

## SECOND PARTY OPINION (SPO)

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Sustainability Quality of the Issuer and Social Bond Framework

Royalty Pharma Plc  
14 July 2021

### VERIFICATION PARAMETERS

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Type(s) of instruments contemplated	<ul style="list-style-type: none"><li>• Social Bond</li></ul>
Relevant standards	<ul style="list-style-type: none"><li>• ICMA Social Bond Principles</li></ul>
Scope of verification	<ul style="list-style-type: none"><li>• Royalty Pharma Plc Social Bond Framework (as of 06.07.2021)</li><li>• Royalty Pharma Plc Selection Criteria (as of 06.07.2021)</li></ul>
Lifecycle	<ul style="list-style-type: none"><li>• Pre-issuance verification</li></ul>
Validity	<ul style="list-style-type: none"><li>• As long as Royalty Pharma Plc Social Bond Framework (July 2021) remains unchanged</li></ul>

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## Scope of work

Royalty Pharma Plc ('Royalty Pharma' or 'the issuer' or 'the company') commissioned ISS ESG to assist with its Social Bond Framework by assessing three core elements to determine the sustainability quality of the instrument:

1. Social Bond Framework link to Royalty Pharma's sustainability strategy – drawing on Royalty Pharma's overall sustainability profile and issuance-specific Use of Proceeds categories.
2. Royalty Pharma's Social Bond Framework (July 2021 version) – benchmarked against the International Capital Market Association's (ICMA) Social Bond Principles (SBPs).
3. The Selection Criteria – whether the projects contribute positively to the UN SDGs and perform against ISS ESG's issue-specific key performance indicators (KPIs) (See Annex 2).

## Business overview

Founded in 1996, Royalty Pharma is a buyer of biopharmaceutical royalties and a funder of innovation across the biopharmaceutical industry, collaborating with innovators from academic institutions, research hospitals and not-for-profits through small and mid-cap biotechnology companies to leading global pharmaceutical companies.

Royalty Pharma funds innovation in the biopharmaceutical industry both directly and indirectly—directly when it partners with companies to co-fund late-stage clinical trials and new product launches in exchange for future royalties, and indirectly when it acquires existing royalties from the original innovators.

Its portfolio includes royalties on more than 45 commercial products, including AbbVie and J&J's Imbruvica, Astellas and Pfizer's Xtandi, Biogen's Tysabri, Gilead's Trodelvy, Merck's Januvia, Novartis' Promacta, and Vertex's Kalydeco, Orkambi, Symdeko and Trikafta, and five development-stage product candidates. The therapies in its portfolio address therapeutic areas such as rare diseases, cancer, neurology, hematology and diabetes.

## ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION <sup>1</sup>
<p><b>Part 1:</b></p> <p><b>Social Bond Framework link to issuer's sustainability strategy</b></p>	<p>According to the ISS ESG Corporate Rating published on 20.11.2020, the issuer shows a high sustainability performance against the industry peer group on key ESG issues faced by the Specialized Finance sector.<sup>2</sup> The issuer is rated 11<sup>th</sup> out of 90 companies within its sector.</p> <p>The Use of Proceeds outlined in the Social Bond Framework are consistent with the issuer's sustainability strategy and material ESG topics for the issuer's industry. The rationale for issuing social bonds is clearly described by the issuer.</p>	<p><b>Consistent with issuer's sustainability strategy</b></p>
<p><b>Part 2:</b></p> <p><b>Alignment with SBPs</b></p>	<p>The issuer has defined a formal concept for its Social Bond Framework regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the Social Bond Principles.</p>	<p><b>Aligned</b></p>
<p><b>Part 3:</b></p> <p><b>Sustainability quality of the Selection criteria</b></p>	<p>The overall sustainability quality of the Selection Criteria in terms of sustainability benefits, risk avoidance and minimisation is good based upon the ISS ESG assessment. The Social Bond Framework will (re-)finance eligible asset categories which include: Co-fund late-stage clinical trials and new product launches in exchange for future royalties as well as acquiring existing royalties.</p> <p>Those use of proceeds categories have a significant contribution to SDG 3 'Good health and well-being'. The environmental and social risks associated with those use of proceeds categories have been well managed.</p>	<p><b>Positive</b></p>

<sup>1</sup> ISS ESG's evaluation is based on the Royalty Pharma's Social Bond Framework (July 2021 version), on the analysed Selection Criteria as received in June 2021, and on the ISS ESG Corporate Rating applicable at the SPO delivery date (updated on the 06.07.2021).

