



Compounding Change – Driving Impact in the Health Sector



Health Innovation

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Health Innovation

From treatment
to
prevention

Introduction

How do we help our holdings solve some of the world's biggest problems?

The overarching goal of our Health Innovation impact approach is to encourage companies to further their work on solving significant global challenges. The private sector has much to give. It is home to some of the brightest, most inventive minds; it is solution-driven and can employ its considerable financial and non-financial resources to create and expand long-term innovation-driven markets for products. Coupled with this, it is also best positioned to protect the environment, champion human rights, and become better corporate citizens to employees.

We believe we can help some of the most creative and ambitious management teams to realise their full potential by increasing the impact they have on patients and global society. In doing so, this approach compounds the value of the relationships already forged between Baillie Gifford and the companies within the Health Innovation portfolio. As companies increasingly need to navigate the sustainability landscape, many of them will appreciate our added focus on impact. As our understanding of Environmental, Social and Governance (ESG) factors in the health sector develops, we continue to refine our engagement with companies, meaning our views and insights will be of increasing benefit to businesses trying to get better at what they do.

This document lays out our guiding principles and core beliefs, along with the framework we will use when establishing impact projects with the companies in the portfolio. Our impact framework covers four impact areas where we believe we can drive change in the health sector¹:

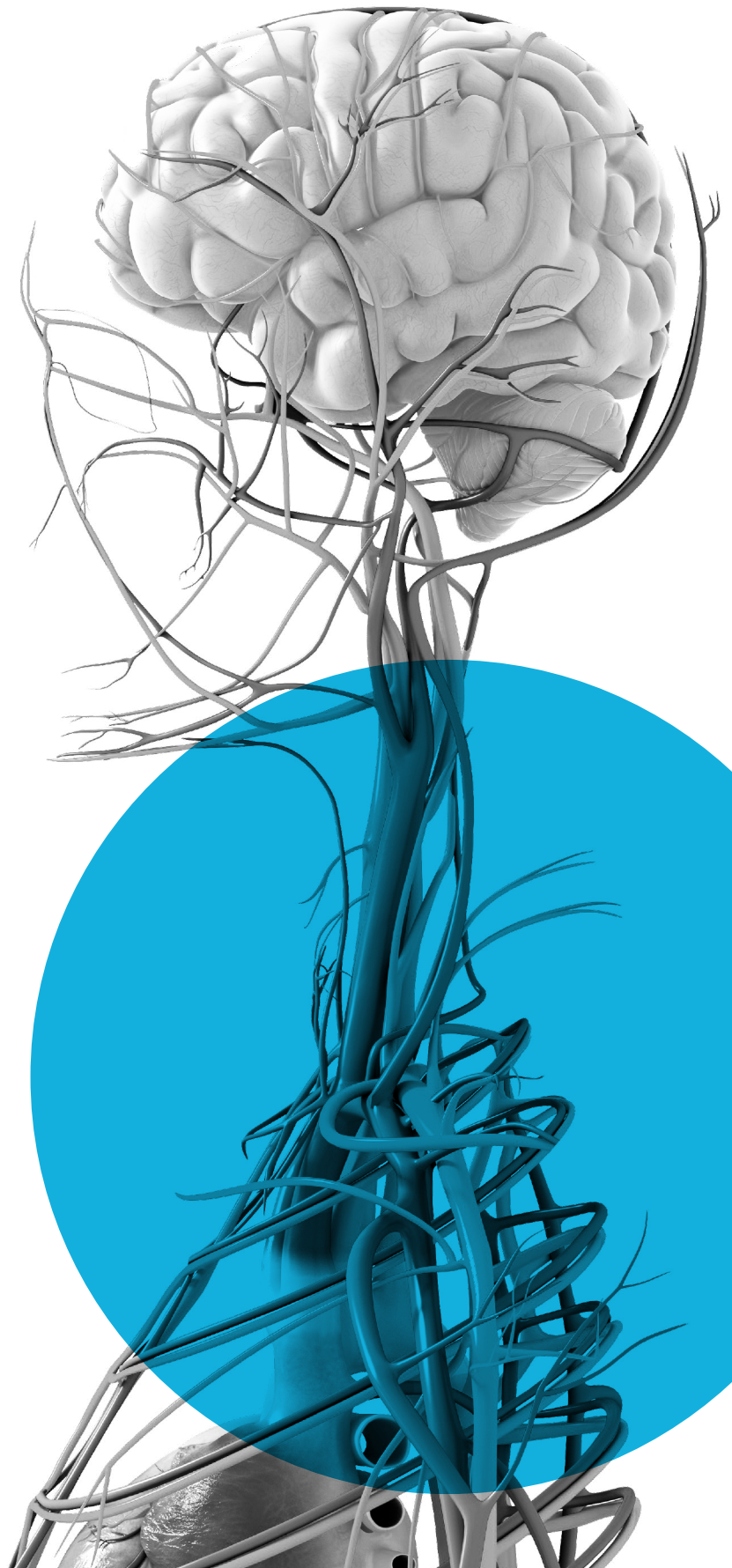
- 1 Improving environmental impact
- 2 Improving access to healthcare services and products
- 3 Improving social determinants of health
- 4 Improving ethical business practices and management

