



Amplifying Progress 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 sustainability 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 for employees.

We want to help some of the most creative and ambitious management teams fully realise their potential to have a positive impact on patients and on society in general. In doing so, this

approach amplifies the value of the relationships already forged between Baillie Gifford and the companies within the Health Innovation portfolio. As companies aim to reach long-term success, many of them will appreciate our added focus on what can help them deal with change and continue to grow. In this context, as our understanding of the complexity of the health sector develops, we continue to refine our engagement with companies, meaning our views and insights on sustainability 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 sustainability projects with the companies in the portfolio. Our sustainability framework covers four areas¹ where we believe we can drive change in the health sector:

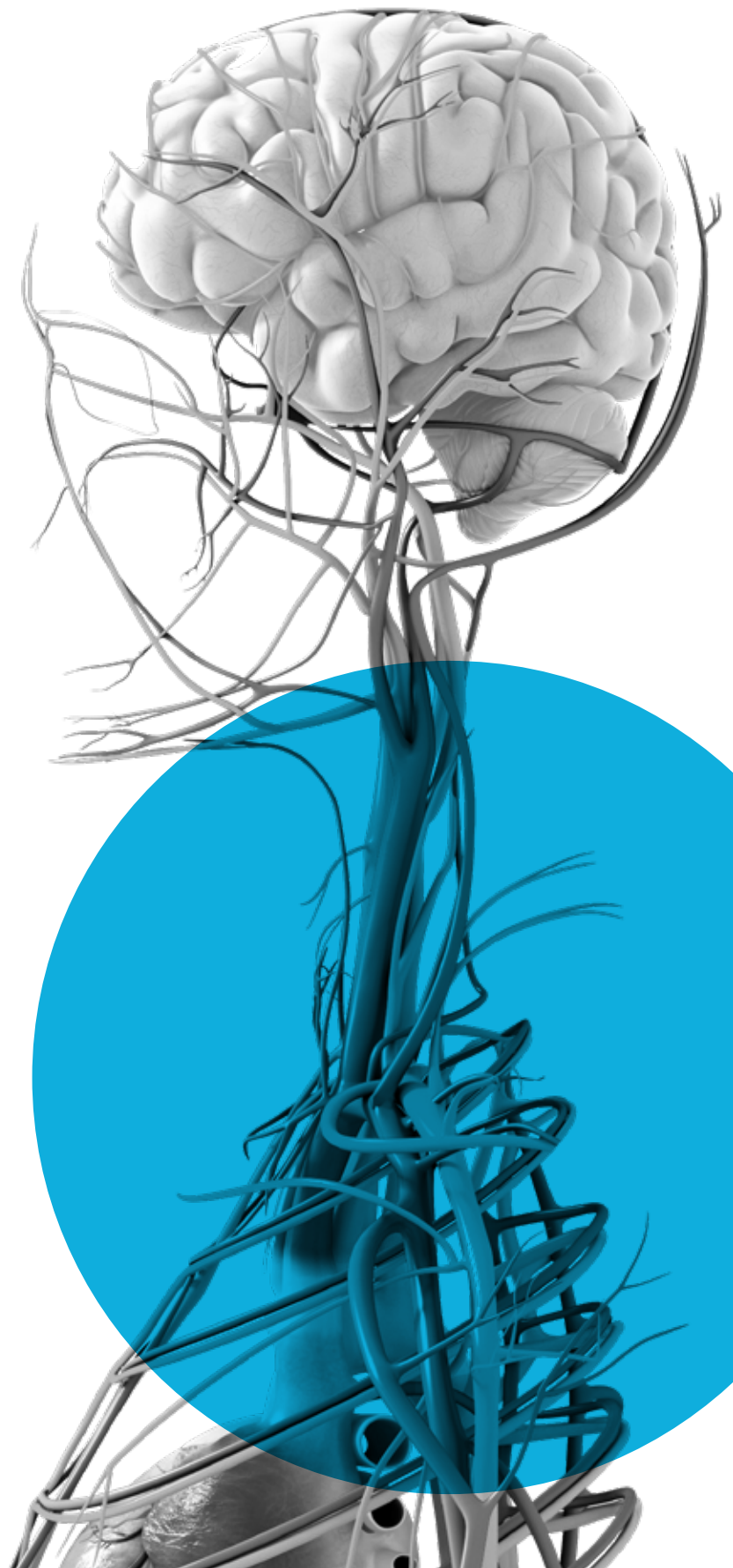
Improving environmental impact	Improving access to healthcare services and products	Improving social determinants of health	Improving ethical business practices and management
<p>Examples:</p> <ul style="list-style-type: none"> — Waste management — Water management — Biodiversity impact — Energy consumption — Research on single-use materials — Use of metals — Carbon emissions disclosure and improvement — One Health approach consideration 	<p>Examples:</p> <ul style="list-style-type: none"> — Pricing of healthcare products and services — Market shaping of healthcare products and services — Innovation of business models — Decentralized manufacturing — Primary health care inclusion 	<p>Examples:</p> <ul style="list-style-type: none"> — Fighting stigma and misinformation — Education — Food security and quality — Mental health — Health prevention — Representation and composition of trials 	<p>Examples:</p> <ul style="list-style-type: none"> — Representation of women and minorities groups in the business, management, and boards — Workers' rights — Executive remuneration

