THE FINANCIAL IMPACT OF DIVESTMENT FROM FOSSIL FUELS

The data does not support the skeptics' view that screening negatively affects an index tracking portfolio's return. - Aperio Group

To calculate the question of risk and return, analysts examine historical data and test divestment on the past performance of the market—*what would have happened if you had divested years ago,* so to speak. Here's what the research says:

- Looking back over more than 10 years, fossil-free portfolios would have had a tracking error* of less than 1% (compared with the average tracking error of active managers, which is 5%)
- S&P 500 without fossil fuels has higher annualized returns over the last 10 years and weathered the 2008 crisis better than the S&P 500
- A fossil-free global market (MSCI ACWI) and domestic market (Russell 3000) each outperformed their corresponding indices over 16 and 22 years respectively
- Fossil fuel divestment has the potential to reduce overall portfolio risk because of Energy Sector volatility (i.e., oil price volatility)
- The S&P 500 without fossil fuels has had a higher Sharpe ratio over the last 10 years

Resources

1. The Impact of Carbon Underground 200™ Divestment on Financial Risk
2. MSCI: Responding to the Call for Fossil-fuel Free Portfolios
3. Impax: BEYOND FOSSIL FUELS: THE INVESTMENT CASE FOR FOSSIL FUEL DIVESTMENT
4. Mercer: To Divest or Not to Divest is Not the Right Question
5. Fossil Free Indexes: Historical Analysis and Performance
6. CalPERS, CalSTRS took big losses on energy investments, report says
7. The Financial Case for Divestment of Fossil Fuel Companies by Endowment Fiduciaries

***Tracking Error**: A difference between the price changes of a portfolio (or group of stocks) and the price changes of a benchmark. "Tracking error is analogous to the concept of darts thrown at a dartboard, where the bull's-eye is the benchmark return and the measurement of the dispersion of dart throws around the bull's-eye is the tracking error over a particular time frame. A small or tight tracking error means the darts are clustered around the bull's-eye, and a large or loose tracking error means the darts are all over the board." - *Aperio Group*

Sharpe Ratio: Tells us whether a portfolio's returns are due to smart investment decisions or a result of excess risk. Although one portfolio or fund can reap higher returns than its peers, it is only a good investment if those higher returns do not come with too much additional risk. The greater a portfolio's Sharpe ratio, the better its risk-adjusted performance has been. A negative Sharpe ratio indicates that a risk-less asset would perform better than the security being analyzed.