Should Brown Become a Green Investor? The Possibility of Instituting Environmentally-Responsible Money Management at Brown University

Submitted by Amy Elkes in partial fulfillment of the AB in Environmental Studies

ABSTRACT

My thesis research aims to answer the questions: Should Brown University adopt a tobacco-free investment policy and, if so, what could the University's method of handling tobacco investments imply for a more general environmentally-responsible investment policy at Brown?

In order to answer these questions I studied the history and current state of the socially-responsible investment (SRI) movement, including the ways in which SRI is practiced, the issues most commonly addressed through SRI, and the financial performance of SRI funds and investments. Because of my interest in environmental issues, I paid particularly close attention to the sub-field of environmentally-responsible investing (ERI). I then conducted a case-study of two northeastern universities, one which divested itself of its tobacco holdings and one which actively sought to maintain them. I also looked at eight other colleges who sold their tobacco stocks, in an effort to determine what factors led them to this decision. Finally, I did an in-depth study of Brown's own investment policies and practices, and attempted to assess the environmental impact of some of the companies in which the University currently invests, including tobacco companies.

I conclude that ERI is a flourishing movement with the potential to effect positive social change, particularly if more large institutional investors like Brown decide to become actively involved. On the basis of moral and financial grounds, I recommend that the Brown Corporation support President Gee's statement that Brown University should not "contribute to human misery" by investing in tobacco companies. Therefore, Brown should divest itself of its tobacco holdings immediately and adopt a policy, which prohibits future investments in tobacco-producing companies. My research indicates that in order for divestment to occur, a prominent member of a university's board or administration must support it. President Gee's statements suggest that this support is already present at Brown. Finally, I also recommend that Brown take several steps to initiate a more general ERI policy within the University, including reactivating the Committee on SRI and ensuring that it meets regularly, revoking the official proxy-voting policy of the Investment Committee, and putting a small amount of the endowment under ERI management.

ACKNOWLEDGEMENTS

This project would not have been possible without the guidance and wisdom of Caroline Karp. Not only did she provide me with a continual stream of new ideas and paths of inquiry to follow, but she reassured me when I was nervous and always told me when I was on the right track.

I also want to thank Donald Reaves for being an enthusiastic supporter and wonderful resource throughout this process. His office staff, Geneva Ferell and Kathleen Furtado, also deserve thanks for being so helpful and friendly every time I called with a new request.

Thank you to Harold Ward, as well. Though his plate was already full, he agreed to help me with this project because of his genuine interest in the subject. He, more than anyone else, has been able to help me combine the environmental side of my research with the financial.

Finally, I want to express my gratitude to my family and friends for being supportive and listening to me as I alternately complained about and praised the thesis process. Thanks especially to my housemate, Dan McCarthy, for answering all my stock market questions and for saving all the pertinent *New York Times* articles for me. And an enormous thank you to my mom and dad who have been *incredibly* supportive from day one and never once complained about the phone bills I rung up while doing research on spring break.

TABLE OF CONTENTS

GLOSSARY OF ABBREVIATIONS

ACSR - Advisory Committee on Shareholder Responsibility (at Harvard University)

ACIR - Advisory Committee on Investor Responsibility (Yale University)

CCSR - Corporate Committee on Shareholder Responsibility (at Harvard University)

CEP - Council on Economic Priorities

CERES - Coalition for Environmentally Responsible Economies

CSRI - Committee on Social Responsibility and Investing (at Brown University)

DJIA - Dow Jones Industrial Average

DJUA - Dow Jones Utilities Average

DSEF - Domini Social Equity Fund

DSI (400) - Domini Social Index

ERI - Environmentally-Responsible Investing

ETS - Environmental Tobacco Smoke

GMIA - GOOD MONEY Industrial Average

GMUA - GOOD MONEY Utilities Average

ICCR - Interfaith Center on Corporate Responsibility

IRRC - Investment Responsibility Research Center

PIN - Public Information Network

SIF - Social Investment Forum

SLA - Student Labor Alliance (Brown University)

S&P 500 - Standard and Poors 500

SRI - Socially-Responsible Investing

INTRODUCTION

Joan Shapiro, Senior Vice President of the South Shore Bank of Chicago and founding board member of the Social Investment Forum, defines responsible investing as, "the practice of making investment decisions based on both financial and social performance. It is the concept of investing in concert with your principles"[1] The basic theory behind socially-responsible investing (SRI) is that money-making and morality are not mutually exclusive and can, in fact, go hand in hand.

But SRI is more than just a vague theory. It is a growing force in the global economy with which corporations must contend. Between 1985 and 1998, total assets in socially screened mutual funds increased by almost two thousand percent.[2] Today, over a trillion dollars, or six percent of total U.S. assets, are managed in socially-responsible investment portfolios.[3] Many investors – over fifteen percent of them[4] –are making decisions at least partly on the basis of social criteria, which vary from labor conditions to animal rights.

Particularly since the early 1980's, when investors began concentrating on humanitarian efforts to end Apartheid in South Africa, the field of SRI has flourished. According to Shapiro, "Driven by the success of the South Africa divestiture movement, individual and institutional investors routinely request social investment products, and SRI is generally recognized as a prudent, long-term investment strategy…."[5] Indeed, many fund managers now offer SRI funds

---

[1] Shapiro, Joan. "The Movement Since 1970." The Social Investment Almanac. Ed. Kinder, Lydenberg, and Domini. New York: Henry Holt and Company, Inc., 1992, 10
[2] Strategic Insight SIMFUND, 1998.
[3] Social Investment Forum. 1997 Report on Responsible Investing Trends in the United States. Washington: Social Investment Forum. 1998, 1.
[4] Farrell, Dr. Paul B. (1999). "Socially responsible funds beating S&P 500." CBS Marketwatch [Online]. Available: http://cbs.marketwatch.com/archive/19990412/new/current/superstar.htx?source=bl [April 20, 1999]. 1.
[5] Shapiro, Joan. "The Movement Since 1970." The Social Investment Almanac. 1992, 16.

among their repertoire of investment choices. Some fiduciaries, such as the Calvert Group in Washington, DC, have devoted themselves exclusively to managing socially-responsible investments.

Several organizations have also formed to provide concerned investors with constantly updated information pertaining to SRI. The most influential of these organizations are the Investment Responsibility Research Center (IRRC), the Social Investment Forum (SIF), the Council on Economic Priorities (CEP), and the Interfaith Center on Corporate Responsibility (ICCR). These organizations report on the social soundness of potential investments through their own extensive screening processes, and pass their findings on to their subscribers.

With the growing acceptance of SRI, and in many cases the demand for it, large institutional investors have joined the ranks by formulating their own internal SRI policies. Many of these institutional investors are public and private pension funds. For example, the General Board of Pension and Health Benefits of The United Methodist Church, which oversees the management of more than nine billion dollars,[6] adheres to an extensive policy which includes prohibitions of investment in any companies involved in the production or sale of alcohol, tobacco, gambling, or pornography.

Institutions of higher learning form another critical sector of large, institutional practitioners of SRI. By the late 1980's, many colleges adopted policies regarding investment in South Africa. More recently, several colleges and universities have made national headlines by divesting themselves of their holdings in tobacco companies and prohibiting future investments in such companies.

[6] Rehfeld, Barry. "Heaven Can Wait." Institutional Investor, August 1998, 33-38.

The increasing acceptance of SRI by large institutions, including colleges and universities, leads to the critical question: Should Brown University adopt a socially-responsible investment policy? The Brown University Mission Statement says that the University's goals must be fostered in an environment that "instills a striving for….service to the community."[7] Does this community extend beyond the boundaries of College Hill and Providence, RI? Should "service" be represented in Brown's financial policies as well as its educational ones? These are some of the underlying questions my research will address.

Because SRI can incorporate a world of issues, and because my background is in Environmental Studies, I analyzed these questions with regard to environmental issues and investments that pose a particular threat to the environment. Narrowing my study to this sector of socially-conscious investing still allowed me to paint a relatively complete and accurate picture of the current state of SRI and its possible relationship to Brown because the environment has become a major priority among socially responsible investors. Timothy Smith, the Executive Director of ICCR, called the environment, "the top issue for the 1990's."[8] His sentiments were echoed by SRI experts, Edgar G. Crane, Ariane van Buren, and Andy Smith who in 1992 wrote, "the environment will dominate the shareholder action agenda for the foreseeable future, just as South Africa dominated the past twenty years."[9]

But even environmentally-responsible investing (ERI) encompasses an enormous variety of issues. Therefore, I explored one particular issue within the field of ERI: Should Brown adopt a tobacco-free investment policy, and if so, what would the implications of this policy be for a more general ERI policy within the University?

---

[7] Brown University faculty. "Mission Statement." Brown Bulletin of the University for the years 1998-2000. 1998.
[8] Smith, Timothy. "Shareholder Activism." The Social Investment Almanac. 1992, 113.
[9] Crane, et al. "Shareholder Actions and the Environment." The Social Investment Almanac. Ed., Kinder, Lydenberg, Domini. New York: Henry Holt and Company, Inc. 1992, 128.

I began by looking at the history and current status of SRI in the United States. This included putting together a summary of the past and current issues that have driven SRI, as well some of the basic terms and tenets of the movement. I also addressed the issue of financial performance of SRI funds, paying particular attention to environmentally responsible funds.

Then I outlined Brown University's current investment practices, critiquing them from an ERI standpoint, and determined whether some of these investments are of particular concern.

I then presented a case study of tobacco investments at two northeastern universities and outline the tobacco divestment procedures that have occurred at several other colleges.

Finally, I returned to my original question of whether Brown should adopt a tobacco-free investment policy, and an ERI policy.

CHAPTER 1: An Overview of Socially-Responsible Investing in the United States

The History of Socially-Responsible Investing

Socially-responsible investing is not a new concept. It dates as far back as the eighteenth century when religious institutions refused to invest in companies involved in the production of tobacco, liquor, or gambling.[10] SRI as it is known today began in 1970 with the formation of the Project on Corporate Responsibility, an organization of young lawyers who decided to merge shareholder activism with social responsibility by filing the first shareholder resolutions that addressed non-monetary issues. The nine resolutions, collectively called Campaign GM, made demands of General Motors Corporation on behalf of minorities, workers, and consumers.[11] Then in 1971, the Episcopal Church filed the first *religious,* and quite possibly the most famous, shareholder resolution which called on General Motors to cease operations in South Africa. During the same year the first SRI fund, the Pax World Fund, was formed.

Over the next two decades, apartheid in South Africa became a galvanizing issue for investors of every denomination and size, as well as the primary catalyst for the modern SRI movement. Anti-apartheid investing took a decisive turn in 1977, when the Baptist reverend, Leon Sullivan, presented the Sullivan Principles to the investment community. The principles established a code of equal opportunity employment, without regard to race, for American corporations operating in South Africa. The Sullivan Principles were adopted voluntarily by companies which were then asked to release compliance reports.

---

[10] Social Investment Forum. 1997 Report on Responsible Investing Trends in the United States. Washington: Social Investment Forum. 1998, 4.

[11] Paul, Karen and Dominic Aquila. "Trade Sanctions, Ethical Investing, and Social Change in South Africa." Ed. Kinder, Lydenberg, and Domini. The Social Investment Almanac. New York: Henry Holt and Company. 1992, 29.

The widespread adoption of the Sullivan Principles by multinational corporations, as well as the South Africa divestment movement that took place at the same time,[12] helped bring about direct political action against apartheid. In 1986, the Comprehensive Anti-Apartheid Act was passed by the United States Congress, mandating economic sanctions against South Africa. The Act projected tightening of sanctions in one year if significant steps had not been taken to eliminate apartheid. By the same token, significant improvements would result in the lifting of the sanctions by executive order, which occurred in August of 1991.[13]

As the scope of SRI widened in the late 1980's and 1990's to encompass issues other than apartheid, several socially-responsible corporate indices were published. These served two functions. First, they gave socially responsible investors a SRI portfolio model to learn from and emulate. Second, they provided a way to measure the financial performance of socially conscious investments.

The GOOD MONEY Industrial and Utilities Averages (GMIA and GMUA, respectively) were the SRI answer to the Dow Jones Industrial and Utility averages (DJIA and DJUA, respectively). Like the DJIA, the GMIA tracks companies across several industries in an effort to accurately reflect the market. Unlike the DJIA, however, the GMIA is rigorously screened to include the most socially conscious companies in each industry.[14] The GMUA is a nuclear-free index that specifically tracks companies that develop renewable and alternative energy sources.

