

Corporate governance report

Letter from the Chairman

Dear shareholder,

Introduction

The Group's policy is to achieve best practice in its standards of business integrity in all of its activities, including a commitment to follow the highest standards of corporate governance throughout the Group where possible. Governance at PHP is focused on managing the business in order to create long term sustainable value for the benefit of all of our shareholders and is treated as a core and vital discipline that complements our objective of growing returns to our shareholders. I hope that by reading our governance report and Committee reports you will gain a better understanding of our culture and the effectiveness of our Board.

Board changes

At the Annual General Meeting in April 2016, James Hambro and William Hemmings retired from the Board as they did not stand for re-election. Both had been long-serving Directors of the Company. Mr Hambro was a founder Director of the Company, having served since February 1996 and Mr Hemmings was appointed in June 2012 having been an alternate Director since 2000. The Board is very grateful to both James and William for their contribution to growing the business of PHP since it was first listed 20 years ago.

Shortly afterwards, we welcomed two new Non-executive Directors to our Board, Geraldine Kennell and Nick Wiles, who bring with them a wealth of experience in investment business and banking, and the Company will benefit from their expertise and fresh perspectives as it continues to grow. In conjunction with the Company Secretary, we provided a tailored induction programme designed to ensure that both Geraldine and Nick obtained a comprehensive picture of the Company's operations. They are both to be proposed for election by shareholders at the 2017 Annual General Meeting ('AGM') which is to be held on Wednesday 26 April 2016.

Phil Holland will stand down from his role as Finance Director on 31 March 2017 to pursue new business interests in the property sector. The Board would like to thank Phil for his contribution to the growth and success of PHP in the time that he has both been a member of the Board and a senior member of the Adviser's management team and we wish him every success in the future.

I am pleased to report that following a thorough recruitment process, Richard Howell, currently Finance Director, Joint Ventures at LondonMetric Properties PLC, has been selected to succeed Phil and is joining Nexus, the Adviser, on 13 March 2017. The Board has endorsed the recommendation of the Nomination Committee that he be appointed as Finance Director with effect from 31 March 2017. Richard, who has highly relevant qualifications and experience, will be put forward for election at the AGM in accordance with our articles of association.

Board independence and Committees

The independent role of our Non-executive Directors is extremely important to us. With the appointment of Geraldine and Nick to the Board, both independent Non-executive appointments, we took the opportunity to re-examine the composition and leadership of our Board Committees. Following this review, it was agreed to appoint Geraldine to be Chair of our Remuneration Committee and Nick to be Chair of our Nomination Committee. Both appointments were in place of Dr Ian Rutter, who given the length of his tenure as a Non-executive Director could no longer be considered independent for the purposes of the UK Corporate Governance Code (the "Code"). Nevertheless, the other members of the Board value Ian's knowledge of the Health Sector a great deal and his independence in practice is rated as exemplary.

Board performance in 2016

Non-executive site visits

As part of our Board strategy meeting held in September, the Non-executive Directors visited a number of the Company's properties in the Birmingham area and visited the Nexus office in Stratford-upon-Avon to meet with the Adviser's managers based at that site and monitor the important work they do.

Board evaluation

During the final quarter of the year, I led the annual Board evaluation process with the assistance of the Company Secretary. The evaluation took the form of a paper-based questionnaire and skills assessment form based on the process and questions outlined in the UK Corporate Governance Code (the "Code") concerning Board and Committee performance. This was circulated to all Directors for completion and then returned to me. After I had discussed with the Board the broad themes of the outcomes of the questionnaires, a series of one-to-one meetings between me as the Chairman and each Director were held. We discussed our evaluation of the range of skills present amongst the Board, our strengths and any areas for improvement. The outcome of the evaluation process was that the Board and its Committees were judged to be appropriately skilled and operating effectively. It was felt that communication both at formal Board meetings and between meetings, through frequent contact, is frank, informed and very good. It was felt that this could be further improved with some changes being made to the structure of meetings and by adding one formal meeting to our programme as a result of the continued growth of the business and the increased complexity of public reporting.

Steven Owen, the Senior Independent Director, led an evaluation of my performance as the Chairman, using a questionnaire tailored to specific responsibilities of a chairman of a listed company and skills assessment form. The findings of this survey were discussed by Steven Owen with the other Non-executive Directors and fed back to me.

Board experience

To achieve its governance objectives and in accordance with the Code, the Board comprises a majority of independent Non-executive Directors who have been selected to deliver an appropriate mix of diversity, skills and experience. The Board is led by an independent Chairman, who in turn is well supported by a Senior Independent Director.

New legislation

The Modern Slavery Act 2015 came into force in October 2015. The Group is committed to ensuring that there is no modern slavery or human trafficking in our supply chains or in any part of our business. The Company's statement and policies concerning slavery and human trafficking can be found on the Company's website – www.phpgroup.co.uk.

The Directors have completed a review of the requirements and carried out a risk assessment. As a result of this, action is being taken to advise the Company's suppliers of its policies and include obligations with regard to these policies in any contracts for the supply of goods or services to the Group.

The Market Abuse Regulations ("MAR") came into effect on 2 July 2016. The Company has made appropriate changes to its internal processes and provided information and guidance to all relevant individuals in order for the Company to comply with the requirements of MAR.

Shareholder relations

During the year, I wrote to a number of our major shareholders to ensure that they were aware that I was available for meetings and to discuss any issues that they might have regarding the Company and would like to reiterate that I remain available to meet with shareholders at any time.

As always, I would encourage you to attend the Company's AGM to be held on 26 April 2017 at 10:30 a.m. at the offices of Nabarro LLP, 125 London Wall, London EC2Y 5AL and a notice setting out details of the business to be conducted at the meeting will be dispatched to shareholders shortly. This important event gives you the opportunity to meet with me, and the chairs of the other Board committees and other Directors.

Alun Jones

Chairman

15 February 2017