Major Research Project

ESG Investing: An Indian Investor Perspective

Submitted By

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2K22/DMBA/070

Under the Guidance of

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CERTIFICATE

This is to certify that Manjeet Yadav, Roll No: 2K22/DMBA/70, student of Masters of Business Administration (2022-2024) at Delhi Technological University, Delhi has accomplished the project titled "ESG Investing: An Indian Investor Perspective" under my guidance and to the best of my knowledge completed the project successfully, for the fulfillment of the coursework MBA.

Dr. Deepali Malhotra

Assistant Professor

DECLARATION

I the undersigned solemnly declare that the project report titled "ESG Investing: An Indian Investor Perspective" is based on my work carried out during my study under the supervision of Dr. Deepali Malhotra.

I also confirm that the report is only prepared for my academic requirement, not for any other purpose. It might not be used in the interest of the opposite party of the corporation.

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ACKNOWLEDGEMENT

The successful completion of the project would be incomplete without the mention names of the people who made it possible.

I would like to take the opportunity to thank and express my profound sense of gratitude to my project guide Dr. Deepali Malhotra, Assistant Professor, Delhi School of Management, Delhi Technological University New Delhi.

I am greatly indebted to her for providing his valuable guidance at all stages of the study, her advice, constructive suggestions, positive and supportive attitude, and continuous encouragement, without which it would not have been possible to complete the project.

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EXECUTIVE SUMMARY

What criteria should investors consider before committing to a fund? Are there specific company or fund metrics investors should assess before investing in funds, whether they are index funds or mutual funds? Typically, investors focus on the fund's returns relative to its risk profile and the expenses charged by the fund manager. Our research aims to investigate whether retail investors are expanding their considerations beyond the risk-reward dynamic and taking into account the ESG parameters of the company before making fund investments.

This study conducts an in-depth exploration of Environmental, Social, and Governance (ESG) investments, focusing on the perspectives of Indian investors. Our research endeavors to achieve four main objectives: understanding investor perceptions of ESG investments, identifying critical ESG factors influencing investment decisions, assessing the performance and growth of ESG mutual funds in the Indian market, and comparing the risk-return profiles of ESG and traditional funds. Additionally, we formulate three hypotheses to investigate the relationships between gender, investment exposure, ESG awareness levels, and their incorporation into investment decision-making processes.

The findings from our study reveal several key insights that shed light on the dynamics of ESG investing in the Indian context. Firstly, we find no statistically significant relationship between gender and investment exposure, suggesting that awareness of ESG funds may not be uniformly distributed among genders.

In conclusion, our research offers valuable insights into the dynamics of ESG investing from an Indian investor perspective. By understanding the factors influencing investor perceptions, assessing the performance of ESG investments, and proposing actionable recommendations, we aim to promote sustainable and responsible investment practices in the Indian market. Through collaborative efforts between investors, regulators, and industry stakeholders, we can work towards building a more resilient and sustainable financial ecosystem that benefits both investors and society as a whole.

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1. INTRODUCTION

1.1. Background

ESG investing is an approach to managing assets where investors explicitly incorporate environmental, social, and governance (ESG) factors in their investment decisions with the long-term return, managing the risk of an investment portfolio and ethical or moral values in mind.

ESG – Environmental, Social, and Governance – refers to a group of corporate performance evaluation criteria that evaluate a company's ability to effectively manage its environmental and social consequences and the strength of its governance procedures. Quantifying a company's carbon emissions, water use, or consumer privacy violations are a few examples of ESG data. The use of sustainability and social responsibility disclosure data by institutional investors, stock exchanges, and boards to investigate the link between a company's management of ESG risk factors and its financial performance is on the rise.

