**TRANSCRIPT**

**PENSIONS FOR PURPOSE PODCAST SERIES 1, EPISODE 12**

**ACCESS TO MEDICINES: HOW SUSTAINABLE INVESTORS CAN SUPPORT HEALTHCARE AND SDG 3

Charlotte Moore**: Hi. Welcome to the latest episode of the Pensions for Purpose podcast. I'm Charlotte Moore, and I'm your host. I'm delighted to welcome David Brown, Senior Director of Pensions for Purpose, back to the podcast. Hello, David.

**David Brown**: Good morning, Charlotte, it's great to be here.

**Charlotte Moore**: It's great to have you back, and we're both really delighted to welcome Clare Wood, Sustainable Portfolio Specialist at Stewart Investors, to the show.

**Charlotte Moore**: Welcome, Clare.

**Clare Wood**: Thanks, Charlotte. It's so great to be here.

**Charlotte Moore**: Lovely to have you on the show. Today, we're going to talk about access to medicines, why it's important, and how it feeds into sustainable development goals. Clare, I doubt many of our listeners have even heard about Access to Medicines. Can you tell us about its purpose?

**Clare Wood**: Yes, the Access to Medicines Foundation is an independent, nonprofit organisation that's based in the Netherlands, and it is their mission to stimulate and guide healthcare companies, pharma companies, to bring their products to the billions of people who can't afford basic health care. They started publishing an Access to Medicines index first in 2008, and they've been issuing it every two years since. Last week, they launched the twelfth, 2024 edition version. That index ranks 20 of the world's largest research-based pharma companies on how well they do on different dimensions of providing access to medicines across a number of different areas: governance of access, how well management is actually thinking about this in the boardroom, how much research and development they are doing into it, and how much of that is feeding through into product delivery.

There are many barriers to access to medicine. I think we all think about affordability as the main one, as the price of the medicines, and that definitely is something that we can get into later in the podcast. But there are others. There are things like product registrations, product approvals, how complicated the drug is, and how difficult it is to dose it for different people and populations.

They look at all of these dimensions, and what they've done over the last 20, 24 years, 26 years is really to provide best practice in all of these areas, share that with the healthcare companies themselves, but importantly also share it with investors who talk to the healthcare companies so that we can talk to them. To help drive improvements in affordable access so that these companies can meaningfully contribute to global health equity in a sustainable way. They also have a great website—I really highly recommend any of the listeners who are interested in the topic take a look.

**Charlotte Moore**: Now, I said many of our listeners may be unaware of Access to Medicines, but it turns out our very own David Brown is indeed aware of it.

**Charlotte Moore**: So, can you tell us how you know about Access to Medicines, David?

**David Brown**: Yeah, very happy to, Charlotte, and that's absolutely right. I have used the Foundation website before. Just by way of background, first of all, when we speak to asset owners about ESG and impact, we reference that we make choices as individuals every day as well as in our professional lives.

While as an individual, like many others, I have a choice of who I work for. I work at Pensions for Purpose because the beliefs around the importance of people and planet alongside profit have aligned with my own. Outside of Pensions for Purpose, when considering new roles, I always, like many, research the organisation in advance. So, when I had the opportunity to join the trustee board of a pharma company, where I had reservations about the industry in general, I came across the Access to Medicines Foundation and reviewed our positioning and the latest access to medicine index.

This is a great analytical tool for ESG purposes, and I did this to try and understand how that particular pharma firm was performing. Pleasingly, it performed well across multiple indicators in all of the areas benchmarked, covering governance of access, research and development, and product delivery. While Access to Medicines is not a panacea for everything ESG-related when it comes to healthcare, and there is still a lot more that pharma companies can do, it helped me get comfortable with my own personal decision-making.

**Charlotte Moore**: That's very helpful and it gives us an idea of how this registry, this Access to Medicines, can help with governance issues. Clare, could you expand on how it helps you as a sustainable investor?

