

CareTrust REIT, Inc.

## ENVIRONMENTAL, SOCIAL & GOVERNANCE POLICY

Adopted October 29, 2021



### INTRODUCTION

At CareTrust REIT, Inc. (together with its controlled subsidiaries, “CareTrust” or the “Company”), supporting our employees as well as our tenants and their employees and patients, and reducing our overall environmental impact, is important to us. We have accordingly implemented a number of policies and programs across our platform to address these issues.

We are a healthcare-focused real estate investment trust, and our assets are an integral part of the overall healthcare continuum in the communities we serve. We believe that our commitment to environmental, social and governance priorities is an important part of our determination to help people live and age well in those communities. We also believe that our properties and the critical services provided within them – a large portion of which are provided to the poor, indigent, disabled and many individuals who might otherwise be homeless – are providing partial but meaningful solutions to some of society’s most pressing social priorities.

### Oversight

Our principal policies and programs relating to corporate responsibility, operational transparency and fair and ethical business conduct are available on the Corporate Responsibility tab under the “Investors” section of CareTrust’s website at <https://investor.caretrustreit.com/corporate-responsibility>. The development and ongoing maintenance of these policies and programs is a Company-wide effort overseen by (i) our Board of Directors through its Sustainability & Corporate Responsibility Committee, (ii) our internal Environmental, Social & Governance Steering Committee, which is made up of a representative group of non-management employees from across the Company, and (iii) CareTrust’s executive management.

### Cooperative Approach

As a “triple-net” real estate investment trust landlord, we face unique challenges that do not affect most other public REITs when addressing ESG principles. This is because our triple-net leases cede not only possession of, but also control over, our 220+ healthcare properties and their management, maintenance and improvement, exclusively to our tenants. Accordingly, decisions with ESG implications affecting our properties and the people whose lives they touch cannot be made unilaterally by us, but can only be effectuated with the full cooperation of each tenant. Our unique, first-of-its-kind Tenant Code of Conduct & Corporate Responsibility Program, discussed in more detail below, was designed to overcome these obstacles and improve alignment between us and our tenants on ESG priorities.

Consistent with our standards and goals, we have created this central ESG Policy as an “umbrella” statement for all of our ESG-related policies and programs. It includes our latest materiality assessment and describes some of our strategies to address any material gaps in our approach. It is also intended to serve as an outline of industry best practices for both corporate and tenant improvements with respect to our environmental sustainability, employee, tenant and patient/resident health and well-being, and governance practices.

## **OUR COMMITMENT**

At CareTrust, we seek to reduce the environmental risks from our buildings and our corporate business operations and, with the cooperation of our triple-net tenants, manage environmental impacts in our properties in a commercially prudent manner. CareTrust is committed to:

- Responsibly managing services and other aspects of our corporate business operations to meet the requirements of applicable governance and environmental statutes and regulations
- Acting as a resource to our Operators where possible to help them meet the requirements of applicable governance standards and environmental statutes and regulations
- Protecting the environment (including by preventing pollution) as required by local environmental laws
- Supporting the identification and implementation of commercially prudent measures to minimize environmental risk related to services and building operations
- Promoting and developing environmental awareness, leadership and accountability among employees, operators, tenants and contractors
- Educating CareTrust's employees about the need to be proactive in identifying ESG priorities, risks and opportunities
- Regularly reviewing ESG metrics identified as material to CareTrust, and looking for continuous performance improvement

## **Sustainability & Corporate Responsibility Committee & Key Policy Statements**

To support these commitments, and to provide guidelines and meaningful oversight for advancing our ESG priorities, CareTrust has published several key policies addressing environmental, social and governance issues. In addition, we have established a Sustainability & Corporate Responsibility Committee of the Board of Directors, as well as a multi-disciplinary internal Environmental, Social & Governance Steering Committee, both of which provide oversight, alignment and execution with respect to our ESG initiatives. Their charters, as well as our core policy statements, can be accessed on the Corporate Responsibility tab of the Investor Relations page of our website at [www.caretrustreit.com/corporate-responsibility](http://www.caretrustreit.com/corporate-responsibility), and include:

