



## Getting The Carbon Out

*Excluding the "Filthy 15" adds virtually no risk to an investment portfolio, says a new report.*

Dorothy Hinchcliff | Jan. 29, 2013

Who are the Filthy 15? They are public companies in the coal utility and extraction business that groups criticize for damaging the environment and contributing heavily to climate change because of their carbon emissions. The good news for socially responsible investors is this: Excluding the companies from investment portfolios doesn't add meaningful risk, says Patrick Geddes, chief investment officer of Aperio Group LLC, a financial advisory firm that manages customized portfolios for values-based investors, in a report, *Do The Investment Math: Building a Carbon Free Portfolio*.

"The portfolio becomes riskier by such a trivial amount that the impact is statistically irrelevant. In other words, excluding the Filthy 15 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."

The study found that the impact of removing all shares of companies in the oil, gas and consumable fuels industry results in forecasted tracking error versus the Russell 3000 of 0.60 percent, which adds incremental portfolio risk of 0.01 percent. The more narrow divestment of just the Filthy 15 results in a tracking error of 0.14 percent with an incremental risk of 0.0006 percent, Geddes says.

According to the report, over the last few months the public has been pushing universities to divest their endowments of holdings in large fossil fuel companies. Rising levels of carbon dioxide in the atmosphere are contributing to global warming, and a July *Rolling Stone* article, "Global Warming's Terrifying New Math," has focused the debate on the math of climate change, the report adds.

The Filthy 15 are U.S. companies judged by **As You Sow**, a nonprofit that promotes environmental and corporate social responsibility, and the Responsible Endowment Coalition as the most harmful based on the amount of coal mined and coal burned as well as other metrics. They include American Electric Power, Ameren, Dominion, Duke Energy, Edison International, FirstEnergy, GenOn, MidAmerican Energy, PPL, Southern Co., Alpha Natural Resources, Arch Coal, ConSolEnergy, Patriot Coal and Peabody.