What needs to change, and how can we help drive it?

The Covid-19 pandemic has highlighted the need for robust, resilient and sustainable healthcare systems, everywhere; for everyone. In implementing our impact approach, Baillie Gifford can become a greater force for good and drive substantial improvements to human health and health care systems. As long-term investors in health innovation, we can do even more towards ensuring better health care for all, now and in the future.

Our view is that companies in the health sector are not inherently good just because they solve health problems; they – and we – need to do more. The value of the companies we invest in is not limited to their ability to drive shareholder prosperity: it also encompasses how they support and sustain the environment, society, the health sector and their workforces. We aim to influence companies' strategies on their environmental impact, increase their clients' loyalty and improve their culture. These are increasingly becoming sources of competitive advantage and are essential aspects which can influence the likelihood of a business succeeding. For this reason, when we engage with companies on strategy, we encourage them to balance the needs of all stakeholders effectively and advise them on creating long-term value for all.

¹ *Embankment Project for Inclusive Capitalism – Report, 2018.*



Our Guiding Principles and Core Beliefs

Continually exceed regulatory standards

Mere compliance with environmental and other regulations is not enough. Companies should look to exceed environmental standards. They can do this by, for example, increasing research and development to improve their processes. It's not about prescribing more regulation. We want to encourage companies to develop the mindset that impact improves the outcomes for the company and the world at large, meaning that they will voluntarily seek to decrease or eliminate environmental impact wherever possible. Likewise, we expect an ongoing emphasis on improving working conditions. In addition to testing the feasibility and efficacy of their efforts to improve working conditions, safety and wellbeing for their employees, companies should aim to exceed worker rights, expectations and regulations.

Tackle the social determinants of health

As well as being well positioned to develop modern medicine and focus on higher access and cost-effective prevention health services, health sector companies should address health inequalities and increase diversity in health, both within drug trials and their workforces.

ESG factors are symbiotic

A deeper understanding of the interconnections between ESG factors can help us become better investors and lead to new ways of thinking about impact investing. The financial sector continues to favour the decentralised approach to sustainability disclosures, with people still largely thinking and operating in silos. But we believe ESG factors are highly interconnected.

For example, in low, middle, and high-income countries, the impact of economic disruption from more frequent natural disasters falls more heavily on women² as they are often the first to stop working. Here, what starts as an environmental factor, subsequently becomes a social and a governance issue as well, as the pool of women available to occupy senior management positions and sit on boards decreases because they do not remain in the workforce. We see a clear gap in exploring these interconnections and, in doing so, working with companies on bridging them.

Create networks for change

We believe that as investors in the health sector we have a role in encouraging companies to work even harder at solving some of the major global challenges, such as the rise of antimicrobial resistance and inequalities in access to healthcare products and services. Our engagement can help companies increase their positive impact. However, we should also be leading the industry on impact investment by creating partnerships with other investors. By working collectively, we will become more relevant in this space – it is paramount that we share our experiences and lessons learned and influence our peers with our work on impact.

