Our Sustainability Report 2023

Targeting tomorrow

Target Healthcare REIT plc

Welcome to our 2023 Sustainability Report

About this Sustainability Report

This report:

- Describes the Company's responsible investment approach, which incorporates its Environmental, Social & Governance (ESG) Charter;
- Presents key responsible investment objectives and performance, describes our targets for the future, and tracks progress towards these; and

To the extent possible, the description of progress against the ESG commitments of the Company on page 7, together with the ESG performance data throughout, are presented as at, or for the year to, 31 December 2022.

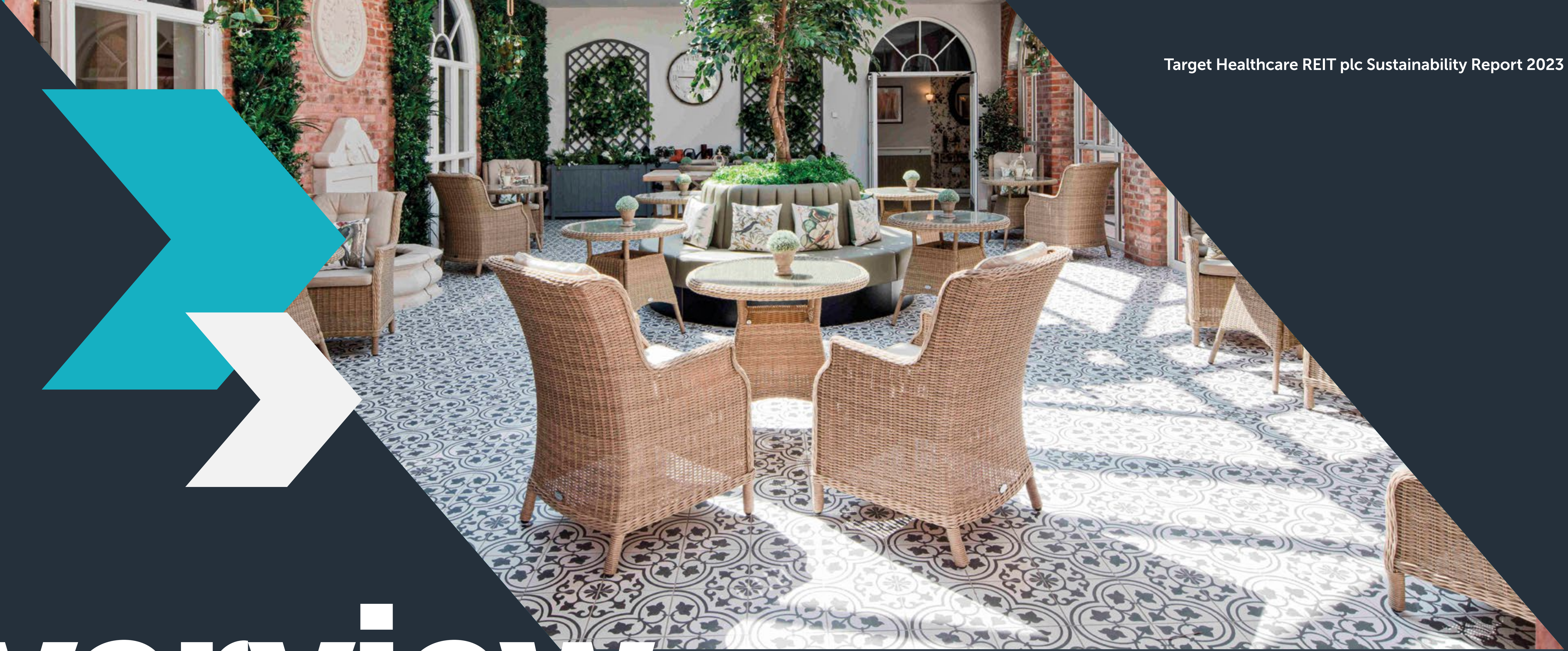
The ESG data section, and corresponding appendices, are written in accordance with the latest European Public Real Estate Association's (EPRA) sustainability Best Practices Recommendations (sBPR), which in turn are aligned principally with the Global Reporting Initiative (GRI) Standards.

This ESG report has been prepared on behalf of the Company by Target Fund Managers Limited. Any reference to 'we', 'us', 'the Company' and 'our' throughout the report refers to Target Healthcare REIT plc (THRL). Target Fund Managers Limited is referred to throughout as 'the Manager'.

All data as at 31 December 2022 unless otherwise stated.

Our Annual Report is available to view online at
https://www.targethealthcarereit.co.uk/investors/

Inside this report



Overview

ESG values are at the heart of our business. In collaboration with our tenants, we provide demonstrable social impact within best-in-class care homes.

Responsible investment and ‘ESG’ – what it means to us

Since launching in 2013, we have been unwavering in our approach – responsible investment, with a clear purpose, to improve the UK’s care home real estate whilst generating sustainable long-term total returns.

Assets
100

Beds
6,701*

Tenants
33

Dear stakeholder,

I am pleased to present our inaugural sustainability report which explains our approach to responsible investment and how this aligns with our Environment, Social & Governance (“ESG”) Charter. We will publish this report annually and detail key areas of progress towards meeting our ESG commitments, as well as providing real estate data which will supplement that in our financial reporting.

We have integrated many ESG principles from day one and have a clear investment approach which provides demonstrable evidence – we are leaders in social impact and our real estate offers strong environmental ratings. The former stems from our fundamental objective to provide fit-for-purpose care homes with the highest quality facilities for residents and care providers. Our EPC ratings compare favourably to our peers in commercial real estate investment and have us well-positioned for important upcoming legislative change, long anticipated and now more likely following the Skidmore Net Zero Review. Quality and sustainability have always been at the heart of what we do and why we do it.

Our ESG charter, “Targeting tomorrow” is articulated in this report and reflects this continuing commitment. We explain our approach and present evidence/metrics which demonstrate our impact. Simply put, the quality of our real estate portfolio is unparalleled and is sustainable for the long-term.

Recently we have made some changes to our governance arrangements with the establishment of a separate ESG committee. This will ensure greater focus and impetus for the Board’s oversight of ESG matters. This has already led to meaningful commitments being made.

- All assets to have an EPC rating of B or above by 2027;
- A minimum portfolio coverage of 10% to be BREEAM certified by December 2023;
- The Manager is assessing all assets’ suitability for Solar PV, and will facilitate installation support as a priority where practical.

Our key opportunity and challenge in the coming years is to positively influence our tenants. We have a high proportion of single-let assets with predominantly tenant procured utilities controlling energy sourcing and usage. We are improving our coverage of data collection utilising our strong relationships, and will be using this to suggest alternative approaches – on procurement, self-generation, and usage efficiency – allowing us to progress to an ambitious and realistic net zero target ahead of our 2050 minimum goal.

You will hear from the Manager in this report as well, with an insightful Q&A on their recently updated “house standard” approach to evaluating ESG in investment opportunities. The Manager details some of its own ESG achievements, including its status as a Carbon Neutral company, on page 27.

