edentree | investment management

INSIGHT

Investing Responsibly in Care

FOREWORD

> "Population ageing is poised to become one of the most significant social transformations of the twenty-first century, with implications for all sectors of society."
>
> **United Nations, 2022**

By Julie McDowell, Chair Blackwood Homes & Care and EdenTree Responsible Investment Advisory Panel Member

Responsible investors have for a long time sought to examine and address a broad range of social issues in their investment analysis and decision making. This has included a focus on labour standards, safety, human rights and diversity. However, this Insight by EdenTree breaks new ground in beginning to look at a framework for responsible investors to evaluate companies providing care services in response to the needs of a rapidly growing ageing population.

Demand for care services is already stretched and will increase as the proportion of older people in the population increases. People aged 65 and over are expected to make up 24% of the UK population by 2043. The proportion of the population aged 75 and over is projected to rise from 8% in 2018 to 13% in 2043, while the proportion aged 85 and over is projected to rise from 2% to 4%.[1] Demand for care services is not driven exclusively by an ageing population. The evidence shows that people are living an ever-larger proportion of their lives with disability and ill health, a trend which contributes to the demand for care. Not only do we need to do better to meet current requirements – we must plan ahead to meet future demand as it increases.

I welcome the focus that EdenTree is bringing to the role investors can play in these challenges by supporting companies that truly deliver quality care and engaging those falling short in relation to best practice. The sector is attractive to investors looking for long term, stable returns, but as EdenTree points out, there are risks from a human rights perspective to both residents and care staff. The Insight looks at the due diligence required for responsible investors to ensure the highest standards are maintained when dealing with vulnerable people and those working in the sector.

All of us are likely to experience the need for care, either in our own lives or those of our families, friends and communities. We would all want the delivery of that care to be based on the objective of supporting people to live their lives to the full as they age rather than simply providing essential utilitarian maintenance functions. Along with initiatives to train, develop and motivate the care workforce, there are exciting developments in innovative, holistic approaches to supporting people as they age. At Blackwood we incorporate specialist housing, neighbourhood co-design and technology applications to provide environments that enable independent living. But much more investment is required to turn these concepts into a reality that will meet current and future demands.

I applaud EdenTree for its initiative in looking at care providers and analysing the issues for responsible investment in the sector. I look forward to further work by responsible investors to highlight the need for better models of care and to increase their investment in companies that provide high quality standards in housing, services and products that support people as they age.

[1] House of Commons Briefing Paper No 09239, 3 June 2021, Housing an ageing population: a reading list.

SCOPE

Social care provision is devolved to the four nations of the United Kingdom; aggregated data applicable to the whole of the UK is not easily available. For the most part this Insight refers to England & Wales or just England, except where United Kingdom statistics are readily available.

INTRODUCTION

The COVID-19 pandemic threw into relief perhaps as never before the vulnerability of the UK care sector with higher-than-average excess deaths when compared to wider society. For the period March 2020 up to January 2022, there were 274,063 deaths of care home residents (in England & Wales) and of these 16.7% or over 45,000 were directly COVID-19 related.[2]

At the same time, the demand for care given an ageing population is ever increasing, whilst funding adequate social care provision continues to exercise and challenge public policy. Private sector provision remains attractive to investors but raises ethical challenges for responsible investors, given the often-acute vulnerability of those entrusted to its care.

In this Insight we aim to explore some of the drivers for the sector and how as responsible investors we seek only to invest in the highest quality care provision: what does good look like in the context of social care? How do we know that an investment will have the highest welfare and care quality standards at its heart? How can we avoid the pitfall of potentially investing where care quality declines? These and other questions we hope to address over the course of this Insight.

A SHORT HISTORY OF CARE

Care has been at the heart of the human experience since the earliest time – both within and without the family unit. The first documented care home was an alms house in York dating from before the Norman Conquest under the benevolence of King Athelstan (AD 924-939). Alms is an Anglo-Saxon word meaning to give to others through virtue and compassion – the touchstone of all responsible care.

Alms often provided by the monasteries or hospitallers was codified in 1601 when under the Elizabethan Poor Law parishes were required to provide relief, supplanting the care previously provided by the monasteries following the Dissolution of the 1530s. Care in the modern sense (passing over the Victorian New Poor Law of 1834 that created the bleak system of workhouses), dates from post 1945 reforms such as the National Assistance Act of 1948 which swept away the final vestiges of the Victorian Poor Law and made local authorities responsible for providing care, and who remained the principal agents of care until more recent reform in the 1980s. Privatisation and market liberalisation allowed private operators into the care sector for the first time – and these were first regulated from 1984.

[2] ONS Deaths involving COVID-19 in the care sector, England and Wales - Office for National Statistics (ons.gov.uk)

THE CARE MARKET
DEFINITIONS AND DEMOGRAPHICS

"It was not until the 1948 National Assistance Act that the last vestiges of the Poor Law and the workhouses disappeared or were supposed to. Many buildings continued in use as old people's homes administered by local authorities. As late as 1960, more than 50% of local authority accommodation for the elderly was in former workhouses."

British Geriatrics Society

At various times in people's lives there may be the need for professional care. However, the sector definition is fairly broad encompassing residential, nursing, respite, palliative, mobile 'at home' care and specialist care, for instance for children or young people. Elderly care, on which this Insight is largely focused, can be further broken down into residential care homes, nursing care, retirement villages, day care centres, and specialist mental health care.