Be proactive: don't wait for an invitation to create an impact

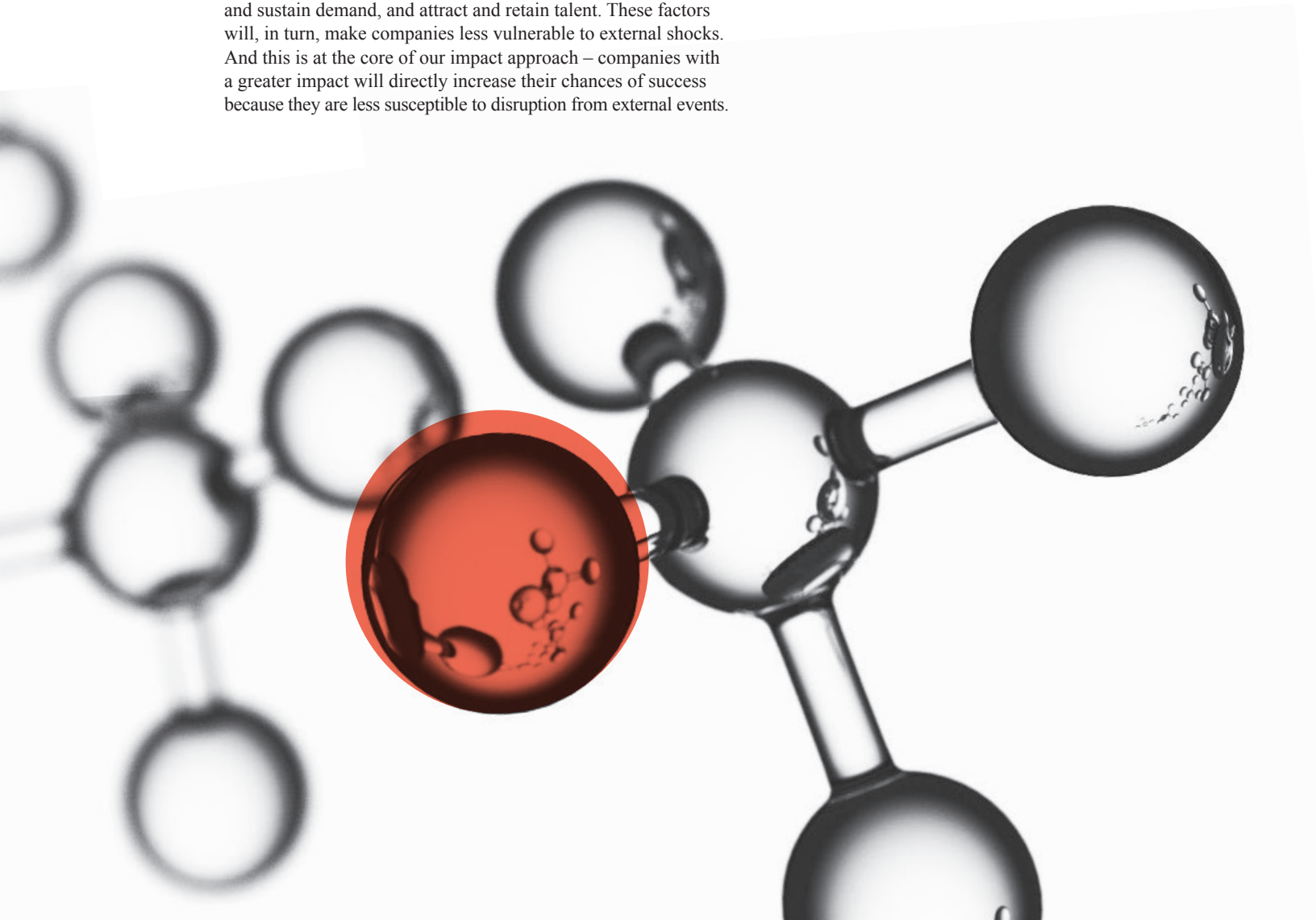
We think that the private sector should not wait on government calls to action or pressure from the public to act. A more proactive approach to impact is needed that prioritises knowledge sharing and creates partnerships across all spheres. Beyond our core relationships with companies and other investors, we should continue to extend our networks to draw on the expertise of other stakeholders such as non-governmental organisations, governments and civil society organizations. In doing so, we can assist the private sector in building a robust and well-informed constituency to usher in the needed change.