**Clare Wood**: Sure. Access to medicines is a sustainability issue, and I think it's a really important issue for long-term investors. We've been using the Access to Medicines Index since it was first published. It’s a lens through which we can look at the companies we seek to invest in, and then once we're invested, to guide our engagements with them.

We seek to hold companies for the long term: a decade or more, ideally. Two of the things that we look at around companies are the people that manage them—are they managed by competent and ethical stewards? How resilient are the franchises? A question of how they handle something like Access to Medicines is a really great lens to look at the quality of the people and the decisions they're making for the company in terms of its long-term future, but also how well they're handling equity and similar issues.

A franchise built on targeting a quite limited consumer base with expensive drugs is only going to be sustainable for so long before it gets called into question by regulators, healthcare providers, and consumers. Whereas if you can build a business model that's providing available, affordable medicines to the billions of people living in low- and middle-income countries, that's a large and highly growing consumer base. So, rather than limiting your business to this sort of shrinking, aging population, if you can find a business that serves the customers of the future, we feel that's a great starting point for us to look at companies to hold for the long term.

**Charlotte Moore**: Yeah, and I think you've alluded there, Clare, to the life cycle of a pharmaceutical company and also of the drugs that they first discover, innovate, and then manufacture.

**Charlotte Moore**: So, can you talk to us about that? Because as most of us know, drugs are protected by patent for a while and then become generic. How does the economics of that work, and how does it benefit people around the world?

**Clare Wood**: That's right. The research-based pharma companies spend a lot of money on research to develop the drugs, taking them through the clinical trials and the pipeline. It's quite right that they should be patent-protected because they have to make a return on their investment. After a while, when the drugs come off patent, they are then available for other drug manufacturers to make, and they become termed generics. We're all familiar with things like generic paracetamol and drugs that may be sold by the supermarkets that are different from the branded names.

Because price is important, generic drugs can play an important role in providing access to medicines. It's definitely an area where we’ve found great investments in generic drug manufacturers. To the point where, a couple of years ago, when the Access to Medicines Foundation was thinking of expanding their work out to create a framework and an index for generics manufacturers, we took the decision to actually fund them in that and enter a strategic research partnership with them.

We have funded their generic manufacturer stream, where they look at these different business models. Because you're selling the drug at a lower price, you have to focus on the efficiency of the manufacturing and the wide distribution of it. You're selling something at a lower price to a much wider range of people. Also, really importantly, the safety and quality control of your manufacturing has to all be in place to avoid bad outcomes and reputational issues for the generics manufacturers as well.

From an impact perspective, when you think the World Health Organization has a list of essential medicines around the world, only 10% of the drugs on that list are on patent. So, 90% of them are off patent and can be made by generics manufacturers. So it's clear to see the opportunity these drugs manufacturers have to create a return for shareholders, but also to drive sustainable and human development.

**Charlotte Moore**: Yes, I think the classic case of a drug that went off patent and really could change lives around the developing world was, of course, AIDS medication, which made a huge difference. There were lots of questions at the time about whether it was ethical for these companies to even keep the patent protection.

This is a big issue that can have a big impact around the world, even in the UK. I heard yesterday on the *Today* programme, they were talking about generic manufacturing of drugs to help people with ADHD, and how we've got a shortage of that drug and how that's an issue even for the developed world as well as the developing world. So, it really is a sustainable investment issue that impacts us globally, isn’t it, Clare?

**Clare Wood**: It absolutely is. I think the AIDS example is a fantastic one. There’s a company called Cipla. It’s an Indian-based company that designed a business model around providing access to these antiretrovirals in developing countries for a thirtieth of the price they were being sold in the developed countries. So less than one dollar a day and that's had a huge impact. One in three people living with HIV now rely on those Cipla drugs for their treatment. You can imagine the scale of impact that's had on those people and those lives has been immense. The conversation now is really around things like the GLP-1s and the diabetes drugs are now starting to come off the patent now as well in certain countries. I think that's going to also be really important for addressing diabetes and some of the more non-communicable diseases as well.