I trust you find this report helpful and informative. We would be delighted to receive any feedback you may have.

Regards,

Alison Fyfe
March 2023

* A further 203 beds will be added to the portfolio on completion of the three development sites.

2022 highlights

We are proud that ESG has been integral to our approach since day one. We are recognised as the first social impact investment trust, and proud of our many achievements to date.

Environmental

EPC ratings[1]

93% A-B ratings

100% A-C ratings

Important measure of energy efficiency and legislative rating.

BREEAM assessments

An additional independent rating providing improvement suggestions. Commissioned assessments for ten homes considered to be a representative sample of the portfolio.

Excellent & Very Good ratings have been received for six of the seven homes for which ratings finalised to date.

Energy consumption data

Data volunteered by tenants for 47% of portfolio.

Provision in new leases to mandate data sharing.

Social

Wet-rooms

97%

Defining proxy for real estate quality and social impact.

National Comparative: 30%

1,188 new wet rooms created with our backing since launch in 2013.

M² per resident

47m²

We assess this against listed peers with care home real estate.

Homes/beds created with our backing since launch in 2013

15/1,018

A further measure of our social impact in supporting the sector's transition to fit-for-purpose real estate.

Governance/Transparency

ESG committee established

ESG committee was established, providing appropriate focus and impetus to ESG matters.

First GRESB submission

Company data submitted to GRESB (a widely-used estate sector ESG standard) to aid transparency and benchmark our position and performance.

Board diversity

Board composition is, and is expected to remain, 40% female, surpassing the Hampton-Alexander review recommendations.

1 Non-English homes converted to English equivalent ratings.

Targeting Tomorrow

Our ESG strategy and priorities

Targeting Tomorrow is our ESG Charter to ensure the social impact objective which we launched with, remains embedded for years to come. We take a responsible approach to every aspect of our business, including environmental sustainability and governance standards.

Targeting Tomorrow gives us the platform to work with shareholders, tenants and other stakeholders more effectively than ever to supply care home real estate that delivers tangible benefits.

Targeting Tomorrow

Collaborative approach

Our commitment to a responsible approach means the views of all our stakeholders matter to us, from the direct relationships we have with shareholders and tenants, to the ultimate users of our real estate in residents, care professionals and local communities.

We asked stakeholders what their environmental, social and governance priorities are, and we defined our approach based on feedback. Key feedback was:

- We are considered to be leaders in social impact and responsible investment, however measurement and reporting thereof is encouraged.
- We should ensure ESG factors are embedded into our acquisition process and report on that with quantification if possible.
- We should continue to be authentic and transparent in our business relationships.

Care home real estate that leads the way
The purpose of our business is to improve the standard of care home real estate, using our influence as a leading investor in the sector to encourage improvements in quality. Consequently, our own investment approach will not compromise quality.

Our approach isn't changing, we will continue to focus on 'doing the right thing' led by providing fit-for-purpose real estate for the long term to care providers who share our care ethos and can demonstrate operational capabilities. We support the United Nations' (UN) sustainable development goals (SDGs), which our strategy is aligned with. We report in more detail on those SDGs where we can achieve a tangible impact.

ESG as a concept is evolving, and will continue to do so. Reliable and comparable measurement standards remain elusive in some areas, particularly for social impact, which is our core purpose. Our ESG framework has been developed as a guide to help us deliver and articulate our actions and progress in a fair, balanced and understandable manner.

The three principles which we apply are:

Responsible investment
As an investor, we understand that our actions have influence. We use our platform to lead by example through embedding appropriate ESG considerations into our decision making.

Responsible partnerships
We engage with all our stakeholders to drive the creation of economic, social and environmental value around our buildings and in wider society.

Responsible business
We will treat all stakeholders with respect and deal fairly in a manner consistent with how we would expect to be treated ourselves.

Targeting Tomorrow continued

Our ESG commitments

We are gathering data to allow the setting of ambitious but realistic carbon targets. Social impact remains fundamental to us, and our modern real estate has sector-leading environmental ratings, however the bulk of emissions are 'scope 3' downstream as they relate to energy used by our tenants and their residents. We are working closely to understand this energy usage and to positively influence using our insight as part of our contribution to net zero.

Early stage | Partially met | Met

Commitment	E, S, G	Status	Progress and insight
Responsible investment			
Continue to provide better care home real estate which provides positive social impact to residents, their carers and local communities.	S	Met	– Social impact is our number one priority, achieved through the provision of fit-for-purpose care home real estate. – There has been no compromise on quality – we continue to invest only in purpose-built homes with private wet-rooms for all residents. – In addition, our homes offer sector-leading space per resident, staff facilities and include social and outdoor spaces. – Data shows portfolio real estate standards significantly ahead of listed peers. See page 14.
Support the sector's transition from poor real estate standards via long-term financial/investment support for new developments.	S	Met	– £179 million investment in newly-built care homes since launch, providing 15 homes offering 1,018 beds to residents. – We are providers of long-term stable investment capital to the sector with total assets of c.£900 million.
Obtain reliable certification and insightful data on the energy efficiency of our real estate.	E	Partially met	– EPC certification for 100% of portfolio. – BREEAM-in-use certification at 7%, with a further 3% in assessment. 100% of certificates are 'Excellent, Very Good, or Good' with the median 'Very Good'. Commitment to ensure minimum portfolio BREEAM certification coverage of 10% by end 2023, with increased coverage levels therefore appropriately reflecting the portfolio's homogenous asset design and similarities in construction standards.
Increase data coverage of energy consumption by our tenants, aiding transparency and our ability to positively influence energy efficiency.	E	Partially met	– Data obtained for the period to June 2022 from 47% of portfolio. – Proportion to be increased towards 75% minimum through combination of tenant engagement and consideration of investment in automated meter readings where required. – "Green lease" data provision covenants being included in leases at change events.
Ensure ESG factors embedded into acquisition process and portfolio management.	E	Met	The Manager has developed a "house standard" document which guides how ESG factors are considered for each investment opportunity, see page 12. – Certification required for all new assets acquired. – Target for all portfolio assets to meet a minimum EPC rating of B by 2027.
Net zero commitment.	E	Early stage	Certifications and energy usage data obtained from tenants will be used to: – Benchmark assets and provide best practice efficiency recommendations. – Allow targeting of low carbon infrastructure and supply initiatives (eg. solar PV, heat pumps, renewable energy providers). Gathering of 'Scope 3' emissions data will allow: – reliable measurement of the potential impact of portfolio initiatives. – setting of an ambitious and realistic Net Zero target which we expect to be ahead of COP 26's 2050 goal.

