Task Force on Climate Related Financial Disclosures 2022

Overview

Through the 2015 Paris Agreement, world governments have committed to keeping the global temperature rise to well below 2°C above pre-industrial levels and are working to limit warming to 1.5°C. In the UK, the Government aims to reduce emissions by 78% by 2035 and achieve net zero by 2050. It has made net zero part of UK law, providing opportunities to introduce further legislation and regulations to promote change.

Climate change and the laws and regulations needed to mitigate it create both risks and opportunities for our business. During 2022, the Board oversaw the Investment Manager's work in this area. This included developing an initial analysis of our portfolio, defining the actions we need to take to decarbonise the portfolio over time and increasing our focus on physical risks during acquisitions and portfolio management.

Being accountable for and transparent about how we assess and manage climate-related risks and opportunities is important for maintaining our stakeholder relationships. We're therefore reporting against the Taskforce on Climate-Related Financial Disclosures (TCFD) recommendations for the first time this year. As an investment company, we're not currently required to report against TCFD, but we believe doing so helps our stakeholders to understand the possible effect of climate change on our business.

We'll continue to refine our assessment of climate change risks and opportunities and embed climate change risk management in our day-to-day operations and acquisitions.

Our Consideration of Climate Change

Towards the end of 2021, the Board asked the Investment Manager to develop a sustainability strategy which was approved by the board in March 2023.

The Investment Manager set up an ESG working group, with members from its asset management and finance functions. The working group met regularly with external advisers during 2022, to:

- understand the potential consequences of climate change;
- review and discuss the portfolio analysis and the options for decarbonising the business;
- work through scenarios; and
- consider the associated risks and opportunities.

The working group also analysed how this work would match the expectations of the TCFD framework.

The Investment Manager's leadership team has been engaged throughout the process and the Board had two sessions during the year to review and discuss the analysis and to consider wider sustainability issues our proposals for a net zero carbon transition plan.

Climate Change Scenario Planning

To improve our understanding of climate change risks and opportunities, we've considered the recommended 1.5-2 degrees warming scenario, based on the Intergovernmental Panel on Climate Change's (IPCC) defined Representative Concentration Pathway ('RCP') 2.6 (1.5-2 degrees), as well as the IPCC's RCP 4.5 (2-3.5 degrees) and RCP 8.5 (4 degrees). RCP 2.6 takes into account actions to keep warming to 1.5-2 degrees, while RCP 8.5 sets out the worst-case warming scenario. We also included IPCC's 4.5 pathway, as this is generally considered the middle-of-the-road option.

To align with our business strategy, we've defined a short-term timeframe as one to three years, medium term as five to ten years (aligned to our business plan), and a long-term timeframe as up to 25 years.

Governance

Our Board is made up of Non-Executive Directors, who set our risk appetite and oversee the Investment Manager, which is responsible for the day-to-day management of the business, risk management and strategy. The Board and the Investment Manager both recognise the importance of climate action and what it means for our ongoing sustainability and success. Through the Investment Management Agreement, the Investment Manager is accountable to the Board and reports regularly to the Board and Committees. The Investment Manager's Finance Director is responsible for reporting to the Board on sustainability, including how we're mitigating climate change and the actions we're taking to adapt to it, and the progress we're making with our evolving sustainability strategy.

To supplement the ESG working group, the Investment Manager intends to set up its own formal ESG Committee, with appropriate terms of reference. This Committee will be chaired by the Investment Manager's Finance Director and will meet quarterly.

Strategy

Impact's ESG strategy has three key pillars. These are to:

- have a positive impact on the lives of people living and working in our care homes;
- strategically invest in our portfolio, to mitigate environmental impacts; and
- report clearly and transparently to all our stakeholders.

When we're making strategic investments in our portfolio to mitigate environmental impacts, we look to:

- fully integrate environmental factors into our investment decisions and portfolio management;
- develop a credible and deliverable net zero carbon strategy, which we'll disclose and regularly report on; and
- measure and manage our portfolio's resilience to climate change.