In 1990, the Domini Social Index (DSI) was created and published by the investment firm of Kinder, Lydenberg, Domini & Company. The DSI is the socially-responsible equivalent

[12] While the Sullivan Principles sought to improve corporate behavior in South Africa, the divestment movement called on multinational companies and investors to cease all operations South Africa.
[13] Paul, Karen and Aquila Dominic. "Trade Sanctions, Ethical Investing, and Social Change in South Africa." Ed. Kinder, Lydenberg, and Domini. The Social Investment Almanac, 33.

of the Standard & Poors 500 (S&P 500), which is an index that tracks the performance of five hundred publicly-traded companies which are intended to represent the composition of the stock market. The DSI, on the other hand, is a four hundred company index, with both "primary" and "secondary" social screens. The primary screens are "purely negative."[15] This means that the nuclear power screen, for example, precludes any companies that are involved in the generation of nuclear power from being included in the index. Other primary screens[16] include military contracting, alcohol and tobacco, gambling, and South Africa[17] The secondary screens are applied *after* the clear-cut negative screens and are intended to,

> track corporate responses to the demands of today's society….Unlike our primary screens, our secondary screens rarely—*very* rarely—yield yes-or-no answers. The secondary screens demand qualitative evaluations of what a company is doing to make society better and to preserve the environment.[18]

The secondary screens are: environment, product quality and attitude toward consumers, corporate citizenship, employee relations, and women and minorities' issues.[19] Because of these screens, the composition of the DSI is different from that of the S&P 500. The DSI eliminates approximately two-hundred and fifty companies that are in the S&P 500, while including about one-hundred and fifty companies that are not.

Another important outgrowth of the contemporary SRI movement is the CERES Principles, formerly known as the Valdez Principles. In the wake of the 1989 Exxon Valdez oil spill, the Coalition for Environmentally Responsible Economies (CERES) designed a set of ten

---

[14] With the exception of those industries in which no companies could fulfill the GMIA criteria for social responsibility. These are in the industries: metals and mining, multiform conglomerate, precision instruments, recreation, tires and rubber, tobacco, and nuclear utilities.
[15] Kurtz, Lydenberg, and Peter D. Kinder. "The Domini Social Index: A New Benchmark for Social Investors." <u>The social Investment Almanac</u>. 289.
[16] As of 1992.
[17] As of 1992.
[18] Kurtz, Lydenberg, and Peter D. Kinder. "The Domini Social Index: A New Benchmark for Social Investors." <u>The Social Investment Almanac</u>. 289.
[19] Ibid.

environmental principles with the intention of reducing corporate environmental impact and giving shareholders a set of criteria by which to judge a company's environmental conduct. As with the Sullivan Principles, adoption of this code of conduct is completely voluntary. At one time, more than eighty companies had agreed to adopt the CERES Principles,[20] but many companies were removed from the CERES list because they failed to comply fully with the Principles.[21] Currently, forty-six companies endorse the Principles, including Coca-Cola, General Motors, and Polaroid Corporation.[22]

All of these advances in SRI have brought the movement to its present robust state. At this time, over a trillion dollars in U.S. assets—approximately six percent of total U.S. assets—are invested in socially and environmentally-responsible portfolios.[23] There are hundreds of SRI funds available to both individual and institutional investors, and just as many fund managers who use SRI screens and principles in their management practices. The variety of SRI strategies currently practiced by fiduciaries and lay investors is enormous. However, all of these strategies stem from a simple, three-tiered framework that has evolved over the years to become the foundation of the SRI movement.

How SRI Works

There are essentially three ways in which social criteria can be applied to investments:

1) UUPositive Investment: seeking out corporations that have made exceptional strides on issues that concern the investor

2) Negative Investment: avoidance or selling of stocks of companies that have products and/or practices that are incompatible with the values of the investor

---

[20] Knell, Michael E. "Polaroid endorses Ceres Principles." The Boston Herald. August 20, 1994. 18.
[21] CERES employee, Telephone conversation, December 11, 1998.
[22] Coalition for Environmentally Responsible Investments. (1998). *Directory of Endorsing Companies* [Online]. Available: http://www.ceres.org/organizatoin/companies/index.html [1998, December 11].
[23] Social Investment Forum. 1997 Report on Responsible Investing Trends in the United States. Washington: Social Investment Forum. 1998

3) Shareholder Activism: influencing company behavior by filing shareholder resolutions and by voting proxies

The most common practice of the three is negative screening. It involves the use of the straightforward, "yes and no" screens, which make it easy to keep portfolios free of various types of stock. In other words, through the use of a negative screen, a fund can remain "tobacco-free," "South Africa-free," etc.

Positive investment is less popular because it generally involves higher risk. Many blue-chip companies, which tend to be particularly lucrative investments, are not models of corporate responsibility. This means that in order to invest in a company that *actively* promotes the values of the investor, positive investments must often be made in smaller, and possibly less stable companies. Not surprisingly, smaller, less stable companies are often less reliable investments. Nonetheless, positive investing does occur even among some of the most conservative practitioners of SRI. The Calvert Group, a socially-responsible investments management firm in Bethesda, Maryland, for example, states that a portion of its Corporate Social Investment Fund and its World Values International Equity Fund may be invested in "High Social Impact Investments," which are defined as "investments in securities that offer a rate of return below the then prevailing market rate and that present attractive opportunities for furthering the Fund's social criteria."[24]

Likewise, the General Board of Pension and Health Benefits of The United Methodist Church is encouraged by the church to take "Proactive Investment Initiatives," which include investments in minority banks, community reinvestment banks, affordable housing projects, and

[24] Calvert Group. Calvert Social Investment Fund *and* International Equity Fund Prospectus. Bethesda: Calvert Group. 1998

minority and women-owned investment firms. [25] The Interfaith Center on Corporate Responsibility (ICCR) has a very similar positive investment policy. But the ICCR is actually best-known for its shareholder activism. It *the* primary force behind social shareholder action initiatives. In 1998 alone, nearly one hundred ICCR-member religious investors sponsored one hundred fifty-eight corporate resolutions directed toward one hundred fourteen different companies.[26]

The shareholder resolution is one of the simplest and most direct ways for investors to affect corporate behavior. In order to file a resolution, shareholders must hold a combined minimum of a thousand shares of stock in the company for at least one year before the resolution filing date. If the company agrees to put the resolution on its proxy agenda, it will be put to a shareholder vote.

Because the vast majority of shareholders generally abstain, particularly from social issue proxies, the act of voting is a form of shareholder activism in itself. Additionally, most shareholders only have the capacity to vote through their fiduciary because their assets are mixed in with those of many other investors, thereby making them only partial owners of their stock shares. This is the case with pension funds, mutual funds, and so forth. And unless the fund managers are concerned with social issues, it is unlikely that they will cast their votes on behalf of all the investors.

Since proxies rarely garner a majority of shareholder votes, their power comes from the *relative* percentage of votes they receive. For example, a resolution demanding that Philip Morris apply similar marketing restrictions in developing countries to those imposed in the

[25] General Board of Pension and Health Benefits of The United Methodist Church. Social Investment Practices. 1998, 11-13.
[26] Interfaith Center on Corporate Responsibility. The Proxies Resolutions Book: January 1998. Washington: Interfaith Center on Corporate Responsibility. 1998, Introduction.

United States, received 9.8% of shareholder votes, making it the most highly supported tobacco resolution of 1998.[27] Proxies directly related to stock value tend to entice a much larger percentage of investors to vote. But environmental proxies are unique in that they are often a mixture of both social and financial concerns. James E. Heard, Senior Adviser to Institutional Shareholder Services, writes,

> Fiduciaries….will pay serious attention to proposals asking companies to curtail activities that can directly impact the bottom line. Environmental issues are especially conducive to being framed in economic terms. Institutional investors can hardly take a cavalier attitude toward environmental issues when Exxon faces cleanup costs exceeding $1 billion for the Alaskan oil spill. Among proposals likely to have broad appeal are requests to make special reports to shareholders on environmental impacts, to add environmentalists or scientists to boards of directors, or create environmental committees of boards to endorse environmental codes of conduct, and to agree to independent third-party auditing of environmental activities.[28]

Though the resolution is the prevailing route taken by shareholder activists, there are other less formal ways of affecting corporate behavior. For example, in 1990, Harvard University divested itself of its investments in tobacco companies. Before the University made this decision, however, its Corporate Committee on Shareholder Responsibility wrote letters to the tobacco companies asking them "to address the ethical responsibilities associated with tobacco sales in developing countries…"[29] The ICCR is also active in many non-resolution shareholder initiatives, such as meeting with corporate executives to discuss issues of concern and publishing research reports like the 1998 Fact-finding Report on Footwear Manufacturing: Nike and Reebok Plants in Indonesia, Vietnam, China, which exposed the sweatshop labor practices these companies employ.

[27] IRRC. "Tobacco Production and Marketing." Social Issues Service 1999 Background Report E. 1999.
[28] Heard, James E. "Fiduciary Duty and Institutional Shareholder Activism." The Social Investment Almanac. 105.
[29] Harvard Committee on Corporate Shareholder Responsibility. CCSR Annual Report for 1990. 1990, Section 1, 4.

Current SRI and ERI Trends and Options

Currently, SRI proponents consider a broad range of social issues before deciding where to invest their money. Some commonly used screens include gambling, weapons, alcohol, the environment, labor standards, equal opportunity employment, birth control/abortion, and animal welfare. However, the primary issue of concern for today's socially-conscious investors is tobacco. As of 1997, eighty-four percent of SRI funds contained tobacco screens.[30]

The presence of more general environmental screens in investment portfolios is less common. In 1997, they were found in thirty-seven percent of SRI funds.[31] This modest showing may be at least partially due to the fact that environmental screens require such detailed assessments of company behavior and because they apply to *all* categories of industry. Nonetheless, the environment remains a critical issue for many investors. In 1997, 1998, and 1999, more environmental proxy resolutions were proposed than any other kind of social-issue resolution.[32] And in 1996, a survey of 885 companies conducted by the KPMG accounting firm found that, "Reporting of environmental information if now a marketplace expectation."[33] Therefore, IRRC, SIR, and ICCR all provide subscribers with extensive information on corporate environmental performance.

Many of the largest and most renowned SRI funds also include environmental screens. The TIAA-CREF Social Choice Fund, which, with $2.7 billion in assets, is the largest SRI fund in the United States, screens for environmental impact. Similarly, the Domini Social Equity Fund, which is a mutual fund that corresponds to the Domini 400 Social Index, uses the same environmental screen as the DSI 400. All Calvert Group mutual funds include environmental

---

[30] Social Investment Forum. 1997 Report on Responsible Investment Trends in the United States. Washington: Social Investment Forum. 1998, 7.
[31] Ibid.
[32] IRRC "Environment Tops Issues To be Raised in 1999." Corporate Social Issues Reporter. January, 1999, 3.

screens. Additionally, there is a handful of funds that focus exclusively on environmental performance, such as the Merrill Lynch Eco Logical Trust.[34]

It is important to note that not all environmental screens are alike; some are much more rigorous than others. The ways in which corporate environmental performance is assessed differs from one fund to another, but there tend to be two broad approaches to environmental assessment that underlie most screens. The first approach involves investing in the "best of the industry" companies, which are those that have the best environmental track records within their category of industry. With this screening format, investors do not have to eliminate any industry from their portfolio. The second screening method is the "absolute approach, "which requires that companies be evaluated individually, and not on the basis of industry type.[35] This screening format usually limits the universe of investments by eliminating certain high-polluting industries from the portfolio, but it is more consistent with the values of investors who are particularly concerned with protecting the environment.

The fear that the possible universe of investments will be limited through SRI screens is at the heart of most investors' reluctance to join the ranks socially conscious investors. The prevailing misconception is that SRI weakens financial performance. Therefore, I conclude this chapter by addressing this issue, which keeps so many *potential* SRI proponents from becoming *actual* SRI practitioners.

---

[33] Cogan, Doug. "The Ceres Principles and Environmental Management Practices." *IRRC Social Issues Service*: March 2, 1998.
[34] Camejo, Peter. "Year One: The Proenvironmental Funds Outperform Wall Street." The Social Investment Almanac. 443-451. NOTE: Information from 1992. This fund may no longer be active.
[35] Kurtz, Lydenberg, and Peter D. Kinder. "The Domini Social Index: A New Benchmark for Social Investors." The Social Investment Almanac. 294.

