ESG - An Emerging Non- Financial parameter while making Investment decisions

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***Abstract*: For a very long period of time, the investors, fund managers, analysis, institutional investors etc have been using the fundamental analysis that is financial statement analysis, SWOT analysis, Growth, Business model, future prospects etc while making any investment decision in the company. The investors were only dependent and replied on the financial results. They were on the belief that only thing matters or is important for making any investment in the company is their "financials". However- beyond the number analysis, there exists a very vast ocean of parameter that an investor needs to analyse before taking any decision related to investment. This parameter is a non – numerical or non- financial parameter that also affects the value of an investment .Each and every company around the globe have to integrate themselves with the environment (E) in which they operate / function. Along with it they are functioning in the society hence they have to value its stakeholders and deliver something in return to the society (S). There are strict rules and regulations that a company need to comply in-order to operate in the country. These rules are a part of Governance, so the company needs to comply with this governance (G). Hence after integration we can say that a company needs to comply with its ESG factors in-order to perform their business operations. This study shall help the end user to understand the importance of ESG while making investments, Indian ESG Funds its analysis Investors are now shifting from the traditional investment idea of social investing to new emerging ESG investing idea. They are realising that the companies can't survive for a long sustainable life if they do not care about ESG Factors. There has been high dependence of investors on the ESG factors along with fundamental analysis while making investment decisions and the investors now have actually understood the importance of ESG analysis and to evaluate the company while making investment decision. The future of ESG and ESG Funds is very bright due to the growing demand and awareness of the investors related to ESG while making investment decisions.**

***Keywords*: ESG, Social Impact, ESG Funds, Performance, Investment decisions, Social Responsible Investing, Positive Impact**

1) Objectives of this research –

- To Study and understand the importance of ESG while making Investment decisions
- To study and analyse the performance of ESG Mutual Funds in India
- To understand the future of ESG and ESG Funds worldwide

Introduction

- ESG investing, also known as sustainable investing, socially conscious investing, mission-related investing, or screening, is a term that is frequently used interchangeably. Institutional investors and retail investors can use a variety of strategies to achieve these goals, including ESG incorporation, exclusionary or negative screening, thematic investing, impact investing, and so on.
- When adopting an ESG investing strategy or applying ESG across a portfolio, investors typically consider a variety of ESG variables, facts, and data. Climate change, human resources and labour management, corporate governance, gender equity, privacy and data protection are only a few examples of industry-specific core concerns.

Evolution of ESG.

- Both institutional and retail investors are becoming increasingly interested in environmental, social, and governance (ESG) factors. ESG investment started as socially conscious investing in the 1960s, with investors removing stocks or whole sectors from their portfolios based on business practises / operations
- Many ESG investors' motives remain ethical concerns and compliance with principles today, but the sector is increasingly growing and expanding as more investors seek to integrate ESG variables into their investment process alongside conventional financial analysis.
- Earlier investors were only into social investing or sustainable investing but now they have evolved into ESG investing which covers the sustainable and two other factors like Environmental , Governance.
- Investors are now focused on long term sustainability of the company and capital appreciation and not just profit oriented as they were earlier.

- This Covid-19 pandemic has opened the eyes of the investors as the company there delivered a very high profits with bad ESG was strong hit by this wave. But companies with high ESG score with steady returns were able to sustain this pandemic and did not erode the wealth of the investors.

Environmental	Social	Governance
• Climate • Natural Resources • Waste Management • Other environmental factors	• Human Resources • Labour Management • Society • CSR	• Corporate Governance • Rules / regulations of bodies

Investors generally have three objectives related to ESG

Integration	Personal Values	Positive Impact

ESG Considerations (New or old) ?

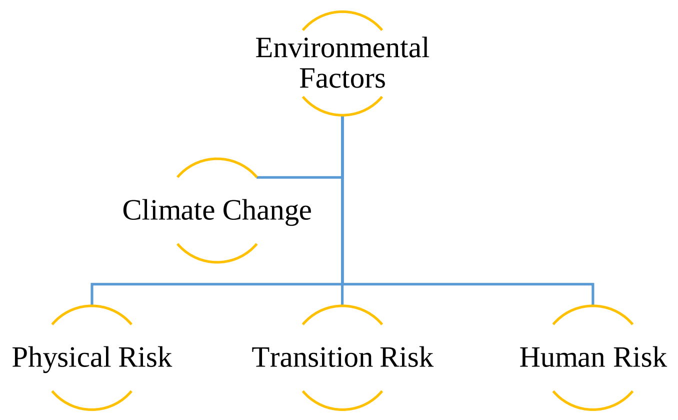
- The consideration of environmental, social, and governance (ESG) issues in investing for economic benefit is not a new phenomenon.
- Many investors have long included an evaluation of reputational risk, regulatory changes, or mega trends like the ageing population in their fundamental investment research.
- Common analytical structures, such as Porter's Five Powers, provide some ESG analysis.
- ESG issues are applicable in the investment process, from the initial review to the buy/sell/hold decision to ongoing ownership activities, and they are a supplement to (now a replacement for) conventional fundamental analysis.

Significance of ESG to Investors.

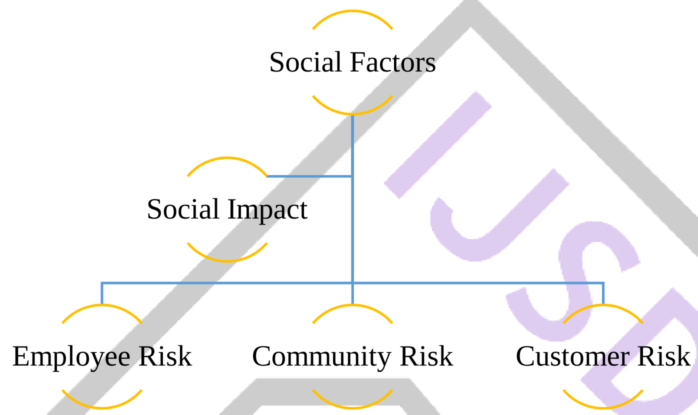
- For investment decisions, quantitative and easily observable objective criteria, such as growth, financial positions, benefit, dividend pay-out, financial ratios, peer comparison, and so on, were traditionally given a high weighting / importance.
- However, as time has passed, investors and businesses have realised that they do not function in a vacuum, but rather in a system in which long-term, sustainable sustainability is only possible through a two-way partnership with the environment and community.
- The operating mechanism for managing the two-way relationship is governance. Companies must fulfil their societal and environmental responsibilities.
- If they fail to do so, they are clearly can the risk to business and endangering the future.
- If the negative effects of ESG factors are not addressed, companies will be exposed to substantial external threats, which could have a significant impact on the company's future profitability and stability, as well as pose a serious challenge to its existence.
- During the Covid-19 pandemic, every economy, business, and company has experienced this terror.