Risk Management

The Investment Manager has a Risk Committee which assesses and reviews our risk register every quarter and reports to the Audit Committee. The Board and Audit Committee discuss and consider the principal risks twice a year. Environmental regulation has been a principal risk for us since 2019 and we changed our assessment of environmental regulation and the impact of climate change in September 2022 from Probability: Medium, Impact: Low to Probability: High, Impact: Medium. The Board agreed with this decision, reflecting our need to start acting now to reduce our risks over the longer term (25 years).

As part of our acquisition due diligence, we've used specialist consultants to assess environmental performance on all acquisitions since 2020. We'll continue to factor in climate change risks and opportunities, including a broader consideration of physical risks and the decarbonisation pathway, in line with our net zero carbon strategy.

Metrics

We've disclosed our energy consumption data since 2019, in line with the EPRA Best Practice Sustainability Requirements. Our Scope 1 and 2 emissions are minimal, and our reported emissions relate to energy that our tenants buy and use, which fall under Scope 3. In this report, we're including our GHG emissions for the 12 months from October 2021 to 30 September 2022, to provide the latest information possible.

We've been modelling our portfolio as part of our net zero strategy planning and have discussed our progress in this report. Our net zero strategy takes into account projections of our future carbon emissions and decarbonisation pathways, based on the size of our current portfolio and assumptions about how it will grow.

TCFD's Recommended Disclosures

Disclosure	Commentary
Describe the Board's oversight of climate-related risks and opportunities	The Board sets our risk appetite and oversees our risk management, which the Investment Manager carries out on our behalf, as our Alternative Investment Fund Manager (AIFM) registered with the FCA. This risk framework includes climate change and sustainability related matters. Twice a year, the Board and the Investment Manager review our principal risks and consider emerging risks. Climate change has been a principal risk for us since 2019. Following the Board strategy day in October 2021, the Board asked the Investment Manager to develop a sustainability strategy and carry out the analysis needed to propose a net zero strategy in 2022which was considered and approved by the board in February 2023. The Board has delegated responsibility to the Audit Committee for monitoring compliance with our internal financial controls, reviewing our risk management framework, reviewing external reporting related to risks and internal controls, and reviewing our processes and controls to ensure our ESG disclosures are accurate, comparable and consistent.

	This is the first year that we've formally reported our climate risks and opportunities using the TCFD framework. The ESG working group, established in 2021 and responsible for leading the process, presented to the Board on progress and options in May and December 2022. The Board approved the strategy in February 2023.
Describe the management's role in assessing and managing climate - related risks and opportunities	As an externally-managed REIT, the Investment Manager performs portfolio and risk management functions on our behalf. This includes monitoring our systems and controls to manage risk, due diligence, screening potential acquisitions and ongoing management of our assets. The ESG working group assessed our climate-related risks and opportunities during the year and these are now being embedded in our day-to-day operations. These include: • assessing transitional and physical climate related risks for potential acquisitions; • Developing a net zero carbon transition plan which sets a framework, methodology and metrics and targets for the reduction in operational carbon to net zero carbon status by 2045. The plan has been developed using the globally recognised CRREM toolkit. • updating and reviewing the EPC ratings of our assets; • identifying opportunities to improve energy efficiency through asset management; • obtaining energy consumption data and reporting on GHG emissions; and • engaging with our tenants to raise the profile of environmental issues and objectives, and identify areas of mutual benefit. <u>Scenario planning</u> To improve our understanding of physical and transitional climate risks, we've mapped 20 of our properties against the IPCC's 2.6, 4.5 and 8.5 emissions pathways. We selected these properties to provide a representative cross section of the portfolio, ensuring we had a good spread: • across different tenants; • across Northern Ireland, Scotland, England and Wales; and • of different ages of properties. The scenario analysis was based upon the IPCC climate scenarios of 2.6 (1.5^{o} warming) and 4.5 (2.2^{o} warming). The outcome was that over time the main climate related physical risk was sea level increases affecting coastal areas and areas of heat stress. These risks

