404,764,329	404,764,329	404,764,329
<b>Net assets per share (per EPRA measure)</b>	<b>118.51p</b>	<b>110.08p</b>	<b>108.92p</b>

1. Difference between interest-bearing loans and borrowings included in the balance sheet at amortised cost, and fair value of interest-bearing loans and borrowings at drawn amount.
2. NTA and NDV are calculated using property values in line with IFRS, where values are net of real estate transfer tax and other purchasers' costs. These transaction costs are added back for NRV.



## Notes to the EPRA performance measures continued

### For the year ended 31 December 2023

#### 3. EPRA net initial yield (NIY) and EPRA “topped-up” NIY

	31 December 2023 £'000	31 December 2022 £'000
<b>Investment property – wholly owned</b>	<b>651,313</b>	532,478
Less capital improvements under construction	(9,669)	(7,535)
<b>Completed property portfolio</b>	<b>641,644</b>	524,943
Allowance for estimated purchasers' cost <sup>1</sup>	40,424	33,071
<b>Gross up completed property portfolio valuation (B)</b>	<b>682,068</b>	558,014
Annualised cash passing rental income	45,601	38,932
Property outgoings (non-recoverable insurance)	–	–
<b>Annualised net rents (A)</b>	<b>45,601</b>	38,932
Add:		
Contractual rent on properties with interim variable rents whilst in turnaround	1,617	–
<b>Topped-up net annualised rent (C)</b>	<b>47,218</b>	38,932
<b>EPRA net initial yield (A/B)</b>	<b>6.69%</b>	6.98%
<b>EPRA topped-up net initial yield (C/B)</b>	<b>6.92%</b>	6.98%

<sup>1</sup> Assumes a purchaser of the Company's portfolio would pay SDLT and transaction costs equal to 6.3% of the portfolio's value.

#### 4. EPRA vacancy rate

	31 December 2023 £'000	31 December 2022 £'000
Estimated rental value of vacant space	–	–
Estimated rental value of the whole portfolio	48,154	39,476
<b>EPRA vacancy rate</b>	<b>0.00%</b>	0.00%

#### 5. EPRA cost ratio

	31 December 2023 £'000	31 December 2022 £'000
Administrative and other expenses	7,137	7,008
Net service charge cost	–	–
Total costs including and excluding vacant property costs	7,137	7,008
Gross rental income	49,659	42,243
<b>Total EPRA cost ratio (including, and excluding, direct vacancy costs)</b>	<b>14.37%</b>	16.59%

None of the costs in this note have been capitalised. Only costs directly associated with the purchase of properties as well as subsequent value-enhancing capital expenditure qualify as acquisition costs and are capitalised.

## Notes to the EPRA performance measures continued

### For the year ended 31 December 2023

#### 6. Like-for-like rental growth

This note shows the rental income and market value for property assets that have been owned and operational for two full reporting periods, hence all below information relates to the property portfolio that has been owned and operational since 31 December 2021. It therefore excludes any rental increases or values in relation to properties acquired after 31 December 2021.

	Rent £'000	Market value £'000
Property portfolio as at 31 December 2021	31,925	450,897
Inflation-linked rental uplifts	1,308	
Rental uplifts in return for capital improvements or deferred payments	269	
Increase/(decrease) due to vacancy rate	—	
<b>Property portfolio as at 31 December 2022</b>	<b>33,502</b>	<b>451,664</b>
Inflation-linked rental uplifts	1,395	
Rental uplifts in return for capital improvements or deferred payments	168	
Increase/(decrease) due to vacancy rate	—	
<b>Property portfolio as at 31 December 2023</b>	<b>35,065</b>	<b>472,808</b>

All properties operate within the same sector, UK healthcare.

#### 7. EPRA (net) LTV

	31 December 2023 £'000	31 December 2022 £'000
Gross debt	184,760	142,260
Include:		
Net payables	6,009	8,617
Less:		
Cash and cash equivalents	(9,389)	(22,531)
<b>Net debt</b>	<b>181,380</b>	<b>128,346</b>
Property portfolio	651,313	532,478
<b>EPRA (net) LTV</b>	<b>27.85%</b>	<b>24.10%</b>

## Alternative performance measures

The other alternative performance measures may not be comparable with similarly titled measures presented by other companies. Alternative performance measures should not be viewed in isolation but as supplementary information.

### 1. Total expense ratio (TER)

Total recurring administration costs as a percentage of average NAV throughout the period.