¹ Embankment Project for Inclusive Capitalism – Report, 2018.

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 sustainability approach, we believe Baillie Gifford can become a greater force for good and help 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.

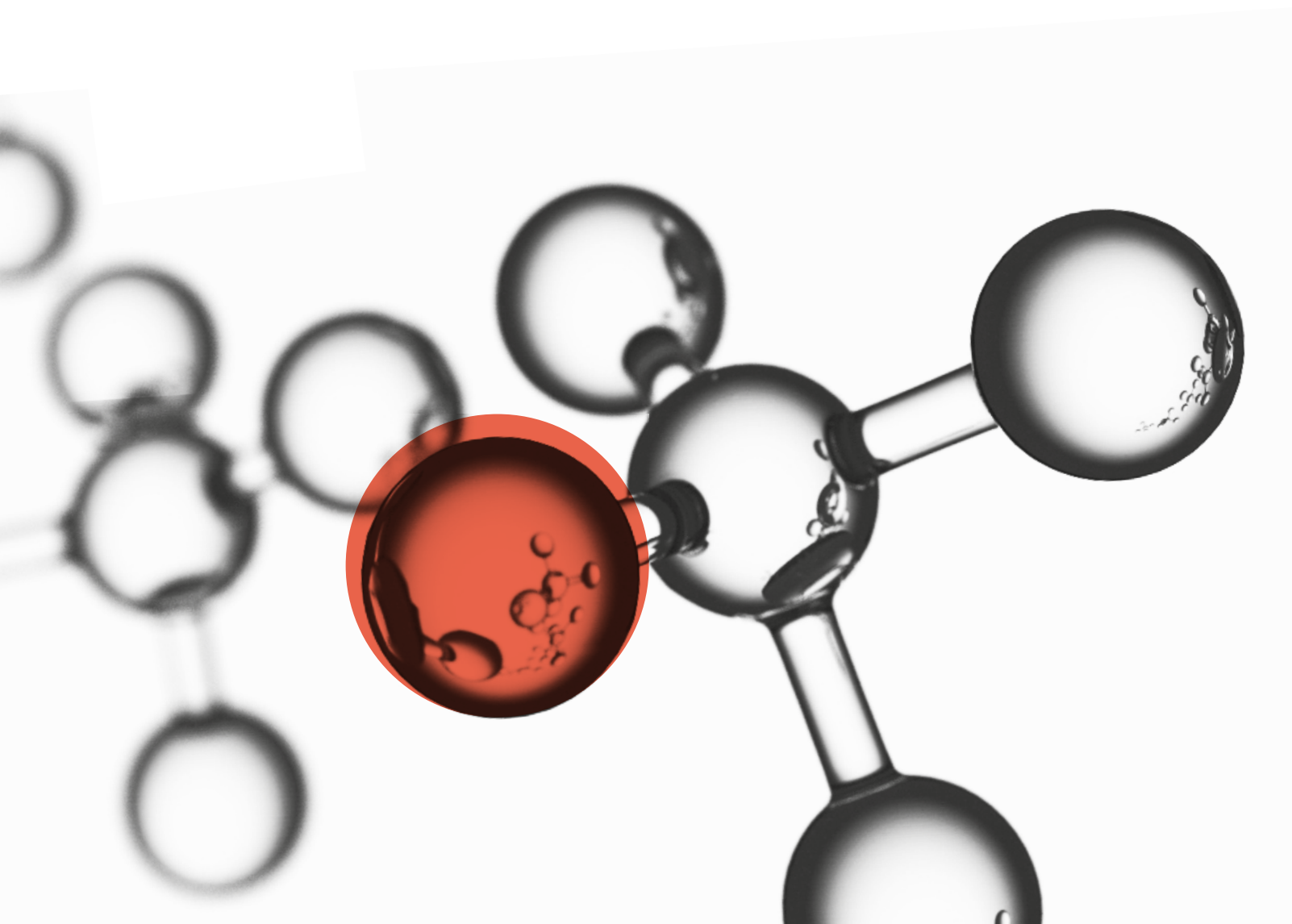
Our view is that companies in the health sector are not inherently good just because they solve health problems; they – and we – need to do more. The value of the companies we invest in is not limited to their ability to drive shareholder prosperity: it also encompasses how they manage and impact the 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.