Figure 1.1

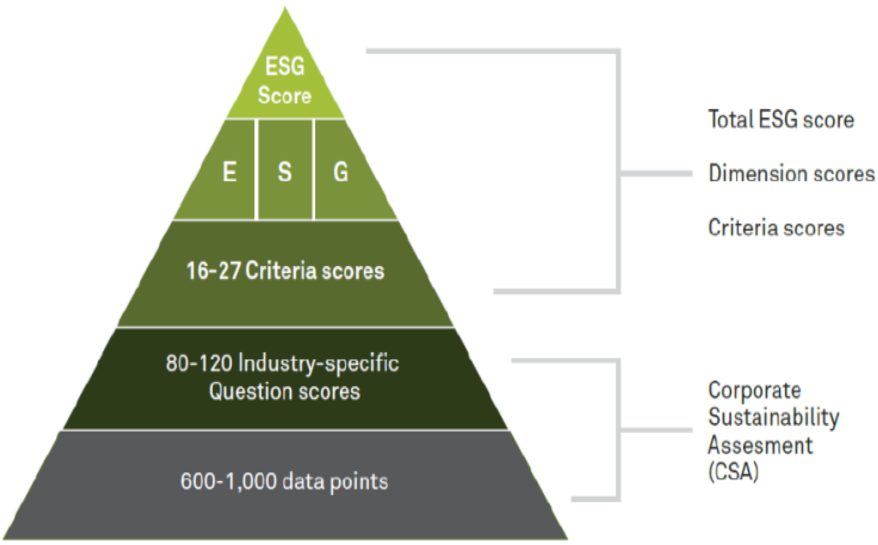
Environmental	*Social*	*Governance*
• Climate Change	• Customer Satisfaction	• Shareholder Rights
• Carbon Emissions	• Labor Standards	• Ethical Standards
• Water Management	• Working Conditions	• Diversity
• Recycling Processes	• Human Rights	• Voting Rights
• Waste Management	• Community Relations	• Accountability
• Biodiversity	• Data Security and Privacy	• Transparency and Disclosure
• Energy Efficiency		

Source: Own Creation

1.1.1. ESG Rating and Interpretation

ESG Ratings offer an assessment of how companies handle ESG risks and opportunities that are pertinent to their financial performance. ESG Research defines ESG risks and opportunities as environmental, social, or governance-related issues that may result in financial losses or benefits to the company.

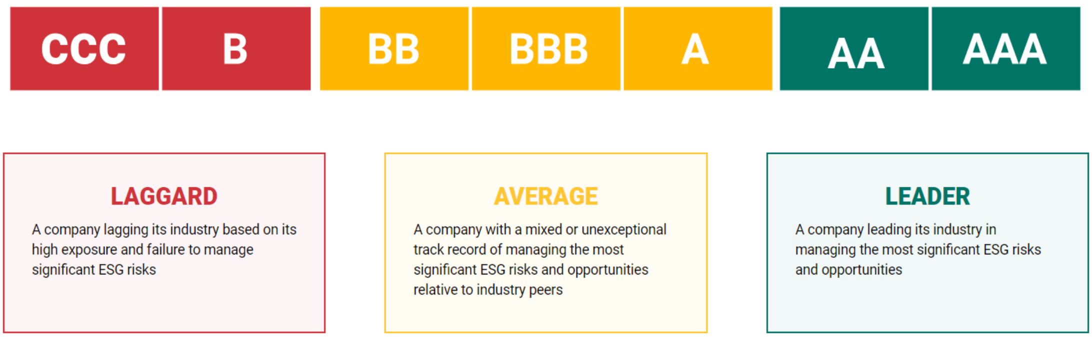
Figure 1.2



Source: MSCI Database

MSCI ESG Ratings are industry-relative measures and are determined at the company level. Each rating takes into consideration the company's exposure to potentially material ESG risks, the quality of companies' management systems and governance structures to mitigate such risks, and where applicable, positioning to meet market demand for products and services.

Figure 1.3



Source: MSCI Database

CRISIL's ESG scores are designed to support financial institutions and corporations to measure and monitor inherent ESG risks across their financial exposures - both equity and debt. To arrive at the overall company ESG score, relevant weights are assigned to E (35%), S (25%), and G (40%) attributes, to reflect the relative importance of factors .

Score category: 0-30: Weak, 31-45: Below average, 46-60: Adequate, 61-70: Strong, 71-100: Leadership

An ESG score or rating not only allows a company to measure the success of its ESG practices, but is also used by investors, analysts, and a variety of other stakeholders to assess the risks and opportunities arising from a company's business operations. It additionally allows stakeholders to make comparisons between an organization and its competitors operating within the same industry or sector.

- Competitor comparison - Investors and other stakeholders can compare companies based on ESG performance.
- Industry benchmarking - ESG scoring allows broader industry benchmarks to be established, and helps to understand where a company sits in the wider industry matrix.
- ESG progress - ESG scores help companies to better understand their progress against ESG goals.
- Risk identification - ESG scoring can help to identify company risks, which then allows the organization to put measures in place to deal with these risks.

