



Q4 2024

# Engagement Report



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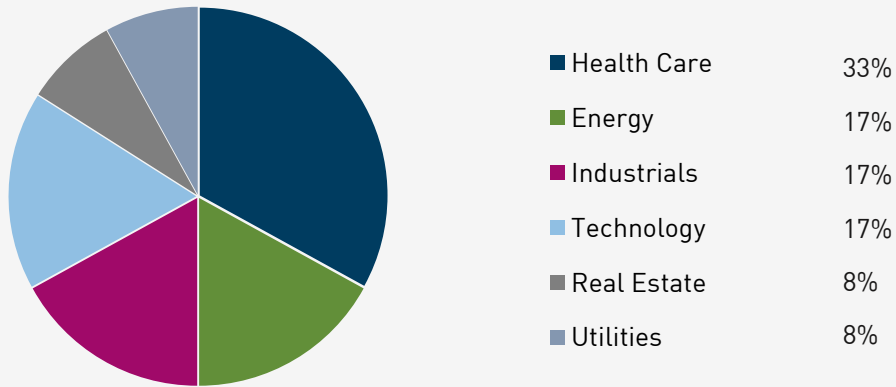
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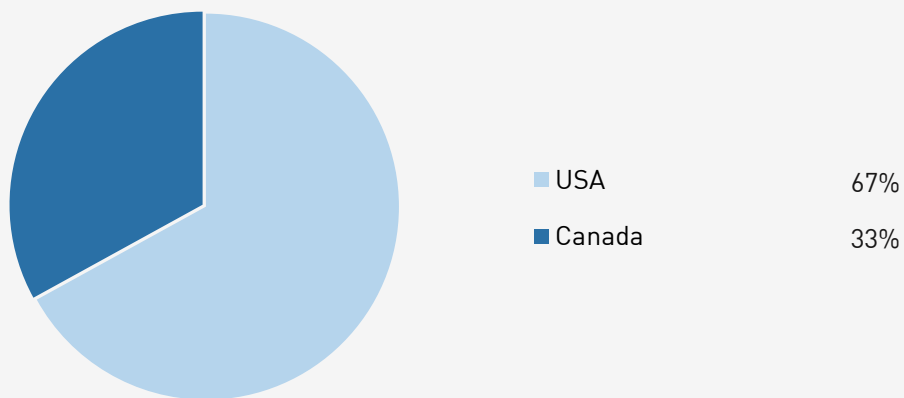
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# Q4 2024 Engagement Breakdown

