

Learning About **ESG**

Sustainable healthcare in today's world

Learning About ESG is an educational series that connects **environmental, social and governance** topics with investing.

Join us each issue to see how global developments can have implications for investors. The better we understand ESG, the bigger the role it can play in our everyday lives – and investment portfolios – contributing to a better world.

Key takeaways

- ◆ The UN released its annual Sustainable Development Goals (SDG) progress report in July. In the past year, Covid-19 has reversed some of the 17 goals' developments. **One impacted area is with respect to more efficient funding of healthcare systems.**
- ◆ The pandemic has also reinforced the urgency of building a more sustainable healthcare system. Not only is it **important to provide adequate and affordable care, but it also helps promote resiliency in the event of future crises.**
- ◆ Investors should develop **a robust understanding of the future profitability and sustainability on the healthcare industry** when exploring investment opportunities.

What was recently released?



The United Nations released its annual **Sustainable Development Goals (SDG)** progress report in July. The SDGs were created in 2015 and places the world on an agenda to “end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity”¹.

This year’s report describes the impact of Covid-19, reversal of development and added challenges experienced by countries. **One impacted area is with respect to more efficient funding of healthcare systems.**

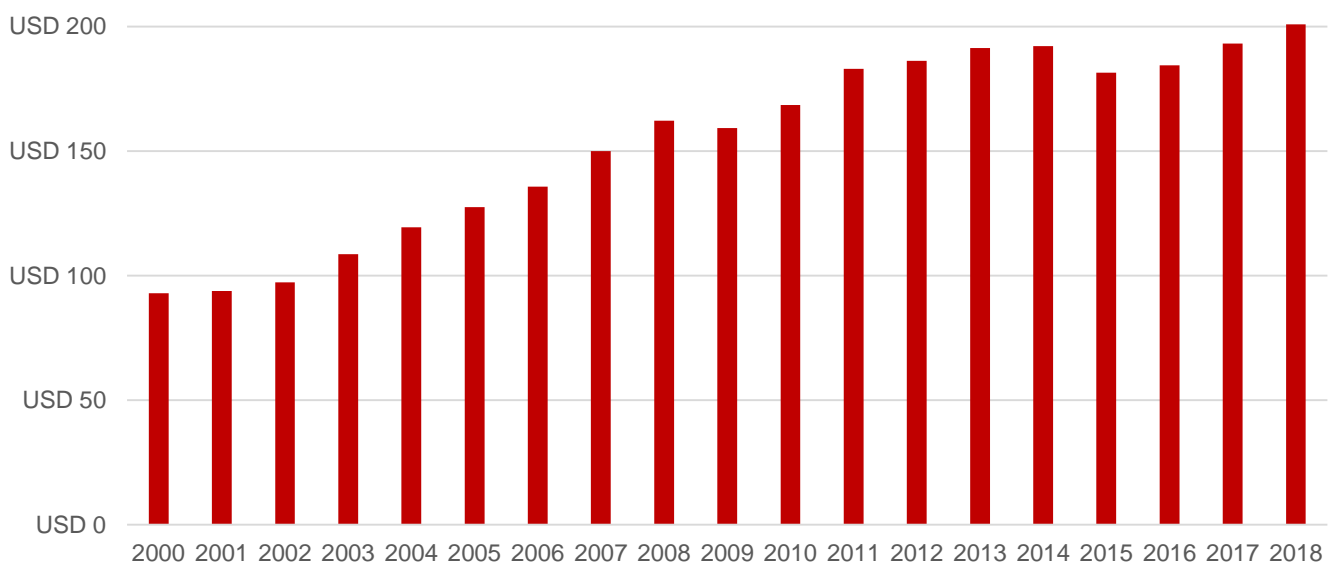
The effects documented in this report are extensive. Global poverty rates rose for the first time in decades, as over 71 million people were pushed into extreme poverty in 2020 alone. Over 150 million people suffered chronic hunger and an estimated 2.7 billion people are experiencing malnutrition due to insufficient quantities of food.

Access to critical health services has been disrupted in most countries, with over 90% still reporting issues. Inequalities in vaccine distribution between emerging and developed countries were also pronounced. Vaccines were administered in nearly 70% of populations in North America and Europe, but less than 2% in sub-Saharan Africa.

Yet even prior to the pandemic, global healthcare costs were escalating². For example, Singapore have seen costs inflate by 50% over the past 20 years. **Rising costs have also resulted to many insurers to not cover critical therapies that are needed to treat diseases.**

The phenomenon stretches across the world. Nearly 13% of the global population are already paying out-of-pocket healthcare expenses, representing 10% or more of their income. This has led to tens of millions of people in poverty as a result, and **Covid-19 poses a greater impact on public health and expenses.**

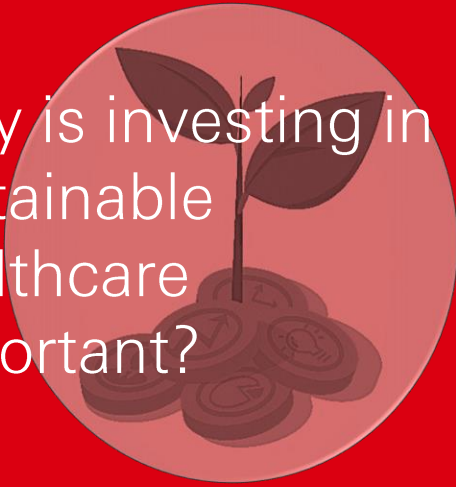
Figure 1: Global out-of-pocket healthcare spend per capita has risen steadily since 2000



Source: World Bank/World Health Organisation Global Health Expenditure; data as of Feb 2021

1. United Nations Sustainable Development Goals
2. World Bank/World Health Organization Global Health Expenditure

Why is investing in sustainable healthcare important?



