Financial highlights

This was a successful first period, with performance in line with our expectations

4.50p
DIVIDEND PER SHARE
Dividends per share of 4.50p paid or declared for the period to 31 December 2017, delivering against the target set at the time of the IPO.

97.56%
DIVIDEND COVER
Paid and declared dividends 97.56% covered by adjusted earnings per share for the full period.

100.65p
NET ASSET VALUE
Net asset value of 100.65p per share as at 31 December 2017.

£156.17 million
PORTFOLIO VALUE
Portfolio independently valued at £156.17 million as at 31 December 2017, representing an uplift on the aggregate purchase price and costs of 1.5%.

£11.86 million
CONTRACTED ANNUAL RENT
Contracted annual rent of £11.34 million calculated from Admission, increased to £11.60 million following the acquisition of Saffron Court in June 2017 and £11.86 million following the commitment to fund capital improvements at two homes.

£9.46 million
PROFIT BEFORE TAXATION
Profit before tax in the period between inception and 31 December 2017 of £9.46 million

Nil
DEBT
The Group had no debt as at 31 December 2017.

£192.77 million
EQUITY RAISED
Raised £160.17 million of equity through a fully subscribed initial public offering and vendor issue and a further £32.60 million through a second equity raise in November 2017. The majority of the proceeds were invested by the period end and the balance is being committed to income-producing capital improvements and acquisitions.

7.19%
EPRA NAV TOTAL RETURN
EPRA NAV total return for the period from the IPO to 31 December 2017 was 7.19% annualised, compared to 10.79% for the FTSE EPRA/NAREIT UK REITs Index.

£196.78 million
MARKET CAPITALISATION
Market capitalisation of £196.78 million as at 31 December 2017, a premium of 1.72% to the NAV at the same date.

Below and front cover: Freeland House, Oxfordshire, one of the 56 care homes that formed the Seed Portfolio acquired in May 2017.

Impact Healthcare at a glance

Following the IPO in March 2017, we have been successfully implementing our investment policy, acquiring a robust portfolio leased to a strong tenant group, who provide a high standard of care and secure rental income.

Operational highlights

as at 31 December 2017

57
ASSETS IN THE PORTFOLIO
By the period end, we had acquired 57 care homes with 2,527 beds, at an aggregate net purchase price of £152.20 million.

7.59%
CONTRACTED YIELD
The Group has a contracted rent roll of £11.86 million and a portfolio market value of £156.17 million delivering an investor contracted yield of 7.59% (compared to an EPRA Net Initial Yield of 7.02%).

19.2 years
WAULT
We benefit from long leases, with a weighted average unexpired lease term (WAULT) of 19.2 years at 31 December 2017.

464 beds
ASSET MANAGEMENT PIPELINE
We have planning permission to add 249 beds to the portfolio and are in discussions with planners for a further 215 beds. During the period, the board approved projects for the first 92 beds, at a cost of £7.94 million.

Post balance sheet highlights

25 beds
PROJECT NEARING COMPLETION
Our first asset management project at Turnpike is due to complete in April 2018, adding 25 of the initial 92 beds approved.

234 beds
ASSET ACQUISITIONS
Conditional contracts were exchanged on 11 January 2018 to acquire 234 beds across three assets in the North East of England. The first of these three assets completed on 16 March 2018.

£0.46 million
RENT REVIEW
The Seed Portfolio is subject to annual RPI uplifts with a floor of 2% and cap of 4%. The uplift was due in March 2018 and increased the rent roll from £11.9 million to £12.3 million.

Our Investment Adviser

Impact Health Partners LLP is our Investment Adviser. It sources investments for us, reviews opportunities and makes recommendations to the board and the Investment Manager, carries out the transactions the board approves and monitors the progress of our assets. It also recommends the asset management strategy for board approval and then implements it.

See p12 for the Investment Adviser's report

Our Alternative Investment Fund Manager (AIFM)

Carne Global AIFM Solutions (C.I.) Limited is our AIFM. It is responsible for the portfolio and risk management services for the Group.

An attractive market

Five drivers influence the demand for, and provision of, care for the elderly, making it an attractive market for well-capitalised asset owners working with well-managed tenant operators.

> People are living longer
> The number of beds available has fallen
> The market is highly fragmented
> There is severe pressure on the NHS
> Government funding has increased

See page 6 for our market drivers

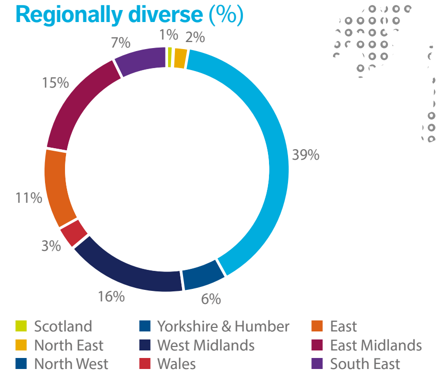
Our value-creating business model

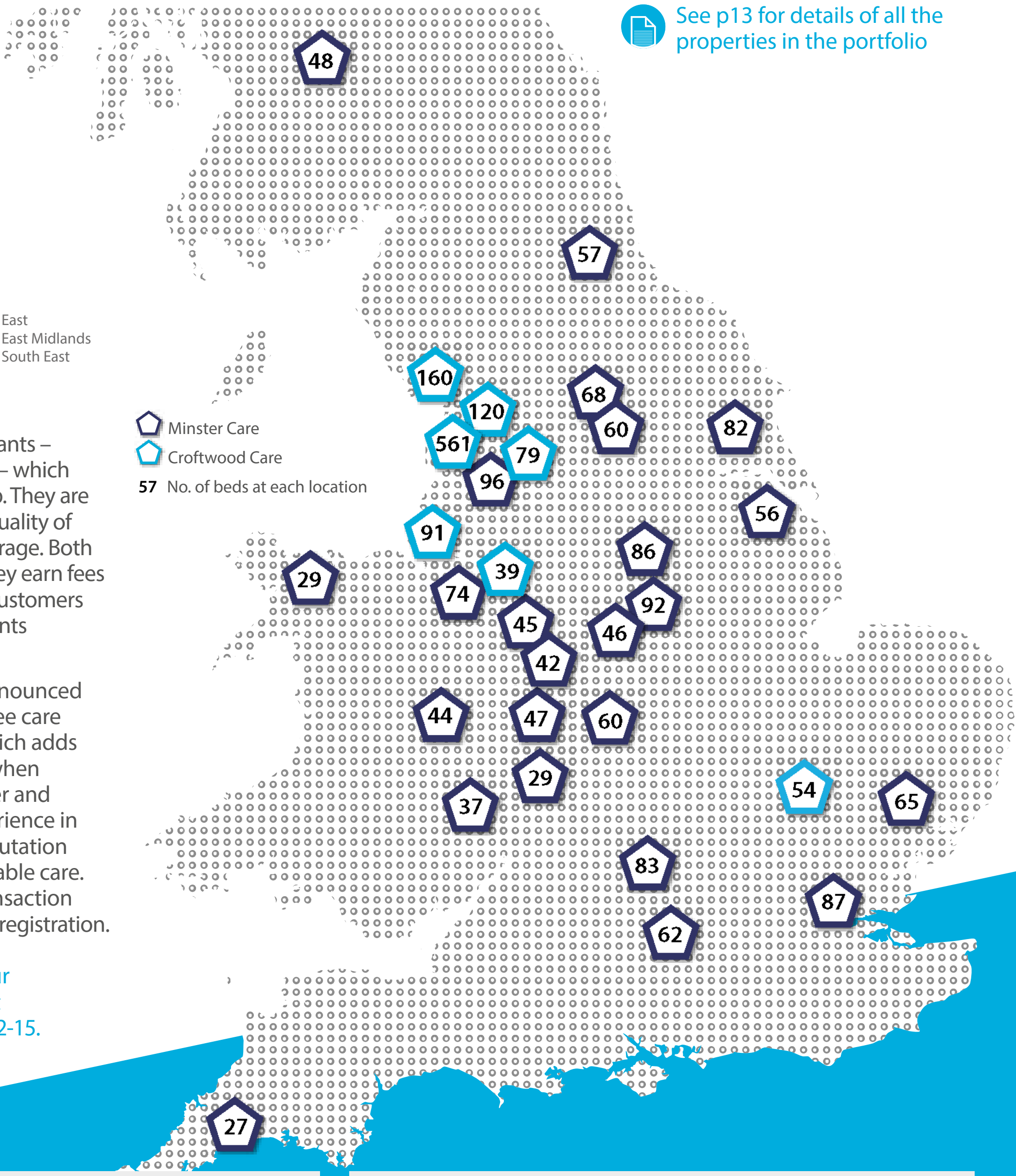
We have a five-stage business model, which aims to create value for all our stakeholders

> Build relationships with high-quality operators
> Identify assets for the operators to run
> Perform due diligence, purchase and lease assets
> Work with tenants to create value
> Optimise the portfolio for long term income security

See page 8 for our business model

Regionally diverse (%)





See p13 for details of all the properties in the portfolio

Our tenants

At the period end we had two tenants – Minster Care and Croftwood Care – which are both part of the Minster Group. They are established providers, offering a quality of care that exceeds the national average. Both are free of third-party debt and they earn fees from more than 80 public sector customers and in excess of 700 private residents between them.