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Opening NAV	445,920	394,244
Closing NAV	478,107	445,920
Average NAV for the year	462,013	420,082
Administrative expenses	7,137	7,009
One-off costs	–	–
Recurring expenses	7,137	7,009
<b>TER</b>	<b>1.54%</b>	1.67%

### 2. Total accounting return

The growth in NAV per share plus dividends paid expressed as a percentage of NAV per share at the beginning of the period.

	Year ended 31 December 2023	Year ended 31 December 2022
Opening NAV per share (pence)	110.17	112.43
Closing NAV per share (pence)	115.38	110.17
NAV growth for the year (pence)	5.21	(2.26)
Dividends per share paid in the year (pence)	6.71	6.51
Total return (pence)	11.92	4.25
<b>Total accounting return</b>	<b>10.82%</b>	3.78%

### 3. Gross loan to value (LTV)

The gross debt as a percentage of our gross asset value.

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Gross debt	184,760	142,260
Gross assets	667,289	596,524
<b>LTV</b>	<b>27.69%</b>	23.85%

### 4. Property investments

This relates to the portfolio valuation along with investments via loans to operators for the acquisition of property portfolios.

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Portfolio valuation	651,313	532,478
Investments in properties via loans to operators	–	36,360
<b>Property Investments</b>	<b>651,313</b>	568,838

## Our portfolio

At 31 December 2023, the Group owned the homes listed in the table below:

Tenant and home	Region	Acquisition date <sup>1</sup>	Beds <sup>2</sup>	Capital projects <sup>3</sup>
<b>Belmont Healthcare</b>				
Madeira Lodge	South East	Nov 2022	48	
Wombwell Hall	South East	Nov 2022	120	
<b>Value at 31 December 2023: £14.2m</b>				
<b>Careport</b>				
Briardene	North East	Aug 2018	60	
Derwent	North East	Aug 2018	45	
Holly Lodge	North East	Nov 2018	41	
Kingston Court	North West	Jun 2019	76	
Old Prebendal House and Court	South East	Jun 2019	40	
Riverwell Beck	North West	Dec 2020	60	
Sovereign Court and Lodge <sup>4</sup>	North East	Aug 2018	60	
The Grove	North East	Sep 2018	57	
<b>Value at 31 December 2023: £35.5m</b>				
<b>Carlton Hall</b>				
Carlton Hall	East of England	Sep 2021	86	
Oasis Development Site	East of England	Sep 2021	–	+80
<b>Value at 31 December 2023: £13.8m</b>				
<b>Croftwood Care<sup>5</sup></b>				
Ancliffe	North West		40	
Astbury Lodge	North West		41	
Croftwood	North West		47	
Crossways	North West		39	
Elm House	North West		40	+19
Florence Grogan	North West		40	
Garswood	North West		53	
Gleavewood	North West		32	
Golborne House	North West		45	
Greenacres	North West		40	

Hourigan	North West	40	
Ingersley Court	North West	46	
Lakelands	North West	40	
Leycester House	North West	40	
Loxley Hall	North West	40	
Lyndhurst	North West	40	
New Milton House	North West	39	
Parklands	North West	40	+1
The Cedars	North West	27	
The Elms	North West	41	
The Hawthorns	North West	39	
The Laurels	North West	40	
Thorley House	North West	40	
Turnpike Court	North West	53	
Wealstone	North West	42	
Westhaven	North West	52	
Whetstone Hey	North West	42	

**Value at 31 December 2023: £72.8m**

### Electus Care

Abingdon Manor	Northern Ireland	Feb 2022	60
Cedarhurst Lodge	Northern Ireland	Dec 2020	67
Edgewater Lodge	Northern Ireland	Dec 2020	75
Larne	Northern Ireland	Feb 2022	87
Saintfield Lodge	Northern Ireland	Dec 2020	51

**Value at 31 December 2023: £22.9m**

### Holmes Care Group

Alexander House	Scotland	Dec 2021	40
Almond Court	Scotland	Aug 2020	42
Almond View	Scotland	Aug 2020	78
Bankview (& BVDC)	Scotland	Aug 2020	65
Barrogil House	Scotland	Dec 2021	40
Beechwood	Scotland	Aug 2020	90

Our portfolio *continued*

Tenant and home	Region	Acquisition date <sup>1</sup>	Beds <sup>2</sup>	Capital projects <sup>3</sup>
Camilla	Scotland	Dec 2021	40	
Craigie House	Scotland	Dec 2021	30	
Cragielea	Scotland	Aug 2020	85	
Fernlea House	Scotland	Dec 2021	36	
Finavon Court	Scotland	Dec 2021	24	
Grandholm	Scotland	Aug 2020	79	
Heatherfield	Scotland	Aug 2020	60	
Larkfield	Scotland	Aug 2020	90	
Lomond View	Scotland	Dec 2021	50	
Methven House	Scotland	Dec 2021	60	
Preston House	Scotland	Dec 2021	60	
Roselea House	Scotland	Dec 2021	20	
Three Towns	Scotland	Aug 2020	60	
Walton House	Scotland	Dec 2021	40	
Willow House	Scotland	Dec 2021	40	