The demographic caught by elderly care provision is growing; there are approximately 11 million people aged 65 and over in England representing 19% of the population. With the ageing of the 'Boomer' generation, this will grow to over 13 million or 22% in just ten years.[3] Two factors are driving the need for care in this segment; higher life expectancy coupled with people living longer in poorer health. Life expectancy has broadly increased since the 19th century with improvements in health care, living standards and medical intervention curing previously fatal conditions such as tuberculosis. Today in England life expectancy (which may have peaked) is 79.8 years for a male and 83.4 years for a woman – compare this to 40.2 and 42.3 years respectively in 1841![4]

However, despite medical advances that have helped to extend life expectancy, overall, the number of years people can expect to enjoy 'good health' has fallen; lives lived without a disabling condition have reduced to 62.4 years for men and 60.9 for women, meaning that although longer lived, women may spend on average 22.5 years requiring some form of care owing to incapacity.[5] Many factors contribute to this trend; loneliness and increasing single person households; the proportion of privately rented housing by the over 55s; relative poverty and the savings gap that leave people of retirement age increasingly unable to fund a secure and comfortable old age (it is estimated that the UK has among the worst pension provision in Europe with pension providing just 58% of previous earnings).

The demand for care is directly influenced by a combination of some or all these circumstances. The conclusion of most academic literature is that the UK is becoming a harder place in which to grow old. For instance, in the most deprived wards, people can now expect to live for more than 17 years with chronic health conditions, with fewer than 10% of men reaching pension age in 'good health'.[6] Research inevitably draws a causal link between ill health, wealth, deprivation, and geographic inequality between the most affluent wards and the most deprived.

"[it is] shocking that so many people don't even make it to retirement age before the effects of ill health start to take a toll on their lives""

IPPR

[3] Centre for Ageing Better Summary | The State of Ageing 2022 | Centre for Ageing Better (ageing-better.org.uk)

[4] The King's Fund 'What is Happening to Life Expectancy in England What is happening to life expectancy in England? | The King's Fund (kingsfund.org.uk)

[5] Institute for Public Policy Research Just 9 per cent of men born today can expect to reach retirement age in good health, warn IPPR and Future Health | IPPR

[6] The Kings Fund ibid

THE CARE MARKET – **SECTOR TRAITS**

There are about 17,600 care homes across the UK – 70% are residential and 30% provide nursing care. Across the UK around 500,000 people access residential care – over 70% exhibit impaired memory or a dementia diagnosis[7].

Number of care homes in the UK

	UK	England	Wales	Scotland	Northern Ireland
Total	17,598	15,009	1,336	1,044	418
Residential care homes	12,471	10,905	776	547	181
Nursing homes	5,127	4,104	260	497	237

UK care home population

	UK	England (2020)	Wales (2020)	Scotland (2019)	Northern Ireland (2020)
Total	490,326	418,710	24,178	35,630	11,808

The care market is therefore dominated by residential care homes which offer short or long-term and palliative care to the elderly and young adults of up to 250 residents. This segment is dominated by private providers and is very fragmented. The nursing care sector offers 24 hour medical and nursing support for patients with acute conditions. The segment is smaller in number but is also dominated by private providers with generally up to 200 residents. Other care segments include retirement villages where bought apartments have serviced wardens but afford independent living. Well known providers include McCarthy & Stone and Churchill Retirement Living. Adult day care centres remediate isolation and loneliness by providing physical and mental exercise and social interaction and are most often run by the voluntary sector or local authorities. Finally, home care supports independent living via daily visits to assist in personal care, shopping, cleaning, or medical intervention. This sector is provided by local authorities but often contracted out to private contractors such as Mears.

Some of these options are increasingly harnessing technology such as 'telehealth' and 'telecare' to monitor patient needs remotely, remind patients to take prescribed medication and perform digital tests such as blood pressure etc. There are also specialist areas such as mental health care and hospices which are provided by a range of actors including the NHS, the voluntary sector such as Hospice Care and some private operators; these largely fall outside the scope of this Insight.

McCarthy & Stone
Retirement living to the full

Churchill
Retirement Living

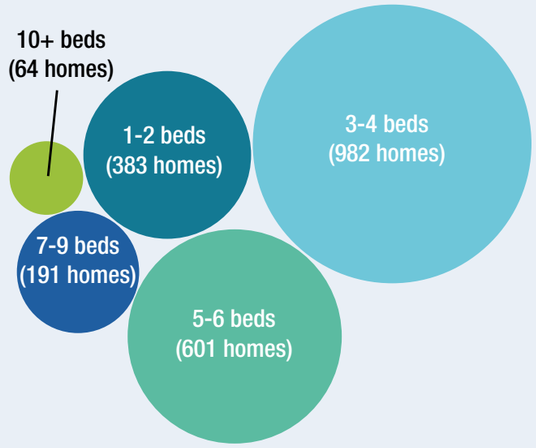
MEARS

[7] carehome.co.uk

SPECIALIST FOCUS – **YOUNG PEOPLE IN CARE**

NSPCC

Around 100,000 young people are in care in the UK at any one time, with around 35,000 children entering the care system annually. The majority these days live with foster carers but 14% remain in secure or independent living care homes. The National Society for the Prevention of Cruelty to Children (NSPCC) suggests the majority of young people find themselves in the care system through abuse or neglect – however only a very small number require specialist intervention owing to behavioural issues. Data suggests children in care have poorer life chances, poorer mental health and do less well academically. The number of dedicated children's homes continue to decline however, with the for-profit sector rapidly supplanting local authorities as the primary operator of children's facilities in the care sector; a third of all UK local authorities no longer manage or operate care homes at all. Given their acute vulnerability, children appear to be generally well supported in the care system with 80% of all homes judged 'good' or 'outstanding' by the Office for Standards in Education (OFSTED), but with generally better outcomes in local authority care than in the private sector. Roughly 1,712 children's homes are operated within the private sector, 418 by local authorities and 163 by the voluntary sector. Compared to the elderly care segment, children's homes tend to be smaller with 982 homes having no more than 3-4 beds and just under 200 homes with 7-9 beds.



