



Healthcare Infrastructure

Understanding the opportunity
for institutional investors

octopus

A brighter way

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Foreword

Demand for Healthcare Infrastructure from institutional investors is growing, with the potential for \$200 billion to be invested in the sector over the next five years.

In our first institutional investment trends survey, we explore the views on the sector of 100 global institutional investors, representing a total of \$6.8 trillion assets under management, including the drivers shaping opportunity in the sector.

MARKET DYNAMICS

The expected end of the bull market, compounded by heightened political risk across the globe, makes alternatives an attractive investment opportunity for investors in the hunt for returns.

Within the 'alternatives' bucket, there is growing interest from institutional investors in real assets as they look for tangible investment opportunities with a long-term investment horizon. Healthcare Infrastructure, as a subsector of real assets, offers particular opportunities for institutions as changing demographics fuel demand to service a growing elderly population.

DEMOGRAPHICS

Octopus is a specialist asset manager with 14 years' experience of investing in Healthcare Infrastructure. We have seen first-hand how demand for all kinds of Healthcare Infrastructure is changing in line with these demographics.

Retirement for the growing population is taking on a different shape and meaning to previous generations. Quality of life is better, and the modern-day retiree is active and social.

For the elderly, care homes suited to the specialist requirements of their residents are crucial. The supply of housing for each of these groups is in short supply. In this report we specifically look at the investment

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By 2050, the global population of retirees aged 60 and over will reach 2.1 billion and will include an elderly population of 425 million people aged over 80.¹



opportunity in retirement communities, care homes and doctors' surgeries – the facilities that this varied ageing population will need the most.

Our report also explores the perceived barriers some institutional investors face when looking to make further investment in Healthcare Infrastructure.

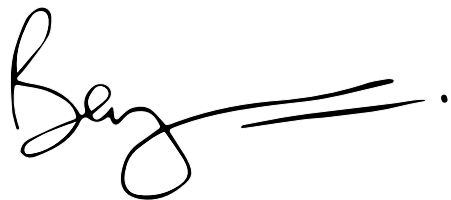
The research highlights that institutions are particularly concerned about not having the relevant skills and resources within their organization, regulatory issues in the sector and a lack of projects in which to invest. We have seen some of these concerns brought to life through our conversations with institutional investors over the years.

There is a meaningful role and exciting opportunity for institutional investors to redefine what truly exceptional healthcare facilities should look like, while benefiting from the attractive returns the asset class offers investors over the long term.

We look forward to sharing our findings with you.

Benjamin Davis

CEO, Octopus Real Estate



Hiti Singh

Head of Institutional Funds, Octopus Group



¹World Population Ageing Report (2017), United Nations.

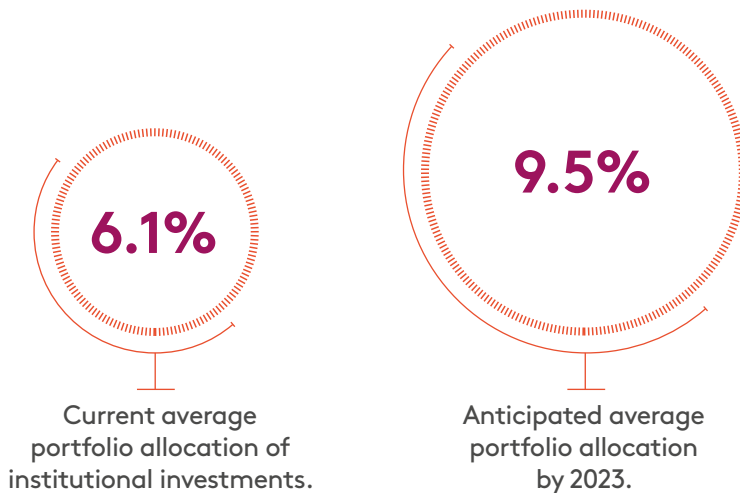
Executive Summary

Our research reveals growing interest in Healthcare Infrastructure, with unprecedented new opportunities being driven by market dynamics and global demographic changes.

KEY FINDINGS

Healthcare Infrastructure: global demand on the rise

\$200 billion
expected to be invested over the next five years



Healthcare Infrastructure: delivering for institutions

71%
Global institutional investors say their Healthcare Infrastructure investments are performing as expected or better than expected.



22%
UK institutional investors say their Healthcare Infrastructure investments are over-performing.

10-15%
Annualised net IRR reported by 39% of investors over the past five years.



Among those that already invest in Healthcare Infrastructure allocations are significant. Respondents already invested in the sector allocate on average 6.1% of their investment portfolio to Healthcare Infrastructure. And this investment is set to increase by more than half to 9.5%.

