This year will be an interesting year for investors in the pharmaceutical industry. The traditional business model of pharmaceutical companies is under pressure: projected R&D returns have fallen to the lowest level since 2010 and fair drug pricing is one of the few topics that receive strong bipartisan support in the United States. As a response, consolidation is accelerating across the sector, with Takeda acquiring Shire (making the Japanese company one of the world’s 10 largest pharmaceutical companies) and Bristol-Meyers Squibb acquiring Celgene (in the largest M&A deal of the last decade in the sector). Against this background, it is fundamental that investors manage carefully the risks and opportunities in the pharma sector, including material ESG issues like access to medicine. In November 2018, the Access to Medicine Foundation published its 6th Access to Medicine Index, which ranks 20 of the world’s largest pharmaceutical companies on how they respond to society’s expectations with respect to access to medicine in key areas like pricing models, R&D, governance and compliance.

Profits and purpose: access to medicine, governance and culture
In his 2019 letter to CEOs, Larry Fink highlighted the link between profits and purpose, and urged companies to think about what social purpose they serve. Access to medicine evidently combines the business and social purpose of pharmaceutical companies. The 2018 Index finds that a large proportion of companies evaluated (14 out of 20) have access strategies aligned with their corporate strategies, acknowledging the importance of including access in their core business. However, just over half of the companies (11 out of 20) have direct board-level responsibility for access and only 6 out of 20 companies demonstrate certain incentive structures for senior management to reward longer-term results.

After the publication of the Index, we organised investor launch events with Goldman Sachs in London and New York and with UBS in Tokyo. The events included a presentation of our findings and bilateral meetings between investors and pharmaceutical companies. Numerous participants highlighted that the lack of strong governance on access to medicine can be a warning sign for companies whose business model is
Novartis moves into second, ahead of Johnson & Johnson and Merck KGaA, which complete the group of four leading companies. Takeda has climbed the furthest since 2016, jumping 10 places to rank 6th. Investors can look at the company report cards published as part of the Index for detailed information about the performance, progress and opportunities of each of the 20 companies.

Overall, the industry continues to mature in its approach to access to medicine. Three companies have set new or strengthened access strategies since 2016 and six companies have demonstrated new or scaled-up inclusive business models that are tailored to more emerging markets. However, performance continues to lag in some areas. For example, while companies are refining their pricing strategies to improve the affordability of more products, they often apply them in a few upper middle-income countries, like Brazil and China. Moreover, while more flexible approaches to intellectual property management (e.g. voluntary licensing) now enable the generic manufacture of all recommended antiretrovirals treatments for people living with HIV/AIDS, its use remains confined to HIV/AIDS and to hepatitis C but could be extended to other diseases.

This is the first time that cancer is included in the scope of the Index analysis. One of the key findings is that access plans are in place for only 5% of late-stage candidate cancer products, compared with 54% for communicable disease pipeline products. This can represent a significant risk at a time when companies set higher prices for their newest products but society expects equitable access for these innovations.

What role can investors play?
The pharmaceutical and biotech sub-sector is the single most important sector for achieving the SDGs. Investors have an important role to play in engaging with pharmaceutical companies on SDG 3, which focuses on access to medicine under SDG3.8 “access to safe, effective, quality, and affordable essential medicines and vaccines”. This is why it is not surprising that the newly published Sustainability Accounting Standard Board (SASB) Standard lists access to medicine as a material topic for pharmaceutical companies and that it includes several references to the methodology of the Access to Medicine Index.

An increasing number of investors have been using the Access to Medicine Index since its first publication in 2008. To date, 84 investors, with more than USD 11 trillion of assets under management, have signed the Investor Statement of the Access to Medicine Index, committing to use the Index to inform their investment research and engagement with pharmaceutical companies. In 2019, we will continue to support bilateral as well as collaborative engagements on key access-to-medicine issues. Moreover, we will consult the investment community widely to refine our metrics and ensure the strongest materiality of our findings. We invite more investors to get in touch and seize the biggest opportunities, as well as manage the biggest risks, posed by the core purpose of the pharmaceutical industry: increasing access to medicine.

Bowen Gu is Investor Engagement Manager at the Access to Medicine Foundation.