octopus healthcare

A brighter way

Octopus Healthcare Fund

Report for Quarter ending 31 March 2018

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1. Fund summary and financial highlights

1.1 Fund summary

Octopus Healthcare Fund ('OHF' or the 'Fund') is a Guernsey Property Unit Trust, launched on 30 August 2017 and managed by Octopus AIF Management Limited (the 'Manager'). The Fund is a perpetual life vehicle, operating with quarterly subscription windows and six monthly redemption windows.

The Fund is designed to offer Investors diversified exposure to high quality non-primary UK healthcare real estate, attractive risk adjusted returns driven by long-term income with either index-linked or fixed uplifts, liquidity and economies of scale.

Further details regarding the Fund's Investment Strategy are set out in Appendix 7.

OHF currently has a portfolio of £134m (gross, 31 March 2018), comprising 13 high quality, purpose built trading care homes and three dialysis units. During the last reported period and in Q2 2018 to date, the Fund completed the acquisition of four care homes, with total commitments of £48m. The Fund benefits from a further near-term pipeline of approx. £149m (see Transactions Section for further details).

Having launched on 30 August 2017 with £42m of new commitments, the Fund received a further £40m of commitments in September 2017 and £85m in January 2018. Of these £167m of commitments, £4m has been drawn to date. The Manager is currently targeting further capital raises during 2018.

The Fund is currently 5.96% geared. The objective is to increase this to the Fund's target of 20%.

The Octopus Healthcare Fund Investors' Committee ('OHFIC') was formed on 23 October 2017, and comprises the four largest Investors as at 30 August 2017, together with a further fifth elected member. The OHFIC meets on a quarterly basis.

The Fund's Annual Fund Business Plan was circulated to Investors and the Trustee on 29 March 2018.

1.2 Financial quarterly summary[1]

	Q4 2017[2]	Q1 2018[3]
Knight Frank property valuation	£131.8m	£134.3m
Net initial yield[4]	6.47%	6.12%
GAV	£143.9m	£147.0m
NAV	£132.1m	£134.7m
NAV per unit	£1,010.03	£1,030.04
Equity drawn down	£131.0m	£131.0m
Undrawn equity	£78.0m	£163.2m
Gearing[5]	5.67%	5.96%
Total Return (for the period)[6]	1.19%	2.87%
Total Return (since inception)[6]	2.46%	5.35%
Distribution paid	£1.4m	£1.2m
Annualised distribution yield (on NAV)[7]	4.33%	3.51%

1.3 Key portfolio metrics[1]

Asset metrics	Q4 2017	Q1 2018
Number of properties	19	18
Number of trading care homes (beds)	15 (1,033)	13 (972)
Number of care homes under construction (beds)	1 (80)	2 (150)
Number of dialysis clinics	3	3
Average asset age[8]	6.0 years	5.7 years
WAULT[8]	27.8 years	29.0 years

Care home trading metrics[9]	12 month average	Q1 2018
Average weekly fees[10]	£910	£914
Occupancy[10]	85%	85%
Rent cover	1.88x	2.00x

1 Past performance is not a reliable indicator of future results. Numbers have been rounded.
2 Data correct as at 31 December 2017 (for the period 30 September 2017 to 31 December 2017).
3 Data correct as at 31 March 2018.
4 Total portfolio net rental income divided by Knight Frank property valuation plus standard purchaser's costs.
5 Bank debt divided by the Fund's Gross Asset Value.
6 Returns calculated as per the AREF/IPD Quarterly Property Fund Index Rules: (Closing NAV per Unit + Distribution per Unit – Opening NAV per Unit) divided by Opening NAV per Unit
7 For Q1 2018, quarterly distribution (multiplied by four) divided by weighted average NAV for the period (calculated on a straight line basis).
8 Based on completed assets as at 31 March 2018, plus all forward commitments as at completion.
9 Trading metrics as at 31 December 2017.
10 Weighted by number of care home beds.

2. Valuation and performance

2.1 Valuation

2.1.1 Valuation movement

Knight Frank reported the value of the completed properties within the portfolio at £134.3m as at 31 March 2018 (£131.8m; 31 December 2017).

The increase in the portfolio's valuation reflects the acquisition of Corby (Avery) during the period (see Transactions Section for further details), offset by the sale of the three assets operated by Balhousie (Coupar Angus, Dundee and Methil) in the period (see Transactions Section for further details). On a 'like-for-like' basis, the value of completed properties within the portfolio was £124.0m as at 31 March 2018 (£120.8m; 31 December 2017) (+2.6%).

Valuation changes during the period were as follows:

GAINS Property	%/£	Comments
Thorrington (Care UK)	+10.8%/ +£880k	**Yield compression**
Newbury (Care UK)	+5.3%/ +£670k	**Yield compression**
Northampton (brighterkind)	+4.5%/ £660k	**Yield compression**
Kettering (brighterkind)	+4.0%/ £640k	**Yield compression**
Tottenham Hale (Royal Free)	+5.6%/ +£310k	**Upcoming Rent Review**

There were no valuation losses at any of the completed properties during the quarter.

2.1.2 Net Initial Yield

The net initial yield ('NIY') for completed properties since the launch of the Fund has been as follows:

NIY 30 August 2017	Q3 2017	Q4 2017	Q1 2018
6.51%	6.45%	6.47%	**6.12%**

The Fund's portfolio-level NIY reduced from 6.47% as at 31 December 2017 to 6.12%. This was principally due to yield compression at a number of properties (most notably at Newbury and Thorrington), combined with the sale of the three Balhousie assets.

2.2 Performance

2.2.1 Income Return and distribution yield

Income Return per unit for the quarter was 0.89%, representing distribution per unit as a percentage of the period's opening NAV per unit.

The Fund's annualised distribution yield (distribution for the period annualised, divided by weighted average NAV for the period calculated on a straight line basis) was 3.51% (4.33%; 31 December 2017). This reflected the aborted acquisition costs on Project Bailey, together with the increase in portfolio value and subsequent NAV movement.

2.2.2 Capital Growth

Capital Return per unit for the quarter was 1.98%, representing capital growth in the underlying asset portfolio, partially offset by a write-off of acquisition costs on the Corby asset and the Balhousie disposal.

2.2.3 Total Return

Total Return per unit for the quarter was 2.87%.

Total Return per unit since inception of the Fund on 30 August 2017 to 31 March 2018 is 5.35%.

3. Transactions

3.1 Acquisitions

During the last reported period and in April 2018, the Fund completed the acquisition of four care homes and exchanged conditional contracts for a further care home. Terms have also been agreed in relation to a number of further transactions. Details are as follows:

Transaction Status	Property (Operator)	Acquisition type	Anticipated acquisition cost (per bed)	Cash yield	Date completed/ forecast completion
Completed	Corby (Avery)	Sale and leaseback	£10,691,699 (£127,282)	6.17%	24 January 2018
	Benson (Caring Homes)	Forward funding	£13,667,976 (£195,257)	6.22%	29 March 2018
	Brackley (Kingsley)	Forward funding	£10,416,910 (£168,015)	6.25%	19 April 2018
	Melbourn (Barchester)	Forward funding	£13,242,567 (£176,568)	6.19%	30 April 2018
Exchanged	York (Barchester)	Forward funding	£11,018,422 (£172,163)	6.19%	July 2018
Terms agreed	Ely (Greensleeves)	Forward commitment	£11,442,153 (£173,366)	4.99%	June 2018
	Project Gem (New Care)	Standing investment/ Forward commitments	£96,716,067 (£221,826)	5.65%	June 2018
	Idealcare Portfolio	Standing investment/ Forward commitments	£30,267,688 (£152,687)	6.00%	June 2018

3.1.1 Completed

Corby (Avery)
The Fund completed the acquisition, via sale and leaseback, of an 84 bed elderly care home in Corby, Northamptonshire, let to Avery on 24 January 2018. The total acquisition cost for the completed property was £10.7m (£127k per bed), reflecting a cash yield of 6.17%. The property was constructed in 2011, and a 35-year lease with annual RPI-linked rent reviews collared at 1% and capped at 4% has been granted to an Avery SPV.

3.1.1 Completed (continued)

Benson (Caring Homes)

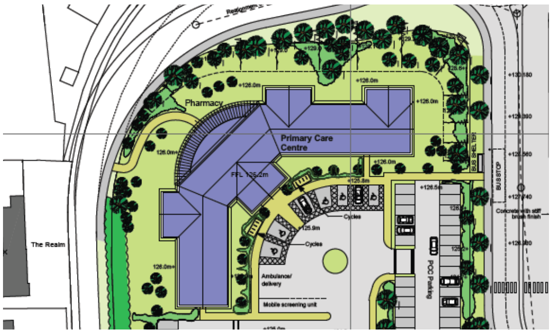
The Fund completed the acquisition, via forward funding, of a 70 bed elderly care home in Benson, Oxfordshire, on 29 March 2018. The total anticipated acquisition cost for the completed property is £13.7m (£195k per bed), reflecting a cash yield of 6.22%. The home is pre-leased to and will be operated by a Caring Homes SPV on a 35 year lease, with annual RPI-linked rent reviews collared at 2% and capped at 5%.

Construction of the property is due to commence in July 2018 and a 15 month build period is forecast with Practical Completion projected for October 2019.

The tenant has the benefit of an Option to Purchase the freehold interest in the Property (reflecting a projected (net) IRR of 9.00%), five years after Practical Completion ("PC") at a fixed price of £17.0m (£243k per bed). The option is conditional on Caring Homes leasing at least one further home from the Fund within 30 months of the Agreement for Lease being entered into.

Brackley (Kingsley)

The Fund completed the acquisition, via forward funding, of a 62 bed elderly care home in Brackley, Northamptonshire, on 19 April 2018. The total anticipated acquisition cost for the completed property is £10.4m (£168k per bed), reflecting a cash yield of 6.25%. The home is pre-leased to and will be operated by a Kingsley Healthcare SPV on a 35 year lease, with annual RPI-linked rent reviews collared at 2% and capped at 5%.



Construction of the property is due to commence in September 2018 and a 17 month build period is forecast with PC projected for February 2020.

The Tenant has the benefit of an Option to Purchase the freehold interest in the Property between years three and five of its lease, at a price reflecting an 8.5% ungeared (net) IRR.