❖ Impact of Environmental Factors on Corporates

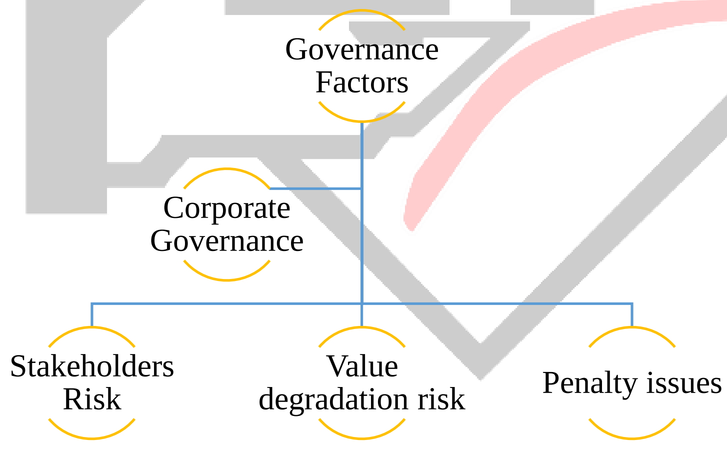
- Certain specific industries / sectors are directly affected / exposed to environmental factors as compared to other industries / sectors in the economy worldwide.



❖ Impact of Social Factors on Corporates :-



❖ Impact of Social Factors on Corporates :-



2) <u>Literature Review</u>

1) <u>From SRI Investing to ESG – The changing world of Responsible Investing (Common Fund Institute September, 2013)</u>

- According to the paper , the author states that , socially responsible investment mission- oriented investment , impact investment , ESG investment all these heads are grouped or titled under responsible investments.
- The socially responsible investment were related to analysing the ethics social factors , sentiments of the company etc while making an investment decision.
- There are three main types of categories regarding responsible investing.

II) Sustainable Funds Performance evaluation
Iao - Guang Yue 1 , Yan Han 2,*, Deimante Teresiene 3 , Justina Merkyte 3 and Wei Liu 4

- According to the research paper, the author portrays that there has been a very high demand and grown popularity of sustainable investment and it doesn't add on any additional risk while making investments.
- Various qualitative methods were used to evaluate this objective and to analyse the performance and advantages of sustainable investment in comparison with traditional investments.
- The research was conducted with 30 Sustainable funds and 30 Traditional funds. The methods used for evaluation was CAPM , Sharpe Ratios , Standard Deviations , Fama French three sector model etc.
- The Fama Three sector model showed the best results and the conclusion from this research was that the returns generated by sustainable funds were equal or was not higher than the traditional funds or benchmark index.
- There were only few occasions or trends that showed the sustainable funds delivered higher returns than that of traditional funds.
- The author states that the investor should now follow the sustainable investing decision in addition to the traditional forms while making an investment decision

III) ESG and Financial Performance
(NYU , Stern, 2020)

- According to the author of this paper, there has been a long -term examination of different authors regarding the relationship with ESG and financial performance of the corporates.
- The analysis / research found out that there is a positive correlation between the ESG factor performance and the Financial Performance of the corporates.
- After a hardcore research for five years, they found out that the corporates having the strategy that focused on ESG issues delivered a high- quality performance with respect to financials and as well as stock performance.
- The authors of NYU stern centre (sustainable Business) and Rockefeller Asset Management had collaborated to analyse the relationship between ESG and Financial performance of more than 1000 companies as sample space.
- As per the report , there showed a positive relationship of ESG and financial performance of 58% companies (roe, roc , stock price) were taken into consideration for financial performance.
- 28% companies showed a neutral relationship and only 14 % companies showed a negative corelation between ESG and Financial Performance.
- Also, during this covid 19 pandemic, the companies with high ESG scores showed a moderate to high performance as compared to those companies with low ESG Scores.

3) Research Methodology

❖ Research Design

- This is a Descriptive Research. Secondary data will be taken into consideration for this study. The secondary data is extracted and analysed by different research papers, rating agencies and various other stock exchanges websites / portal.

❖ Research Problem
1) ESG Funds performance in India.
2) Future of ESG around the globe.

❖ Methods of Data collection

o Secondary Data Collection
- The existing data that is available is analysed and collated to increase the overall quality and deliverable content of this study.
- Here the secondary research includes the content, materials, information that is published in research papers, magazines, financial websites, Global rating agencies reports, stock exchanges portal etc.
- The data that is relevant for this study is only taken into consideration.

4) Data Analysis and Interpretation

1) Importance of ESG while making investment and the steps followed while making investments

- The acronym for ESG is Environmental, Social, and Governance. It is one of the non-financial - parameter that is now widely used by most of the investors around the globe while making investment decision in Stocks of the company. ESG has evolved from just a socially responsible investing to a much broader aspect after considering the other factors like Environment and Governance. This ESG analysis is now helping the investors to whether a particular company is capable of being sustainable for a long term and whether these ESG risks may reduce its long-term sustainability.

- Companies that have a high ESG ratings by the rating agencies tend to have a very strong corporate reputation and they tend to have a low risk of long-term sustainability.

- ESG analysis helps the investor to get valuable data / insights regarding various factors that may have a strong and significant effect on the financial metrics / financial model of the company. Hence this helps the investor to take proper prospective investment decision in the company.

- The investors can perform ESG Analysis and refer to the companies ESG Rating before making any investment decision.

- Portfolio Managers as well as retail investor strongly conducts ESG Analysis and then integrate this entire analysis for making an investment decision. ESG research and analysis is not a simple task, the research analyst have to denote a considerable amount of duration to perform the research and analysis to come to a final conclusion before investing the funds.