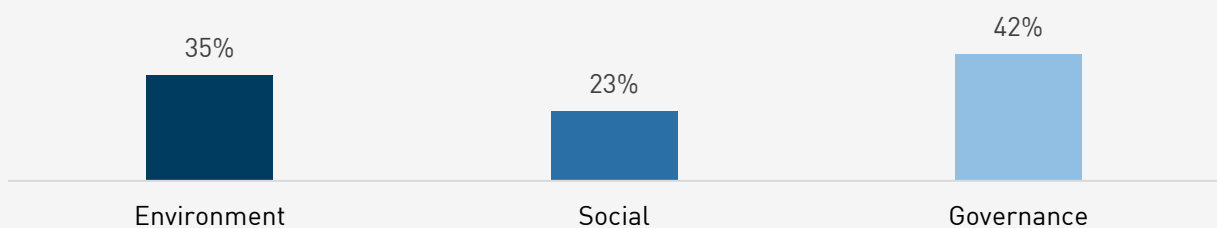
## Engagements by Sector



## Engagements by Geography



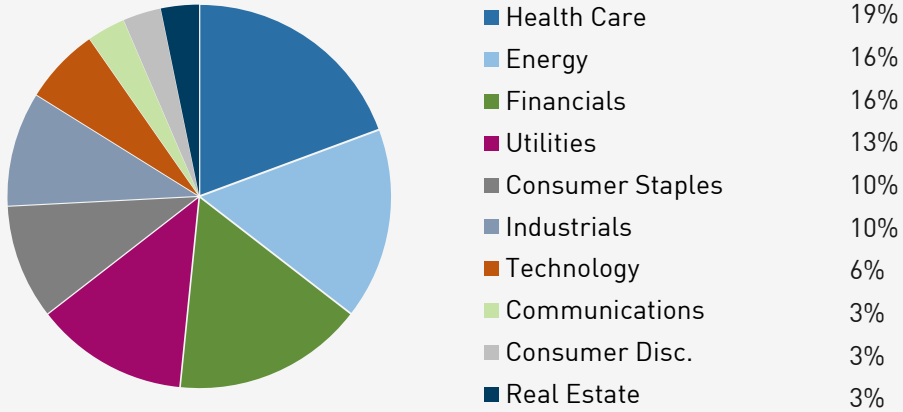
## ESG Discussion Topics



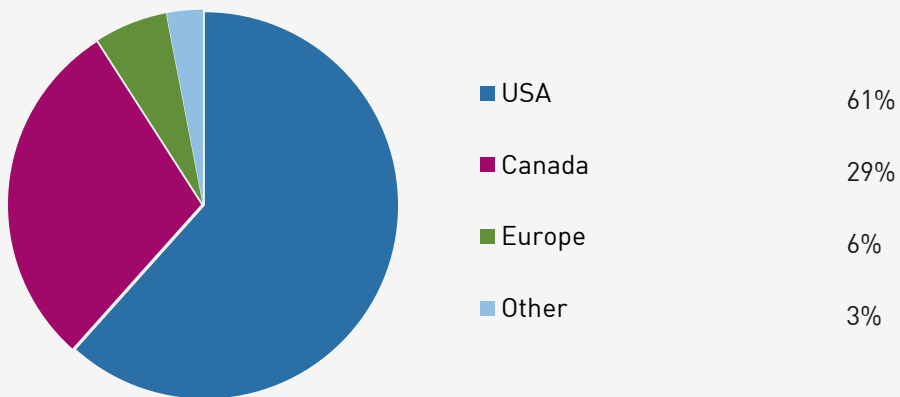
Data has been rounded to the nearest number, and the sum may not equal to 100%.

## 2024 Engagement Breakdown

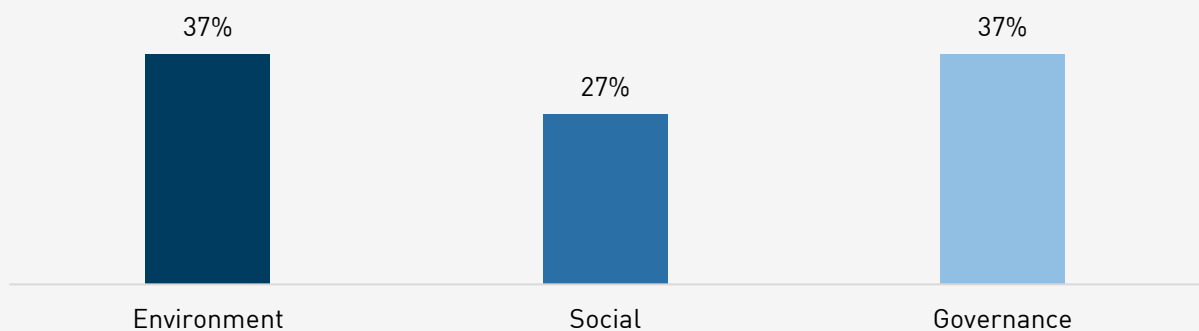
### Engagements by Sector



### Engagements by Geography



### ESG Discussion Topics



Data has been rounded to the nearest number, and the sum may not equal to 100%.

# Our Engagements

The return of the Trump administration has brought the healthcare sector back into focus, particularly with concerns around policy changes such as funding reductions for government programs. These shifts could materially impact healthcare providers reliant on such programs. With this in mind, we engaged with several companies in the healthcare sector this quarter to gain deeper insights into the risks and practices within this space.

## Hospital Management Company



Sector: Healthcare

Geography: U.S.

Discussion Topic: Social & Governance

### Engagement Rationale

- This particular issuer has recently been involved in a lawsuit alleging inappropriate physical exams conducted by a contracted doctor at a behavioral facility. Additionally, media reports about a peer company unnecessarily admitting and retaining patients raised concerns about potential industry-wide practices. Given that we hold this issuer across several mandates, we sought to better understand their governance and operational safeguards.