Since the period end, we have announced the conditional acquisition of three care homes in North East England, which adds Prestige Care Group as a tenant when completed. Prestige is a developer and operator with over 20 years' experience in the care home industry and a reputation for providing high-quality, affordable care. For two of the properties, the transaction remains conditional upon CQC re-registration.

For more information on our tenants, see the Investment Adviser's report on pages 12-15.

Our focused strategy

Our strategy is to identify new healthcare properties and tenants who will diversify our portfolio and deliver strong economies of scale, with efficient operations alongside a good quality of care. We look for investments that, under our ownership, will provide value for money to our tenants' customers and residents, while delivering attractive and stable returns to our investors for the long term.

See pages18-19 for our investment objectives and policy

Our portfolio – key characteristics

- Well-diversified geographically
- Long leases, with 19.2 years WAULT at 31 December 2017 and the option for two 10-year extensions
- Annualised rent of £11.9 million, with annual rental uplifts based on the Retail Prices Index, with a floor of 2% and a cap of 4% per annum
- Majority of the assets owned freehold, with six on 999-year leases
- High-quality, financially sound tenant group

Chairman's statement

This was a successful first period for the Group. The acquisitions which followed our fully subscribed IPO have given us an excellent initial tenant group and a strong and secure revenue stream, allowing us to meet our dividend target. We have also begun the process of adding value through asset management and identified a pipeline of further acquisition opportunities.

Operational performance

The Company's IPO on 7 March 2017 raised gross proceeds of £160.2 million, from a high-quality shareholder base. We invested the majority of the net proceeds on 4 May 2017, when we acquired the Seed Portfolio for a net purchase price of £148.75 million. This gave us 56 assets with 2,479 beds. On 29 June, we acquired Saffron Court (48 beds) for a net purchase price £3.4 million. The portfolio is fully leased and delivering a 7.59% Contracted Yield to our investors.

The portfolio was independently valued at £156.2 million as at 31 December 2017. This represented a 1.5% uplift against the aggregate purchase price and capital improvements of £153.8 million.

Asset management is an important way for us to grow value, as it offers an accretive yield on the capital we invest. The board was therefore pleased to approve the first phase of our asset management programme, which will add 92 beds at three assets. The initial project, adding 25 beds to our Turnpike care home, is due to complete in April 2018. More details of our other projects and plans can be found in the Investment Adviser's report.

In addition, we have a pipeline of attractive acquisition opportunities, drawing on the Investment Adviser's extensive contacts and industry knowledge. These opportunities would further diversify the portfolio by geography and tenant, while satisfying our investment criteria. A successful placing on 8 November 2017 raised £32.6 million of equity, ensuring we have the financial capacity to pursue acquisition opportunities (see post balance sheet events below) and fund our initial asset management projects. The placing was significantly oversubscribed and added high-quality institutions to our share register.

Financial performance

At 31 December 2017, the Net Asset Value (NAV) and EPRA NAV were £193.5 million and 100.65p per share. Our annualised rent roll at the period end was £11.9 million.

Earnings per share (EPS) for the period was 5.82p (basic and diluted). Adjusted EPS, which is supported by cash receipts including our right to receive rent from our assets as if we had acquired them on the day of our IPO, was 4.39p. During the period, we focused on bedding down the portfolio and advancing our asset management and acquisition plans. Looking forward, our priorities will include being as efficient as possible, as an important part of generating enhanced returns for shareholders.

More information about our financial performance can be found in the Investment Adviser's report.

Dividends

For the 12 months following admission, we are targeting a dividend of 6.0p per share, equating to a yield of 6% on the 100p IPO issue price, on an ungeared basis. For the period from admission to 31 December 2017, our target dividend was therefore 4.5p per share. We met this target, declaring and paying three quarterly dividends of 1.5p each in respect of the period. Looking ahead, our intention over the longer term is to operate a progressive dividend policy, supported by the inflation-linked rental uplifts in our leases.

Adjusted EPS is the most relevant measure when considering dividend cover, as it more closely reflects our long term cash income than EPS calculated under IFRS. The total dividend for the period was 98% covered by adjusted EPS. The November placing reduced our dividend cover, as it increased our shares in issue without a corresponding increase in earnings from investing the proceeds before the period end. Stripping out the impact of the placing, our total dividend would have been fully covered by adjusted EPS for the period. Our investment strategy is focused on returning our adjusted EPS to covering fully these dividend payments.

Financing

The Group had no debt at the period end. While gearing can enhance returns, we want to be prudently and sustainably financed, recognising our obligation to provide stability and

"The fundamentals of our market are strong, with growing demand for beds and limited supply. Care is an essential service and the government needs to relieve the pressure on adult social care and hospitals."

security for the residents of our homes. Our investment policy therefore limits borrowing to 35% of the Group's gross asset value at the time of drawdown.

The Group continues its discussions with finance providers to arrange a debt facility to finance acquisitions and capital enhancements.

Post balance sheet events

Since the end of the period, we are continuing to advance our value-creation strategy.

We exchanged a conditional contract for the acquisition of a portfolio of three assets with 234 beds, adding Prestige Care Group as a new tenant. The total cost of the acquisition, is £17 million, including costs, with a net initial yield and rent cover in line with the terms on which we acquired the Seed Portfolio.

More information on these post balance sheet events can be found in the Investment Advisers' report.

Corporate governance

We recognise the importance of good governance and have a strong and independent board. At IPO, the board comprised me as chairman and three other independent non-executive directors. Since then we have further strengthened the board, appointing Paul Craig as a non-executive director on 30 June. Paul manages funds which, together, are owned by the largest shareholder in the Company, Old Mutual Global Investors. His significant investment experience, particularly within closed-end funds, is already proving invaluable. The board works well together, with a collegiate atmosphere and a broad range of complementary experience, including real estate, healthcare, financial markets and corporate finance. See the corporate governance section from pages 33 for more information.

Working with our tenants

As described in the business model on pages 8-9, we work closely with our tenant group and carefully monitor their performance.

The initial tenant group are strong and long-standing operators and we are pleased with their progress during the period.

The Investment Adviser

The board recognises the Investment Adviser's achievements in this period. It did substantial work pre-IPO to structure the acquisition of the Seed Portfolio, which has enabled us to be cash flow positive since launch, supporting our dividend target. We are confident that the Investment Adviser's diligent work to implement our growth strategy positions us well for the next phase of the Group's development.

The appointment of David Yaldron as the Investment Adviser's Finance Director in June further strengthened its senior team.

Summary and outlook

Impact Healthcare is a well-managed investment company, combining a good yield with attractive upside potential. We know that many of our shareholders prioritise a safe dividend and we believe that the quality of our initial tenant group, our secure and well-covered rental stream and our prudent approach to gearing limits downside risk. We have a pipeline of opportunities to add value, through asset management and acquisitions, and have made good progress since the period end.

The fundamentals of our market are strong, with growing demand for beds and limited supply. Care is an essential service and the government needs to continue to relieve the pressure on adult social care and hospitals. Residential care homes will be an important part of the solution and we therefore see good prospects for the Group. The Company remains well placed to continue delivering attractive and sustainable returns to our shareholders for 2018 and beyond.

Rupert Barclay Chairman
21 March 2018

Market drivers

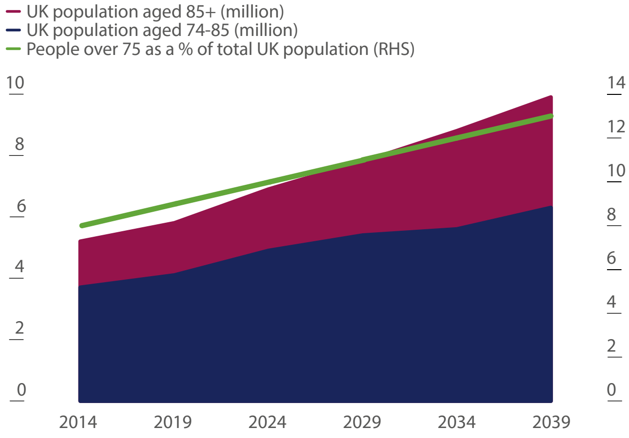
A growing and under-supplied market for an essential service.

We have identified five key drivers which make the UK market for elderly care attractive to well-managed care home operators. This in turn creates opportunities for well-capitalised asset owners, such as us, to grow in partnership with these operators and build portfolios of assets offering secure and rising income, with the potential for further value creation through careful asset management.

