

Statement Regarding Trustees of the University of Pennsylvania Position  
On Tobacco Divestment

By  
David L. Cohen, Board Chair  
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Over the past year, there has been a comprehensive discussion within the Penn community on the merits of divesting from direct holdings by Penn's endowment in tobacco stocks. That discussion culminated in a proposal that was considered today by the Trustees of the University of Pennsylvania (the "Board"). The proposal to divest was substantive and well presented, and included input from faculty, staff, students, and alumni. We are deeply appreciative of the careful work that was put into this issue by all of those in the Penn community who advanced this for consideration.

There is no question that there are negative consequences associated with the use of tobacco products. The question before the Board today was whether or not the manufacture and sale of tobacco products is a moral evil on par with genocide or apartheid – which would call for divestment – or a health and public policy issue better addressed in other ways.

The Board has sole responsibility for investment decisions at the University. The endowment provides a major source of funding for faculty, students, research and other programs, and facilities, and its success is critical to the success of Penn as an institution. The primary goal for the Board is to maximize financial returns consistent with appropriate risk in alignment with our tripartite mission of teaching, research, and service.

In the course of overseeing the endowment, the Board has long recognized that, in extraordinary circumstances, it may be appropriate to divest the endowment of certain specific holdings for reasons other than in support of maximizing the endowment return. This is a decision that cannot be made without close and careful deliberation, and only in the most limited circumstances, with the expressed standard for divestment being very high. The endowment is sustained by donors who reasonably expect that their gifts will be used in support of the University's academic and research mission in perpetuity, and not diverted for other purposes or to advance certain causes, however worthy those purposes or causes may appear to some members of our community.

In accordance with University Policy in effect at the time the petition to divest from tobacco was submitted, the criteria to be applied in making the ultimate decision to divest were three:

1. There must exist a moral evil that creates substantial social injury.
2. The companies targeted must have a clear and undeniable link to that moral evil.
3. Divestment must have the support of a broad consensus of the campus community at large.

The Board has considered the proposal to divest the endowment of tobacco-related stocks in light of the criteria articulated above. We have reviewed the materials prepared by members of the Penn community and appreciate the thoughtfulness by which those materials were developed. In addition, we have reviewed the minutes of the University Council meeting during which this proposal was debated. We are appreciative of the thoughtful and civil dialogue that ensued on this topic.

After thorough deliberation, the Board has determined that the tobacco proposal does not meet the criterion of establishing that there exists a moral evil. The linchpin of any divestment decision at Penn rests on the interpretation of moral evil, which we would view as an activity such as genocide or apartheid. We fully appreciate and understand the concerns that were raised by those who advocate divestment, and we recognize that reasonable people may disagree on this issue. Nonetheless, it is the carefully considered judgment of the Board that the manufacture and sale of tobacco products – which is widely accepted as legal, although significantly regulated, in this country – does not qualify as a moral evil.

There are many products marketed in our country to which an individual or group could take exception. The critically important and direct purpose of a University endowment demands that the highest standard be met to consider divestment. If the Trustees are to exercise our fiduciary role, investment decisions cannot be routinely swayed by political, social, or philosophical preferences that might emerge on campus. Given its legal status and the free choices that all Americans wish to exercise in their lives – including that of tobacco use – the Board does not think that the manufacture and sale of tobacco products rises to the standard of a moral evil, and it would thus be improper to support divestment at this time.

The Board, therefore, has affirmed what we firmly believe to be the sound principles and practices that govern our oversight of the endowment. But we have no interest in “endorsing” in any way the manufacture, sale, or use of tobacco. And we strongly believe that there are other more appropriate and effective alternatives for the University to actively express its concerns on this topic, particularly since our current direct holdings in tobacco are negligible and are likely to diminish even further due to the fundamental headwinds facing the tobacco industry. In our discussions today, we made clear that the University should voice its opposition to the manufacture, sale, and use of tobacco products as a significant threat to public health in the following ways:

- While the stringent standards for divestment have not been satisfied in this case, on a prospective basis, when selecting new managers to invest our endowment funds, the Office of Investments will communicate our intention that they not hold any tobacco stocks in the name of the University.
- The Office of Investments will share the divestment proposal put forth by members of the community and the Board’s position on tobacco with current investment managers who hold direct accounts for the University.

- The University will use the shareholder proxy voting process to:
  - Restrict the marketing of tobacco products in the developing world.
  - End marketing practices that encourage tobacco use by minors.
  - Support other proxy proposals that are consistent with the University's position on the manufacturing and sale of tobacco products.
- The University will communicate in writing to the leadership of any tobacco company whose stock may be directly owned by Penn. We will urge them to adopt the same standards for international marketing that signatories to the Tobacco Master Settlement Agreement must follow domestically. The University will similarly exercise its voice where appropriate on topics, including health warnings and controls over sales to minors.
- The Board encourages efforts by the faculty to conduct research with an intention of uncovering new and better ways to reduce the use of tobacco products.
- The Board supports a goal of reducing tobacco use among students, faculty, and staff through continued education and incentive programs. Penn has been a national leader in developing and implementing education and outreach programs for the University community concerning the dangers of tobacco use.

The decision of our Board today can more directly and productively address the underlying concerns that motivate the call for divestment. Penn can have greater influence on the tobacco industry – and by extension, public health – by its directives to new investment managers, through the proxy process, and by educational outreach and research efforts. We again thank the members of the Penn community who have spurred the Board's actions on this issue.

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