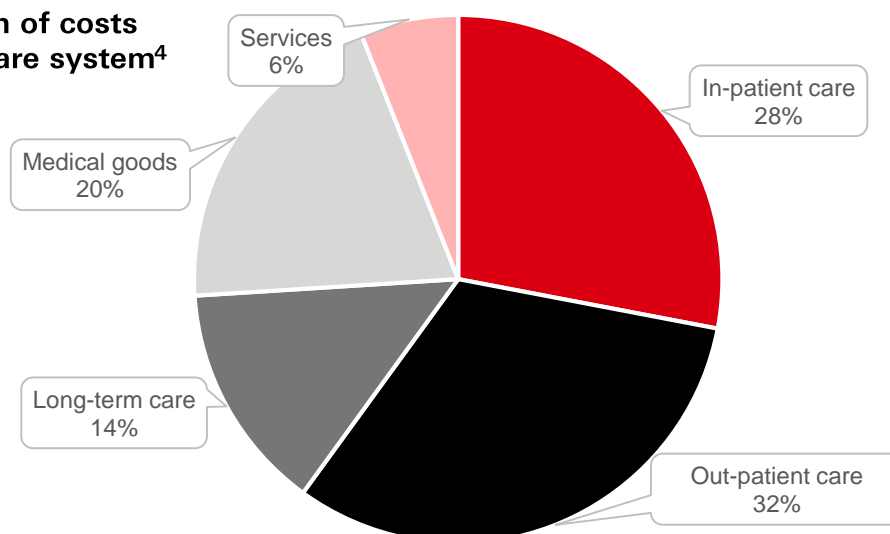
While the pandemic has exacerbated the existing weaknesses in global healthcare, it has **also reinforced the urgency of building a more sustainable healthcare system**. Not only is it important to provide adequate and affordable care, but it also **helps promote resiliency in the event of future crises**.

Developing a more sustainable healthcare system means reducing the total costs across the value chain. To illustrate, about two-thirds of total healthcare spend goes towards hospitalisation costs, with the rest to medication and medical devices³. Methods to decrease time spent in hospitals can also support total cost reductions and place more emphasis on more preventative care. **Across the industry, there are many opportunities**

to reduce overall costs and promote wider more equal access to critical treatments.

To alter the trajectory of unsustainable cost growth, leading healthcare companies will need to deliver solutions that improve patient outcomes without adding costs. Healthcare expenses are spread across various components of a system. Addressing them more holistically opens the door to efficiencies and cost savings.

Figure 2: Division of costs across a healthcare system⁴



Companies that actively consider cost reductions will create larger opportunities for the treatments they bring to market. Most importantly, **this would help avoid the cycle of perpetual additive costs.**

With nearly 75% of total healthcare costs spent on patient care, it reinforces the need for care solutions with decreased time. This can be achieved not only through new treatments that better manage or even cure chronic ailments, but also through **tools and**

technology to more efficiently deliver care. Firms that can deliver this stand to grow revenues and market share.

Furthermore, **companies able to reduce costs for payers will improve their ability to protect and grow margins.** Not only will they be afforded greater pricing autonomy, but by avoiding access restrictions they will expand the market potential of their products, driving scale and profitability.

3. OECD Health Data, 2019
4. Ibid

What can investors explore in the healthcare sector?



Companies with products and services that add on to increased healthcare industry costs can impair their own sales, profitability and ultimately investor returns.

Investors should develop a robust understanding of the future profitability and sustainability on the healthcare industry, and incorporate the mentioned considerations into the investment decision-making process when exploring opportunities.

With clear return opportunities and a need for risk mitigation, **investors stand to benefit from a proactive approach to security selection and company engagement.**

One might assume that the Environmental, Social and Governance (ESG) scoring criteria, when applied to healthcare companies, would differentiate those that contribute more or less to the unsustainable cost strain. However, this is often not the case. Some companies with high ESG scores may still be the worst offenders in raising drug prices unjustifiably.

Hence, **industry-specific analysis and understanding is needed to truly ascertain company impacts on healthcare sustainability.** New technologies are increasing opportunities to deliver care more effectively and efficiently. Emerging diagnostic tools are able to identify illnesses at earlier stages, allowing for more effective treatment options

that reduce hospital admissions and time in care. Likewise, medical devices are playing a growing role in delivering both preventative and ongoing care more efficiently. Digital health services are also becoming more prominent due to their ability to provide operational efficiencies while expanding access to care. **A holistic approach to therapies, supported by new tools and technology, can help transition healthcare systems to a more sustainable footing.**

Investors have a key role to play. They are in a position to influence companies to evolve into a more sustainable business model and behavior. This transformation can in turn benefit companies' outlook on returns despite the potential risk due to unfavourable market condition. As we have seen through the topic of climate change, increased focus can shift the way of thinking over time.

Glossary

Environmental, Social and Governance (ESG) score: a numerical evaluation designed to measure a company's relative performance, commitment and effectiveness across the E, S and G pillars based on publicly-reported data⁵; scoring criteria and methodology can differ within the industry

Healthcare expenses: costs within the healthcare system ranging from hospital care (both in-patient and out-patient), long-term care, medical goods and related services

UN Sustainable Development Goals (SDGs): the 17 SDGs were adopted by all UN Member States to end poverty and other deprivations, improve health and education, reduce inequality, generate economic growth – while tackling climate change by 2030

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