1.1.2. Increasing Adoption and Integration of ESG Factors in Investment Decision-Making.

As global awareness about environmental issues rises, consumers are increasingly opting for eco-friendly choices such as avoiding plastic bottles and bags, incorporating more greens into their diets, reducing electricity usage, and adopting electric vehicles. This heightened environmental consciousness is also influencing investors' decisions. Nowadays, investors consider a broad spectrum of financial factors beyond just profitability, including revenue potential, solvency, cash flow, and more. The focus is shifting towards incorporating non-financial considerations such as a company's commitment to environmental and social responsibility, as well as strong governance, into investment strategies. This shift reflects a growing trend towards sustainable business models, with ESG investing aiming to create investment portfolios aligned with socially responsible and sustainable principles. Asset owners and investment managers are developing ways to incorporate ESG criteria into investment analysis and decision-making processes.

Factors making ESG so popular:

1. Companies that perform well on ESG are less risky, better positioned for the long term, and better prepared for uncertainty.
2. Companies that realign to the stakeholder capitalism agenda may have a competitive advantage over those that try to return to business as usual.
3. Investors or New Investors (Gen Z) are increasingly choosing to invest in companies that align with their values and goals.
4. Nowadays, it's easier than ever to invest in ESG financial products through mutual funds, with many options available.

In India, numerous fund houses have introduced equity schemes with a focus on ESG principles, managed both actively and passively. Approximately ₹11,000 crore in assets are under management across nine ESG schemes offered by various fund houses. The ESG framework is in a state of evolution and significantly impacts the quality of businesses over the medium to long term. Therefore, in many instances, long-term investors opt to invest in these schemes to benefit from their advantages.

The integration of Environmental, Social, and Governance (ESG) factors into investment decision-making has emerged as a critical consideration for investors seeking to navigate the complexities of today's financial markets. Recent events like

The Volkswagen emissions scandal, which rocked the automotive industry, highlighted the environmental risks associated with corporate misconduct and deception. VW cars being sold in America had a "defeat device" - or software - in diesel engines that could detect when they were being tested, changing the performance accordingly to improve results. Similarly, controversies surrounding Vedanta and Coal India raised concerns about environmental degradation and community displacement due to mining activities, prompting investors to scrutinize companies' environmental practices and regulatory compliance.

In the realm of social responsibility, companies like Coca-Cola India and H&M faced backlash over allegations of water depletion, pollution, and labor rights violations in their supply chains. These incidents underscored the social and ethical dimensions of business operations.

Governance failures, exemplified by the Enron accounting scandal, the Satyam fraud debacle, and the governance crisis at Yes Bank, highlighted the importance of robust corporate governance structures, transparency, and integrity in safeguarding investor interests and maintaining market confidence. These incidents exposed weaknesses in risk management, internal controls, and regulatory oversight, underscoring the need for enhanced governance practices and accountability mechanisms.

Against this backdrop, the ESG framework offers investors a systematic approach to evaluating companies based on their environmental stewardship, social responsibility, and governance practices. By integrating ESG factors with financial data, investors can gain deeper insights into companies' risk profiles, growth prospects, and resilience to environmental, social, and governance-related risks. This holistic approach not only helps investors identify potential pitfalls but also uncovers opportunities for investing in companies that exhibit strong ESG credentials and sustainable business models.

In this research paper, we explore the transformative potential of the ESG framework in investment decision-making, which delivers superior financial performance in the long term while adhering to ESG principles. This study presents the CAGR and returns performance of mutual fund schemes based on risk-adjusted performance indicators. Through ESG integration strategies, case studies, and empirical evidence, we offer insights for long-term wealth creation. Additionally, rigorous risk-return analysis and investor perception studies provide a comprehensive understanding of ESG investing's impact and implications for investors, shaping market dynamics and investment strategies.

1.2. Objectives of Study

1. To analyze investor perception of ESG Investments.
2. To study what ESG factors are important for Investment Decisions.
3. To identify the performance and expansion of ESG mutual funds in India.
4. To compare the risk and return profiles of ESG and traditional funds.

1.3. Scope of Study

1. Analysis of Investor Perception of ESG Funds:
   Exploring investor awareness, knowledge, and understanding of ESG investing principles, strategies, and products.
2. Identification of Important ESG Factors for Investment Decision-Making:
   Investigating the ESG factors that are deemed significant by Indian investors when making investment decisions. Surveying investor preferences, attitudes, and perceptions towards various ESG criteria such as environmental impact, social responsibility, corporate governance, and ethical business practices.
3. Performance and Expansion of ESG Mutual Funds in India: Performance measurement of ESG (Environmental, Social, and Governance) mutual fund investment avenues in India. The coverage includes forecasting ESG-focused mutual funds' growth, existing market presence, and performance indicators. It also analyses past trends of AUM, fund inflow/outflows, and ESG mutual funds' market share vs. traditional mutual funds.
4. Risk and Return Comparison ESG vs. Traditional Investment in India:
   Conduct a comparative study on the risk-return profile between ESG Investment strategy and Traditional strategy in Indian market.