	were classed as medium under scenario 2.6 and high under 4.5 (particularly in south east and south west coastal locations) with the risk increasing more significant from the year 2080 onwards. This analysis will help inform our ongoing due diligence and risk management of existing and future assets which may be more subject to these climate related physical risks.
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	We've assessed our climate-related risks and opportunities, and identified and reviewed a range of physical and transitional risks which could affect our strategy. The assessment also covered potential opportunities arising from climate change. We grouped the risks and opportunities as follows: • Transition risks arise from the shift to a lower-carbon economy and may involve policy, legal, fiscal, market and regulatory compliance. • Physical risks arise from climate-related events or longer-term changes in weather patterns, which could damage our assets or affect our tenants' ability to use them. In line with the TCFD methodology, we grouped the risks and opportunities into five subcategories: Market, Reputation, Policy & Legal, Chronic and Acute. We then recorded the risks and opportunities on a register and ranked them by how likely they were to occur and their potential impact on our strategy. We assessed the risks and opportunities over short (one to three years), medium (five to ten years) and long-term (up to 25 years) timeframes. The risks and opportunities are summarised in table [XX}
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning	As a real estate investor rather than a care home operator, many of the effects of climate change are outside our direct control. At the same time, we recognise that we and our business partners can only mitigate climate change risks and maximise any opportunities through close collaboration. We're therefore developing an ongoing stakeholder engagement plan, so we can understand the challenges and find appropriate solutions. Our net zero transition plan includes a granular assessment of the energy performance of each home in our portfolio. Through a combination of analysing the EPC ratings across our portfolio and our net zero planning, we're now prioritising properties which require action to reduce their carbon emissions and improve their energy efficiency. When we're looking to acquire assets, we

	commission specialist reports on their environmental performance and climate change considerations. We also inform our decision-making by modelling the capex required to improve their energy efficiency, in line with our net zero carbon strategy.
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2C or lower scenario	Having mapped our risks and opportunities under the IPCC's 2.6, 4.5 and 8.5 warming scenarios, and considered their likelihood, the mitigations we can put in place and the potential outcomes, we consider that our strategy is resilient to physical risk. We're incorporating short-term considerations into our planning and we'll continue to assess the longer-term physical risks linked to the locations of our care homes. Environmental regulation and the impact of climate change is already a principal risk for the Group. Following a Board review in September 2022 and our net zero planning, we've changed our assessment from Probability: Medium, Impact: Low to Probability: High, Impact: Medium.
Describe the organisation's processes for identifying and assessing and managing climate-related risks	As part of the scenarios we modelled for our portfolio, we considered potential physical risks including heatwaves, water stress/drought, rainfall, flooding, wildfires and sea level rises, for a representative sample size of 20 care homes. In terms of transition risks, we've reviewed legislative and policy changes (such as MEES and carbon taxation), as well as reporting requirements (TCFD, net zero) and other related risks, such as permanently higher utility costs, higher insurance costs and protracted planning processes. We also considered climate-related reputational risks. We continue to monitor transition risks, including potential environmental taxes, anticipated legislation (MEES) and reputational risk, and plan to mitigate these risks by implementing our net zero carbon strategy.
Describe the organisation's processes for managing climate-related risks	Our processes for managing climate-related risks are embedded in our operations and procedures. In particular: - we communicate regularly with our tenants on their energy use and costs, and actions to reduce them; - climate-related considerations are core to our new acquisition and asset management due diligence process; - we've put green leases in place, to ensure we and our tenants have common goals for energy efficiency and that we're capturing data to improve energy performance; - we have a targeted capex programme to improve energy efficiency, add renewable energy generation where possible