Barriers to investing remain, but the research reveals growing momentum both from current investors and from those who are yet to allocate to Healthcare Infrastructure.

Diversification and demographics drive demand

The bull market looks to be running out of steam and political uncertainty is now a global concern. Healthcare Infrastructure is attractive in this context as it is sheltered from macroeconomic factors. The supply/demand imbalance for quality accommodation and facilities to cater to the ageing population is the second biggest driver for investors.



56%
of institutional investors surveyed say demographics is the key driver for investing in Healthcare Infrastructure.

Europe is the primary focus for inward investment

Of the regions surveyed, the UK will attract the most inward investment into Healthcare Infrastructure over the next five years, from those who are yet to invest. Europe is the primary focus for inward investment into Healthcare Infrastructure.

Stirling Medical Centre,
Grimsby. A doctor's surgery
including an on-site pharmacy.



Our survey respondents currently allocate 6.1% of their investment portfolio to the Healthcare Infrastructure sector. In the next five years over a third (37%) expect to increase their allocations by up to 10%.



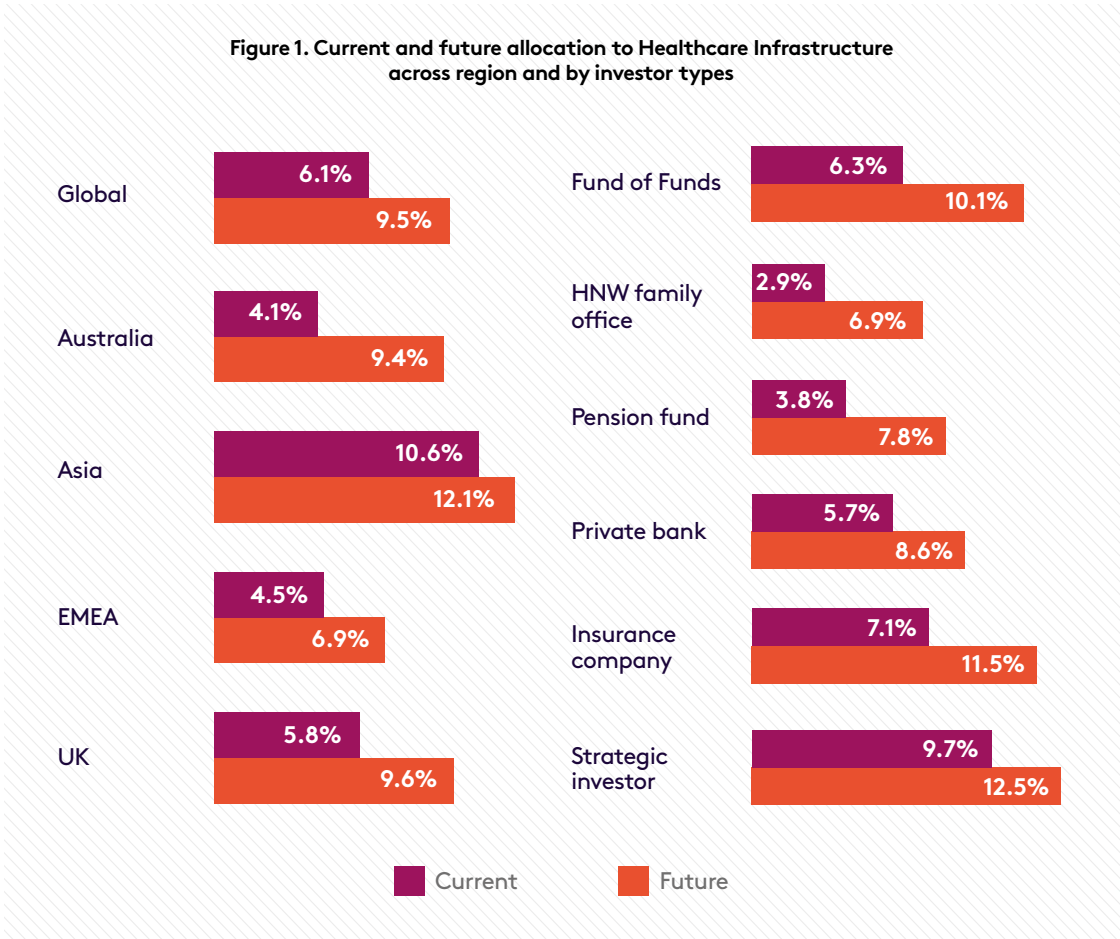
The investment opportunity

The investment case for Healthcare Infrastructure is already resonating with institutional investors. Across region and investor type there is demand for opportunities to allocate funds to the sector.