As previously reported, there is a conflict of interest relating to the transaction, as the development site has been acquired from an Octopus-Kingsley Joint Venture vehicle. This has been managed in accordance with the Fund's documents.

3.1.1 Completed (continued)

Melbourn (Barchester)
The Fund completed the acquisition, via forward funding, of a 75 bed elderly care home in Melbourn, Cambridgeshire, on 30 April 2018. The total anticipated acquisition cost of the completed property is £13.2m (£177k per bed), reflecting a cash yield of 6.19%. The home is pre-leased to and will be operated by Barchester on a 35 year lease, with annual RPI-linked rent reviews collared at 1.5% and capped at 5%.

The Tenant has the benefit of an Option to Purchase the freehold interest in the Property (reflecting a projected (net) IRR of 8.98%), five years after PC at a fixed price of £16.4m (£219k per bed). A 17 month build period is forecast with PC projected for October 2019.

As previously reported, there is a conflict of interest relating to the transaction, as the development site has been acquired from Octopus Healthcare Development Limited ('OHD'). This has been managed in accordance with the Fund's documents.

3.1.2 Exchanged

York (Barchester)
The Fund exchanged contracts for the acquisition, via forward funding, of a 64 bed elderly care home in York, North Yorkshire, in February 2018. The total anticipated acquisition cost of the completed property is £11.0m (£172k per bed), reflecting a cash yield of 6.19%. The home is pre-leased to and will be operated by Barchester on a 35 year lease, with annual RPI-linked rent reviews collared at 1.5% and capped at 5%.

The Tenant has the benefit of an Option to Purchase the freehold interest in the Property (reflecting a projected (net) IRR of 8.89%), five years after PC at a fixed price of £13.6m (£213k per bed).

Completion of the acquisition has been delayed to July 2018, due to an ongoing judicial review regarding the development's planning application. An 18 month build period is forecast with Practical Completion projected for January 2020.

As previously reported, there is a conflict of interest relating to the transaction, as the development site will be acquired from OHD. This has been managed in accordance with the Fund's documents.

3.1.3 Terms agreed

Ely (Greensleeves)
Terms have been agreed for the acquisition, via forward commitment, of a 66 bed elderly care home in Ely, Cambridgeshire, at an anticipated acquisition cost of £11.4m (£173k per bed), reflecting a cash yield of 4.99%. The property will be developed by LNT and pre-leased to Greensleeves Care on a 35 year lease, with annual RPI-linked rent reviews collared at 1% and capped at 5%. Completion of the acquisition will occur at Practical Completion of the property, currently expected for June 2019.

Project Gem (New Care)
Terms have been agreed for the acquisition and leaseback of a £96.7m portfolio of six elderly care homes (436 beds) with New Care in the following locations: Bramhall, Chester, Ruddington, Wilmslow, Formby and Cheadle. All of the locations are situated in affluent markets, where New Care will be targeting predominantly privately funded residents. Two of the homes (Chester and Ruddington) will be acquired as standing investments and the Fund is forward committing to acquire the remaining four homes at Practical Completion. Acquisition dates for the latter are anticipated to range between Q2 2019 to Q1 2020. At acquisition, the homes will be leased to and operated by New Care on 35 year leases with annual RPI-linked rent reviews collared at 2% and capped at 5%. The transaction reflects an anticipated cash yield of 5.65% and an average total cost of £222k per bed. The Manager is currently targeting exchange of contracts in early June 2018.

Idealcare Portfolio
Terms have been agreed for the acquisition of a £30.3m portfolio of three care homes (198 beds). One of the homes, situated in Mountsorrel, Leicestershire, is a trading asset having opened in December 2017. The other two homes, situated in York and Otley, North Yorkshire, will be constructed by care home developer LNT; the Fund will complete acquisition of the homes when the properties achieve Practical Completion, both currently forecast for Q3 2019.

At acquisition, the homes will be leased to and operated by Idealcare (the care home operating division of LNT) on 35 year leases with annual RPI-linked rent reviews collared at 2% and capped at 5%. The transaction reflects an anticipated cash yield of 6.00% and an average total cost of £153k per bed. Completion of the acquisition is currently forecast for June 2018.

3.2 Sales

Balhousie

Balhousie has now completed the buy-back of all three homes previously owned by the Fund: Coupar Angus (Balhousie), Dundee (Balhousie) and Methil (Balhousie), as previously reported. The transaction completed on 16 January 2018 for £10.92m (£75k per bed). The divestment produced a combined geared IRR (net) of 6.40% over the holding period of the assets.

Thorrington (Care UK)

The Fund has now completed the sale of the property for £9.00m (£141k per bed) to Ropemaker Properties Limited / BP Pension Fund. The transaction completed on 3 May 2018, and reflected the property's Q1 2018 valuation. The divestment produced a geared IRR (net) of 10.16% over the holding period of the asset.

Bangor (MMCG)

Contracts were exchanged for the sale of the property for £3.82m (£68k per bed) to a local operator, as a going concern, on 7 February 2018. Completion of the transaction is conditional on the operator obtaining registration with the Regulation and Quality Improvement Authority ('RQIA'), which is expected to take approx. 12 weeks from the date of exchange. The transaction is currently projected to complete on 1 June 2018.

3.3 Future funding commitments

Five acquisitions the Fund has contractually committed to require further funding, details of which are as follows:

Transaction	Total commitment	Remaining funding requirement	Comment	Forecast total commitment date
Clevedon	£14.0m	£10.1m	Property is currently under construction	14 June 2019
Benson	£13.7m	£10.4m	Construction yet to commence	October 2019
Brackley	£10.4m	£8.2m	Construction yet to commence	February 2020
Melbourn	£13.2m	£9.0m	Construction yet to commence	October 2019
York	£11.0m	£11.0m	Completion is conditional on planning	January 2020
Total	**£62.3m**	**£48.7m**		

4. Portfolio overview

4.1 Property portfolio

4.1.1 Overview

The Portfolio comprises thirteen trading elderly care homes and three dialysis units (92% and 8% of the portfolio by Q1 2018 valuation, respectively).

Eight of the care homes are classified as 'mature' (64% of the total portfolio by Q1 2018 valuation) in that they are trading at or close to their potential.

One (7% of the total portfolio by Q1 2018 valuation) is classified as being in 'fill-up', in that it is in its initial post-opening fill phase.

A further four homes (21% of the total portfolio by Q1 2018 valuation) are classified as 'transitional' in that they are trading materially below their potential.

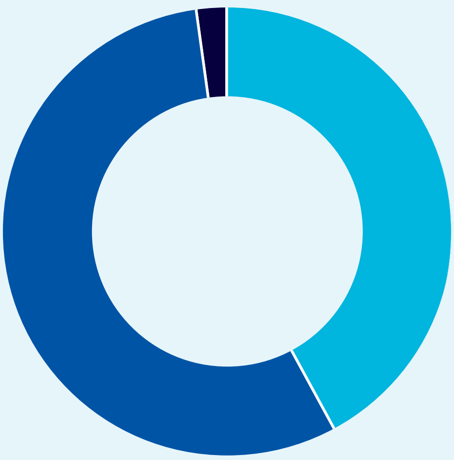
Please see Appendix 1 for further details.

4.1.2 Occupancy

Average portfolio occupancy is 85% (85% as at Q4 2017).

4.1.3 Age of assets[1]

Average asset age 5.7 years.

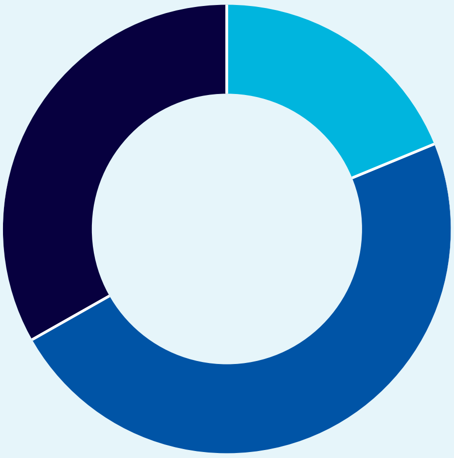


- Less than 5 years 42%
- More than 5 years 56%
- Over 10 years 2%

4.2 Lease profile

4.2.1 Lease length[1]

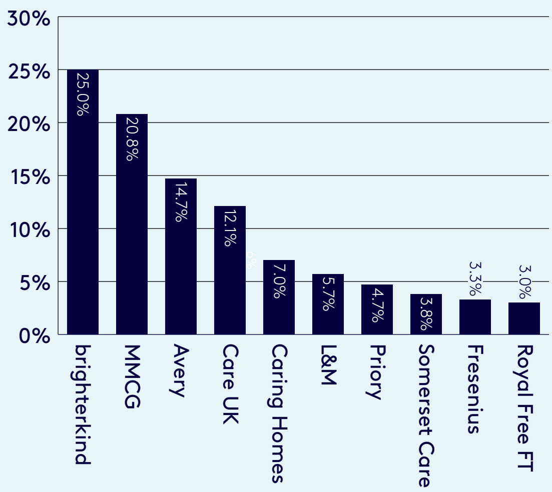
Weighted average unexpired lease term ('WAULT') 29.0 years.



- Less than 25 years 19%
- 25 to 30 years 48%
- Over 30 years 33%

4.2.2 Rental income by tenant[1]

91% leased to NHS/major operators[2], 9% to regional operators.



1 Based on completed assets as at 31 March 2018, plus all forward fundings and commitments as at completion. Numbers have been rounded.

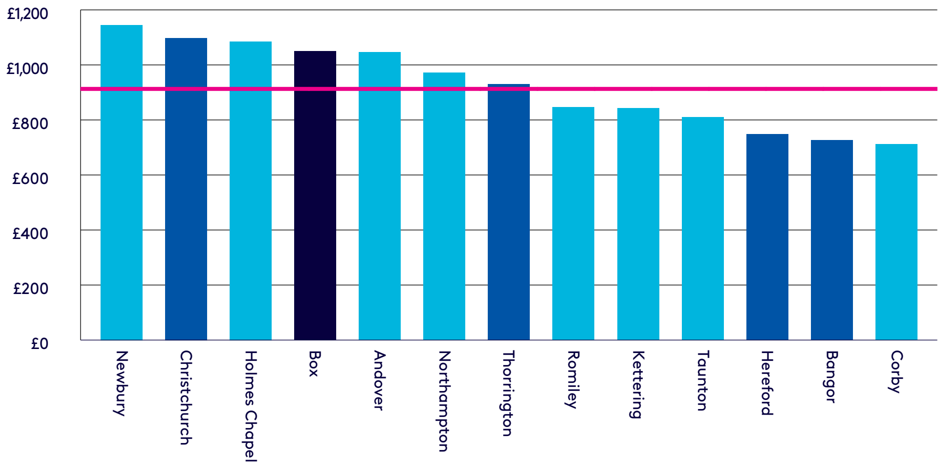
2 Includes: Avery Healthcare, brighterkind, Care UK, Caring Homes, Fresenius, Maria Mallaband Care Group ('MMCG'), Priory & Royal Free London NHS Foundation Trust.

