

DELIVERING SOCIAL AND ENVIRONMENTAL IMPACT IN THE HEALTHCARE SECTOR

SIGNATORY TYPE	Investment Manager
OPERATING REGION	US
ASSETS UNDER MANAGEMENT (AUM)	US\$550 billion*
FIXED INCOME AUM	US\$276 billion*
MUNICIPAL BONDS AUM	US\$42 billion*
AUTHORS	Eric Glass, CFA

HOW WE INTEGRATE ESG AND MEASURE IMPACT IN THE MUNICIPAL BOND SECTOR

AllianceBernstein (AB) recognises that environmental, social and governance (ESG) issues can impact the performance of investment portfolios. We believe the bottom-up integration of ESG factors into our research and investment processes is an important part of identifying investment risks as well as opportunities.

Within the municipal bond sector, AB's Municipal Impact Strategy focuses on the delivery of public goods and services to underserved and/or historically marginalised

communities through sectors that can deliver environmental and/or social impact. These include healthcare, education, mass transit, water/wastewater and renewable energy. Our investment process begins with fundamental and quantitative research in conjunction with rigorous impact evaluation and scoring to better assess risk/return dynamics of the specific investment. Only municipal bonds that meet or exceed a threshold proprietary score are approved for investment.

The PRI's Fixed Income Case Study series highlights examples of interesting and innovative approaches to responsible investment. Written by fixed income practitioners from around the world, the case studies cover topics such as ESG integration, negative and positive screening, thematic investment and engagement.

Sharing these examples will enable investors to collectively build a concept of emerging good practice. The PRI aims to publish these on an ongoing basis. If you would like to learn more or contribute your own case study, please [contact us](#).

* As of 30 September 2018

Measuring impact is key. We use key performance indicators that are customised to each sector of the market. For example, within the healthcare sector, social considerations are paramount. We use measures such as readmission rates, healthcare-acquired infections, patient satisfaction and timely and effective care in the emergency department as proxies for quality of healthcare services within hospitals - all of which are made available by the Centers for Medicare and Medicaid Services. We view successful healthcare systems as those that take a holistic approach that goes beyond the provision of medicine. We favour institutions that seek to disrupt the vicious cycle of poverty, housing insecurity, community violence, poor education systems and drug dependency by delivering wraparound services that reach the grassroots of the community. Ultimately, with our healthcare investments we intend to reduce the life expectancy gaps that persist throughout poor communities around the country. While determining the use of proceeds for certain sectors in the market can be a challenge, particularly if the capital plan is made up of thousands of projects that fall under broad categories, the proceeds of healthcare bonds go towards either a refunding which frees up cash flow for the healthcare institution or for the “bricks and mortar” where medical provision occurs.

Environmental considerations also matter; we look for systems that manage their carbon footprint and make facilities more efficient. Governance is always a critical component of our impact evaluation—management must be transparent and good stewards of capital as well as judicious issuers of debt.

BOSTON MEDICAL CENTER— MEASURABLE SOCIAL AND ENVIRONMENTAL IMPACT

Boston Medical Center (BMC) is a private, not-for-profit, 567-bed medical centre in downtown Boston, Massachusetts. It is the largest and busiest provider of trauma and emergency services in the New England region. It serves over one million patients a year, with 57 percent of visits made by underserved populations. BMC is challenged with addressing the health of communities like Roxbury where the average life expectancy for residents is 59. Compare that to the community of Beacon Hill, which is less than two miles from Roxbury but has a life expectancy of 92. There is a 33-year “death gap”¹ between two communities based largely on where they live. BMC has stepped up as the safety net hospital² for the city.

BMC ranks highly on AB’s proprietary ESG scoring model, as described below.

SOCIAL

BMC is the safety net healthcare provider in Boston, with more than 40 percent of its gross payer mix being Medicaid-eligible. BMC helps underserved communities by offering an extensive array of wraparound services, some of which are shown below.

¹ Ansell, David, MD., *The Death Gap: How Inequality Kills*, 2017.

² A safety net hospital is a medical centre that by legal obligation or mission provides healthcare for individuals regardless of their insurance status or ability to pay. A substantial share of its patient mix is uninsured, Medicaid, and other vulnerable patients.