2. LITERATURE REVIEW

In recent years, Environmental, Social, and Governance (ESG) investing has gained prominence as investors increasingly recognize the importance of sustainability and responsible business practices in achieving long-term financial returns. This literature review provides a comprehensive overview of key theoretical frameworks, empirical evidence, and motivations for ESG integration in investment decision-making from an Indian investor perspective.

China Finance Review International Journal (2022)

Stakeholders Theory: In the past, companies mainly cared about making money for their shareholders. But now, the Stakeholders Theory says it's important for companies to think about everyone affected by their actions, like workers, customers, communities, and the environment.

Alignment with ESG: ESG investing fits well with Stakeholders Theory. It means companies think about the environment, social issues, and good governance when they make decisions. This can make workers happier and stay longer, and it helps the community too.

The Triple Bottom Line (TBL) is a way of looking at how well a company is doing in three areas: making money, caring for people, and protecting the planet. John Elkington came up with this idea to remind businesses that they should care about more than just profits.

Profit: This is about making money and being profitable. Even though making money is important, TBL says companies should also think about long-term success and making value for shareholders.

People: This is about being responsible to society and making sure people are okay. It includes things like treating workers well, being involved in the community, and following good work practices. Making employees happy and having good relationships with stakeholders is really important.

Planet: This is about taking care of the environment. It means companies should try to use fewer resources, produce less waste, and be eco-friendly. This includes things like cutting down on pollution, being responsible with trash, and saving natural resources.

Meanwhile, firms face an increased pressure to “do good”. Reasoning from stakeholder theory specifically propose that firms core objectives include satisfying the interest of a variety of stakeholders, this inherently give rise to environmental, social, and governance performance obligations . Empirical studies examining the effect of ESG performance on firm value infer that high ESG performance increases the value of firms. Additionally, if a firm take strategic actions to improved ESG performance, it even boost the great relationship with other stakeholders including attract more customer. That also infer that a better CSR reputation insulates firms from negative corporate news, helping firms maintain organizational legitimacy. They find clear evidence that a history of high environmental performance significantly mitigated damage to firms’ reputations based on a series of tests conducting in an environmental disaster. (Naveed & Naqvi, 2020).

Moreover, ESG investors care not only about the climate risk. ESG investors provide that investment in corporate social responsibility can reduce all kinds of downside risks. Indeed, CSR literature argues that corporations that actively invest in CSR are protected from all kinds of negative events, including a strong negative effect on their reputations and financial consequences . Specifically, during recent events, such as the Covid-19 economic crisis, companies with a strong commitment to CSR performed better; this is the case because of the customer and the employee loyalty as well as the rarity of companies that have strong CSR commitments . This line of research is a recent one, and many scholars proved it by analyzing the companies’ stock performance visible that high-ESG companies were less severely punished by the investors doing the Covid-19 market crash. (Hauff and Nilsson, 2022).

Kasi Raman (2021) examined the performance of thematic indices such as NIFTY 50,NIFTY 100 ESG, NIFTY Energy, and NIFTY 500 and also examined the association between all the selected thematic indices. The study found that the selected thematic indices are related to each other and suggested that investor may invested in such thematic indices for better return.

According to Visvesh Sridharan, 2018 the most common method for disseminating ESG data to stockholders is to address them alongside additional independent reports on topics like “corporate social responsibility”; sustainability” or “governance”. For businesses, sharing ESG (Environmental, Social, and Governance) information is optional. However, there's a growing demand for a standardized and organized ESG reporting system because more important ESG factors are being reported consistently. Internationally, both institutional and individual investors are starting to focus on and embrace ESG investing. Yet, ESG investment concepts are still new in India. Studies indicate that companies with higher CSR (Corporate Social Responsibility) or social capital intensity tend to have better returns compared to those with less social capital. This suggests that investing in social capital helps certain businesses build trust with their shareholders. When overall trust in businesses and markets suffers a setback, these investments prove beneficial. Competent management tends to prioritize funding CSR initiatives, believing that doing so will lead to better financial performance over time. Companies with stronger ESG performance face lower downside risk and are more resilient to financial upheavals when making investments.

3. RESEARCH METHODOLOGY

RM is a course of action for properly solving research problems. When we talk about research methodology, we are not talking about research methodology but we are also considering the basic assumptions of the methodology used in the context of research results.