4.3 Property portfolio map

No.	Location
1	Holmes Chapel (MMCG)
2	Northampton (brighterkind)
3	Bangor (MMCG)
4	Birmingham (Fresenius)
5	Worcester (Fresenius)
6	Kettering (brighterkind)
7	Box (MMCG)
8	Christchurch (MMCG)
9	Thorrington (Care UK)
10	Romiley (L&M)
11	Newbury (Care UK)
12	Taunton (Somerset Care)
13	Hereford (Priory)
14	Tottenham Hale (Royal Free)
15	Andover (brighterkind)
16	Corby
17	Clevedon (Avery)
18	Benson (Caring Homes)

4.4 Operating Performance

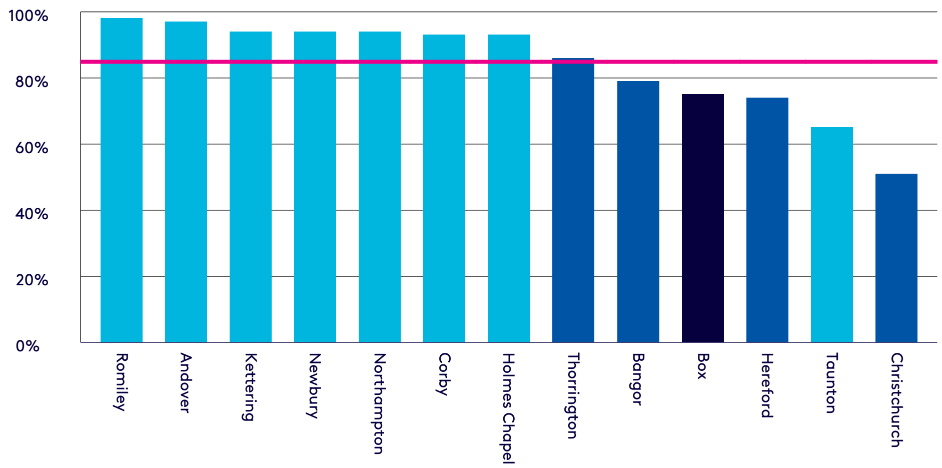
4.4.1 Average Weekly Fees[1]



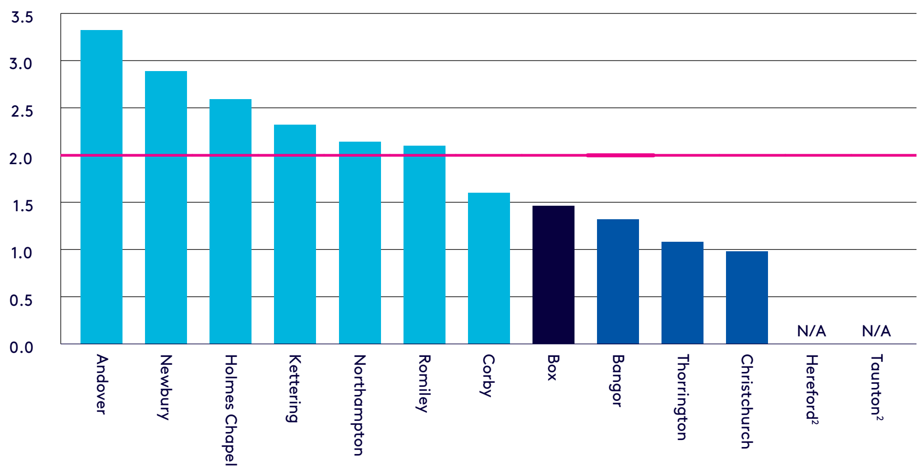
Key

Mature asset	
Fill up asset	
Transitional asset	
Portfolio average	

4.4.2 Occupancy[1]



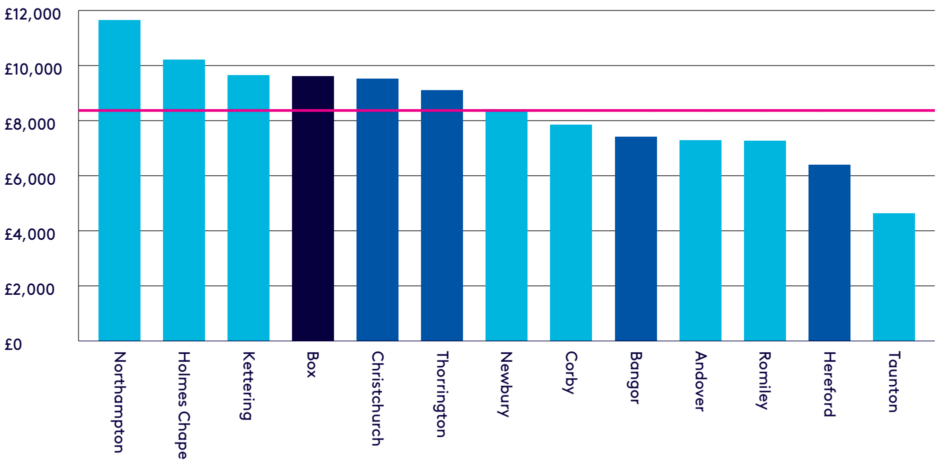
4.4.3 Rent cover[1]



1 As at Q4 2017. Excludes homes open for less than 12 months or under construction.
2 Hereford (Priory) & Taunton (Somerset Care) are not included, as the tenants are not required to provide Management Accounts under the terms of their leases.

4.5 Portfolio Metrics

4.5.1 Rent per bed[1]



Key

Mature asset

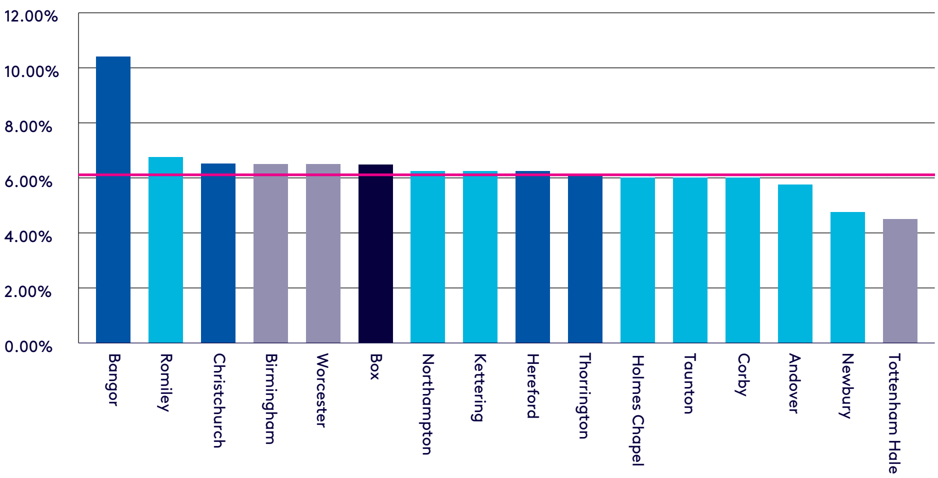
Fill up asset

Transitional asset

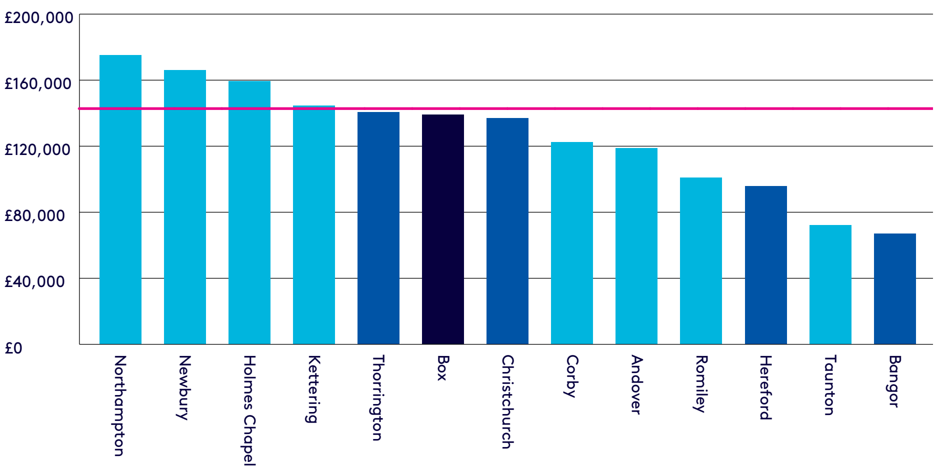
Dialysis

Portfolio average

4.5.2 Net initial yield[1]



4.5.3 Capital values per bed[1]



[1] Excludes homes currently under construction.

4.6 Quarter Activity

4.6.1 Rent reviews

Rent reviews during the quarter are summarised below:

Property (Operator)	Month	Rent Review Type	Revised Rent (per bed)	% Increase
Northampton (brighterkind)	January	5 yearly fixed (Bungalow ground rent)	£4,569 (N/A)	3.00% compounded annually
Christchurch (MMCG)	January	RPI	£609,441 (£9,523)	4.12%
Box (MMCG)	March	RPI	£625,098 (£9,617)	3.61%

4.6.2 Asset Management

Taunton (Somerset Care): As previously reported, externally the home presents poorly due to settlement of the timber frame resulting in cracking and buckling of the external cladding. The Manager is continuing to work with the Tenant to pursue a warranty claim against the contractor.

Andover (brighterkind): As identified at the time of acquisition in November 2017, the home requires internal redecoration and repair and maintenance works. brighterkind have indicated that they are in the process of forming an annual CAPEX programme for the home to be implemented shortly.