- The Charter of the Board's Sustainability & Corporate Responsibility Committee
- The Charter of our internal Environmental, Social & Governance Steering Committee
- Policy on Human Rights & Responsibilities
- Policy on Human Capital
- Policy on Environmental Sustainability
- Code of Conduct and Business Ethics
- Tenant Code of Conduct & Corporate Responsibility
- Vendor Code of Conduct & Business Ethics

### **ESG Priorities as a Component of Executive Compensation**

Our commitment to advancing our ESG priorities, both at our Company and with our tenants, is reflected in the incentive compensation plans crafted by our Board of Directors for our key leadership each year. Approximately 70-80% of our senior leadership's total compensation each year is performance-based. Beginning in the 2020 fiscal year and each year since, a material portion of the annual incentive compensation attainable by our Chief Executive Officer has been dependent on the achievement of specific ESG priorities and goals.

In 2021, the ESG incentive was expanded and added to the incentive plan of our President and Chief Operating Officer as well. Each year, as we achieve certain objectives and milestones in our ESG program, new objectives are incorporated into our Executive Incentive Plan. In 2021, for example, these objectives included the successful conduct of the 2021 phase of our 50-property benchmarking initiative, the full rollout of the Tenant Code of Conduct & Corporate Responsibility with at least three projects thereunder committed and/or commenced in 2021, and the preparation and publication of our inaugural Corporate Responsibility Report, among others. We believe these incentives are important to keeping our ESG priorities in their proper place within our business strategies and day-to-day execution, and to balancing ESG goals with the financial and growth objectives we pursue.

### **ESG MATERIAL ASPECTS AND APPROACH: OVERVIEW**

A materiality assessment is an initiative that involves stakeholder engagement and examines industry trends to generate insights for addressing important ESG issues. It helps to craft the blueprint for an organization's ESG strategy by aligning corporate activity with the material issues that are critical to the organization's ESG priorities.

In 2020 CareTrust engaged Goby to perform a materiality assessment to identify gaps and opportunities for improvement in CareTrust's ESG performance to date. This assessment has been useful in creating a road map for expanding and refining CareTrust's overall ESG program and aligning it with relevant industry trends. A stakeholder engagement exercise was conducted, and the results were matched to trend research pertinent to CareTrust's assets, goals and priorities. The report summarized Goby's recommendations and resulted in the following ESG Materiality matrix:

# CareTrust

## ESG Materiality Matrix 2021-2023

- Enhance Building Performance
- Assess and Manage Risk
- Adopt Tenant Engagement Best Practices
- Enhance Employee Engagement Practices
- Adopt Strategy and Communications Best Practices
- Enhance Diversity & Inclusion
- Align Targets to the Market
- Adopt Health & Well-being Practices



While addressing all of the assessment’s recommendations across the materiality matrix will be a multi-year effort, CareTrust has already begun the process with its ongoing benchmarking studies and analyses, the implementation the Tenant ESG Program, the establishment of the various policies discussed herein and the publication of its inaugural annual Corporate Responsibility Report in 2021. The Company is also committed to implementing a “green lease” practice and has asked its legal team to identify and develop proposed revisions to our lease forms that would foster additional cooperation between the Company and its tenants aimed at promoting the Company’s ESG priorities. CareTrust intends to periodically update its materiality assessment to identify new opportunities and other gaps in its approach that might be addressed.

### KPI Tracking & Goals

We believe the best way to set goals and make informed decisions about energy and water use in our properties starts with rigorous and continuous data collection and monitoring around key performance indicators (“KPIs”). We intend to use robust data analysis in concert with participating tenants to (i) benchmark environmental performance across a representative sampling of our portfolio, and (ii) use that information set and track realistic goals for each KPI. We expect this process to help us and our tenants achieve a higher level of environmental awareness and responsibility, thereby providing value to our operators and investors.

As we continue to implement and refine our data collection and analysis processes, our goal is to eventually accumulate and track building performance data on energy usage, greenhouse gas (“GHG”)

emissions and water usage over approximately 50% of our portfolio by the end of 2022, with opportunities for improvement to be assessed and goals set along the way.