Targeting Tomorrow continued

Early stage | Partially met | Met

Commitment	E, S, G	Status	Progress and insight
Responsible partnerships			
Engage with tenants to ensure real estate is meeting their operational and staffing needs, allowing effective care for residents.	S	Partially met	– Formal tenant survey results consistent with our thesis that our real estate makes a real difference. – 9/10 agreed our real estate is a great working environment and helps deliver dignified care for residents. – 10/10 agreed working with Target was a positive experience. See more details on page 18.
Use energy data obtained from tenants to positively influence behaviours where possible.	E	Early stage	An opportunity exists, as an aggregator of real estate and partner to many regional businesses, to offer insights and share best practice on efficient energy usage.
Be a responsible landlord to our tenants and their communities through significant challenges, such as COVID-19 disruption.	S	Met	– No interruption to resident services from landlord action during the year to December 2022, despite trading conditions continuing to be challenging. – Continuity of care in our assets is a priority to ensure positive social impact for residents and communities.
Responsible business			
To establish an ESG Committee to provide appropriate focus and impetus to ESG matters.	G	Met	ESG committee established and approved its terms of reference.
Ensure the benefits of Board diversity are achieved.	G	Partially met	Board recognises the benefits of diversity and has consistently met the Hampton-Alexander guidance on gender diversity over recent years. Diversity, including ethnicity, was particularly considered in the Board's recruitment processes.
Participate in benchmarking and sector appropriate programmes to provide comparable information.	G	Partially met	Submitted inaugural GRESB data. Objective to realise year-on-year improvement.
Other reporting: Align financial and non-financial reporting with widely used frameworks.	G	Partially met	ESG disclosures have been enhanced in financial and non-financial reporting.

As an investor, we understand that our actions have influence. We use our platform to lead by example through embedding appropriate ESG considerations into our decision making.

Responsible Investment

Responsible Investment

Energy efficiency is a specific consideration in our investment analysis for acquisitions, developments and portfolio management decisions.

Alignment with UN SDGs

The SDGs that are most relevant to our responsible investment, and where we believe we can make a tangible, positive impact, are:

EPC

A portfolio of modern, purpose-built care homes. Future-proofed real estate well placed for upcoming legislative requirements.

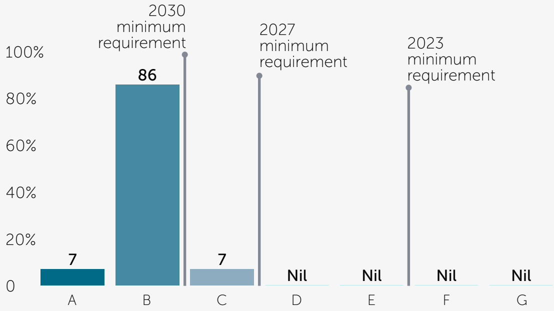
2027 compliance*

100%

2030 compliance*

93%

of the portfolio is EPC rated B or above (A = 7%; B = 86% and C = 7%)



Strong EPC ratings are a natural consequence from the well-designed, modern real estate that the portfolio solely consists of. The environmental aspects of the intelligent design and high-class fabric of our homes are contributing factors to these strong ratings, particularly in comparison with the wider commercial real estate sector.

* Anticipated legal requirements based on MEES and Skidmore Review.

BREEAM

A number of BREEAM in-use assessments have been received during the year, all yielding 'Excellent', Very good' or 'Good' ratings.

Number of properties

BREEAM rating	Excellent	Very Good	Good	Below Good
Certifications received	1	5	1	–
Expected certifications for assessments in progress	1	2	–	–
Total	**2**	**7**	**1**	**–**

The buildings assessed have been chosen as a representative sample of the portfolio, based on geography, build-type, design characteristics, developer and operator. The nature of the real estate and the type of homes we acquire makes the portfolio homogenous and therefore a limited sample provides valuable results that can be applied across the portfolio. Given the cost of each assessment along with the time lag on reporting, a sample-based approach provides the required insight while maintaining value for money.

The assessments received to date have provided useful insight with actionable recommendations, such as installing bike storage or LED lighting, which will improve the real estate and further improve scores in future years.

In our role as a responsible landlord, we are committed to helping our tenants identify and implement energy reduction and efficiency measures.

Green Leases
As part of our engaged landlord approach, we are embedding covenants within our industry-leading standard lease to mandate the collection of energy usage data from our tenants alongside other financial, operational and regulatory reporting from our tenants.

Data Collection & Tenant Engagement
Having a majority of single-let assets and a large number of tenants responsible for their own energy procurement & usage is a challenge to both our ability to effect positive change, and to our ability to collect useful data.

Increasing numbers of our tenants are positively engaged in this endeavour, with around half of tenants now providing regular energy data to the Manager.

Recent engagement from tenants indicates a significant improvement in energy data coverage will be possible in 2023 and beyond. 51% of tenants have agreed to provide regular energy data to the Manager; representing 67% of the portfolio's floor area. Where we are finding obstacles to collating data from tenants manually, we will consider using automated meter reading technology to ensure portfolio coverage reaches an acceptable minimum level.

Responsible Investment continued

Q&A with investment Director, David Robinson on the creation of the Manager's 'House Standard' for responsible investment.

Investment Director
David Robinson

Why create a house standard?

We wanted to achieve two things. Firstly, to formalise the ESG aspects inherent in our existing investment appraisal process, so we can hold ourselves accountable to these going forward. Secondly, we wanted expert external help to assess these and give us feedback to help us improve them. An independent eye was valuable in that process.

What does it give you?

A really useful tool which provides us with more confidence in implementing our investment approach without compromise. The balanced scorecard output will not only help us ensure we are meeting the standards we have committed to, but also gives a different perspective in allowing better comparison between competing opportunities when deciding where to allocate shareholder capital.

How does it work?

Opportunities are screened the way we always have done initially. The first assessment is always does the home provide 100% wet-rooms? as a proxy for quality and if socially fit for purpose. If the investment team wishes to progress a 'peer review', this allows for rigorous challenge in relation to any aspect of the evaluation to date. This is supplemented by a detailed consideration of the layout of the assets and their amenities, to ensure they are both a positive living environment for the residents and helpful for the operator in providing high-quality care. If passing this test, a written investment appraisal is submitted for approval with a specific ESG section, and scoring based on expected and aspirational characteristics of the opportunity.

Such as?

We work through a list in excess of 50 characteristics. Ranging from locational factors such as is the land developed/undeveloped and should it be, and public/mass transport accessibility, for example. Climate risks are, of course, heavily featured, with flood risk, water and heat stress factors scored. Design aspects are the longest list, with systems and technology incredibly important for all users, residents and our tenants. Naturally, energy efficiency scores highly, with accreditations such as BREEAM scoring well.

Any surprises?

We understood the benefit of the 'big ticket' items, but the standard has moved forward our understanding the benefit of a large number of small changes – for example, intelligent leak detection is such a great idea which can save so much time, effort and water.

Overall value?

Great exercise. We want to hold ourselves accountable, as we believe the Company's shareholders also do, and this helps us evidence that we can and will do so. The formalisation adds resilience and maturity to our strategy and approach, where ESG factors have always been core.

"En suite wet-room provision in care homes is absolutely vital to enable dignified, effective and efficient care for residents in the privacy of their own room."