	and reduce operating costs, to mitigate transitional and regulatory risk; and - regularly reviewing our physical risk climate scenarios to understand is risks have materially changed - for any assets considered at greater risk developing a resilience plan for example flood risk management plan. - we've developed a well-considered net zero strategy, to inform our medium to long-term decarbonisation strategy.
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	We will continue to update and review our climate physical risk scenario planning to understand if any risks have materially changed. We will continue to assess the regularty landscape and potential new regulations, taxes or other requirements. Our Development Director sits on the British Property Federation Sustainability Committee and therefore has access and insight to current industry thinking and lobbying on climate related matters. The ESG working group's findings feed into the Investment Manager's risk assurance process via the Investment Manager's proposed ESG Committee. The Investment Manager's Risk Committee assesses and reviews our risk register every quarter and reports to the Audit Committee. The Board considers our prioritised risks twice a year. We've already identified climate change as a principal risk in our risk register. It's therefore subject to assurance mapping each year and we scrutinise the three levels of controls in place (the Investment Manager's ESG and Risk Committees and the Audit Committee) and agree risk ratings before and after taking account of our controls. The Audit Committee considers the findings of this assurance in March and October and the Board discusses and approves the conclusions.
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management processes	We disclose our GHG emissions and energy consumption each year through our EPRA Sustainability Best Practice reporting. The emissions we report are mainly Scope 3 and are aligned to the Greenhouse Gas Protocol Corporate Standard and DEFRA Environmental Reporting Guidelines. We report Scope 3 emissions in our Annual Report and we're referencing energy consumption for a new time period, from January to December 2022.

Describe Scope 1, Scope 2 and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	We report our Scope 1 and 2 emissions in our EPRA Sustainable Best Practice Report https://www.impactreit.uk/about/sustainability/ The majority of our Scope 3 emissions come from energy our tenants buy and use. The related risk is that these Scope 3 emissions are beyond our direct control. However, we're mitigating this risk through the actions described in the section above: *processes for managing climate-related risks.*
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	We use several KPIs to understand and manage climate-related risks. We assess these when considering acquisitions or asset management projects and as part of our ongoing portfolio management, in particular in relation to our net zero carbon strategy. EPC Ratings Energy Intensity per bed (KWh per bed) GHG Emissions Intensity (Co2e per bed) Capex deployed on sustainability improvements. (£pa) [Interim Net Zero targets] Proportion of leases with 'Green' obligations Net Zero Carbon Transition plan interim targets

TRANSITION				
Risk Type	Description	Timescale	Impact	Mitigation
Legal	Higher regulatory standards for energy performance (MEES)	Short to medium Term	Potential loss of value for assets not meeting expected future standards. Assets may become ‘stranded’ by evolving environmental legislation.	We’ve assessed our assets for their current and expected regulatory compliance. Our leases require our tenants to ensure the buildings comply with legislation
Policy	Carbon taxation	Medium term	Additional taxation liability for the Group	Our net zero carbon strategy has identified the current emissions and the pathway to reduce them over time
Market	Investors and markets’ increasing awareness of environmental performance	Medium term	Reduced pool of capital available	Our net zero carbon strategy has identified the current emissions and the pathway to reduce them over time. Investing in existing assets is far more sustainable than new build
Reputation	Investors, tenants and commissioners may have increasing expectations of real estate owners for environmental issues	Medium term	Reduced number of potential partners for the Group to work with.	We disclose our environmental strategy and targets, to give comfort that we’re committed to improving environmental standards
PHYSICAL				
Risk Type	Description	Timescale	Impact	Mitigation
Extreme weather	Weather events cause disruption (e.g. flooding)	Short to long term	Risk to life of our tenants’ residents Loss of revenue and disruption to operations.	We’ve enhanced our due diligence on flood risk for acquisitions, carried out scenario planning for the existing portfolio, and have a capital investment strategy to improve resilience
Extreme weather	Water stress and heatwaves	Medium to long term	Environment within assets is detrimental for wellbeing of residents and staff. Additional capex required to retrofit cooling	Our net zero carbon strategy includes assumptions on additional cooling requirements for existing assets

OPPPORTUNITIES			
Capital	New sources of capital	Short to medium term	Having a credible net zero carbon strategy and investing in existing assets (as opposed to carbon-intensive new builds) may give us access to new capital and improved terms (sustainability linked finance)
Technological	New and more environmentally efficient technology comes on stream	Medium to long term	Technological advances may enable more efficient heating and cooling systems and renewable energy, resulting in lower running costs for our tenants
Market	Commissioners and customer demand for more energy efficient homes	Medium	As awareness of sustainability grows homes which are low carbon may become in greater demand.