3.1. Type of research design

For this project report, Descriptive Research Design has been used. Combining qualitative and quantitative techniques to comprehensively explore investor perception of ESG investing in the Indian context.

3.2. Data Collection

Research data was created by Survey through Questionnaire & the respondents were mainly retail investors. There were about 54 people who responded to the survey.

The secondary data has been collected from multiple sources to complement the primary research findings:

- Academic literature, Industry reports, books, magazines, and internet sources.
- Historical market data of indices and mutual funds from financial databases.

3.3. Research Hypothesis

3.3.1. 1st Hypothesis

H0: No Statistical Significance between Gender & ESG Awareness Level

H1: Statistically significant relationship between Gender & ESG Awareness level

3.3.2. 2nd Hypothesis

H0: No Statistical Significance between Investment Exposure & ESG Awareness Level.

H1: Statistically significant relationship between Investment Exposure & ESG Awareness level.

3.3.3. 3rd Hypothesis

H0: No Statistical Significance between Incorporation of ESG Issues in Investment decision making & ESG Awareness Level.

H1: Statistically Significance between Incorporation of ESG Issues in Investment decision making & ESG Awareness Level.

4. DATA ANALYSIS AND INTERPRETATION

Table 4.1 Count

		Awareness of ESG Funds		Total
		No	Yes	
Gender	Female	6	11	17
	Male	16	21	37
Total		22	32	54

Own Analysis

Table 4.2 Test to examine difference between categorical variable

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	.305[a]	1	**.581**		
Continuity Correction[b]	.065	1	.800		
Likelihood Ratio	.308	1	.579		
Fisher's Exact Test				.767	.403
N of Valid Cases	54				

Own Analysis

Interpretation:

For Table 4.1, the P value of 0.581 is greater than the significance level of 0.05. This indicates there is no statistically significant relationship between gender & awareness level of ESG Funds & thus we fail to reject the Null Hypothesis(H0). The results suggest that gender does not significantly influence ESG awareness among Indian investors. This indicates that both male and female investors are equally likely (or unlikely) to be aware of ESG funds.

Usefulness:

This finding can be important for policymakers and financial advisors, indicating that ESG education and promotion efforts do not need to be gender-specific but should be targeted at the general investor population. Since there is no gender bias in awareness, marketing campaigns can be designed to appeal broadly to all investors.

Table 4.3 Count

		Awareness of ESG Funds		Total
		No	Yes	
Invest in Equity Market	No	7	7	14
	Yes	15	25	40
Total		22	32	54

Own analysis

Table 4.4 Test to examine difference between categorical variable

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	.671[a]	1	**.413**		
Continuity Correction[b]	.253	1	.615		
Likelihood Ratio	.664	1	.415		
Fisher's Exact Test				.531	.305
N of Valid Cases	54				

Own analysis

Interpretation:

For Table 4.2, the P value of 0.413 is above the limit of 0.05(alpha) and shows statistically no significant relationship between investment exposure & awareness level of ESG Funds & thus we fail to reject the Null Hypothesis(H0).

Investors who are involved in the equity market are not necessarily more aware of ESG funds than those who are not. This suggests that mere participation in equity investments does not correlate with higher ESG awareness.

Usefulness:

Fund Managers, Finacial advisors or policymakers can include ESG education and marketing, supportive policies, diversified products, and robust investor engagement can boost ESG investment adoption across all groups.

Efforts to promote ESG investing should not solely target equity market participants but should encompass a broader audience to effectively increase overall ESG awareness.

Table 4.5 Count

		Awareness of ESG Funds		Total
		No	Yes	
Incorporation of ESG issues into Investment decisions	ESG integration into whole investment decision process	0	3	3
	Impact investing	4	8	12
	N.A.	18	10	28
	Thematic investing	0	11	11
Total		22	32	54

Table 4.6 Test to examine difference between categorical variable

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	16.327[a]	3	.001
Likelihood Ratio	21.223	3	.000
N of Valid Cases	54		

a. 4 cells (50.0%) have expected count less than 5. The minimum expected count is 1.22.

Interpretation:

For Table 4.3, P value of 0.001 fall below the limit of 0.05(alpha) shows statistically significant relationship between Incorporation of ESG Issues in Investment decision making & ESG Awareness Level. Thus we fail to reject Null hypothesis.