1 People are living longer

The UK population is ageing rapidly. The number of people more than 85 years old in the UK is forecast to increase from 1.5 million in 2014 to 3.6 million by 2039. A substantial minority of this age group will need some form of residential care, which can only be provided in a care home or in hospital.

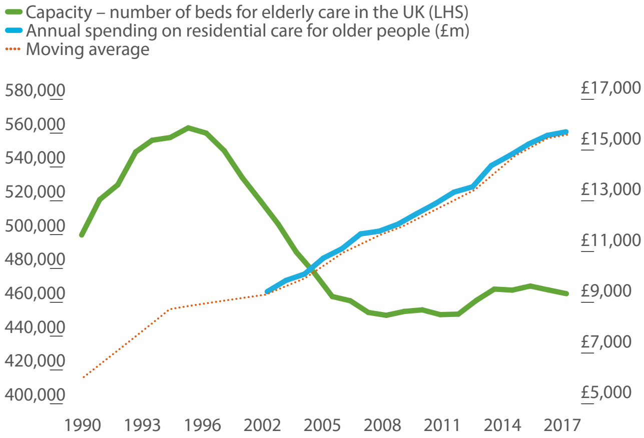
Population over 85 forecast to double in next 20 years



Source: ONS

2 Care home capacity has shrunk while real spending per bed has risen

Capacity has declined over 20 years while market value has grown

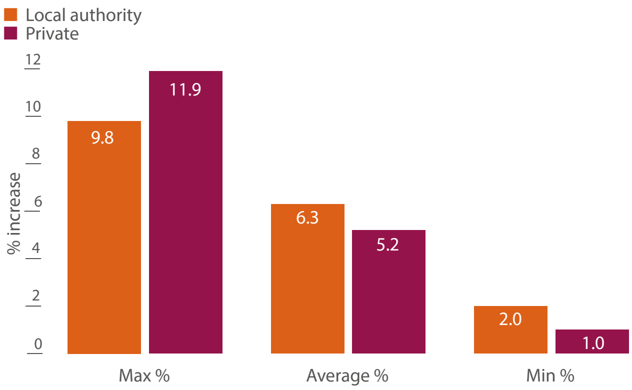


Source: "Care of Older People", 27th and 28th Editions, LaingBuisson

The number of beds available has fallen 17% from its peak in 1996. Recent research by the Consumer Association shows that in England alone, there could be a shortfall of 42,000 beds by 2022. Of the 150 local authorities (LAs) the Consumer Association surveyed, only 20 are adding beds at a sufficient rate to keep up with likely demand over this period.

At the same time, annual spending on residential care for older people has risen from £9.3 billion in 1995 to £15.9 billion in 2017. This represents a sizeable increase in real spending per bed, with fees continuing to rise ahead of inflation in 2017, as shown in the chart below.

National average elderly care fee increases 2017 versus 2016

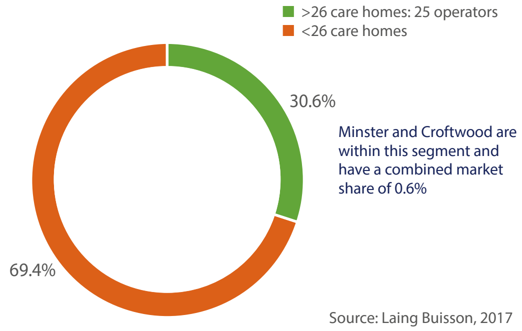


Source: Christie & Co (2017)

3 The market is highly fragmented

The UK has numerous small operators of care homes. In total, there are around 5,500 different providers, operating 11,300 care homes between them (source: Competition & Markets Authority (CMA)). Operators with fewer than 26 homes have 69% of the market. This fragmentation offers scope for stronger asset owners and stronger operators to grow through consolidation, and for asset owners to broaden the range of tenants in their portfolios. At the period end, the Group owned 0.6% of the private care beds in the market.

Market highly fragmented (%)

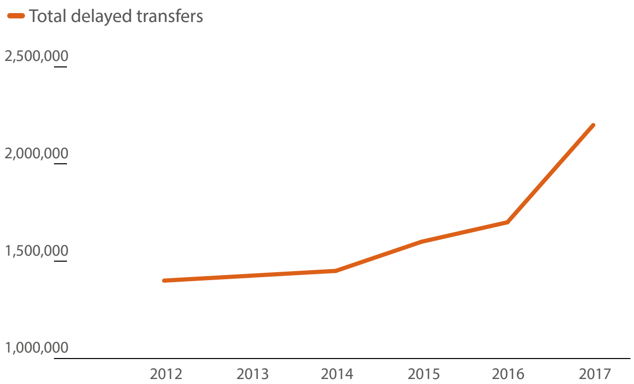


Source: Laing Buisson, 2017

4 Helping relieve the severe pressure on the NHS

In the 12 months to June 2017, the NHS in England lost cumulatively 2,274,300 bed days through delayed transfers, an increase of 66% on 2010. The majority of these beds are occupied by elderly people who cannot safely be sent home but could be more effectively and efficiently looked after in a care home environment. This is highly wasteful for the NHS at a time when its budget is under unprecedented pressure, as the average hospital bed costs four times more than the average care home bed. In order to manage these pressures better, in January 2018 the Secretary of State for Health, Jeremy Hunt, was also put in charge of adult social care.

Bed blocking: hospital days lost through delayed transfers in NHS England



Source: NHS England

5 Government funding has increased

According to the recent study by the Competitions and Markets Authority:

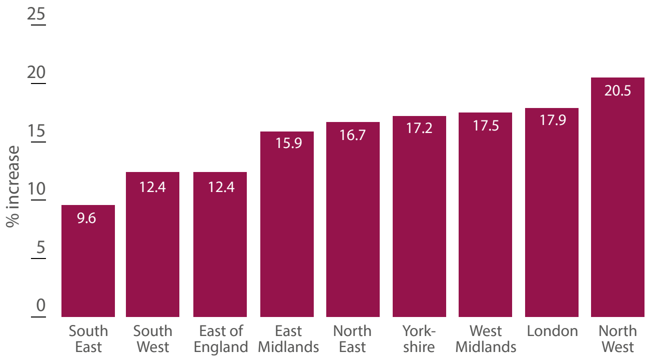
- **41% of care home residents fund themselves;**
- **49% receive LA funding (with around one quarter of these paying top-ups); and**
- **10% are funded by the NHS, as they have primary health problems.**

This means that the public sector is responsible for funding at least some of the cost of care for the majority of care home residents. The combination of rising demand, insufficient supply and the need to reduce pressure on the NHS has led the government to announce a series of initiatives over the past two years, to increase LA funding for elderly care. These initiatives reflect the fact that care is an essential service, which LAs are legally obliged to provide.

The initiatives are set out below. Together, they represent a substantial increase in public sector spending, in a market worth around £16 billion a year:

- **A social care precept.** When first announced, this allowed LAs to increase council tax by up to 2% each year between 2016/17 and 2019/20. However, in December 2016 the government enabled LAs to bring the social care precept forwards, by raising council tax by up to 3% in 2017/18 and 2018/19. The Treasury estimates this could produce an additional £2 billion a year by 2019/20.
- **An improved Better Care Fund.** This will provide an additional £4.4 billion of funding between 2017/18 and 2019/20.
- **A new Adult Social Care Support Grant.** To provide £240 million to LAs in 2017/18.

Increase in local authority budgets for elderly care: 2017/18 over 2015/16 actual spend



Source: Christie & Co FOI (2017) and Operator Survey (2016 and 2017)

Our business model

The inputs to our business model

We use the following resources to create value for our stakeholders:

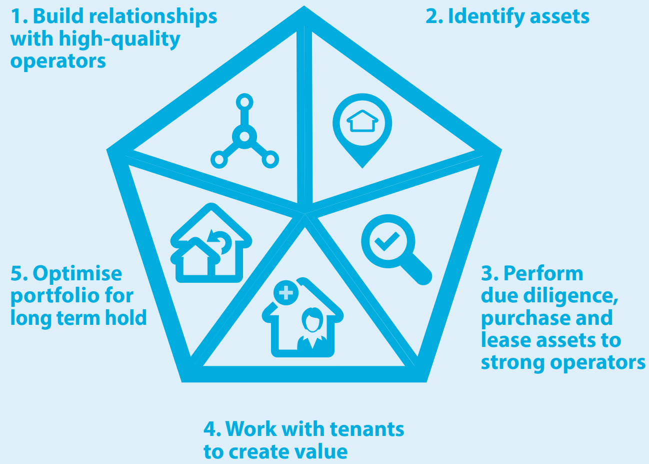
Physical assets
Residential care homes are central to our value-creation model

Relationships
We draw on our Investment Adviser's strong relationships with operators, asset owners and other key stakeholders

Specialist knowledge
Our Investment Adviser's deep understanding of the residential care home sector helps us to identify strong operators and attractive assets

Financial assets
We finance our business using shareholders' equity and intend to incorporate a prudent level of debt

How we create value



1. Build relationships with high-quality operators

We start by strengthening and developing our relationships with operators we want to work with for the long term. As our tenants will run our care homes for at least 20 years, we want to be certain they have a track record of providing good care, while running a sustainable and profitable business. Their capabilities will underpin a secure, well-covered rental stream for us. We also look to broaden our range of tenants over time, so we have a diversified portfolio.

