

The Investor Rationale for Responsible Investment: Health

As an institutional investor, Wespath Investment Management adheres to our obligation as a prudent fiduciary. As a division of the General Board of Pension and Health Benefits of The United Methodist Church, we also understand that financial transactions carry ethical implications. These two perspectives form the basis of our well-rounded investment strategy, which utilizes traditional financial metrics and also considers the impact of environmental, social and corporate governance (ESG) practices.

This paper, one of a series of Wespath research papers published at wespath.com, examines the relationship between shareholder value and corporate practices related to health issues

Introduction

Governments have the primary responsibility for upholding human rights and providing health care to citizens. With regard to HIV/AIDS, approximately half the funding for research and treatment programs is government-sponsored. However, businesses also have a role, and many corporations find that caring for the health of their employees is good for the bottom line.

Many of Wespath's corporate dialogues regarding health have addressed efforts by pharmaceutical companies to distribute drugs to treat HIV/AIDS, tuberculosis, malaria and other neglected diseases in low- and middle-income countries. Other companies have been asked to assess the impact these diseases have on the company's business operations.

The Investor Perspective

According to the 2010 UNAIDS Report on Global AIDS, 33 million people are living with HIV. Fifteen million are in low- and middle-income countries, of which two-thirds do not have access to treatment. Globally, the number of infections has stabilized, partially due to better access to treatment and education. On a positive note, Sub-Saharan Africa has seen overall decreases in infection rates, although this is offset by increases in other countries, including India, Russia and China.

Tuberculosis (TB) and malaria are additional concerns. Approximately 14 million people are infected with tuberculosis, and there are 247 million cases of malaria worldwide.¹ Companies with operations in Africa, Brazil, Russia, India and China are advised to perform risk assessments to determine if the correct balance of prevention and treatment programs is in place to meet the health needs of employees and protect against future costs to the business.

Risks to Business

HIV/AIDS, TB and malaria can have the following impact on business operations:

- Increased absenteeism
- Reduced productivity
- Increased turnover, recruitment and training costs with more inexperienced workers
- Low morale, as employees suffer the effects of discrimination or the stress of caring for sick family members
- Increased health care expenditures for the company, employees and dependents

The effect on human capital may be significant. As disease claims the lives of teachers, nurses and parents, there will be fewer adults to raise and teach the children. As education levels decline, the available pool of qualified workers will be reduced.

Mining company Xstrata estimated that the costs of absenteeism, medical and compassionate leave, and staff turnover equal 3-6% of its South Africa annual wage bill. Gold Fields, the world's fourth largest gold producer, estimated that AIDS-related labor turnover adds \$4-10 to each ounce of gold it produces.²

Opportunities for Business

A 2005 report by F&C Asset Management and UBS offered the following recommendations for companies operating in Africa, Brazil, Russia, India and China:

- Assess HIV/AIDS prevalence and the host government's response to the disease in country risk assessments for new and existing investments.
- Determine actual and potential staff exposure through situation analysis, prevalence surveys, and voluntary counseling and testing.
- Evaluate the costs and benefits associated with intervention programs. The report states that traditional accounting frameworks fail to capture the positive effect of successful intervention, and instead proposes a net present value (NPV) approach to valuing the impact of HIV/AIDS.
- Implement, where relevant, prevention, education, awareness, wellness and treatment programs.
- Publish company-wide nondiscriminatory policies relating to employees' HIV status, and ensure senior management is accountable for such policies to reduce secrecy and social stigma surrounding the disease.
- Report publicly to shareholders and stakeholders how HIV/AIDS is being managed.
- Press host governments, international donors, multilateral organizations and non-governmental organizations to implement education, prevention and treatment policies, so as to boost the effectiveness of corporate efforts.³

Education, prevention and early intervention treatment programs are key to staff retention and prevention of long-term costs. The World Economic Forum estimates the cost of prevention programs to be very low — less than 0.5% of local sales. Similarly, another study quantifies the cost of prevention programs at \$10-\$15 per employee annually, while lowering the chance of infection by 50%.⁴

Pharmaceutical Companies

Pharmaceutical companies have the challenge of finding ways to distribute their life-saving medicines to patients in low- and middle-income countries who cannot afford to pay for them. Traditionally, this has been addressed through drug donations or steep price discounts supplemented with voluntary patent waivers in certain countries.