PROPOSED REFORM TO FUNDING SOCIAL CARE

The model for social care provision has changed considerably since the reforms of the 1980s. Around 84% of care home places in the UK are now in 'for-profit' homes and just 13% in the voluntary sector. As few as 3% of funded care home places are managed by local authorities.

Funding is means tested against an individual's assets with eligibility severely impacted by 'ability to pay'. In England this is set at £23,250 in savings (and £50,000 in Wales). Under recent changes, the local authority is obliged to provide choice and at least one 'affordable' option. Cost varies considerably depending on demand, staff availability and other local and regional factors. My Care Home, an advisory service, quotes between £600-1,200 per week for residential care, £800+ a week for nursing care, and as much as £44,000-56,000 per annum for 24-hour live-in care. Home care visits that afford independent living, can cost £17-30 per hour. Prior to proposed changes to social care funding, most options entail selling a family home; 50,000 people sell their home every year in England to pay for care.

Successive Governments have attempted root and branch reform but without succeeding to tackle the built-in challenges around funding and affordability. The Dilnot Commission on Funding of Care was set up by the Coalition Government in 2010, and its report set out a reform framework including fairer funding. Dilnot found that half of all over 65s will spend over £20,000 on care and 25% will spend £50,000. Whilst the NHS protects everyone through universal provision, there is no equivalent in social care. Dilnot thus recommended a cap of roughly £35,000 after which all costs would be met by the State. The cap of £23,250 in assets was recommended to rise to £100,000. Unfortunately, these core proposals were shelved, and only picked up by the Conservative Administration in 2021. Instead, the then Government legislated with The Care Act 2014, which promoted fairer and more personalised care including more choice and shifted the emphasis to achieving improved outcomes.

Current reforms laid before Parliament and passed as the Health & Care Act 2022 relating to England, recommends more choice, sustainable funding, and capped personal care costs at £86,000 over a lifetime. The means tested limit of £23,250 will thence rise to £100,000, above which full fees will have to be paid - but only up to the cap of £86,000. Local authorities will re-inherit their historic role of providing care but funded via long-term sustainable provision. Overall, this is intended to provide more equitable funding in order to prevent the sale of family homes to fund long-term care.

As part of his review, the Dilnot Commission identified four key problems that bedevil sustainable care:

- Public funding has not kept pace with demographic demands – the more it is delayed the worse the problem gets
- The market is not providing what is needed – this problem was addressed in The Care Act 2014
- The health and social care systems do not fit together as they should – this was particularly borne out during the COVID pandemic; joined up interaction between the NHS and follow on social care is generally absent
- Individuals face the possibility of unjust financial catastrophe – Dilnot addressed this head-on, but Government blinked and put off further funding reform until 2020.

It is still to be seen whether the patchwork of recent reform and legislation can finally solve the historic and long-term problems around supply, demand, and cost.

EDENTREE INSIGHT: INVESTING RESPONSIBLY IN CARE

"The cost of implementation would be £2bn per annum. Equivalent levels are spent on both the Winter Fuel Allowance and the Pensions Triple Lock…there is no need to spend more on older people, just to spend more wisely"

Andrew Dilmot, Chair of the Commission on Funding Social Care 2017

THE REGULATORY LANDSCAPE

The care sector is highly regulated as may be imagined; the key actors are the Care Quality Commission (CQC), the Health & Safety Executive (HSE), and the Professional Standards Authority for Health & Social Care (PSA).

The PSA is the umbrella organisation that regulates all of the various professional regulators in the health and social care markets. It assesses the performance of the various regulators against their Standards of Good Regulation. Its work is overseen by Parliament.

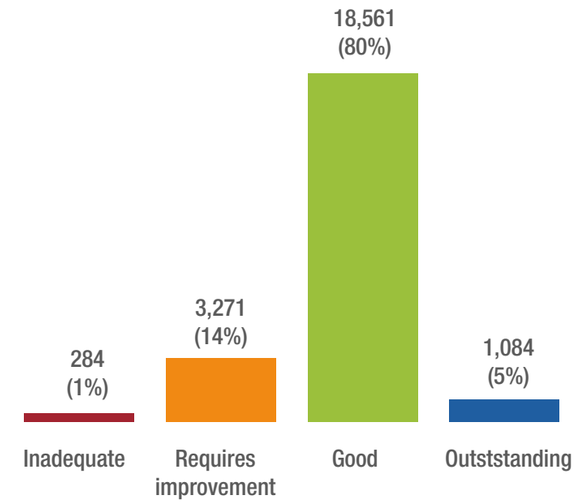
The CQC is the independent health and adult social care regulator in England. CQC ensures providers maintain high standards of safe, effective, compassionate and high quality care. Specifically as far as this insight is concerned CQC regulates care provided by care homes and home-care agencies.

The CQC defines the fundamental standards to be expected from care providers and publishes ratings ranging from 'outstanding' to 'inadequate' on every registered provider or care home. The CQC has the power to fine, prosecute, issue improvement orders, limit what they may provide or place a provider into 'special measures' with a timetable for improvement. The drivers for ratings consider whether an establishment is – Safe – Effective – Caring – Responsive and Well-Led.

