3 Sustainable ETFs for ESG-Focused Investors

Description

Up until a few years ago, responsible spending and investing required dedication, time, and commitment. But as it became more commonplace and mainstream, and businesses became more transparent about their ESG numbers, ESG investing has gotten relatively more accessible.

And now, when institutional investors move towards companies with decent ESG outlooks and environmental investments are being subsidized, sustainable assets have also become a financially savvy choice.

If you are unsure about the sustainability approach or potential of individual companies, you can start looking into sustainable ETFs.

A Canadian, environmentally conscious ETF

As the name suggests, **Desjardins RI Canada – Low CO2 Index ETF** (TSX:DRMC) focuses on businesses with low carbon emissions. It's currently comprised of 60 holdings, and the weight is not equally distributed. Three Canadian banks make up over a quarter of the weight, and over half of the weight is from the financial sector.

It's an excellent pick for environmentally conscious investors. The carbon intensity of the collective pool of holdings within this ETF is over 73% lower than the traditional emissions index. This indicates its ESG strength.

But the ETF is also a smart pick for its returns. It makes quarterly distributions, and the current yield is about 2.2%. It also grows at a modest pace, reflecting (to an extent) the TSX's performance, especially in the financial sector.

A U.S. ESG leaders ETF

MSCI is a well-known name for index ETFs, as many tend to follow/replicate the performance of indices made by the company. An example would be **BMO MSCI USA ESG Leaders Index ETF** (TSX:ESGY).

Since it shares the broader aim of the underlying index, the ETF focuses on companies with a higher ESG rating than their peers in the sector. It looks at the top half/top 50% of the companies in an industry when arranged by their MSCI ESG score.

It currently has over 279 holdings, with three tech giants (**Microsoft**, **Alphabet**, and **Tesla**) making up 20% of the fund's total weight. It makes quarterly distributions, the annualized yield is at 1.4%, and the ETF carries an MER of 0.22%.

While the performance so far has been impressive enough, we don't have enough "stable market" data to make an accurate assumption about its capital growth potential. Still, the underlying assets make a compelling case for it.

Another U.S.-focused ESG ETF

MSCI has another index, which **iShares ESG Aware MSCI USA ETF** (TSX:XSUS) aims to replicate. It tracks the performance of about 307 U.S. companies that have "favourable" ESG ratings. The criteria are comparatively laxer, which might not be very attractive from an ESG investing perspective, but it does give the return potential a slight boost.

IT and healthcare are the two leading sectors represented in the ETF, which is usually a point in the ETF's favor but is currently one of the reasons it has fallen over 20% in value. The return potential of the ETF is decent enough, though it tilts more towards capital appreciation than distributions. The annual trailing yield is currently at 1.1%.

Foolish takeaway

Whether you care more about the environment or your portfolio's performance, the three ETFs are worth looking into. Thanks to their relatively lax criteria, they offer adequate diversification within a sizeable basket of assets. They also offer market-matching returns, making them predictable and palatable for most new investors.

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