Performance of SRI and ERI Funds

The problem that many people have with SRI is that by limiting the possible universe of investments through screening, portfolio diversity is reduced. Since the prevailing notion holds that diversity reduces risk, anything that diminishes diversity will supposedly increase financial risk and lead to lower returns.

Despite the wide acceptance of this theory, there is a significant body of evidence which suggests it is incorrect. Several studies have shown that social consciousness in the field of investing does *not* result in reduced returns and that it may, in fact, lead to *improved* financial performance. In 1998, for example, ten of the fourteen SRI mutual funds with $100 million or more in assets were rated as top financial performers by Lipper and Morningstar[36], two of the most well-respected and conservative financial analysis firms in the country.

Another good example of the competitive performance of SRI funds is the Domini Social Equity Fund (DSEF). Since its inception in June of 1991, the DSEF has been compared with the S&P 500 index in terms of financial performance. The DSEF directly mirrors the DSI 400, which is a SRI index based upon the S&P 500. Below is a comparison of the performance of the two indices.

Table 1: **Financial Performance of S&P 500 and DSEF**

	S&P 500	**DSEF**
One year annualized returns[37]	22.07%	18.46%
Three year annualized returns	30.19%	28.05%
Five year annualized returns	26.45%	26.22%
Returns since the inception of DSEF (June, 1991)	19.46%	19.30%

[36] Farrell, Dr. Paul B. (1999). "Socially responsible funds beating S&P 500." CBS Marketwatch [Online]. April 20, 1999]. 3.
[37] To a*nnualize* returns means to present the average yearly return based on a given number of years.

Source: Domini Social Investments website: www.domini.com/Perfor.html: May 9, 1999.

Similarly, the GOOD MONEY Industrial Average (GMIA) and the GOOD MONEY Utility Average (GMUA), have been compared with their non-SRI counterparts, since their inception in 1976.

Table 2: Financial Performance of GOOD MONEY and Dow Jones Indices

MEASURE OF PERFORMANCE	GMIA	DJIA	GMUA	DJUA
Average yearly increase	+19.6%	+17.1%	+15.6%	+11.7
Average yearly drop	-9.4%	-24.1%	-9.6%	-10.9%
Number of years outperformed other index	13	9	11	11

Source: GOOD MONEY website: www.goodmoney.com/gmiaraw.htm (and gmuaraw.htm): May 9,1999.

On the basis of these data alone, it appears that socially responsible stock-market investments perform up to the level of non-screened stock investments, and at times, even better. Several studies which confirm these conclusions. For example, the 1993 study, "Doing Well While Doing Good," by Hamilton, Jo, and Statman, found that seventeen socially screened mutual funds established before 1985 outperformed non-screened mutual funds of similar risk during the 1986-1990 period.[38] A longer-term study conducted by John B. Guerard, Jr., concluded that, "there has been no statistically significant difference between the average returns of a socially-screened and unscreened universe during the 1987-1994 period."[39]

Evidence of positive performance of exclusively ERI funds is just as compelling as that of multi-issue SRI funds. Professor Mark A. Cohen, Scott A. Fenn, and Shameek Konar conducted a particularly extensive study at the Owen Graduate School of Management at

[38] Guerard, Jr., John B. (1996). "Is There a Cost to Being Socially Responsible in Investing?" Social Investment Forum: 1996 Moskowitz Prize Report [Online]. Available: http://www.socialinvest.org/mosessy6.htm [December 14, 1999]. 1.
[39] Ibid.

Vanderbilt University in Tennessee. They constructed two hypothetical portfolios, which consisted of the "low pollution" and "high pollution" corporations in several industries. When they pitted the two portfolios against each other, they found that, "the 'low pollution portfolio' does as well as - and often better than - the 'high pollution group.'"[40]

The impressive financial performance of low pollution companies gives credence to the widely held belief that, "At the pre-production level, companies that are environmentally aware derive savings from improved management of raw materials and energy resources."[41] A management team that is concerned with efficiency, and the maximization of returns that comes with it, will likely recognize that pollution is the byproduct of wasted resources. By reducing pollution, companies often find that they save money from the recouped resources and simultaneously reduce their environmental impact. Leif Johansson, chief executive of Volvo and chairman of a consortium of seven companies investigating the relationship between environmental and financial performance, attested to this fact in a 1999 *Financial Times* article. "'We have found, across different industries, that there are common ways of converting sustainability into higher margins,'" he said, "'The companies that fail to embrace that challenge will be left behind.'"[42]

Peter Camejo's one-year assessment of the financial performance of three "proenvironmental" mutual funds in 1990[43], is a further indication that ERI can be a very sound investment policy. All three mutual funds outperformed both the S & P 500 and the Dow Jones

---

[40] Cohen, Fenn, and Konar. Environmental and Financial Performance: Are They Related? April 1995.
[41] Burt, Tim. "Greener profit drivers." The Financial Times. April 28, 1999, Management and Technology: 10.
[42] Ibid.
[43] Camejo chose three specific funds out of eleven so-called environmental mutual funds because the other eight used "environment" to mean environmental services such as solid waste management and included high-polluting companies in their portfolios.

Industrial Average indices for that year. But Camejo was wary of extrapolating these results too far. He advised,

> The conclusion that should be drawn from 1990 is not that proenvironmental investing will always financially outperform investments that use no criteria of environmental responsibility…The victory of the proenvironmental funds does indicate, however, that the widely held belief that social and environmental funds underperform financially because they involve an opportunity cost due to their reduced investment universe may well be incorrect.[44]

Indeed, neither these studies, nor the countless others I have not included here, can provide concrete proof that SRI or ERI are the *best* financial options available. But they do provide compelling evidence that SRI and ERI may be just as profitable as any other investment plans.

With this general overview of SRI in place, I now move on to a description of Brown's investment policies and practices.

[44] Camejo, Peter. "Year One: The Proenvironmental Funds Outperform Wall Street." The Social Investment Almanac. 443-451.

CHAPTER 2: A Closer Look at Brown

Brown's Endowment[45]

Brown's endowment is currently valued at approximately $1.1 billion. For investment purposes, it is divided into two branches. The first branch amounts to about 90% of the total endowment, or $990 million dollars. It is separated into smaller sums, which are managed by twenty-two different fund managers. They place Brown's money into "co-mingled entities"—funds in which money belonging to several institutional investors is pooled before it is invested.

The investments encompassed within this 90% branch are constantly changing. Brown's fund managers may buy stock in a given company one day and sell it the next. Because of this constant state of flux, Brown does not require its fund managers to supply detailed information about all of its investments. Rather, it asks for overall rates of return generated by the investment portfolio of each fund manager.

Because this 90% of the endowment is pooled with other investors' money, Brown is not a sole owner of any of the stocks within it. Therefore, the University does not have voting rights for any proxy resolutions raised with the companies that issue these stocks.

The other branch of Brown's endowment, which amounts to approximately 10%, or $110 million, of the total endowment, is managed quite differently. This branch is made up almost entirely of "custodied" stock and bond investments, which are investments owned exclusively by Brown. Unlike the larger endowment branch, this branch involves very little pooling of money.

While most of the 10% is comprised of normal stock and bond investments, approximately $23 million of it is in the form of "life income donor" investments. This means that a donor gives a gift of money to Brown, which Brown's fund managers invest in mutual funds and in equities (i.e. stocks) and fixed income investments (e.g. bank accounts, treasury bills). The income generated from these investments is given to the donor for the duration of their lifetime. When the donor dies, the investment—known as the "remainder"—becomes Brown's. These life income donations, which are also referred to as "deferred giving arrangements," occur with gifts of stock, as well. In that case, Brown's investment managers immediately liquidate the stock and then reinvest the money as they see fit.

Because approximately 65% ($15 million) of the life income donor money is invested in mutual funds, Brown does not have proxy-voting rights for this portion of the smaller endowment branch. In other words, Brown can vote proxies for only $95 million of the $110 million branch of the endowment.[46]

Shareholder Resolutions and the Committee on Social Responsibility in Investing

Because Brown has exclusive ownership of the investments in the small branch of the endowment, this is the branch with which Brown's Committee on Social Responsibility in Investing (CSRI)[47] is concerned. The CSRI is made up of three faculty members, four students, and three alumni. It was formed in 1977 in order to advise the Brown Corporation Investment Committee how to vote on social-issue proxies for companies in which Brown invests. The CSRI had dissolved for several years after South Africa was no longer an issue on Brown's

[45] All information in this section is based on a discussion with Donald Reaves, Assistant Vice President for Finance and Administration/CFO of Brown University and Jon Shear, Assistant Vice President for Investment/ Assistant Treasurer: March 3, 1999.
[46] Jon Shear, Telephone conversation, May 14, 1999.
[47] My own abbreviation.

agenda.[48] However, former Brown University President, Vartan Gregorian revived it in 1997 in response to student concerns over some of Brown's investments.[49]

The CSRI was active in 1997 and 1998, but it has not met since the 1998 proxy season, over a year ago. Because the committee does not have a Chair, there is no leader to convene its meetings. According to Harold Ward, a faculty member of the CSRI, the committee members wanted either a Brown Corporation Member or alumnus to take on the role of Chair, but they were unable to find anyone who would accept the position.[50] Donald Reaves, Brown's CFO and an advisor to the CSRI, said that a faculty member could have filled the post as well, but none were willing to do so.[51]

The CSRI also had a difficult time keeping all of its seats filled. According to Ward, the alumni members were rarely present when the Committee met last year. Additionally, when one of the faculty members left, he was never replaced.[52] Because of all of these problems, Reaves has made a motion to reshape the bureaucratic structure of the proxy-voting process at Brown.[53] He would like to institute a Proxy Committee, which would be a stand-alone committee, as opposed to a subcommittee of the Investment Committee. The Proxy Committee would be responsible only for voting proxies. This would eliminate the need for the Investment Committee to deal with proxy resolutions, which was never the intended function of that committee to begin with.

Current Proxy-Voting Structure **Proposed Proxy-Voting Structure**

[48] Harold Ward, Faculty member of CSRI since 1997, conversation, March 3, 1999.
[49] Donald Reaves and Jon Shear, conversation.
[50] Harold Ward, conversation.
[51] Donald Reaves and Jon Shear, conversation.
[52] Harold Ward, conversation.
[53] Donald Reaves, Conversation, May 11, 1999.

A & E Committee[54]/Corporation
↑
Investment Committee
↑
Proxy Committee
↑
Committee on SRI

A&E Committee/Corporation
↑
Proxy Committee
↑
Committee on SRI

In 1998, the Investment Committee voted in accordance with every recommendation it received from the CSRI,[55] but these votes were a marked departure from the usual voting practices of the Committee. Traditionally, it has been the Investment Committee's official policy to vote in accordance with company management on proxy resolutions.[56] The philosophy behind this policy is that if Brown believes in a company enough to invest in it, it must have faith in the company's management.[57] And since management generally tends to be opposed to social issue proxies,[58] the Investment Committee always voted against these proxies, as well.

The CSRI's approach stands in direct opposition to this policy. Knowing that social proxy issues never receive a majority of the shareholder vote, the CSRI decided to vote in favor of every proxy resolution that dealt with an important social issue, despite the minimal likelihood of it passing.[59] The idea was that, by supporting the resolution, Brown might help tally up enough votes to get the company to take notice of the issue at hand.

By voting with the CSRI's recommendations, as opposed to management, the Investment Committee actually violated its official policy. As a result, each vote had to be reported to either

[54] Advisory and Executive Committee, a small committee of Coporation members which meets in the absence of the full Corporation.
[55] Harold Ward, conversation.
[56] The only exception to this rule in the case of tobacco-related proxy resolutions. In those instances, the official policy of the Investment Committee is to abstain from voting.
[57] Harold Ward, Donald Reaves, and Jon Shear, conversations.
[58] Harold Ward, conversation.
[59] Ibid.

the Advisory and Executive Committee or the President of the University.[60] However, because the policy was designed to leave room for exceptions, no action was taken in response to these notifications.

Though Brown's proxy-voting policy makes the CSRI's job more difficult, the University has taken at least one step to facilitate the SRI process. Brown has subscribed to the Investor Responsibility Research Center's (IRRC) services for years.[61] This subscription includes detailed information on every social-issue shareholder resolution filed each year, including background information on each company with which the resolutions are filed. For example, if an environmental resolution is filed at Corporation X, IRRC will not only explain the content of the resolution, but will also provide information on the environmental performance of that corporation. The CSRI used this information when deciding what course of action to recommend to the Investment Committee.

I decided to use the IRRC material to research some of the companies in which Brown invests. This process allowed me to see how useful the IRRC information is, and to examine the environmental performance of some of the companies in Brown's portfolio.