The CQC publishes an annual 'State of Care' report based on its ratings and findings. The latest report for 2020-21 found that care staff are exhausted and depleted, and that 160,000 people were awaiting care reviews to determine the level of care they need.[8] COVID had made people in general more reluctant to access care home support, but this was balanced by a rising need for specialist services, especially around dementia and mental health. The CQC remarked that COVID has led to significant operational challenges in adult care and in care homes across the board. This is in part reflected in staff vacancy rates that rose from 6% in April 2021 to 10.2% by September. Care homes with nursing support have been particularly badly hit, with an uptick in registration cancellations brought on by an inability to recruit professional staff. More worryingly, and of importance to responsible investors, the CQC noted an increase in incidents of abuse, a cover up culture, poor management, and poor overall outcomes. Despite this, at July 2021, 80% of all adult social care was rated 'good' and 5% 'outstanding' by the CQC, with just 3% of all residential and nursing homes rated 'inadequate'; a further 20% require improvement.

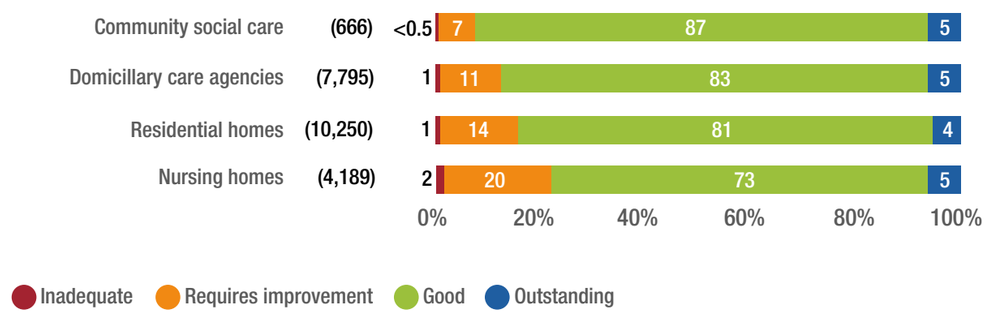
[8] CQC State of Care - Care Quality Commission (cqc.org.uk)

Adult social care, overall ratings, July 2021

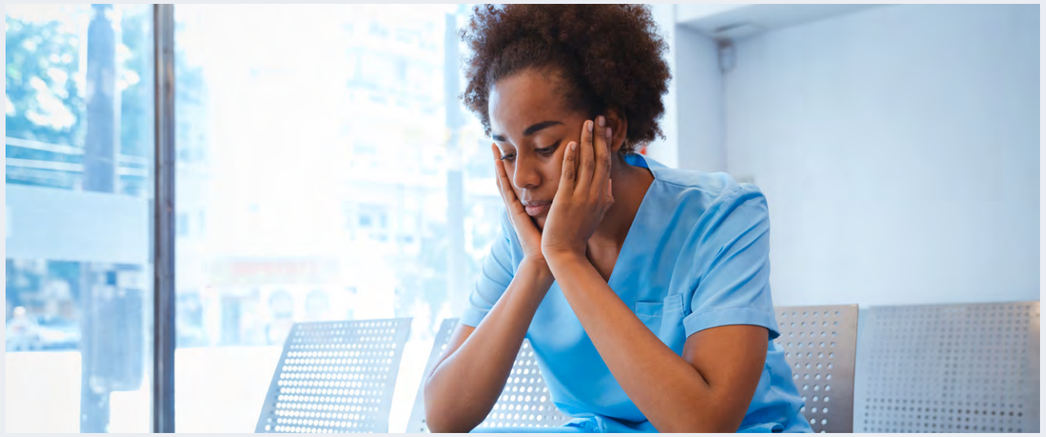


Source: CQC ratings data, 31 July 2021 Note: The 2021 ratings also included 10 'insufficient evidence to rate' overall ratings, which represented 0.04% of the total ratings (including 'insufficient evidence to rate').

Adult social care, overall ratings by service type, July 2021



Source: CQC rating data, 31 July 2021. Note: percantage may not add to 100 due to rounding. The 2021 ratings also included 2 insufficient evidence to rate' overall ratings for nursing home, which represented 0.05% of the total ratings (including insufficient evidence to rate'). Numbers in brackets denotes the number of rated locations as at July 2021.



WHAT HAS GONE WRONG?

COVID-19's devastating impact on care homes exposed the fragile state that the care sector is in: On average 46% of COVID-19 deaths were care home residents, despite making up only 1% of the population.[9] However, the endemic issues in the sector that allowed for this crisis are by no means new. For a long time, the care sector has been plagued with serious social issues. Underfunding, understaffing, health and safety concerns, poor working conditions and declining quality of care are all too common today.