<sup>2</sup> Essential to the biopharma ecosystem, Royalty Pharma is commonly classified as a bio-pharmaceutical company. The ISS sector classification 'Specialized Finance' is very specific to ISS ESG Corporate Rating methodology. It enables ISS ESG to capture and evaluate the risks relating to Royalty Pharma funding activity by including lending/financing indicators in the company's ESG overall assessment.

## ISS ESG SPO ASSESSMENT

### PART I: SOCIAL BOND FRAMEWORK LINK TO ROYALTY PHARMA'S SUSTAINABILITY STRATEGY

#### A. ASSESSMENT OF ROYALTY PHARMA'S ESG PERFORMANCE

**Methodological Note:** Please note that this section of the SPO is a partial extract from the ISS ESG Corporate Rating

The ISS ESG Corporate Rating provides material and forward-looking environmental, social and governance (ESG) data and performance assessments.

COMPANY	SECTOR	DECILE RANK	TRANSPARENCY LEVEL
ROYALTY PHARMA PLC	SPECIALIZED FINANCE (Commonly Classified as Biopharmaceutical <sup>3</sup> )	2	HIGH

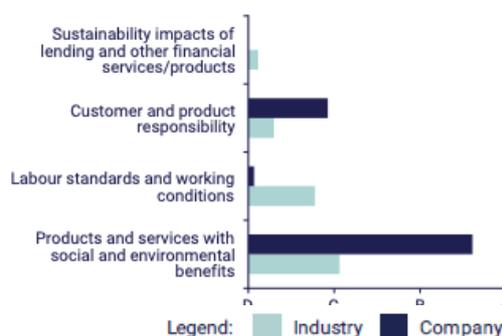
This means that the company currently shows a high sustainability performance against peers on key ESG issues faced by its sector and obtains a Decile Rank relative to industry group of 2, given that a decile rank of 1 indicates highest relative ESG performance out of 10.

#### ESG performance

As of 06.07.2021, this Rating places Royalty Pharma 11<sup>th</sup> out of 90 companies rated by ISS ESG in its sector.

Key challenges faced by companies in terms of sustainability management in this sector are displayed in the chart on the right, as well as the issuer's performance against those key challenges in comparison to the average industry peers' performance.

#### Key Issue Performance



#### Sustainability Opportunities

Royalty Pharma invests in biopharmaceutical royalties and accelerates innovation through the co-funding of late-stage clinical trials and new product launches in exchange for future royalties. With this business model, the company contributes significantly to the development of new prescription drugs and therapies, which are assessed positively for the sustainable development goal of ensuring health.

<sup>3</sup> Essential to the biopharma ecosystem, Royalty Pharma is commonly described as a bio-pharmaceutical company. The ISS sector classification 'Specialized Finance' is very specific to ISS ESG Corporate Rating methodology. It enables ISS ESG to capture and evaluate the risks relating to Royalty Pharma funding activity by including financing indicators in the company's ESG overall assessment.

### *Sustainability Risks*

Royalty Pharma does not have relevant environmental investment guidelines in place, to address risks from the manufacturing and distribution of the relevant drugs and therapies, but they do have general social investment guidelines related to relevant clinical trials. While the company is managed externally and the number of attributable staff is low, it remains unclear how staff related risk, such as mental health are addressed. With respect to climate change, the company does not seem to have a clear position, or collect data on relevant emissions. The company has a code of conduct in place, several issues are however not discussed in detail, such as antitrust violations and insider dealings.

### *Governance opinion*

Regarding Royalty Pharma’s governance structure, the board chair, Mr. Pablo Legorreta, is not considered independent, as he is also the company's CEO and founder (as at June 16, 2021). However, the large majority of the board members are considered independent. The company has established completely independent board committees in charge of audit, remuneration and nomination.

Compensation schemes for the executive team are publicly disclosed on an individual basis and subdivided according to fixed amounts, variable performance-related components and long-term incentive components, which can incentivize sustainable value creation. Regarding Royalty Pharma’s governance of sustainability, they have established a board level sustainability committee comprised of completely independent members. It remains unclear whether sustainability performance objectives are integrated into the variable performance of the executive team. In the area of business ethics, the company has implemented a code of conduct covering important issues such as insider dealings, conflicts of interests and corruption. However, some of these issues are only discussed in limited detail. Compliance with these rules is supported by anonymous and confidential reporting hotlines, and detailed procedures to protect whistleblowers.