² <https://www.un.org/en/chronicle/article/womenin-shadow-climate-change>

Our Hypothesis

The relatively recent surge in demand for investment products that align investment returns and sustainability objectives meshes with our strength as long-term active investors, allowing us to continue building on strong foundations. First, our bottom-up investment approach drives thoughtful analysis and an appreciation that the world is highly complex and uncertain. We believe that the same bottom-up and thoughtful approach applies to sustainability factors. Second, the focus on sustainability is integral to a long-term investment horizon. If we back a company over five to ten years, we must believe it has a sustainable business model.

Resilience, in the context of management and growth of a company, is its capacity to deal with changing external conditions (stressors such as economic crisis, resources limitation, competition, etc), to retain its essential functions and productivity and to innovate and reorganise itself in response to these conditions, when needed. Resilience and impact create a positive feedback loop. Companies with a greater impact can increase their access to capital, create and sustain demand, and attract and retain talent. These factors will, in turn, make companies less vulnerable to external shocks. And this is at the core of our impact approach – companies with a greater impact will directly increase their chances of success because they are less susceptible to disruption from external events.

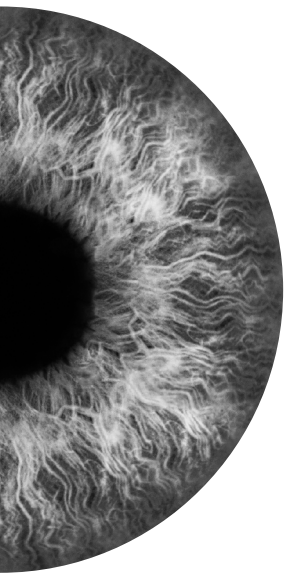


A Complex System View on Creating and Measuring Impact

The complexity of ESG factors and the nature of health systems require a differentiated approach to undertaking impact projects that embraces complex system thinking. We aim to improve our identification of the sustainability factors that matter within the health sector, and how these evolve and affect the companies that we invest in. We then aspire to find the systems' leverage points or linchpins to target our impact work and make it more effective.

How can we drive change in a complex system such as health care?

A complex system does not change on the back of a single solution. Change takes time to implement, is usually triggered locally, and is filled with peculiarities. It can set off many unpredictable interactions and consequences, which are hard to pre-empt and make it difficult to control or impose the direction of change. In this context, complex thinking inspires us to: keep patients at the centre of every intervention; begin with small-scale projects and build up; transform the data we gather into actionable information (and not into more guidelines or reforms); communicate openly with stakeholders, and constantly seek collaboration to magnify the impact of our approach.