Among these issues, the pandemic shone a spotlight on the crucial link between working conditions and quality of care. Poor working conditions in particular have been found to limit the ability of care operators to provide quality of care for residents. Conversely, long-term care centres with staff covered by collective bargaining – typically associated with better pay and working conditions – have shown better quality of care for residents.[10] For example, a study during the early stages of the pandemic found that unionized care centres had a 30% lower mortality compared to facilities without unions.[11]

With a reputation for long hours, poor wages and poor working conditions, care operators today are struggling to attract and retain enough staff to meet current needs and future growth. This is compounded by labour shortages and wage inflation, with many care workers reportedly leaving for better-paid retail jobs. Analysis by Skills for Care revealed that in 2020, before the start of the pandemic, nearly 75% of independent sector care workers in England were paid less than the real Living Wage. The Low Pay Commission has flagged social care as a sector of concern in terms of compliance with even the national minimum wage. According to the OECD, 45% of [long-term care] workers in OECD countries work part-time, over twice the share in the economy as a whole. Understaffing is a real concern, with operators in the UK alone warning of over 170,000 vacancies by the end of the year.[12]

[9] Comas-Herrera A, Zalakaín J et al (2020) Mortality associated with COVID-19 in care homes: international evidence

[10] https://edoc.unibas.ch/39100/1/Dissertation%20finale%20Version%20UB.pdf

[11] Dean A, Venkataramani A, Kimmel S (2020) Mortality Rates From COVID-19 Are Lower In Unionized Nursing Homes

[12] https://www.theguardian.com/society/2021/sep/04/care-workers-in-england-leaving-for-amazon-and-other-better-paid-jobs

THE WORKER VOICE

UNI Global Union's UNICARE surveyed 3,000 care workers 37 countries during the pandemic to produce an intimate portrait of their struggles. The stories and statistics revealed staffing shortages, low pay and poor safety conditions globally.

About three-quarters of the respondents said staffing shortages made providing high-quality care to their clients or residents difficult. And more than half said their pay did not provide them with a decent standard of living, meaning they were unable to secure basic needs such as housing, food and transportation.

said that inadequate staffing had an impact on their ability to deliver high-quality care.

of respondents who had dealt with the infection or death of a resident or client said there was no support from employers

said that their salary does not provide for a decent standard of living

Uni Global Union (2021): Risking Their Lives To Help Others Survive: A survey Of Nursing Home And In-Home Care

Mirroring the underinvestment in the long-term care workforce, there has been systemic underinvestment in data and technology in social care. This has further limited operators' ability to provide quality of care. For profit care homes – especially private equity investments – have shown particularly bad outcomes on both quality of care and labour rights, suggesting a serious misalignment between people and profit.[13]

[13] Corlet Walker, Christine & Jackson, Tim & Druckman, Angela. (2022). Held to Ransom: What happens when investment firms take over UK care homes.

CASE STUDIES

Orpea Group

The scale of these risks in the sector is exemplified in the recent scandal surrounding the French multinational long-term care operator the Orpea Group, Europe's largest for-profit nursing home. Orpea runs a network of 1,156 establishments offering more than 100,000 beds in 23 countries, mainly in Europe. A recent investigation by a journalist, based on 250 testimonials, revealed a range of abusive practices directly impacting the quality of care for residents and employee working conditions: systemic shortages of care staff, a ban on replacing absent staff, the rationing of food and healthcare products, and corruption allegations. The company's share price plummeted more than 60% in the weeks following the publication and the French government has launched a wide-ranging investigation into the care group.

Former Orpea boss in spotlight over share sale as care scandal deepens

Yves Le Masne sold stock in the company after it was informed of allegations that residents were mistreated

France Probes Orpea as 'Gravediggers' Book Sparks Outrage

- Government starts both administrative, financial probes
- Orpea management summoned to ministry for meeting on Tuesday

French care home group Orpea plunged into crisis by mistreatment allegations

Journalist claims systematic negligence in new book based on 3-year investigation

French retirement home group Orpea fires chief amid allegations of patient abuse

Chartwell

Canada's long-term care sector has been particularly impacted by the pandemic, with more than 80% of COVID-19 related deaths in long-term care homes. The Canadian chain Chartwell Retirement Residences, one of the largest operators in Canada, epitomises many of these risks. Figures indicate the company has had significant issues in retaining staff, putting it at risk of failing to meet the operational needs of the company. Surveys conducted in 2022 from multiple unions found that 88% of workers felt that low staffing impacted their ability to deliver quality care and 85% reported that their salary does not provide for a decent standard of living.

SECTOR	JAN 2019- JAN 2020 TURNOVER	JAN 2020- JAN 2021 TURNOVER	JAN 2021- JAN 2022 TURNOVER
Retirement residences	28.8%	40%	37.7%
Long-term Care homes	21%	27%	20.9%

BUSINESS

Shareholders, including a group of nuns, are demanding changes from Chartwell Retirement Residences — including the ouster of Mike Harris

Activist investors are also calling for improved working conditions and a living wage for Chartwell's staff ahead of Thursday's annual general

"I have worked at Chartwell for 5 years now. It is appalling how little wages our employees make. Over and over again I see good employees leave for better pay. We cannot recruit or retain employees. No one wants to work for such little wage when competing retirement homes are starting their employees at significantly more!!"

WHAT DOES GOOD LOOK LIKE?

As part of our research for this Insight we were able to speak to experts in the care provision sector who provided a different perspective of what care can look like. Through our conversation, the need for person-centric care provided by a valued workforce, supported by technology, came across very strongly.

Case Study From Scotland

Blackwood homes | care | support

Blackwood Homes and Care was founded in 1972 and is a provider deeply committed to supporting independent living for people with disabilities and older people. The vision is set on 'helping people live their life to the full' by providing high-quality housing, care and support for people of all ages with over 1,500 homes across the whole of Scotland.

The not-for-profit model is an interesting one for the wider social care sector as the charity firmly believes technology can be harnessed to secure the vision of healthy, independent living. Primarily providing homes and supported living for those with disabilities or mobility issues, Blackwood also owns and operates three registered care homes in Scotland, with high standards of accessibility and building quality that supports a level of independence that residents themselves choose.