- Earlier times the investors were only dependent on the fundamental analysis while making their investment decisions. But from past decade, investors wants a long- term sustainability of the company , Hence only analysis of financial statements are not sufficient for parking their funds in the company.

- ESG factors are now being considered and analysed by most of the investors along with fundamental analysis because ESG factors helps the investors to check that whether the company is properly complying with the Environmental , Social & Governance rules while carrying out their business operations.

- There are many companies that have a strong business model with strong financial statements, but they were not complying with ESG rules appropriately, this has led to a strong hit to the company's brand value and has drastically reduced the valuation of the company which has directly reduced the investment value of the investors and funds.

- ESG considers the material environment , social and governance issues in the entire process of investment. The investors identifies a wide range of ESG Factors / approaches and select the best strategies for the investment

  - <u>Investors, analysis while making investment in a company / industry along with ESG parameter.</u>

- The ESG scores are not dependent on the financial performance and also Financial Performance are not dependent on ESG scores. They both have an independent standing. Hence it cannot be determined that there is positive relationship between both these factors.

The performance of ESG Funds in India

- In India, as per the reports of Morning star, there consists of only 7 ESG Mutual funds for the investors to make investments. ESG Mutual funds basically are the funds which comprises of companies that strictly following the ESG principles and have a high ESG Ratings.
- To make a note here, the ESG mutual not compulsory consists of all companies that follow ESG principles, it may vary depending upon the market capitalisation of the company and the different sector preferences.

Please refer the below mentioned ESG Mutual funds for understanding :-

1) SBI MAGNUM EQUITY ESG FUNDS

- This fund was incorporated in the financial year 2018-19. Earlier the fund consisted of only equity funds (non ESG) but later on it got entirely re-classified into Equity ESG Funds.
- The fund is a long- term growth- oriented fund
- The asset size as on April 2021 stands at $ 35 Billion Dollar as per the report
- The fund consists of a total 41 equity stock. But highlighting only the top 5 holdings of the fund

- HDFC
- Bharti Airtel
- Infosys
- TCS
- ICICI Bank

Asset Allocation (Instrument)

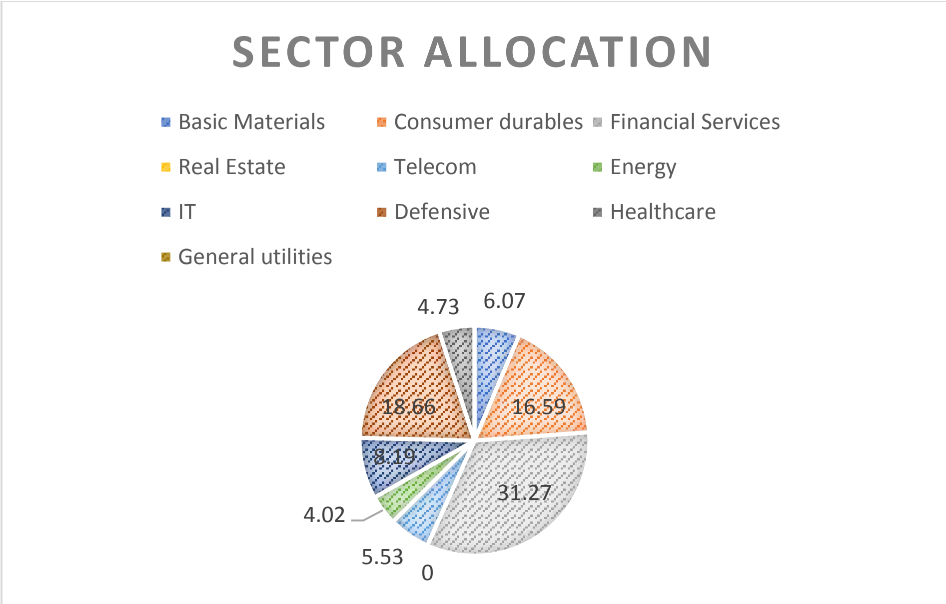
Region	Percentage of Investment
US Equity	0.97
Non -US Equity	96.82
Fixed Income Securities	0.04
Cash	2.17

Analysis –

1. The majority of the investment is invested in the NON Us equity fund and if we see the top 10 investments , it lies in the Asian Equity stocks.
2. As 96% of the investment in under equity , it might be risky if the equity stocks underperforms in the financial year.
3. The hedging of risk is not properly done here as only 0.04% is invested in Debt market.

- Fund Allocation (Sector / Industry)

Sector / Industry	Percentage of allocation
Basic materials	6.07
Consumer durables	16.59
Financial services	31.27
Real Estate / Infra	0
Telecommunication	5.53
Energy Generation	4.02
Information Technology	8.19
Defensive	18.66
Health care / Pharma	4.73
General Utilities	4.94



- Analysis-

1. As per the above chart , we can analyse that the sector analysis is done perfectly as the funds are deployed in almost all the sectors depending upon the industry and the performance
2. As we can see, highest allocation is done in in consumer durables and financial services because two has one of the highest customer base as compared to other industries.
3. Consumer durables are the products that has a constant demand of the consumers irrespective of any happenings in the industry. So, it is one of the important industry which has high potential to deliver huge returns
4. Financial services being banks and Financial institutions, this industry is considered as the backbone of the Indian Economy. It has a constant demand. Hence this sector has always and will always deliver moderate to high percentage of returns.

- Performance

Analysis-

1. After analysis of the graph , we can see that there has been a very volatility in the returns that are fetched from this fund.
2. In 2011, the fund delivered a negative return of -19 percent and highest return fetched by the fund stands at 42.65 % respectively.
3. The fund performance is not stable, hence it might be a risky investment option for the investors.

- Risk Analysis / Factor

- This fund has high risk factor as major investments are made in Equity. Hence hedging of risk is not possible here.