Our Hypothesis

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 the sustainability of the companies in which we invest. 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.

Sustainability, 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. Sustainability and the four areas of focus of our work – improving environmental impact, access to health products and services, social determinants of health, and ethical business practices and management, create a positive feedback loop. Companies that improve in these areas can increase their access to capital, create and sustain demand, and attract and retain talent. These factors should, in turn, make companies less vulnerable to external shocks. And this is at the core of our sustainability approach – companies will directly increase their chances of success because they are less susceptible to disruption from external events.



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 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.

Create networks for change

We believe that as investors in the health sector we have a role to play in encouraging companies to work even harder to solve some of the major global challenges, such as the rise of antimicrobial resistance and inequalities in access to healthcare products and services. We should also be leading the industry 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 innovative work on sustainability .

Be proactive: don't wait for an invitation to increase the sustainability of the health system

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 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 and civil society organisations and governments. In doing so, we can assist the private sector in building a robust and well-informed constituency to usher in the needed change.

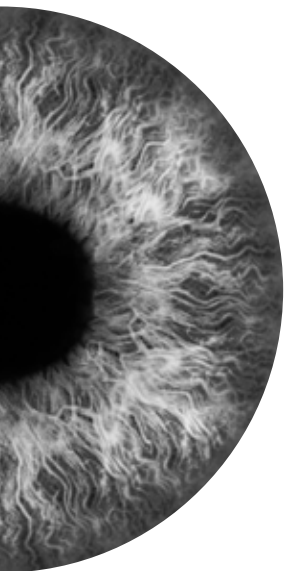
A Complex System View on Creating and Measuring Sustainability of Healthcare Companies

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

How can we drive change in a complex system such as health care?²

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 influence of our approach.

² Braithwaite, J. 2018 *Changing how we think about healthcare improvement*. British Medical Journal, 2018.





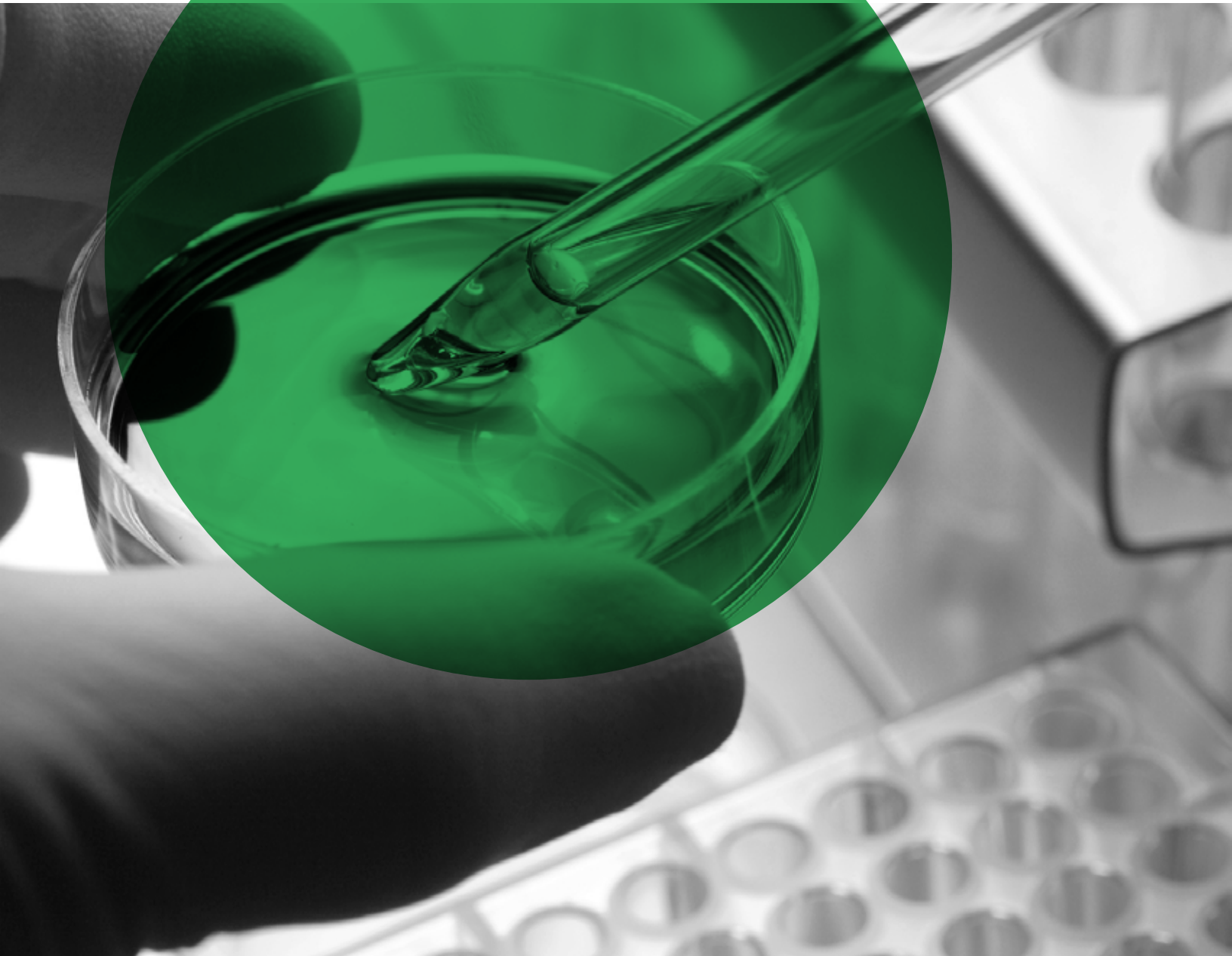
Framework for Creating Sustainability Projects with Companies