**Value at 31 December 2023: £92.1m****Maria Mallaband and Countrywide Group (MMCG)**

Belmont House	Yorkshire & The Humber	May 2019	106	
Croft House	Yorkshire & The Humber	Mar 2020	68	
Howgate House	Yorkshire & The Humber	Mar 2020	63	
Manor Park	Yorkshire & The Humber	Mar 2020	75	
Parksprings	Scotland	May 2019	96	
Thorntree Mews	Scotland	May 2019	40	
Wallace View	Scotland	May 2019	60	

**Value at 31 December 2023: £35.7m****Minster Care<sup>5</sup>**

Abbeywell	West Midlands		45	
Amberley	South West		30	+7
Ashgrove	Yorkshire & The Humber		56	
Broadgate	East Midlands		40	
Carnbroe	Scotland	May 2018	76	
Craigend	Scotland		48	
Diamond House	East Midlands		74	
Duncote Hall	East Midlands		40	
Duncote, The Lakes	East Midlands		47	
Emmanuel	Yorkshire & The Humber		44	
Eryl Fryn	Wales		30	
Falcon House	East Midlands		46	
Freeland House	South East		111	
Gray's Court	East of England		87	
Grenville	East of England	May 2018	64	
Hamshaw Court	Yorkshire & The Humber		45	
Hillcrest	South West	Nov 2021	88	
Ideal	West Midlands		50	
Karam Court	West Midlands		47	
Littleport Grange	East of England		80	
Meadows & Haywain	East of England		65	
Mowbray	West Midlands		39	
Red Hill	West Midlands	Jan 2020	90	
Rydal	North East		60	
Saffron	East Midlands	Jun 2017	48	
Sovereign House	West Midlands		60	
Stansty House	Wales		73	
Three Elms	North West		60	
Waterside	West Midlands		47	
Woodlands Court	North West		40	
Wordsley	West Midlands		44	

**Value at 31 December 2023: £137.3m**

Our portfolio continued

Tenant and home	Region	Acquisition date <sup>1</sup>	Beds <sup>2</sup>	Capital projects <sup>3</sup>
<b>NCUH NHS Trust</b>				
Reiver House	North West	Jun 2019	—	
Surgical Unit	North West	Jun 2019	—	
<b>Value at 31 December 2023: £4.3m</b>				
<b>Optima</b>				
Barham	East of England	Aug 2019	44	
Baylham	East of England	Aug 2019	55	
<b>Value at 31 December 2023: £15.6m</b>				
<b>Prestige Group</b>				
Merlin Manor Care Centre	North East	Mar 2020	94	
Parkville	North East	Mar 2018	94	
Roseville	North East	Mar 2018	103	
Sandbanks	North East	Oct 2018	77	
Yew Tree	North East	Jan 2019	76	+25
<b>Value at 31 December 2023: £36.3m</b>				
<b>Renaissance Care</b>				
Croftbank	Scotland	Nov 2018	68	
Rosepark	Scotland	Nov 2018	60	
<b>Value at 31 December 2023: £13.3m</b>				
<b>Melrose<sup>5</sup></b>				
Baillieston	Scotland	Aug 2022	60	
Cardonald	Scotland	Aug 2022	31	
Laurel Bank	Yorkshire & The Humber	Mar 2020	63	
Springhill	Scotland	Nov 2021	61	
Stobhill	Scotland	Aug 2022	60	
The Beeches	Yorkshire & The Humber	Mar 2020	60	
Willow Bank	Yorkshire & The Humber	Mar 2020	59	
<b>Value at 31 December 2023: £17.1m</b>				

**Welford**

Argentum Lodge	South West	Sep 2019	56
Baily House	East Midland	Jun 2022	66
Birchlands	Yorkshire & The Humber	Jun 2019	54
Corbrook Park	North West	Jan 2023	80
Eastleigh - East Street & Rossiter House	South West	May 2022	54
Eastleigh - Periton Road	South West	May 2022	69
Eastleigh - Raleigh Mead	South West	May 2022	62
Fairview Court and House <sup>4</sup>	South West	Mar 2018	73
Isle Court	West Midlands	Jan 2023	82
Mavern House	South West	Jan 2021	55
Morris Care Centre	West Midlands	Jan 2023	96
Oldbury Grange	West Midlands	Jan 2023	69
Radbrook	West Midlands	Jan 2023	63
Stretton Hall	West Midlands	Jan 2023	50
St Peter's House	East of England	Dec 2020	66
Vale View Heights Care Home	South West	Jun 2019	55
Woodleigh Christian Care Home	East Midlands	Jun 2022	44