Blackwood pays the Scottish Living Wage and has adopted increases to the Scottish Living Wage in line with recommendations by the Scottish Government during the pandemic. It has achieved Investors in People Platinum status, indicating that it has exceptional people management and develops employees with excellent training opportunities. The organisation consistently achieves good scores from the Scottish Care Inspectorate.

We were also inspired by Blackwood's Technology Hub, 'CleverCogs', that co-designs optimum outcomes with residents and users in mind. These technology breakthroughs include dispensing medication, connecting with family and friends, robotic support, and greater home automation. Our conversation with the leadership team at Blackwood emphasised choice – what do people want at that time in their lives – neighbourhood – to emphasise neighbourly, independence, and targeting services and options at individual need. Their view is that with an ageing population there needs to be a 'breakthrough' in a focus on 'what people want' rather than a commoditised, utilitarian model. For Blackwood smaller, domestic-led settings are vital, in well-designed, purpose-built environments.

They have exited older, more 'institutionalised' homes where this vision could not be achieved. We asked if their model lends itself to being operated at scale, with an affirmative response, but noting the need for grant funders and local authorities to recognise the value in exploring alternative models. Blackwood had been able to benefit from UK Innovation Funding that explored the concept of neighbourhoods for healthy ageing. We came away with a sense that care requires a 'wellbeing' agenda that supports and enhances the definition of social care – not unlike the vision set out in the Archbishop of Canterbury's Re-imagining Care Commission (see page 19).

THE INVESTIBLE UNIVERSE

Care systems vary considerably across the globe, but there is a clear common trend of elderly care increasingly being provided by private nursing homes.

The graph below shows the extent of the private care home ownership in Europe based on data from Knight Frank. The UK has the highest proportion of private (for profit) care homes in all of Europe, at over 80%. The closest comparison is Germany and Belgium with 42% respectively.

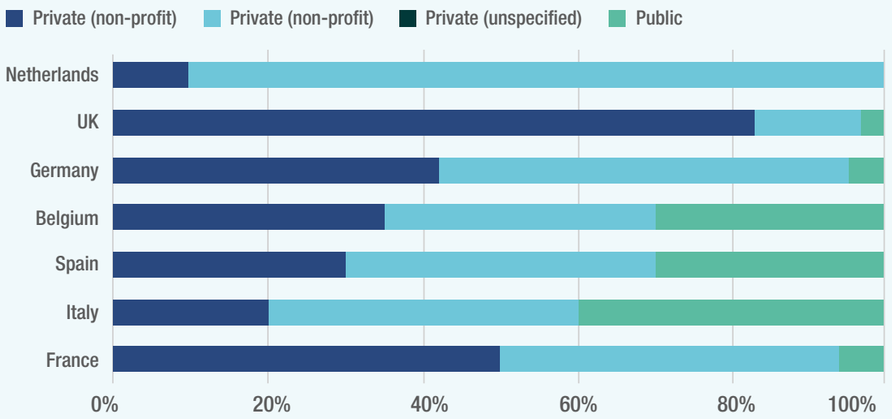
The private care home sector is extremely fragmented, but some major chains stand out. Within Europe, Korian, Orpea and Domus VI have emerged as the largest pan-European care home firms and increasingly are expanding outside of Europe. Of these, Korian and Orpea are listed. In the UK, nearly one-fifth of the sector is taken up by five operators: HC-One, Four Seasons, Barchester Healthcare, Bupa and Care UK, all of which are privately owned. The US market is more fragmented still, but major US for-profit chains include Genesis, HCR Manorcare, Consulate Healthcare, Brookdale and the Ensign Group. Of these, Brookdale and Ensign group are publicly listed.

In Canada major chains include Revera, Sienna, Extendicare and Chartwell, all of which – with the exception of Revera – are publicly listed. Australia is dominated by six major players: Bupa, Allity, Opal, Japara, Estia, and Regis. Of these, Japara, Estia and Regis are publicly listed.

As investors, we may also gain exposure to the long-term care sector through real estate investment trusts (REITs), who provide care home infrastructure rather than act as operators. These include large players such as Welltower, the largest provider of health infrastructure globally, Confinimmo, a diversified Belgium real estate business, and Ventas, a specialist healthcare real estate provider; as well as smaller specialist REITs such as Target Healthcare and Impact Healthcare.

Although fewer in number, we are also able to gain exposure to care through charitable and other not-for-profit associations, whose profits are reinvested into the services provided.

FIG 4 | Care home ownership by type, private vs public



Source: Knight Frank, Eurofound, Tomorow's Guides, Green Street
Please note, figures date from 2015 to 2020

WHAT DO WE LOOK FOR AS RESPONSIBLE INVESTORS?

The long-term care sector carries extremely high risks for responsible investors particularly regarding labour rights and quality of care. As Responsible Investors, we cannot turn a blind eye to these problems. We need to address the root causes, invest and engage with the intention of building a better system of elderly care.

At EdenTree, we have always placed a strong emphasis on the 'S' in ESG and we are acutely aware of the risks posed from a human rights perspective to both residents and those working in long-term care. Investment in the sector therefore requires much due diligence to ensure the highest standards of care and behaviour are maintained. To this end, we are guided by two key initiatives: the Investor Initiative for Responsible Care and The Church of England's Re-Imagining Care Commission.

With the privatisation of the long-term care sector and the growing share of for-profit companies, investors need to play a part in the solution by supporting companies who truly deliver quality care and engaging those falling short towards best practice.