**Charlotte Moore:** So now you've got this, you've helped Access to Medicines build this generic list, I can see that helps you as an investor because it helps you have a global view on all medicines. Can you talk to us a bit more on how that helps you shape what you do as a sustainable investor?

**Clare Wood:** It gives us this framework around how to think about how well the generics manufacturers are doing. So it's similar to the main index, but they look at some slightly different factors. So they're looking at how these companies expand access. They're looking importantly at those issues of supply and quality and then also at research and development as well, because price is not the only barrier to access. So being able to manufacture at a low price is important, but there's more that needs to be done. Licenses, logistics, all of these are important in terms of providing access.

Being able to get products registered in countries and approved, being able to build local manufacturing capability is really important for delivering access in particular countries. This idea of technology transfer where you have local manufacturers then learning how to make the medicines themselves rather than them being sort of sent into the country. Then another really important area is this research and development into adaptations.

So things like: fixed dose combinations, delivery mechanisms, if you have a drug that needs to be kept refrigerated or needs to be injected, it's much harder to distribute than a simple pill. So research into other ways to deliver, store and transport drugs is also important in expanding access. So, for us as investors, we're looking at what the companies can do and what they can do better. It's not just altruism, so these businesses with continued reinvestment, they are the ones that are going to have the growth potential. When we're looking over ten years, we're not looking at next quarter's earnings or next year's earnings. We're looking at what this company could become in ten years’ time. Those companies that are really thinking about this are the ones we find interesting as investors.

**Charlotte Moore:** Yeah, and you mentioned a good point there that because as things becomes more complex, you mentioned GLP-1 drugs that are being used to treat diabetes and we're moving away from simple molecular compounds in pill form and talking about manufacturing peptides and the like, it's much more complex when you're manufacturing big molecules like that and then add in the delivery systems and the whole thing becomes more complicated and needs more expertise and money. I can imagine as well.

**Clare Wood:** That's right, and so these biological drugs, the equivalent term for them is biosimilars, because you can't get them exactly the same as you can with a molecule. But you can get them close enough with the same production mechanism. Again, it's important how well that manufacturing is being done so the product is safe and effective.

**Charlotte Moore:** We mentioned right at the top of the show, we talked about how this can have an impact on the sustainable development goals. So David, can you talk to us about these lists, these Access to Medicine lists, which could help pension schemes which have sustainable development goals, and perhaps not just in this, but also investors like Clare who use those lists within her investment process.

**David Brown:** Yes absolutely Charlotte. So as I think I mentioned in my opening comments, the Access to Medicine indices, including the new generics list, which you've referenced already today, are fantastic ESG tools for identifying pharma companies, demonstrating best practice for sustainability – ‘sustainability’ here being the key word, which Clare’s clearly articulated already.

If we actually take a step back for pension schemes to start with, we help asset owners review and update their investment beliefs and collectively track these over time. Not surprisingly, climate action often comes out as a high strength, but thereafter, through the work we do ‘Health and Well-being’ specifically SDG number three also ranks really highly. But one thing I find interesting about SDG three is a very, very broad includes 13 different targets in 28 different indicators, and these targets are quite broad, ranging from reducing the number of deaths by road traffic accidents, through to ending of epidemics of diseases such as malaria.

So, Access in medicine should only be one part of the SDG, albeit a very important part. Clare might want to comment more on that.

**Charlotte Moore:** Yes, do Clare, talk to us about, how that access to medicine generic list can help us to achieve that sustainable development goal.