In the next five years, a total of \$200 billion could be invested in Healthcare Infrastructure.

Globally, respondents currently invested in Healthcare Infrastructure allocate 6.1% of their investment portfolio to the sector. This is expected to increase by more than half to 9.5% over the next five years.

Over a third of respondents expect to increase allocations to Healthcare Infrastructure by up to 10% in the next five years. Insurance companies will increase their allocations more than any other type of investor in the next five years, with a 4.4% increase in allocation.



37%
of respondents expect to increase allocations to Healthcare Infrastructure by up to 10% in the next five years.

There is strong appetite for a range of assets across the sector. Among all institutions surveyed, 57% are considering investing in retirement housing, 53% are potentially looking to invest in care homes and nearly half (44%) in doctors’ surgeries.

Retirement housing holds particular appeal to High Net Worth (HNW) family offices and insurance companies, while care homes are most in demand among HNW family offices and private banks.



Grosvenor Manor Care Home, Chester. Facilities include a hair salon, spa bathroom, landscaped gardens and glazed terraces.

Figure 2. Percentage of institutions considering investing in Healthcare Infrastructure

	Global	Fund of funds	HNW family office	Pension fund	Private bank	Insurance company	Strategic investor
Retirement housing	57%	28%	90%	50%	61%	74%	61%
Care homes	53%	32%	83%	63%	67%	47%	56%
Doctor surgeries	44%	56%	44%	41%	6%	28%	70%

% Would consider investing

GLOBAL ALLOCATIONS: ASIAN INVESTORS LEADING THE CHARGE

Asian respondents revealed the highest level of current allocations to Healthcare Infrastructure (10.6%) and will invest the most into the sector of any other region in the coming years. They expect 12.1% of their portfolio to be allocated to Healthcare Infrastructure in the next five years.

Australian investors plan to increase investment by the biggest margin. Although Australian investors have a relatively low current allocation at 4.1%, this is expected to increase by 5.3% (compared to a global average of 3.4%) over the next five years to 9.4%.

A large majority of UK respondents (73%) say they will increase allocations. One quarter (26%) plan to do so by more than 10%.

Figure 3. Increasing allocations to Healthcare Infrastructure

	Global	Australia	Asia	EMEA	UK
Increase by > 20%	8%	14%	0%	0%	13%
Increase by 10-20%	11%	0%	20%	6%	13%
Increase by up to 10%	37%	29%	20%	31%	47%
Stay the same	32%	43%	60%	38%	18%
Don't know	12%	14%	0%	25%	9%

Institutional investors expected future allocation by asset:

57%
Retirement housing

53%
Care homes

44%
Doctors' surgeries

How is Healthcare Infrastructure performing?

In the current environment, where institutions are chasing returns from bonds and equities, Healthcare Infrastructure has the potential to offer attractive returns over the long term.

Investors in Healthcare Infrastructure report high satisfaction with investment performance. Almost four in ten (39%) report an annualized net IRR on Healthcare Infrastructure investments over the past five years of between 10% and 15%. A further 5% say their returns over the period were between 15%-20%. These figures equate to a global average of 8%.

Seven in ten (71%) global institutional investors say their Healthcare Infrastructure investments are either performing as expected (52%) or over-performing (19%). UK investors report the strongest levels of satisfaction. Nearly one quarter (22%) say their investments are over-performing.

