

# **MSCI ESG Ratings Methodology: Access to Health Care Key Issue**

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## Introduction

This document provides essential information on the components of the Access to Health Care Key Issue to enable users of ESG Ratings to understand how our outputs are determined. Access to Health Care is a Key Issue in the Social Pillar of the MSCI ESG Ratings model. Companies are evaluated on their positioning to meet market demand for health care products and services in developing countries and underserved markets.

For additional details on the MSCI ESG Ratings Model, refer to Section 2, Data, ratings and scores, of “ESG Ratings Methodology.”

**Exhibit 1: MSCI ESG Key Issue hierarchy**

3 Pillars	10 Themes	33 ESG Key Issues
Environmental	Climate Change	Carbon Emissions
		Climate Change Vulnerability
		Financing Environmental Impact
		Product Carbon Footprint
	Natural Capital	Biodiversity & Land Use
		Raw Material Sourcing
		Water Stress
	Pollution & Waste	Electronic Waste
		Packaging Material & Waste
		Toxic Emissions & Waste
	Environmental Opportunities	Opportunities in Clean Tech
		Opportunities in Green Building
		Opportunities in Renewable Energy
Social	Human Capital	Health & Safety
		Human Capital Development
		Labor Management
		Supply Chain Labor Standards
	Product Liability	Chemical Safety

3 Pillars	10 Themes	33 ESG Key Issues
		Consumer Financial Protection
		Privacy & Data Security
		Product Safety & Quality
		Responsible Investment
	Stakeholder Opposition	Community Relations
		Controversial Sourcing
	<b>Social Opportunities</b>	Access to Finance
		<b>Access to Health Care</b>
		Opportunities in Nutrition & Health
<b>Governance</b>	Corporate Governance	Board
		Pay
		Ownership & Control
		Accounting
	Corporate Behavior	Business Ethics
		Tax Transparency

## Opportunities associated with this Key Issue

- Opportunities for revenue and profit growth in the medium to long term from increased penetration of underserved populations.
- Protect license to operate and current business model from regulatory and public pressure on pricing and access.

## Access to Health Care Key Issue Score

The Access to Health Care Key Issue Score evaluates the company’s level of exposure to, and management opportunities on this Key Issue. The Key Issue Score is based on the Exposure Score and the Management Score using the

formula below. The Exposure Score and the Management Score are combined such that the Exposure Score determines the weight placed on the Management Score, ranging from 50% (when Exposure Score is equal to zero) to 100% (when Exposure Score is equal to 10).

$$KI_i = \left( \left( \frac{EXP_i}{20} + .5 \right) \times MGMT_i \right) + \left( \left( .5 - \frac{EXP_i}{20} \right) \times 5 \right)$$

Where:

- $KI_i$  is the Key Issue Score for company  $i$ .
- $EXP_i$  is the Exposure Score for company  $i$ .
- $MGMT_i$  is the Management Score for company  $i$ .

## Access to Health Care Management Score

The Access to Health Care Management Score evaluates the company’s ability to manage its exposure to opportunities on this Key Issue. It is based on the Management Score category listed below, modified by Controversies. These scores are derived from data points that are scored on a 0-10 scale, with 10 corresponding to best practice and 0 corresponding to lack of management. Refer to Section 3.3, Analyzing risk management, of “ESG Ratings Methodology” for additional details. Sources are company disclosures except where otherwise indicated. The following formula is used to calculate the Access to Health Care Management Score - Excluding Controversies:

$$MGMT_{AHE,i} = MAN_{AHE,i}$$

Where:

- $MGMT_{AHE,i}$  is the Access to Health Care Management Score - Excluding Controversies for company  $i$ .
- $MAN_{AHE,i}$  is the Management (Practices) Score for company  $i$ .

The following data points, without constituting an exhaustive list, are representative of the inputs to the Management Score and are used in the Management Score calculation:

## Management Score category: Management (Practices) Score

*Note: Diseases within the scope of this key issue are (1) diseases with the highest global burden as measured by disability adjusted life years, (2) orphan diseases and (3) neglected tropical diseases.*

- **Extent of focus on low- and middle-income countries.**

**Definition:** Assesses the portion of the company’s products on the market that address diseases within the scope of this key issue and are paired with access programs in underserved markets in low- and middle-income countries, as defined by the World Bank. Expressed as a 0-10 score, where 10 indicates all the company’s products on the market that address diseases within scope are paired with access programs in underserved markets.

- **Number of relevant diseases addressed by the company’s commercialized products.**

**Definition:** The number of diseases within the scope of this key issue for which the company has commercialized products on the market.

- **Number of relevant diseases addressed by the company’s research and development.**

**Definition:** The number of diseases within the scope of this key issue for which the company has ongoing research and development.

- **Scope of expansion plans to low-income and middle-income countries.**

**Definition:** Indicates whether the company explicitly states it plans to expand operations and markets to low-income and middle-income countries as defined by the World Bank. Applies to pharmaceutical, biotech and medical devices operations and markets.