2) <u>Axis ESG FUNDS</u>

- This fund was incorporated in the financial year 2019-20.
- The fund is a long -term growth- oriented fund
- The asset size as on April 2021 stands at $ 19 Billion Dollar as per the report

- The fund consists of a total 51 equity stock. But highlighting only the top 5 holdings of the fund
- HDFC
- Kotak Mahindra Bank
- Avenue Super Markets
- TCS
- HDFC Bank

This fund has invested around 81% in the equity stocks of those companies that has a very high ESG Ratings as well as fundamental analysis as per the Rating agencies

Asset Allocation (Instrument)

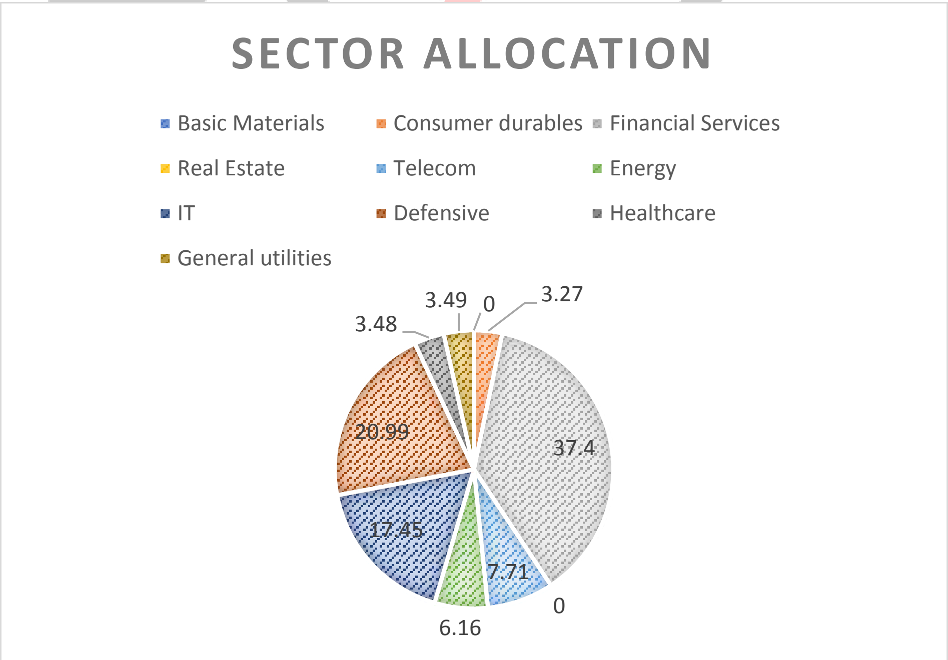
Region	Percentage of Investment
US Equity	12.25
Non -US Equity	85.30
Fixed Income Securities	0
Cash	2.45

Analysis –

1) The majority of the investment is invested in the US and Non-US equity fund .
2) As 97.2% of the investment in under equity , it might be risky if the equity stocks underperforms in the financial year.
3) The hedging of risk is not properly done here as only 2% is invested in Cash / Money Market.

- Fund Allocation (Sector / Industry)

Sector / Industry	Percentage of allocation
Basic materials	0
Consumer durables	3.27
Financial services	37.44
Real Estate / Infra	0
Telecommunication	7.71
Energy Generation	6.16
Information Technology	17.45
Defensive	20.99
Health care / Pharma	3.48
General Utilities	3.49



- Analysis-

1 As per the above chart , we can analyse that the sector allocation is done perfectly as the funds are deployed in almost all the sectors depending upon the industry and the performance
2 As we can see, highest allocation is done in Defensive, IT and financial services. As per my industry analysis, these sectors have emerged as one of the top performing industries in the recent years. Also we consider this covid pandemic, the financial services and IT Industry has outperformed and delivered a very high capital appreciation to the investors.
3 Least investment allocation is given to real estate, pharma, energy etc, as per my analysis these sectors are performing very badly in recent years (real estate and energy).
4 Pharma stocks are very volatile and they have a very high systematic risk due to US medical federation rules and rules and regulations. Hence may be due to this reason less weightage is given to pharma.

▪ Performance

Analysis-

1 After analysis of the graph , we can see that the fund was created in the FY 2019-20 there has been a moderate return are fetched from this fund.
2 In 2019-20, the fund delivered a return of 2.01 %
3 The fund is very young hence proper analysis of their performance is not possible and it might be a risky investment option for the investors due to lack of data and inexperience of the fund.

▪ Risk Analysis / Factor

- This fund has high risk factor as major investments are made in Equity. Hence hedging of risk is not possible here. Also the fund is very young and hence as an investor it might be difficult to make investment.

3) ICICI Prudential ESG FUNDS

- This fund was incorporated in the financial year 2020-21.
- The fund is a long -term growth- oriented fund
- The asset size as on April 2021 stands at $ 19 Billion Dollar as per the report
- The fund consists of a total 29 equity stock. But highlighting only the top 5 holdings of the fund

- HDFC
- Kotak Mahindra Bank
- Infosys
- TCS
- HDFC Bank

This fund has invested around 85% in the equity stocks of those companies that has a very high ESG Ratings / score along with strong fundamental analysis. The fund also has the scope to invest in international companies as per their AOA.

Asset Allocation (Instrument)

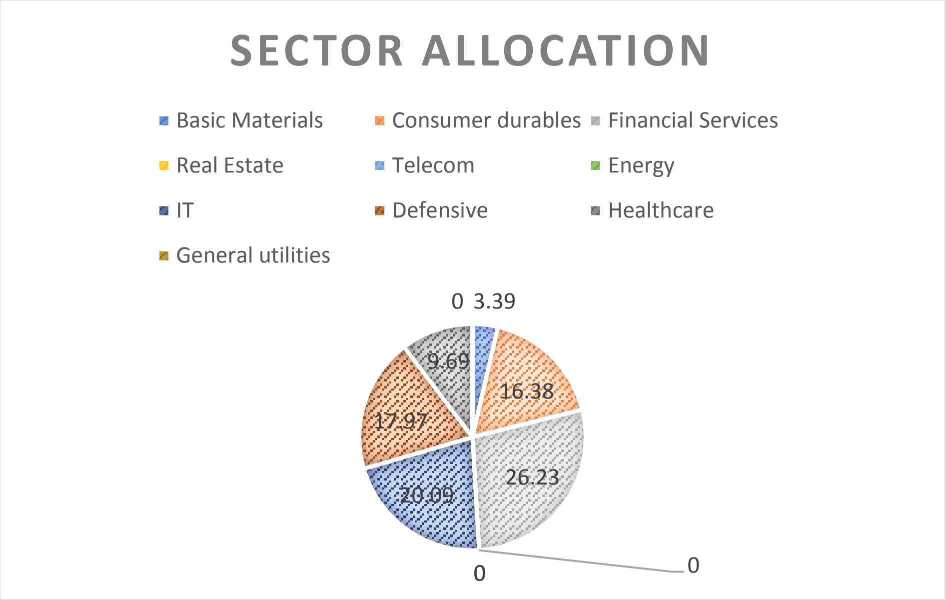
Region	Percentage of Investment
US Equity	0
Non -US Equity	96.54
Fixed Income Securities	0
Cash	3.46

Analysis –

1) The majority of the investment is invested in Non-US equity fund .
2) As 96.5% of the investment in under equity , it might be risky if the equity stocks underperforms in the financial year. Hence the capital of investor are might be at risk.
3) The hedging of risk is not properly done here as only 3-4% is invested in Cash / Money Market.