Evaluating Brown's Investments through IRRC

I was given access to a list of fifty-three companies, out of a total of 250 companies, in the 10% branch of the endowment. The list was generated on the basis of Brown investments that are ranked in the Fortune 500 Index. Therefore, it includes companies in the top 250 of the Fortune 500 in which Brown owns stocks, bonds, or both.[62] Though the list does not represent

[60] Donald Reaves, conversation.
[61] Donald Reaves, Harold Ward, conversations; NOTE: the subscription lapsed for several years after the initial dissolution of the Committee on SRI.
[62] The list may not represent *all* of Brown's investments in the top 250 of the Fortune 500, but just a portion of them.

Brown's complete investment portfolio, it has the potential to indicate whether Brown is investing in companies that might be a source of concern from an environmental perspective.

I went through all of the 1997 and 1998 IRRC material included in Brown's subscription to see if environmental shareholder resolutions had been filed at any of the companies on my list. I found resolutions filed with seven of the fifty-three companies. As mentioned earlier, the resolution summaries compiled by the IRRC include background information on the environmental performance of each company. This material includes *all* of the environmental performance data—good and bad—that IRRC researchers can find, which is presented in an unbiased manner.

However, by virtue of being so thorough and impartial, the IRRC material is somewhat confusing. Because the IRRC reserves judgement about the companies on which it reports, it gives no indication of how important each piece of background information might be. For example, if Company X spilled 10,000 gallons of oil off the Atlantic Coast, but has reduced its use of certain toxics by 25%, how should its environmental performance be assessed?

The other shortcoming of the IRRC information is that it is only available for companies that have pending shareholder resolutions. If no one files an environmental resolution with Company X, subscribers will not receive any information about the environmental performance of that company. This is the reason why IRRC profiles were available for only seven companies, or 13%, of the fifty-three companies on my list. These companies were American Express Corp., Chevron Corp., Exxon Corp., Ford Motor Corp., IBM Corp., Philip Morris Cos., and Proctor & Gamble Corp. IRRC reported both positive and negative information about each company's environmental performance, except for IBM about which only positive information was related. For most of the other companies, the IRRC information was not useful in determining which deserved a SRI "seal of approval" and which did not, because of the unbiased nature of the profiles.

Because of the drawbacks to using the IRRC information alone, I decided to combine it with information from the Council on Economic Priorities (CEP). Unlike IRRC, CEP provides an overall judgement of a company's environmental performance through a system of letter grades, which range from the highest grade of A, to the lowest, F.[63] According to the CEP, the grade reflects a corporation's environmental performance, not products, on the basis of three categories: 1) environmental management systems, 2) impact on the environment, 3) voluntary reporting to stakeholders.[64] A company's grade can change over time on the basis of improvement or decline in those three areas.

The benefit to the CEP data, aside from the predetermined assessment of environmental impact, is that it is not resolution-dependent and, therefore, is available for a much larger number of corporations. The drawback to these data, however, is that the process by which grades are assigned remains quite vague.

Of the fifty-three companies on my list, twenty-eight companies (52.8%) were reviewed by CEP. Of these companies, 71.4% (twenty companies) received high grades for environmental performance, either A's or B's. 14.3% (four companies) of the companies received very low grades, either D or F. I was also able to find a summary of a 1993 CEP environmental report[65] for Philip Morris Cos.—one of the companies to be given a D—which contained only negative

[63] The categories of corporate behavior rated by the CEP include: environment, women's issues, minority issues, charitable giving, community outreach, family benefits, workplace issues, social disclosure, military contracts, and animal testing.
[64] CEP. (1999). *Corporate Report Card* [Online]. Available: http://www.cepnyc.org/quicktakes.htm [January 5, 1999].
[65] Generally, copies of full CEP environmental reports must be ordered and bought.

information about the corporation's environmental impact. The remaining 14.3% (four companies) received C's.

Since the combined IRRC and CEP still seemed incomplete, and I had not found any information on a few of the companies on my list, I added an additional layer of research to my evaluation of Brown's investments. The last place I turned to was the Public Information Network (PIN). PIN amasses information about the social impacts of large corporations from other sources, most of which are periodicals and non-profit organizations.[66] Though PIN is neither as well known, nor as well respected as IRRC and CEP, I found its information to be useful and well documented, and its sources to be fairly reliable.

New environmental information[67] was available through PIN for 11.3% (six companies) of the Brown investments on my list: Chevron Corp., Exxon Corp., Proctor & Gamble Co., Atlantic Richfield Corp., Mobil Corp., and Waste Management, Inc. PIN information for all of these indicated poor environmental performance.

Though I have not come up with an easy way to reconcile these three sources of information, I believe they are more valuable together than separately. A complete presentation of all my findings can be found in Appendix A.

Socially Responsible Investing in Brown's History

Though socially-responsible investing may not be high on Brown's agenda currently, the University has been a practitioner of SRI in the past. In the mid-1980's, Brown decided to become a member of the growing number of investors fighting apartheid in South Africa. It advised all of its fund managers only to invest in companies that adhered to the Sullivan

---

[66] PIN (1999). *Directory of Transnational Corporations* [Online]. Available: http://www.endgame.org [March 11, 1999].

[67] I only included PIN information that had not already been reported by IRRC or CEP.

Principles.[68] According to Donald Reaves, Brown was prompted to take a stand against apartheid because so much support had already been generated within the international investment community. "You shouldn't respond to an issue until an international community has come together in the way they did with apartheid in South Africa," he said.[69]

Another example of SRI at Brown, which occurred in 1998, was the decision to stop contracting factories that use sweatshop labor to make Brown apparel. Though this is a case of contracting and hiring, as opposed to direct investing, it nonetheless demonstrates a commitment to human rights via financial means. On April 14, 1998, Brown University officially adopted a labor code of conduct to be applied to factories producing Brown-labeled clothing and apparel, which includes stipulations against forced labor, child labor, and a minimum wage requirement, among other provisions.[70]

The adoption of the code was due in large part to student action. The Student Labor Alliance (SLA) brought the issue to President Gee's attention via e-mail before he was even inaugurated.[71] When Dr. Gee and other administrators responded favorably to the SLA's demand that Brown "take a moral stand"[72] against sweatshop labor, the students worked out a draft of the labor code with Brown Bookstore Director, Larry Carr. They then presented the code to Donald Reaves and Sheila Blumstein, who made some changes before officially accepting it on behalf of the University.[73]

Reaves told me that the issue of sweatshop labor was an easy one for Brown to tackle because other colleges and universities, with much larger clothing contracts, had already adopted

---

[68] See Chapter 1 for explanation of the Sullivan Principles.
[69] Donald Reaves, conversation.
[70] Galts, Chad. "Taking the Pledge." Brown Alumni Monthly. December, 1998, 34-37.
[71] Ibid. 34.
[72] Ibid.
[73] Emily Fink (member of the SLA at the time of the negotiations), Interview, November 7, 1998.

similar labor codes. Brown grosses only about $1 million a year through apparel sales,[74] which is a miniscule amount compared to the sales figures of some of the other schools that have adopted labor codes. But as part of a larger collective effort, Brown's presence was significant, especially since its code went farther than any other school's to ensure that outside monitoring of the apparel-producing factories would be implemented.

It is important to note that Brown's commitment to outside monitoring was so strong for another reason. The cost of apparel production will increase with the act of paying an outside monitor, but Brown's insistence on effective monitoring indicates that the University is willing to accept a reduction in revenue in order to ensure that its moral criteria are met.

[74] Galts, Chad. "Taking the Pledge." Brown Alumni Monthly. December, 1998, 36.

CHAPTER 3: Tobacco Case Study

To learn more about the factors that might encourage, or discourage, a university to adopt a SRI policy, I considered the cases of two universities—one that chose to implement a SRI policy with regard to tobacco and one that chose not to divest its holdings in tobacco companies.

I decided to focus on tobacco for several reasons. First, it is an environmental issue. Tobacco not only poses an undeniable health risk to people who actually smoke, but also to those who do not. Second-hand smoke has been linked to a variety of diseases, including asthma, Sudden Infant Death Syndrome,[75] and heart disease.[76] Therefore, tobacco might be viewed as a problem similar to factory emissions of toxins into the waterways and air, but with more direct and well-documented health effects..

Second, tobacco is the most widely avoided investment in SRI funds, with 84% of all socially-screened assets containing tobacco screens.[77] The growing momentum of shareholder action against tobacco companies indicates that, like the shareholder activism against apartheid in the 1980's, investors may be a major factor in bringing about clear and tangible change in the tobacco industry. And some of the most influential tobacco-conscious investors include several colleges and universities that have sold their tobacco stocks and adopted tobacco-free investment policies.

My final reason for choosing to study tobacco was that I knew of two similarly-sized, Northeastern universities which had taken completely opposite courses of action with respect to

---

[75] Skolnick, Andrew. (April 2, 1997). "Draft of Report on Secondhand Smoke Released." Journal of the American Medical Association [Online]. Available: http://www.ama-assn.org/sci-pubs/journals/archive/jama/vol_277/no-13/mn7054.htm [March 22, 1999].

[76] Kritz, Harald, MD and Peter Schmid, MD and Helmut Sinzinger, MD. (1995). *Passive Smoking and Cardiovascular Risk.* Journal of the American Medical Association. October 9, 1995, Archives of Internal Medicine Abstracts [Online]. Available: http;//www.ama-assn.org/sci-pubs/journals/archive/inte/vol_155/no_18/abstract.htm [March 22, 1999].

their tobacco holdings. In 1990, Harvard University divested itself of its tobacco stocks,[78] whereas Yale University, after a six month review process in 1998, decided against divestiture.[79]

Yale: "Voice" over "Exit"

In January 1998, the Yale University Corporation undertook a six-month evaluation of the University's tobacco stock holdings.[80] Though it is not clear what exactly prompted the review, Jon Simon, a law professor who authored Yale's ethics-in-investing guidelines, had written a letter to a Corporation member urging divestment several months before the review began.[81] This recommendation, recapitulated by Simon at a meeting of Yale's Advisory Committee on Investor Responsibility (ACIR) in February of 1998,[82] was a contradiction to the advice he had given in 1991 when the Corporation first considered divesting.

When the Yale Corporate Board mentioned divestment in 1991, Simon encouraged Yale to retain its holdings in tobacco companies in order to influence the companies' behavior.[83] This advice was drawn from his ethical investing guidelines, which are based on the choice between "voice" and "exit." According to the guidelines, if Yale is investing in a company that is socially irresponsible, the University must try to use "voice"— in the form of proxy votes and

---

[77] Social Investment Forum. 1997 Report on Responsible Investing Trends in the United States. Washington: Social Investment Forum. 1998, 2.
[78] Lewin, Tamar. "Harvard and CUNY Shedding Stocks in Tobacco." The New York Times. May 24, 1990, Section A, Page 1.
[79] It is important to point out that Yale and Harvard have different approaches to investment management in general. Whereas Harvard has its own fund management corporation, the Harvard Management Company, Yale hires managers from outside companies to invest its endowment. These different systems may partially explain the divergent decisions made by the two schools. However, most, if not all, of the schools in Appendix B rely on outside fund managers, yet they still took the same form of action with regard to tobacco as did Harvard.
[80] Wilner, Isaiah. (December 4, 1997) "Recommendation to Corp: Divest from tobacco." Yale Daily News [Online]. Available: http://www.yale.edu/ydn/paper/12.04.97/t-1divestment.html [March 17, 1999].
[81] Ibid.
[82] Wilner, Isaiah. (April 22, 1998). "Corporation votes no on divestment." Yale Daily News [Online]. Available: http://www.yale.edu/ydn/paper/4.22.98/t-1divest.html [March 17, 1999].
[83] Ibid.

letters to management — to change the company's behavior. If the use of "voice" does not result in a change, then Yale must "exit" from the investment.[84]

In 1991, in accordance with Simon's suggestions, the ACIR voted against divestment. The Corporation, subsequently, accepted the recommendation of the ACIR. But by 1998, Simon felt that, in light of "new information about secondary smoke, and…new information about the overseas consequences of tobacco sales"[85] Yale should "exit." In this instance, however, the ACIR voted unanimously *against* his advice, despite support of divestiture from the Yale community, including a petition by the Students for Corporate Responsibility (SCR) with seventy faculty signatures.[86] Once again, the recommendation of the ACIR in favor of continued use of "voice" was carried out by the Yale Corporation.