INVESTORS BULLISH ON FUTURE PERFORMANCE

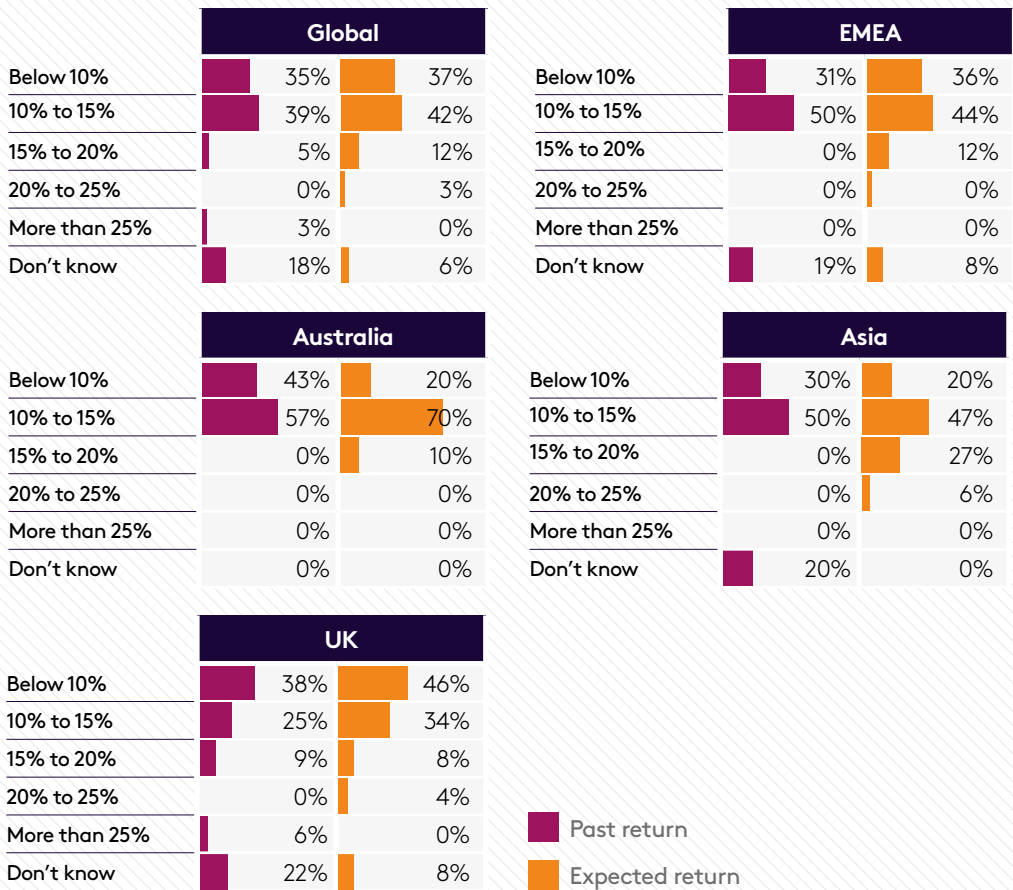
Investors surveyed are bullish and expect higher returns. Four in ten (42%) expect net returns over the next five years to be in the range of 10%-15%. And 12% expect future returns of between 15%-20%. Globally, investors expect 10% returns on average.

Asian investors are the most optimistic about future returns, expecting 13% returns on average.

10-15%

net returns expected by 42% of investors surveyed over the next five years.

Figure 4. Past and expected investment returns from Healthcare Infrastructure



Challenges and drivers

Investor appetite for Healthcare Infrastructure is growing, driven by the race to alternatives, opportunities from the ageing population and the long-term nature of the investments.

Despite this growing interest and high allocations among current investors in the sector, respondents identify a number of perceived barriers to unlocking further potential in the sector. Barriers include regulation, a lack of projects and relationships with operators.



What is driving institutional demand?

Institutional investors surveyed identify three key investment drivers.

1. Race to alternatives as market volatility continues

A combination of diversification and the sector's low correlation with broader financial markets emerges as the prime driver, cited by two-thirds of respondents.

Respondents recognise that returns from Healthcare Infrastructure are mostly uncorrelated to traditional asset classes and financial markets.

This is becoming increasingly important for investors as they look to recession-proof portfolios amid a volatile investment backdrop.

On a geographical basis, Asian respondents attach particularly strong importance to diversification. All investors (100%) from the region say this is the most important driver.

2. Opportunities from the ageing population

A majority (56%) of global investors cite investment opportunities from demographics as the second most important driver.

Increasing life expectancy and declining fertility will cause the average age of the global population to increase significantly in the coming years.

Ageing populations and a lack of good quality retirement housing, doctors' surgeries and care homes to cater to this group have fuelled demand for Healthcare Infrastructure.

These investment dynamics are sustainable. Demand for Healthcare Infrastructure will increase as the world's population continues to age.

56%
of institutional investors say demographics is the key driver for investing in Healthcare Infrastructure.

3. Chasing returns and long-term income

Attractive risk-adjusted returns rank highly for institutional investors, with nearly half (46%) of global respondents considering this the third-biggest driver.

Another important driver, cited by almost four in ten respondents (38%), is the long-term nature of yields/income. Doctors' surgeries and care homes can present a long-term income-led investment opportunity.

This correlates with the long-term focus of institutional investors who use asset-liability matching and inflation hedging to manage interest rate risk.

Private banks (67%) are more likely to be driven by long-term yields/income than any other type of investor.