### *Sustainability impact of products and services portfolio*

Using a proprietary methodology, ISS ESG assessed the contribution of Royalty Pharma’s current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs).

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE	DIRECTION OF IMPACT	UN SDGS
<b>Royalties from various drugs and therapies</b>	100%	CONTRIBUTION	
<b>Others</b>	N/A	NO NET IMPACT	N/A

### *Breaches of international norms and ESG controversies*

The company is not facing any controversy.

## B. CONSISTENCY OF SOCIAL BOND FRAMEWORK WITH ROYALTY PHARMA'S SUSTAINABILITY STRATEGY

### *Key sustainability objectives and priorities defined by the issuer*

Royalty Pharma plays an important role in providing capital to the biopharma ecosystem and thereby positively impacting human health. Despite the passive nature of its business, it strives to invest in novel therapies that address unmet patient needs and support ethical business practices that drive innovation, competition, and patient choice.

Its mission is to accelerate innovation in life sciences, collaborating with innovators to make the research and development ecosystem more productive. The company does this through collaborating with academia including universities and other research institutions research hospitals, and not-for-profit Foundations to acquire existing royalties from innovators, as well as acquiring existing royalties from biopharmaceutical companies and partnering with them directly to co-fund late-stage clinical trials and new product launches in exchange for future royalties.

### *Rationale for issuance*

Through the issuance of any Social Bonds, Royalty Pharma aims to finance and refinance, in whole or in part, Social Investments that align with its mission to positively impact human health.

### *Contribution of Use of Proceeds categories to sustainability objectives and priorities*

ISS ESG mapped the Use of Proceeds categories financed under the Social Bond Framework with the sustainability objectives defined by the issuer, and with the key ESG industry challenges faced by its sector. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings sector. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds categories.

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
Access to essential services: Healthcare	✓	✓	Contribution to material objectives

**Opinion:** ISS ESG finds that the Use of Proceeds financed through this Social Bond Framework are consistent with the issuer's sustainability strategy and material ESG topics for the issuer's industry. The rationale for issuing social bonds is clearly described by the issuer.

## PART II: ALIGNMENT WITH SOCIAL BOND PRINCIPLES

### 1. Use of Proceeds

Royalty Pharma intends to allocate an amount equal to the net proceeds from the sale of any Social Bond issuances to finance or refinance, in whole or in part, one or more new or existing Eligible Investments. “Eligible Investments” include investments made by the company or any of its subsidiaries and affiliates, beginning with the issuance date of any Social Bonds, or in the 24 months prior to any such issuance.

Investments related to partnerships that fund innovation in the biopharmaceutical industry either:

- Directly when Royalty Pharma partners with companies to co-fund late-stage clinical trials and new product launches in exchange for future royalties, or;
- Indirectly when it acquires existing royalties from the original innovators, including from hospitals, not-for-profit foundations, and academic institutions.

Royalty Pharma will not knowingly allocate proceeds from the issuance of its Social Bonds to activities involving the exploitation of human rights or environmental destruction. It will allocate investments as soon as practicable.

**Opinion:** ISS ESG considers the Use of Proceeds description provided by Royalty Pharma’s Social Bond Framework as aligned with the Social Bond Principles. Social benefits for the investment category have been clearly identified.

### 2. Process for Project Evaluation and Selection

Royalty Pharma regularly analyzes the environmental and social impacts of its business. Additionally, it conducts thorough due diligence and monitoring with all its investment positions. Pharmaceutical companies, academic and non-profit institutions with which they work typically have well-developed and transparent governance policies which seek to benefit wider society through sustainable and ethical business practices. Selected members from the company’s Treasury, Research & Investments, and Legal teams will review and select investments that align with its Social Bond framework. Final allocation will be reviewed and approved by the Treasurer.

**Opinion:** ISS ESG considers the Process for Project Evaluation and Selection description provided by Royalty Pharma’s Social Bond Framework as aligned with the Social Bond Principles. Moreover, the projects selected show alignment with the sustainability strategy of the issuer. A team of relevant and diverse stakeholders are involved in the selection process.

### 3. Management of Proceeds

Royalty Pharma has established an internal process to track an amount equal to the net proceeds of any Social Bond issued under the Framework and allocate it to eligible investments. Pending allocation, proceeds may be temporarily invested in cash, cash equivalents, and/or held in accordance with Royalty Pharma’s internal liquidity policy. The company will allocate investments as soon as practicable.

