

Dear members of the Remuneration Committee,

We are writing to you on behalf of a large and diverse group of investors with over 1.8 trillion USD in assets under management, who are shareholders and bondholders in a number of pharmaceutical companies. This letter regards strategic considerations and related executive compensation practices around access to vaccines, medicines, diagnostics and healthcare in general (hereafter referred to as 'Access'). We would like to suggest this letter as a reference for consideration in future corporate commitments, policy development and the evaluation of your executive compensation policy.

As investors we are a proponent of executive remuneration practices in which ESG goals are embedded into both strategy development and execution. Linking ESG metrics to executive compensation is becoming increasingly common among a wide range of sectors covering, among others, climate risk management and diversity, equity & inclusion (DEI) targets within companies. If and how companies integrate ESG-metrics in a meaningful way into executive compensation is therefore an important consideration for the undersigned group of investors whether to support a "Say on Pay" proposal at an AGM.

As long-term investors, the COVID-19 pandemic has signalled to all market participants and society at large the importance to prepare and build resilience in the face of systemic risks (aka as systematic risk in investment). We therefore write this letter in the spirit of addressing capital preservation, encouraging business resilience and value creation over time in relation to Access.

From 2021 on we have engaged with several pharmaceutical companies on tying executive pay to Access and we have analysed remuneration practices. On the basis of our discussions and our research, we have learnt that, at present, compensation and nominations committees in the pharmaceutical sector broadly fail to integrate Access considerations, targets & metrics into remuneration and incentive plans. In our engagement and research we have come across the following reasons:

- Whilst a company may report on Access, this does not necessarily mean that Access has a mature place in corporate governance practice, decision-making processes and robust targets & metrics;
- Compensation and nominations committees appear to have, at best, limited experience with ESG topics in general, and Access in particular;
- Compensation committees assert, in our opinion incorrectly, that there are insufficient metrics available to measure performance with respect to ESG performance and Access;
- The lack of (externally verifiable) data gathering processes on Access and ensuing external reporting on this topic.

Access to health technologies has become a central concern of governments, the investment community and the broader public with the COVID-19 pandemic. The issue is also a central focus of policymakers, including for example the recent passage of the Inflation Reduction Act in the United States. We, the undersigned, believe in the materiality and long-term value of Access and view this a key component of Board's oversight in terms of duty of care and due diligence. We therefore recommend and seek the adoption of more robust governance practice. The following principles are based upon our expectations regarding good governance, our ongoing engagement with investee companies and aligned with the goals of the Access to Medicine Index:

1. The chosen targets & metrics on Access should clearly link to actions taken, with clear baselines and/or positive societal impact. Particularly in the (emerging) markets where the company operates and, indirectly, where the company might have leverage with key suppliers and stakeholders.
2. The metrics should be clearly linked to the corporate strategy and, if possible, link to already existing corporate goals;
3. The chosen targets & metrics should be publicly reported on and, as a minimum, be verifiable;
4. The chosen targets & metrics should be sufficiently ambitious and demonstrate additionality;
5. Embedding Access into strategy and strategy implementation should not lead to inflated compensation packages. In other words, adding Access as a new ESG-factor in compensation and incentive plans should be primarily linked to the execution of the strategy, i.e., achieving Access-related targets and metrics. Alternatively, new ESG factors could be balanced out by reducing the weight placed on existing compensation metrics;
6. The compensation and nominations committee should ensure it has sufficient knowledge and insight on the topic of Access, which may be addressed by bringing new expertise to the board through the appointment of new directors, within the advisory services supporting the committee and by consulting with external stakeholders.

In our view, there are several possible pathways to the selection of suitable metrics. For example:

- ‘Patients reached globally’. This metric could be adapted to specifically focus on:
  - Low and middle income countries (LMICs) or vulnerable populations in different markets;
  - Markets that were not served when introducing the metric;
  - Total of patients reached, or a percentage of the total population in need that is reached.
- The inclusion of metrics following the principles, methodology and indicators of the Access to Medicine Index, which are broadly accepted and scoring is externally verified where possible. Several pathways are possible:
  - General or relative ranking in the general Access to Medicine Index;
  - The scores on each technical area of the Access to Medicine Index.
- Percentage of Access plans in the product development process with a focus on diseases that cause the greatest burden in LMICs.
- Metrics on licencing of intellectual property and resilient production and supply chains:
  - Introduction of voluntary licenses and/or technology transfer for medicines and vaccines of public health importance;
  - Development of own production facilities worldwide, including LMICs, to improve the resilience of production chains.
- Metrics on your pricing policy. Also here several pathways are possible:
  - Focus on increasing transparency regarding pricing and how prices are established per treatment and/or market;
  - The use of tiered pricing per specific market or specific treatments;
  - Number of countries for which the lowest possible price is provided by the company.
- A metric on the (absence of) non-compliance in areas such as ethical marketing, anti-corruption and clinical trials.

- Metrics aligned with international principles and guidelines, for example the recommendations to the private sector of the United Nations Secretary-General's High-Level Panel on Access to Medicines<sup>1</sup>.

We hope you find this letter useful in the evaluation of your compensation policy this autumn. We would appreciate receiving your reaction on if and how you have taken these views from your shareholders into account in any modification and next steps regarding your executive compensation packages. We look forward to continuing a constructive and open dialogue on this matter with the aim of long-term value creation for our mutual benefit and shared future.

Yours sincerely on behalf of the following investors,



Achmea Investment Management



BATIRENTE



<sup>1</sup> <http://www.unsgaccessmeds.org/#homepage-1>

Indecap.

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