



Congratulations, You Own One of the World's Most Sustainable Companies!

Description

An article in the January 23rd Globe and Mail caught my eye as it indicated that 10 Canadian companies had made it onto this year's list of the **100 most sustainable companies in the world**. Sounds pretty good, right? Since I like sustainable companies as much as the next person, I decided this was something worth checking in on for some potential investment ideas. We investors are constantly on the lookout for that magic formula of stock picking. This could be it!

So, who are they?

The Canadian companies that made the list and their overall rankings are provided in the table below.....

Overall Rank	Company Name
21.	Teck Resources
40.	Barrick Gold
57.	CN Rail
60.	Telus Corp.
71.	Nexen Inc.
79.	Enbridge

81.	Suncor Energy
85.	Sun Life
87.	Royal Bank of Canada
88.	Cenovus Energy

Ten is a new record for Canada and we tied with the U.S. for the most entries on this year's list. The Corporate 100 has been published every year since 2005 and the only Canadian company to make it through all 8 printings has been **The Royal Bank of Canada** ([TSX:RY](#)).

Several thoughts came to mind as I perused the list, perhaps none more prominent than trying to figure out how in the world Canada's two most sustainable corporations are participants in an industry that is for the most part, unsustainable?

Both **Teck** (TSX:TCK.B,NYSE:TCK) and **Barrick** (TSX:ABX,NYSE:ABX) mine depleting resources. If they don't find new deposits, or if the resource prices crater, their business is toast. Granted, these two are giants in their respective industries with many, many years of digging left in them, but, I would have thought the word "sustainable" implied a business model with a little more certainty.

The answer lies in how the creators of the list (known as the Corporate Knights) have structured the Corporate 100. The list is designed to mimic its benchmark, the MSCI All Country World Index. To give themselves the best chance of beating, or at least matching the performance of the benchmark, the Knights follow a sector neutral strategy. If the ACWI has a 15% allocation to Materials stocks, the Corporate 100 will include 15 Materials names. The Knights need Materials names for their list. Teck and Barrick can therefore be considered "relatively" more sustainable than most companies in the Materials space.

Is This The Answer?

With that bit of confusion out of the way, I was ready to get down to business and figure out whether or not simply buying the group of Canadian companies that make the cut and then rolling them over on a yearly basis might be a simple, easy way to beat the overall Canadian market. Who doesn't want to work for about five minutes per year and bank big returns?!

The table below illustrates how the collection of Canadian companies named to the list each year have performed.

	2005	2006	2007	2008	2009	2010	2011	2012
# of Cdn Companies	5	4	4	3	5	9	8	6

Cdn Companies	28.7%	10.8%	0.9%	-26.7%	27.2%	7.9%	-8.3%	21.3%
S&P/TSX Composite	21.9%	14.5%	7.2%	-35.0%	30.7%	14.5%	-11.1%	1.8%
Difference	6.8%	-3.7%	-6.3%	8.3%	-3.5%	-6.5%	2.7%	19.4%

Source: Capital IQ

My heart skipped a beat when I saw the cumulative return of 61% vs. the S&P/TSX Composite total return of 32% over this period. Could it be that earning a return twice as large as the Canadian market is as simple as rolling out of the old and in to the new list of names at the beginning of each year?

Alas, these numbers are somewhat deceiving. The group's outperformance in 2012 was massive, mostly because of the inclusion of Nexen, which was acquired at a hefty premium, and Sunlife. If we treat 2012 as an anomaly and drop it from the equation, we find that the cumulative difference shrinks to just 3.4%. Not bad, but not necessarily worth clinging to as a viable, market thumping, strategy.

Oh Well

Even though the monikor "world's most sustainable company" sounds pretty extraordinary, it doesn't appear to translate all that well into the market beating returns we so crave. There is no doubt an element of quality involved with the names that appear, but for investment purposes, you'll probably be at least as well off if you just put a chunk of money into an Index fund every year when the Corporate 100 is released.

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Fool contributor Iain Butler does not own any shares in the companies mentioned in this post at this time. David Gardner owns shares of Canadian National Railway.

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- Investing

TICKERS GLOBAL

- NYSE:B (Barrick Mining)
- NYSE:TECK (Teck Resources Limited)
- TSX:ABX (Barrick Mining)
- TSX:TECK.B (Teck Resources Limited)

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