2022 highlights

Number of homes acquired
24
to 30 June 2022

Space per resident
47m²
across portfolio

En suite wet-rooms
97%

A-C EPC ratings
100%

Why wet-rooms matter

1. Wet-rooms represent socially acceptable standards

It is estimated that around 70% of care home residents experience some degree of incontinence. We believe that all residents should have en suite wet-rooms to allow personal hygiene to be practised with dignity and in privacy.

We use the provision of wet-rooms as a proxy for the overall standard of care home real estate. The majority of care home places in the UK (70%) do not offer this, instead 'en suites' are generally WC and wash hand basin and therefore require residents to use shared washing facilities, while many do not offer private hygiene facilities at all.

2. Wet-rooms support sustainable occupancy levels

The sector is recognising the need to modernise its real estate, with wet-room provision now at 30% having progressed from 14% only eight years ago. There is a clear commercial benefit with respect to demand for care places:

- The current generation requiring care are more used to showering than previous generations;
- En suite showers in hotels and other modern buildings have become commonplace and substandard facilities won't be accepted;
- Modern buildings command a fee premium: homes built since 2016 command 18%-28% higher fees than those from older properties; and
- Provision future-proofs against potential legislative change to mandate private washing facilities (retrofitting is costly and will not always be possible).

Responsible Investment continued

Through our responsible investment into high quality real estate and partnering with trusted sector specialist operators, we can go some way to measuring the social impact of the portfolio by comparison with our peers in the listed care home real estate sector.

Our peers mirror the wider UK sector in relation to wet-room provision percentage while our portfolio has substantially full wet-room provision across all homes. It remains disappointing that many en suites in care homes are nothing more than a WC and wash hand basin, with shared bathrooms still commonplace.

It is crucial to remember that while care facilities are being provided, these buildings are the residents' homes and we believe that providing ample public and private spaces for residents is paramount to the social impact a care home can have. Our homes have on average 17.5% more space per resident than our peers while our rent is in line with our peers promoting the sustainable partnerships with our tenants.

Carehome.co.uk, a 'Tripadvisor'-style care home review website provides real-time feedback from residents and their families to the home and is a key tool for those making the buying decision for a resident entering a care home. Our portfolio measures well at 9.3 compared to our peers at 9.1.

M² per resident

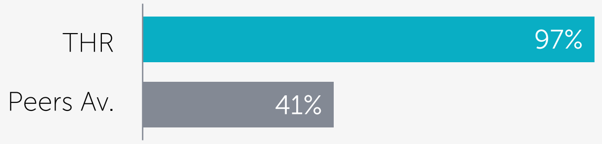
47

Average Carehome.co.uk rating

9.3

Purpose built since 2000

97%



% en suite WC

100%

Average rent per m²

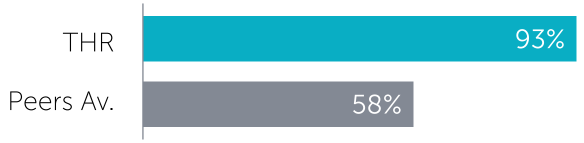
£180

Regulatory ratings (Good+)

66%

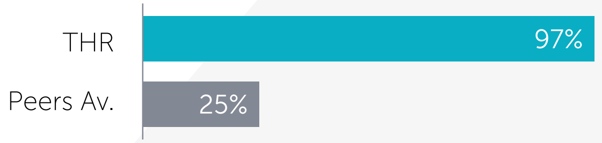
EPC A&B Rated

93%



% en suite wet-rooms

97%



Peers Average is comprised of publicly available information available from third parties or disclosed by Impact Healthcare REIT and Aedifica (in relation to their UK portfolio) as at 31 December 2022.
Competitor M² sourced from EPCs. Company's M² sourced from BRCA.

Responsible Investment continued

What we did in 2022

Social
- 24 homes acquired to 30 June 2022, 1,632 resident spaces.
- Development commitments for 203 new beds as at year-end.
- 97% wet-rooms.
- Homes provide space of 47m^2 per resident.
- All real estate has generous social and useable outdoor space.

Energy
- 100% A-C EPC ratings.
- Manager created and adopted 'house standard' to formally incorporate minimum and aspirational ESG standards into investment appraisal.
- Representative sample of BREEAM-in use ratings substantially Excellent and Very Good.
- Increased data collection from our tenants on energy usage equating to 47% of the portfolio.
- Target Fund Managers supports the Edinburgh Science Climate and Sustainability programme being a founding pledger of its Mission Net Zero project.

SDGs

What we'll do in 2023 and beyond

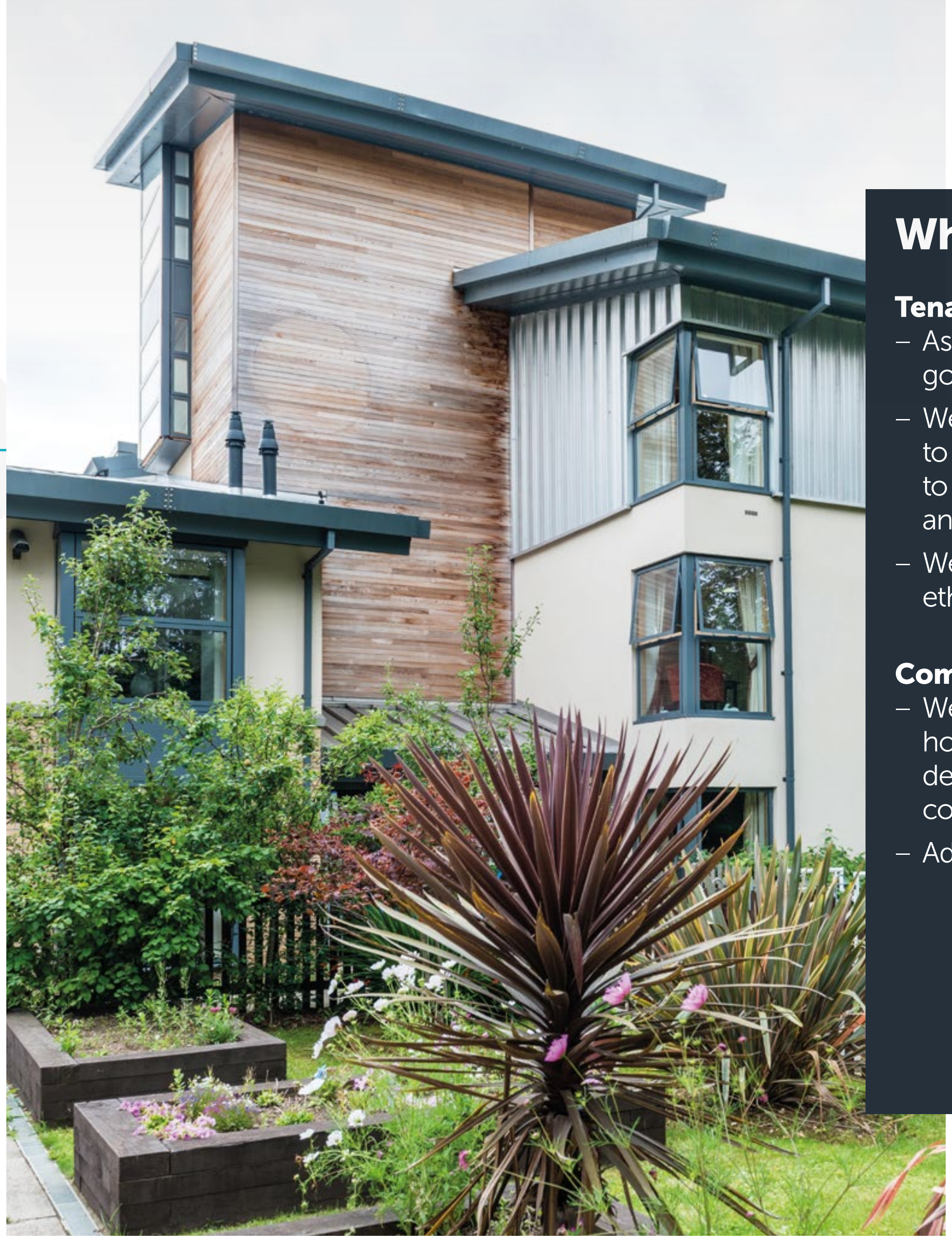
Social
- Continue to advocate for quality real estate.
- Continue to fund new homes, modernising the sector's real estate.