We draw on our Investment Adviser's existing strong relationships with operators and develop relationships with new operators, by clearly communicating what we are looking for in a tenant. The Investment Adviser's deep knowledge of how to run care homes is a critical advantage in assessing potential operators.

2. Identify assets

Once we have identified the right operators, we look to acquire assets our existing or proposed operators would run well. We jointly review their existing portfolios or identify assets owned by third parties, where the operator could create value with us. The Investment Advisers' relationships with vendors mean we can buy some assets off-market, at attractive purchase prices. We can also move quickly, using the Investment Advisers' knowledge to carefully and swiftly assess the quality of a potential opportunity through our selection process and procedures.

We typically look for portfolios of homes which have a record of operating well and where we can add value through asset management. In portfolios we will seek a combination of assets which offer solid performance, assets with potential for value creation and possibly some non-core assets which we will sell. While our preference is to acquire portfolios, we may buy single assets either to add to an existing tenant portfolio or with a strategy to acquire more assets with the new tenant.

We look to have a portfolio that is diversified by location across the UK, focusing on areas where there is a good balance of supply and demand for care and assets are available at attractive valuations.

3. Perform due diligence, purchase and lease assets

Before we purchase assets, we perform thorough due diligence. This combines an in-depth assessment of the operator and its quality of care, as well as ensuring that the assets are sound, that they align with our investment objectives and that there is sufficient demand for care in the area.

We will fund asset purchases through equity and a prudent level of debt, recognising that appropriate gearing can help to drive returns. Our policy is to sign leases of at least 20 years with tenants, with upwards-only inflation-linked rental growth (see investment objectives on pages 18-19 for more details).

4. Work with tenants to create value

The security of our rental streams depends on our tenants continuing to provide high-quality care, so they remain in demand and sustain their profits. The Investment Adviser therefore reviews CQC ratings and the outcomes of inspections, as well as visiting assets. Our tenants also report to the Investment Adviser on a quarterly basis, to ensure they are complying with their covenants. Our Investment Adviser's sector knowledge helps it to engage with tenants and support their operations. The leases specify the minimum amounts tenants must spend on repairs and maintenance, so we can be confident our buildings are being kept in good condition.

We work with tenants to identify asset management opportunities that create value for them and for us. Examples could include adding beds, improving facilities or enhancing communal space. These projects increase revenue for the tenant, further strengthen their rental cover and grow rental income and capital values for us.

5. Optimise portfolio for long term hold

We continue to review the portfolio on an ongoing basis, to ensure it remains effective and efficient for us and our operators. If we believe it is value enhancing for shareholders, we may agree with the operator to sell an asset, so we can reinvest the proceeds in opportunities to create more value.

How we generate profit and cash

Our leases provide highly predictable and growing revenue streams. We look to control rigorously costs and exploit economies of scale as the portfolio grows, as many of our costs are fixed and some variable costs step down as our asset value rises. As a REIT, we are not subject to corporation tax on our qualifying property rental business, maximising our ability to distribute profits to shareholders as dividends.

Tenants

Tenants can grow their business alongside us, in a mutually beneficial relationship

Tenants' customers

The residents in our care homes benefit from security and stability, with an operator providing the right level of care

Shareholders

Shareholders benefit from secure and growing rental streams supporting quarterly dividends, with the potential for capital growth

Investment Adviser's Q&A

Andrew Cowley, Managing Partner of our Investment Adviser, answers some common questions about our market, our business and our strategy for growth.

Q 1. What pleased you most about the Group's first period in operation?

A I think we delivered everything we promised and perhaps a little bit more. The Group is up and running, with a strong portfolio, excellent tenants and positive cash flow from day one, which has enabled us to meet our dividend targets. That gives us a really solid platform to expand from, so we can create value for shareholders, tenants and residents alike for the long term.

Q 2. What do you think is the biggest attraction of the care home market?

A The market has many attractive characteristics but at its most basic, it is not often that you see an opportunity where the supply and demand fundamentals are so strong. Demand for residential care is only going to grow and there are not enough beds to provide that care, so we think that undersupply is set to increase. That dynamic will create real opportunities to generate value for well-capitalised landlords, working in partnership with high-quality operators to deliver good quality care.

Q 3. There is significant demand for healthcare real estate. Are you able to source acquisitions for the Group at attractive yields?

A Yes we are, as we have shown with the acquisition we have announced since the period end. There has been yield compression but it has primarily been at the very top end of the market, in the super prime segment. We are looking to source assets for the Group in the upper-middle market, where we continue to see a good pipeline of opportunities at appropriate prices, with new tenants and robust operations, and where we can add value through asset management.

Q 4. How quickly do you think the portfolio can grow?

A We have said we are looking to add around 100 beds each year through our asset management programme. As far as acquisitions are concerned, we are in a growth phase but it is much more about the quality of opportunity than the quantity. This is a long-term business and we need to ensure we carefully choose the right operators and the right assets.

Q 5. What do you think differentiates the Group from other healthcare real estate owners?

A The tenant-centric approach is important. Our view is that if you find a good operator, who provides a high standard of care and earns a sustainable profit, then by definition their assets are more than fit for purpose. We can always work with them to improve the quality of the buildings, but what we cannot do is turn a bad provider of care into a good one. The other reason for starting with the tenant is that it is a long-term partnership. Where we are establishing new leases, these are at least 20 years, so you have to have the right partner and we do a lot of due diligence on them before we proceed.

Q 6. What do you see as the key findings in the CMA market study?

A There were two main findings. The first was that generally speaking, residents in care homes receive good care and the sector as a whole performs a vital public service. The UK's demographics mean that service is only going to become more important. Second, despite the significant increases in government expenditure announced in the past two years or so, local authorities are still not paying enough to meet the full cost of care for the nearly 60% of residents they fully or partly support. The CMA conclude that this means either more public funding for residential care or new funding models for care. Either way, these will benefit the economics of the sector.

Q 7. Are your tenants able to find enough staff?

A The sector has had to face many operational challenges over the years, from the introduction of National Minimum Standards to changing regulation, inspection and rating regimes, to the financial crisis. Maintaining appropriate staffing levels is another of those challenges and probably the most important factor in providing good quality care.

What we find is that well-positioned businesses with good operators are able to adapt to changing market conditions, which is another reason for remaining highly selective about the operators the Group chooses to work with. It is also true that staffing shortages are likely to be more significant in areas with super prime assets, where staff cannot afford to live. The Group is operating in a different part of the market.

Q 8. Do the problems at Four Seasons have any implications for the care home sector?

A Four Seasons is a complex story. At a financial and operational level, the business hit a low point in 2015. Since then there have been clear signs the management team is delivering a turnaround at the operating level. However, its balance sheet is not sustainable and needs restructuring and this is now happening. We draw two conclusions from this. First, do not forget the dangers of excessive leverage, which is why we have adopted a conservative approach to debt. Second, some interesting opportunities for us might emerge from the restructuring of Four Seasons.

Q 9. How are you progressing with negotiating debt facilities?

A We said at the half year that we were looking to put in place the funding structures to implement our growth plans for the Group. Part of that was the additional equity raise, which was successfully completed in November, and part was introducing a debt facility. We are continuing to actively discuss debt facilities with finance providers and want to ensure the timing of these facilities is aligned as close as possible with the acquisitions these facilities will fund.

Investment Adviser's report

This was a busy and successful first period for the Group.

Initial public offering, vendor issue and placing

The Company raised total gross proceeds of £160.2 million through its IPO and vendor issue. Its shares were admitted to the Specialist Fund Segment of the London Stock Exchange's Main Market on 7 March 2017, following the issue of 146,172,358 ordinary shares at 100p each. On 5 May 2017, the Company issued a further 14 million ordinary shares at 100p each, as a vendor issue in connection with its acquisition of the Seed Portfolio.

On 8 November, the Company raised additional gross proceeds of £32.6 million to fund the next phase of its growth, through a placing of 32,034,471 shares at a price of 101.75p each. The shares placed represented 19.99% of the Company's issued share capital prior to the placing. Following the placing, the Company has 192,206,831 shares in issue.

Investment activity

The Group invested the majority of the net proceeds from the IPO and vendor placing during the period, acquiring 57 properties with 2,527 beds.

The acquisition of the Seed Portfolio completed on 4 May 2017, for a total consideration of £148.75 million and at a net initial yield of 7.6%. The 56 care homes are leased to the initial tenants for 20 years with no tenant break rights, and with an option to extend for two further 10-year periods. All outstanding debt facilities were repaid in full and the Group acquired the Seed Portfolio debt free.