### **Operational Best Practices**

CareTrust supports sustainable practices throughout its immediate business operations by prioritizing strategies that lower carbon emissions, save energy, and enhance health and well-being of employees. Measures in place to support this strategy include:

- Shortening commute averages for employees by electing to locate our principal offices in a small community near where most of the staff live, and allowing other staff to work remotely
- Outfitting offices with remanufactured workstations, thus reducing consumption of natural resources, avoiding the energy usage associated with de novo manufacturing processes, and decreasing waste going to landfills
- Providing shower and locker facilities and a secure storage location for bicycles in our offices to encourage cycling or running to work for cleaner commutes
- Implementing an in-office recycling program for aluminum, plastic and paper, the proceeds from which go into an employee entertainment fund
- Replacing water purchased in plastic bottles with a state-of-the-art filtration system and bottle filler, and supplying staff with reusable containers, to reduce plastic waste generated by our offices

### **Tenant Engagement through Our Tenant ESG Program**

As a triple-net landlord, CareTrust is generally unable to mandate specific environmental and sustainability changes in our properties. To address this hurdle, CareTrust (i) contractually requires each tenant to meet or exceed certain thresholds of annual expenditures on maintenance and capital improvement projects, and (ii) offers a unique financial incentive program to our triple-net tenants in conjunction with our *Tenant Code of Conduct & Corporate Responsibility* (the “Tenant ESG Program” or simply the “Program”)<sup>1</sup>.

The Tenant ESG Program represents a partnership between us as landlord and the healthcare providers who lease and operate our properties with respect to environmental and sustainability matters. The Program incentivizes our tenants to address key areas of risk and opportunities for improving the environmental profiles of the CareTrust properties they occupy and operate. It provides economic incentives for tenants to make positive environmental changes in those properties. With these economic incentives, we believe the Tenant ESG Program distinguishes CareTrust from other sources of real estate financing as a more attractive capital partner.

In conjunction with the Program, CareTrust has formulated a representative list of capital projects that are typical to our asset class and identified environmentally sound options for such projects. These options are aimed at promoting energy efficiency and sustainable building operations. We then created a corresponding schedule of financial incentives. The incentives are designed to reduce the up-front cost premiums frequently associated with installing higher-efficiency equipment, sustainable building materials and other building components. Tenants are also encouraged to make their own proposals for

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<sup>1</sup> See CareTrust REIT, Inc. 2020 Tenant Code of Conduct & Corporate Responsibility at <https://investor.caretrustreit.com/static-files/04e8e4bd-36f6-4e74-8a89-ed72443f2600>

assistance and incentives with tenant-initiated projects that address sustainability objectives, regardless of whether such projects are on the representative list.

The CareTrust Board of Directors' Sustainability & Corporate Responsibility Committee annually allocates significant dollars to a fund established to provide these ESG incentives. These funds are then made available on a first-come first-served basis to participating tenants by our internal Environmental, Social & Governance Steering Committee, which vets the projects and the supporting documentation prepared by the tenant and its contractors and suppliers for sustainability. The incentives are paid out either (i) for projects funded by CareTrust in normal course as rent-producing capital investments, through a reduction to the total rent-producing budget of the project, or (ii) for projects funded by the tenant as part of their ongoing maintenance capex or other triple-net obligations, via a direct payment to the tenant or contractor at a significantly reduced or zero rate lease return to CareTrust.

The representative list of sustainability projects and incentives is provided to CareTrust tenants who wish to participate in our Tenant ESG Program and are willing to meet the eligibility standards. Those standards include critical social and governance considerations, such as requirements to have a functioning corporate compliance program, a published code of business conduct and ethics, a commitment to diversity and inclusion, and other basic policies and practices.

### **Social and Governance Best Practices**

CareTrust provides a competitive benefits program including medical, dental and vision coverage with substantial employer funding and a wide menu of medical options, a 401(k) plan with an employer match, Flexible Spending Accounts (FSAs), employer-funded life insurance, an employer-funded employee assistance program (EAP), a generous vacation, holiday and personal time off policy, an array of voluntary benefits options and other benefits for employees and their families.

