

The importance of a tobacco-free portfolio

BY JOLANDA DE GROOT

Financial Investigator asked Dr. Rachel Melsom, MBBS, Director UK and Europe at Tobacco Free Portfolios about the importance of tobacco-free portfolios and her personal motivation to promote this.

Why are tobacco-free portfolios important?

Tobacco, when used exactly as intended causes the premature death of two in every three users - there is no safe level of use of tobacco. Globally it is the single greatest cause of non-communicable disease¹. Tobacco is responsible for 7 million deaths a year, and this will reach 8 million by 2030, and 1 billion in total by the end of this century².

These premature and often very painful deaths are entirely preventable. When we look, as responsible citizens, at how we want to drive returns for our pensions and investments, we like to see good levels of income - and also good societal outcomes. Whilst recognizing that income has previously been achieved from tobacco, the societal outcome has been catastrophic, in addition it is costing society over US \$1Tn³ each year to cover the externalized costs of the tobacco companies.

What is the effect on the investment return when you exclude tobacco from investment portfolios?

I am not an investment expert, nor would I give advice on how to run a portfolio. However I have been in dialogue with a large number of individuals who are experts! The most recent industry research and comment on the investment return is from MSCI⁴ and FTSE Russell⁵ - both have looked at tobacco and concluded that removing tobacco from a portfolio does not mean decreasing financial returns.

On the academic front, in research commissioned by Tobacco Free Portfolios from Maastricht University⁶, and published in November, Professor Rob Bauer and his team highlight very clearly through the use of scenario analysis that the future risk of investing in tobacco is increasing, and returns are likely to decline further than they have already in 2018. Our

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paper 'Tobacco: Reviewing the Growing Financial Risks'⁷ draws on this research and highlights key actions that prudent and responsible investors ought to take to review their position on tobacco.

In addition I would advocate that AP4, FRR, ABP, CalPers, First State Super, BNP Paribas, Robeco, ABN AMRO, Achmea, and many, many more cannot all be wrong - they no longer invest in or lend to tobacco.

What is the biggest challenge that you face when it comes to convincing investors of the need for a tobacco-free portfolio?

Globally the biggest challenge is overcoming the entrenched view that tobacco will always deliver great returns and therefore must be retained, and that fiduciary duty precludes a move away from investment in tobacco.

Significant progress has been made in the last two years in Europe by the finance sector re-defining fiduciary duty, with the increasing focus on climate change enabling this debate to accelerate. There is broad recognition that fiduciary duty goes beyond assessing the dividends or returns achievable today, and has to encompass also the impact of that investment on future generations and future financial returns. For me this is helped by increasing evidence that tobacco-free investment does not have to mean lost income, and the launch of more tobacco-free indices such as the MSCI Ex-Tobacco Involvement Indexes available as standard products (not custom) makes tobacco-free decisions easier.

Interestingly, in the Netherlands, banks, insurers and investors are more forward thinking than some other countries, and have been moving to tobacco-free positions over a number of years. Tobacco Free Portfolios are delighted to have worked with the majority of those who have announced and adopted tobacco-free positions in the last 36 months, including ABP, ABN AMRO, ING, NN IP, Aegon, and many more who joined the 93 Founding Signatories⁸ of the Tobacco-Free Finance Pledge at the United Nations in September - a pledge that also

highlights Sustainable Development Goal 17: Partnerships. The Pledge demonstrates how leaders in the finance sector from across the world can stand shoulder to shoulder with global health leaders and governments in addressing and solving the Tobacco Epidemic.

As the Netherlands are leaders in tobacco-free finance, we were delighted to have Paul Blokhuis⁹, Staatssecretaris van Volksgezondheid, Welzijn en Sport speaking alongside the Director General of the World Health Organization, the Vice President for Human Development at the World Bank Group, the Head of the UN Tobacco Control Treaty, Mr Bonnafé (CEO BNP Paribas), Mr Duverne (Chairman AXA IM) and Mr Riahi, (CEO Natixis).

What is your personal motivation to promote tobacco-free finance?

As a doctor in Elderly Care I have a significant number of patients who grew up in an era where smoking was not only considered normal, but positively encouraged. Seeing the impact on their lives, their children and grandchildren, and having worked caring for terminally ill patients, I have first-hand knowledge of the devastation wrought by this one product. It is hugely addictive, marketed to children (very few adults take up smoking), and lethal. Addressing a problem of this size is an exceptional challenge. I cannot count the number of times I have been told that what my colleagues and I are trying to do is impossible – but seeing the change that has occurred in the last five years: more than \$12 Billion has moved out of investment in tobacco, over 80% of Australian corporate pension funds, representing A\$1.3Tn AUM are now tobacco-free, and credit is increasingly withheld from tobacco companies. All this has been driven by a very small team of three women, who have gained the input and support of enormously insightful, forward thinking, global leaders in finance, all rational human beings with a desire to see this damage to humanity stop.

Participating in enabling this change in attitude to tobacco, and seeing the finance sector move to adopt tobacco-free finance as the baseline standard, is my motivation.

And I know there are more announcements to come which will continue to move this forward. «

- 1 https://ncdalliance.org/sites/default/files/rfiles/NCDA_Tobacco_and_Health.pdf
- 2 <https://tobaccofreeportfolios.org/>
- 3 <http://www.who.int/tobacco/publications/economics/nci-monograph-series-21/en/>
- 4 <https://www.msci.com/www/blog-posts/quitting-tobacco-stocks-without/01135038467>
- 5 <https://www.ftserussell.com/blog/getting-tobacco-hit-without-tobacco>
- 6 <https://www.maastrichtuniversity.nl/file/thefutureoftobaccostocks-ascenarioanalysis-finalpdf>
- 7 <https://tobaccofreeportfolios.org/how-to-go-tobacco-free/>
- 8 <http://www.unepfi.org/psi/tobacco-free-finance-signatories/>
- 9 <http://webtv.un.org/news-features/un-dag-hammarskj%C3%B6ld-library/watch/launch-of-the-tobacco-free-finance-pledge/5840453536001/?term=> (video starts at 16:20 minutes)

Tobacco-free investment does not have to mean lost income, and the launch of more tobacco-free indices makes tobacco-free decisions easier.



Photo: Archive Tobacco Free Portfolios

CV

Dr Rachel Melsom completed a BSc in Genetics at University College London in 1987, following which she pursued a career in advertising, television and commercial media negotiations. She qualified as a Doctor in 2012, and practices in the Department of Elderly Care at Worthing Hospital, combined with her work across Europe for Tobacco Free Portfolios. Melsom founded Medical Matrix Consulting Ltd and has been advising independent medical businesses since 2010 on company structure, commercial negotiations and partnership development. She is a Trustee of the charity 4 Cancer Group, and a Diplomat of the Global Charter, World Federation of Public Health Associations.