Framework for Creating Impact Projects with Companies

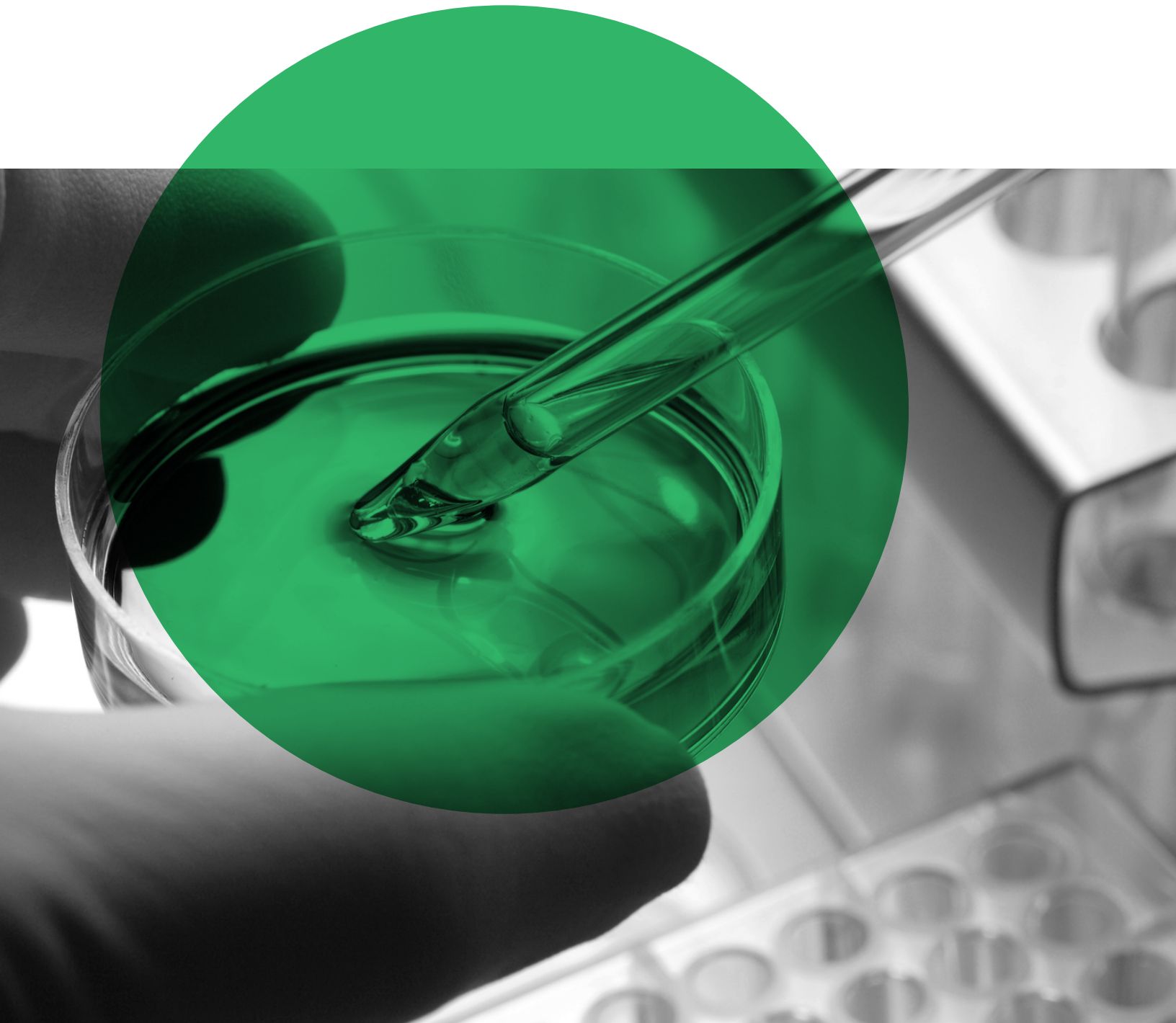
Data is key to identifying where the best opportunities are for progressing impact. Without meaningful data on ESG factors, our deliberations and any subsequent actions we take remain invisible. Rather than meeting regulatory requirements, our focus in reporting this data is to inform our ongoing efforts. The data will help establish priorities, gaps and opportunities for further engagement. Over time, we will have the basis to measure how these metrics evolve and change. We will be able to identify cycles; how or if these cycles relate to external factors and events, and if they change in importance as we progress.

We will therefore create a baseline database, which covers the four impact areas which are mentioned earlier: improving environmental impact; improving access to healthcare services and products; improving social determinants of health and improving ethical business practices and management.

The framework presented below will help us design and deliver impact projects for each company in the portfolio across the four areas. The framework uses a problem-focused approach to determine a clear set of outputs, targets, outcomes, goals and indicators. This framework will lead us to decide, in conjunction with each company, the evidence to be gathered and how to synthesise it to reach defensible conclusions about the worth of the intervention.

Each project will look different. Therefore, it is important to define first what we mean by 'success' (quality, value) for each impact project, with a clear structure that outlines different performance levels and establishes the trade-offs that are appropriate in balancing impacts and their distributional effects.

