THE GLOBE AND MAIL

This new ETF offers a challenge to socially responsible investing skeptics. Plus, four ways to make money in sideways markets

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If you think socially responsible investing is a sham, there's a new exchange-traded fund you should check out.

The Mackenzie Corporate Knights Global 100 Index ETF (MCKG-NE) holds a portfolio of 100 global sustainability leaders chosen through a screening system developed by a media and research company called Corporate Knights, which specializes in the sustainable economy.

Think of MCKG as an option for your global equity exposure, which might conceivably account for about 20 to 40 per cent of a total portfolio. North American companies account for 35 per cent of the portfolio, Western Europe for 39 per cent and the Asia-Pacific the rest. The management expense ratio comes in a bit above 0.5 per cent, which is reasonable for a fund of this type.

MCKG hits the market at a time when socially responsible investing is retrenching after a boom in 2020-21. Pretty much everything in the investing universe was set back last year, but SRI has faced additional headwinds in the form of a backlash against the idea of choosing investments based on environmental, social and governance (ESG) factors. The skeptics say there's no performance benefit, and that ESG is mainly about optics.

What the skeptics don't get about socially responsible investing is that it's not laser-focused on generating the best returns. Rather, it's a way to support companies that emphasize sustainability and mitigate the risks of doing business with little or no regard for ESG factors. In doing so, returns will follow.

"Our strategy shows that it's not inevitable, but it is indeed possible to invest in sustainable companies and do well by doing it," said Toby Heaps, president and co-founder of Corporate Knights.

MCKG has some strong performance numbers in back-testing. But as a wise investing person once noted, what new fund doesn't come to market with strong back-tested results? In this case, the Canadian-dollar version of the underlying Corporate Knights Global 100 Index produced a 12.8 per cent average annual gain for the 10 years to Dec. 31, while the benchmark MSCI All Country World Index made 11.4 per cent. The Corporate Knights index lost 9.5 per cent last year, while the MSCI ACWI lost 12.4 per cent. Take roughly 0.5 of a percentage point off those Corporate Knights returns to reflect the cost of owning MCKG.

The Corporate Knights 100 is built using a process that puts a 50 per cent weight on the nature of a company's products and services, and another 50 per cent weight on the corporate behaviour. Behavioural factors are based on specifics like the diversity of corporate boards, CEO pay compared to the average workers's pay and taxes paid.

Certain sectors are excluded, like companies that make a majority of their revenue from weapons and those that lobby against climate policies. But as you'll notice in the top holdings, resource companies are not excluded. Among the Top 10 are Tesla (TSLA-Q), Cascades Inc. (CAS-T) and Teck Resources (TECK-B-T). The index has already been chosen by Goldman Sachs for use in building private wealth portfolios.

-- *Rob Carrick, personal finance columnist*.

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