Kettering and Northampton (brighterkind): It was noted during the annual building inspections of both properties in January 2018 that the homes required internal redecoration and maintenance works in several areas. brighterkind have indicated that they are in the process of forming an annual CAPEX programme for the homes, to be implemented shortly.

4.6.3 Tenant Activity

Priory: As previously reported, Priory Group's elderly care home portfolio is currently being marketed as a going concern. The portfolio is made up of 44 elderly care homes (approx. 2,300 beds) at locations across the UK. The properties in the portfolio are predominantly purpose built, with Priory owning approx. 50% of the freehold estate.

brighterkind: As previously reported, H/2 Capital Partners ('H/2') and Four Seasons Health Care ('FSHC'), the parent company to brighterkind, have agreed a number of amendments to the restructuring milestones in their existing standstill and deferral agreement, including the further extension of the forbearance period long stop to 31 July 2018. The discussions are in part complicated by the ongoing dispute between H/2 and Terra Firma over the ownership of 24 more profitable care homes operating under the brighterkind brand in the group. H/2 and Terra Firma are due to go to court to resolve the matter between 8 and 17 May 2018, while targeting July to reach agreement on plans for the rest of the business.

Care UK: As previously reported, Care UK's private equity owners, Bridgepoint, have instructed Rothschild to sell the operator's residential care division which comprises approx. 118 care homes (8,000 beds). The Manager understands that there are a number of parties reported to be interested in acquiring either the HoldCo or the Care UK OpCo, with several of the parties interested in acquiring the OpCo also seeking partners to acquire the PropCo of the business.

Barchester: The Manager understands that Barchester's operating company is rumoured to be under offer to a UK private equity house.

5. Clinical Governance

5.1 Background

All health and social care services in England are regulated by the Care Quality Commission ('CQC' or the 'Regulator'); an executive, non-departmental public body of the Department of Health. The CQC monitors and inspects all services on a periodic basis, to ensure providers are meeting its fundamental standards of care.

There are four ratings that the CQC gives to health and social care services: 'Outstanding', 'Good', 'Requires Improvement' and 'Inadequate'.

Health and Social Care services in Northern Ireland are regulated by the Regulation and Quality Improvement Authority ('RQIA'), under a different regulatory regime to that used in England.

Further details regarding the CQC and RQIA are set out in Appendix 3.

5.2 Quarterly update

All properties within the portfolio are subject to oversight from the Manager's Clinical Assurance Director, in addition to the Manager's Investment and Property Management teams.

During the quarter, the following regulatory inspections took place and/or reports were published:

5.2.1 Taunton (Somerset Care)

- CQC Rating – Good
- The CQC last inspected the home between 21 and 26 January 2016. The Manager has been advised that the CQC are currently carrying out checks at the home; a final report is still pending.
- The draft reported provided by the CQC has rated the home as 'Good' in all rated standards.

5.2.2 Thorrington (Care UK)

- The CQC last inspected the home on 13 February 2017. The Manager has been advised that the CQC are currently carrying out checks at the home; a report is still pending.
- The property has since been sold (see Transactions Section for further details).

5.2.3 Northampton (brighterkind)

- CQC Rating – Good
- The CQC last inspected the home on 23 and 24 February 2016. The Manager has been advised that the CQC are currently carrying out checks at the home; a report is still pending.
- Initial feedback from the Inspector's summary inspection report was generally positive.

6. Market overview

6.1 Market overview

6.1.1 Investment market

As previously reported, Investor demand for long-leased, purpose built healthcare assets has been rising over recent months, particularly for assets leased to operators which are perceived to have a substantial balance sheet. During Q1 2018, the Manager observed an escalation of this trend, with Investor demand now rising for all grades of operator covenant, including Special Purpose Vehicle ('SPV') operators.

This has been driven heavily by strong demand/supply fundamentals, long leases frequently with RPI-linked rent increases, and attractive income returns. Demand from institutional Investors has been rising for some time, with the notable addition of 'long-income' funds over recent months. In addition, there is more recent anecdotal evidence that infrastructure funds may also be starting to focus on the healthcare real estate sector.

As a result of the above, yields for assets leased to operators with perceived financial strength have been falling for some time. However, anecdotal evidence during the quarter suggests that yield compression is now extending across the tenant risk curve, up to and including SPV's. Should this be confirmed by subsequent comparable evidence, it will be a material trend in terms of the current investment cycle, and perhaps the on-going evolution of the sector.

In response to rising Investor demand, falling yields and indications that the value of tenant Operating Companies are also rising, there is evidence that operators are increasingly inclined to consider the sale and leaseback of their assets. This is assisting the supply of assets in the investment market, but also raising the risk of transactions being undertaken at elevated rental levels which may prove unsustainable. Underwriting discipline in this regard will be crucial going forward.

Investment activity during the quarter included the following:

Target Healthcare REIT: Committed to acquire, via forward funding, two new care homes (142 beds) for approx. £15.6m (£110k per bed). The homes are located near Shrewsbury, Shropshire, and in Preston, Lancashire, and will be leased to Rotherwood Healthcare and L&M Healthcare respectively. The homes will reportedly be let on 30 year leases, with annual RPI linked rent reviews, subject to collars and caps.

Lone Star: Completed the £53.6m (£64k per bed) acquisition of a portfolio of 14 care homes (840 beds) leased to Care UK. The properties are all located in the Northeast of England, predominantly in Tyne and Wear and County Durham, in local authority funded markets. The majority of the portfolio is purpose built and was completed between 2002 and 2006, there are several older or converted assets dating back to the late 1980s and 1990s. The combined portfolio provides approx. 97% ensuite facilities. The portfolio is understood to have a WAULT of less than 20 years, with annual RPI linked rent reviews, collared at 0% and capped at 4%. The purchase price is understood to reflect a combined NIY of approx. 7.50%.

Impact Healthcare REIT: Acquired a 73 bed care home (currently comprised of two 'units') for £4.9m (£67k per bed), to be leased to Welford Healthcare. Only one of the existing homes is understood to be purpose built; planning permission is understood to be in place to extend one of the units to link the two homes, providing 79 beds at completion. The property will initially be subject to a 25 year FRI lease, with an option for Welford Healthcare to extend by a further 10 years. The initial rent of £356k (£5k per bed), will be subject to annual RPI-linked rent reviews, collared at 2% and capped 4%. The purchase price is understood to reflect a NIY of approx. 7.00%.

6.2 Operating environment

6.2.1 Staffing

Nursing associates: The Nursery and Midwifery Council, who "regulate nurses and midwives in England, Wales, Scotland and Northern Ireland, set standards of education, training, conduct and performance" is currently running a consultation until July 2018 on how the new nursing associate roles (as announced by the Government in 2017) will be regulated. The consultation is focussed on two main areas: 1) Developing new standards and procedures specifically for nursing associates; 2) Proposals as to how to apply the approach it currently has for nurses and midwives to nursing associates. Training for 2,500 nursing associates was scheduled to commence in April 2018.

NHS staffing and bureaucracy: Data from NHS Digital has indicated a deepening shortage of nurses across England, while there appears to be growing numbers of senior managers on NHS payroll; the latter's numbers total 10,300 (a 7% rise over the past year). The Royal College of Nursing ('RCN') has strongly criticised the trend of senior management becoming the fastest growing part of the NHS, against a backdrop of an estimated shortage of 40,000 nurses. Challenges in recruitment are understood to be most pronounced in parts of Southeast England, notably the Thames Valley and London, where some hospitals in London are only able to achieve fill-rates of between 1.7% and 3.3% for advertised nursing vacancies. Across England as a whole, only one in seven of all empty nursing posts were filled. The number of nursing vacancies has jumped by 2,626 (8.3%) over the past year from 31,634 to 34,260, according to NHS Digital's analysis of posts advertised on NHS Jobs, the health service's main recruitment website.

6.2.2 Funding and research

No NHS spending rise until autumn: The Government's Spring Statement 2018 did not promise additional funding for health or social care, but it is hoped that a significant rise may be granted in Autumn 2018. Philip Hammond, Chancellor of the Exchequer, has said he hopes that an uplift in public finances, as suggested by the Office of Budget Responsibility ('OBR'), would facilitate an increase in spending in the Autumn Budget, whilst acknowledging the "continuous upward pressure" on the NHS.

Government 'Ageing Society Grand Challenge': The Government has announced a £300m fund to develop technologies designed to help the elderly, in what it has called its 'Ageing Society Grand Challenge'. The new allocation of funding will see £98m for a 'healthy ageing programme' and £210m for a 'data to early diagnosis and precision medicine programme' to improve diagnosis of disease and develop new medical treatments and technologies.

Separately, the Government has announced it will also be investing a further £40m into the UK Dementia Research Institute ('UK DRI'), which is headquartered at UCL (University College London), via the Medical Research Council. Launched in 2016, the UK DRI, has received significant investment from three founding partners: Medical Research Council, Alzheimer's Society, and Alzheimer's Research UK. It employs world-leading academics, whose work is helping benefit the lives of the 850,000 people in the UK living with dementia.

6.2 Operating environment (continued)

6.2.3 Regulatory

Government responds to the Competition & Markets Authority ('CMA') care homes market study: Following the publication of the CMA's report into residential and nursing care homes for older people in November 2017 (as previously reported), the Government has responded

to the study, but deferred many of its conclusions to its forthcoming Green Paper on care and support for older people, due to be published in summer 2018.

The Department of Health & Social Care ('DHSC') accepted, or accepted in principle, all of the CMA's recommendations, but stopped short of outlining actions to assist with funding. The CMA highlighted that the current system was "not sustainable without additional funding", identifying a £1bn annual shortfall across the UK.

The Government noted that it "would expect to see an increase in the fee levels paid to providers" going forward, but did not commit to guaranteeing those increases or ensuring that increased costs of providing care are covered. It argued that, since the financial analysis of the care home market took place over the summer of 2017, it was too early to assess the impact of the additional £2bn announced in the 2017 Spring Budget. Although the DHSC accepted the principle of the need for investor confidence across the adult social care market, it did not recognise the need for an independent function to advise Government on the cost of care; saying that the recommendations for long-term reform would form part of its Green Paper.

The Government has concerns surrounding consumer protection and the need to embed a culture of consumer law compliance across the sector, as well as the need to improve complaints procedures and to develop a system of greater information for consumers.