**Opinion:** ISS ESG finds that Management of Proceeds proposed by Royalty Pharma's Social Bond Framework is well aligned with the Social Bond Principles. Identification of temporary investment processes for unallocated proceeds aligns with ICMA best practices.

## 4. Reporting

### Allocation Reporting

The Social Bond Impact Report will be published on Royalty Pharma's website beginning one year after the issuance of its first social bond, and annually thereafter until all proceeds have been fully allocated.

The report will include:

- The amount of net proceeds allocated to each Eligible Social Investment either individually or by category, subject to confidentiality considerations
- Expected impact metrics, where feasible
- A selection of brief investment descriptions; and
- The outstanding amount of net proceeds to be allocated to Eligible Social Investments at the end of the reporting period.

### Impact Reporting

Where feasible Royalty Pharma's Social Bond Report will include qualitative and if practical quantitative social performance indicators, such as total number of patients impacted by new therapies.

**Opinion:** ISS ESG finds that the reporting proposed by Royalty Pharma's Social Bond Framework is aligned with the Social Bond Principles. The issuer has clearly defined the scope and level of reporting, and reports will be publicly available and developed annually until net proceeds are fully allocated.

### External review

It is expected that any Social Bond Report by Royalty Pharma will be accompanied by

- Assertions by Royalty Pharma's management as to the amount of the net proceeds from the sale of the Social Bond that have been allocated to Eligible Investment;
- A report from an independent registered public accounting firm in respect of its examination of management's assertions on the allocation of proceeds conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

## PART III: SUSTAINABILITY QUALITY OF THE ISSUANCE

### A. CONTRIBUTION OF THE SOCIAL BOND FRAMEWORK TO THE UN SDGs

Based on the assessment of the sustainability quality of the Social Bond Selection criteria and using a proprietary methodology, ISS ESG assessed the contribution of the Royalty Pharma’s Social Bond Framework to the Sustainable Development Goals defined by the United Nations (UN SDGs).

This assessment is displayed on 5-point scale (see Annex 2 for methodology):



Each of the Social Bond’s Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
Investments in health-related research	Significant Contribution	

## B. MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ASSOCIATED WITH THE SELECTION CRITERIA

The table below presents the findings of an ISS ESG assessment of the Selection criteria against ISS ESG KPIs.<sup>4</sup>

### ASSESSMENT AGAINST ISS ESG KPI

#### Business ethics, lobbying and ethical marketing

- ✓ Royalty Pharma did not recently engage registered lobbyists, both federal and state, to support any legislative or regulatory activities. If Royalty Pharma financially contributes to any political campaigns, this information would be publicly disclosed on the Federal Election Commission website (<https://www.fec.gov/data/>) and disclosed in its UK Annual Report.

- Royalty Pharma is not involved in the marketing of its royalty products and, thus, cannot systematically ensure that all marketing practices will be responsible. However, it considers the marketing practices of the pharmaceutical companies financed during the pre-investment process for all the Royalties and commits to respect the highest ethical standards in its investment decision-making process.

#### Ethics in research and development

- ✓ Royalty Pharma partners only with companies operating under the oversight of major regulatory agencies that according to the issuer generally adhere to PhRMA's Principles on Conduct of Clinical Trials and BIO's Principles on Clinical Trials.
- ✓ Royalty Pharma's role in the biopharma ecosystem primarily involves the funding of late-stage clinical trials in human subjects, or the acquisition of approved and marketed products. Thus, most of the research financed does not include clinical trials on animal subjects.

#### Water management and pharmaceutical residues

- Royalty Pharma's portfolio is comprised of a variety of small molecule and biological compounds. Biological compounds and some small molecules have a negligible environmental impact due to their high biodegradability. Limited information is available on the % of small molecules compounds for which an environmental impact assessment was conducted to assess their biodegradability.

#### Access to medicine

- ✓ While approx. 35% of Royalty Pharma's royalties are generated outside of the US, there is limited data available on the geography (developed vs developing countries) and population (vulnerable, low income etc.) covered by the therapies. However, the products on which Royalty Pharma receives royalties are sold in most countries.
- Royalty Pharma does not control drug pricing and is not involved in the marketing of its royalty products, but supports access to high-quality healthcare for all. The issuer's investments tend to focus on therapies with growth driven by volume vs. price increases.

<sup>4</sup> The assessment in this section does not use the ISS ESG Corporate Rating methodology.

