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Axa's decision to quit tobacco is not as pure as it looks

Kicking the habit of investing in cigarette-makers is hard, writes Andrew Hill

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by: **Andrew Hill**

Hey, Axa, what took you so long? The famous British Medical Journal report showing links between smoking and lung cancer came out in 1950. The London Association for Hospital Services — a forerunner of Axa PPP, one of the French company's health insurance subsidiaries — was formed in 1938.

Yet Axa has only just decided there is no smoke without fire and that, as a health insurer, "it makes no sense for us to continue our investment within the tobacco industry (http://next.ft.com/content/5d79c0cc-1ea4-11e6-a7bc-ee846770ec15)".

Except, overall, it still does seem to make sense. Axa's statement (https://www.axa.com/en/newsroom/press-releases/axa-divests-tobacco-industry-assets) applies only to the group's holdings in the industry, not those held on behalf of third parties in funds sold by Axa Investment Managers, some of which have British American Tobacco and Imperial Tobacco, among others, as top 10 holdings. (You can also invest in Axa ethical funds that screen out the cigarette-makers.)

Axa (http://www.ft.com/topics/organisations/AXA_SA) will divest its equity holdings — worth €184m — immediately, but it will hang on to its €1.6bn of tobacco industry bonds until maturity. Some of the fumes from these investments will be in the air until 2027.

This is not to say that Axa's principled overall decision is wrong, just that it is not quite as pure as the headlines may imply. And that is no surprise, because separating self-interest from self-righteousness in tobacco investment and divestment is hard.

Look at how Calpers, the big Californian teachers' pension fund (http://next.ft.com/content/e87a9b3c-0708-11e6-9b51-0fb5e65703ce), has tied itself in knots over its similarly principled decision to blacklist tobacco companies in 2000. That cost retired teachers $3bn in missed returns. As the fund's investment committee chair put it in April, announcing a review (https://www.calpers.ca.gov/page/newsroom/calpers-news/2016/review-divestment-policy) of divestment initiatives: "Divestment as an investment strategy presents a challenging conflict for Calpers, as it often pits social responsibility against our fiduciary duty."

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As a group, Axa presumably feels its shareholders will understand that the public relations opportunity from divestment outweighs the potential future returns from tobacco. Axa is making a modest contribution to increasing the cost of capital for the tobacco industry. Thomas Buberl, who will take over as chief executive in September, can breathe a little easier.

In fact, the valid comparison is not Calpers, but the Church of England (http://next.ft.com/content

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/b66475b6-0852-11e4-9380-00144feab7de), which in 2014 finally unloaded its indirect stake in Wonga, the payday lender that Justin Welby, the Archbishop of Canterbury, had attacked as "morally wrong".

Mr Buberl says Axa is "doing [its] share to support the efforts of governments around the world" as they clamp down on tobacco companies. But what he has really done is taken out a modest insurance policy against accusations of hypocrisy — one with a large exemption for Axa IM's fund managers to continue their 20-a-day habit as long as their fundholders like.

The writer is the FT's management editor