Figure 1: Examples of wraparound services at Boston Medical Center. Source: AB

GRAYKEN CENTER FOR ADDICTION	This centre encompasses BMC's industry-leading efforts in treatment, training, research and prevention—a critical resource amid the US opioid crisis.
REACH OUT AND READ	Founded by BMC in 1989 and now serving all 50 states, the programme incorporates early literacy into paediatric care—every child leaves with a book. Nationally, 4.7 million children have received over 7 million books.
STREETCRED	Helps patients file taxes to tap into government assistance programmes that return crucial sources of cash to pay rent and/or water and electricity bills. The programme helps families obtain the Earned Income Tax Credit, returning \$726,006 to 300 BMC families in 2017.
MEDICAL LEGAL PARTNERSHIP	The union of legal advice and medicine. This outreach programme, founded at BMC and which now partners with over 180 hospitals and health centres nationwide, addresses the legal aspects of health, housing, food and education to ensure the basic needs of vulnerable populations are met.
THE FOOD PANTRY/ ROOFTOP FARM/ TEACHING KITCHEN	Works to address nutrition-related illnesses and malnutrition for low-income patients. Patients receive prescriptions for supplemental foods that promote physical health, prevent future illness and facilitate recovery. Families can visit the Food Pantry twice per month. The food pantry sources fresh produce (4,614 pounds; over 25 crops in 2017) from BMC's rooftop farm. The related teaching kitchen demonstrates how to prepare food consistent with a healthy lifestyle. The Food Pantry and teaching kitchen provide food for 80,000+ people a year. The cooking for recovery class is part of a growing trend towards taking a more comprehensive approach to treating addiction.
HOUSING	One in four patients admitted to the hospital is homeless, and even more live in unsafe places or are at risk of being evicted—conditions that research shows can exacerbate health problems. BMC is investing \$6.5 million over five years in a variety of targeted affordable housing projects throughout Boston's most underserved neighbourhoods.

ENVIRONMENTAL

BMC has taken several steps to reduce its carbon footprint and improve its energy efficiency and climate change resilience, including by:

- signing an agreement to purchase nearly all of its electricity through a new solar farm being constructed in North Carolina. The purchase is equivalent to 100 percent of BMC's projected electricity consumption, making it the greenest hospital in Boston and on track to become the first carbon-neutral hospital in New England;
- in 2017, going live with a \$15 million, natural gas-fired, 2 MW combined heat and power plant that is expected to save the hospital about \$1.5 million on energy costs annually. The facility will also serve as a back-up power source for city and state emergency communications. If the electric grid goes down, the hospital can heat and power its inpatient units on an "island" for months at a time, as long as it has a supply of natural gas; and
- installing generators on floors of patient care buildings, as well as cross-building critical infrastructure connections so that when one patient building loses power, it can connect to the generator in an adjacent building.

GOVERNANCE

From a credit rating agency perspective, BMC bonds are rated BBB (S&P)/Baa2 (Moody's). Financial operations for the group are in line with our expectations for similar hospital systems, including:

- Breakeven results for FY 2016
- Maximum Annual Debt Service coverage of 2.4x
- Adequate liquidity, with 134 days' cash on-hand

The group, along with all safety net hospitals across the country, receives significant government funding in the form of Medicaid, which could face future reductions and pressure financial operations.

BMC is transparent with its investors, offering regular reporting on financial metrics and utilisation statistics. Active engagement is a key part of our investment process, and BMC's management has been a willing engagement partner. Most recently, we conducted on-site visits in May and November of 2018, meeting its treasurer as well as multiple department heads and clinicians, and touring the facilities. We encouraged even greater communication on the impact of BMC's many initiatives.

In the US over the last several years, healthcare delivery has shifted from fee-for-service to population health management. Healthcare institutions will no longer be paid based on the number of procedures provided, but on the health and well-being of their patients within certain capitated revenue limits. Therefore, to maintain operational and financial viability, it is vital that overall patient health improves. It is also incumbent on hospitals to identify the heaviest users/consumers of healthcare and triage for acute illness as well as to help patients improve on quality of life measures. At BMC, it is estimated that 3 percent of Medicaid/mass health consumers are responsible for 20 percent of overall hospital-wide expenses.

We, as investors, anticipate a boost in operating margins and overall financial results from focusing on and improving the health dynamics of that 3 percent cohort. Addressing the social determinants of health will, first and foremost, keep patients as well as the community healthier and, secondly, drive improved investment results.

CONCLUSION

BMC's successful social impact programmes and high quality of care, combined with its measurable reduction in environmental impact and its solid financial profile, make the hospital's bonds an attractive candidate for consideration for a Municipal Impact portfolio.