The report submitted to the Corporation by the ACIR in March, 1998, did not outline the reasons why the Committee voted against divestment. According to Steven Berry, Chairman of the ACIR, "There was no consensus on the committee as to the exact way you would apply the [ethical investing] guidelines to this issue."[87] Berry also said that while no Committee member "particularly supported the [tobacco] industry….different members had different objections to divestment."[88] Some of the ACIR members did not believe that Yale should make any political statements through its investments, and others believed that the University could do more good as a shareholder by sponsoring academic debates about the issues surrounding tobacco investment.[89]

---

[84] Wilner, Isaiah (September 8, 1998). "Yale's divestment dilemma." Yale Daily News [Online]. Available: http://www.yale.edu/ydn/paper/9.8.98/t-2divest.html [March 17, 1999].
[85] White, Erin. (September 12, 1997). "Yale will reconsider tobacco holdings." Yale Daily News [Online]. Available: http://www.yale.edu/ydn/paper/9.12.97/f-4tobacco.html [March 17, 1999].
[86] Wilner, Isaiah (April 22, 1998). "Corporation votes no on divestment." Yale Daily News [Online].
[87] Wilner, Isaiah (September 8, 1998). "Yale's divestment dilemma." Yale Daily News [Online].
[88] Steven Berry, e-mail message, March 22, 1999.
[89] Wilner, Isaiah (September 8, 1998). "Yale's divestment dilemma." Yale Daily News [Online].

Though stocks in tobacco companies were one of Yale's twenty largest single holdings as of June 30, 1997,[90] they still amounted to only about 0.3% of the total endowment.[91] Therefore, it is unlikely that the ACIR's reluctance to recommend divestment was based on the financial benefits of the tobacco stocks. However, the ACIR may have foreseen financial loss as a result of the implications of tobacco divestment for the rest of Yale's holdings. Robert Ellickson, a law professor and member of the ACIR, explained his vote this way, "I am associated with the 'slippery slope' camp. I….am unable to distinguish cigarettes from tanning parlors, manufacturers of armaments, and….alcohol—all the products that people use to trade off health considerations for other goals."[92]

The vote against "exit" may also have been related to the level of student support for divestiture. The Corporation had asked the ACIR to include a summary of student opinion in its recommendation.[93] This request was highly unusual, since Yale's ethical investment guidelines specifically state that the Corporation should not be swayed by outside influences when determining investment policies.[94] Though it is not clear exactly how the ACIR went about gauging the interest of the student body, Mr. Berry told me that some of its meetings were open to students who, "came and gave concerns."[95] The ACIR subsequently reported that student interest was low,[96] and some Corporation members later noted little student support as a reason to maintain tobacco investments.[97]

---

[90] Ibid.
[91] Yale's endowment is approximately equal to $6 billion, and its tobacco holdings equal approximately $17 million.
[92] Wilner, Isaiah (April 23, 1998). "On campus, tobacco controversy burns out." Yale Daily News [Online]. Available: http://www.yale.edu/ydn/paper/4.23.98/t-2tobacco.html [March 19, 1999].
[93] Wilner, Isaiah (September 8, 1998). "Yale's divestment dilemma." Yale Daily News [Online].
[94] Ibid.
[95] Steven Berry, e-mail message.
[96] Wilner, Isaiah (September 8, 1998). "Yale's divestment dilemma." Yale Daily News [Online].
[97] Ibid.

I tried to speak with members of the Yale Investment Office and the ACIR about the factors that led to the final outcome of the tobacco review process, but they declined to answer my questions.

Harvard: Choosing to Divest

In September1989, the Harvard Corporation decided to sell all of the University's stock in tobacco companies. By March of 1990, the sales were complete.[98] That same year, Harvard's Corporation adopted a policy "prohibiting future purchase of stock in companies producing significant quantities of cigarettes or other tobacco products."[99]

The divestment process began during the 1988 proxy season when Harvard's Advisory Committee on Shareholder Responsibility (ACSR) and Corporate Committee on Shareholder Responsibility (CCSR) voted in favor of a shareholder proposal that called on RJR Nabisco to report on its tobacco sales policies in developing countries.[100] At the end of the proxy season, the ACSR wrote a memorandum to the CCSR raising ethical concerns over Harvard's investments in tobacco-manufacturing companies. The ACSR recommended that the CCSR write to all the tobacco companies in Harvard's portfolio, asking them to provide information on the ethical responsibilities of selling tobacco in developing countries.[101]

When the Corporation reviewed the companies' responses (some companies did not respond at all), it found them unsatisfactory and, in accordance with the recommendations of the ACSR, began the divestment process. [102] According to the CCSR Annual Report for 1990, Harvard's final decision to sell the stocks was "motivated by a the desire not to be associated as a shareholder with companies engaged in significant sales of products that create substantial and

[98] Bok, Derek. Letter to students of the Harvard school of Public Health. Huang, Galson, and Jewett. May 18, 1990.
[99]Harvard Corporate Committee on Shareholder Responsibility. Annual Report for 1990, Section I.
[100] Ibid.
[101] Ibid.

unjustified risk of harm to other human beings."[103] The divestment amounted to $58 million, or 1%, of Harvard's then $4.7 billion endowment.[104]

I spoke with Dr. Derek Bok, Harvard's President at the time the divestment took place. Dr. Bok made it very clear that, in his view, divestment was not a political statement of any kind, but a personal act of morality on the part of Harvard University. "There are simply some things that you don't want to make a profit out of," he explained, "I mean, it's just inherently immoral."[105]

Though Harvard's endowment continues to grow, the University's Treasurer, D. Ronald Daniel, admitted that Harvard was hurt financially by divestiture, particularly in the case of Philip Morris stocks.[106] However, Mr. Daniel echoed Dr. Bok's sentiments when he pointed out that divestiture was not a decision based on finance. He said that supporting the tobacco industry by holding stocks in tobacco companies is particularly inappropriate for an institution with a renowned medical school and school of public health.[107]

Besides a sense of moral duty, the only other motive for Harvard's divestiture that I could uncover was the very public pressure placed on the University by students at the Harvard School of Public Health.[108] Led by Dr. Philip Huang, a student at the school of public health and a member of the national anti-smoking group, Doctors Ought to Care (DOC), students conducted a pro-divestment campaign, which included an advertisement that was aired on the Harvard radio

---

[102] Ibid.
[103] Ibid.
[104] IRRC. "Investor Profile: Harvard University." Investor's Tobacco Reporter. August/September, 1998.
[105] Derek Bok, Interview, February 19, 1999.
[106] IRRC. "Investor Profile: Harvard University." Investor's Tobacco Reporter. August/September, 1998.
[107] Ibid.
[108] Lewin, Tamar. "Harvard and CUNY Shedding Stocks in Tobacco." The New York Times. May 24, 1990: Section A, Page 1, Column 2.

station.[109] According to Brad Krever, the former Executive Director of the Tobacco Divestment Project at the Tobacco Control Center in Boston, the campaign was pivotal in bringing about divestiture.[110] However, Dr. Bok insisted that student activism had nothing to do with the Corporation's final decision.

Because Harvard was one of the first universities to adopt a tobacco-free investment policy, it does not seem likely the that the Corporation was motivated by pressure from the investment community. And as mentioned above, Dr. Bok claims that Harvard was absolutely not intending to set a political precedent or influence other institutional investors with its actions. Whatever the initial motivation may have been, Dr. Bok said that Harvard University simply decided it was "just morally indefensible to profit from the selling of lethal products."[111]

Divestment at other Universities

Regardless of Harvard's apolitical intentions, its divestiture was, in fact, a statement that influenced other institutional investors, including several universities. According to the IRRC's *Investor's Tobacco Reporter*,

> the university decided in May 1990 to divest its shares—a move that had an apparent ripple effect. In rapid succession, the Cambridge, Mass. Retirement Fund, the City University of New York, New England Deaconess Hospital, Yale New Haven Hospital, the Presbyterian Church, the Unitarian Universalist Church, Johns Hopkins University and Wayne State University all announced that they, too, were selling their tobacco stocks.[112]

The complete list of universities that have divested themselves of tobacco stocks has grown slowly to include: the City University of New York, Haverford College, Johns Hopkins University, Pomona College, Smith College, Tufts University, Wayne State University, and

---

[109] Ibid.
[110] Brad Krever, former Executive Director of the Tobacco Divestment Project at the Tobacco Control Center, Telephone conversation, March 26, 1999.
[111] Derek Bok, interview.
[112] IRRC. "Investor Profile: Harvard University." Investor's Tobacco Reporter. August/September, 1998.

Earlham College (which actually sold its tobacco stocks in the 1950's).[113] Northwestern University is also tobacco-free because it has always had a policy against investment in tobacco-manufacturing companies.[114] According to Brad Krever, there are hundreds of other colleges that have made it their policy never to own tobacco stocks, but because they are all small, religious institutions with little public recognition, their policies have not generated any publicity.[115]

All of these schools cite moral concerns as their reason for divesting. Pomona, which sold its tobacco stocks in 1994, did so because, "The finance committee of [the] Board of Trustees felt that the harmful effects of tobacco were so many and so serious that it was not appropriate for the college to own this type of stock," according to Carlene Miller, Pomona's Vice President and Treasurer.[116] Similarly, Haverford College adopted a tobacco-free investment policy in 1997 because of the belief that the College has a "moral responsibility to refrain from profiting from the manufacture and sale of a product having no positive benefits and causing significant health problems for its users."[117] Smith College decided to divest at least partly because of a sense that tobacco companies were targeting young women as potential consumers.[118]

Another common denominator for almost all the schools that have divested is that divestiture often follows the research and recommendation of some sort of advisory committee on issues of shareholder responsibility. Six of the eight colleges that have sold their tobacco

---

[113] Haworth, Karla. "Smith College to Sell All Tobacco Stock." Chronicle of Higher Education. March 3, 1997.
[114] Ibid.
[115] Brad Krever, telephone conversation.
[116] Mercer, Joyce. "Many Endowments Score Gains as States Weigh a Settlement With Tobacco Firms." Chronicle of Higher Education: May 2, 1997.
[117] Haverford College. Policy on Investment in Tobacco Stocks.
[118] Shanahan, Ann E. "Smith College Trustees Vote to Divest Tobacco Stocks." Smith College Press Release. March 4, 1997.

stocks within the last twenty years did so only after such a committee addressed the issue of tobacco.

Once the decision to divest is made, however, there is no set formula for deciding exactly how to define a "tobacco company," a task that is somewhat tricky when dealing with corporate conglomerates that sell many products aside from tobacco. Both Pomona College and Haverford College chose to draw the line at 25% of gross revenues from tobacco manufacture and sales. Smith College, on the other hand, simply chose to divest from companies which have "significant play in the tobacco market."[119] Harvard also remains somewhat vague about its *de minimis* standard of acceptable involvement in the tobacco industry, declaring only that the Corporation prohibits investment in companies that "produce significant quantities of cigarettes or other tobacco products."[120]

Appendix B summarizes the process of tobacco divestment at each school that has done so.[121]

---

[119] Haworth, Karla. "Smith College to Sell All Tobacco Stock." Chronicle of Higher Education. March 28, 1997.
[120] Harvard Corporate Committee on Shareholder Responsibility. Annual Report for 1990. Section I.
[121] With the exception of Earlham College which divested over forty years ago.

CHAPTER 4: Conclusions and Recommendations

Socially-responsible investing has proven to be a powerful movement, and one that continues to gain momentum. The changes that SRI helped bring about in South Africa in the early 1990's is indicative of the influence investors can have over corporate social behavior. And the fact that the amount of money in SRI and ERI portfolios continues to increase, is an indication that the movement was not a one-issue phenomenon. Today, though investors respond to many social issues through SRI, tobacco and the environment are their primary concerns.

As the SRI movement matures, it becomes easier for investors to maintain socially-responsible investment practices through the use of screens, SRI performance indices, and general guidelines for corporate behavior, such as the Sullivan and CERES Principles.

Despite the accessibility of SRI, however, universities have only begun to explore their place in the movement. In the 1980's, many schools either divested themselves of their holdings in companies with subsidiaries in South Africa or chose to invest only in those companies that had adopted the Sullivan Principles. No issue has elicited as high a level of response. However, a handful of schools have used SRI tools to take action against tobacco companies and employers of sweatshop labor.

Since the evidence suggests that socially-conscious investing is here to stay, and that colleges and universities can and have played a crucial role in lending power to the movement, I return to my primary question.

Should Brown University adopt a tobacco-free investment policy?