In recent years, new “pooled resource” models have emerged that may offer pharmaceutical companies a way to turn this type of philanthropy into a revenue stream. GlaxoSmithKline and Pfizer have teamed up to create ViiV Healthcare, a global specialist HIV company created to deliver treatment and community support for people living with HIV. ViiV is now servicing nearly 20% of the worldwide HIV market.⁵ In 2002, Johnson & Johnson acquired Virco and Tibotec Pharmaceuticals (now operating as Tibotec), which specializes in treatment and diagnostics for infectious diseases such as HIV and TB.

In October 2010, the National Institutes of Health became the first research organization to share HIV/AIDS drug patents with the UNITAID Medicines Patent Pool. Launched at the 2006 General Assembly of the United Nations, UNITAID’s mission is to “contribute to scaling up access to treatment for HIV/AIDS, malaria and tuberculosis, primarily for people in low-income countries, by leveraging price reductions for quality diagnostics and medicines and accelerating the pace at which these are made available.”⁶ The UNITAID model, which has the ability to offer royalties to participating companies, is under consideration by several large pharmaceutical companies.

Institutional investors should continue to encourage pharmaceutical companies to explore operational models that will allow them to bring this part of the operations onto the balance sheet and generate revenue.

United Methodist Instruction

John Wesley was deeply concerned with the issue of health. During his lifetime, his book of health remedies, *Primitive Physic or An Easy and Natural Method of Curing Most Diseases*, went through more than 20 editions. In his famous sermon, *The Use of Money*, he cautioned that “we ought not to gain money at the expense of life, nor at the expense of our health.”

Methodist concern for health resulted in the founding of a number of hospitals throughout the U.S. Currently, the Social Principles declare “health care is a basic human right.” (§162V).

The Church has adopted several resolutions on issues relating to health. Resolution 3202, *Health and Wholeness*, encourages “United Methodists around the world to accept responsibility for modeling health in all its dimensions,” and to “work for programs and policies that eliminate inequities around the world that keep people from achieving quality health.”

In 2007, the Council of Bishops, the Connectional Table and the General Secretaries’ Table recognized the eradication of the killer diseases of poverty (such as HIV/AIDS, malaria and tuberculosis) as one of the Church’s four areas of focus. Since then, the Church has embraced a global health initiative that “will mobilize United Methodists to action, strengthen health-care infrastructure, and advocate for health policies and global approaches that promote health for all.”

The Council of Bishops in 2009 issued a pastoral letter recognizing pandemic poverty and disease as a threat to the world. The bishops remind us that “God’s vision encompasses complete well-being.” They call us to challenge those policies that “neglect the poor” and “exploit the weak.”

The Council of Bishops’ letter reflects the concern of our Social Principles that countries facing a public health crisis must have “access to generic medicines and to patented medicines.” (§162V.)

Find Out More

If you would like more information on Wespath’s investment products, services and commitment to responsible investment, please contact Derek Casteel at **1-847-866-4100** or via e-mail at investmentinfo@wespath.com.

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- ¹The Henry J Kaiser Family Foundation, www.globalhealthfacts.org, 2010.
- ²http://www.fandc.com/uploadfiles/co_gsri_hivaid_report_may_05.pdf, p.55.
- ³http://www.fandc.com/uploadfiles/co_gsri_hivaid_report_may_05.pdf.
- ⁴Sydney Rosen et al, "AIDS is Your Business," *Harvard Business Review*, February 2003, <https://www.bu.edu/ghi/documents/HBR%20article%20reprint.pdf>.
- ⁵www.viivhealthcare.com.
- ⁶<http://unitaid.eu/>.



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