- Fund Allocation (Sector / Industry)

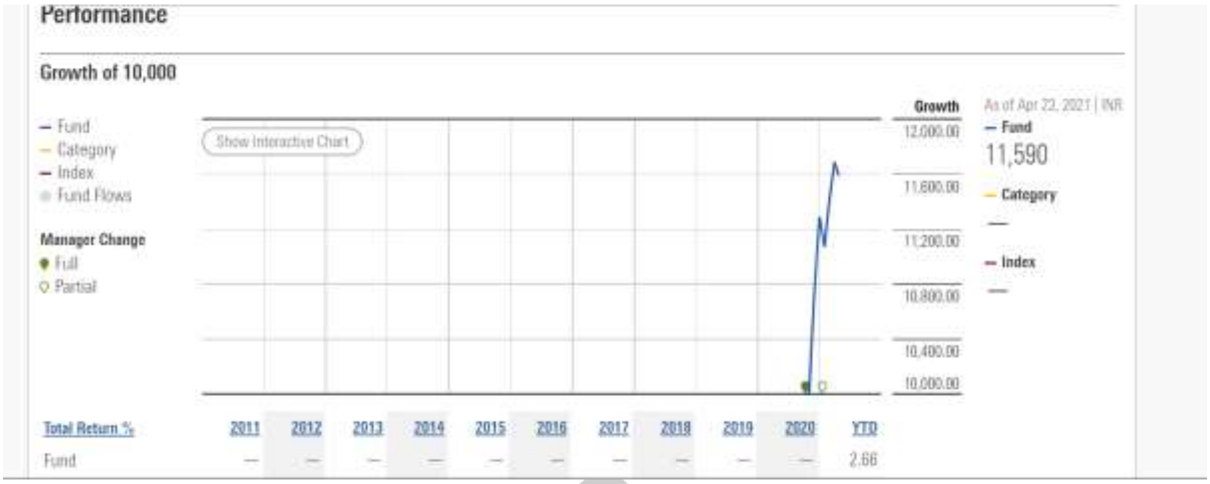
Sector / Industry	Percentage of allocation
Basic materials	3.39
Consumer durables	16.38
Financial services	26.23
Real Estate / Infra	0
Telecommunication	0
Energy Generation	0
Information Technology	20.09
Defensive	17.97
Health care / Pharma	9.69
General Utilities	0



- Analysis-

1 As per the above chart , we can analyse that the sector allocation is done perfectly as the funds are deployed in almost all the sectors depending upon the industry and the performance
2 As we can see, highest allocation is done in Consumer durables, Defensive , IT and financial services. As per my industry analysis , these sectors have emerged as one of the top performing industries in the recent years. Also we consider this covid pandemic , the financial services, consumer durable and IT Industry has outperformed and delivered a very high capital appreciation to the investors.
3 Least investment allocation is given to real estate , telecom, energy etc, as per my analysis these sectors are performing very badly in recent years (real estate and energy).
4 Telecom stocks are very volatile and there has been a very though competition between the telecom companies in India.

- Performance



Analysis-

1 After analysis of the graph , we can see that the fund was created in the FY 2019-20 there has been a moderate return are fetched from this fund.

2 In 2019-20, the fund delivered a return of 2.66 % which is slighter higher than the Axis ESG Funds.

3 The fund is very young hence proper analysis of their performance is not possible and it might be a risky investment option for the investors due to lack of data and inexperience of the fund.

- Risk Analysis / Factor

- This fund has high risk factor as major investments are made in Equity. Hence hedging of risk is not possible here. Also, the fund is very young and hence as an investor it might be difficult to make investment.

4) Aditya Birla Sunlife ESG FUNDS

- This fund was incorporated in the financial year 2019-20.
- The fund is a long -term growth- oriented fund
- The asset size as on April 2021 stands at $ 9.5 Billion Dollar as per the report
- The fund consists of a total 40 equity stock. But highlighting only the top 5 holdings of the fund
- HDFC
- Axis Bank
- Bajaj Finance
- HDFC Bank
- State Bank of India

This fund has invested around 75-80 in the Large cap equity stocks and remaining 25-30% in small – mid caps of those companies that has a very high ESG Ratings / score along with strong fundamental analysis. The fund has an allowance to invest 35 % international securities of their total fund asset

Asset Allocation (Instrument)