Energy
- Assess BREEAM recommendations and initiate improvements where aligned with long-term value.
- Increase proportion of leases with 'green' reporting provisions to gather more data on energy consumption patterns from our tenants for use in decision making.
- Manager to use toolkit and resources to progress its net zero journey.

Responsible Partnerships

Responsible Partnerships

We engage with all our stakeholders to drive the creation of economic, social and environmental value around our buildings and in wider society.



What this means for Target

Tenant selection, engagement & collaboration

- As a responsible, proactive landlord we prioritise good, open relationships with our tenants.
- We make sure that we solicit, assess and respond to feedback on our portfolio and our behaviours to ensure carers and residents can be respected and cared for with dignity.
- We only select tenants who share our care ethos and we believe can deliver operationally.

Communities and society

- We fully appreciate the vital role that care homes play in every community, and take decisions in the best interest of maintaining continuity of care for residents.
- Advocate for and support the sector.

Alignment with UN SDGs

The SDG that is most relevant to our responsible partnerships, and where we believe we can make a tangible, positive impact, is:

Responsible Partnerships continued

Having resumed physical visits following the lifting of most COVID restrictions, we visit every home at least twice a year, to review the building condition and meet with those working in our homes. Separately, we regularly speak to all our tenants to get an update and discuss matters impacting the sector. Once again the Manager was delighted to commence hosting tenant events during 2022 to provide a platform for knowledge sharing and discussions on topical issues, including a presentation from our ESG consultants to stimulate ideas on sustainability, and have carried on those conversations to look at ways we can support our tenants to help reduce carbon emissions.

On behalf of the Company, the Manager undertakes an annual tenant survey, the key results of which are set out opposite.

10/10
Agreed that working with Target was a positive experience.

9/10
Agreed that Target provides real estate that is a great working environment and helps deliver dignified care to residents.

9/10
Agreed that Target are working towards mitigating climate change and are active in helping further its tenants' understanding.

10/10
Agreed that Target participates in sector events and appropriately shares knowledge.

9/10
Agreed that Target's values and purpose are clearly evident in its interactions with its tenants.

10/10
Agreed that Target has a strong reputation and is a positive influence in the care home sector.

Responsible Partnerships continued

Weymouth Manor Case Study

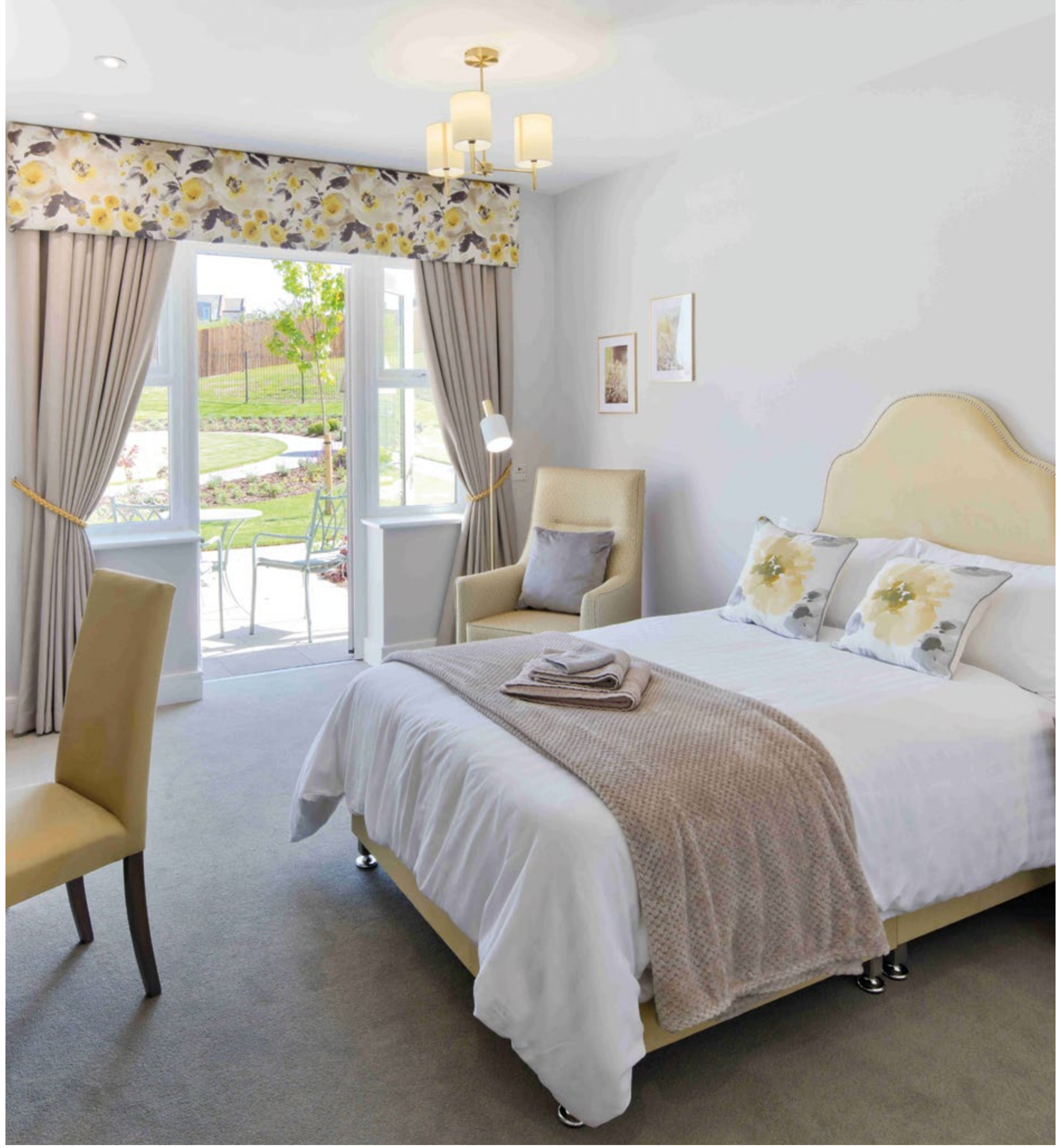
Summary

Responsible Partnerships
- Compelling investment opportunity to fund a new-build home that improves the current under-supply of 'market standard' beds for those requiring residential care in the catchment area (i.e. bedrooms with en suite wet-room showers).
- Supported a well-regarded developer with a proven track record of delivering high-quality assets with a strong ESG focus, and our relationship with a care provider we hold in high regard.

