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New ETFs Focus on Social Responsibility

Associated Press

BOSTON - Now that they've muscled their way into almost every segment of domestic and international markets, the exchange-traded fund business has its sights set on socially responsible investing.

On Monday, the iShares KLD Select Social Index Fund began trading on the New York Stock Exchange.

The ETF's tracking index, maintained by Boston-based research firm Kinder, Lydenberg, Domini & Co., contains 250 to 350 large-cap non-tobacco companies taken from the S&P 500 and Russell 1000 indexes.

The stocks are then overweighted or underweighted based on how they score on social and environmental factors.

An ETF is similar to an index-tracking mutual fund. However, it can be traded on a stock exchange like a listed company all day, while mutual funds are typically priced just once daily, after the stock market closes.

KLD rates companies on their performance related to the environment, labor and community relations, work force diversity, product safety, human rights record and governance. The iShares KLD Select Social Index Fund has also adopted proxy-voting guidelines supporting more transparency and increased reporting.

"The iShares KLD Fund provides socially responsible investors with what we believe is a more thoughtful approach to optimizing positive social and environmental criteria while seeking to reduce sector risk," said Lee Kranefuss, CEO of intermediary business at Barclays Global Investors, the ETF's manager.

The new ETF, which has an expense ratio of 0.50 percent, is designed for those who find socially responsible investing appealing but still want to be diversified across economic sectors, said Peter Kinder, head of KLD Research & Analytics.

Socially responsible investing has been gaining steam in recent years with over \$29 billion in such funds, according to investment research firm Lipper.

An ETF based on an index of publicly traded energy companies that focus on environmentally friendly technologies and sources of energy is set to begin trading on the American Stock Exchange later this month.

The ETF, which will be managed by PowerShares Capital Management, will track the WilderHill Clean Energy Index, a benchmark calculated by the Amex that was launched in August. The Amex collaborated with index provider WilderShares in developing the index.

The index contains 37 companies that use "green" and renewable energy alternatives such as wind, solar, and hydrogen fuel cells.

As of Jan. 27, the top companies in the index were Distributed Energy Systems Corp., Evergreen Solar Inc. and Zoltek Cos., according to the Amex.

PowerShares, which is privately held, has over 20 ETFs currently in registration and is trying to establish itself as a major player in the developing business, competing with heavyweights like State Street Global Advisors, Barclays Global Investors and Vanguard Group.