

Recommendation to Exclude Investment in Tobacco

At its 7 May 2003 meeting, the Advisory Committee on Corporate Responsibility in Investing (ACCRI) unanimously adopted the following recommendation:

"We recommend that the Brown Corporation exclude from Brown's direct investments, and require Brown's separate account investment managers to exclude from their direct investments, those companies that manufacture tobacco products and that the Investment Office share with all investment managers the University's desire to adhere to this investment philosophy. To give investment managers guidance, we recommend they consult with the company list compiled by Investor Responsibility Research Center."

This recommendation was discussed with the Corporation's Proxy Committee at a joint meeting on 22 May 2003, and that Committee approved the forwarding of this recommendation to President Simmons.

The ACCRI considered the following issues in reaching this recommendation:

Tobacco is the most common screen among socially responsible investment groups, including the World Bank.

- Over 80% of all socially responsible investors screen tobacco stocks. (www.domini.com/Social-Screening/Tobacco/Issue-Briefs/)
- The World Bank refuses to lend money related to tobacco production- in sharp contrast to its policy of funding alcohol production. Since 1991 the World Bank has had a formal policy of not lending for tobacco production and encouraging tobacco control. (<http://www1.worldbank.org/tobacco/book/html/>)
- The American Medical Association urges "medical schools and their parent universities to eliminate their investments in corporations that produce or promote the use of tobacco." (Resolution H49-983)

Tobacco is the only legal substance which when used as directed causes death.

- According to the Center for Disease Control (CDC): Tobacco use remains the leading preventable cause of death in the United States, causing more than 440,000 deaths each year and resulting in an annual cost of more than \$75 billion in direct medical costs. Studies also indicate that nonsmokers are adversely affected by environmental tobacco smoke. Researchers have identified more than 4,800 chemical compounds in tobacco smoke; of these, at least 69 cause cancer in humans and animals. Each year, because of exposure to environmental tobacco smoke, an estimated 3,000 nonsmoking Americans die of lung cancer, and 300,000 children suffer from lower

Tobacco use is responsible for a global disease epidemic.

- According to a World Bank report in 1999 “Curbing the Epidemic: Governments and the Economics of Tobacco Control”: Smoking already kills one in 10 adults worldwide. It is believed with current smoking patterns, that about 500 million people alive today will eventually be killed by tobacco use. By 2030, the report states that tobacco is expected to be the single biggest cause of death worldwide, accounting for about 10 million deaths per year.
(<http://www1.worldbank.org/tobacco/book/>)
- The World Health Organization launched a Tobacco Free Initiative in 2003 and has a framework convention on global tobacco control. Their Tobacco Industry Report for 2002, titled “Killing for Profit”, documents the efforts of the industry to reach underage smokers in the developing world.
(<http://www5.who.int/tobacco/repository/stp91/tob-ind-monitoring02.pdf>)

As a result of the enormous health costs to society and the way the industry mislead the public; tobacco companies have paid record amounts of punitive damages to individuals and organizations.

- In 1998, the four biggest American tobacco companies settled lawsuits with 46 states by pledging to pay the states about \$206 billion over 25 years. (The New York Times August 26, 2001 by Abby Schultz)
- “A Miami-Dade County circuit judge today upheld a jury's landmark award of \$145 billion in punitive damages in a class action lawsuit brought by sick Florida smokers against the nation's largest cigarette makers.” (The New York Times, Nov. 7, 2000 by Rick Bragg)

Tobacco smoking is increasingly banned from public spaces due to the health risks of second hand smoke.

- Boston outlawed smoking in restaurants in 1998, and in bars in May, 2003, joining New York City and the state of California.
- In February 2003, instituted a total ban on tobacco use inside the ACI, joining 18 other states which, motivated by the threat of lawsuits posed by secondhand smoke and health-related costs, have banned tobacco use in prisons.

U.S. tobacco companies are worldwide leaders, making it especially important for people from the U.S. to not support the industry.

- The USA is the largest single cigarette exporting nation in the world, exporting up to 30% of its production. During the early 1990s, exports of cigarettes increased substantially (from 164.3 million in 1990 to 220.2 million in 1994) due primarily to opening of markets in Eastern Europe, Asia, and the former Soviet Union. In 1994, cigarette exports from the USA accounted for 23.5% of total exports in the world. Revenue derived from tobacco in 1990 included US\$ 42,000 million in retail sales and US\$ 10,000 million in taxes.
(<http://www.cdc.gov/tobacco/who/usa.htm>)

Currently, Brown's separate account managers directly invest 14.7% of the endowment portfolio, and of this 0.2% are invested in stock of tobacco manufacturers. Thus, while the exclusion recommended here may have significant symbolic value, at this time it will have no discernable effect on earnings on the endowment. We will advise the fund managers for the majority of our investments of this exclusion, but that advice will not be binding on their investment decisions.