Property Design: For people (residents, their loved ones and their carers)
- High-quality, purpose-built home with 66 large bedrooms of approximately 16m² and full en suite wet-room facilities.
- Over 50m² of communal space per resident, combining large central lounge/dining areas on each floor, thus reducing walking distances for residents, with smaller 'quiet' lounges and pleasant seating areas at the end of the corridors.
- Wide corridors throughout the building facilitate the easy circulation of residents and staff within the home, together with clear lines of sight for operational purposes.
- Dedicated staff room and changing area provided on the ground floor.
- Full WiFi coverage throughout the home means care software reduces staff time 'off the floor' for manual recording and residents can remain virtually connected with family and friends.
- Externally, the home is surrounded by a safe, landscaped gardens with direct access from each of the ground floor bedrooms as well as the central lounge/dining area. Large outdoor terrace over the ground floor lobby area provides less-ambulant residents on the upper floors who are unable to reach the garden with access to outdoor space.
- The landscaping design includes the provision of additional native hedgerows to replace any removed during the development of the property and also a wildflower grassland habitat.
- Electric vehicle chargers.

Energy
- EPC rating of 'A' achieved at practical completion and the home is expected to achieve a BREEAM In Use rating of at least 'Very Good', but most likely 'Excellent'.
- Renewable energy integrated into the building energy supply via the provision of a ground source heat pump.
- Comfort cooling provision in the communal and medication storage areas assists in ensuring a consistent internal temperature throughout the year.

Responsible Partnerships continued



What we did in 2022

Tenants

– 9/10 'positive experience' satisfaction score.

Communities

– Re-tenanted homes with new tenants committed to continuing care provision where required.

– Worked constructively with tenants in rental arrears to deliver positive solutions to maintain continuity of care.

SDGs

What we'll do in 2023 and beyond

Tenants

– Continue to engage with our tenants and seek their feedback via formal surveys, inclusive of responding to feedback as appropriate.

– Proactively engage with tenants to support the sustainability of their energy supplies and usage.

Responsible Business

Responsible Business

We will treat all stakeholders with respect and deal fairly in a manner consistent with how we would expect to be treated ourselves.

Alignment with UN SDGs

The SDG that is most relevant to our responsible business, and where we believe we can make a tangible, positive impact, is:

8 DECENT WORK AND ECONOMIC GROWTH

What this means for Target

Governance and transparency

– We uphold the highest ethical standards and adhere to best practice in every aspect of our business.
– Our governance and behaviour treat transparency for all of our stakeholders as core.

People, culture and wellbeing

– We encourage employment practices across our key service providers that reflect our core values, with a focus on wellbeing, fairness and opportunity for all.

Responsible Business continued

Governance & Transparency

This section, which serves as the Company's section 172 statement, explains how the Directors have had regard to the matters set out in section 172 (1) (a)-(f) of the Companies Act 2006 for the financial year to 30 June 2022, taking into account the likely long-term consequences of decisions and the need to foster relationships with all stakeholders in accordance with the Association of Investment Companies' Code.

a) The likely consequences of any decision in the long term.	Our investment approach is long term, with an average lease length of 27.2 years at 30 June 2022. We believe this is the most responsible approach to provide stability and sustainability to tenants and key stakeholders. Therefore, most decisions require consideration of long-term consequences, from determining a sustainable rent level and the right tenant partner for each investment, to considering the impact of debt and key contracts with service providers on the recurring earnings that support dividends to shareholders.
b) The interests of the Company's employees.	The Company is externally managed and therefore has no employees.
c) The need to foster the Company's business relationships with suppliers, customers and others.	As a REIT with no employees, the Board works in close partnership with the Manager, which runs the Group's operations and portfolio within parameters set by the Board and subject to appropriate oversight. The Manager has deep relationships with tenants, the wider care home sector, and many of the Group's other suppliers. These are set out in more detail in the following table.
d) The impact of the Company's operations on the community and the environment.	The Board is confident the Group's approach to investing in a sensitive sector is responsible with regard to social and environmental impact. This is set out in more detail in the community and the environment section of the table on the following page.
e) The desirability of the Company maintaining a reputation for high standards of business conduct.	The Board requires high standards of itself, service providers and stakeholders. The Group's purpose and investment objectives dictate that these standards are met in order to retain credibility. The ethos and tone is set by the Board and the Manager.
f) The need to act fairly as between members of the Company.	The Board encourages an active dialogue with shareholders to ensure effective communication, either directly or via its broker and/or Manager. The interests of all shareholders are considered when issuing new shares.

The interests of key stakeholders are considered and promoted as follows:
The Board considers that it has made decisions during the year that will promote the success of the Group for the benefit of its members as a whole.