CareTrust, acting through its internal Environmental, Social & Governance Steering Committee, has also implemented or proposed several initiatives to promote employee and community engagement:

- Providing financial support for professional association dues and memberships, continuing education credits, fees and travel expenses to attend relevant conferences and seminars
- Beginning in 2022, providing annual ESG training for all employees covering ESG standards and goals, employee health and well-being, diversity, equity and inclusion, safety and security, the Tenant ESG Program and governance and climate risks, and this training will be updated periodically as the ESG program matures
- To encourage contributions to local economies and support for local businesses, CareTrust employees can periodically purchase and expense lunch from a local restaurant within their respective communities
- Conducting ad hoc surveys to measure employee engagement and satisfaction and, when necessary, change procedures and implement initiatives to address recurring areas for improvement
- Provide service opportunities, time off with pay for approved volunteer and other charitable endeavors, and a matching program for most employee charitable contributions
- The Team CareTrust health and fitness program reimburses up to \$350 per year to employees to be used toward general physical and mental wellness
- The Team CareTrust plan includes audiobook subscriptions and a monthly book club

- Company paid incentive trips for which all employees are eligible

Additional details regarding these initiatives are included in our *Policy on Human Capital*.<sup>2</sup>

CareTrust is committed to full compliance with all applicable safety and health laws, including in the areas of occupational safety, emergency preparedness, occupational injury and illness, industrial hygiene, physically demanding work, machine safeguarding, sanitation, food and housing. We seek to minimize employee and visitor exposure to potential safety hazards by appropriately identifying, assessing and minimizing health and safety risks in all workplaces that we control. Our stance on health and safety, as well as a variety of other issues and policies that fall under the Social and Governance categories, are further detailed in our *Policy on Human Rights & Responsibilities*.<sup>3</sup>

### **ESG Steering Committee**

Our internal Environmental, Social & Governance Steering Committee is an internal, multi-disciplinary body formed to support CareTrust's on-going commitment to environmental, health and safety, corporate social responsibility, corporate governance, sustainability, and other public policy matters relevant to our workplaces, properties and the world around us. The ESG Committee is made up of representatives from all departments including Underwriting, Asset Management, Accounting and Construction.

The Committee leads or participates in a wide range of ESG-related issues. Committee representatives periodically report directly to the executive team and the Board's Sustainability & Corporate Responsibility Committee on subjects such as benefits programs for employees, incentives for the Tenant ESG Program, and other ESG-related matters affecting the Company, its tenants and the industries within which we operate.

The ESG Committee advises senior management on (a) setting the Company's general strategy relating to ESG Matters, (b) developing, proposing, implementing, and monitoring initiatives and policies at the Company based on that strategy, including without limitation the Tenant ESG Program, (c) overseeing communications with Company personnel and tenants with respect to ESG Matters, and (d) monitoring and anticipating developments relating to, and improving the Company's understanding of, ESG-related matters.

### **CareTrust's Annual Operator Conference**

As a product of our commitment to "give back" and improve the healthcare industries that we serve, CareTrust holds a well-attended annual operator conference to bring together post-acute care operators from across the country for educational and advocacy purposes. The conference allows our tenants and other guests to have direct contact with key industry leaders, participate in cutting-edge instructional sessions with top healthcare industry experts, keep up with evolving regulations, and share best practices with each other. It specifically includes educational sessions aimed at implementing our tenant-facing ESG initiatives and helping our operators to understand and become more conversant in the opportunities within their own businesses and facilities to address and improve ESG-related issues.

The conference is especially valuable for smaller regional operators who might not normally be invited to or attend large industry events or have the staff and scale necessary to keep up with the myriad regulatory

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<sup>2</sup> See CareTrust REIT, Inc. 2020 Policy on Human Capital. <https://investor.caretrustreit.com/static-files/3beb14fd-24ad-426d-ae5a-9eb363f012a8>

<sup>3</sup> See CareTrust REIT, Inc. 2020 Policy on Human Rights & Responsibilities. <https://investor.caretrustreit.com/static-files/dc9e16d5-0fa0-4a28-b8dc-2400f6aa2e82>

and other changes that constantly affect healthcare providers and their businesses, employees and patients.

Conference topics typically cover a wide range of issues and opportunities, such as best practices in care delivery and clinical outcomes, staffing and workplace culture, evolving regulatory and reimbursement trends, insurance and risk management, marketing, public relations and crisis management, environmental, social and governance issues and CareTrust's ESG initiatives and commitments. Attendees routinely describe the opportunity to share and learn best practices from fellow operators as "the best part" of the conference.