What will we do?	Why?	How will we measure success?
<p>Establish specific OUTPUTS</p> <p>What will be implemented, created, reinforced, etc?</p>	<p>In order to reach specific OUTCOMES</p> <p>What do we want to increase or decrease?</p>	<p>Monitor INDICATORS</p> <p>Were targets reached? If not, why? What have we learned?</p>
<p>Define detailed TARGETS</p> <p>Where? How many?</p>	<p>To attain an overarching GOAL</p> <p>What is the real change we want to make once outcomes are reached?</p>	

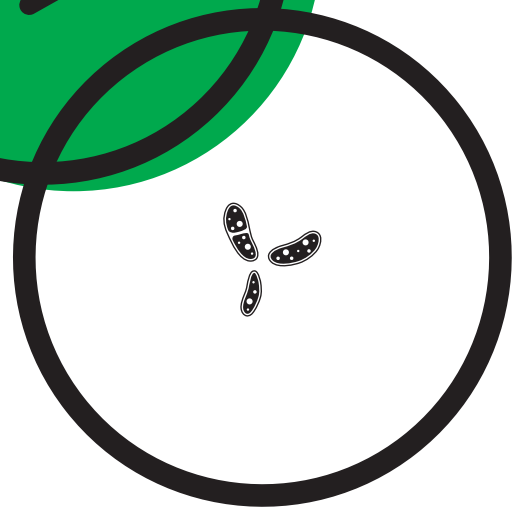
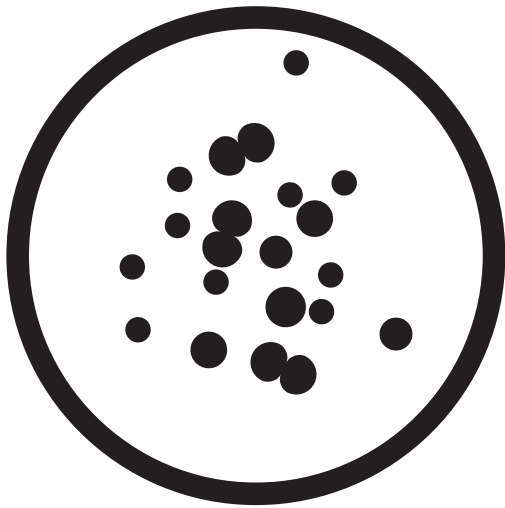
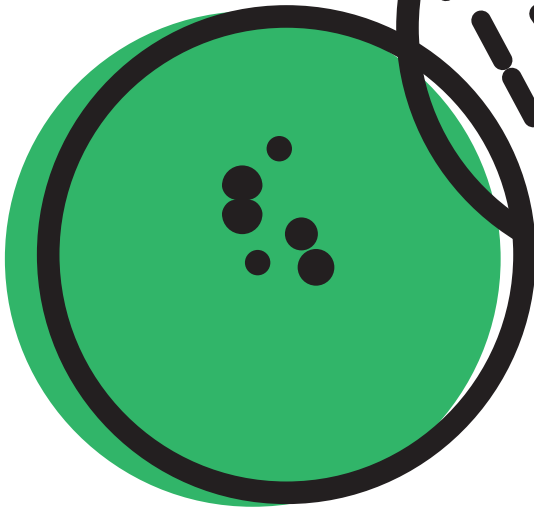


Initially, we will pilot the framework with a small number of companies. We will then undertake a ‘lessons learned’ exercise before expanding the pilot to the other companies in the portfolio. Note that the implementation of this approach will not be necessarily easy or fast, as it will depend on the complexity level of each impact project.

The steps we will follow to create impact projects with the companies, learn from them and improve our impact approach are presented below.

Finally, we will address evaluative questions about the projects to formulate overall conclusions on whether the effort can be considered a success, an improvement, or the best option. For example, did the project truly limit the environmental impact caused by the company and to what extent? Did the project reach its full potential? Was the timeframe appropriate? This evaluation will be key to building an evidence-based database of what works in ESG in the health sector and make Baillie Gifford’s role as investors even more relevant to the long-term success of companies. We are looking forward to sharing our findings and experiences over time as we make progress.





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