On 29 June 2017, the Group acquired Saffron Court for £3.4 million, at a net initial yield of 7.7%. Saffron Court has 48 beds. The terms of the lease are the same as for the Seed Portfolio.

Details of the individual assets are set out in the portfolio in the table opposite.

Valuation

The Group's properties were independently valued by Cushman & Wakefield as at 31 December 2017, in accordance with the RICS Valuation Professional Standards (the Red Book). The portfolio's valuation was £156.2 million, an increase of £2.32 million or 1.5% over the aggregate purchase price of, and capital investment in the assets.

Financial results

The Group received rent from the Seed Portfolio as if it had acquired the portfolio on admission on 7 March 2017. As a result, the rent received in the period was £9.5 million. Under IFRS, the upfront initial lease rental payment from admission and the minimum annual rental increase of 2.0% are recognised over the lease term on a straight-line basis. In the current financial period, these two adjustments have substantially offset each other.

The EPRA cost ratio, which is calculated as administrative and operating costs as a percentage of gross rental income, was 24.7% for the period. Cost control is a key focus and the EPRA cost ratio is expected to decline as the Group grows its portfolio and benefits from economies of scale.

Profit before tax was £9.5 million. As a REIT, the Group is exempt from corporation tax on the profits and gains from its property investment business. All its profits, except net interest income, qualified for this exemption, so there was only a nominal tax charge for the period. This resulted in IFRS EPS of 5.82p and EPRA EPS of 4.35p. The Group's primary measure of earnings is adjusted EPS, which is supported by cash receipts and which the board considers is the appropriate measure for calculating dividend cover. Adjusted EPS for the period was 4.39p.

Over the coming years, the Group will often have cash reserved on account for capital expenditure, which will not earn a significant return until it is utilised. This capex will be funded under a licence to vary the lease with the tenant. Additional income from the licence to vary will be recognised on a straightline basis from the date the licence is signed, offsetting the impact of this element of the cash drag on the Group's earnings. The Group is therefore considering reporting an additional EPS

The portfolio

At 31 December 2017, the Group owned the assets listed in the table below:

Name of home	County[1]	Address	Acquisition date[2]	Net purchase price £m	Beds	% of portfolio income
Minster Care						
Abbeywell	Staffordshire	Dragon Square, Chesterton		4.95	45	3.18
Amberley	Cornwall	The Crescent, Truro		0.68	27	0.49
Ashgrove	Lincolnshire	North Sea Lane, Cleethorpes		2.15	56	1.47
Attlee	West Yorkshire	Attlee Street, Normanton		3.11	68	2.07
Broadgate	Nottinghamshire	Broadgate, Beeston		3.45	40	2.22
Craigend	Glasgow, Scotland	Croftcroighn Road, Ruchazie		1.33	48	0.37
Diamond	Leicestershire	Bewcastle Grove, Leicester		2.69	44	1.72
Duncote Hall	Northamptonshire	Towcester		3.37	38	2.16
Duncote The Lakes	Northamptonshire	Towcester		5.46	45	3.20
Emmanuel	Humberside	Southfield, Hessle		1.40	37	0.86
Eryl Fryn	Conwy, Wales	Bodafon Road, Craigside		1.54	29	0.98
Falcon	Nottinghamshire	Middle Street, Beeston		4.37	46	2.71
Freeland House	Oxfordshire	Wroslyn Road, Freeland		11.18	62	5.91
Grays Court	Essex	Church Street, Grays		5.77	87	3.45
Hamshaw Court	Humberside	Wellsted Street, Hull		1.48	45	0.98
Ideal	Shropshire	Knowsley Drive, Bicton Heath		1.97	44	1.35
Karam Court	West Midlands	Mallin Street, Smethwick		3.71	47	2.22
Littleport Grange	Cambridgeshire	Grange Lane, Littleport		5.77	54	3.45
Meadows & Haywain	Suffolk	Brybank Road, Hanchett Village		4.95	65	2.96
Mowbray	Worcestershire	Victoria Road, Malvern		3.32	37	2.22
Mulberry Manor	South Yorkshire	Wortley Avenue, Swinton		1.80	60	1.23
Rydal	Durham	Rydal Road, Darlington		2.69	57	1.72
Saffron	Leicestershire	High Street, Barwell	June 2017	3.40	48	2.26
Shrubbery	Worcestershire	Shrubbery Avenue, Worcester		0.72	29	0.49
Sovereign	West Midlands	Chelmarsh, Daimler Green		3.30	60	1.97
Stansty House	Clwyd, Wales	Stansty Road, Wrexham		3.35	74	2.00
Three Elms	Lancashire	Station Road, Penketh		3.02	56	2.01
Waterside	Worcestershire	Leigh Sinton, Malvern		4.07	47	2.34
Woodlands	Greater Manchester	Ash Lane, Aspull		1.98	40	1.27
Wordsley	West Midlands	Mill Street, Brierley Hill, Wordsley		2.30	41	1.47
Croftwood Care						
Ancliffe	Greater Manchester	Warrington Road, Wigan		1.83	40	1.42
Astbury Lodge	Cheshire	Randle Meadow, Great Sutton		1.59	41	1.23
Croftwood	Cheshire	Whitchurch Way, Runcorn		1.58	44	1.09
Crossways	Cheshire	Station Road, Lostock Gralam, Northwich		1.02	39	0.84
Elm House	Cheshire	Pillory Street, Nantwich		2.61	39	1.97
Florence Grogan	Cheshire	Shelley Road, Blacon, Chester		1.52	40	1.18
Garswood	Greater Manchester	Wentworth Road, Wigan		1.65	40	1.28
Gleavewood	Cheshire	Farm Road, Weaverham, Northwich		1.01	30	0.78
Golborne House	Cheshire	Derby Road, Golborne		1.67	40	1.30
Greenacres	Greater Manchester	Green Lane, Standish		1.59	40	1.23
Hourigan	Greater Manchester	Myrtle Avenue, Leigh		1.89	40	1.47
Ingersley Court	Cheshire	Lowther Court, Bollington		1.88	33	1.42
Lakelands	Greater Manchester	Grizedale Drive, Higher Ince		1.89	40	1.47
Leycester House	Cheshire	Edenfield Road, Mobberley, Knutsford		2.53	40	1.97
Loxley Hall	Cheshire	Lower Robin Hood Lane, Helsby		2.56	36	1.71
Lyndhurst	Greater Manchester	College Street, Leigh		1.44	40	1.12
New Milton House	Staffordshire	Station Road, Alsager		1.79	39	1.40
Parklands	Cheshire	Poynton Civic Centre, Park Lane, Poynton		1.64	40	1.35
The Cedars	Cheshire	Brookfield Drive, Holmes Chapel		0.88	27	0.64
The Elms	Cheshire	Elm Drive, Crewe		2.08	41	1.62
The Hawthorns	Cheshire	Hawthorne Street, Wilmslow		1.95	39	1.47
The Laurels	Cheshire	Walnut Drive, Winsford		1.22	40	0.92
Thorley	Greater Manchester	Hazelmere Gardens, Hindley		1.96	40	1.53
Turnpike Court	Cheshire	Middlewich Road, Elworth, Sandbach		2.69	28	1.97
Wealstone	Cheshire	Wealstone Lane, Upton		3.09	42	2.41
Westhaven	Merseyside	Queen's Road, Wirral		5.36	52	2.96
Whetstone Hey	Cheshire	Old Chester Road, Great Sutton		1.95	41	1.47
Total net purchase price				**152.15**	**2,527**	
Total market value (per independent valuation)				**156.17**		

Note 1: County of England unless stated
Note 2: May 2017 unless stated

Investment Adviser's report

measure in future periods, which adjusts for this impact and shows the Group's underlying performance.

All the EPS figures listed above are on both a basic and diluted basis. More information on the calculation of EPS can be found in note 9 of the financial statements on page 79.

Dividends and distributable reserves

To ensure the Company benefits from the full exemption from tax on rental income afforded by the UK REIT regime, it must distribute at least 90% of the qualifying profits each year from the Group's qualifying rental business.

The Company has declared and paid three quarterly dividends of 1.5p each in respect of the period. All three dividends were Property Income Distributions. The details of these dividends were as follows:

Quarter to	Declared	Paid	Cash cost £m
30 June 2017	31 July 2017	31 August 2017	2.40
30 September 2017	1 November 2017	30 November 2017	2.88
31 December 2017	1 February 2018	22 February 2018	2.88
Total			**8.16**

Earnings cover per share is discussed in the Chairman's statement on page 4.

At 31 December 2017, the Company had distributable reserves of £51.0 million, giving it significant capacity to pay dividends in line with its dividend policy. The distributable reserves were increased during the period by the capital restructuring described below.