Figure 5. Drivers for Healthcare Infrastructure by region

	Global	Australia	Asia	EMEA	UK
Diversification/low correlation with financial markets	67%	71%	100%	69%	55%
Investment opportunities from ageing population	56%	57%	70%	56%	52%
Attractive risk-adjusted returns	46%	57%	10%	69%	43%
Long-term yields/income	38%	57%	30%	19%	46%
Stable and predictable cash flows	30%	57%	10%	38%	26%
Gain exposure to alternative real estate	28%	0%	60%	19%	30%
ESG/Impact investing*	17%	0%	0%	19%	26%
Inflation hedging	14%	0%	20%	13%	17%

Figure 6. Drivers for Healthcare Infrastructure Investment by investor type

	Overall	Fund of Funds	HNW family office	Pension fund	Private bank	Insurance company	Strategic investor
Diversification/low correlation with financial markets	67%	46%	33%	75%	100%	75%	55%
Investment opportunities from ageing population	56%	62%	67%	63%	33%	38%	64%
Attractive risk-adjusted returns	46%	62%	33%	44%	22%	75%	45%
Long-term yields/income	38%	38%	0%	38%	67%	25%	45%
Stable and predictable cash flows	30%	23%	60%	44%	11%	25%	27%
Gain exposure to alternative real estate	28%	31%	67%	25%	11%	13%	27%
ESG/Impact investing*	17%	31%	0%	13%	33%	0%	18%
Inflation hedging	14%	8%	0%	0%	22%	50%	18%

*For example, alleviating housing crisis, helping NHS

67%
of investors surveyed cited diversification and the sector's low correlation with financial markets as a key driver.



Opposite: Lifecare Residences, Battersea Place, London. Featuring an array of five-star facilities including chef-led restaurant, concierge, chauffeur service, pool and cinema.

Left: Wadswick Green, Wiltshire. Facilities include a spa, pool, gym and open countryside.

What are the challenges and how can they be addressed?

Lack of resources and the role of specialist managers

Almost half (45%) of respondents cite a lack of investor skills and resources within their organisation as the top challenge when investing in Healthcare Infrastructure. This internal challenge highlights the need for organisations with insufficient resources to outsource to specialist investment managers. In particular, organisations should look for managers with the origination capabilities to pick the best assets and a track record in delivering robust returns.

Healthcare Infrastructure is a highly-specialised area requiring specialists with large resources to carry out a range of functions. These include identifying development opportunities, undertaking specialist demand/supply due diligence, selecting the best operators and managing these specialist assets.

Regulatory barriers and making the case for infrastructure investment

The second-biggest challenge, cited by 44% of respondents, is governmental and regulatory barriers. Increasing regulation and the changing role of public and private capital in infrastructure projects can create uncertainties for investors.

Government support and regulation will vary across geographies, but there is a clear benefit to governments globally supporting investment into Healthcare Infrastructure. Institutional investment will be a key source of funding for the infrastructure needed to cater to ageing populations. In the UK, institutional investment into this type of infrastructure has the potential to alleviate some of the financial pressures on the NHS.

Liquidity issues and the nature of longer fund tenure

Liquidity issues rank third, with 43% of respondents citing this as a barrier. Yet the

market for certain forms of healthcare, including care homes, is in fact very liquid for quality stock. Healthcare real estate investment tends to involve longer fund tenure, but this is to suit investors with long-term investment horizons.

Lack of projects and developing a stronger pipeline of opportunities

More than one third (38%) of respondents say a lack of pipeline of projects is acting as a barrier. This could be a function of the sector's recent growth and consequent shortage of investable projects. Investors with an in-house development team have the advantage of being able to generate an off-market stream of assets for funds.

Corporate governance and the relationship with operators

A further third regard corporate governance issues as an investment obstacle. This element underlines the important role of stakeholder engagement in Healthcare Infrastructure.

It is crucial to have good, long-term relationships with operators, to ensure oversight of an investment. It is preferential to fund a steady stream of assets with established and proven operators, rather than to fund one-off assets.

45%
of investors cite a lack of skills and resources within their own organisation as the top challenge when investing in Healthcare Infrastructure.

Audley Chalfont Dene, Buckinghamshire. Facilities include a health club, library and restaurant.