Based on the research I have done, I strongly recommend that Brown sell its tobacco holdings. I make this recommendation without a single caveat for several reasons. The most obvious reason is that there is unequivocal evidence indicating that tobacco is lethal. According to the Centers for Disease Control, tobacco use is the leading cause of preventable death in the United States, resulting in more than 400,000 deaths each year.[122] This means that smoking kills more people annually than AIDS, alcohol, car accidents, fires, murders, and suicides *combined*.[123] The figures for the world population are even more startling. The World Health Organization estimates that 3.5 million deaths are caused by tobacco each year, and this figure is expected to rise to 10 million people by the year 2030.[124] And these numbers do not take the lethal effects second-hand smoke into consideration. A study of the health effects of environmental tobacco smoke (ETS) conducted by the California Environmental Protection Agency, found that, each year, ETS causes at least 35,000 deaths in the United States due to ischemic heart disease, 1900-2700 deaths from Sudden Infant Death Syndrome, and several thousand more deaths due to other disorders.[125] And even these figures do not account for all the non-fatal health problems caused by tobacco use and exposure to secondhand smoke.

Tobacco maims and kills not only those who *choose* to use it, but also thousands of people who do not. One might make the argument that the same could be said of guns or alcohol or a host of other investments. But unlike these other examples, tobacco leaves no room for safe use at all. No matter how tobacco is used, and in what amounts, it is never harmless. And this is not new information, particularly not at an institution like Brown University, where there is not only a medical school, but a Center for Alcohol and Addiction Studies, both of which treat and

---

[122] Centers for Disease Control. (1999). *CDC Chronic Diseases TIPS - Overview* [Online]. Available: http//www.cdc.gov/nccdphp/osh/issue.htm [3/22/99].
[123] Ibid.
[124] World Health Organization (1998).*Tobacco Free Initiative: Why Focus on Tobacco?*, [Online]. Available: http://www.who.int/toh/TFI/whytfi.htm [1999, March 24].
[125] Skolnick, Andrew. (April 2, 1997). "Draft of Report on Secondhand Smoke Released." Journal of the American Medical Association [Online]. Available: http://www.ama-assn.org/sci-pubs/journals/archive/jama/vol_277/no-13/mn7054.htm [March 22, 1999].

study tobacco addiction. There is more than just a little bit of irony in this situation, where Brown is making money from the very products that cause the diseases it will later treat.

Dr. David Lewis, Director of the Center for Alcohol and Addiction Studies at Brown, told me that several years ago the senior faculty at the Center voted on whether they would accept money from alcohol and tobacco companies to fund their studies.[126] The faculty agreed that the few health benefits of alcohol merited accepting money from the companies that sold it. For tobacco, however, the dearth of any positive health effects made it impossible for the faculty to use tobacco company money. "The distinction was easy," Dr. Lewis said.[127]

Though we might be able to say that the tobacco-addicted patients that receive treatment at Brown were aware of the risks associated with tobacco use before they began, the same would not be true for many of the smokers overseas who are *not* made aware of these risks, because tobacco regulations are not as stringent as those in the United States. Philip Morris ships three times the volume of cigarettes sold in the U.S. to foreign countries, making the company's international tobacco unit its largest source of operating income.[128]

Even in the United States, the level of awareness of the youngest users of tobacco remains debatable. A series of memos written between 1975 and 1988 by Myron Johnston, a demographer in Philip Morris's research and development department, confirmed accusations of youth-targeting by cigarette manufacturers. One such document stated, "It is important to know as much as possible about teenage smoking patterns and attitudes. Today's teenager is tomorrow's potential regular customer, and the overwhelming majority of smokers first begin to

[126] David Lewis, MD, Telephone conversation, April 5, 1999.
[127] Ibid.
[128] IRRC. "1998 Company Report: Philip Morris Cos. Inc." Social Issues Service. 1998, 8.

smoke while in their teens."[129] At this time, approximately seventy percent of underage smokers smoke Marlboro cigarettes, a brand manufactured by Philip Morris.[130]

When I informed Brown University's President, Dr. E. Gordon Gee, that Brown owns shares in Philip Morris Cos., he expressed distress over the moral implications of that ownership, saying " I think that tobacco and smoking is hazardous, and so therefore, why should we contribute to human misery?"[131] About five weeks after our conversation Dr. Gee reiterated his concern when a student questioned the nature of Brown's investments at the "Ultimate Forum," a question and answer session during which several administrators responded to student questions.[132] When asked whether Brown invested in tobacco companies, President Gee stated, "I certainly will speak against it if we do."[133]

Katherine Fuller, a member of the Brown Corporation since 1993 and Chief Executive Officer of the World Wildlife Fund, echoed President Gee's statements when said she had "a personal concern about tobacco investments."[134] However, because many tobacco companies produce a wide variety of products, Ms. Fuller said that she was unclear "at what point the tobacco component should be considered de minimis."[135] (It is worth noting that, in the case of Philip Morris, tobacco sales represent 64% of the company's total operating budget.[136]) Nonetheless, when asked if she believed that universities should be held to a higher standard of

---

[129] Ibid.
[130] Ibid.
[131] Dr. E. Gordon Gee, Brown University President, Interview, February 3, 1999.
[132] Ainsley MacLean, "Administrators speak at Ultimate Forum." The Brown Daily Herald. March 9, 1999: 1.
[133] Ibid.
[134] Katherine Fuller, Member of Brown Corporation, E-mail correspondence, between March 8, 1999 and March 12, 1999.
[135] Ibid.
[136] IRRC. "Philip Morris Cos. Inc." Social Issues Service, 1998 Company Report. 3.

social consciousness than the average investor, Fuller's response was an unequivocal, "Absolutely!"[137]

If Brown is to be the moral leader that both President Gee and Katherine Fuller say they believe it should be, it simply cannot justify its ownership of tobacco stocks. Brad Krever, the former Executive Director of the Tobacco Divestment Project, said that the one factor which unified the eight very different colleges that have divested their tobacco holdings was a member of each school's board or administration who felt that the university should not be investing in tobacco.[138] Based on both President Gee and Ms. Fuller's statements, it appears that Brown has that most critical ingredient for divestment. All that is left to do is to translate those statements into action.

Brown has demonstrated in the past that it will take a moral stand against investments that compromise the University's ethical integrity, both in the case of the Sullivan Principles criteria in the mid-1980's and the adoption of the labor code in 1998. These examples suggest that not every investment decision at Brown is based on financial concerns alone.

There are several practical reasons why the moment is ripe for Brown to divest. As mentioned earlier, tobacco is the most widely avoided investment in all socially-screened assets.[139] The IRRC provides an enormous amount of information about tobacco to its subscribers, and indices which exclude tobacco companies have been created for tobacco-free investors who want to measure the performance of their portfolios. The wide-range acceptance and accessibility of tobacco-free investing options means that the process of divestment has been made relatively simple. Brown already receives the IRRC tobacco industry material, and it

[137] Katherine Fuller, E-mail correspondence.
[138] Brad Krever, telephone conversation.
[139] Social Investment Forum. 1997 Report on Responsible Investing Trends in the United States. November 5, 1997, 2.

seems feasible that, like Harvard, Brown could measure the performance of its portfolios against a "smokeless 500" index.[140]

Since the tobacco divestment trail has already been blazed by Harvard and other educational institutions, Brown is in a position to review the existing tobacco policies and improve upon them, just as it did in the case of sweatshop labor.[141] This would, once again, make Brown a leader in the larger collective effort.

Finally, there is one last practical consideration which makes divestment not only a viable, but even a beneficial, decision. Though tobacco stocks have traditionally been very lucrative, the future of the tobacco industry becomes more uncertain everyday. Suits brought against the major tobacco companies by all fifty states resulted in an unprecedented settlement last year, in the amount of $246 billion to be paid over the next twenty-five years.[142] This settlement has brought on a hailstorm of "copy-cat" lawsuits, which leave the tobacco industry's financial future insecure. Hundreds of suits are still pending, including more than four hundred individual suits, sixty-five class-action suits, health-care cost recovery suits by labor unions and insurance companies, a federal suit to recover government costs of treating sick smokers through government health care benefits, and eight suits brought against the tobacco industry by foreign governments.[143]

On March 9, 1999, RJR Nabisco announced that it would be separating its food and tobacco businesses and selling its foreign tobacco company, at least in part because of lagging

[140] IRRC. "Investor Profile: Harvard University." Investor's Tobacco Reporter. August/September, 1998.
[141] Emily Fink, conversation, during which she informed me that Brown based its labor code at least partly on that of Duke University.
[142] IRRC. "Tobacco Production and Marketing." Social Issues Service. 1999.
[143] Ibid.

stock values and the threat of pending lawsuits.[144] According to a *New York Times* article which announced the split the following day, many stock analysts had attributed the sub-par performance of RJR Nabisco and Philip Morris stocks to the "tobacco taint,"[145] which refers to the stigma that comes from manufacturing and selling tobacco products along with non-tobacco products. With the threat of multi-billion dollar lawsuits looming, and stocks which are underperforming, Brown may be doing itself a financial favor by ceasing to invest in tobacco companies.

The ethical and practical considerations behinds Brown's tobacco investments, and my recommendation for divestiture, lead to the second question I set out to answer with my research.

What could the University's method of handling tobacco investments imply for a more general ERI policy at Brown?

Though the evidence in favor of adopting an ERI policy is not as overwhelming as that of becoming tobacco-free, there are clear links between the two. The most important connection is that, like tobacco, environmental infractions cause harm to innocent people. Momentarily putting aside issues like wetlands destruction and clear-cutting old growth forests, it becomes clear that many of the environmental hazards that result from poor environmental management of large companies, are actually human health hazards. Just by looking at the partial list of Brown's investments in Appendix A, we are able to see that many of the environmentally deleterious acts committed by these companies come in the form of air pollution, the use of toxic and carcinogenic chemicals, and toxic substances spilled in waterways. It may be easy for an investor to shrug her shoulders at trees and animals, but it becomes less so when she considers the residents of Perry, Florida, whose groundwater was rendered undrinkable because of

[144] Hays, Constance L. "RJR Nabisco Splits Tobacco Ventures and Food Business." The New York Times. March 10, 1999, Section A, Page 1.

contamination from Proctor & Gamble pulp mills, or the neighbors of Ford's Chicago, Illinois factory, who were forced to breathe air tainted by high levels of volatile organic compounds for years. When companies violate the Clean Air and Water Acts, as well as many other environmental statutes, it is not just birds and fish that are harmed.

But birds and fish or, more accurately, habitat protection and resource conservation are also important. The Brown Center for Environmental Studies and the extensively implemented "Brown is Green" agenda on campus testify to this fact, as does the March, 1999 interview in *The Chronicle of Higher Education* with John P. DeVillars's, Regional Administrator of the New England Environmental Protection Agency, during which he cited Brown for it's "exemplary job of managing hazardous materials."[146] The same sort of irony found in simultaneously operating a medical school and investing in tobacco companies is present here, and it begs the same kind of question: Why bother having a Center for Environmental Studies or campus-wide recycling programs if we are going to invest in companies whose negative environmental impacts exponentially outweigh our positive ones? I answer this question by quoting President Gee:

> We should not be investing in companies that consistently violate the rules of the game...I don't know enough about Exxon and what its policies are, but I think that we should have a right, we should, and we should ask the right questions, because there are many other companies who are doing very well financially that do not have these kinds of violations. So let our money walk to where those companies are.[147]

There is another parallel between tobacco and other environmentally-deleterious investments. Investing in companies with poor environmental track records may be just as much of a financial risk, if not more so, as investing in tobacco companies. Recent tobacco litigation has shown that it can be very expensive to be a "bad actor." The same is true for companies

---

[145] Ibid.
[146] Brainard, Jeffrey. "EPA Prods New England Colleges on Environmental Regulations." The Chronicle of Hgher Education. March 26, 1999. 1.

which do not comply with environmental laws. Exxon, for example, was fined over $3 million for multiple violations between 1993 and 1995[148] and still faces more than $1billion in criminal and civil penalties related to the Exxon Valdez oil spill of 1989. Waste Management Inc., another company in which Brown currently invests, was assessed $46 million in fines for illegal waste handling and bribery.[149]

As mentioned in Chapter 1, many studies have shown that environmentally-screened investment portfolios may perform as well or even better than non-screened portfolios. The logic of this situation is very simple: It is profitable to do business cleanly and ethically, thereby avoiding both the waste of precious resources and the astronomical costs of lawsuits and fines.