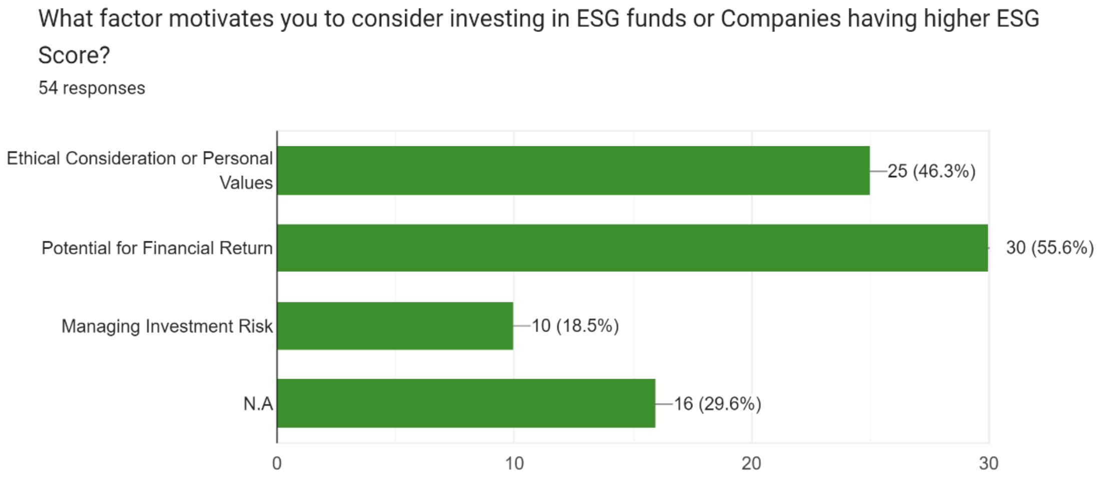
In conclusion, the way investors incorporate ESG issues into their investment decisions significantly impacts their awareness of ESG funds.

Usefulness:

By understanding the specific ESG approaches like Impact and Thematic investing that correlate with higher awareness, fund managers can better tailor their offerings and communication strategies to meet investor needs and increase overall engagement with ESG funds.

Develop products that incorporate different ESG strategies, such as thematic funds focused on specific issues (e.g., renewable energy) and impact investing through SRI funds and broader ESG integration funds.

Figure 4.1



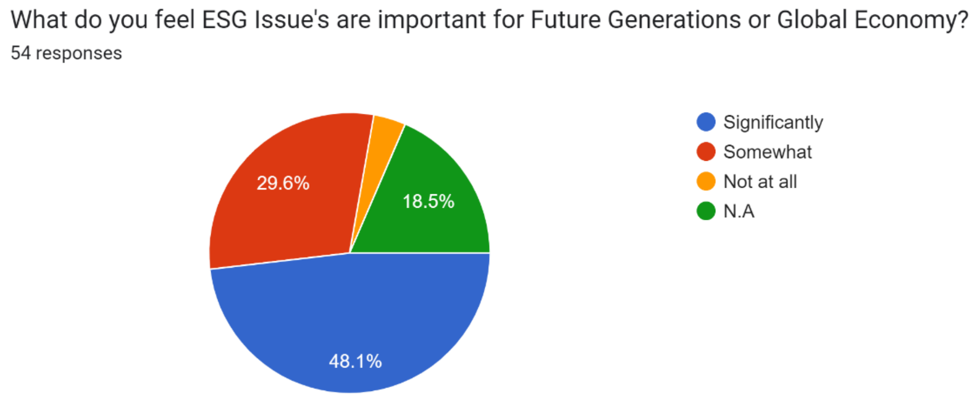
Own analysis

Financial Returns are the biggest motivator for investors to invest in ESG along this Ethical consideration, Social responsibility is the second biggest motivator. Investors may consider investing in ESG funds if they provide better returns with social and environmental benefits. The survey indicates that most investors are motivated by potential financial returns (55.6%) and ethical considerations (46.3%) when investing in ESG funds.

Usefulness:

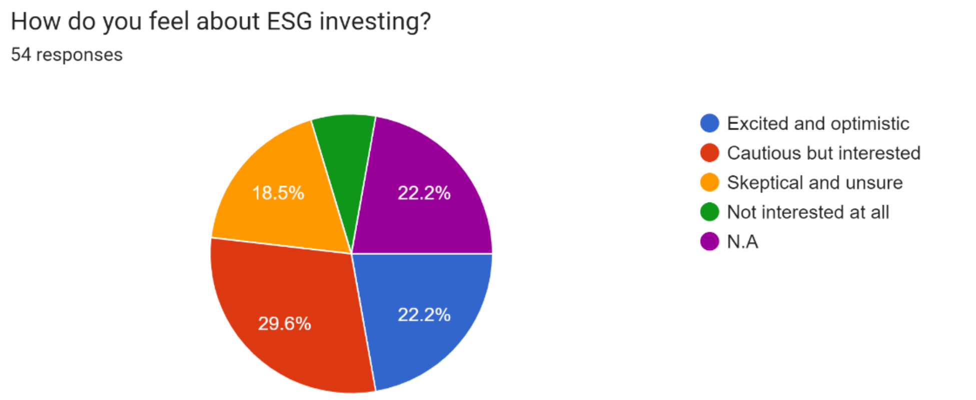
To attract these investors, fund managers should develop products emphasizing financial performance and ethical impact. Educational campaigns can highlight these benefits and risk management advantages, while policymakers should support transparent ESG reporting and integration into investment strategies to enhance market appeal and informed decision-making.

Figure 4.2



Own analysis

Figure 4.3

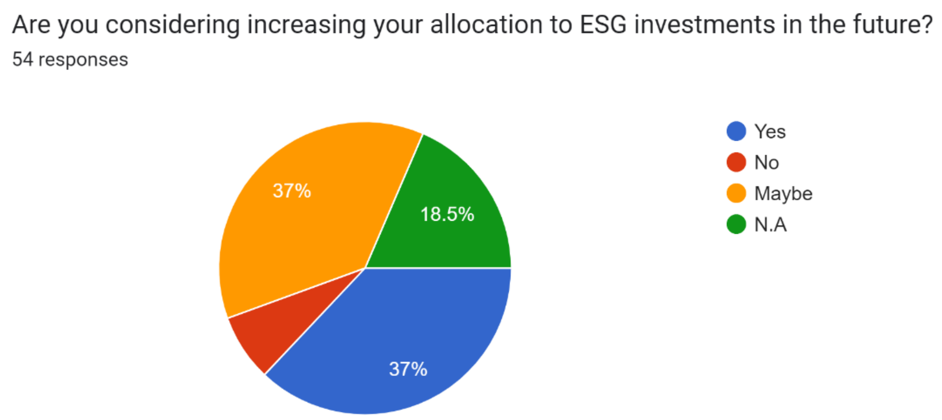


Own analysis

Most respondents believe ESG issues are crucial for future generations and the global economy (48.1%), with varied levels of interest in ESG investing, ranging from optimism (22.2%) to skepticism (18.5%).

Almost 78% of respondents feel ESG issues are Significantly or Somewhat important for future generations or the Global Economy. This shows the positive sentiments toward ESG funds.
The fact that over half of the respondents are excited and optimistic suggests that ESG investing is seen as a positive development. This could be due to a growing awareness of environmental and social issues, or a belief that ESG factors can lead to better long-term returns for investors.

Figure 4.4



Own analysis

One-third of respondents are somewhat interested in ESG investing and want to increase their allocation to ESG funds in future. This shows the positive sentiments of investor toward ESG. This also back the data rise in NAV of ESG funds from Rs. 3096 Crore in 2020 to Rs. 10,943 Crore in 2023.

By observing the respondents views regarding ESG Funds, factor motivates them to invest in ESG funds. Are ESG funds fullfill the needs of investors or they they need to trade-off between Return and Social responsibility.

To find out that we are going to analysis the Nifty100 ESG sector leader index returns and compare return and risk factor with the traditional indexes. And after that we also look at the Mutual funds ESG schemes and traditional schemes performances.

Usefulness:

The fact that nearly half of respondents are considering increasing their allocation to ESG investments suggests that there could be a significant market opportunity for ESG funds which can be useful for fund manager and policymaker. The growing interest in ESG investing suggests that there is public support for policies that promote environmental sustainability, social responsibility, and good governance.

4.1. Analysis of Nifty100 ESG Leader Index with Nifty100 and Nifty50

The Nifty100 ESG Sector Leaders Index selects stocks from each sector offer Nifty 100 index based on their performance within its ESG rating framework provided by Sustainalytics. Sustainalytics ESG risk assessment framework aims to measure a company's exposure to financially significant environmental (E), social (S)and governance (G) risks. Here we are comparing the Risk and Return with Nifty 100, and Nifty 50.