7. Finance update

7.1 Accounting

Under the Fund's Declaration of Trust dated 30 August 2017 (the 'Declaration of Trust' or 'DOT'), the Trustee has 120 days after the end of each Accounting Period (31 December) to provide audited and signed Annual Accounts for the Fund. The audit fieldwork has concluded and the Annual Accounts were signed by the Trustee and the Fund's auditors, BDO, on 30 April 2018.

7.2 Direct taxation update

Non-resident landlord tax returns, of the Fund's underlying property SPVs, have been completed and filed with HMRC. All payments of income tax due to HMRC by 31 January 2018 have been made.

7.3 Debt collection

There are currently rental arrears relating to two tenants (MMCG: £178k; Royal Free London NHS Foundation Trust: £188k). The Manager has discussed this with the tenants and understands it is a processing issue, with settlement expected imminently. There are no other defaults on tenant rental receipts (taking into account agreements with some tenants to pay monthly rather than quarterly).

7.4 Loan facility

On 30 August 2017, a £50m facility was entered into with the Royal Bank of Scotland ('RBS'), with the following key terms:

- Margin: 190 bps over 3 month LIBOR
- Non-utilisation fee: 76 bps
- Arrangement fee: 75 bps
- Expiry: 5 year term, August 2022

£8.8m of the facility was drawn as at the end of the period (31 December 2017: £8.2m).

The Manager has negotiated with RBS to extend the existing maximum LTV from 30% to 40% at asset level. This was executed by the Trustee on 12 January 2018.

The Manager has sought professional advice on a suitable hedging strategy. JCRA Rathbones advised that whilst the Fund was solely using a revolving credit facility, the most appropriate approach was not to hedge at this stage. The Manager will further assess this when future debt facilities are being procured.

7.5 Gearing ratio

As at 31 March 2018, the gearing ratio of the Fund was 5.96% (31 December 2017: 5.67%), calculated as debt drawn as a percentage of Gross Asset Value (as defined in the DOT).

7.6 Fund subsidiary administration

The Manager recommended to the Trustee in December 2017 that the administration of the underlying subsidiaries of the Fund should be moved to International Administration Group (Guernsey) Limited. The rationale for this was that it would provide efficiency savings and enhanced communication regarding the administration of the Fund.

The previous Administrator, Intertrust International Management Limited, subsequently worked in collaboration with the Trustee, and the transfer took effect on 31 January 2018.

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Appendices

Appendix 1 – Portfolio summary

1.1 Trading Assets

Classification	Property (Operator)	No. of beds	Occupancy (12 month average)[1]	AWF £ (12 month average)[1]	Rent cover (12 month average)[1]	Rent £ (per bed)	Q4 NIY (Q4)	Q4 Value £m (Q4)	Value (% of total)[2]
Mature	Andover (brighterkind)	64	97% (93%)	1,046 (1,079)	3.57 (3.08)	466,127 (7,283)	5.75% (5.75%)	7.60 (7.60)	6%
	Corby (Avery)	84	93% (90%)	712 (687)	1.60 (1.40)	660,000 (7,857)	6.00% (N/A)	10.30 (N/A)	8%
	Holmes Chapel (MMCG)	50	93% (92%)	1,085 (1,047)	2.62 (2.60)	510,958 (10,219)	6.00% (6.00%)	7.98 (7.98)	6%
	Kettering (brighterkind)	115	94% (94%)	843 (826)	2.32 (2.27)	1,108,985 (9,643)	6.25% (6.50%)	16.62 (15.98)	12%
	Newbury (Care UK)	80	94% (94%)	1,145 (1,123)	2.79 (2.72)	673,129 (8,414)	4.75% (5.00%)	13.28 (12.61)	10%
	Northampton (brighterkind)	88	94% (96%)	971 (946)	2.08 (2.02)	1,025,418 (11,652)	6.25% (6.50%)	15.43 (14.77)	11%
	Romiley (L&M)	81	98% (97%)	846 (827)	2.03 (2.02)	588,533 (7,266)	6.75% (6.75%)	8.17 (8.17)	6%
	Taunton (Somerset Care)	85	65% (65%)[4]	810 (909)[4]	Not available[4]	393,510 (4,630)	6.00% (6.00%)	6.15 (6.15)	5%
Fill-up	Box (MMCG)	65	75% (75%)	1,050 (1,018)	1.40 (1.40)	625,098 (9,617)	6.47% (6.25%)	9.05 (9.05)	7%
Transitional	Bangor (MMCG)	56	79% (65%)	726 (763)	1.32 (0.71)	415,216 (7,415)	10.40% (10.39%)	3.75 (3.75)	3%
	Christchurch (MMCG)	64	51% (54%)	1,098 (1,088)	0.76 (0.97)	609,441 (9,523)	6.51% (6.25%)	8.78 (8.78)	6%
	Hereford (Priory)	76	74% (80%)[4]	748 (751)[4]	Not available[4]	485,967 (6,394)	6.25% (6.25%)	7.29 (7.29)	5%
	Thorrington (Care UK)	64	86% (85%)	930 (903)	1.27 (0.93)	582,503 (9,102)	6.07% (6.73%)	9.00 (8.12)	7%
Dialysis	Birmingham (Fresenius)	24[3]	–	–	–	160,905	6.50% (6.50%)	2.33 (2.33)	2%
	Tottenham Hale (Royal Free)	48[3]	–	–	–	314,694	4.50% (4.75%)	5.84 (5.53)	4%
	Worcester (Fresenius)	16[3]	–	–	–	187,234	6.50% (6.50%)	2.71 (2.71)	2%
					Total	**8,807,718**	**6.12% (6.47%)**	**134.28 (131.80)**	**100%**

1 Based on Management Accounts for the last four quarters where available.
2 Numbers have been rounded.
3 Number of dialysis treatment stations.
4 Octopus Healthcare assessment, based on discussions with the operator and/or recent site visits. The Tenant is not required to provide Management Accounts.

1.2 Forward fundings and commitments

Classification	Property (Operator)	Developer	No. of beds	Anticipated PC date	Weeks (over/ under) original PC date	Contracted Rent £ (per bed)	Cash Yield	Acquisition Cost £
Forward fundings (under construction)	Clevedon (Avery)	Avery	80	14 June 2019	2	874,000 (10,925)	6.25%	13,991,520
Forward fundings (pre-construction)	Benson (Caring Homes)	Caring Homes	70	October 2019	N/A	850,000 (12,143)	6.22%	13,667,976
					Total	**1,724,000**	**6.23%**	**27,659,496**

Appendix 2 – Asset overview

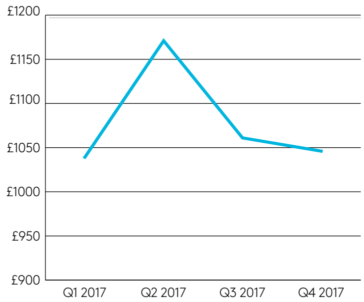
2.1 Mature Assets

Andover (brighterkind)

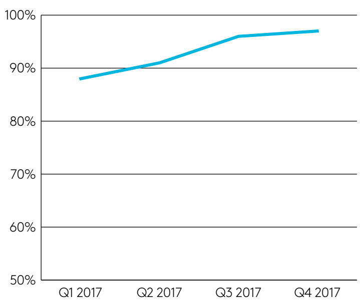
Trade commentary
The home continues to perform well; strong fees and high occupancy have seen rental cover above 3x EBITDARM for the last two reported periods.

Regulatory
Last CQC inspection: 23.11.2016
Overall rating: Good

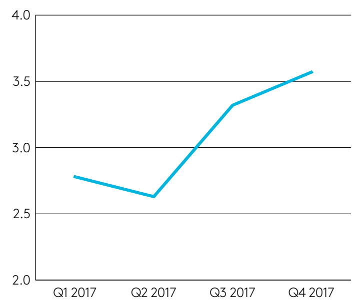
AWF



Occupancy



Rent cover

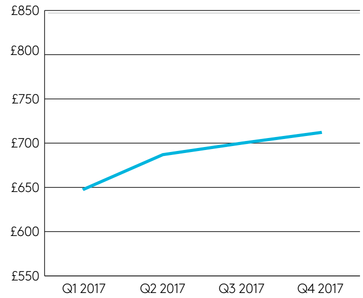


Corby (Avery)

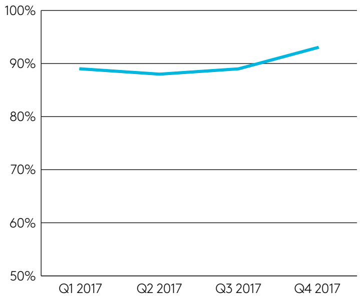
Trade commentary
The Fund completed the acquisition of the property on 24 January 2018 (see Transactions Section for further details). The home has performed well historically.

Regulatory
Last CQC inspection: 23.05.2016
Overall rating: Good

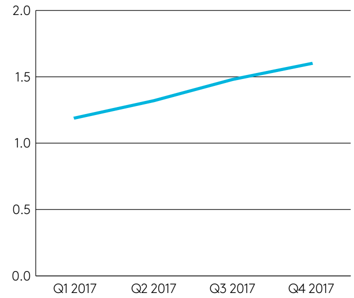
AWF



Occupancy



Rent cover



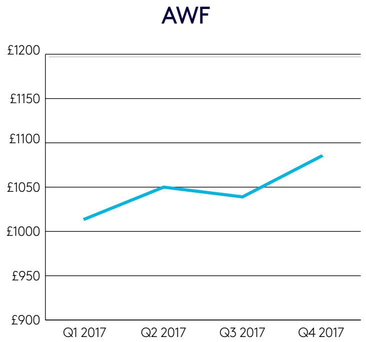
Appendix 2 – Asset overview (continued)

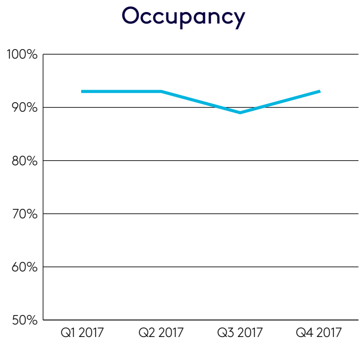
2.1 Mature Assets (continued)

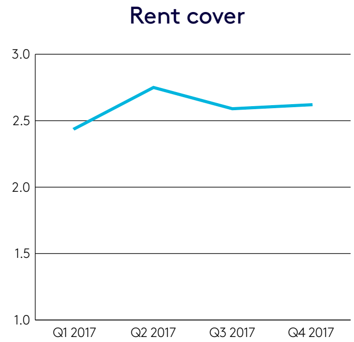
Holmes Chapel (MMCG)

Trade commentary
Small increases in both occupancy and average weekly fees have increased rent cover slightly. The home continues to perform well, with rental cover remaining above 2.5x EBITDARM.