**Value at 31 December 2023: £140.5m**

1. May 2017 unless stated.
2. Number of registered beds.
3. Capital improvement bed additions under development.
4. Treated as two properties.
5. Croftwood Care and Minster Care are both part of Minster Care Group Limited. Melrose Holdings Limited is an affiliate of Minster Care Group Limited.

## AIFM statement

Impact Health Partners LLP have served as the Alternative Investment Fund Manager since 15 March 2019; references in this statement to “AIFM” are to Impact Health Partners LLP.

### Quantitative remuneration disclosure for the AIFM

Information in relation to the remuneration paid by the AIFM is available upon request.

### Liquidity

At the date of this annual report there are no assets held by the Company which are subject to special arrangements arising from their illiquid nature. There has been no change to the liquidity management system and procedures during the period since incorporation. Please refer to note 19 in the financial statements for an analysis of the Company’s liabilities and their maturity dates at 31 December 2023.

### The current risk profile of the Company and the risk management systems employed by the AIFM to manage those risks

The Company’s risk management framework and risk appetite are set out in “Audit, risk and internal control” on pages 127 to 129 of the annual report.

Please refer to pages 39 to 42 for the board’s assessment of the principal risks and uncertainties facing the Company. The AIFM has assessed the current risk profile of the Company to be low.

### Leverage

The Group’s maximum and actual leverage levels at 31 December 2023 are shown below:

Leverage exposure	Gross method	Commitment
Maximum limit	200.0%	200.0%
Actual	149.8%	151.7%

For the purposes of (i) the EU Alternative Investment Fund Managers Directive (Directive 2011/61/EU) (the “EU AIFMD”); and (ii) the UK version of EU AIFMD as it forms part of UK law by virtue of the European Union (Withdrawal) Act 2018, and as implemented by the Financial Conduct Authority in the UK (the “UK AIFMD”), leverage is any method that increases the Group’s exposure, including the borrowing of cash and the use of derivatives. It is expressed as a percentage of the Group’s exposure to its net asset value and is calculated on both a gross and commitment method.

Under the gross method, exposure represents the sum of the Group’s positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other. Both methods include the Group’s interest rate swaps measured at notional value.

There has been no change to the maximum level of leverage that the AIFM may employ on behalf of the Company. The actual level of gearing employed by the Company at 31 December 2023 was 27.69%.

### Material changes to information

Article 23 of the EU AIFMD (in respect of the marketing of the Company in the EU) and FUND 3.2.2, 3.2.5 and 3.2.6 if the UK AIFMD (in respect of the marketing of the Company in the UK) require certain information to be made available to investors before they invest (the “Required Information”) and require material changes to the Required Information to be disclosed to investors. An updated copy of the Company’s disclosure schedule containing the Required Information was published on 27 January 2022. There have been no other material changes to the Required Information.

## Investment policy

**The Company's investment policy is to acquire, own, lease, renovate, extend and redevelop high-quality, healthcare real estate assets in the UK, in particular elderly care homes, and to lease those assets to care home operators and other healthcare service providers under full repairing and insuring leases.**

The Company pursues the investment policy as follows:

Policy	Status
In order to manage risk in the portfolio, at the time of investment, no single asset shall exceed in value 15% of the total gross asset value of the Group.	✓
No single customer paying for care provided in assets owned by the Group will account for more than 15% of the aggregate revenues of the tenants to whom the Group's assets are leased from time to time, measured at the time of acquisition.	✓
The annual contracted rent from any single tenant is not expected to exceed 40% of the total annual contracted rent of the Group, measured at the time of investment.	✓
The portfolio will be diversified by location across the UK, with focus on areas where there is a good balance of supply and demand for the provision of care and assets are available at attractive valuations.	✓
Within these locations, the Group will acquire existing modern buildings or those that are currently considered fit for purpose by occupiers, but in respect of which the Investment Manager has developed a plan to add value to, and improve the environmental sustainability of, the asset through targeted capital expenditure.	✓
Leases granted by the Group will be linked to inflation, have long duration (with an unexpired lease term of at least 20 years) and will not be subject to break clauses. The Group will seek to amend any future leases acquired by the Group to obtain similar terms.	✓
The Group will not undertake speculative development (that is, development of property which has not been leased or preleased), subject to the limitation in the final bullet below, so as to reposition a home in its local market and thus to increase the rent due.	✓
The Group may invest in forward-funding agreements or forward commitments to pre-let developments, or as part of a structured acquisition of an asset, subject to the limitation in the final bullet below, where the Group will own the asset on the completion of the work, or has the ability to acquire the asset upon agreed conditions being satisfied.	✓
The gross budgeted development costs of any refurbishment, extension or replacement of existing holdings and/or forward funding and forward commitments, is limited to 25% of the Company's gross assets at the time of commitment.	✓