Responsible Business continued

Shareholders	Shareholders are key stakeholders and the Board proactively seeks the views of its shareholders and places great importance on communication with them. The Board reviews the detail of significant shareholders and recent movements at each Board Meeting and receives regular reports from the Investment Manager and Broker on the views of shareholders, and prospective shareholders, as well as updates on general market trends and expectations. The Chairman and other Directors make themselves available to meet shareholders when required to discuss the Group's business and address shareholder queries. Following disruption during the pandemic, the Directors were pleased to be able to return to holding the AGM in person, whilst also retaining the ability for any questions to be raised with the Board by email in advance of the meeting. The Company and Investment Manager also provide regular updates to shareholders and the market through the Annual Report, Interim Report, regular Regulatory News Service announcements (including the quarterly Net Asset Value), quarterly investor reports and the Company's website. The Investment Manager held a results presentation on the day of publication of the Annual Report and Interim Report and will also meet with analysts and members of the financial press.
Tenants and underlying residents	As set out in more detail on pages 18 and 19 of the Annual Report 2022, the Investment Manager liaises closely with tenants to understand their needs, and those of their underlying residents, through visits to properties and regular communication with both care home personnel and senior management of the tenant operators. The effectiveness of this engagement is assessed through an annual survey. The Investment Manager also receives, and analyses, management information provided by each tenant at least quarterly and regularly monitors the CQC, or equivalent, rating for each home and any online reviews, such as carehome.co.uk. Any significant matters are discussed with the tenant and included within the Board reporting.
Debt providers	The Group has term loan and revolving credit facilities with the Royal Bank of Scotland plc, HSBC Bank plc and Phoenix Group (see Note 14 to the Consolidated Financial Statements in the Annual Report 2022 for more information). The Company maintains a positive working relationship with each of its lenders and provides regular updates, at least quarterly, on portfolio activity and compliance with its loan covenants in relation to each loan facility.
Investment Manager	The Investment Manager has responsibility for the day-to-day management of the Group pursuant to the Investment Management Agreement. The Board, and its committees, are in regular communication with the Investment Manager and receive formal presentations at every Board Meeting to aid its oversight of the Group's activities and the formulation of its ongoing strategy. The Board, through the Management Engagement Committee, formally reviews the performance of the Investment Manager, the terms of its appointment and the quality of the other services provided at least annually. Further details on this process and the conclusions reached in relation to the year ended 30 June 2022, are contained on page 41 of the Annual Report 2022.
Other service providers	The Board, through the Management Engagement Committee, formally reviews the performance of each of its significant service providers at least annually. The reviews will include the Company's legal advisers, brokers, tax advisers, auditors, depositary, valuers, company secretary, insurance broker, surveyors and registrar. The purpose of the review is to ensure that the quality of the service provided remains of the standard expected by the Board and that overall costs and other contractual arrangements remain in the interests of the Group and other significant stakeholders. The Investment Manager also reports regularly to the Board on these relationships. The other significant service providers, particularly the Group's legal advisers and brokers, are invited to attend Board Meetings and report directly to the Directors where appropriate.
Community and the environment	The Group's principal non-financial objective is to generate a positive social impact for the end-users of its real estate. Investment decisions are made based on the fundamental premise that the real estate is suitable for its residents, the staff who care for them, and their friends, families and local communities, both on original acquisition and for the long term. Environmental considerations are an integral part of the acquisition and portfolio management process, given the strategy of only acquiring modern buildings which benchmark well from an energy efficiency aspect. The Group's ESG strategy is currently prioritising the gathering of useful energy/consumption data on our portfolio which will be used to align the portfolio appropriately with benchmarks over the medium and longer term.

Responsible Business continued

What we did in 2022

Governance and transparency

- Undertook director recruitment process resulting in Amanda Thompsell being appointed in February 2022, followed by Richard Cotton in November.
- Manager successfully retained position as a signatory to the FRC Stewardship Code.
- £13.2 million taxation directly paid to the UK government by way of VAT and stamp duty land taxes for the year ended 30 June 2022. Dividends paid of £40.0 million are assessed for tax upon reaching shareholders.

SDGs

8 DECENT WORK AND ECONOMIC GROWTH

What we'll do in 2023 and beyond

Governance and transparency

- Complete Board succession plan by appointing a new Director, Michael Brodtman, with effect from 1 January 2023.
- To prepare and publish enhanced reporting suite, inclusive of GRESB reporting following data collection process.
- Increased scope of energy usage data following tenant data collection efforts.
- Note that a large proportion of the GRESB scoring relates to energy usage data coverage across the portfolio. We expect to score poorly in this area relative to other participants whose portfolios largely contain multi-let assets where the landlord is responsible for energy procurement and usage. As detailed earlier in this report, we have single-let assets where the tenants procure and use their own energy. We would anticipate scoring to improve in the coming years as we enhance our data collection coverage.

Supporting Data

Target Fund Managers is aligned with the ESG objectives of the Company. The Manager's notable activities during 2022 and priorities into 2023 and beyond are summarised opposite:

	2022	2023
Energy	– Carbon Neutral company certification obtained following emissions audit, with offsetting applied to 107.35 tCO_2e for most recent annual reporting period. – Investment in new, more modern premises via long-term lease. – Invested in Energy-efficiency measures during move, including full fitout of LED lighting. – 100% energy at premises from a renewable energy supplier.	– Business travel initiatives to be designed and implemented to further green and staff wellbeing objectives. – To assess further measures to reasonably reduce energy usage.
People, culture, wellbeing	– Staff wellbeing and support prominent in people policies, inclusive of dedicated third parties freely available. – Flexible working, where appropriate, and use of technology inclusive of AV and teleconference. – Local suppliers and trades prioritised in supply chain.	– Additional support identified and being rolled-out as part of wellbeing programme.
Responsible investment	– 'House standard' for responsible investment. – Enlarged team to ensure regular monitoring visits to care homes.	– Enhancement of internal knowledge and resource to manage targeted roll-out of renewable energy supply infrastructure to priority assets.

Supporting data: Target Healthcare REIT plc

EPRA Sustainability Performance Measures
Environmental Sustainability Performance Measures

EPRA Code	Performance Measure	Scope	Unit of measurement	2022 Absolute	2021 Like-for-Like	Percentage Change
Elec-Abs Elec-LfL	Total electricity consumption and like-for-like total electricity consumption	Total landlord-obtained electricity	Annual MWh	268	277	-3.3%
		Available tenant-obtained electricity[1]	Six month MWh[1]	4,099	n/a	n/a
		Percentage of electricity from renewable sources	%	Not disclosed		
DH&C-Abs DH&C-LfL	Total district heating & cooling consumption and like-for-like total district heating & cooling consumption[2]	Total landlord-obtained electricity	Annual MWh	n/a	n/a	n/a
		Available tenant-obtained electricity	Six month MWh	n/a	n/a	n/a
Fuels-Abs Fuels-LfL	Total fuel consumption and like-for-like total fuel consumption	Total landlord-obtained gas	Annual MWh	896	924	-3.0%
		Available tenant-obtained gas[1]	Six month MWh[1]	9,469	n/a	n/a
Energy-Int	Building energy intensity	Total landlord-obtained fuels	Annual kWh per bed	10,037	10,352	-3.0%
		Available tenant-obtained fuels[1]	Six month kWh per bed[1]	4,395	n/a	n/a
GHG-Dir-Abs	Total direct greenhouse gas (GHG) emissions	Total landlord-obtained fuels – Direct – Scope 1 – Indirect – Scope 2 – Indirect – Scope 3	Annual metric tonnes CO_2e	 0 0 215	 0 0 222	 0 0 -3.0%
GHG-Indir-Abs	Total indirect greenhouse gas (GHG) emissions	Available tenant-obtained fuels[1] – Indirect – Scope 3	Six month metric tonnes CO_2e[1]	2,521	n/a	n/a
GHG-Int	Greenhouse gas (GHG) emissions intensity from building energy consumption	Total landlord-obtained fuels – Direct – Scope 1 – Indirect – Scope 2 – Indirect – Scope 3	Annual metric tonnes CO_2e per bed	 0 0 1.86	 0 0 1.92	 0 0 -3.0%
		Available tenant-obtained fuels – Indirect – Scope 3[1]	Six month metric tonnes CO_2e per bed[1]	0.82	n/a	n/a
Water-Abs Water-LfL	Total water consumption and like-for-like total water consumption	The Company, as landlord and property owner, has no direct responsibility for water consumption and waste creation and disposal generated by the operations of the building and has limited scope through asset management initiatives to influence the efficiency of the property portfolio in relation to these matters, therefore they are deemed to be immaterial in measuring the environmental performance of the Company and are not reported.				
Water-Int	Building water intensity					
Waste-Abs Waste-LfL	Total weight of waste by disposal route and like-for-like total weight of waste by disposal route					

1 The majority of the energy usage related to the Company's direct property portfolio is arranged by, and is the responsibility of, each tenant. The Company has only recently started to collate data from its tenants on energy usage and, for indicative purposes, the figures shown are for the six months to 30 June 2022 and cover c.47% of the Company's property portfolio by number of beds. Due to potential seasonality, the figures have not been annualised; however, based on the 17 properties for which figures are available for the full calendar year, total energy usage was c.10% higher in the first half of the year than in the second. It is anticipated that data collection of tenants' underlying energy usage will improve in future years.