Figure 7. Challenges to investing in Healthcare Infrastructure by region

	Global	Australia	Asia	EMEA	UK
Lack of investor skills*	45%	40%	53%	32%	50%
Governmental/regulatory barriers	44%	40%	53%	44%	42%
Liquidity issues	43%	20%	47%	44%	46%
Lack of project pipelines	38%	40%	53%	48%	28%
Costs	34%	30%	40%	20%	40%
Corporate-governance issues	33%	40%	27%	28%	36%
Organisation's investment committee restrictions	28%	10%	33%	36%	26%
Cash flow volatility	11%	0%	7%	8%	16%
Poor returns	10%	10%	0%	20%	8%

Figure 8. Challenges to investing in Healthcare Infrastructure by investor type

	Overall	Fund of Funds	HNW family office	Pension fund	Private bank	Insurance company	Strategic investor
Lack of investor skills*	45%	53%	33%	58%	70%	40%	14%
Governmental/regulatory barriers	44%	42%	50%	33%	20%	47%	71%
Liquidity issues	43%	53%	42%	25%	60%	60%	21%
Lack of project pipelines	38%	21%	25%	58%	20%	47%	43%
Costs	34%	26%	42%	38%	30%	53%	14%
Corporate-governance issues	33%	32%	25%	42%	30%	33%	21%
Organisation's investment committee restrictions	28%	11%	17%	33%	20%	53%	29%
Cash flow volatility	11%	11%	25%	0%	10%	7%	29%
Poor returns	10%	11%	0%	13%	10%	7%	14%

*Capabilities/resources within my organisation



Meads Medical Centre, Uckfield. Doctor's surgery including an on-site pharmacy.

Institutional investors see beyond Brexit

While Brexit may present a concern in the next 12 months, half of institutional investors surveyed have a long-term investment horizon between five and ten years. The demographic dynamics underpinning Healthcare Infrastructure will remain in place regardless of the UK's departure from the European Union.

More than half (58%) of global institutional investors think Brexit will have a negative impact on Healthcare Infrastructure in the UK over the next 12 months. However, the UK remains the most attractive region for future inward investment into Healthcare Infrastructure, among those not yet invested, suggesting institutional investors see beyond Brexit.

Figure 9. Impact of Brexit on Healthcare Infrastructure in the UK

	Global	Australia	Asia	EMEA	UK
Positive	6%	0%	0%	4%	10%
Neutral	36%	90%	40%	28%	28%
Negative	58%	10%	60%	68%	62%



The Boulevard Medical Centre, Halifax.



Highcroft Medical Centre, Nottinghamshire. Doctor's surgery including an on-site pharmacy.

Monkseaton Medical
Centre, Whitely Bay.
Doctor's surgery including
an on-site pharmacy.

Unlocking potential: how institutions are investing



Europe: will it remain the leading light?

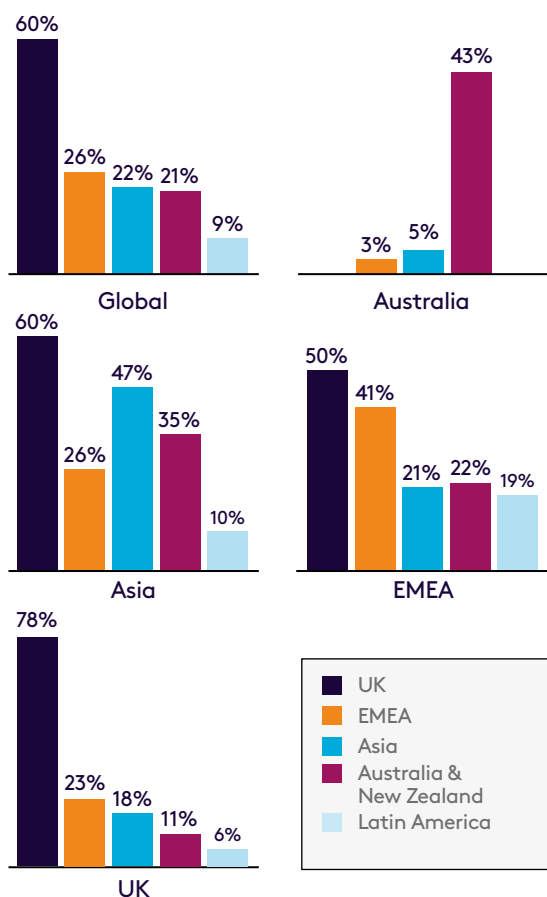
Europe is leading the way in attracting institutional funds into the sector. A combination of cheap and easy access to debt, increasing levels of privatisation and demographic dynamics have increased the investment appeal of Healthcare Infrastructure in the region.