**Clare Wood:** Yeah sure, the obvious target under the third goal is 3.2, which is around infectious diseases. We already mentioned AIDS, tuberculosis, malaria, neglected tropical diseases. All of these would fall directly under Access to Medicines, particularly in those low- and middle-income countries, which have such a high disease burden. We're also seeing more on target 3.4, which is the non-communicable diseases. While these are things like: heart disease, diabetes and cancer that have typically been seen as more Western diseases, they are growing and only going to continue to grow in these developing countries as well.

So the ability to provide the oncology drugs, the peptides into these markets at good prices and also importantly build the infrastructure that's needed, as well. Some companies I think Roche is could be one to call out here are actually working in African countries to help build health insurance infrastructure, so people can actually save and then pay for their oncology healthcare as well.

That's also important. Then one that may be doesn't get a lot of attention, but could is 3.1 around maternal mortality, a good example of a company we hold and we're actually currently engaging with as part of collaborative engagement with Access to Medicine is called Hikma, and one of the products they produce is Oxytocin, which is important for preventing postpartum haemorrhaging.

It's that kind of product. It's simple, but it's not in all the countries it could be. And if it was, it could have a big impact on maternal mortality rates. We've seen these huge advances in global health over our lifetime. We continue to do amazing things with drugs and are able to cure difficult diseases.

But then you've also got these billions of people living in low- and middle-income countries that can't even access basic vaccines and drugs. One statistic I find really shocking every time I read it is that it's estimated in India, a woman dies from cervical cancer every six minutes. If we consider that in the Western world, cervical cancer is 90% preventable with effective vaccination, screening and treatment programmes.

If you think you're listening to a 30-minute podcast and that's time for five women to die of cervical cancer in India. The amount of good that could be done by expanding access to medicines is immense.

**Charlotte Moore:** Wow. That's an incredibly powerful point you've made there Clare. Can you tell us David, do you think given the power of that argument Clare has made, that during the time of this podcast, we could have prevented the deaths of five women in India. Is this an area pension schemes are thinking about? Should they be thinking about the social implications of universal medicine? I know investing in pharmaceutical companies is only going to be a small part of a very large portfolio, but how can thinking in pension schemes evolve around this issue?

**David Brown:** Yeah absolutely, just to concur first of all to Clare's comments, it is quite staggering statistics that she has introduced there, with five Indian women dying in the course of this podcast. It causes us to stop and think about what you can do in this space and access to medicines. It is probably worth mentioning diagnostics as well, isn't it? They are really important in mitigating antimicrobial resistance. It is a very strong investment thesis on sustainability grounds since we've already covered a lot of this morning already. I approach it in a slightly different way to what Clare's already articulated, in that it cannot be sustainable, where you have a planet, where we have those privileged enough to get personalised healthcare through the advances of the life sciences, and at the same time half of the world's population is struggling with basic healthcare services. It is strong investment grounds for pension funds to be investing in generic manufacturers, for low- and middle-income countries for the advancement of medicine. Because it's opening up new markets, it's opening up new revenue streams, it's a really interesting area for pension funds to consider.

Are pension schemes thinking about this? Well, increasingly social aspects are being considered by pension funds. From the work we see particularly this is true in the LGPS space, the local government pension scheme. It is also being ably assisted today by the DWP Taskforce on Social Factors. But when we look at social factors, it's often being focused more in our home market, here in UK, and in areas such as social and affordable housing.

I think universal medicine is an area pension scheme should be considering. It is a key sustainability issue, we have talked about over the last half an hour or so, and we cannot carry on in this situation where half the world's population don't have this access to basic healthcare on a regular basis. It's also a great opportunity as investors, such as pension schemes, to generate sustained shareholder value in their investments by investing in these new markets, which are predominantly low- and middle-income countries, that said the experience today is relatively limited.

Relatively few pension funds, in my experience, are actually taking advantage of addressing these challenges and the Relatively few pension funds, in my experience, are actually taking advantage of addressing these challenges and the investment opportunities available. There are some notable exceptions: The USS in the UK and PGGM in Europe, they're currently focusing on universal medicine. More generally, if we look at the asset management industry, there are over 145 investors, including Stewart Investors, Clare’s organisation, collectively managing over $22tn, being used to commit to data and insights on the Access to Medicine Foundation. So there is good practice, but we could do with a lot more from pension schemes.