Data is key to identifying where the best opportunities are for increasing sustainability of companies in the health sector. Without meaningful data on what makes a company sustainable, 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 therefore create a baseline database, which covers the four 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 sustainability 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 assess the worth and success of each intervention.

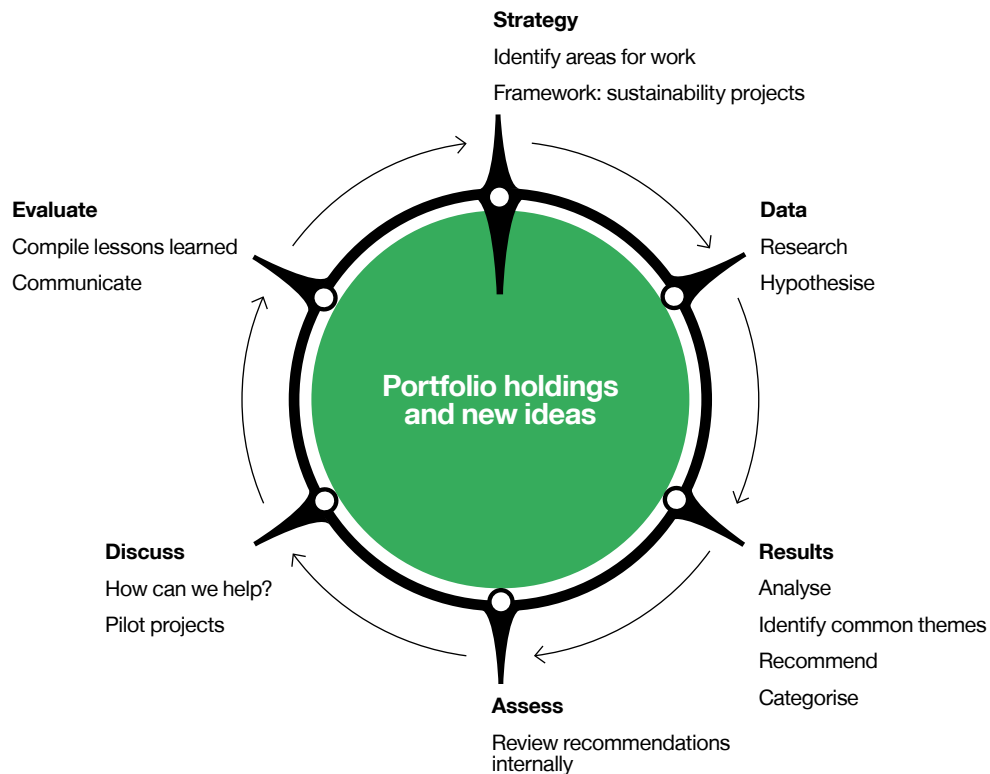
What will we do?	Why?	How will we measure success?
Establish specific OUTPUTS What will be implemented, created, reinforced, etc?	In order to reach specific OUTCOMES What do we want to increase or decrease?	Monitor INDICATORS Were targets reached? If not, why? What have we learned?
Define detailed TARGETS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

