For Immediate Release: January 29, 2013

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Carbon Divestment Does Not Increase Portfolio Risk, New Report Shows

Aperio Group's Do the Investment Math *report calculates the incremental risk of divesting from coal and major carbon producing industries*

As students around the country are asking their university endowments to do the climate math and divest from fossil fuel companies, the financial community is responding with its own math, the "investment math," to determine the risk impact of carbon divestment. Aperio Group LLC, a financial advisory firm that manages customized portfolios for a range of values-based investors, released its latest analysis of the risks of divesting from carbon: *Do The Investment Math: Building a Carbon Free Portfolio*. The Aperio Group, As You Sow, and the Responsible Endowments Coalition will host a webinar discussing the report's findings on January 29th at 2 p.m. ET (11 a.m. PT).

In the report, Aperio Group CIO Patrick Geddes conducts two studies to analyze the impact of divesting from: 1) the Filthy Fifteen, a group of coal utility and extraction companies designated by the university coal divestment campaign as the dirtiest public companies to hold; and 2) the exclusion of the entire industry of Oil, Gas, and Consumable Fuels.

The study finds that the impact of removing all of the Oil, Gas, and Consumable Fuels industry results in forecasted tracking error versus the Russell 3000 of only 0.60%, which adds incremental portfolio risk of 0.01%. The more narrow divestment of just the Filthy Fifteen results in a tracking error of only 0.14% with an incremental risk of 0.0006%. As Geddes describes in the paper, tracking error can be converted to incremental portfolio risk to give investors a more accurate measurement of the impact upon a portfolio.

"The portfolio becomes riskier by such a trivial amount that the impact is statistically irrelevant. In other words, excluding the Filthy Fifteen has no real impact on risk," Geddes says. "The impact of screening for coal and carbon is far less significant than skeptics often presume. Anyone on an endowment board facing that decision should do the investment math."

According to Dan Apfel of the Responsible Endowments Coalition, "This report answers the critical question that students and university endowments have been asking: 'Can we divest from fossil fuels without incurring additional risk?' Now we have the math to show that carbon divestment is not just good for people and planet, but can have negligible impact on risk or profit."

"The critical issue is aligning mission with investing," said Andrew Behar CEO of As You Sow, a nonprofit organization that promotes corporate responsibility. "We are seeing the emergence of a powerful voice from a generation declaring that the extraction and combustion of fossil fuels threatens their future and therefore should not be financially supported. This report shows endowment trustees that they can fulfill their fiduciary duty by opting out of fossil fuel investments without incurring additional risk."

Download *Do the Investment Math* and register for the webinar here.

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Aperio Group LLC, based in Sausalito, California, is a pioneer in applying enhanced indexing techniques to socially responsive portfolios. Aperio works with both taxable and tax-exempt investors, providing customized portfolios that track a broad range of U.S. and international indexes. For more information, visit www.aperiogroup.com.

As You Sow is a nonprofit organization that promotes environmental and social corporate responsibility through shareholder advocacy, coalition building, and innovative legal strategies. For more information, visit www.asyousow.org.

The **Responsible Endowments Coalition** works to build and unify the college and university-based responsible investment movement, both by educating and empowering a diverse network of individuals to act on their campuses, and by fostering a national network for collective action. For more information, visit www.endowmentethics.org.