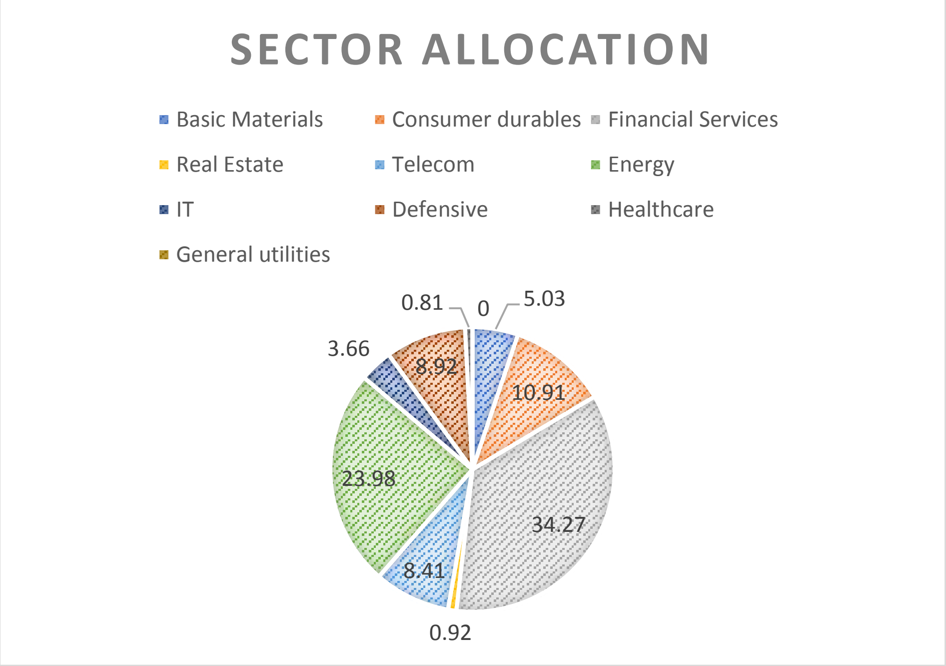
Region	Percentage of Investment
US Equity	0
Non -US Equity	97.68
Fixed Income Securities	0
Cash	2.32

Analysis –

1) The majority of the investment is invested in Non-US equity fund that is almost 98%
2) As 98% of the investment in under equity , it might be risky if the equity stocks underperforms in the financial year. Hence the capital of investor are might be at risk.
3) The hedging of risk is not properly done here as only 2-3% is invested in Cash / Money Market

- Fund Allocation (Sector / Industry)

Sector / Industry	Percentage of allocation
Basic materials	5.03
Consumer durables	10.91
Financial services	34.27
Real Estate / Infra	0.92
Telecommunication	8.41
Energy Generation	23.98
Information Technology	3.66
Defensive	8.92
Health care / Pharma	0.81
General Utilities	0



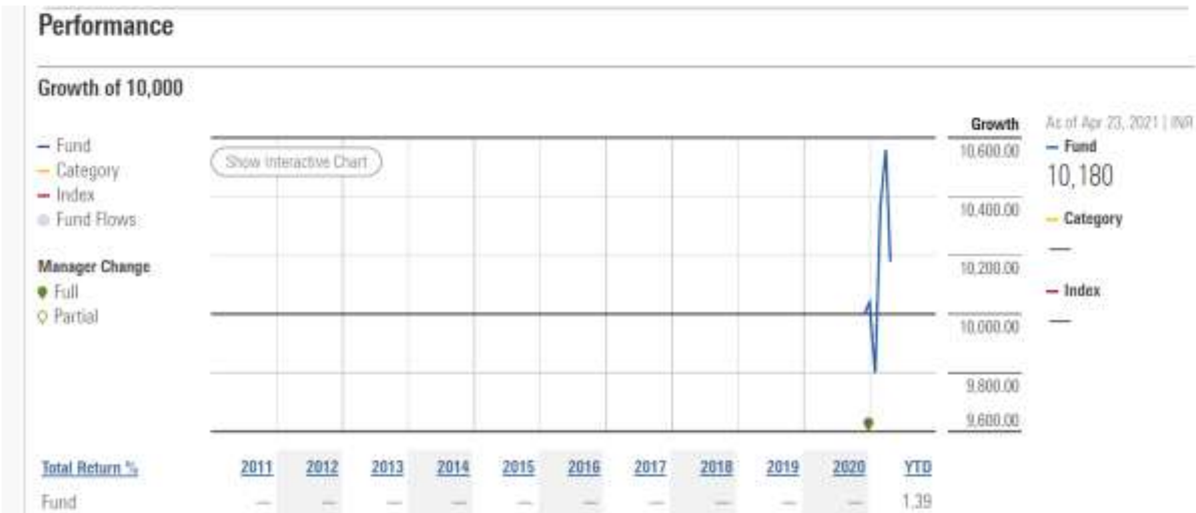
- Analysis-

1 As per the above chart , we can analyse that the sector allocation is done perfectly as the funds are deployed in almost all the sectors depending upon the industry and the performance

2 As we can see, highest allocation is done in Consumer durables, Energy sector. As per my industry analysis , the energy sector is not performing that well and the fundamentals of those companies are not very strong to make an investment in . But I can interpret that due prospective evolution in automobile industry (electric cars), the industry has a huge growth prospect. So investment might be made at high percentage in this sector.

3 Least investment allocation is given to real estate , healthcare/ pharma. The analysis of pharma sector depends upon fund manager to fund manager and their team.

- Performance



Analysis-

1. After analysis of the graph , we can see that the fund was created in the FY 2020-21(during covid pandemic) there has been a moderate return that are fetched from this fund.
2. In Q4 of FY 2020-21, the fund delivered a return of 1.39 %. The short term return is high because the there was a bull run in the equity market.
3. The fund is very young hence proper analysis of their performance is not possible and it might be a risky investment option for the investors due to lack of data and inexperience of the fund.

- Risk Analysis / Factor

- This fund has high risk factor as major investments are made in Equity. Hence hedging of risk is not possible here. Also, the fund is very young and hence as an investor it might be difficult to make investment.

5) Kotak ESG Opportunity FUNDS

- This fund was incorporated in the financial year 2020-21.
- The fund is a long -term growth- oriented fund
- The asset size as on April 2021 stands at $ 15.7 Billion Dollar as per the report
- The fund consists of a total 49 equity stock. But highlighting only the top 5 holdings of the fund
- HDFC
- TCS
- Infosys
- ICICI Bank
- Bharti Airtel

This fund has invested around 40-60% in the equity stocks with a strong ESG Score as per the ratings and remaining 40-50% in companies with strong business models, Management and asset valuation.