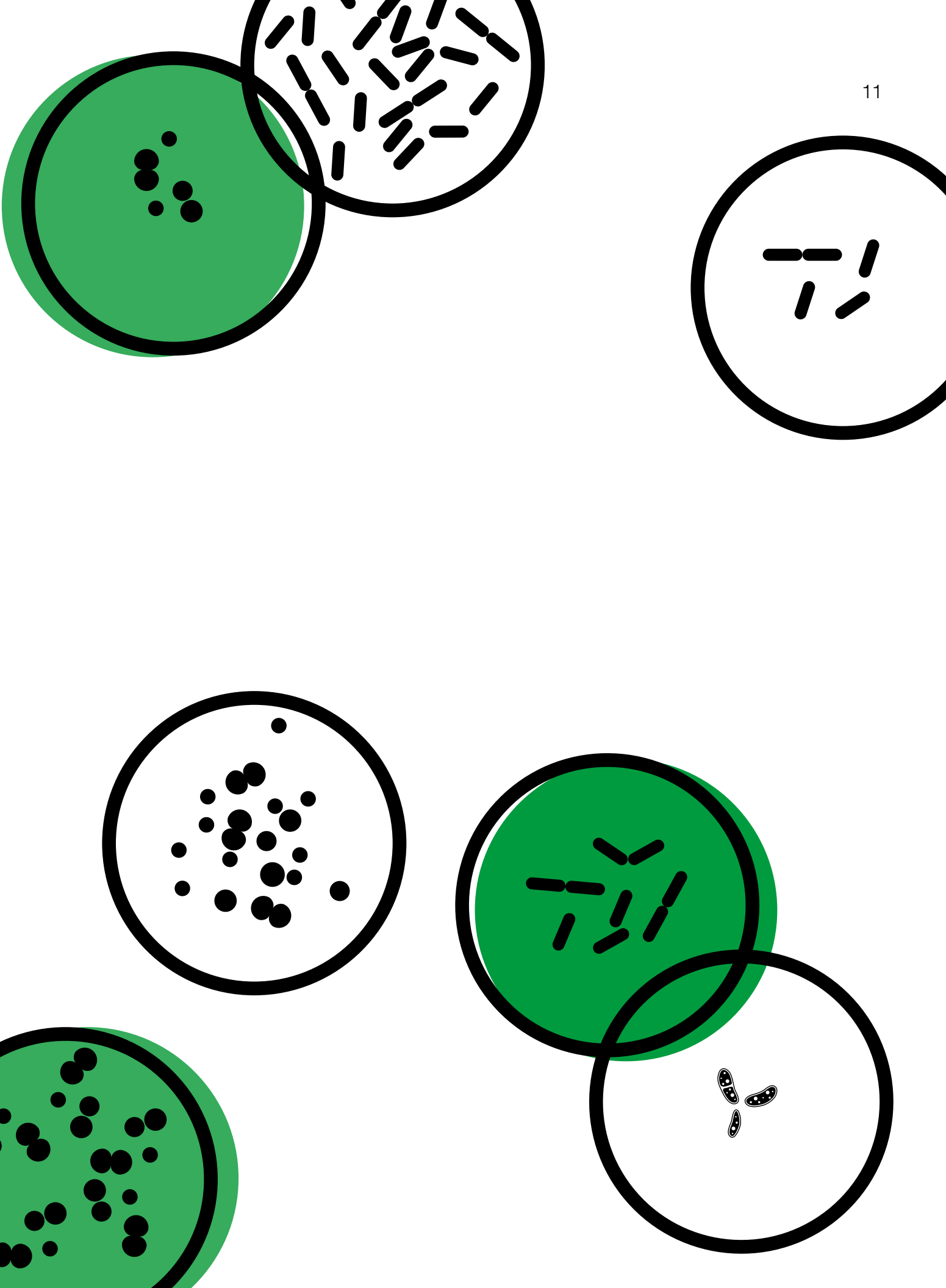


Initially, we will pilot the framework with a small number of companies. We will then undertake a 'lessons learned' exercise before expanding the pilot to the other companies in the portfolio. Note that the implementation of this approach will not be necessarily easy or fast, as it will depend on the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

The steps we will follow to create projects with the companies, learn from them and improve our 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 when trying to support more sustainable companies 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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