Net cash

At the period end, the Group had net cash of £38.4 million, reflecting the remaining proceeds from the IPO and the proceeds of the placing in November. Of this cash, £7.9 million is committed for asset management projects approved by the board and a further £17.0 million was committed after the period end, to fund the acquisitions described under post balance sheet events below.

Capital restructuring

On 12 April 2017, a successful application to the High Court was made for the reduction of £0.30 per share of the share premium account plus £3,000,000, which allowed the transfer of £46,851,708 to the capital reduction reserve (see note 17 of the financial statements on page 85). This is a distributable reserve.

The initial tenants

The acquisitions during the period have given the Group two initial tenants – Minster Care and Croftwood Care (both part of the Minster Group). They are established providers, offering quality of care that exceeds the national average.

Minster Care portfolio	
Valuation at 31 December 2017:	£101.9 million
Rent payable (FY18)*:	£7.1 million
Total homes:	30
Total beds:	1,471

* FY18 is the operator's financial year to 31 March 2018

Croftwood Care portfolio	
Valuation at 31 December 2017:	£54.3 million
Rent payable (FY18)*:	£4.5 million
Total homes:	27
Total beds:	1,056

* FY18 is the operator's financial year to 31 March 2018

Asset management

During the period, the board approved the first phase of the Group's asset management programme. This will see 92 beds added across three homes, which had 144 existing beds between them. The total cost is expected to be £7.9 million. The first project is due to complete in April 2018, adding 25 beds at the Turnpike home. Work has begun to add 21 beds at Littleport, with completion expected in mid-2018. The largest of the three projects, the 46 new beds at Freeland House, is expected to begin later this year and complete in 2019. The extra beds are expected to increase rent on these three assets by £0.75 million or approximately 54%.

The Group is also advancing plans to add a further 372 beds over the next three years. In aggregate, this programme would therefore add 464 beds, increasing the number of beds at the Group's existing assets by 18% and growing both rent and net asset values. The programme is expected to take around three years to complete.

Post balance sheet events and acquisition pipeline

On 11 January 2018, the Group announced that it had exchanged contracts to acquire a portfolio of three purpose-built care homes in the North East, on a sale and leaseback basis. The acquisition is conditional on regulatory approval, among other things. The first asset with 54 beds has now been acquired and the remaining two will follow. The total consideration is £17 million, including costs. The care homes have 234 high-quality care beds and an asset management opportunity to add a further 40 beds.

The operator is Prestige Care Group, which purpose-built the homes between 2005 and 2015. Prestige will continue to operate the homes and is entering into a 20 year lease in respect of each property, with an option to extend by a further 10 years. The rents receivable are subject to annual, upward only rent reviews in line with the Retail Prices Index, with a floor of 2% per annum and a cap of 4% per annum. The net initial yield and rent cover are in line with the terms on which the Group acquired the Seed Portfolio.

Responsible business

The most significant impact the Group can have is protecting the rights of the people who live in its care homes. As described in the business model section on pages 8-9, the Group therefore works closely with its tenants to ensure they provide the quality of care that their residents deserve and that the homes are well maintained and pleasant places to live. The Group's asset management programme also substantially enhances the homes involved. Stability is also crucial for residents, so the Group ensures it is sustainably financed and only works with financially sound tenants, who will be able to provide long-term care.

We are pleased that this concern for the well being of the residents in our homes is reflected in our initial tenants' regulatory performance. 85% of the homes in the Seed Portfolio are rated "Good" or "Outstanding" by the Care Quality Commission versus a national average of 74% for all medium (10-49 beds) and large (≥50 beds) residential and nursing homes.

Pipeline

The Investment Adviser is actively pursuing a pipeline of further investment opportunities, which it believes comply with the Company's investment policy, will be accretive to earnings and will enhance diversification. After completion of the Prestige transaction, the Company will own 2,761 beds which is equal to approximately 0.6% of the privately-owned care beds in the UK market. The Investment Adviser has reviewed opportunities which comprise circa 5% of the beds in the market and is at an advanced stage of negotiation on a number of portfolios which, if approved by the board and subject to the availability of debt financing, could add in excess of 800 beds and five new tenants to the existing portfolio.

Outlook

The fundamentals of continuing growth in demand and limited supply of good quality, well operated residential care home beds persist. The Group remains well positioned to selectively invest in a growing pipeline of identified opportunities that meet the Company's strict investment criteria and we continue to look forward to delivering secure and attractive returns to shareholders in 2018 and for the long term.

Impact Health Partners LLP Investment Adviser
21 March 2018

Westhaven

Westhaven opened in 2016, having been completely rebuilt to provide high-specification facilities. The home it replaced was much-loved by residents but with only 26 beds, it often had to turn people away. Since the rebuild, Westhaven's increased capacity means it can now accommodate 52 residents.

Residents enjoy the new building and its atmosphere but the real heart of Westhaven's success is the staff, who focus on providing great care.

"The home had a nice feel about it from the moment I walked in but the real key to good care is having the right staff, with the right training," says manager Maureen McDonough. "There is a wonderful relationship here between staff and residents, and we're all part of one family. Our end-of-life care staff deliver an especially high-quality service."

Many staff members who used to work at Westhaven before the rebuild have returned, including Maureen herself. "I went to work for another Minster home while Westhaven was being rebuilt," she says. "I knew I wanted to continue working for this company. I love my job and I love being with this age group."

Key facts	
Beds	52
Location	Wirral, Merseyside
Tenant	Croftwood Care
Net purchase price	£5.36 million
% of portfolio income	2.96%

Maureen McDonough, Manager

Investment objectives and policy

Our objectives

We aim to provide shareholders with attractive long term and sustainable returns, primarily in the form of quarterly dividends. These dividends are underpinned by our secure and stable income, which comes from two tenants within a group that is financially sound and committed to providing high standards of care. We benefit from long leases with inflation-linked annual rent reviews. Through active asset management we also aim to deliver growth in net asset values over the medium term.

Our policy

Our investment policy is to acquire, lease, renovate, extend and redevelop high-quality healthcare real estate assets in the UK, and to lease those assets, under full repairing and insuring leases, primarily to operators providing residential healthcare services. We complied with this policy during the period and met our investment objectives, as set out below.

Achieved / Partially met / Not met

Investment policies	Status	Performance
Our target dividend for the first 12 months from admission equates to a yield of 6% per annum on the issue price, on an ungeared basis.	Achieved	We declared and paid dividends totalling 4.5p per share for the three quarters to 31 December 2017, without using leverage, in line with our target.
We aim for our dividends to be covered by ordinary earnings.†	Partially met	Paid and declared dividend, we were 98% covered by adjusted earnings per share. The dividend on the original IPO share placement was fully covered by adjusted earnings per share, after excluding the impact of the November share placing, whose proceeds had not been invested by the period end.
We have a conservative gearing policy. Borrowings as a percentage of our gross assets may not exceed 35% LTV at the time of drawdown.	Achieved	The Group was ungeared at 31 December 2017. We continue to engage with finance providers for debt facilities within these gearing limits and we are seeking to align this funding with future acquisitions.
After acquiring the Seed Portfolio and some of the optional assets, we targeted annual rent receivable from our initial tenants of between £11.0 million and £11.6 million.	Achieved	Our rent roll at the period end was £11.9 million, comprising £11.6 million base rent plus a further £0.3 million in relation to rent commitments from funded capital improvements.
Minimise cash drag. †	Partially met	We invested 95% of our net IPO proceeds within two months of admission, with cash rent calculated from the admission date. 98% invested by June and committed the remainder to fund income-increasing asset management initiatives. We raised a further £32.6 million in November 2017 and committed to an acquisition of 234 beds for £17.0 million in January 2018. Other acquisitions are being actively pursued.

† These were not defined as investment policies at the time of IPO but have since been agreed by the board as appropriate policies for the Group.

The investment policy set out in the prospectus allows us to invest in a range of healthcare real estate assets, in addition to residential care homes. We have not yet sought to invest in any of these alternative assets.

Our investment policy also allows us to generate up to 15% of our gross income from non-rental revenue or from profit-related payments from tenants. We did not generate any income from these sources during the period.

Investment policies	Status	Performance
We manage risk by owning a diversified portfolio, with no single asset exceeding 15% of the Group's total gross asset value.	✓	The largest single asset is Freeland House, which was valued at £11.7 million at the period end, equating to 7.5% of our gross asset value.
We also manage risk by limiting our exposure to our tenants' customers. No single customer paying for care provided in our assets can account for more than 15% of our tenants' aggregate revenues.	✓	The largest single customer paying for care represents only 8.2% of the aggregate revenues of the tenant which leases the assets.
We grant leases that are linked to the Retail Prices Index (RPI), have an unexpired term of at least 20 years and are not subject to break clauses. We seek to amend any leases we acquire to obtain similar terms.	✓	The initial portfolio is leased on 20-year terms, with no break clauses and upward-only rent increases at RPI, with a floor of 2% and a cap of 4%. The portfolio being acquired from Prestige Care Group after the period end (see the Investment Advisers' Report) will be let on substantially similar terms.
We will not speculatively develop assets, which means we will not develop a property which has not been leased or pre-leased.	✓	We did not undertake any speculative development in the period.
We may invest in forward funding agreements or forward commitments to pre-let developments, where we will own the completed asset.	✓	The 92 additional beds approved during the period, for development at existing assets, will enhance our rental income under a forward funding agreement through which we fund the tenant's capital expenditure in return for an accretive increase in rent, both in terms of contractual rent and portfolio valuation.

