A 'little PRIC' that we all need:
Pharma Responsible Investor Coalition

Today, September 22, will see another summit – this time convened by President Biden – about the COVID19 vaccine crisis. Will it be any more fit for purpose than previous events?

The history of this pandemic is that many governments have repeatedly failed to rise to the challenge, particularly when it comes to helping the Global Majority world. This is very sad but not surprising. Our experience with major threats such as the HIV epidemic and the climate emergency is that progress happens when a critical mass off governments, businesses and civil society are aligned about the direction and speed of travel.

With the zeitgeist of nationalism, governments have been focused on their own citizens. This seemed to work well for the public in rich countries at least till the Delta variant hit. But it has left the Majority World in dire straits and now, once again, threatens the public in G7 countries too. Scientists, collaborating internationally, were among the early heroes and delivered the technical knowhow in record time. But the companies bringing those vaccines to market have not been incentivised to increase vaccine production and accessibility at the scale and in the locations where vaccines are needed most.

We seem to keep forgetting that no one will be safe until everyone is safe.

The best way to disrupt this downward spiral is to be much more ambitious about vaccinating the world, meeting – ideally beating – the WHO targets – priority groups immediately, 40% globally by end 2021 and 70% by mid 2022.

To do this, we call on all those who are concerned about vaccine inequity (aka "vaccine apartheid") to come together for the next three months to push for a hugely ambitious licensing program to rapidly boost supply.

Only a broad civil society alliance will be able to persuade the institutional investors who own pharmaceutical companies that those companies should put public health priorities ahead of short-term shareholder value during this pandemic. Without investors creating the incentives to increase vaccine production and accessibility at the scale and in the locations where vaccines are needed most, pharma companies will not do what they could.

In this article we show how highly diversified or "universal" investors and social activists (including the NGOs and journalists that promote their causes) can work together to supercharge the global vaccination campaign and thus hold pharma companies accountable for operating in a manner suited to a pandemic. Specifically, we explain:

1. Why civil society should push for a hugely ambitious licensing program.
2. Why the normal pharma business model is bad for public health especially during a pandemic.
3. Which pharma companies could and should do more.
4. Why investors should care about vaccine inequity.
5. Why investors currently think public health has nothing to do with them.
6. What might make investors change their minds.
7. What this means in practice for civil society actors.

1. Why civil society should push for a hugely ambitious licensing program

Almost everyone agrees that present levels of vaccine inequity are unacceptable. But there are competing explanations of what is needed because there are competing diagnoses of what has not worked. And there are equally well meaning, passionate and well-informed players on both sides of this debate.

On one side are those who genuinely think the problem is *inadequate funding* – G7 governments did not fully fund COVAX early enough. Indeed the non-vaccine pillars (diagnostics, therapeutics, and health systems) are still seriously under-funded. They also blame *distribution* of the vaccines that have been produced – they argue there would have been enough vaccines for the highest risk groups (health care workers, elderly) if they had been shared fairly.

On the other side are those who equally genuinely think the problem is *pricing* and *patents* – that by allowing pharma companies to protect intellectual property, G7 countries have hoarded know-how which could have ensured faster and larger scale production in Asia, Africa and Latin America. Moreover, they are upset that this protectionism by rich countries undercuts at least the spirit of the Doha Agreement, the hard-fought compromise on intellectual property rights agreed to after the HIV epidemic.

These two sides will not give up on their worldviews. And nor would we want them to – there is truth in both their positions.

Our ask is that they come together for the next three months to push for a hugely ambitious licensing program that can rapidly boost supply and meet – hopefully exceed – the WHO targets for 2021/2022.

Unlike the AIDS epidemic, there's been no powerful campaign that has, yet, sparked the global public's imagination to hold pharma companies as well as governments to account. We were in very different organisational settings during the AIDS crisis but we are all convinced that with effective activism and accountability mechanisms of the kind that existed then, things could be very different now.