The Group is permitted to generate up to 15% of its gross income in any financial year from non-rental revenue or profit-related payments from the tenants in addition to the rental income due under the leases. The Group is also permitted to invest up to:

- (i) 10% of its gross assets, at the time of investment, in non-residential Healthcare Real Estate Assets, such as properties which accommodate GP or dental practices and other healthcare-related services including occupational health and physiotherapy practices, pharmacies and hospitals or in non-healthcare-related residential assets attached to residential Healthcare Real Estate Assets;
- (ii) 25% of its gross assets, at the time of investment, in indirect property investment funds (including joint ventures) with a similar investment policy to that of the Company; and
- (iii) 15% of its gross assets, at the time of investment, in other closed-ended investment funds listed on the Official List. The directors have no current intention to acquire non-residential Healthcare Real Estate Assets or indirect property investment funds.

The Group may also acquire or establish companies, funds or other SPVs which themselves own assets falling within the Company's investment policy.

The Group will not acquire any asset or enter into any lease or related agreement if that would:

- (i) result in a breach of the conditions applying to the Company to hold real estate investment trust (REIT) status; or
- (ii) result in any investment by the Group in assets located outside of the UK.

The Company may invest cash held for working capital purposes and awaiting investment in cash deposits, gilts and money market funds. It will not invest in derivatives but it may use derivatives for hedging purposes.

Any material change to the investment policy will require the prior approval of shareholders.



## How we manage risk

### Overview

The directors are responsible for maintaining our system of internal control and risk management, in order to safeguard our assets. This system is designed to identify, manage and mitigate the financial, operational and compliance risks we face, and to manage rather than eliminate the risk of failing to achieve our business objectives. As such, it can provide reasonable but not absolute assurance against material misstatement.

### Risk profile

Our principal risks and uncertainties are set out on pages 39 to 42. The directors have performed robust reviews of our principal and emerging risks during the year, with the Investment Manager's support. We also consider our principal risks in the context of the UK AIFMD, which sets out certain categories of risk that the Investment Manager must take into account, in monitoring and managing risk on our behalf.

The risk register details our principal risks and our mitigations to control them. It measures each risk's inherent likelihood and impact, and the residual likelihood and impact assuming our controls operate effectively. The board updates and approves the risk register at least annually.

The board has procedures in place to ensure that we monitor and manage risks on an ongoing basis and that it receives adequate assurance that our systems and controls are operating effectively.

### Risk appetite

Our risk appetite reflects the risks the board is willing to take to achieve our investment objectives, as set out on page 4. We continued to review and update our risk appetite framework during the year, as well as assessing our current and past compliance with our risk appetite.

### Risk processes

Our risk governance structure is summarised on page 129:

#### Board

- Has ultimate responsibility for our risk management and internal control.
- Delegates certain responsibilities to the audit and management engagement committees.
- Reviews the Company's liquidity each quarter.
- Assesses our principal emerging risks twice a year.
- Assesses and articulates our risk appetite.

#### Audit committee

Keeps our internal financial controls and internal control and risk management systems under review, through reports from the risk committee, reports exceptions to the board and follows-up queries with the risk committee.

- Reviews the effectiveness of the risk management framework each year.
- Reviews and approves the statements to be included in the annual report concerning internal controls and risk management.
- Reviews and approves statements explaining how assets have been invested, with a view to spreading investment risk.

### Management engagement committee

- Consider risk issues arising from the functions performed by service providers and reported to the management engagement committee or board as necessary.

### Investment Manager

- Performs portfolio and risk management functions, including monitoring the systems and controls for managing risk.
- Oversees operational risks and reviews principal risks.
- Forecasts cash flows and monitors compliance with debt covenants.
- Monitors our compliance with the qualifying conditions set out in the UK REIT rules (Corporation Tax Act 2010).
- Has appointed Carne Global AIFM Solutions (C.I.) Limited to carry out risk management on its behalf.