Duncote, The Lakes

The Lakes is a brand new dementia care unit, offering facilities to care for residents while maintaining their independence. The design incorporates a large amount of glazing, to encourage residents to engage with the surrounding landscape, and all the bedrooms have ensuite showers and a view of the gardens.

The Lakes shares an eight-acre site with another of our homes, Duncote Hall, which serves residents with nursing care needs. This allows Minster to refer residents between the two homes, depending on which provides the right care for them, which will benefit residents and help to maintain occupancy.

"The home has been open for less than a year," says manager Janice Knock. "Our first focus was to get the quality right and we already have a Good rating from the CQC, which is not easy for a new service. We have a strong reputation with the local GPs, social workers, district nurses and mental health team, so we don't even need to market the home at the moment. We're being flooded with applications and it won't be long before we are full."

Key facts	
Beds	45
Location	Towcester, Northamptonshire
Tenant	Minster Care
Net purchase price	£5.46 million
% of portfolio income	3.20%

Janice Knock, Manager

Principal risks and uncertainties

The tables that follow show the principal risks and uncertainties facing the Group and explain how we mitigate them.

Political

1 Changes to government policy

Probability: low	Impact: high	Mitigation
	Care for the elderly is at the heart of our business. We expect the government to continue to focus on the sector, to ensure it operates effectively. This creates both opportunity and risk, depending on the nature of the changes proposed and our preparedness to engage in the drafting and implementation of legislation.	We actively engage with our tenants to understand their position on the risks and opportunities of potential legislative changes and how our joint strategies may need to adapt to deliver any requirements or maximise the opportunity arising from these. As a business and alongside our Investment Adviser, we are looking to engage more with organisations that support and represent the property and investment sectors focused on the healthcare industry.

Market conditions

2 Adverse change in investment opportunities

Probability: low	Impact: moderate	Mitigation
	Our investment objective allows us to invest in further assets. Market conditions may restrict the availability of investments and reduce our ability to identify and acquire suitable assets that would generate acceptable returns. Any delay in making investments for secured funding, will reduce our returns.	We have a robust due diligence process to assess new investments, to ensure they align with our investment objectives and that we understand and appropriately manage any associated risks. The quantity of deal flow that the Investment Adviser is reviewing allows us to be selective in the assets that we are acquiring.

3 Weakening asset investment performance and investor perception of the healthcare sector

Probability: moderate	Impact: low	Mitigation
	The independent valuation of our portfolio is based, in part, on comparable market evidence. An adverse change in investment demand across the market will affect valuation yields, with a corresponding impact on our investment value and NAV.	A reduction in investment values would not affect our revenues or ability to pay dividends. Our long-term hold strategy focuses on enhancing our income and its security, to manage the value of our portfolio for our investors. In addition, we will continue to pursue active asset management across our portfolio, to enhance the value of our assets. With any future financing, we will consider the impact of a fall in values on any LTV covenants.

4 Weakening care market

Probability: low	Impact: moderate	Mitigation
	Several factors may affect the market for elderly residential care, including: • adverse conditions in the healthcare sector. • local authority funding partners amending their payment terms, impacting our tenants' revenues. • increased regulatory responsibility and associated costs for our tenants. These could all materially impact our tenants' covenant strength and their ability to pay rent, resulting in a higher risk of default.	We work closely with our tenants to understand the underlying performance of the individual assets, so we identify any concerns early and can explore mitigating actions such as additional investment, staffing levels and the public/private resident mix.

Underperformance of assets

5 Default of one or more tenants

Probability: low	Impact: high	Mitigation
	Our IPO was based on the acquisition of a Seed Portfolio of assets, with two tenants under a single framework agreement (the 'tenant group'). As a result, we have a high exposure to a single tenant group default, which would affect the value of our assets and our ability to pay dividends to our shareholders.	We actively engage with the Seed Portfolio tenant group, with regular reviews and reporting on performance, repairs and maintenance spend and strategic planning. We have a proactive relationship to identify issues early and put mechanisms in place to resolve them. Our tenant group have a clear objective to enhance the assets and further improve their rent cover. In addition, we are actively pursuing new investments with new tenants to dilute our single tenant group exposure, with appropriate due diligence to ensure the operating capability of these new tenants is strong and maintainable.

6 Under investment by tenants in the repair and maintenance of our assets

Probability: low	Impact: moderate to high	Mitigation
	The attractiveness of our portfolio is based on the quality of the operators, measured by their regulatory and financial performance, and our properties' ability to provide effective space from which our tenants can operate. This does not require our assets to be new but it does require them to be well maintained and fit for purpose.	We work very closely with our tenants to identify opportunities to improve and enhance the portfolio and where appropriate agree to fund these improvements, in return for an increase in rent. The benefit of operating a portfolio reduces our exposure to changes in individual properties. In addition, all of our leases with tenants have full repair and maintenance obligations, with the additional clarity of a minimum spend per annum per bed, which tenants are required to report against and we actively monitor.

7 Cost overruns on development activity

Probability: moderate	Impact: low to moderate	Mitigation
	We actively work with our tenants to identify opportunities to enhance and improve our assets, in return for an increase in rent. This includes material refurbishment to existing buildings or new developments on our land. Development contracts have inherent risks in relation to cost and quality management that can result in cost overruns and delays.	Our tenants are directly responsible for any improvements under a licence to vary of the lease, and are required to manage developments in a safe and efficient manner. We factor in a material contingency balance into our investment strategy and ensure that the investment remains attractive and affordable to our tenant at this higher level of funding. In the event there are material delays and increases in costs above these assumed levels, these are our tenants' responsibility to fund.

Principal risks and uncertainties

Financing

8 Ability to secure financing

Probability: low	Impact: moderate	Mitigation
	We expect to borrow to fund our investment activities, which may expose us to interest rate risk (if left unhedged) and additional losses if the value of our investments fall. We may be required to grant security in respect of any borrowings. This security may be over particular properties or over the portfolio as a whole, and will rank ahead of shareholders' entitlements. This means that if the Group were wound up, shareholders might not recover their initial investment. If debt is not available on acceptable terms, we may be unable to progress investment opportunities as they arise or continue to grow in line with our strategy.	While securing debt financing is part of our growth strategy, it is not required for operational financing or to deliver a fully covered dividend to existing shareholders, on the current investment portfolio. As such, the board does not need to pursue debt financing if it cannot be secured on accretive terms to shareholders. We intend to cap future borrowings at 35% LTV, to ensure debt levels are manageable across the business, and we have established a clear hedging policy to mitigate any risk from interest rate fluctuations.

Corporate risk

9 Reliance on the Investment Adviser

Probability: low	Impact: high	Mitigation
	As an externally managed Company, we rely on the Investment Adviser's services and reputation to execute our strategy and support our day-to-day relationships. As a result, our performance will depend to some extent on the Investment Adviser's ability and the retention of its key staff.	We have an Investment Advisory Agreement with the Investment Adviser, which sets out the basis on which the Investment Adviser provides services to us, the restrictions it must operate within and certain additional rights we have, such as a right of pre-emption for investment opportunities. The Agreement may be terminated by 12 months' notice, which cannot be served before the fourth anniversary of Admission, except in certain circumstances such as a material breach, when it can be terminated immediately. The Management Engagement Committee's role and responsibilities include reviewing the Investment Adviser's performance. The board as a whole remains actively engaged with the Investment Adviser, to ensure a positive and collaborative working relationship.
	There is a risk of potential conflicts with the Investment Adviser and its tenant for the Seed Portfolio.	The board has put in a number of controls to mitigate this risk.

Taxation risk

10 Change to the Company's REIT status

Probability: low	Impact: high	Mitigation
	We are a UK REIT and have a tax-efficient corporate structure. Any change to our tax status or in UK tax legislation could affect our ability to achieve our investment objectives and provide favourable returns to shareholders. If the Company fails to remain a REIT, our primary profits and gains will be subject to UK corporation tax.	The board is ultimately responsible for ensuring we adhere to the UK REIT Regime. The board has engaged a third-party tax adviser to help monitor our REIT status and ensure our investment and shareholding structure do not put this status at risk.
	Should there be a change of control within three years of the Seed Portfolio acquisition, there could be a £7.5 million SDLT liability.	The REIT structure discourages ownership of more than 10% in a single entity and the Company is monitoring its shareholder register.