Regulatory
Last CQC inspection: 08.08.2017
Overall rating: Good



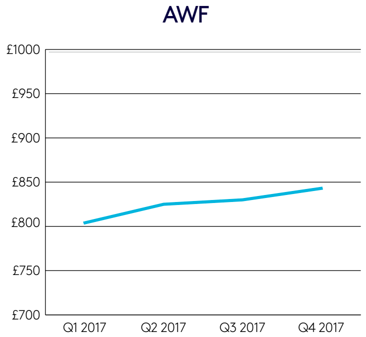


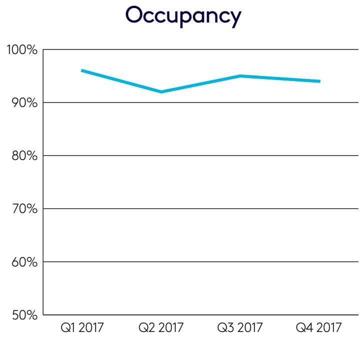


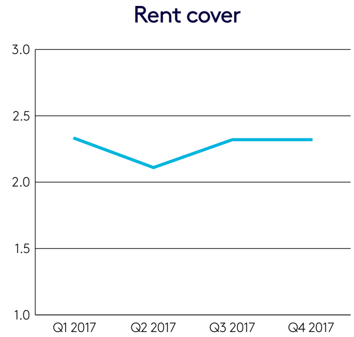
Kettering (brighterkind)

Trade commentary
Occupancy at the home remains high. Rental cover has now been above 2x EBITDARM for four consecutive quarters.

Regulatory
Last CQC inspection: 11.04.2017
Overall rating: Good







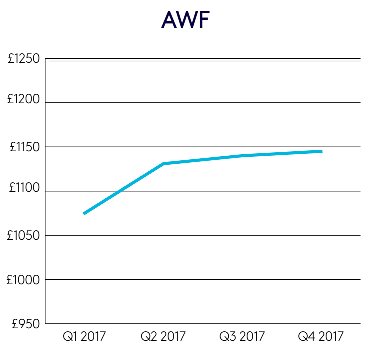
Appendix 2 – Asset overview (continued)

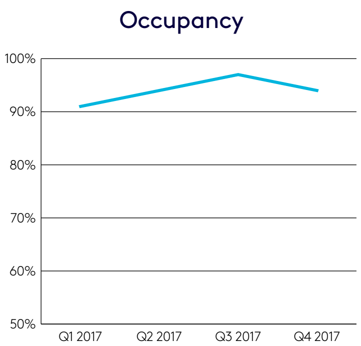
2.1 Mature Assets (continued)

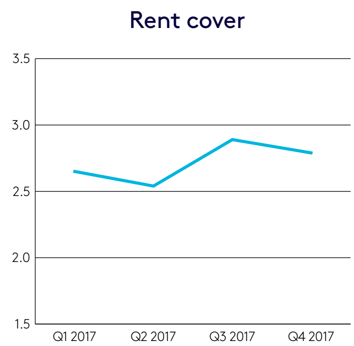
Newbury (Care UK)

Trade commentary
Trade at the home continues to perform well. Sustained occupancy and strong fees have seen the home trade at above 2.5x EBITDARM for four consecutive quarters.

Regulatory
Last CQC inspection: 23.06.2017
Overall rating: Good



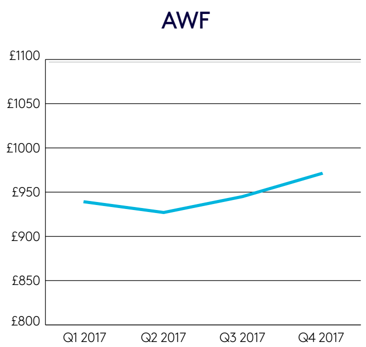


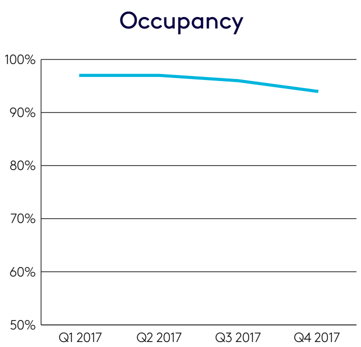


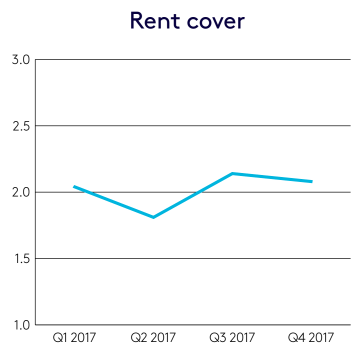
Northampton (brighterkind)

Trade commentary
Small increases in average weekly fees in the last reported period have been off-set by a small drop in occupancy. Overall, the home continues to trade at a mature and sustainable level.

Regulatory
Last CQC inspection: 23.02.2016
Overall rating: Good







Appendix 2 – Asset overview (continued)

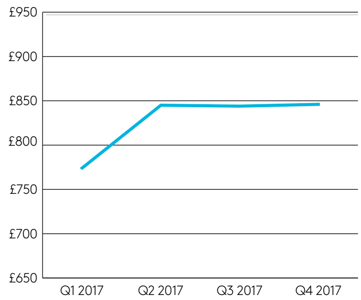
2.1 Mature Assets (continued)

Romiley (L&M)

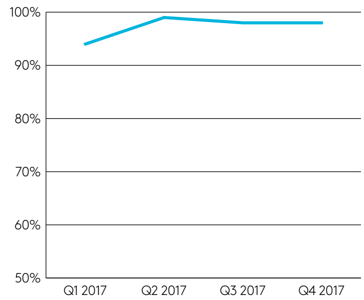
Trade commentary
The home continues to trade at a mature and sustainable level, with rental cover for the past three periods at or above 2x EBITDARM.

Regulatory
Last CQC inspection: 12.10.2017
Overall rating: Good

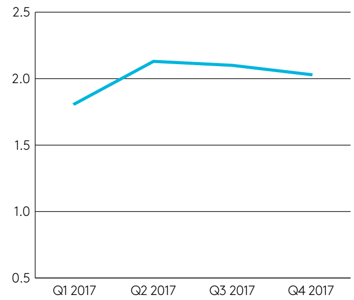
AWF



Occupancy



Rent cover



Taunton (Somerset Care)

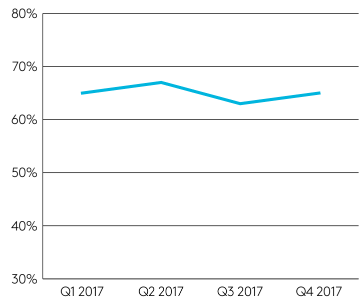
Trade commentary
Based on recent discussions with the operator, trade has remained relatively stable this period. The current levels of occupancy are partially attributable to the ongoing rectification of issues relating to the original construction of the building (see Asset Management Section for further details).

Regulatory
Last CQC inspection: 21.01.2016
Overall rating: Good

AWF[1]

Trading information not available

Occupancy[1]



Rent cover[1]

Trading information not available

[1] The Tenant is not required under its lease to provide Management Accounts.

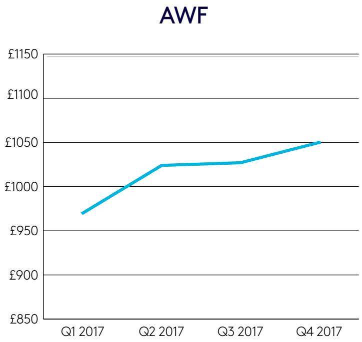
Appendix 2 – Asset overview (continued)

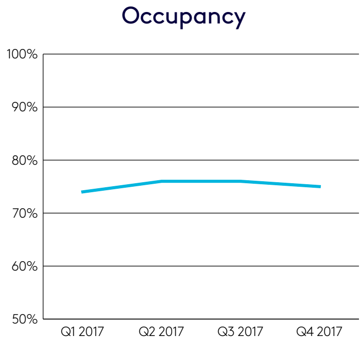
2.2 Fill up assets

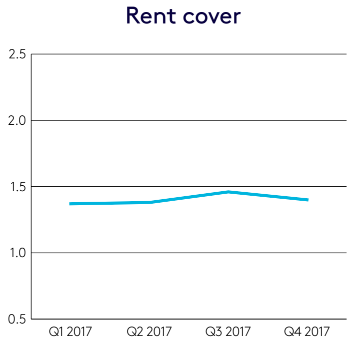
Box (MMCG)

Trade commentary
The business at the home continues to achieve good average weekly fees at £1,000 and above. The fill-up rate of the home continues to be below original forecasts, however.

Regulatory
Last CQC inspection: 19.04.2017
Overall rating: Requires Improvement







Appendix 2 – Asset overview (continued)

2.3 Transitional Assets

Bangor (MMCG)

Trade commentary

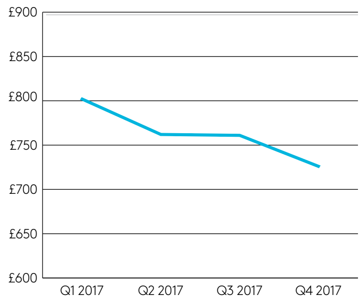
Trade has improved in the last reported period, with increases in occupancy improving rental cover. Contracts have been exchanged for the sale of the asset as a going concern, as previously reported (see Transactions Section for further details).