The tools for practicing ERI, like those available for becoming tobacco-free, are much more readily available and well-developed than they have ever been before. However, figuring out exactly how to practice ERI is not as simple as deciding to sell off tobacco stocks, because it is not a one-product, one-step process. Therefore, an ERI policy may be somewhat more difficult to implement at Brown than a tobacco-free policy. In recognition of this fact, I provide the following observations and suggestions.

Based on my research, it appears that the vast majority of the companies in which Brown invests do not have particularly bad environmental performance records. If this subset of investments is indicative of those included in the larger branch of the endowment, then Brown would not have to change the contents of its portfolio very much in order to be a more environmentally-responsible investor. It would not be difficult to hire a fund management or consulting company that could apply an environmental screen to Brown's *complete* investment portfolio (i.e. 100% of the endowment) and help the University decide which investments to

---

[147] E. Gordon Gee, interview.

keep and which to sell. I spoke with Blair Cahoon, an institutional account executive at the Calvert Group, who informed me that Calvert can custom-screen the portfolios of large, institutional investors like Brown according to their needs and social concerns.[150]

Assuming that Brown is unlikely to apply environmental screens to all of its investments, I suggest that the University begin by putting a relatively small portion of the endowment in an ERI fund, or under the management of a fiduciary who specializes in ERI, for a trial period. This would allow Brown to test the financial viability of ERI firsthand and, on the basis of the portfolio's performance, decide whether it is an appropriate option for a larger portion of the endowment. Even this small commitment to ERI would put Brown at the forefront of SRI within the academic community and would be proof of the University's commitment to the environment both on campus and off.

I also recommend that Brown continue to uphold its current commitment to ERI by ensuring that the Committee on Shareholder Responsibility in Investing remain active and meet frequently throughout the proxy season. The CSRI is perhaps the only way for Brown to be a socially-responsible investor without incurring any financial risk. All that is needed is for proper leadership of the CSRI to be established through the appointment of a dedicated Chairperson.

Additionally, if the CSRI is to conduct its affairs most efficiently, the official voting policy of the Investment Committee must be revoked. This policy is antithetical to the tenets of SRI and simply results in the additional bureaucratic step of having to alert the President or Advisory and Executive Committee when the Investment Committee does not adhere to it. Since so few social-issue resolutions receive a majority of the shareholder vote anyway, voting in

---

[148] See Appendix A.
[149] See Appendix A.
[150] Blair Cahoon, Telephone conversation, December 7, 1998.

accordance with management is akin to not voting at all, which makes the usefulness of this policy moot.

In summary, I recommend that Brown divest itself of its tobacco holdings, and take several small steps to enhance its commitment to environmentally-responsible investing. If these steps are taken, Brown will truly establish itself as the responsible, ethical community leader it has the potential to be.

Appendix A: Environmental Assessment of a Portion of Brown's Investments

COMPANY	CEP GRADE[151]	IRRC NEGATIVE INFORMATION[152]	IRRC POSITIVE INFORMATION[153]	PIN INFORMATION[154]
Abbot Labs	D			
Allstate Corporation				
American Express Corp.		Through July 1996, USEPA identified AmEx as a potentially responsible party at one Superfund site on the National Priority List.	Self-imposed corporate-wide environmental policy, including an Environmental Mgmt. Committee, formal auditing program, and annual environmental report for shareholders	
American Home Products Corp.	F			
American International Group, Inc.				
Amoco Corporation	B			
Atlantic Richfield Company*	Under Review			Cleared 372,000 trees from 2,600 acres of forest in 1989 in eastern Ecuador for an exploratory oil drilling project
BankBoston Corporation	NR			
Boeing Company**	NR			
Bristol Myers Squibb Co.	A			
Cardinal Health Inc.				
Caterpillar Inc.	F			
Chase Manhattan Corp.	NR			
Chevron Corporation	A	Some shareholders allege that Chevron does not adequately track emissions of dioxin, a cancer-causing agent, from its factories;	Spent $900 million on environmental programs in 1996; Reduced toxic chemical releases 42% between 1995 and 1998; El Segundo Refinery received 1996 Waste Reduction Award from California Integrated Waste Mgmt. Board.	Has produced oil in the Nigerian rainforest for over 20 years; Currently drilling for oil on national forest land in the Rocky Mountain Front in NW Montana; Pipeline in Papua, New Guinea cross through coastal mangrove forests
Chubb Corporation				
Coca Cola Company	A			

[151] CEP. (1999). *Corporate Report Card* [Online]. Available: http://www.cepnyc.org/quicktakes.htm [January 5, 1999].
[152] IRRC. Social Issues Service 1998 and 1999.
[153] Ibid.
[154] PIN. (1999). *Directory of Transnational Corporations*[Online]. Available: http://www.endgame.org [March 11, 1999].

Colgate Palmolive Company	A			
Compaq Computer Corp.	A			
CVS Corporation	NR			
Dayton Hudson Corporation	NR			
Dell Computer Corporation	D			
Exxon Corporation	A	33 compliance violations under 10 environmental statutes between 1993-1995, resulting in $3,050,646 in penalties, (above industry average); The majority of these violations (19) occurred under the Clean Air Act.	Below industry avg. for toxic chemical transfers and releases 1992-1994; Reduced TRI[155] transfer and release chemicals by 58% between 1988 and 1995; Reduced emissions of volatile organic compounds worldwide by more than 50% since 1990; IRRC's Efficiency Index indicates that Exxon is emitting fewer toxic chemicals per revenue earned than its industry, on average; Reduced emissions of 17 high-priority chemicals (specified by EPA 33/50 Program) by 50% since 1988.	In 1994, a ship chartered by Exxon spilled 106,000 gallons of oil in the Gulf of Thailand; Responsible for largest total volume of spilled hazardous materials in the United States from 1990-1994; Was on CEP's 1995 Worst Polluters List
First Union Corporation	NR			
Fleet Financial Group, Inc.	NR			
Ford Motor Company*	C	Potentially responsible party at 35 Superfund sites; Assessed $173,930 in compliance penalties between 1993-1995; Received a $135,000 civil penalty under the Clean Air Act in Nov., 1997 for continuously exceeding federal limits for volatile organic compound emissions from 1991-1996 at its Chicago, IL factory; In 1997, British operations received a £10,000 fine for discharging pollutants into the River Ewenny, and paid an additional £11,000 to restock the river with	1999 SUVs emit 40% less air pollution than 1998 models; Will invest $1 billion on alternative fuels and emission research between 1998 and 2002; Will invest $420-$650 million in fuel cell technology research; Designs and sells electric and natural gas-powered vehicles; Accounted for 95% of alternative fuel vehicles sold in US in 1997; Spent $1.9 billion on recycled material purchases in 1995; Reduced amount of energy used in vehicle production by 5.7% per	

[155] TRI stands for Toxics Release Inventory, a USEPA-required public report of amounts of certain chemical releases.

		fish; Some share- holders allege that Ford is not doing enough to reduce the enormous volume of green house gas emissions from its products, which contribute to the process of global warming.	vehicle in 1997; Has converted many of its boilers in its US facilities to natural gas; Reduced TRI emissions by 29% since 1989; 30 Ford sites are ISO 14001 certified; Member of USEPA's WasteWi$e Program; Signatory to Int'l Chamber of Commerce's Business Charter for Sustainable Development; Conducts environmental audits of 100% of its US facilities and 80% of its overseas facilities; Publishes environmental progress report annually.	
Gillette Company	A			
Hewlett Packard Company	B			
Home Depot Inc.	A			
IBM Corporation*	A		Most recent available data (1993-1995) indicate no reported oil or chemical spills and that the company was below the industry average for toxic chemical and transfer releases; Joined with 10 other technology companies in signing a global warming pact with the EPA in 1997; Participates in EPA programs 33/50, Energy Star, Project XL, and Common Sense Initiatives.	
Intel Corporation	A			
Johnson & Johnson	B			
Lear Corporation				
Lucent Technologies Inc.				
McDonalds Corporation	B			
Merck & Company, Inc.	B			
Merrill Lynch & Company				
Microsoft Corporation				
Mobil Corporation	B			$107 million oil exploration project in Peru runs partly through central

				northern rainforest; Has been drilling in a natural gas field in the central rainforest in the Santiago Basin of Peru since 1960's
Monsanto Company	C			
NationsBank Corporation	NR			
Office Depot Inc.				
Pepsico. Inc.	B			
Pfizer Inc.	C			
Philip Morris Companies	D In 1993, CEP reported: PM is a potentially responsible party at 11 Superfund sites - more than any other food company; Philip Morris General Foods Corp. was one of 3 companies to receive a "Wastemaker" Award for excessive/non-recyclable packaging from U.S. Congressman, Frank Pallone; WHO blames smoking for 2.5 million deaths/year worldwide; CDC attributes over 400,000 US deaths/year to smoking.	Accused of purposely marketing cigarettes toward underage smokers; Tens of thousands of secret documents released (for PM and other tobacco companies), which show that the tobacco industry was aware of the addictive effects of nicotine, was targeting youth through advertising, and discouraged attempts to produce safer cigarettes; Markets tobacco overseas without warning customers of health risks; PM, along with several other tobacco companies, faces hundreds of lawsuits, including one filed by the federal government and eight filed by foreign governments, which seek to gain reimbursement for the enormous healthcare costs of treating tobacco-related illnesses; An advisory panel of 13 university researchers and industrial scientists voted unanimously in 1998 to include environmental tobacco smoke on the government's list of carcinogens; In a 1997 deposition, PM CEO said that cigarettes are no more addictive than "gummy bears;"	In 1998, PM committed itself to five initiatives to end underage smoking abroad: support of minimum age laws, support of youth access programs, support of youth anti-smoking programs, placement of 'underage use prohibited' label on cigarette packages, work in concert with competitors and governments to change industry marketing practices worldwide; Adheres to a Cigarette Marketing Code which applies overarching advertising restrictions abroad regardless of local laws and customs; Places U.S. Surgeon General warning labels on all cigarette packages sold in countries in where health warnings are not required.	
Proctor & Gamble Co.	B	Some investors are concerned about P&G's	Spent $100 million to convert its pulp mills, in	Complaints in Canada, England, and U.S. about

		continued use of chlorine and chlorine dioxin, two known carcinogens, in the bleaching process.	whole or part, to elemental chlorine free (ECF) technology;[156] Extensive environmental management system, as well as environmental audits every 14 months; Publishes environmental progress report annually; P&G says it applies technical standards as stringent US environmental laws to its overseas operations.	P&G's claims that their disposable diapers are bio-degradable; Ordered to provide bottled water for residents of Perry, FL because of groundwater contamination from its pulp mill there.
Travelers Group Inc.				
US West Communications**	NR			
Walgreen Company	NR			
Wal- Mart Stores Inc.*	NR			
Walt Disney Company	C			
Warner Lambert Company	B			
Washington Mutual Inc.				
Waste Management Inc.				600 EPA citings in the 1980's; $46 million in fines for bribery and illegal waste handling 1980-1988; Has the largest toxic dump in the U.S., in Emelle, AL.

Blank square = Environmental performance not assessed
NR = Environmental performance not rated by CEP, though other aspects of corporate social behavior are rated
* = Brown owns bonds in addition to stocks
** = Brown owns bonds only

[156] ECF technology uses pulp bleached with chlorine dioxide instead of elemental chlorine.

Appendix B: Colleges and Universities that Have Sold Their Tobacco Stocks within the Last Twenty Years

College/ University	**Year of Divestment**	**Percent of total endowment represented by tobacco stocks**	**Tobacco Investment Policy**	**Group Responsible for Adopting Policy**	**Based on Recommen-dation of Advisory Committee on Shareholder Respon-sibility?**	**Person/ Group Responsible for raising the tobacco issue**
CUNY[157]	1990	5.8%	"Blanket Prohibition" against investment in tobacco companies	Board of Trustees	No	Vice Chairman of the board who also served on the board of the Tobacco Divestment Project
Harvard[158]	1990	1.2%	Prohibits investing in companies that produce significant quantities of cigarettes or tobacco products	Harvard Corporation	Yes	CCSR and President Bok
Haverford[159]	1997	1.6%	Prohibits investing in companies for which 25% or more of gross revenues come from tobacco products and/or whose public profile is associated with the sale of tobacco products	Board of Managers	Yes	Several Board Members
Johns Hopkins[160]	1991	1.5%	Prohibits purchase or holding of stocks in companies that directly produce tobacco	Board of Trustees	Yes	Faculty member of School for Public Health who also served on the Investment Advisory Committee

[157] All CUNY information in this table: Lewin, Tamar. "Harvard and CUNY Shedding Stocks in Tobacco." The New York Times. May 24, 1990: Section A; Page 1, Column 2; Don Glickman, CUNY's Executive Assistant to Vice Chancellor for Budget, Finance and Information Services, telephone conversation, April 5, 1999.