Going concern and viability statements

Going Concern Statement

This Strategic report describes the Company's and Group's financial position. Our principal risks are set out on pages 22-24 and note 15 to the financial statements on page 84 also provides details of the Group's exposure to liquidity and credit risk. The Group currently has no debt in place and a Group LTV cap of 35%.

The Group also benefits from a secure income stream from leases with long average unexpired terms. The Group's cash balance as at 31 December 2017 was £38.4 million, of which £7.9 million was committed to capital improvement projects and subsequent to the year end, £17.0 million was committed to acquisitions.

As a result, the directors believe that the Group is well placed to manage its business risks.

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

Assessment of viability

The period over which the directors consider it feasible and appropriate to report on the Group's viability is the three year period to 31 March 2021. This period has been selected because of the various strategic and growth options open to the business at this early stage. It is expected that the period will extend to a five year model in the future, but it is felt that the business will be under constant review while the initial growth strategy is implemented and any longer projections will be less accurate and no more informative in assessing the viability of the business.

The assumptions underpinning these cash flow forecasts were reviewed against the Group's underlying income to explore the resilience of the Group to the potential impact of the Group's significant risks, or a combination of those risks.

The principal risks table on pages 22-24 summarises those matters that could prevent the Group from delivering on its strategy and is derived from our robust assessment of the principal risks to our business model, future performance, liquidity and solvency, as described in Accountability on pages 46-48. A number of these principal risks, because of their nature or potential impact, could also threaten the Group's ability to continue in business in its current form if they were to occur.

The directors paid particular attention to: a weakening investment and financing market, rising operational costs, and a tenant default as a result of poor operational performance. Based on this assessment, and on the assumption that there are no significant changes to regulatory policies or levels of funding by local authorities, the directors have developed their reasonable expectations that none of these risks would compromise the Group's viability, either on their own or in combination. The remaining principal risks, whilst having an impact on the Group's business model, are not considered by the directors to have a reasonable likelihood of impacting the Group's viability over the next three years to 31 March 2021.

The analysis performed was designed to take full account of the availability of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks. The material financial mitigation while undertaking these measures is to restrict or refrain from paying dividends.

Viability Statement

Having considered the forecast cash flows and the impact of the main financial risks, the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period ending 31 March 2021.

Diamond House

When Minster first purchased Diamond House, it was a loss making home with low occupancy, struggling with compliance due to a poorly maintained building and poorly trained, unmotivated staff. The decision was made to close the home and undertake a comprehensive refurbishment programme, which added an extension but reduced the number of operational beds from 57 to 44 but with much improved bed spaces. A new manager and staff team were then recruited.

Such has been the scale of the turnaround, that Diamond House now has an Outstanding rating from the CQC and Won Care Home of the Year for Leicestershire, at the Carer of the Year Awards 2017.

Discussing the approach to care at Diamond House, manager Julie Wilkinson says, “The most important thing to residents is that they feel safe. We listen to them and take on board what they want, their interests and their history. Seeing residents happy is the most rewarding thing.”

Diamond House is now consistently full and since receiving the Outstanding rating, trading performance has continued to improve. Demand for places is such that we and the tenant are considering an extension to the home, which will further enhance rent cover and its capital value.

Key facts	
Beds	**44**
Location	**Leicester, Leicestershire**
Tenant	**Minster Care**
Net purchase price	**£2.69 million**
% of portfolio income	**1.72%**

Julie Wilkinson, Manager (above left)

Key performance indicators

The Group uses the following measures to assess its strategic progress.

KPI and definition	Relevance to strategy	Performance	Result
1 EPRA Net Asset Total Return (NATR) The change in the EPRA net asset value over the period plus dividends paid.	Our NATR demonstrates our ability to add value for our shareholders, by growing our portfolio value and distributed earnings.	7.19% as at 31 December 2017	Positive growth in NATR.
2 Dividend Dividends paid to shareholders and declared in relation to the period. Our objective is to pay a 6p dividend for the first 12 months from IPO.	The dividend reflects our ability to generate a secure and growing income stream from our portfolio.	4.5p/share for the period to 31 December 2017	**Met** We are on target to deliver our commitment for the first 12 months. We have a clear objective to achieve a fully covered dividend in 2018.
3 EPRA NAV per share The value of our assets (based on an independent valuation of the property portfolio) less the book value of our liabilities, attributable to shareholders and calculated in accordance with EPRA guidelines.	By working with our tenants, we expect to grow our NAV, and hence our NATR, through a combination of improved performance and value-add capital investment.	100.65p/share at 31 December 2017	**Met** Positive growth in NAV.
4 Loan to value (LTV) The proportion of our gross asset value that is funded by borrowings.	We have a conservative gearing policy, with borrowings as a percentage of Group assets limited to 35% at the time of drawdown	0.0% at 31 December 2017	**Met** Gearing opportunities are being explored and are being timed to align with investment opportunities and to remain within the investment parameters.
5 Adjusted earnings per share Reflects the sustainable earnings per share achievable by the Company, including rent paid and rent receivable from capital improvements, and adjusts for all other earnings not supported by cash flows.	We intend to deliver a sustainable and growing dividend which is fully covered by the underlying sustainable earnings of the business.	4.39p/share for the period to 31 December 2017	**Partially met** The additional equity raised in November was not fully invested in the period, resulting in an element of cash drag. Excluding the additional equity raise, earnings per share were 4.54p, delivering against our commitment on the initial equity and Seed Portfolio returns. We have a clear objective to achieve a fully covered dividend in 2018.

KPI and definition	Relevance to strategy	Performance	Result
6 Total expense ratio (TER)			
The ratio of total administration costs expressed as a percentage of average net asset value throughout the period.	The TER is a key measure of our operational efficiency and keeping costs low supports our ability to pay a growing dividend.	1.43% for the period to 31 December 2017	**Met** Our TER is expected to reduce as the Company grows, but is in line with the 1.4% estimate set out in the IPO prospectus.
7 Diversified portfolio			
Largest single asset as a percentage of the most recent valuation for the property portfolio.	We manage risk by ensuring no single asset exceeds 15% of the Group's total property valuation.	7.49% at 31 December 2017	**Met** Freeland House is the largest single asset, at £11.7m.
8 Diversified customer base			
Revenue from our tenants' largest single customer as a percentage of the total tenant revenue.	We manage risk by ensuring that no single customer who is paying for care accounts for more than 15% of the aggregated revenue of the Group's tenants.	8.20% for the period to 31 December 2017	**Met** Wigan Borough Council is the largest single customer in the underlying portfolio.
9 Weighted average unexpired lease term			
The average unexpired lease term of the property portfolio, weighted by annual passing rents.	The WAULT is a key measure of the secure nature of our portfolio. Long lease terms underpin the quality of our income stream and hence our dividends.	19.2 years for the period to 31 December 2017	We set a minimum lease term of 20 years on any new leases established as part of a sale and leaseback acquisition.

EPRA performance measures

The table below shows additional performance measures, calculated in accordance with the Best Practices Recommendations of the European Public Real Estate Association (EPRA). We provide these measures to aid comparison with other European real estate businesses.

For a full reconciliation of all EPRA performance measures, please see Notes to the EPRA performance measures, page 96.

KPI and definition	Purpose	Performance
1. EPRA Earnings per share Earnings from operational activities.	A key measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.	£7.08m/4.35p per share for the period to 31 December 2017
2. EPRA NAV per share Net asset value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business.	Makes adjustments to IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company with a long term investment strategy.	£193.45m/100.65p as at 31 December 2017 (No adjustment to IFRS NAV)
3 EPRA Triple Net Asset Value (NNNAV) EPRA NAV adjusted to include the fair values of: (i) financial instruments; (ii) debt and; (iii) deferred taxes.	Makes adjustments to EPRA NAV to provide stakeholders with the most relevant information on the current fair value of all the assets and liabilities within a real estate company.	£193.45m/100.65p as at 31 December 2017 (No adjustment to IFRS NAV)
4.1 EPRA Net Initial Yield (NIY) Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.	This measure should make it easier for investors to judge for themselves how the valuation of one portfolio compares with another portfolio.	7.02% as at 31 December 2017
4.2 EPRA 'Topped-Up' NIY This measure adjusts the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives, such as discounted rent periods and step rents).	This measure should make it easier for investors to judge for themselves how the valuation of one portfolio compares with another portfolio.	7.02% at 31 December 2017
5. EPRA vacancy rate Estimated market rental value (ERV) of vacant space divided by the ERV of the whole portfolio.	A "pure" (%) measure of investment property space that is vacant, based on ERV.	0.00% as at 31 December 2017
6. EPRA cost ratio Administrative and operating costs (including and excluding costs of direct vacancy) divided by gross rental income.	A key measure, to enable meaningful measurement of the changes in a company's operating costs.	24.68% for the period to 31 December 2017

Board approval of the Strategic report

The Strategic report was approved on behalf of the board by:

Rupert Barclay Chairman
21 March 2018