### Risk committee

- Identifies key and emerging risks and the controls to mitigate those risks (documented in the risk register).
- Assesses the materiality of each risk, according to its likelihood and potential impact (documented in the risk register).
- Assesses control effectiveness each quarter, via reporting on key risks by the Investment Manager, Administrator, Registrar and Depositary.
- Agrees actions for risks that are outside our tolerance, ensures that risk events, errors and breaches are appropriately remedied, and that controls are enhanced to prevent reoccurrence.

- Reviews risks to our business model, future performance, solvency or liquidity, in the context of the going concern and long-term viability statements.
- Reviews counterparty credit risk, with reference to our financing arrangements and policies.
- Reviews regulatory risk via the Administrator's compliance monitoring and the Investment Manager's monitoring of the REIT conditions.
- Assesses service provider risk via Service Organisation Control reports and due diligence reviews.

### Company Secretary and Administrator

- Monitors compliance with the UK Listing Rules and the Disclosure Guidance and Transparency Rules.
- Prepares quarterly management accounts.

### Depositary

- Reviews risks relevant to the depositary function in accordance with the requirements of UK AIFMD.
- Includes verification of assets, payment of expenses, leverage limits, investment restrictions, cash flow monitoring and good title to assets.

### Service providers

- Responsible for monitoring their own internal control systems, to ensure they properly manage risk when performing services for us.

## How we manage risk continued

### Internal control processes

The audit committee, working with the Investment Manager and Administrator, reviews the Group's systems of risk management and their effectiveness, on behalf of the board. These systems and processes were in place for the year under review and remained in place up to the date of approval of the annual report and accounts.

Our internal control systems include a detailed authorisation process, formal documentation of all transactions, a robust system of financial planning (including cash flow forecasting and scenario testing) and a robust appraisal process for all property investments, including compliance with our conflicts policy.

In addition, the board has a Financial Position & Prospects Procedures board memorandum, which the audit committee reviews annually and updates when required. This sets out our procedures for identifying the information needed to monitor the business and manage risk, so we can make proper judgements on our financial position and prospects. It also details our procedures to identify, assess and document the risk factors likely to affect our financial position and prospects and any changes, and the preparation and communication to the directors of related information. This was last reviewed at the audit committee meeting in November 2023.

The risk committee addresses changes to our internal controls, or controls to respond to changing risks, and escalates to the board as required.

The directors, along with the Investment Manager and Administrator, have established an internal control framework to provide reasonable assurance on the effectiveness of our internal controls. This covers capital expenditure approval and authorisation of capital funding, investment acquisition and disposal approval, annual budget approval, expenditure and supplier contract approval, NAV and dividend authorisation, equity and debt approval, and formal communications with investors.

During the year, the directors received a report from the Investment Manager that summarises its internal controls, which primarily relate to segregation of duties, including who provides cover if particular individuals are unavailable. The directors have also received bridging letters from service providers to provide assurance that their controls continued to operate effectively throughout the period under review, where the service providers' own review of their internal controls is not coterminous with our reporting period.

### Financial reporting

We have internal control and risk management arrangements relating to our financial reporting processes and preparing our consolidated accounts, with the Investment Manager and Administrator's support. We have established and documented our internal management reporting and external statutory reporting timetables and delivery requirements. The Administrator controls these and communicates them regularly.

The arrangements include the Administrator's procedures to maintain records that accurately and fairly reflect transactions. The Investment Manager reviews and comments on the records, to confirm the appropriate treatment.

Where we are adopting new reporting standards or financial reporting approaches, due to either changing regulation or new contractual arrangements, the Administrator, in collaboration with the Investment Manager, prepares an assessment of this treatment and discusses it with the audit committee. Where required, third-party advisers are consulted. This enables us to prepare financial statements in accordance with UK-adopted International Financial Reporting Standards (IFRS), or FRS 102, as appropriate, with reasonable assurance. Reported data is reviewed and reconciled the Administrator, in collaboration with the Investment Manager, with appropriate monitoring internally and by the audit committee.

We monitor our ongoing financial performance through the Administrator reporting regularly to the Investment Manager, with performance then reported to the board.

We regulate our capital investment and all revenue expenditure through our budget process and authorisation levels. The Investment Manager prepares a budget which the board approves annually, and the board receives quarterly reports of performance against budget. The Administrator also tracks expenditure and investment against budget. Payment of Investment Manager fees are presented to an individual director for sign off.

### Board composition and diversity reporting in line with LR9

The tables below show the diversity of the board as at 31 December 2023.