Regulatory

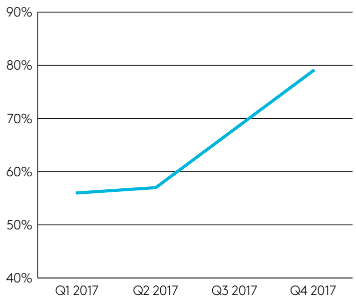
Last RQIA inspection: 28.06.2017

Overall rating: No Regulations and 6 standards

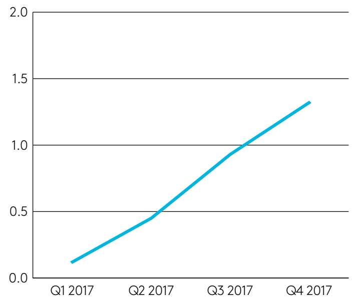
AWF



Occupancy



Rent cover



Christchurch (MMCG)

Trade commentary

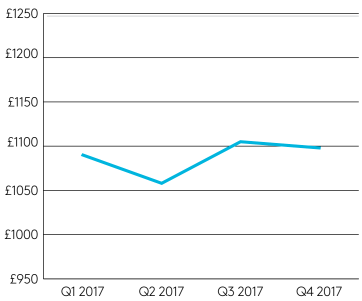
The performance of the home continues to be below expectations. Decreases in occupancy over the last two reported periods have impacted rental cover.

Regulatory

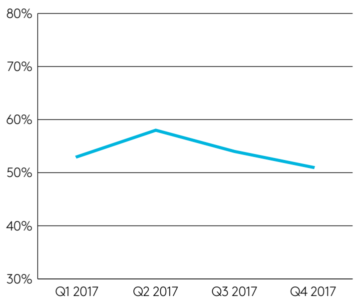
Last CQC inspection: 01.12.2017

Overall rating: Good

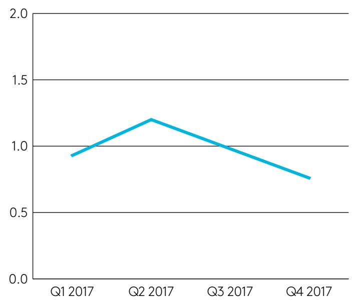
AWF



Occupancy



Rent cover



Appendix 2 – Asset overview (continued)

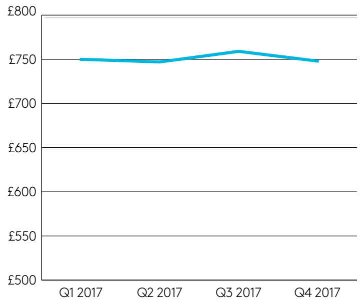
2.3 Transitional Assets (continued)

Hereford (Priory)

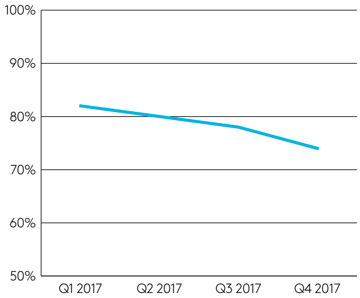
Trade commentary
Based on recent conversations with the operator, occupancy at the home has dropped again slightly in the most recent period. The operator continues to target repositioning the home towards the private-pay market, but has found this more challenging than originally expected.

Regulatory
Last CQC inspection: 09.11.2017
Overall rating: Requires Improvement

AWF



Occupancy



Rent cover[1]

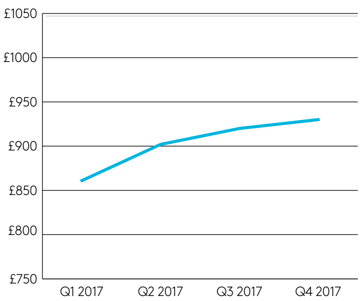
Trading information not available

Thorrington (Care UK)

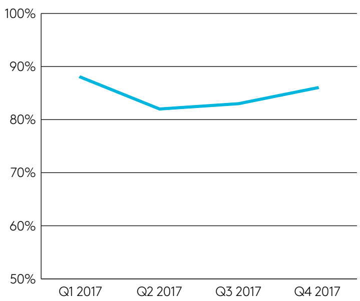
Trade commentary
Increases in fees, combined with relatively steady occupancy, has improved rental cover in the most recent period. The property was sold on 3 May 2018 (see Transactions Section for further details).

Regulatory
Last CQC inspection: 13.02.2017
Overall rating: Requires Improvement

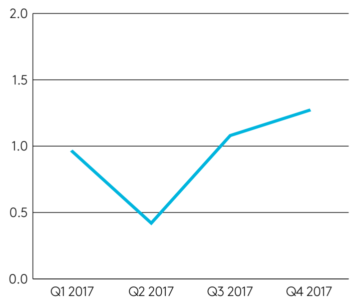
AWF



Occupancy



Rent cover



[1] The Tenant is not required under its lease to provide Management Accounts.

Appendix 2 – Asset overview (continued)

2.4 Dialysis Clinics

Birmingham (Fresenius)

Last CQC Inspection: 26 May 2017
Overall rating: The CQC regulates dialysis clinics, but does not currently have a legal duty to rate these services.

Tottenham Hale (Royal Free)

Last CQC Inspection: No CQC inspection since registration
Overall rating: N/A

Worcester (Fresenius)

Last CQC Inspection: 19 June 2017
Overall rating: The CQC regulates dialysis clinics, but does not currently have a legal duty to rate these services.

Appendix 2 – Asset overview (continued)

2.5 Asset overview – Forward fundings (under construction)

Clevedon (Avery)

Developer: Avery
Original projected PC: 27 May 2019
Current PC forecast: 14 June 2019

Comments: The Contractor is currently reporting a delay of approximately two weeks due to ground water issues caused by inclement weather, impacting the installation of ground beams on the site.

2.6 Asset overview – Forward fundings (pre-construction)

Benson (Caring Homes)

Developer: Caring Homes
Original projected PC: October 2019
Current PC forecast: October 2019

Comments: The Fund completed the acquisition of the site on 29 March 2018. Caring Homes are currently seeking to amend the existing planning permission from 60 to 70 beds, which is anticipated to be achieved by July 2018. The Contractor is currently forecasting a 15 month build programme, with PC expected by October 2019.

Appendix 3 – Clinical governance

3.1 The Care Quality Commission ('CQC')

The CQC is the independent regulator of health and social care services in England; an executive, non-departmental public body of the Department of Health.

The primary role of the CQC includes: the registration of care providers; the monitoring, inspection and rating of services; taking action where necessary to protect people who use services; publishing views on major quality issues within the health and social care sector.

The CQC has powers to:

- Issue requirement notices or warning notices to set out what improvements the care provider must make and by when.
- Force changes to a care provider's registration.
- Place a service in 'Special Measures', where quality of care is closely monitored and actions are taken to help improve the service within set timescales.
- Hold care providers to account for their failings by: i) issuing cautions; ii) issuing fines; iii) prosecuting in cases where people are harmed or placed in danger of harm.

The CQC considers five key questions when making its assessment of health and social care services:

Is the service Safe?	Are individuals protected from abuse and avoidable harm?
Is the service Effective?	Does the care, treatment and support provided achieve good outcomes, help maintain quality of life and based on the best available evidence?
Is the service Caring?	Do staff treat patients/residents with compassion, kindness, dignity and respect?
Is the service Responsive?	Is the service organised so that it meets the needs of patients/residents?
Is the service Well-led?	Does the leadership, management and governance of the organisation ensure it is providing high-quality care based around individual needs? Does it encourage learning and innovation, and promote an open and fair culture?

There are four ratings that the CQC gives to health and social care services, shown below:

- Outstanding: The service is performing exceptionally well.
- Good: The service is performing well and meeting expectations of the Regulator.
- Requires Improvement: The service is not performing as well as it should, and the Regulator has told the service how it must improve.
- Inadequate: The service is performing poorly, and action has been taken against the person or organisation that runs it.

3.2 The Regulation and Quality Improvement Authority ('RQIA')

The RQIA is the independent body responsible for monitoring and inspecting the availability and quality of health and social care services in Northern Ireland, and encouraging improvements in the quality of services.

The RQIA considers four key questions when inspecting services: i) 'Is the care safe?'; ii) 'Is the care effective?'; iii) 'Is care compassionate?'; iv) 'Is the service well-led?'.

The RQIA assesses 'areas for improvement' in two ways, where the home needs to improve to: i) Meet Regulations; or, ii) Meet Standards.

These assessments are made in line with The Health and Personal Social Services (Quality, Improvement and Regulation) (Northern Ireland) Order 2003, The Nursing Homes Regulations (Northern Ireland) 2005 and the Care Standards for Nursing Homes 2015.

Appendix 4 – Annual Fund Business Plan

Under the Fund's Declaration of Trust dated 30 August 2017 (the 'Declaration of Trust' or 'DOT'), the Manager is required to prepare an annual Fund Business Plan (the 'Plan'), and circulate this to the Trustee and the Members of the Octopus Healthcare Fund Investors' Committee (the 'OHFIC'). This is to be undertaken within the first quarter of each Accounting Period of the Fund (i.e. by 31 March 2018 in this instance).

The Plan, covering the year running from 1 April 2018 to 31 March 2019, was distributed to the Trustee and the OHFIC on 29 March 2018. The Manager consequently consulted with the OHFIC on 25 April 2018. This superseded the interim Plan (covering the period 30 August 2017 to 31 March 2018) which was approved and circulated by the Trustee to Investors on 26 October 2017.

In accordance with the DOT, the OHFIC will be consulted on any subsequent material changes to the Plan that have been approved by the Trustee.

Under the DOT, the Trustee is required to use its reasonable endeavours to procure that the Manager acts in accordance with the Plan by reviewing performance against it with the Manager at least quarterly.

It was agreed with the approval of the Trustee at the inaugural Investor Meeting of OHF on 6 September 2017 that the Plan would be circulated to all Investors, rather than just the members of the OHFIC.

Appendix 5 – Issue and Redemption Price

5.1 Issue Price

The Declaration of Trust (the 'DOT') states that the issue price of a new unit shall be determined by adjusting the most recent NAV per unit (calculated by the Trustee) by a stated formula (the resultant adjusted NAV per unit comprising the 'Issue Price'). The formula reflects the following key variables:

- Acquisition costs of existing investments
- Projected notional investment in new investments (next 12 months)
- Acquisition costs of new investments (next 12 months)
- Projected notional investment in capital expenditure (next 12 months)
- Notional cost of capital expenditure (next 12 months)
- Current gearing level in the Fund

The Issue Price as at the beginning of the period was 3.92%. No new units were issued in the period.

As at 1 April 2018, the unit price adjustment was 3.79%.

5.2 Redemption

The DOT states that the redemption of each unit shall be at NAV per unit calculated at the quarter end immediately before the date of the redemption, minus 1.5% per unit and multiplied by the number of units being redeemed.

No units in the Fund have been redeemed to date.