The public are the end owners of the pharma companies through pension funds and insurance premiums in the same way that, through votes, they are the end owners of the investment made by G7 governments.

2. Why the pharma business model is bad for public health especially during a pandemic

The current approach to vaccinating the world isn't working anywhere near quickly enough. And the toll is huge. Using *The Economist'*s model of "excess deaths", we calculate that globally there may have been more than 10 million preventable deaths since vaccines first became available in rich countries. More than 5.7 billion vaccine doses have been administered globally, but only 2% of those doses went to people in Africa.

Pharma CEOs – like most CEOs – have strong incentives to maximise shareholder value. Even if there was a CEO who wanted to act in the best interests of people and planet, they would – rightly – fear a shareholder revolt akin to what happened at PepsiCo, Unilever and most recently Danone. CEOs who are considered 'too stakeholder focused' are routinely removed by boards, who themselves are acting in response to investor signals.

Institutional investors in pharma have huge influence on share price, business strategy, and corporate priorities. This is mediated via the metrics that are used to define how CEOs are paid but also the future career success of C-suite executives and board directors.

Institutional investors could have a major impact very quickly through what is called "forceful stewardship" – investors making full use of their rights as "owners" or providers of equity (equity investors) and debt (fixed income or credit investors). This includes indicating a willingness to table resolutions at the annual general meetings, as has happened at Johnson & Johnson, for example.

Note, stewardship is very different from "ESG integration", which is more about trying to find outperformance or what investors call "alpha". And forceful stewardship is also very different from box-ticking "tea and biscuits" engagement which has rightly been dismissed as greenwash.

To summarise, investors in pharma companies are co-responsible for the "vaccine neoliberalism". This has been as important as "vaccine nationalism" in driving vaccine inequity. And vaccine neoliberalism – a natural consequence of the shareholder value primacy mindset – has had much less attention than vaccine nationalism.

3. Some pharma companies could and should do more

Whilst AstraZeneca has made some mistakes and missed opportunities, it has shown that on licensing and pricing things could be done differently.

Pfizer and Moderna – and its investors – are particularly important because mRNA vaccines can be relatively quickly modified to deal with variants, they are relatively easier to produce (no need of live virus material in the factories) and the technology used is promising for a range of other diseases.

But every WHO-approved vaccine manufacturer could play a more positive role.

4. Why investors should care about vaccine inequity

Civil society actors may be surprised to learn there is a very strong case for investors to be concerned.

First, pharma companies are facing serious reputational risk. The sector's reputation was indeed resuscitated by the success of its R&D efforts and rightly so. But this could easily be wasted if doctors, consumers, and other important stakeholders – especially in rich countries – come to see pharma companies as being roadblocks to dealing with a pandemic of the kind we haven't seen since 1918. Investors really do not want to see Big Pharma end up being like Big Tobacco, Big Oil or Big Tech. This is especially true for investors who have significant exposure to the pharma sector (e.g., Baillie Gifford owns 11% of Moderna): in this situation, corporate reputation risk translates directly into investment risk.

Second, some of the most important investors in pharma are "universal owners", meaning they own, indefinitely, a slice of the global universe of stocks. As such, they have much to gain from an early end to the pandemic (i.e., by avoiding the costs of a prolonged pandemic), even if this blunts the profitability of a few pharma companies. In this respect, well governed institutional investors should see the pandemic very differently from the executives of pharma companies, who are totally focused on their company's share price and current business model.

The key universal owners are the major index investors – Vanguard, Blackrock and State Street being the biggest. These investors cannot "exit" from underperforming companies or markets so they must use their "voice" as they have been pushed to do on the climate crisis, gender, and other topics.