Asset Allocation (Instrument)

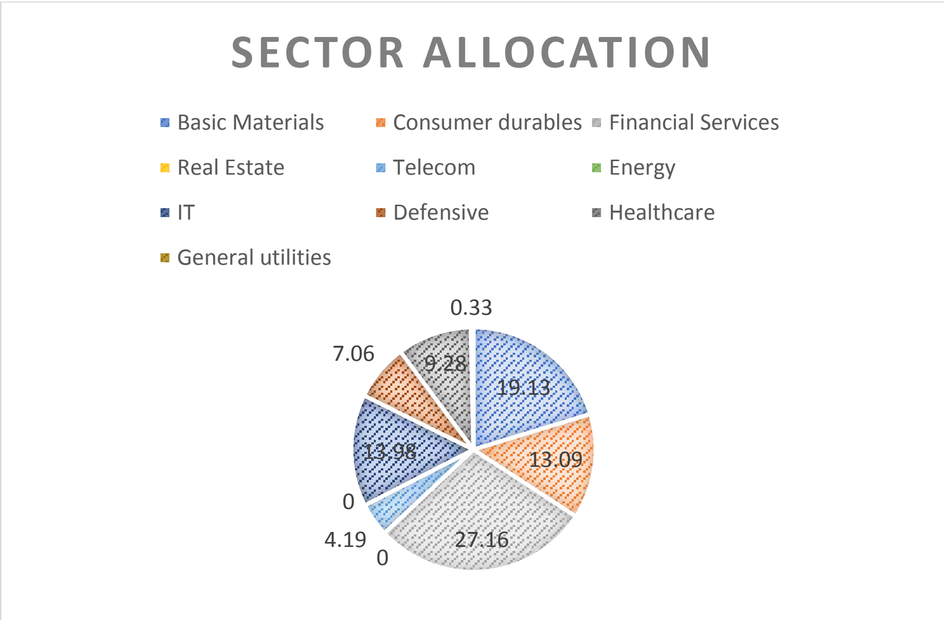
Region	Percentage of Investment
US Equity	0
Non -US Equity	97.98
Fixed Income Securities	0
Cash	2.02

Analysis –

1) The majority of the investment is invested in Non-US equity fund that is almost 97%
2) As 97% of the investment in under equity , it might be risky if the equity stocks underperforms in the financial year. Hence the capital of investor are might be at risk.
3) The hedging of risk is not properly done here as only 2% is invested in Cash / Money Market.

- Fund Allocation (Sector / Industry)

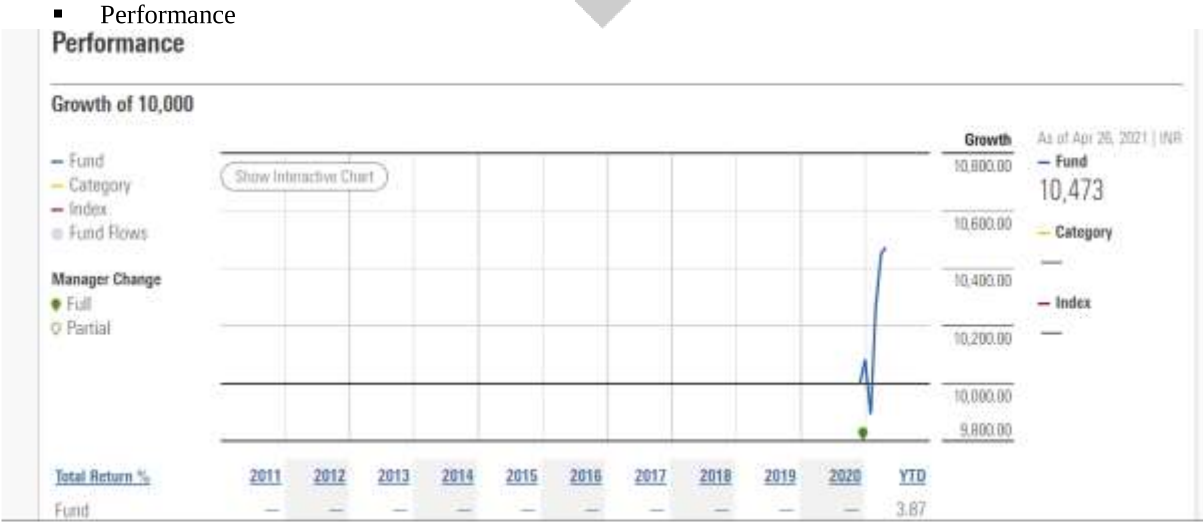
Sector / Industry	Percentage of allocation
Basic materials	19.13
Consumer durables	13.09
Financial services	27.16
Real Estate / Infra	0
Telecommunication	4.19
Energy Generation	0
Information Technology	13.98
Defensive	7.06
Health care / Pharma	9.28
General Utilities	0.33



- Analysis-

1) As per the above chart , we can analyse that the sector allocation is done perfectly as the funds are deployed in almost all the sectors depending upon the industry and the performance
2) As we can see, highest allocation is done in Consumer durables, Financial Services and Basic materials. As per my industry analysis , all these three sectors always had and is having a great demand in the economy irrespective of the systematic risks (uncontrollable).
3) Least investment allocation is given to real estate, Energy and general utilities. This may be due to the reason that these companies have reached their maturity stage and are now entering the declining phase.