Appendix 6 – Valuation Policy

The Valuation Policy of the Fund is summarised as follows:

6.1 Valuer

All property assets are valued on a quarterly basis by an independent valuer (currently Knight Frank). The quarterly valuations are undertaken in accordance with the current Royal Institution of Chartered Surveyors' (RICS) Valuation Professional Standards 2014 Global and UK Edition (the Red Book) including the International Valuation Standards.

The valuer's initial appointment is for a period of three years from the launch of the Fund (30 August 2017). The maximum term any person or entity can be appointed as valuer is six years. All appointed valuers will be subject to a performance review and competitive fee tender at the third anniversary of their appointment. The Investors' Committee will be consulted in respect of the re-appointment of a valuer and the appointment of any other person or entity as valuer.

6.2 Accounting Standards

The accounting standards for the Fund are the International Financial Reporting Standards ('IFRS'); as updated from time to time.

6.3 Gross Asset Value

The GAV of the Fund is the value of all assets of the Fund, valued in accordance with the Fund's accounting policies (IFRS). For these purposes, no mark-to-market adjustment is made to the valuation of any unlisted debt instrument held by the Fund.

6.4 Net Asset Value

The NAV of the Fund is the value of all assets of the Fund less its total liabilities (including accrued but unpaid fees), valued in accordance with IFRS.

At each quarter end the Manager sends a statement reconciling the Fund's NAV and an unadjusted INREV NAV, calculated in accordance with INREV guidelines.

6.5 Audit

The GAV and the NAV are audited on an annual basis by the Fund's auditors (currently BDO).

Appendix 7 – Investment Strategy

The Investment Objectives and Strategy for the Fund are summarised as follows:

7.1 Objectives

The Fund has the following return objectives (after all fees and Fund costs)[1]:

1. A target Total Return of 7.5% to 8% per annum.
2. A target Distribution Yield of 5.5% to 6% per annum.

7.2 Strategy

The Fund will focus on two components of the UK property healthcare market:

1. Elderly Care Homes – The Fund will be primarily focused on specialist care for the elderly, including care homes, nursing homes and homes for dementia patients; and
2. Specialist Healthcare – The Fund will have the ability to invest in a range of specialist property healthcare sectors, which may include but will not be limited to specialist care, rehabilitation centres and accommodation relating to learning disabilities, mental health and acquired brain injury. This will be secondary to the Elderly Care Home component above and will be capped in accordance with the Fund's Investment Restrictions set out in Appendix 8.

Both components of the Investment Strategy will target Investments with the following characteristics:

1. Primarily purpose built real estate assets;
2. Acquired either as existing Investments or through Forward Funding Transactions or Forward Commitments;
3. Let to healthcare operators on leases with a minimum unexpired lease term of 20 years and fixed or index-linked rental uplifts subject to caps and collars. In addition, properties will be targeted that have rental levels which in the Manager's reasonable opinion will be affordable over the term of the lease. The Fund may acquire assets with leases of less than 20 years where the Manager reasonably considers this to be appropriate to seek to optimise returns to Investors in the Fund. Ancillary parts of the underlying properties may be let on different forms of lease including revenue and net operating profits sharing leases; and
4. Either freehold or long leasehold tenure.

In addition, each potential acquisition or development will be evaluated against a background of local and future needs, previous and forecast operating performance and covenant strength.

[1] The Target Return is a target only and there is no certainty whatsoever that the Target Return shall be met.

Appendix 8 – Investment Restrictions

Restriction	Compliant?	Status as at 31 December 2017
Minimum 75% of Fund GAV invested in Elderly Care Homes. Maximum 25% of Fund GAV invested in Specialist Healthcare.	✓	Elderly Care Homes exposure – 92.4% (GAV) Specialist Healthcare exposure – 3.4% (GAV) (dialysis clinics).[1]
Maximum 15% of Fund GAV in one investment. (Measured at the point of contractual commitment).	✓	Largest asset in the Fund by value – 11.3% of GAV (Kettering (brighterkind)).
Maximum 20% of Fund rental income from the same tenant or tenant group, measured (until 2 January 2020) as follows: 1) Rental income ultimately receivable by the Fund; plus 2) Rental income which would be receivable by the Fund based on the assumed full investment of all Commitments (i.e. legally binding commitments formally accepted by the Trustee) and the Fund's 20% target gearing, at the prevailing portfolio valuation yield (currently 6.12%).[2]	✓	Largest tenant/tenant group exposure – brighterkind 11.2% (per the formula opposite).[3]
Forward Funding Transactions (at the point of contractual commitment to a forward funding transaction) to be no more than: 1) 40% maximum of Fund GAV whilst the Fund's GAV is £250m or less, and; 2) 30% maximum of Fund GAV whilst the Fund's GAV exceeds £250m.	✓	Forward Funding exposure – 26.3% (GAV).
Not to make any Investments other than in direct real estate assets or portfolio companies.	✓	N/A
Not make any commitments and/or Investments via a collective investment scheme until the earlier of: (a) the M&G PAIF Unitholder ceasing to be a Unitholder; and (b) any change of applicable law or regulation which means that the M&G PAIF Unitholder is not restricted from investing in a collective investment scheme which subsequently invests in another collective investment scheme.	✓	N/A

1 The remaining 4.2% of Fund GAV (as at 31.3.18) is comprised of cash and cash equivalents.
2 Post 2 January 2020, this restriction will be measured only on rental income ultimately receivable by the Fund.
3 Using the post 2 January 2020 measurement of this Restriction, two tenants currently each represent more than 20% of the Fund's rental income: 1) brighterkind (25.0%); 2) MMCG (20.8%). However, both are excluded from the restriction under the terms of the DOT and also a Special Resolution on 6 October 2017 relating to brighterkind.

Appendix 9 – Fees

9.1 Base Management Fee

The Manager's Base Management Fee is calculated as follows:

- 0.75% per annum of the NAV up to £250,000,000 of NAV; plus
- 0.65% per annum of the NAV between £250,000,001 of NAV to £500,000,000 of NAV; plus
- 0.55% per annum of the NAV in excess of £500,000,000 of NAV..

The accrued Base Management Fee for the period 1 January 2018 to 31 March 2018 totalled £249k (NAV of £134.7m multiplied by 0.75%, pro rated).

9.2 Acquisition Fee

The Manager's Acquisition Fee is calculated as follows:

- 1% of the acquisition price of an investment.
- Only applicable where the Manager does not pay a third party agency fee.
- The Acquisition Fee is payable in respect of an Octopus Healthcare Development ('OHD') transaction where the Manager does not pay a third party agency fee. Where an Acquisition Fee is payable in respect of an OHD transaction, this will be reported to the Investors' Committee on a quarterly basis.

In the period 1 January 2018 to 31 March 2018, an Acquisition Fee was calculated and will be charged on the following transactions:

- Corby: £103k
- Benson: £133k

Appendix 10 – Total Expense Ratio

The Total Expense Ratio ('TER') for the period 1 January 2018 to 31 March 2018, calculated in accordance with INREV guidelines, was 2.05%. (This reflected the aborted acquisition costs on the Project Bailey transaction.)

The forward-looking TER for the Fund over the next three full calendar years is set out below:

- 2018: 1.21%
- 2019: 1.05%
- 2020: 0.96%

The TERs above have been calculated by dividing total annualised operating costs borne by the Fund for each period by average INREV NAV (calculated on a straight line basis) for the period.

Financial Summary 1 January to 31 March 2018

	Quarter ended 31 December 2017	Quarter ended 31 March 2018
Property Valuation	£131.8m	£134.3m
Gross Asset Value (GAV): IFRS	£143.9m	£147.0m
Net Asset Value (NAV): IFRS	£132.1m	£134.7m
Net Asset Value (NAV): INREV	£134.6m	£137.0m
Total Units in Issue	130,810.9078	130,810.9078
NAV per Unit	£1,010.03	£1,030.04
Gearing (% of GAV)	5.67%	5.96%
Total Distribution for Period	**£1,429,778**	**£1,172,388**

Consolidated Profit and Loss 1 January to 31 March 2018

	Quarter to 31 December 2017 Actual £	Quarter to 31 March 2018 Actual £
Income		
Rent Receivable	2,199,527	2,137,332
Licence Fee Income	–	65,319
Fair Value Gain On Investment Properties	202,461	2,871,205
Loss on Disposal	–	(138,673)
Total Income	**2,401,988**	**4,935,183**
Expenses		
Base Management Fee	(290,821)	(299,780)
Administration Fees	(39,015)	(51,007)
Audit Fees	(20,500)	(22,000)
Professional Fees	(26,667)	(65,970)
Legal Fees	(30,108)	(45,263)
Other Expenses	(4,026)	(13,074)
Abort Costs	(176,132)	(340,873)
Total Operating Expenses	**(587,269)**	**(837,968)**
EBITDA	**1,814,718**	**4,097,215**
Finance Costs	(138,753)	(169,133)
Taxation	(43,726)	(23,162)
Profit	**1,632,239**	**3,904,920**
Distributable Profit (Trust Income)	**1,429,778**	**1,172,388**

Consolidated Balance Sheet As at 31 March 2018

	31 December 2017 Actual £	31 March 2018 Actual £
Non-Current Assets		
Investment Properties	131,800,000	134,280,000
Properties Under Construction	2,475,991	6,623,774
	134,275,991	**140,903,774**
Current Assets		
Rent Receivable	926,756	1,382,650
Other Debtors and Prepayments	2,932,407	2,967,183
VAT Receivable	505,333	272,413
Cash and Cash Equivalents	6,648,089	2,630,598
	11,012,585	**7,252,849**
Current Liabilities		
Deferred Rental Income	(1,722,601)	(1,965,382)
Accrued Investment Adviser Fees	(391,561)	(293,061)
Provision for Construction Industry Scheme Liability1	(238,451)	(238,451)
Accruals and Other Creditors	(1,227,638)	(984,559)
Distribution Liability	(1,429,778)	(1,179,561)
	(5,010,029)	**(4,661,014)**
Net Current Assets/Liabilities	**6,002,557**	**2,591,835**
Long Term Liabilities		
Long Term Loan	(8,155,000)	(8,755,000)
Net Assets	**132,123,547**	**134,740,609**

[1] Provision for fixed penalties from HMRC, based upon latest advice from BDO. Assigned medium probability by BDO.

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