Other investors who should be interested in bringing an end to the pandemic include:

- Major insurance companies (who may face declining solvency ratios from unexpected underwriting losses).
- Large pension funds (who are now becoming concerned about the Delta wave's economic impact on supply chains, gas and electricity prices and the availability of many raw materials for construction, automotive and other industries). Funds that have an ethical worldview (e.g., religious investors), funds that serve health care workers and funds who have well-informed members who have shown a willingness to challenge executives on other ESG issues should be particularly alert to this topic.
- Sovereign wealth funds (especially of countries that have taken a proactive approach to the pandemic e.g., New Zealand Super, Norway's NBIM and Singapore's Temasek).

Third, investors are of a size that obliges them to play a part. The biggest investors have assets under management equivalent to the GDPs of G7 countries, meaning they have enough resources and influence to push for change.

The 20 wealthiest countries and the 20 largest investment managers compared (US$ bn)

COUNTRY	GDP	INVESTOR	AUM	HQ
United States	17,348	BlackRock	4,675	US
China	10,357	Vanguard Asset Management	3,134	US
Japan	4,602	State Street Global Advisors	2,460	US/UK
Germany	3,874	Fidelity Investments	1,940	US
United Kingdom	2,950	BNY Mellon Investment Management EMEA	1,711	US
France	2,834	J.P. Morgan Asset Management	1,540	US
Brazil	2,347	Capital Group	1,419	US
Italy	2,148	PIMCO	1,413	US
India	2,051	Government Pension Investment Fund	1,255	Japan
Russia	1,861	Pramerica Investment Management	1,177	US
Canada	1,785	Amundi	1,052	France
Australia	1,443	Goldman Sachs Asset Management International	1,029	US
Korea	1,410	Norway Government Pension Fund Global	985	Norway
Spain	1,407	Northern Trust Asset Management	938	US
Mexico	1,291	Wellington Management	918	US
Indonesia	889	Natixis Global Asset Management	894	France
Netherlands	881	Franklin Templeton Investments	884	US
Turkey	798	Deutsche Asset & Wealth Management	877	Germany
Saudi Arabia	746	TIAA-CREF	855	US
Switzerland	704	Abu Dhabi Investment Authority	844	UAE

Source: Preventable Surprises/IMF. Figures based on 2014

Fourth, most ESG fund managers have highlighted their commitment to diversity & inclusion, many have explicitly supported #BLM and all espouse a long-term, systemic outlook. Faced with growing concerns about environmental related greenwashing, they will not want to face similar charges on highly sensitive social topics as well.

We hope pension fund members will contact their pension providers with a message such as this:

"As a long-horizon investor, I am concerned that my pension fund may be sitting on 'hidden' reputational and systemic risks (i.e., investment risks) related to the pandemic. Pharma execs clearly have strong incentives for selling vaccines in rich countries and deprioritising sales in low- and middle-income countries. How are you compensating for this? I would like pharma companies in my portfolio to understand that investors want them to produce and supply enough vaccines to vaccinate 40% of the adult populations in LMCs by end of 2021 and 70% by mid-2022 (corresponding to the WHO targets). Do you agree?"

5. **Why investors currently think public health has nothing to do with them**

Powerful as these arguments are, the reality is that today most investors think this crisis has nothing to do with them. Many are more focused on short-term share price, and most are disinterested in "fat tail" risks (greater-than-expected probabilities of extreme risk) of all kinds. Cultural norms also don't help, as reflected by the fact that most of the "0.1%" have been able to work from home and access vaccines quickly.

To generalise, investors think the vaccine problem has been caused by governments not funding COVAX early and well enough. They do not hold pharma companies responsible. In their minds, these companies have done an amazing job in R&D. Ignoring the role of public financing of scientists (at Oxford University, BioNTech and National Institute of Health), investors consider pharma executives deserve to be rewarded handsomely, not least because portfolio returns have been greatly boosted by large Western pharma companies.

Even if investors understand the systemic threats, they are not overly concerned. They believe governments will bail out any important companies and use quantitative easing (QE) to keep important stock markets buoyant (the "K-shaped recovery"). And should QE cease, investors will not face competitive disadvantage, which is their main concern.

