

# Operating Principles for Impact Management

Disclosure Statement

1 January to 31 December 2021

**octopus**investments

A brighter way

Octopus Investments hereby affirms its status as a signatory to the Operating Principles for Impact Management (the "Impact Principles") from 1 January 2021. This Disclosure Statement applies to the following assets (the "Covered Assets"): Octopus Healthcare Fund ('OHF' or the 'Fund'). As at 31 December 2021, OHF had a GAV of £1.13bn<sup>1</sup> (approx. \$1.52bn<sup>2</sup>). This included the GAV of Octopus Healthcare PV which was merged with OHF on 20 December 2021, which saw four trading assets and two assets under construction enter the Fund. OHF addresses the growing need for quality, modern standard, purpose built care beds within the UK. Increased home closures due to obsolescence and trading performance has increased the shortfall in care beds throughout the UK. OHF operates in line with its Impact Framework which supports the management and reporting throughout the investment cycle of all assets.

This Disclosure Statement affirms that OHF is operated in alignment with the Operating Principles for Impact Management.

The information contained in this Disclosure Statement has not been verified or endorsed by International Finance Corporation, the World Bank or any member of the World Bank Group or the Secretariat or Advisory Board. All statements and/or opinions expressed in these materials are solely the responsibility of the person or entity providing such materials and do not reflect the opinion of International Finance Corporation, the World Bank or any member of the World Bank Group. None of International Finance Corporation, the World Bank or any member of the World Bank Group shall be responsible for any loss, claim or liability that the person or entity publishing this Disclosure Statement or its investors, Affiliates (as defined below), advisers, employees or agents, or any other third party, may suffer or incur in relation to this Disclosure Statement or the impact investing principles to which it relates. For purposes hereof, "Affiliate" shall mean any individual, entity or other enterprise or organization controlling, controlled by, or under common control with the Signatory.

Octopus Investments

*Rachel Poole*

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Head of Responsible Investment

31 January 2022

<sup>1</sup>GAV is calculated as Total Assets less distribution liability as disclosed in the unaudited Fund's Financial Statements as at 31 December 2021.

<sup>2</sup>GAV converted by applying a USD to GBP exchange rate of 0.739 as of 31 December 2021.

## Principle 1: Strategy

**"Define strategic impact objective(s), consistent with the investment strategy:** *The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio."*

- Octopus Group is a financial services organisation consisting of eight businesses which includes: Octopus Investments (including Octopus Real Estate); Octopus Energy; Octopus Ventures; Octopus Wealth; Octopus Moneycoach; Octopus Renewables and Seccl. Octopus Group is on a mission to invest in the ideas, industries, and people that will change the world – as an entrepreneur and investor, applying its expertise and deploying clients' money to help build a future to be proud of.
- The Fund, which sits within Octopus Real Estate, implemented an Impact Framework (the 'Framework') to provide guidance and structure to the Fund's impact investment strategy and approach. The Impact Framework was discussed by the Fund's Investors' Committee in November 2020 and was effective from 1 January 2021. The Framework is based on the Impact Reporting and Investment Standards ('IRIS+') metrics which are internationally accepted measures for social, environmental and financial performance. It also embraces the 'Five Dimensions of Impact' as defined by the Impact Management Project. The five dimensions of Impact ('What', 'Who', 'How much', 'Contribution' and 'Risk') provide a structure for identifying and quantifying the Impact of the Fund as referenced in appendix 2. The Fund Framework incorporates IRIS metrics to quantify and monitor the Fund's performance. OHF's strategy directly addresses an increasing societal care requirement and contributes positively to the shortfall in market standard care beds in the United Kingdom.

Through the funding of modern, purpose built care homes in the United Kingdom, OHF contributes to the reduction of the shortfall in modern standard, fit for purpose care beds.

- The Fund's strategy and objectives are aligned with Goal 3, of the United Nations Sustainable Development Goals (Ensure healthy lives and promote well-being for all) and Target 3.8 (Achieve access to quality health-care services).
- The continued growth of the Fund in locations (including the north west and south east of England) that have been identified to have the highest shortfall in modern standard care beds means that the Fund is having a positive impact where it is most required. The existing assets in the Fund are monitored to assess whether they continue to provide the standard of care expected of the tenants. Monitoring of the assets includes physical inspections by the Clinical Assurance Team and Property Management Team and oversight of the tenant's operational information. This information includes but is not limited to financial information, operational improvement plans and staffing provided on site or via email from the tenant companies. This will continue as the Fund's key objective in delivering positive impact.

## Principle 2: Management of Impact

### ***"Manage strategic impact on a portfolio basis:***

*The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance."*

- The impact objective applies to the whole portfolio, with every investment /asset contributing to the achievement of the impact objective. The portfolio delivers high standard, modern, purpose-built care beds in areas which have previously been identified as having a high shortfall in fit for purpose care bed provision.