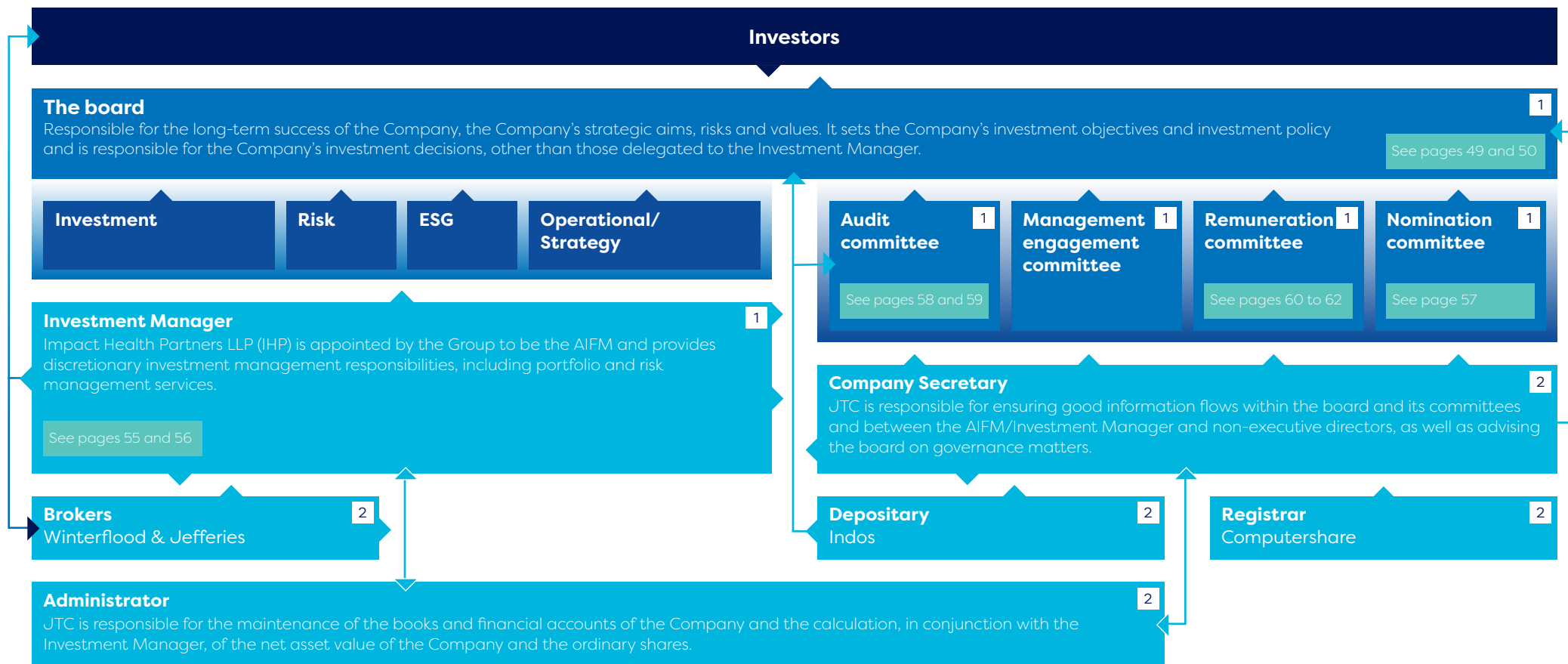
	Number of board members	Percentage of the board	Number of senior positions on the board (SID and Chair)
Men	3	60%	1
Women	2	40%	1
	Number of board members	Percentage of the board	Number of senior positions on the board (SID and Chair)
White British or other White (including minority-white groups)		5	2
Black/African/Caribbean/Black British		0 <sup>1</sup>	0

<sup>1</sup> This increases to one with effect from 1 April 2024.

The data was collected by asking the directors to confirm their diversity characteristics. The Company has no executive management and these disclosures are therefore not applicable.

## How we manage risk continued

### Internal controls continued



1. Decision-making responsibilities.

2. Independent support, review and advice.

## Glossary

**Adjusted EPS:** Adjusted Earnings per Share

**Administrator:** JTC (UK) Limited

**AIC:** Association of Investment Companies

**AIFM:** Alternative Investment Fund Manager

**BDO:** BDO LLP

**BREEAM:** Building Research Establishment Environmental Assessment Method

**Capex:** Capital Expenditure

**Care beds:** Includes nursing and residential dementia beds for the elderly, which are registered with the CQC or equivalent regional regulatory body.