**Charlotte Moore:** Yes, but to be fair to the pension schemes, there's a lot for them to do and they have big portfolios. So is it about having different sustainable development goals that you prioritise? Is that the way that you should think about it? Because we could write a very long shopping list of everything pension schemes should do. Is that how we go about it or is there another way to approach this issue, David?

**David Brown:** Yeah, I think you hit on a key point. While it would be nice for pension funds to do more, clearly they have governance constraints, they have budget constraints and there are many other very challenging issues. So I always think from an asset owner's perspective, what can we do for maximum bang for our buck? So maybe there are other things that can be taken outside of capital allocation, for example, through stewardship activities and such, to encourage better practice in pharmaceutical companies. So the answer would differ by fund, but I think it's always about how can we be as impactful as possible within the resource budget we have available.

**Charlotte Moore:** And the constraints within those different pension pots. You mentioned the LGPS who still invest in both passive and active equity portfolios, but obviously for the closed private sector, they're almost entirely invested in gilts with a few additional growth assets and then for DC, a very heavy focus on passive indices again for equity. So again, stewardship becomes a very important tool in that context. So as David alluded to, it's different tools for different pots of money.

**David Brown:** Absolutely. I completely agree Charlotte.

**Charlotte Moore:** Isn't that great that we are all in agreement. So I think we're coming towards the end of our time together and I think we've managed to canter across an awful lot of ground. I have personally absolutely loved this discussion because you may not know this, but I used to be a pharmaceutical investment analyst, so it's been delightful to delve back into the world of pharmaceuticals for half an hour. I just want to ask both David and Clare for their key takeaways. I think I would start with you Clare, for our listeners to this podcast, if they had one thing that was burned into the cerebellum after this podcast, what would you like that to be? What's the key takeaway?

**Clare Wood:** I think it's important investors can make a difference. David mentioned that beyond generics and main pharma, the Access to Medicine Foundation is also looking at diagnostics, access to vaccines, etc. There's probably a number of different things to look at. One area where they all kind of come together is this idea of antimicrobial resistance and the importance of that, which is this very slow burn, systematic crisis that's really been called a silent pandemic. I know from having listened to some of the people in the field that investors have already had a massive impact from shining a light on this issue and working with it. But the need is still there and it's only going to grow. So if perhaps trustees had to prioritise something in healthcare, the Access to Medicines Foundation is a wonderful place to start with that. And then this particular issue of antimicrobial resistance is a good one because it's going to affect us all. It's not just about the low- and middle-income countries.

**Charlotte Moore:** There just hasn't been enough money allocated to that has led to finding new antibiotics, even though it's such a burning issue. It's a conundrum, isn't it?

**Clare Wood:** It is, yeah.

**Charlotte Moore:** So, David, what would your key takeaway be for our listeners today?

**David Brown:** Clare's already given us a great one to kick us off. Mine is going to be, I'm a passionate believer that in the longer term, ESG best practice will drive better investment performance. The Access to Medicines index is an excellent analytical tool supporting ESG, so I would encourage pension funds to speak to their asset managers to encourage them to use the tool where they're not already. The reason for this is very simple. We've talked a lot today about sustainability and the investment returns, income streams available from the pharma industry and what they can do in generic manufacturing. But remember, half of the world's population, mostly in low- and middle-income countries, would hugely benefit from access to generic medicines and diagnostics. Encouraging pharma companies to do more can be really impactful to many lives and at the same time deliver those sustainable returns pension funds need.

**Charlotte Moore:** Well, that is a great point for us to end this podcast. I want to thank both Clare and David for your excellent insights. Listeners, if you want to make sure you never miss an episode, hit the follow button.