

TREASURER'S OFFICE SHAREHOLDER ADVOCACY EFFORTS

Opioid Epidemic: Issues in the Supply Chain

THE PROBLEM

The Centers for Disease Control and Prevention reports that 91 Americans die every day from an opioid overdose. One study put the economic burden of opioid abuse resulting in increased health care, substance abuse treatment, criminal justice and other costs at \$78.5 billion in a single year.¹ In October, President Trump declared the opioid epidemic a national public health emergency.

One of the many facets of why the United States is in the midst of an opioid epidemic deals with the supply chain of opioid manufacturing and distribution. The five major opioid manufacturers are facing subpoenas from a coalition of 41 states attorney generals on their marketing and sales tactics. The investigation questions whether the companies minimized the risks of addiction and overdose for opioids even when they are used as directed. Similar lawsuits are mounting from more than 60 cities, counties and states throughout the country.

TAKING ACTION

The Treasurer's Office is involved with two initiatives to engage companies in the opioid supply chain. The Treasurer's Office formed a coalition with state treasurers from California, Rhode Island, Pennsylvania and West Virginia focused on engaging companies in the opioid distribution industry. The Treasurers' Coalition cooperates on shareholder advocacy efforts and speaks collectively on behalf of the shared assets of the five states. Additionally, the Treasurer's Office is one of 30 institutional investor members of the Investors for Opioid Accountability ("IOA"). The IOA is a coalition of 44 treasurers, asset managers, faith-based, public and labor funds with over \$2.2 trillion in assets.

In the case of the distributors, McKesson, Cardinal Health and AmerisourceBergen failed to flag suspicious shipments to pharmacies. In one case, drug distributors shipped 780 million hydrocodone and oxycodone prescription opioids to West Virginia in a six-year period, enough for about 433 pills for every man, woman and child in the state. During that time, 1,728 people fatally overdosed from those two opioids. McKesson, Cardinal Health and AmerisourceBergen together supplied more than half of the total, according to reports in the Charleston Gazette-Mail.



¹Florence CS, Zhou C, Luo F, Xu L. "The Economic Burden of Prescription Opioid Overdose, Abuse and Dependence in the United States, 2013." Med Care, available at: <https://www.ncbi.nlm.nih.gov/pubmed/27623005>



The Treasurers' Coalition has requested a series of corporate governance improvements at the three distributors that coincide with the proposals of the IOA. Improved corporate governance will ensure the board of directors is better structured to hold management accountable for its handling of the crisis. The IOA collectively filed a series of shareholder proposals at 10 companies in the opioid supply chain: Alkermes; AmerisourceBergen; Cardinal Health; Depomed; Endo; Insys; Johnson & Johnson; Mallinckrodt; McKesson and Pfizer. The proposals ask the companies to adopt a series of disclosures and reforms including to:

1. Appoint an independent director to chair the board;
2. Form a committee of independent directors to issue a report on opioid business risks;
3. Adopt a claw-back provision for executive pay in the case of misconduct;
4. End the practice of excluding legal costs when assessing progress on metrics for executive incentive compensation;
5. Publicly disclose political spending; and
6. Report on drug pricing.

PROGRESS TO DATE

McKesson, Cardinal Health and Endo reacted positively to the proposals. McKesson agreed to (1) launch an investigation, led by independent board members, of its opioid-related business practices; (2) separate the roles of CEO and board chairman when the current CEO retires; and (3) review its pay practices after 73% of investors rejected its pay package in 2017 as excessive in light of the problems the company faced due to opioid distribution practices.

Treasurer Micheal Frerichs attended the Cardinal Health stockholder's meeting in October, shortly prior to which the CEO announced he was stepping down. Cardinal Health also: (1) separated the roles of board chairman and CEO and (2) announced an Opioid Action Program comprised of steps to help fight the crisis including distributing free doses of the overdose-reversing drug Narcan; supporting drug recoupment efforts; and investing in prevention and education programs.



Endo agreed to (1) issue an independent director report on opioid business risks; (2) adopt a claw-back provision for executive pay in the case of misconduct and (3) publicly report political spending.

While these are positive steps, much more is needed. Each entity in the opioid supply chain should look hard for opportunities to course correct after failing to stem the crisis. The investors' initiatives are ongoing.