**Health benefits of products and drug safety (good manufacturing practices)**

- ✓ Royalty Pharma is not involved in the manufacturing process of the therapy but most of its partners responsible for it comply with international standards for good manufacturing practices. Moreover, Royalty Pharma's investment process involves conducting due diligence and evaluation of product safety and quality of the underlying therapies.

## DISCLAIMER

1. Validity of the SPO: As long as Royalty Pharma Plc Social Bond Framework (July 2021) remains unchanged
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
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## ANNEX 1: Methodology

### ISS ESG Social KPIs

The ISS ESG Social Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of Royalty Pharma’s Social Bond.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting. If a majority of assets fulfill the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

To review the KPIs used in this SPO, please contact Federico Pezzolato (details below) who will send them directly to you.

### Environmental and social risks assessment methodology

ISS ESG evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Social Bond KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available to ISS ESG or that the information provided did not fulfil the requirements of the ISS ESG Social Bond KPIs.

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by Royalty Pharma (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the issuer.

### Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, ISS ESG identifies the extent to which Royalty Pharma’s Social Bond contributes to related SDGs.

## ANNEX 2: ISS ESG Corporate Rating Methodology

The following pages contain methodology description of the ISS ESG Corporate Rating.

### Royalty Pharma Plc

#### Methodology - Overview

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

**ESG Corporate Rating** - The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

**Analyst Opinion** - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

**Norm-Based Research - Severity Indicator** - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
- Degree of verification of allegations and claims
- Severity of impact on people and the environment, and systematic or systemic nature of malpractices

Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

**Decile Rank** - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Corporate Ratings in the decile below.

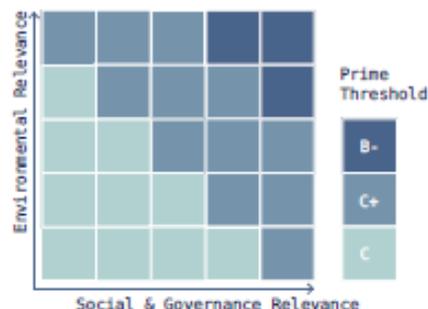
**Distribution of Ratings** - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

# Royalty Pharma Plc

## Methodology - Overview

**Industry Classification** - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).



**Industry Leaders** - List (in alphabetical order) of the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

**Key Issue Performance** - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

**Performance Score** - The ESG Performance Score allows for cross-industry comparisons using a standardized best-in-class threshold that is valid across all industries. It is the numerical representation of the alphabetic ratings (D- to A+) on a scale of 0 to 100 with 50 representing the prime threshold. All companies with values greater than 50 are Prime, while companies with values less than 50 are Not Prime. As a result, intervals are of varying size depending on the original industry-specific prime thresholds.

**Rating History** - Development of the company's rating over time and comparison to the average rating in the industry.

**Rating Scale** - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

**Sources of Information** - A selection of sources used for this report is illustrated in the annex.

**Status & Prime Threshold** - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

**Transparency Level** - The Transparency Level indicates the company's materiality-adjusted disclosure level regarding the environmental and social performance indicators defined in the ESG Corporate Rating. It takes into consideration whether the company has disclosed relevant information regarding a specific indicator, either in its public ESG disclosures or as part of the rating feedback process, as well as the indicator's materiality reflected in its absolute weight in the rating. The calculated percentage is classified in five transparency levels following the scale below.

0% - < 20%: very low

20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

For example, if a company discloses information for indicators with a cumulated absolute weight in the rating of 23 percent, then its Transparency Level is "low". A company's failure to disclose, or lack of transparency, will impact a company's ESG performance rating negatively.

## ANNEX 3: Quality management processes

### SCOPE

Royalty Pharma commissioned ISS ESG to compile a Social Bond SPO. The Second Party Opinion process includes verifying whether the Social Bond Framework aligns with the Social Bond Principles and to assess the sustainability credentials of its Social Bond, as well as the issuer's sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Social Bond Principles
- ISS ESG KPI set:
  - Pharmaceuticals KPI set

### ISSUER'S RESPONSIBILITY

Royalty Pharma's responsibility was to provide information and documentation on:

- Framework
- Asset pool / Eligibility criteria
- Documentation of ESG risks management at the asset level

### ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Social Bond to be issued by Royalty Pharma based on ISS ESG methodology and in line with the ICMA Social Bond Principles.

The engagement with Royalty Pharma took place in July 2021.

### ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

## About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For Information about SPO services, contact:

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