Demographic conditions are particularly favourable, with ageing populations creating a notable imbalance in the supply and demand of good quality care homes and retirement housing. For example, in Germany, Europe's largest economy, more than 20% of the population is aged over 65.²

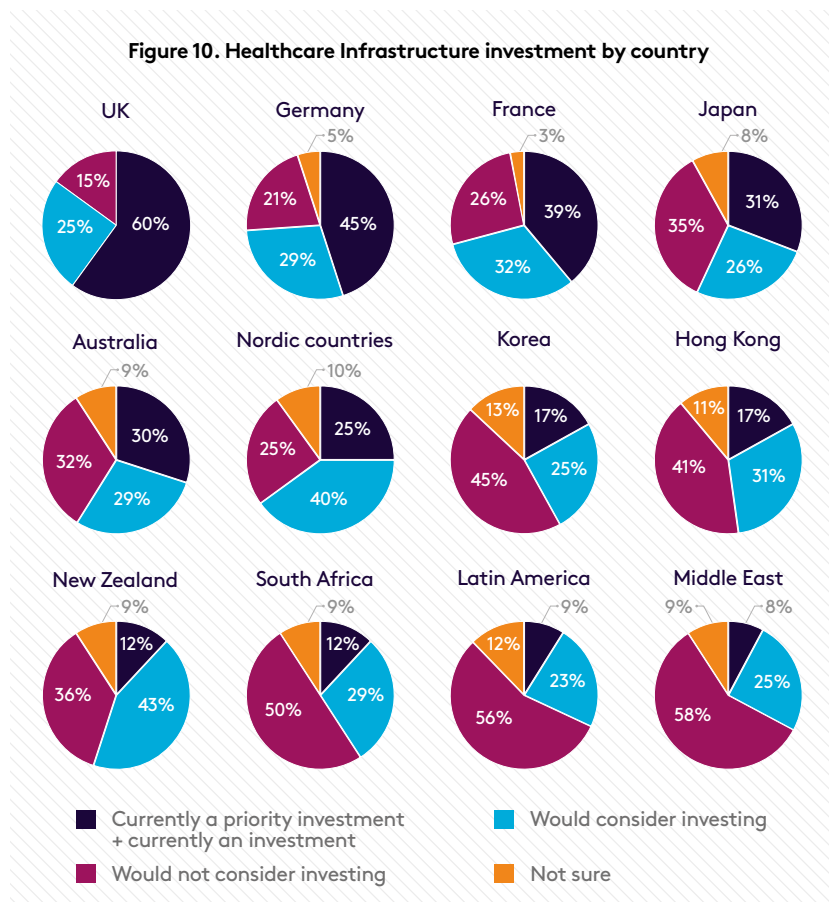
UK AS A HOT SPOT

These dynamics have made Europe, and especially the UK, an attractive place for Healthcare Infrastructure investment.

Six in ten global respondents already invested in the sector say their organisation primarily focuses on Healthcare Infrastructure investments in the UK, with 45% prioritising investment in Germany and 39% in France.



← Figure 11. UK the focus of Healthcare Infrastructure investment



HOME BIAS

Notwithstanding the dominance of the UK, the research also reveals a degree of home bias. Investors prefer to invest in their home market.

In terms of potential future investment, several countries feature prominently on the radars of infrastructure investors. Respondents are mainly considering investing in New Zealand (43%), the Nordic countries (40%) and France (32%), closely followed by Hong Kong (31%). The appeal of Hong Kong may in part reflect solid healthcare fundamentals — the Chinese province was ranked the most efficient medical care system in the world by Bloomberg in 2017.³

²CIA World Factbook 2017.

³<https://largest-biggest.com/index.php/2017/05/15/bloomberg-most-efficient-health-care-systems-in-the-world/>

ESG: an investment opportunity?

Healthcare Infrastructure has a clear ethical and Environmental, Social and Governance (ESG) dimension. Investing in care homes, retirement housing and doctors' surgeries drives much-needed capital into infrastructure that changes people's lives and improves the wellbeing of elderly people.

Although institutional investors attach less weight to ESG than other investment-specific drivers, it is still an important consideration. Almost one in three investors surveyed say ESG considerations play a significant role when investing in Healthcare Infrastructure. A further 61% say it plays a slight role.

More than half of investors (56%) say they are not willing to accept lower investment returns to achieve ESG/impact targets.



Audley Chalfont Dene, Buckinghamshire. Facilities include a health club, library and restaurant.