- Once an asset is brought into the portfolio it is subject to review by the in-house Clinical Assurance Team and Property Management Team. Oversight includes, one annual visit from each team to all homes in the portfolio. These may be conducted by third party surveyors on behalf of the Property Management Team. There may be times where physical inspections are not possible due to access restrictions (as a result of recent COVID restrictions for example). Where it was not possible to visit an asset during 2021, inspections have been scheduled in 2022. Where an asset is subleased to the NHS, the clinical team will monitor the CQC rating of the Trust in place of a visit. Physical inspections are resumed as soon as possible after restrictions are lifted. This oversight is designed to assess whether the tenants continue to deliver a high standard of care, meet the 'quality care' element of the impact objective and use the care beds in the home as intended.
- All investments are completed in line with the Fund's investment strategy (to deliver modern, purpose built care beds) in areas currently identified as having a shortfall in care beds. Areas which have a shortfall in care beds are identified through market knowledge and the use of external research and reports such as Carterwood Analytics and external market reports.
- Octopus Investment operates a discretionary bonus policy which is linked to objectives at a team and individual level. Individuals who directly influence the Fund's impact have targets linked to ensuring that investments continue to meet the impact objective and strategy, and that the portfolio is operated in such a way to ensure that impact is continually delivered. This includes all levels of the business from the Investment to the Clinical Assurance Teams. The Clinical Assurance Team are incentivised through this objectives process to ensure that they have sufficient oversight over the homes to drive improvement to ensure that quality of care is maintained. Equally, the Fund's Investment team are incentivised to continually deliver modern, purpose built care homes throughout the UK to drive the impact of the Fund.

### Principle 3: Contribution to Impact

**“Establish the Manager’s contribution to the achievement of impact:** *The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.”*

- All investments OHF consider must demonstrate a contribution to the impact strategy and deliver additional care beds in an area of undersupply.
- All investments must be presented to the Octopus Real Estate Investment Committee (the ‘Committee’) which includes senior investment professionals from across Octopus Real Estate. The Committee has a two-stage approval process which considers the investment market, home specification and environmental, social and governance contribution.

Through OHF, Octopus Investments manage the impact and ESG credentials of all investments throughout their lifecycle. The measure of the Managers contribution is reported to investors on a quarterly and annual basis and is also further reported externally to independent benchmarking organisations.

### Principle 4: Assess Impact

**“Assess the expected impact of each investment, based on a systematic approach:** *For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment’s expected impact.*

*In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact*

*of the investment. Where possible and relevant for the Manager’s strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.”*

- As referenced previously, the Fund’s Impact Framework utilises the ‘Five Dimensions of Impact’ as defined by the Impact Management Project. Employing the five dimensions assists in identifying the ‘What’, ‘Who’ and ‘How’ of the Impact of the Fund, see appendix 2.
- The Fund commissions external market reports ahead of acquisition to identify the shortfall in care beds and other demographics as part of the due diligence process ahead of acquisition.
- The impact of each investment, including market impact on bed provision, community impact and the contribution of the proposed acquisition to the market is reported to and assessed by the Committee. This is reported by the individual presenting the acquisition to the Committee through disclosure of the external market report findings which measures the targeted areas demographics.
- Impact KPIs, are reported to Fund Investors on a quarterly and annual basis. The KPIs are benchmarked against market data collated by Carterwood.
- OHF has monitored its contribution of modern, purpose-built care beds to the UK care market throughout 2021.
- The Fund benefits from the in house Clinical Assurance team consisting of medical professionals who maintain close contact with the homes and tenant groups. The Clinical Assurance team provide a subjective view on the performance of the home and the operator, determining the quality of care being delivered.

In order to monitor impact, the Fund uses the following definitions:

“Quality care beds” are defined as:

- Quality Care: those homes that are not rated “Inadequate” by the CQC.
- Real Estate: beds which meet the following criteria: (a) a bedroom with an en-suite wet room in a care home built (or converted) to modern standards and (b) operated by a care provider delivering quality care.

Please note: an asset is included in the Impact KPIs at the point in time that it reaches Practical Completion<sup>1</sup>, or at the point of acquisition for standing investments. Assets entering the Fund through a merger event are included in the Impact KPIs at the point the merger is completed.

## Principle 5: ESG

**“Assess, address, monitor, and manage potential negative impacts of each investment:** For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees’ ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.”