Investor Initiative for Responsible Care

The well documented poor working conditions in the sector have undeniably resulted in a poorer quality of care for residents. Improving these conditions is not only important in and of itself; it is also likely to unlock a 'higher-road' model of care.

Last year, together with investors representing 137 institutions and $4.4 trillion in assets under management or advice at the time of writing, we signed a statement setting out our expectations for the care home sector.

This statement advocates for better standards across five key areas:

- Understaffing
- Health and safety
- Wages and contracts
- Freedom of association and collective bargaining
- Quality of care

Our expectations as part of this extend to REITs, in recognition that these REITs can bear more risk and responsibility for the conditions that take place on their properties. We urge operators to meet the asks through oversight of their properties, including through contractual lease obligations and labour related due diligence.

An essential first step, and expectation, is further transparency and disclosure from companies on key indicators such as staffing levels, incident rates and turnover.

The Church of England's Re-Imagining Care Commission

The idea for the Archbishop of Canterbury's commission on re-imagining care stems from his published ideas around caring equally for the health of all regardless of economic or societal value. The Commission, which is expected to report in autumn 2022, is tasked with developing a radical and inspiring vision that re-imagines care and support. Alongside regulatory concepts laid down by the CQC and set out earlier in this Insight, the Archbishop has asked the Commission to explore concepts of flourishing, loving kindness, empathy, trust, and mutuality, universal and inclusive, fairness and justice, as key drivers for the provision of care. From a Christian perspective, the Commission is there to ask what should be the goal of care and support if it starts with the idea of living a good life with the ability to flourish? With this framework, the whole concept of care changes from one that is a utilitarian service to one that can imagine later life as fully lived and flourishing.

We will await the Commission's final report with interest as providing further guidance on 'what good could look like' and how we might integrate some of the Archbishop's concepts into our own thinking and engagement with sector providers.

> "At the moment, we have a system that's barely providing a very basic net; helping people get up, washed, dressed and fed. It is not about a full life. If you start with a value like 'flourishing' leads to some quite different thinking about what is care and support""
>
> **Dr Anna Dixon MBE Chair Re-imagining Care Commission**

OUR EXPOSURE TO CARE

As discussed in this Insight, the long-term care sector caries extremely high risks for investors and requires extensive due diligence to keep within our ethical approach.

As part of our Responsible and Sustainable screening process we look at company performance across a range of ESG risks including ethics, human rights, labour and employment. Many of the issues prevalent in the care sector such as quality of care, wellbeing and labour rights are captured here, and where companies do not meet our robust standards we will not invest.

As a whole we do not view the sector as un-investable however, given our concerns we exercise extreme due diligence that has kept our exposure relatively limited. In general, we favour small and specialist organisations where quality of care is at the forefront and have exposure primarily though retail charity bonds and specialist REITs across the elder-care and supported housing sectors. Several examples of our investments are shown below.

Example: Greensleeves Care

Greensleeves Care is a UK-based care charity providing 24-hour Nursing Care, Specialist Dementia Care and Residential Support to older people across England. The charity has 29 care homes and more than 20 years' experience of delivering exceptional care. Staffing ratios, retention and pay are better than most homes due to a non-profit model, and their focus is firmly on quality of care provided. As a charity, all profits are re-invested continuously to improve care provided and 26 care homes are rated as good or outstanding by the CQC. It has won a number of awards for quality of care.

Example: Hightown Housing Association

Hightown is a charitable housing association (operating in Hertfordshire, Bedfordshire, Buckinghamshire and Berkshire) aiming to help people who need support and care or who cannot afford to buy or rent a home at market values. They do this by building hundreds of much needed new homes and providing care and supported housing services for a wide range of people. Their mission is to deliver the affordable housing that will contribute to ending homelessness. As a not-for-profit organisation with a social purpose, any surplus they make is re-invested into developing more homes and improving their existing homes. Hightown manages over 7,900 homes but also provides supported living for those with a range of needs for instance homeless young people or women fleeing domestic violence.

Example: Target Healthcare REIT

Target Healthcare REIT is a specialist investment company investing in a portfolio of 'carefully selected' purpose built care homes based on 'a comprehensive assessment of tenant capabilities pre and post investment'. As well as emphasising modern, purpose built properties, the company prides itself on providing spacious facilities adapted to specific and individual care needs. 60% of the portfolio is under seven years old with just 20% over a decade. Quality Care Assessment is undertaken under each regulatory regime (England, Scotland) etc. then separately tested by the Manager - 75% are deemed Good or Outstanding.

CONCLUSION

Many areas of responsible investment raise deep questions for us around integrity, ethical behaviour and doing the right thing – and none more so than the care sector. The provision of social care supports some of the most vulnerable people in society and where investment in the sector requires much due diligence to ensure the highest standards of care and behaviour are maintained.

We do not view the sector as off limits to investment, but we must ensure any investment meets our standards. Our commitment to responsible and sustainable investment means that we will conduct robust screening, excluding companies which do not meet our standards, and engage with others where we encounter issues. The direct providers of elderly and youth social care, either residentially based or at home are particularly exposed to potential failure in behaviours.

