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ETF FOCUS

ETFs going socially responsible

New funds based on screened index, clean energy

By [John Spence](#), MarketWatch

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BOSTON (MarketWatch) -- 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 moving into socially responsible investing.

On Monday the iShares KLD Select Social Index Fund ([KLD: news](#), [chart](#), [profile](#)) began trading on the New York Stock Exchange.

The ETF's tracking index, maintained by Boston-based research firm Kinder, Lydenberg, Domini & Co., contains 250-350 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.

KLD rates companies on their performance related to the environment, labor and community relations, workforce 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

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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.

Clean energy ETF on deck

An ETF based on an index of publicly-traded energy companies that focus on environmentally-friendly sources of energy and technologies 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, LLC in developing the index.

The index contains 37 companies that use greener 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 ([DESC](#): [news](#), [chart](#), [profile](#)) , Evergreen Solar ([ESLR](#): [news](#), [chart](#), [profile](#)) and Zoltek Companies ([ZOLT](#): [news](#), [chart](#), [profile](#)) , according to the Amex.

Privately-held PowerShares has over 20 ETFs currently in

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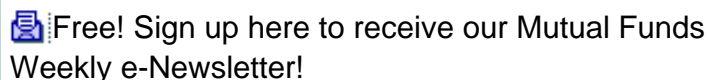
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registration and is trying to establish itself as a major player in the developing business, competing with heavyweights like State Street Global Advisors, Barclays Global Investors and Vanguard Group.

In December the Wheaton, Ill.-based firm rolled out a duo of ETFs tied to two of the market's hottest sectors: the PowerShares Golden Dragon Halter USX China Portfolio ([PGJ](#): [news](#), [chart](#), [profile](#)) and the PowerShares High Yield Equity Dividend Achievers Portfolio ([PEY](#): [news](#), [chart](#), [profile](#)) .

In 2003 PowerShares introduced its first pair of ETFs that attempt to beat market indexes by incorporating elements of active management such as earnings and trading momentum.

The funds, which have higher turnover and fees than similar indexed ETFs, are PowerShares Dynamic Market Portfolio ([PWC](#): [news](#), [chart](#), [profile](#)) and PowerShares Dynamic OTC Portfolio ([PWO](#): [news](#), [chart](#), [profile](#)) . PowerShares partnered with ETF pioneer the Amex to develop the proprietary indexes.

John Spence is a reporter for MarketWatch in Boston.

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