Figure 12. Role of ESG in investing in Healthcare Infrastructure

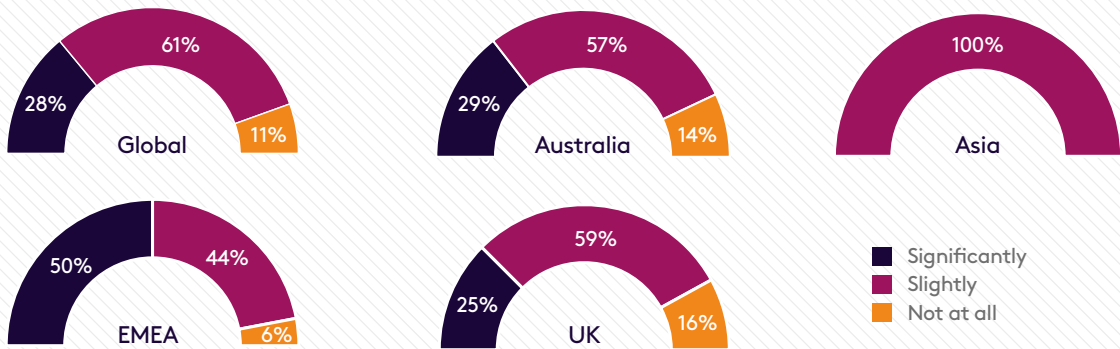
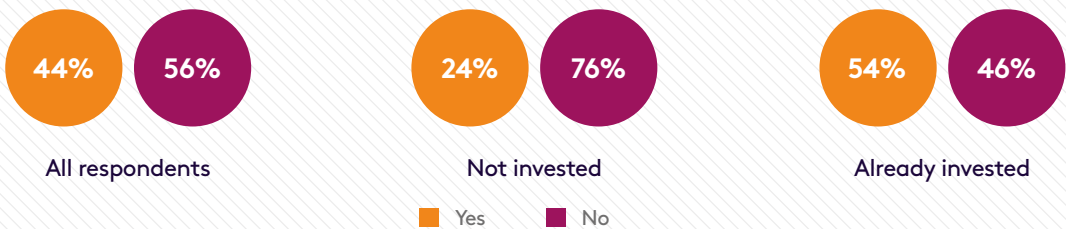


Figure 13. Would you accept lower returns to achieve ESG targets?



Conclusion

Encouraged by market dynamics and demographic fundamentals, Healthcare Infrastructure has captured the attention of institutional investors around the world. The research reveals the asset class is already an attractive alternative investment for many institutions looking for opportunities in real assets. Among those that are invested in the sector, portfolio allocations are high.

Barriers to investing such as lack of resource and regulation remain. Yet it is clear that investment in doctors' surgeries, retirement housing and care homes is set to increase considerably over the next five to ten years.

This investment will be crucial to ensuring the ageing population receives the quality housing and care they will need – from retirees to the elderly.

Raynes Park Health Centre, London. Doctor's surgery including an on-site hospital and pharmacy.



Methodology

CoreData Research was commissioned by Octopus Investments to conduct a study of institutional investors to better understand their views about Healthcare Infrastructure investments.

The fieldwork was conducted by CoreData Research between September and October 2018 via an online survey. The sample includes 100 respondents from the UK, EMEA, Asia and Australia.

The respondent pool represents a spectrum of organisations including pension funds, fund of funds, insurance company, strategic investors, family offices and private banks. The total assets under management of the sample is an estimated \$6.8 trillion.

Respondents were classified into two broad categories according to their current allocations to Healthcare Infrastructure – those invested in Healthcare Infrastructure (65) and those not invested (35).

Disclaimer

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About us

OCTOPUS GROUP

Octopus is a group of companies that invests in the people, ideas and industries that will help to change the world. We currently manage more than £8.6 billion on behalf of our customers. Octopus Energy, Octopus Real Estate, Octopus Investments, Octopus Labs and Octopus Ventures are all part of Octopus Group.

Of the £8.6 billion we manage, £2.3bn is on behalf of institutional investors. We are a specialist investor in real assets, private credit and high-growth small businesses. We offer institutional investors access to sterling-denominated investments in mainstream sectors of the economy. Our assets are long-term in nature, cash-yielding and are resilient to economic headwinds. The Octopus team is made up of over 125 investment professionals and we have almost two decades' experience of operating in our chosen markets.

OCTOPUS REAL ESTATE

Octopus Real Estate invests in and develops properties as well as creating partnerships to deliver innovative healthcare facilities to improve the health and wellbeing of the UK. It currently manages over £1.5 billion of healthcare investments across a number of platforms, with a focus on three core areas: GP surgeries, care homes and retirement communities.

Visit octopusgroup.com.





COREDATA

Established in 2002, CoreData Research is a global specialist financial services research and strategy consultancy with operations in Australia, the UK, the Philippines, the United States, Malta and Colombia.

With a primary focus on financial services, CoreData Research provides clients with both bespoke and syndicated research services through a variety of data collection strategies and methodologies, along with consulting and research database hosting and outsourcing services.

CoreData Research provides both business-to-business and business-to-consumer research. Its offering includes market intelligence, guidance on strategic positioning, methods for developing new business, advice on operational marketing and other consulting services.



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