Moreover, given the projected use of mRNA technology in many other illnesses, investment executives (mainly Western) are as attuned to the shareholder value implications as the (mainly Western) pharma executives who see tight control of intellectual property as central to their pricing strategy in rich countries. Delaying the speed with which Chinese or other competitors get access is a no-brainer for shareholder advocates. And if the pandemic is prolonged, with more variants, this means there will be a greater need for more boosters in high income countries. Using the amoral analytical framework that traditional investment professionals adopt, the pharma sector has a business model with a particularly good "moat" - the ability to maintain competitive advantages over its competitors in order to protect its profits and market share from competing firms.

But this moat could sink us all if investors don't embrace their duty as responsible stewards of capital.

6. **What might make investors change their minds**

What might cause investors to behave as forceful stewards during this pandemic?

Legislators and regulators are the most effective catalyst. When agreeing advance purchasing agreements, they could have used these contracts to push the companies to enlarge their production capacities in low- and middle-income countries and deliver at affordable prices to these countries. They did not. They could now make clear that specific actions – for example, produce X% of the vaccines in the Global South for the use by the Global South or license Y producers in each region by a specific date – are needed and the timetable by when this should happen. This would only work if there were serious consequences to failing to meet these requirements. Having experienced first-hand the lobbying power of pharma companies, we do not expect governments to act in the manner that is needed. This is, of course, no reason not to push governments to do better. It is simply that other channels of influence are also needed.

Pressure from their clients (i.e., asset owners), the mainstream media (investors are very sensitive to negative publicity) and their own employees (upset "knowledge workers" can have significant influence as we have seen with #MeToo and #BLM) could work. Therefore civil society is *very* important. Without concerted attention by civil society and non-governmental organisations, health care workers, public health experts, public intellectuals and sympathetic media, these three stakeholders – asset owners, mainstream media and employees – will not speak up and fund managers will not be forced to act.

7. What this means in practice for civil society actors

Our hypothesis is that the needs of Majority World may be best met by a global and concerted focus on a very ambitious licensing drive over the next three months. This article describes another string to the campaigner's bow, drawing on what helped in the push for affordable access to HIV medicines and what is also helping with the climate crisis.

It requires 'insider' and 'outsider' NGOs and public intellectuals to build alliances in these next few months in a way that has not happened so far. There are three priorities:

1. Engage in depth with the most important investors asking tough questions and making full use of the insights of sympathetic insiders.
2. Explore the opportunities that investor action could bring to complement existing NGO campaigns.
3. Name and acclaim fund manager leaders but also shame the laggards and ensure there is high-profile media coverage.

Through our different networks, we believe the ground is fertile for such collaboration.

Previously mild-mannered academics have transformed into vocal activists after their experience of engaging with political and corporate decision-makers. And many of those who have survived the Delta wave in Africa, Asia, East Europe, and Latin America – including many middle-class professionals who previously considered themselves to be the beneficiaries of globalisation – have understood that they owe their lives to the determination of their relatives and close friends who managed, against all odds, to find oxygen and even hospital beds. But, so far at least, vaccine companies – and those who profit from their success, their investors – have managed to avoid uncomfortable questions as they bask in (deserved) praise for the speed and ingenuity of their R&D teams.

The world needs a major and urgent boost to the production of the best available vaccine technologies, especially in the regions with poor manufacturing capacities. This means thinking outside the framework of COVAX and looking for new avenues to improve access to vaccines.

In this article we show how diversified investors and social activists (including the NGOs and journalists that promote their causes) can work together to supercharge the global vaccination campaign and thus hold pharma companies accountable for operating in a manner suited to a pandemic.

And as Nelson Mandela – who played such an important role in the HIV epidemic – reminds us, we should always be hopeful as we push for the apparently impossible: investors being part of the solution.

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