- In addition to the social impact objectives and strategy of the Fund, OHF has assessed that there are potentially material environmental factors relevant to the portfolio of care homes, and set out a series of one, three, five and ten year targets with a view to improving the energy use and environmental performance of the buildings on 1 January 2021. The targets have been set around five areas which include: Asset performance (green building certifications); Fund performance (green lease provisions, Disclosure and reporting and climate resilience); Portfolio impacts (energy and emissions); Manager’s impacts (energy, water and waste metrics) and Governance (regulatory, training and engagement). The Fund’s strategy is aligned with the targets designed to ensure that ESG risks are identified and mitigated in an appropriate time frame.

- The Fund has identified, and published net zero targets as follows:

### **“New construction projects**

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

### **Existing portfolio**

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

- The Manager has completed an ESG risk assessment of assets in the portfolio to identify the future physical and transitional risks presented by climate change. This review has included the asset efficiency, flood and heat risk exposure. The review allows the manager to identify any assets of concern. The Manager is in the process of drafting asset management strategies to mitigate the risk to exposed assets. For assets that become operational within the year, they are assessed and certified within 12 months.
- All investments are subject to approval by the Committee. Each investment is required to demonstrate a positive impact and consideration of material ESG risks and factors. The assessment is guided by a bespoke development and investment framework which scores the investment against an ESG matrix. The Investment Committee take a view on whether the asset will fit the Impact and ESG strategy of the Fund prior to proceeding with the investment.
- The environmental credentials of every asset in the portfolio are monitored throughout their lifecycle. Going forward, improvements will be made as required to ensure that they continue to operate in line with the Fund’s ESG and Impact strategy.

<sup>1</sup>The point at which the construction of the asset is completed.

## Principle 6: Monitor Progress

**“Monitor the progress of each investment in achieving impact against expectations and respond appropriately:** *The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.”*

- Impact indicators are reported to Investors and the Investors Committee, consisting of a representative from the four largest investors and one nominated fifth investor in line with the Impact Framework.
- Using the IRIS metrics identified in the Framework, The Fund assesses the continued impact contribution of investments throughout the assets lifecycle.
- Assets are included in the Funds impact KPIs and reporting at the point they reach practical completion where the development is funded or at the point of acquisition for all trading assets coming into the Fund. Assets entering the Fund through a merger event are included in the Impact KPIs at the point the merger is completed.
- To monitor whether the homes in the portfolio continue to provide quality care, Octopus Real Estate has an internal Clinical Assurance Team allowing continued operational oversight of the assets. The Clinical Assurance Team report into the Clinical Assurance Board on a Monthly basis to highlight any aspects that have gone well in the reporting period and raise any concerns.

## Principle 7: Exits

**“Conduct exits considering the effect on sustained impact:** *When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.”*

- The Fund’s strategy is to hold investments long term however there may be occasions where an asset is deemed to no longer fit the Funds strategy. An example of which includes the disposal of an asset where the tenant is believed to be operating the home at a level below the expected standard. Disposal of assets is a final consideration following engagement with the tenant by the Clinical Assurance and Property Management teams who look to work towards a mutually beneficial outcome prior to disposal.
- The Fund completes an annual hold/sell analysis of all assets in the portfolio. The review identifies the current market conditions, age of assets and the financial and operational performance of the home.
- Divestments are typically made to other investors or operators within the sector. In our view, this continues to provide an impact through the provision of care beds in the sector. The divestments completed in the reporting year were completed in line with this and will continue operation as care homes.
- Proceeds from all exits are reinvested into assets that will deliver a greater positive impact.

## Principle 8: Lessons Learned

**“Review, document, and improve decisions and processes based on the achievement of impact and lessons learned:** *The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.”*

- Throughout the year, the Fund has overall been successful in contributing modern purpose built care beds to help in overcoming the shortfall in the market.
- The Fund Manager has assessed its contribution quarterly to ensure that it has remained on track with its mission.
- The methodology used to assess the Funds impact contribution will be continually reviewed moving forward and adapted to reflect movements in the market.
- While the acquisition of developments will ensure that the Fund will continue to contribute to the market in the future, a lack of trading assets being acquired has limited the immediate impact the Fund has had in the year.

- The Fund will continue to seek opportunities to acquire both developments and standing investments in order to deliver the highest level of impact.
- Through the oversight and monitoring of the assets by the clinical assurance and property, the Fund has been able to monitor whether the quality of care provided within the assets (as referenced in Principle 4) has been maintained at an acceptable level. This monitoring is designed to maintain the anticipated impact of the assets.
- Throughout the year, where access restrictions have been imposed in some of the homes, new ways of working have had to be employed. This has included increased communication virtually and enhanced information sharing from all parties.
- The Fund will continue to review assets through the Hold / Sell analysis to monitor whether those assets in the Fund continue to contribute to the Fund's Impact strategy.