- Performance



Analysis-

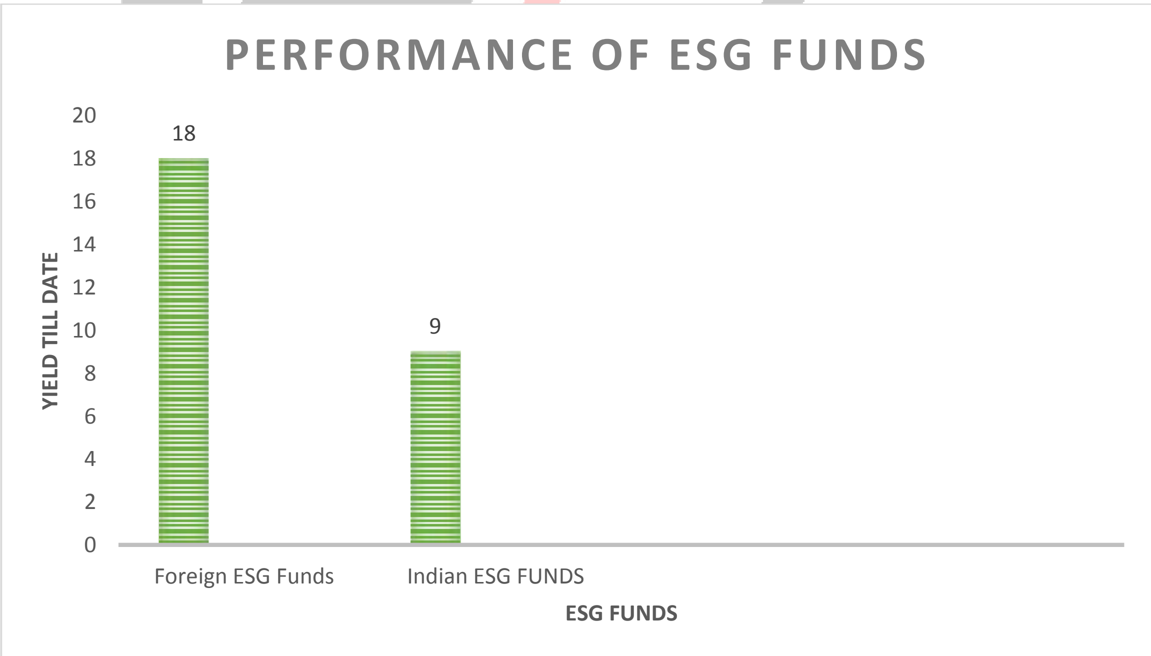
1) After analysis of the graph , we can see that the fund was created in the FY 2020-21(during covid pandemic) there has been a moderate return to high return that are fetched from this fund.
2) In Q4 of FY 2020-21, the fund delivered a return of 3.85 %. The short- term return is high because the there was a bull run in the equity market. Also if we see , the stocks in which the fund has invested, these stocks have outperformed in Q4.
3) The fund is very young hence proper analysis of their performance is not possible and it might be a risky investment option for the investors due to lack of data and inexperience of the fund.

- Risk Analysis / Factor

- This fund has high risk factor as major investments are made in Equity. Hence hedging of risk is not possible here. Also, the fund is very young and hence as an investor it might be difficult to make investment.

Analysis of all the above ESG Funds.

- We can analyse that ESG funds in India are not very common as compared to countries like USA and in European segment. SBI ESG fund was the first fund that was incorporated in the FY 2018-19.
- All the other funds as mentioned above were incorporated in FY 2019-20 and FY 2020-21. The reason may be that, the awareness regarding ESG was not that strong as compared to the awareness in foreign countries.
- During this covid pandemic , the importance of sustainability and ESG was actually witnessed and from there on there has been a very high demand for ESG funds and overall ESG Factors.
- If we analyse the stocks from the above funds, we can see that HDFC Bank , TCS , ICICI Bank, HDFC , Bharti Airtel , Kotak Mahindra bank etc are common. The reason is that these public limited companies adhere to the ESG rules and guidelines, hence they have a high ESG score as per the rating agencies. Also these companies are very strong fundamentally which attracts the investor to invest their capital for a long term gain.
- Each of the above fund has an objective of long- term growth approach only. It doesn't involve short term investment , Dividend approach or tax savings approach.
- The return on investment in SBI ESG Fund is very volatile, hence it might be risky for the investors to invest their funds. The returns are extra-ordinarily high as well in negative also (-19% to 26%). The other funds were incorporated just before the covid- pandemic and during the covid pandemic.
- During this time, there was a strong bearish and bullish run in the markets, hence these funds have delivered moderate to high returns 2 to 3.5% during the short term.
- If we analyse, all the funds have deployed their capital in sectors like Financial Services, Consumer durables , Information Technology. Low percentage of investment is in Energy, Real Estate. The sector / industry is properly analysed depending upon the fundamentals, future prospects , risks etc while making any investment by the fund.
- I analysed that there is a risk to the investor's capital because an average of 97% is invested in equity and very low in secured debt instruments and money market. If the equity underperforms (covid 19 pandemic) hence the it might erode the capital of the investors.



Future of ESG in India

- The ESG funds not only delivers returns but also helps assures reliance on the company before making any investment.
- The ESG scores / ratings are important along with financial / fundamental analysis of a company while performing decisions related to Investments.
- The investors are not becoming more aware regarding the ESG factors after this covid – 19- pandemic. They have become more focused now in steady and long term returns with a sustainable attitude rather just making profits (profit oriented).
- Many top ratings and research agencies states that , the companies with high ESG Score tend to have a strong potential for long term sustainability (Example - TCS , Infosys , HDFC).
- The AUM globally as well as in India has grown almost to three folds in last five financial years. So, we can interpret that there is an exponential growth and demand in ESG Funds hence due to this we can see there sharp increase in the AUM.
- There has been a 15 % to 18% rise in the AUM in every financial year (ESG Funds and ESG ETF's). So due to such a high rise each year , we can predict that the ESG Funds can form 1/3rd part of the total AUM of all the funds available globally.
- The new retail investors along with existing investors are now dependent on ESG scores provided by rating agencies along with analysis of the financial statement of the company before making investments in-order to reduce the risk involved in the investments.
- Hence, we can interpret that the future of ESG is very bright and the AUM in ESG funds will be more than that of regular Mutual Funds.

Findings / Conclusion

- The study results in the project show that , In India ESG aspect is at nascent stage and hence the results derived are as of this current scenario. We believe post pandemic the overall world and Indian investors will be keen to study ESG ratings before investing. Management / Board of directors of the company will be responsible for risky social and low ESG ratings which might change the proposition.
- From the last few years , the investors globally are taking into consideration the ESG Factors and ESG strategies along with old traditional method of fundamental analysis which included Financial Analysis, Growth strategy, SWOT , future of the company and other important components.
- But now from this research it has come to picture that the investors globally have shifted from the socially responsible investing to ESG investing over a period of time. It can be seen that during this covid-19 times, the investors have known that companies that have a strong ESG hold were able to sustain in this environment. Hence this ESG parameter is being in huge demand and practise while making investment decisions.
- The Indian AUM has also seen a high demand and it stands at Rs 6500 crores as of FY 2020 and there exists only 7 – 8 ESG Funds that are executed by SBI , AXIS , KOTAK , ADITYA BIRLA etc. New ESG Funds by other MF companies will soon come into execution in next two years.
- During the study, the future of ESG and ESG funds were analysed and we can understand that there is and will be a very huge and vast ESG funds like the other mutual funds because there is a huge demand seen in the investors for the ESG investing and its related Mutual funds. The importance of ESG and its analysis while investing has now been understood and strongly followed by the investors globally.

Paper Type –
- Research Paper

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