### Highlights & Outcome

- **Hospital Lawsuit:** The allegations of misconduct are confined to a contracted doctor at a single hospital subsidiary. The liability for these claims does not extend to the parent company. The issuer has robust insurance coverage across its subsidiaries and no anticipated need to raise debt as a result of this issue. Policies requiring a chaperone during physical exams have been reinforced, and normal business operations remain unaffected.
- **Behavioral Facility Investigations:** The issuer is under government scrutiny following media coverage of involuntary patient stays. The company highlighted its strict admission and discharge protocols, which require physician oversight to ensure compliance and patient safety. While dissatisfaction among behavioral hospital patients is not uncommon in the industry, the issuer's governance and procedural safeguards help mitigate potential risks.
- Despite these challenges, the issuer has demonstrated strong governance practices and a commitment to addressing risks proactively. Regarding government funding, the issuer emphasized that there are currently no concrete proposals to alter supplemental government payments. Furthermore, historical context indicates that even during his first term, President Trump, with a congressional majority, was unable to enact significant changes to healthcare policy. As a result, this engagement did not result in any changes to our existing positioning.

## Healthcare Services Company



Sector: Healthcare

Geography: U.S.

Discussion Topic: Environment & Governance

### Engagement Rationale

- We engaged with this issuer to assess their readiness for potential policy shifts, including the expiration of ACA subsidies, Medicaid funding changes, and site neutrality regulations. Although we do not currently hold this issuer, the discussion aimed to enhance our understanding of critical ESG factors shaping the healthcare sector.

### Highlights & Outcome

- **Policy Risks and Financial Impact**
  - **ACA Subsidies:** The issuer highlighted that enhanced ACA subsidies, set to expire on January 1, 2026, primarily benefit states with significant Trump voter bases. This political dynamic reduces the likelihood of subsidies expiring without replacement. Currently, ACA-related revenue accounts for 6.5% of consolidated revenue, compared to 4% before 2019. While reduced subsidies could impact utilization, management expects alternative coverage options, such as Bronze plans or Medicaid, to offset some of the effects.
  - **Medicaid:** Management conveyed confidence in the sustainability of supplemental Medicaid programs, which enjoy bipartisan support. These programs provide significant funding to hospitals, particularly in Republican-led states, while sidestepping direct links to the ACA.
  - **Site Neutrality:** The issuer's Ambulatory Surgery Center (ASC) segment, consisting of 520 facilities, operates solely on freestanding ASC rates, avoiding outpatient hospital rates. This approach reduces exposure to site neutrality risks. While the hospital segment may face some challenges, the ASC business remains well-positioned.
- We do not currently hold this issuer's bonds, and this engagement did not impact our positioning. However, we left the call with greater confidence regarding the potential impact of the new Trump administration and any associated headline risks for healthcare companies.

## Healthcare Services Company



Sector: Healthcare

Geography: U.S.

Discussion Topic: Environment & Governance

### Engagement Rationale

- Our engagement with this issuer aimed to better understand their preparedness for potential policy changes, specifically in relation to supplemental payments and site neutrality policies. While we do not currently hold this issuer, the discussion provided valuable insights into broader industry risks and opportunities within the healthcare sector.

### Highlights & Outcome

- **Site Neutrality:** Most people would define this as a procedure costing the same when done in a hospital or an outpatient centre. structural differences between hospitals and outpatient centers, such as 24-hour ER mandates, make true neutrality challenging.
- **Supplemental Payments:** Management expressed confidence that supplemental programs, many of which have been in place for over a decade, are unlikely to be eliminated. These programs have provided significant funding, particularly in Republican-dominated states like Texas and Florida, which have already adopted them with no adverse effects.
- **Management's Perspective on Policy Changes:** The issuer believes Washington will prioritize border security and inflation over significant healthcare policy changes. While rebranding of the Affordable Care Act (ACA) is possible, management does not anticipate substantial alterations, given the program's longevity and political implications.
- This engagement provided valuable clarity on how healthcare companies are approaching potential policy changes under the incoming administration. The issuer's insights reaffirmed our view that there are more compelling opportunities within the healthcare sector. The discussion enhanced our understanding of the landscape, particularly the resilience of supplemental programs and the issuer's confidence in minimal near-term policy disruption.

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