- **Assistance to local manufacturers to achieve international drug manufacturing quality standards in low- and middle-income countries.**

**Definition:** Indicates whether the company undertakes initiatives to improve the capacity of local manufacturers in low- and middle-income countries (as defined by the World Bank) to manufacture products to international quality

standards such as the World Health Organization’s Good Manufacturing Practices. These initiatives aim to address local needs, in partnership with local stakeholders, and may have long-term sustainability aims.

- **Supports pharmacovigilance in low- and middle-income countries.**

**Definition:** Indicates whether the company supports initiatives to build capacity to improve pharmacovigilance capability (i.e., monitoring the effects of drugs and vaccines after sale to detect and assess adverse effects or any other medicine- or vaccine-related problem) in low- and middle-income countries as defined by the World Bank. These initiatives are typically carried out with local relevant partners and aligned with local needs, and their goals and outcomes are generally measured.

- **Trains local healthcare workers in low- and middle-income countries.**

**Definition:** Indicates whether the company undertakes initiatives to train health care workers in low- and middle-income countries (as defined by the World Bank) to strengthen the existing health system and build local capacity. These initiatives aim to address local needs in partnership with local stakeholders and may have long-term sustainability aims.

- **Improves availability of products to patients through pharmaceutical supply chain initiatives in low- and middle-income countries.**

**Definition:** Indicates whether the company undertakes initiatives to improve the pharmaceutical supply chain, beyond its own supply chain, in low- and middle-income countries as defined by the World Bank. These initiatives aim to address local needs in partnership with local stakeholders and may have long-term sustainability aims. Examples include initiatives to improve the last-mile supply of essential medicines.

- **Involvement in public-private partnerships for improving local research and development capacity in low- and middle-income countries.**

**Definition:** Indicates whether the company undertakes public-private partnerships to strengthen local research and development capability in low- and middle-income countries as defined by the World Bank. These initiatives

aim to address local needs and skill requirements in collaboration with relevant stakeholders, and may have long-term sustainability aims.

- **Capacity building of public health infrastructure, information, or health programs in low- and middle-income countries.**

**Definition:** Indicates whether the company undertakes initiatives to improve public health systems in terms of infrastructure, information, or health programs in low- and middle-income countries as defined by the World Bank. These initiatives aim to address local needs and skill requirements in collaboration with relevant stakeholders and may have long-term sustainability aims.

- **Number of non-exclusive voluntary licenses issued or received.**

**Definition:** The number of non-exclusive voluntary licenses (NEVLs) that a patent holder has issued or that a generic manufacturer has received to allow the manufacture and supply of generic versions of patented medicines by other manufacturers.

- **Extent of pricing policies based on affordability.**

**Definition:** Indicates whether the company implements tiered pricing (i.e., tailoring the price according to local ability to pay) for its products between countries, within countries or on both levels. Applies to patented drugs, generics, vaccines and medical devices.

- **Signed licensing agreements or entered into manufacturing contracts with the Medicines Patent Pool (MPP).**

**Definition:** The extent of the company's licensing agreements or manufacturing contracts with the Medicines Patent Pool (MPP).

Sources: Company disclosures, MPP.



## Controversies

A controversy deduction ranging from 0 to 5 points is subtracted from the overall Management Score, based on the severity and type of controversies facing the company on this Key Issue. The following categories of controversies are used in the assessment:

- Restricted or discriminatory access controversies.

For more details on how controversies are included in the MSCI ESG Ratings model, refer to Section 3.3.2, Controversies cases, of “ESG Ratings Methodology.”

## Access to Health Care Exposure Score

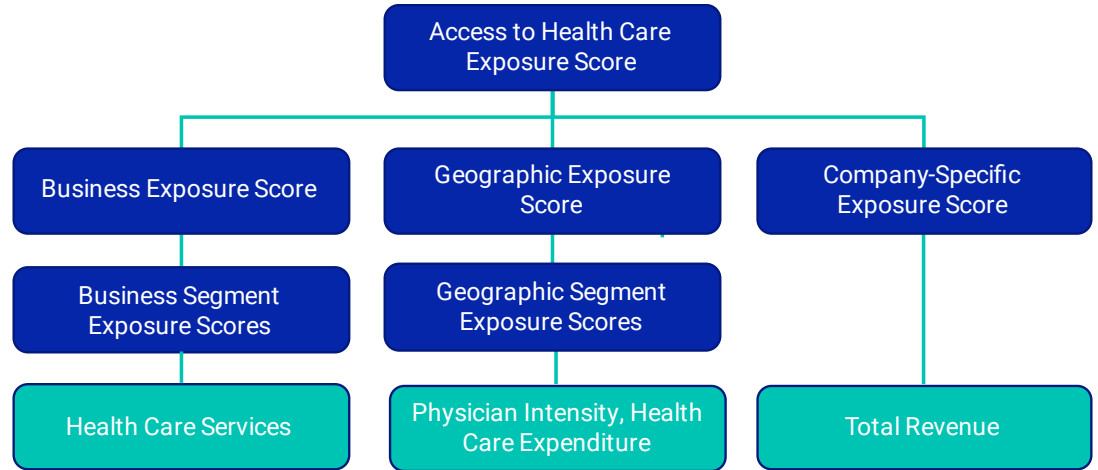
The Access to Health Exposure Score evaluates the company’s exposure to opportunities on this Key Issue. It is based on the average of the Business Segment Exposure Score and the Company-Specific Exposure Score, combined with the Geographic Exposure Score. The Geographic Exposure Score functions as a multiplier on the averaged Business and Company-Specific Exposure Scores, with an impact ranging from -50% to +50%. The Business Exposure Score, Geographic Exposure Score and Company-Specific Exposure Score are scored on a 0-10 scale, with 10 corresponding to the highest risk and 0 corresponding to the lowest risk. Refer to Section 3.2, Analyzing risk exposure, of “ESG Ratings Methodology” for additional details. The following formula is used in the Exposure Score calculation:

$$EXP_{AHE,i} = \left( \frac{BUS_{AHE,i} + COM_{AHE,i}}{2} \right) (1 + 0.1(GEO_{AHE,i} - 5))$$

Where:

- $EXP_{AHE,i}$  is the Access to Health Care Exposure Score of company  $i$ .
- $BUS_{AHE,i}$  is the Business Exposure Score of company  $i$ .
- $COM_{AHE,i}$  is the Company-Specific Exposure Score of company  $i$ .
- $GEO_{AHE,i}$  is the Geographic Exposure Score of company  $i$ .

**Exhibit 2: Exposure Score components**



**Business Exposure Score**

The Business Exposure Score is a weighted average of the Business Segment Exposure Scores of a company’s business segments. Scores are weighted by the proportion of a company’s total revenue in each business segment, using the following formula to calculate the Business Exposure Score:

$$BUS_{AHE,i} = \sum_{j=1}^{n_i} w_{Revenue,i,j} BSE_{AHE,j}$$

Where:

- $BSE_{AHE,j}$  is the Business Segment Exposure Score for business segment  $j$ .
- $w_{Revenue,i,j}$  is the weight of business segment  $j$  for company  $i$  based on the contribution to total company revenue.
- $n_i$  is the number of business segments of company  $i$ .

**Business Segment Exposure Score**

The Business Segment Exposure Score of a business segment is based on a mapping of the business segment as disclosed by the company to a corresponding business activity. MSCI ESG Research uses the Standard Industrial Classification (SIC) system along with industry-specific adjustments to define business activities. The score associated with a business activity is used to calculate a Business Segment Exposure Score. Each business activity score is

determined by a qualitative assessment of business segments linked to health care services such as pharmaceutical preparations.

## Geographic Exposure Score

The Geographic Exposure Score measures the extent to which companies operate in countries with low access to health care. It is a weighted average of the Geographic Segment Exposure Scores of the countries and regions in which a company operates. Scores are weighted by the proportion of a company’s total revenue in each geographic segment through the following equation:

$$GEO_{AHE,i} = \sum_{r=1}^{n_i} w_{Revenue,i,r} GSE_{AHE,r}$$

Where:

- $GSE_{AHE,r}$  is the Geographic Segment Exposure Score of region  $r$ .
- $w_{Revenue,i,r}$  is the weight of total assets in region  $r$  for company  $i$  based on the contribution to total company revenue.
- $n_i$  is the number of geographic segments for company  $i$ .

For geographic segments disclosed as regions (example: Asia Pacific), a nominal GDP-weighted country aggregation is used to calculate region-level scores, using the following equation:

$$GSE_{AHE,r} = \sum_{c=1}^{n_r} w_{GDP,r,c} GSE_{AHE,c}$$

Where:

- $GSE_{AHE,c}$  is the Geographic Segment Exposure Score of country  $c$ .
- $w_{GDP,r,c}$  is the specific weight of country  $c$  within region  $r$ .

## Geographic Segment Exposure Scores

The Geographic Segment Exposure Score is determined by a simple average of the Physician Concentration Score and the Out-Of-pocket Health Score:

$$GSE_{AHE,c} = \frac{PC_c + OOPH_c}{2}$$

Where:

- $PC_c$  is the Physician Concentration Score in country  $c$ .
- $OOPH_c$  is the Out-Of-Pocket Health Score in country  $c$ .

The Physician Concentration Score is derived from the number of physicians per 1,000 people in each country, whereby a lower ratio indicates a higher opportunity score. The Out-Of-Pocket Health Score is derived from the out-of-pocket expenditure as a percentage of total health care expenditure (normalized by gross national income per capita), whereby a lower percentage indicates a higher opportunity score.

### Company-Specific Exposure Score

The Company-Specific Exposure Score is determined from the Company Size Score derived from the company’s total revenue:

$$COM_{AHE,i} = COM\_SIZE_{Revenue,i}$$

Where:

- $COM\_SIZE_{Revenue,i}$  is the total revenue for company  $i$ .

### Data Sources

The following sources are used to determine the Access to Health Care Exposure Score:

Global Health Workforce Statistics, World Health Organization (WHO); Global Health Expenditure Database, World Bank, Refinitiv, MSCI ESG Research, company disclosures.”

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