With an increasing proportion of the population needing to access social care, the demand for quality facilities will only grow. To that end, there is no doubt that more equitable funding and investment is necessary. Our areas of investment will tend to be in the most modern facilities with high levels of expert and compassionate care. The framework for 'good investment' developed with the support of 137 institutions with $4.4 trillion in combined assets is a breakthrough opportunity to engage more strategically with the sector. We also believe the concepts set out by the Church of England's Re-imagining Care Commission present a real opportunity to develop emotionally intelligent factors that can also play a part if the recipients of care are fully to flourish. We are proud investors in areas of high-quality care such as Greensleeves Care, Hightown Housing Association and Target Healthcare REIT – all providers exhibiting exacting care standards, that are a model of where we believe responsible investors can have a long-term role to play.

AFTERWORD

By Lisa Nathan, Senior Investor Engagement Advisor, Uni Global Union

This Insight provides an important perspective on the critical considerations for responsible investors in the care sector. Care in many ways epitomises the importance of Social issues amongst ESG factors. Its social impact in our systems of care for the most vulnerable on our society cannot be overstated. At the same time, as this report rightly highlights, social care has been plagued for too long in a downward spiral of interconnected social risks in quality of care for residents in care homes and working conditions. COVID-19 had a devastating impact, but it did not strike a blank slate and unfortunately these grave challenges have persisted as we emerge from the pandemic.

The spotlight of COVID-19 on these issues also created an opportunity to shift out of this spiral to a higher-road model of elderly care. Investors, with an interest in addressing the risks across the sector as a whole, can play a key part in raising the bar. In that light, together with a group of institutional investors, UNI Global Union developed the Investor Initiative for Responsible Care.

The complexities of the care sector necessitate breaking out of traditional silos to collaborate across all the actors that must play a part in the solutions – including trade unions, investors, companies, and policy-makers.

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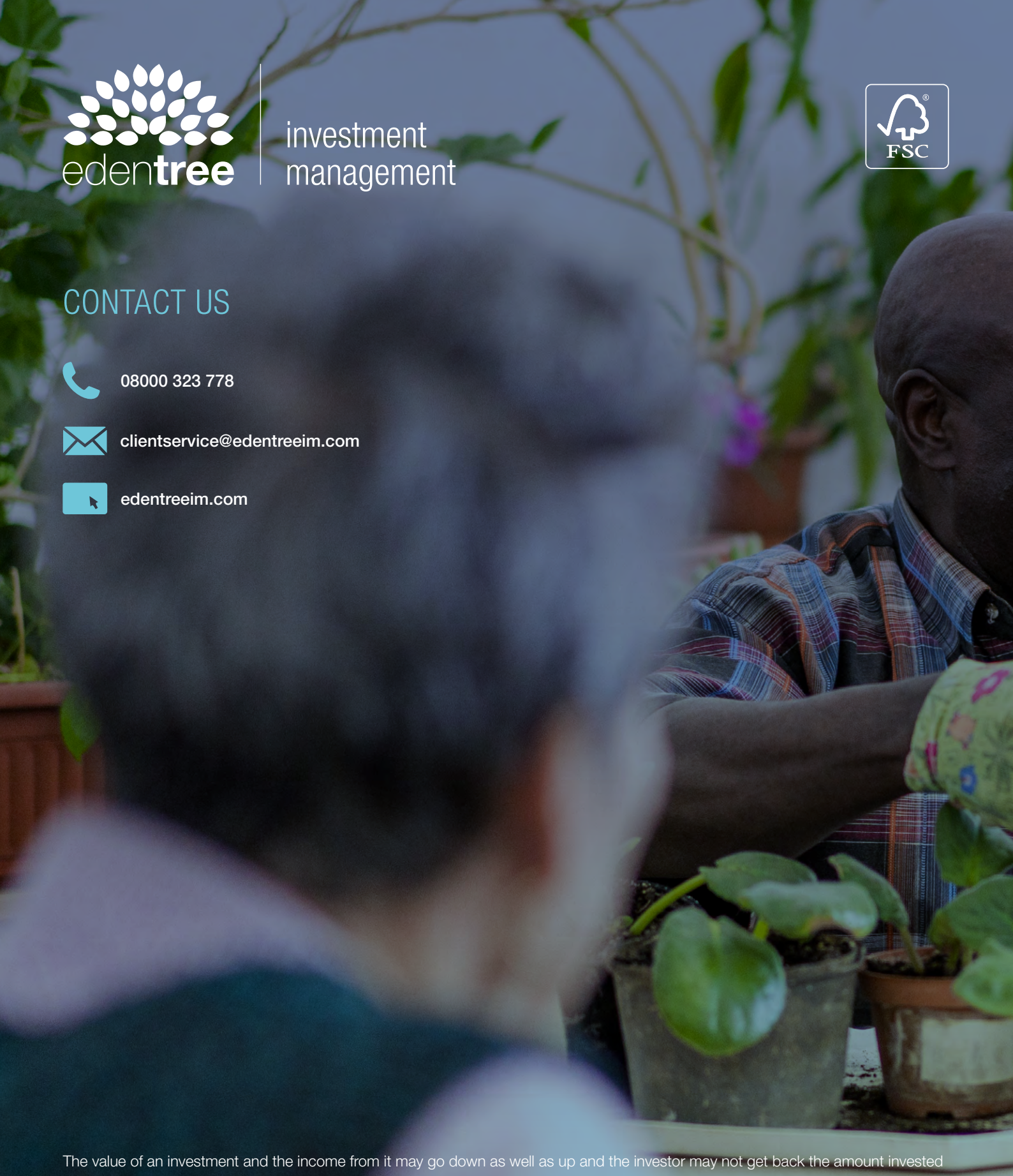

The value of an investment and the income from it may go down as well as up and the investor may not get back the amount invested

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