**CMA:** Competitions and Markets Authority

**Contracted rent:** The annualised rent adjusting for: rent due following rent-free periods; underlying contractual rent on temporarily varied leases (including rent due from Melrose); rent due on capex projects or profit-related deferred payments where the Group recognises a capital commitment; and post-tax income from interest received from property investments made via loans to operators for the acquisition of property portfolios

**Contracted yield:** Contracted rent divided by the independent market value of the portfolio

**CQC:** Care Quality Commission

**CRREM:** Carbon Risk Real Estate Monitor

**EBITDARM:** Earnings Before Interest Tax Depreciation Amortisation Rent and Management charges

**EPC:** Energy Performance Certificate

**EPRA:** European Public Real Estate Association

**EPS:** Earnings per Share

**ESG:** Environmental, Social and Governance

**FCA:** Financial Conduct Authority

**GHG:** Greenhouse gas

**IBOR:** InterBank Offered Rates

**ICSA:** The Chartered Governance Institute

**Investment Manager:** Impact Health Partners LLP

**IPO:** Initial Public Offering

**LED:** Light-Emitting Diode

**LTV:** Loan-to-value

**Management report:** As defined by the FCA handbook and governed by DTR 4.1.8, incorporated within the strategic report and governance section of this annual report

**MMCG:** Maria Mallaband and Countrywide Group

**NAV:** Net Asset Value

**NIY:** Net Initial Yield

**Premium Listing/Premium List:** The transfer of our shares to the premium listing segment of the London Stock Exchange's main market and admitted to the premium listing segment of the FCA's Official List

**Property investments:** This relates to the portfolio valuation along with investments via loans to operators for the acquisition of property portfolios

**RCF:** Revolving Credit Facility

**REIT:** Real Estate Investment Trust

**Rent cover:** Rent cover is our tenants' EBITDARM divided by total annual rent. EBITDARM is a useful approximation for our tenants' cash earnings, which they can use to pay their rent. This has been adjusted to exclude seven turnaround homes and one new home in build-up

**RICS "Red Book":** RICS Valuation – Current edition of the global and UK standards as at the valuation date

**RPI:** Retail Price Index

**Seed Portfolio:** Initial portfolio of 56 assets (including two option assets) acquired in May 2017

**SONIA:** Sterling Over Night Index Average

**SPV:** Special Purpose Vehicle

**Total accounting return:** The growth in NAV per share plus dividends paid expressed as a percentage of NAV per share at the beginning of the period

**WALUT:** Weighted Average Unexpired Lease Term

## Corporate information

### Directors

**Amanda Aldridge** Non-executive director

**Rosemary Boot** Senior independent non-executive director

**Philip Hall** Non-executive director

**Simon Laffin** Non-executive Chair

**Chris Santer** Non-executive director

**Cedi Frederick** Non-executive director (from 1 April 2024)

### Registered office

The Scalpel  
18th Floor  
52 Lime Street  
London  
EC3M 7AF

Telephone: +44 (0)207 409 0181

### Investment Manager and AIFM

#### Impact Health Partners LLP

149-151 Regent Street  
London  
W1B 4JD

### Joint Financial Adviser and Corporate Broker

#### Jefferies International Limited

100 Bishopsgate  
London  
EC2N 4JL

#### Winterflood Securities Limited

The Atrium Building  
Cannon Bridge  
25 Dowgate Hill  
London  
EC4R 2GA

### Legal Advisers

#### Travers Smith LLP

10 Snow Hill  
London  
EC1A 2AL

### Independent Auditor

#### BDO LLP

55 Baker Street  
London  
W1U 7EU

### Administrator and Secretary

#### JTC (UK) Limited

The Scalpel  
18th Floor  
52 Lime Street  
London  
EC3M 7AF

### Registrar

#### Computershare Investor Services PLC

The Pavilions  
Bridgwater Road  
Bristol  
BS99 6ZZ  
United Kingdom

### Depository

#### Indos Financial Limited

54 Fenchurch Street  
London  
EC3M 3JY

### Valuer

#### Cushman & Wakefield

43-45 Portman Square  
London  
W1A 3BG

### Communications Adviser

#### H/Advisors Maitland

3 Pancras Square  
London  
N1C 4AG

### Company Registration Number

10464966

### Website

[www.impactreit.uk](http://www.impactreit.uk)

## Financial calendar

Announcement of full-year results	22 March 2024
Annual General Meeting	21 May 2024
Half year end	30 June 2024
Announcement of half-year results	August 2024
Full year end	31 December 2024





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**Impact**  
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**Impact Healthcare REIT plc**

The Scalpel, 18th Floor,  
52 Lime Street, London  
EC3M 7AF

[www.impactreit.uk](http://www.impactreit.uk)



# Impact Healthcare REIT plc Annual report and financial statements 2023