## Principle 9: Disclosure

**“Publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment:** *The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.*”

- This Disclosure statement affirms the alignment of Octopus Investment operations and management systems with the Impact Principles and will be updated annually moving forward.
- The Disclosure Statement will be externally assured every 3 years.
- In accordance with the Impact Principles' requirement that signatories submit to an independent verification, Octopus Investments engaged KPMG<sup>1</sup> as the independent external verifier in 2021, and completed this process successfully on 1 February, 2022. Please find the Verifier Statement [here](#).

## Appendix 1. Reporting Criteria

The impact management systems, as described within this Descriptive Narrative are aligned with the Impact Principles if:

- (a) The Descriptive Narrative includes a description of an impact management process matched to each of the Impact Principles;
- (b) The Descriptive Narrative presents fairly Octopus Investments' impact management systems and processes by:
  - (i) presenting how Octopus Investments' impact management systems and processes are designed and implemented;
  - (ii) including relevant details of changes to Octopus Investments' impact management systems and processes during the period covered by the Disclosure Statement;
  - (iii) does not omit or distort information relevant to the scope of the impact management systems and processes being described, while acknowledging that the Disclosure Statement has been prepared to meet the common needs of a broad range of users and may not, therefore, include every aspect of Octopus Investments' impact management systems and processes that each individual user may consider important in its own particular circumstances;
  - (iv) describing how each Impact Principle is incorporated into Octopus Investments' impact management systems; and
  - (v) affirming that Octopus Investments is a signatory to the Impact Principles.

<sup>1</sup>Registered address: KPMG LLP, 15 Canada Square, London, E14 5GL.

## Appendix 2. OHF Impact Framework

Dimension of Impact	Application to OHF	Measurement (inc. IRIS+ metrics)
1. WHAT is the goal?	Increase access to quality care for the elderly (and others with long term conditions) through the provision of modern, purpose-built care homes.	<p><b>UN Sustainable Development Goals:</b></p> <ul style="list-style-type: none"> <li>• <b>Goal 3</b> - Ensure healthy lives and promote well-being for all at all ages <ul style="list-style-type: none"> <li>• Target 3.8 - Achieve access to quality healthcare services</li> </ul> </li> <li>• <b>Goal 11</b> - Make cities and human settlements inclusive, safe, resilient and sustainable</li> </ul>
2. WHO is affected?	<ul style="list-style-type: none"> <li>• Which stakeholders benefit from OHF's activities?</li> <li>• What is the demographic of these stakeholders?</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Target Stakeholders:</b> Patients/Residents</li> <li>• <b>Target Stakeholder Demographic:</b> Elderly/Older Adults</li> </ul>
3. HOW MUCH change is happening?	<ul style="list-style-type: none"> <li>• How many care homes are owned by OHF?</li> <li>• How many care beds are provided in these care homes?</li> </ul>	<ul style="list-style-type: none"> <li>• Total number of healthcare facilities managed</li> <li>• Total number of residents supported</li> </ul>
	<ul style="list-style-type: none"> <li>• How does the Fund ensure they are "quality care beds"? (This is also relevant to RISK below.)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Quality assurance mechanisms:</b> <ul style="list-style-type: none"> <li>• Peer review/supervision</li> <li>• Communication and education strategies</li> <li>• Audit and feedback</li> </ul> </li> <li>• <b>Real estate</b> quality assurance: (1) OHF minimum standards for design, construction and environmental performance ('Green Book'); (2) annual inspections and energy usage data collection; (3) use of monitoring surveyors during build.</li> <li>• <b>Clinical</b> quality assurance: (1) Care Quality Commission (CQC) reports and ratings; (2) Octopus' full time, in-house Clinical Assurance Team assessment and education strategies; and (3) further oversight provided by Octopus' Clinical Assurance Board.</li> </ul>
4. What is the CONTRIBUTION?	How does OHF reduce the deficit of care beds in the UK, and help maintain the current stock?	<ul style="list-style-type: none"> <li>• <b>New Care Beds:</b> The number of newly developed quality care beds funded by OHF in each period as a proportion of (a) all newly developed quality care home beds across the UK in the same period, and (b) the UK shortfall of quality care beds at the start of the period.</li> <li>• <b>Total Care Beds:</b> The total number of quality care beds in OHF's portfolio as a proportion of the UK's quality care bed stock at a given point in time.</li> </ul>
5. What is the Impact RISK?	Key Risk: Do the "quality care beds" that OHF funds benefit those who need them?	While OHF's investment strategy primarily focuses on care homes which target the self-pay resident market, approx. 25-3% of residents in OHF care homes are funded by Local Authorities or the NHS. Furthermore, even as homes in the portfolio age, they will still provide high-quality, purpose-built care beds which meet market standards and are superior to most UK care homes. Therefore, it is key to (a) exit value for OHF, and (b) the UK's total supply of quality care beds that the homes OHF initially funds continue to be operated for the long-term in a way that delivers meaningful social impact.





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