2 There are no district heating or cooling systems used by the properties within the Company's portfolio.

Supporting data continued

Environmental Sustainability Performance Measures (Certified Assets)

An Energy Performance Certificate (EPC) rates how energy efficient a building is using grades from A to G (with 'A' the most efficient grade). All commercial properties leased to a tenant must have an EPC. All EPCs are valid for 10 years. The EPC rating system varies by country. The absolute EPC ratings applicable under each country's reporting systems are disclosed opposite. However, for direct comparison purposes, the EPC ratings for the Scottish properties have been converted to the equivalent rating that would apply under the methodology used in England and Wales and the English-equivalent ratings for the portfolio as a whole are disclosed on page 12.

In addition to EPC ratings, the Company has also obtained BREEAM in-use assessments on a sample of its portfolio. BREEAM is the world's leading science-based suite of validation and certification systems for sustainable built environment. The BREEAM in-use standards provide a framework to enable property investors, owners, managers and occupiers to determine and drive sustainable improvements in the operational performance of their assets, leading to benchmarking, assurance and validation of operational asset data. The BREEAM in-use assessments obtained are disclosed on page 10.

				31 December 2022		31 December 2021	
				Number	Percentage	Number	Percentage
Cert-Tot	Type and number of sustainably certified assets	Properties located in England & Wales and Northern Ireland under English rating system	EPC A	6	6.2%	4	5.3%
			EPC B	77	79.4%	59	77.6%
			EPC C	6	6.2%	5	6.6%
			EPC D or lower	–	–	–	–
		Properties located in Scotland under Scottish rating system*	EPC A	–	–	–	–
			EPC B	–	–	–	–
			EPC C	1	1.0%	1	1.3%
			EPC D	1	1.0%	1	1.3%
			EPC E	2	2.1%	2	2.6%
			EPC F	4	4.1%	4	5.3%
			EPC G or lower	–	–	–	–

* The properties located in Scotland are reported here under the local rating system, but for consistency in reporting for the portfolio as a whole, have been converted to their English-equivalents and statistics on this basis for the portfolio as a whole are disclosed on page 12.

Supporting data continued

Environmental Sustainability Performance Measures (Investment Manager)

The Investment Manager has produced its own Carbon (GHG) Emissions Report for the year to 31 October 2022. The relevant emissions, the majority of which relate to supporting the activities of the Company, are reported below. The Manager has met all Carbon Neutral Britain Certification standards in measuring, calculating and carbon offsetting organisational carbon emissions within the Scope 1, 2 and 3 GHG emissions boundary during the period of 1 November 2021 to 31 October 2022 and was therefore Certified Carbon Neutral for the period.

EPRA Code	Performance Measure	Scope	Unit of measurement	Year to 31 October 2022
Elec-Abs	Total electricity consumption	Total electricity consumption for Investment Manager	Annual kWh	54,000
Energy-Int	Electricity intensity for Investment Manager	Total electricity consumption per full time employee for Investment Manager	Annual kWh	2,514
GHG-Indir-Abs	Total indirect greenhouse gas (GHG) emissions	Scope 1: Company owned vehicles Scope 2: Energy usage on site Scope 3: Other (including business travel, property visits, staff commuting and working-from-home energy usage)	Annual metric tonnes CO_2e	2.49 10.44 94.42

Social Performance Measures

Target Healthcare REIT plc has no direct employees, with the Investment Management and Administrative functions undertaken by the Manager, Target Fund Managers Limited. Therefore the following EPRA performance measures relating to employee related matters are outside the organisational boundaries of this report and are not reported. Information on the Manager's notable activities in 2022 and priorities in 2023 are disclosed on page 27.

Diversity-Emp, Diversity-Pay, Emp-Training, Emp-Dev, Emp-Turnover, H&S-Emp

Due to the lease structures, with all properties fully-let to individual tenants and with no common areas under the control of the landlord, all health & safety assessments and ongoing community engagement are conducted by the Company's tenants and the Company has no direct oversight. The Company will, however, aim to have a positive impact on communities by, for example, treating continuity of care in our assets as a priority. The Company therefore does not report on the following EPRA performance measures.

H&S-Asset, H&S-Comp, Comty-Eng.

Supporting data continued

Governance Performance Measures

The Company is registered as a Public Limited Company in terms of the Companies Act 2006 (Registered number: 11990238) and is an investment company under section 833 of the Companies Act 2006. The Company's shares have been admitted to the premium segment of the Official List of the Financial Conduct Authority and to trading on the Main Market of the London Stock Exchange. The Company became a constituent of the FTSE-250 Index with effect from 20 June 2022. As such, the Board of Target Healthcare REIT plc has adopted the Principles and Provisions of the AIC Code of Corporate Governance ("AIC Code"). The AIC Code addresses the Principles and Provisions set out in the UK Corporate Governance Code, as well as setting out additional provisions on issues that are of specific relevance to the Company. The full details of the Company's compliance with the AIC Code, and other corporate governance matters, are disclosed annually in the Group's Annual Report and Financial Statements.

EPRA Code	Performance Measure	Unit	Indicator	31 December 2022	31 December 2021
Gov-Board	Composition of the highest governance body	Number	Board Members	5	4
		%	Non-executive Board Members	100%	100%
		%	Independent Board Members	100%	100%
		%	Female Board Members	40%	25%
		Years	Average tenure	1.0 years	5.0 years
Gov-Selec	Process for nominating and selecting the highest governance body	Narrative description	The recruitment process is detailed in the Directors' Report and Corporate Governance Statement of the Company's Annual Report 2022. The Board has established a separate Nomination Committee which considers and reviews the composition and balance of the Board, ensures that there are plans in place for an orderly succession and leads the process for appointments, including the selection and appointment of any external recruitment consultant. The performance of each of the independent non-executive Directors, and the Board as a whole, is assessed annually and each Director stands for election at each AGM.		
Gov-Col	Process for managing conflicts of interest	Narrative description	The process for identifying and managing conflicts of interest is detailed in the Corporate Governance Statement of the Company's Annual Report 2022. As well as the direct policies and processes of the Company, the Manager has in place a conflicts of interest and allocation policy which aims to ensure a fair allocation of investment opportunities and to mitigate potential conflicts of interest that may arise where the Manager provides investment management, investment advice or other services to other funds that may have similar investment policies to that of the Company. The Company has reviewed, and accepted, the Manager's policy which was revised during the year.		

Target Healthcare REIT

https://www.targethealthcarereit.co.uk/

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