[158] All Harvard information: Derek Bok, interview and the Harvard CCSR Annual Report for 1990.

[159] All Haverford information: Haverford Policy on Investment in Tobacco Stocks; Telephone conversation with Richard Wynn, Vice President for Finance and Administration; Mercer, Joyce. "Many Endowments Score Gains as States Weigh a Settlement With Tobacco Firms," Chronicle of Higher Education. May 2, 1997.

[160] All Johns Hopkins information: From Associated Press. "Johns Hopkins Plans to Sell Holdings in Tobacco Firms." Los Angeles Times. February 23, 199, Part D; Page 3; William Snow, University Treasurer, Telephone Conversation, April 9, 1999.

Pomona[161]	1994	1.0%	Prohibits investment in companies who make more than 25% gross revenue from tobacco	Board of Trustees	Yes	Committee on Investments and Social Responsibility
Smith[162]	1997	0.3%	Prohibits investment in tobacco-manufacturing companies	Board of Trustees	Yes	Investor Responsibility Committee
Tufts[163]	1984[164]	NA	Prohibits investments in "tobacco stocks"	Board of Trustees	Yes	NA
Wayne State[165]	1991	NA	Prohibits investments in tobacco companies, as defined by a hired investment consultant	Board of Governors	No	Students in the School of Medicine

NA= information unavailable

[161] All Pomona information: Mercer, Joyce. "Many Endowments Score Gains as States Weight a Settlement With Tobacco Firms." Chronicle of Higher Education. May 2, 1997., Carlene Miller of Pomona Budget Office, telephone conversation, January 11, 1999.
[162] All Smith information: Shanahan, Ann E., "Smith College Trustees Vote to Divest Tobacco Stocks." Smith College Press Release, March 4, 1997; Jonathan B. Lovell, Director of Budget and Investments, telephone conversation, March 25, 1999; Haworth, Carla. "Smith College to Sell All Tobacco Stock." Chronicle of Higher Education. March 28, 1997.
[163] All Tufts information: Darlene Karp, Assistant Treasurer, telephone conversation, March 25, 1999.
[164] All of the data about Tufts is uncertain. I spoke with Darlene Karp, Tufts Assistant Treasurer, who told me that there is no longer an available written record of the tobacco policy, but offered me her best estimates and educated assumptions for the information included in this table.
[165] All Wayne State information: Claudette Bond, University Cash Manager, Telephone conversations, March 21, 1999 and March 25, 1999.

Bibliography

Associated Press. "Johns Hopkins Plans to Sell Holdings in Tobacco Firms." Los Angeles Times. February 23, 1991: Part D; Page 3.

Steven Berry, e-mail message, March 22, 1999.

Derek Bok, Interview, February 19, 1999.

Bok, Derek. Letter to students of the Harvard school of Public Health. Huang, Galson, and Jewett. May 18, 1990.

Claudette Bond, University Cash Manager, Telephone conversations, March 21, 1999 and March 25, 1999.

Brainard, Jeffrey. "EPA Prods New England Colleges on Environmental Regulations." The Chronicle of Higher Education. March 26, 1999. 1.

Brown University Faculty. "Mission Statement." Brown Bulletin of the University for the years 1998-2000.

Burt, Tim. "Greener profit drivers." The Financial Times. April 28, 1999.

Blair Cahoon, Institutional Account Executive at the Calvert Group, Telephone conversation, December 7, 1998.

Calvert Group. Calvert Social Investment Fund *and* International Equity Fund Prospectus. Bethesda: Calvert Group. 1998.

Camejo, Peter. "Year One: The Proenvironmental Funds Outperform Wall Street." The Social Investment Almanac. 443-451.

Centers for Disease Control. (1999). *CDC Chronic Diseases TIPS - Overview* [Online]. Available: http//www.cdc.gov/nccdphp/osh/issue.htm [3/22/99].

CERES employee, telephone conversation with author, December 11, 1998.

Coalition for Environmentally Responsible Investments. (1998). *Directory of Endorsing Companies*, [Online]. Available: http://www.ceres.org/organizatoin/companies/index.html [1998, December 11].

Cogan, Doug. "The Ceres Principles and Environmental Management Practices." *IRRC Social Issues Service*. March 2, 1998.

Cohen, Fenn, and Konar. Environmental and Financial Performance: Are They Related? April 1995.

The Council on Economic Priorities. (1999). *Corporate Report Card* [Online]. Available: http://www.cepnyc.org/quicktakes.htm [January 5, 1999].

Crane, et al. "Shareholder Actions and the Environment." The Social Investment Almanac. Ed., Kinder, Lydenberg, Domini. New York: Henry Holt and Company, Inc. 1992: 128.

Domini Social Investments (1999). *Performance of DSEF vs. S&P 500* [Online]. Available: www.domini.com/Perfor.html [May 9, 1999].

Emily Fink '98.5, Interview, November 7, 1998.

Farrell, Dr. Paul B. (1999). "Socially responsible funds beating S&P 500." CBS Marketwatch [Online]. Available: http://cbs.marketwatch.com/archive/19990412/new/current/superstar.htx?source=bl [April 20, 1999]. 1.

Kathryn Fuller, Member of Brown University Corporation, E-mail correspondence, March 8, 1999- March 12, 1999.

Galts, Chad. "Taking the Pledge." Brown Alumni Monthly. December, 1998: 34-37.

E. Gordon Gee, Brown University President, Interview, February 3, 1999.

General Board of Pension and Health Benefits of The United Methodist Church. Social Investment Practices. 1998.

Don Glickman, CUNY's Executive Assistant to Vice Chancellor for Budget, Finance, and Information Services Telephone conversation, April 5, 1999.

GOOD MONEY (1999). *Financial Performance of GMIA and GMUA* [Online]. Available: www.goodmoney.com/gmiaraw.htm (and www.goodmoney.com/gmuaraw.htm) [May 9,1999].

Guerard, Jr., John B. (1996). "Is There a Cost to Being Socially Responsible in Investing?" Social Investment Forum: 1996 Moskowitz Prize Report [Online]. Available: http://www.socialinvest.org/mosessy6.htm [December 14, 1999].

Harvard Committee on Corporate Shareholder Responsibility. CCSR Annual Report for 1990. Section 1.

Haverford College. Policy on Investment in Tobacco Stocks. 1997.

Haworth, Karla. "Smith College to Sell All Tobacco Stock." Chronicle of Higher Education. March 3, 1997.

Hays, Constance L. "RJR Nabisco Splits Tobacco Ventures and Food Business." The New York Times. March 10, 1999, Section A, Page 1.

Heard, James E. "Fiduciary Duty and Institutional Shareholder Activism." The Social Investment Almanac. 105.

Interfaith Center on Corporate Responsibility. The Proxies Resolutions Book: January 1998. Washington: Interfaith Center on Corporate Responsibility. 1998.

Investor Responsibility Research Center. "Environment Tops Issues To be Raised in 1999." Corporate Social Issues Reporter. January, 1999, 1-5.

IRRC. "Investor Profile: Harvard University." Investor's Tobacco Reporter. August/September, 1998, Vol. 2, No. 4.

IRRC. "1998 Company Report: Philip Morris Cos. Inc." Social Issues Service. 1998.

IRRC. "Philip Morris Cos. Inc.: Tobacco Production and Marketing" Social Issues Service, 1998 Company Report-B. 1998.

IRRC. "Tobacco Production and Marketing." Social Issues Service 1999 Background Report E. 1999.

Darlene Karp, Haverford College Assistant Treasurer, Telephone conversation, March 25, 1999.

Knell, Michael E. "Polaroid endorses Ceres Principles." The Boston Herald. August 20, 1994, Finance, 18.

Brad Krever, Former Director of the Tobacco Divestment Project, Telephone conversation, March 26, 1999.

Kritz, Harald, MD and Peter Schmid, MD and Helmut Sinzinger, MD. (1995). *Passive Smoking and Cardiovascular Risk.* Journal of the American Medical Association. October 9, 1995, Archives of Internal Medicine Abstracts [Online]. Available: http;//www.ama-assn.org/sci-pubs/journals/archive/inte/vol_155/no_18/abstract.htm [March 22, 1999].

Kurtz, Lydenberg, and Peter D. Kinder. "The Domini Social Index: A New Benchmark for Social Investors." The social Investment Almanac. 289.

Lewin, Tamar. “Harvard and CUNY Shedding Stocks in Tobacco.” The New York Times. May 24, 1990, Section A, Page 1.

David Lewis, MD, Director of Brown Center for Alcohol and Addiction Studies, Telephone conversation, April 5, 1999.

Jonathan B. Lovell, Director of Budget and Investments, telephone conversation, March 25, 1999.

MacLean, Ainsley. “Administrators speak at Ultimate Forum.” The Brown Daily Herald. March 9, 1999: 1.

Mercer, Joyce. “Many Endowments Score Gains as States Weigh a Settlement With Tobacco Firms.” Chronicle of Higher Education: May 2, 1997.

Carlene Miller of Pomona Budget Office, Telephone conversation, January 11, 1999.

Palacios-Huerta, Ignacio, Professor of Economics 177: Financial Markets, Brown University.

Paul, Karen and Dominic Aquila. “Trade Sanctions, Ethical Investing, and Social Change in South Africa.” Ed Kinder, Lydenberg, and Domini. The Social Investment Almanac. New York: Henry Holt and Company.

Public Information Network (1999). *Directory of Transnational Corporations* [Online]. Available: http://www.endgame.org [March 11, 1999].

Donald Reaves, Executive Vice President for Finance and Administration/CFO, Brown University. Conversation, March 3, 1999.

Rehfeld, Barry. “Heaven Can Wait.” Institutional Investor, August 1998, 33-38.

Shanahan, Ann E. “Smith College Trustees Vote to Divest Tobacco Stocks.” Smith College Press Release. March 4, 1997.

Shapiro, Joan. “The Movement Since 1970.” The Social Investment Almanac. Ed. Kinder, Lydenberg, and Domini. New York: Henry Holt and Company, Inc., 1992.

Jon Shear, Assistant Vice President for Investment/Assistant Treasurer, Brown University. Conversation, March 3, 1999.

Skolnick, Andrew. (April 2, 1997). “Draft of Report on Secondhand Smoke Released.” Journal of the American Medical Association [Online]. Available: http://www.ama-assn.org/sci-pubs/journals/archive/jama/vol_277/no-13/mn7054.htm [March 22, 1999].

Smith, Timothy. “Shareholder Activism.” The Social Investment Almanac. 1992.

William Snow, Johns Hopkins University Treasurer, Telephone Conversation, April 9, 1999.

Social Investment Forum. 1997 Report on Responsible Investing Trends in the United States. Washington: Social Investment Forum. 1998.

Strategic Insight SIMFUND, 1998.

Harold Ward, Member of Brown Committee on Socially Responsible Investing, Conversation, March 3, 1999.

Harold Ward, e-mail message, March 21, 1999.

White, Erin. (September 12, 1997). “Yale will reconsider tobacco holdings.” Yale Daily News [Online]. Available: http://www.yale.edu/ydn/paper/9.12.97/f-4tobacco.html [March 17, 1999].

Wilner, Isaiah. (April 22, 1998). “Corporation votes no on divestment.” Yale Daily News [Online]. Available: http://www.yale.edu/ydn/paper/4.22.98/t-1divest.html [March 17, 1999].

Wilner, Isaiah (April 23, 1998). “On campus, tobacco controversy burns out.” Yale Daily News [Online]. Available:
http://www.yale.edu/ydn/paper/4.23.98/t-2tobacco.html [March 19, 1999].

Wilner, Isaiah. (December 4, 1997) “Recommendation to Corp: Divest from tobacco.” Yale Daily News [Online]. Available: http://www.yale.edu/ydn/paper/12.04.97/t-1divestment.html [March 17, 1999].

Wilner, Isaiah (September 8, 1998). “Yale’s divestment dilemma.” Yale Daily News [Online]. Available: http://www.yale.edu/ydn/paper/9.8.98/t-2divest.html [March 17, 1999].

World Health Organization (1998).*Tobacco Free Initiative: Why Focus on Tobacco?,* [Online]. Available: http://www.who.int/toh/TFI/whytfi.htm [1999, March 24].

Richard Wynn, Vice President for Finance and Administration at Haverford College, Telephone conversation, March 25, 1999.