Table 4.7 Results from Descriptive Statistics and CAGR returns for Nifty100 ESG Sector Leaders Index, Nifty 100 Index, and Nifty50 Index

Periods	CAGR Returns			Annual Volatity			Sharpe Ratio		
	Nifty100 ESG Leader Index	Nifty100	Nifty50	Nifty100 ESG Leader Index	Nifty100	Nifty50	Nifty100 ESG Leader Index	Nifty100	Nifty50
1 year	18.08%	19.55%	19.42%	6.12%	9.72%	9.70%	1.80	2.01	2.00
3 years	13.25%	15.34%	14.51%	8.09%	14.24%	13.96%	1.64	1.08	1.04

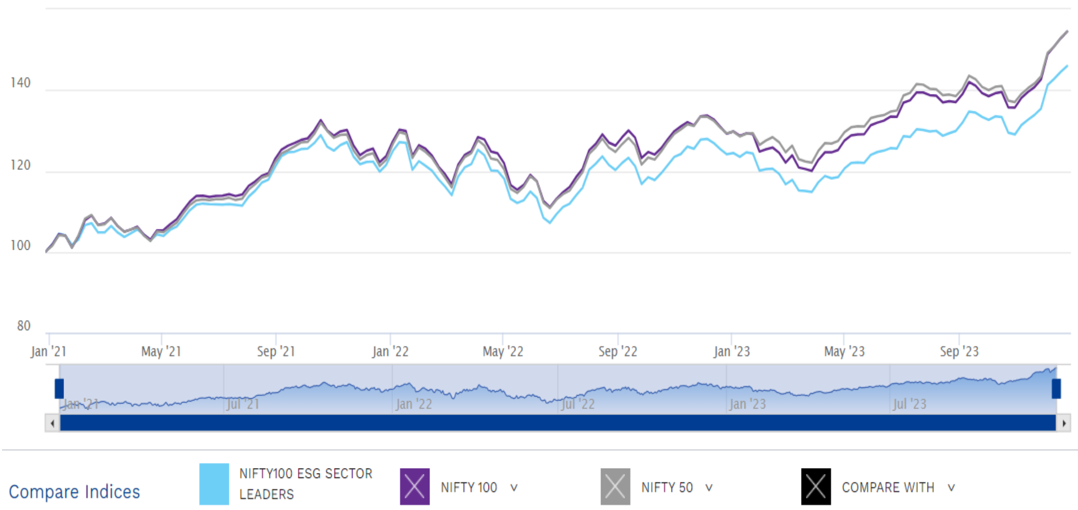
Own analysis

The CAGR returns for study period are used to analysis the annual growth in returns of Nifty 100 ESG Sector Leaders Index and compared with the CAGR returns of Nifty100 and Nifty50. It is clear from the table that Nifty100 ESG Sector Leaders Index has underperformed with 18.08% CAGR return against 19.55% & 19.42% return for the Nifty 100 and Nifty 50 in last one year. Similarly, in the last three years Nifty 100 ESG Sector Leaders Index has returned 13.25% compared to 15.34% & 14.51% return for the Nifty 100 and Nifty 50. From the above analysis it is clear that the Nifty 100 ESG Sector Leaders Index had given decent CAGR returns over the years compared to Nifty 100 and Nifty 50 Index.

Apart from return volatility plays a key role in investment decision of investors to identify the risk involved in making investment. Higher volatility often means higher risk and lower volatility means lower risk. It is cleared from the table that Nifty100 ESG Sector Leaders index is less volatile with 6.12% as against volatility of Nifty 100 and Nifty 50 with 9.72% & 9.70% in last one year. Similarly, in the last three years Nifty 100 ESG Sector Leaders Index has less volatility with 8.09% compared to volatility of Nifty 100 and Nifty 50 with 14.24% & 13.96%.

Using CAGR and Volatility of the Nifty100 Sector Leader Index, Nifty 100, and Nifty 50 Index Sharpe ratio has been calculated. From the table it can be pointed that Nifty100 ESG Sector Leader Index has high return to risk ratio compared to return to risk ratio of Nifty 100 & Nifty 50 in long term which means compared to Nifty100 and Nifty50, Nifty100 Sector Leader Index gives higher return at same risk.

Figure 4.5 Performance of the Nifty 100 ESG Sector Leaders Index, Nifty 100, Nifty 50 Performance for the period 1st January 2021 to 31st December 2023



Source: NSE Index

Table 4.8 Result of Correlation between Nifty100 ESG Sector Leaders, Nifty 100, and Nifty50.

Correlation Matrix	Nifty100 ESG Leader Index	Nifty 100	Nifty 50
Nifty100 ESG Leader Index	1	0.9911	0.9834
Nifty 100	0.9911	1	0.9970
Nifty 50	0.9834	0.9970	1

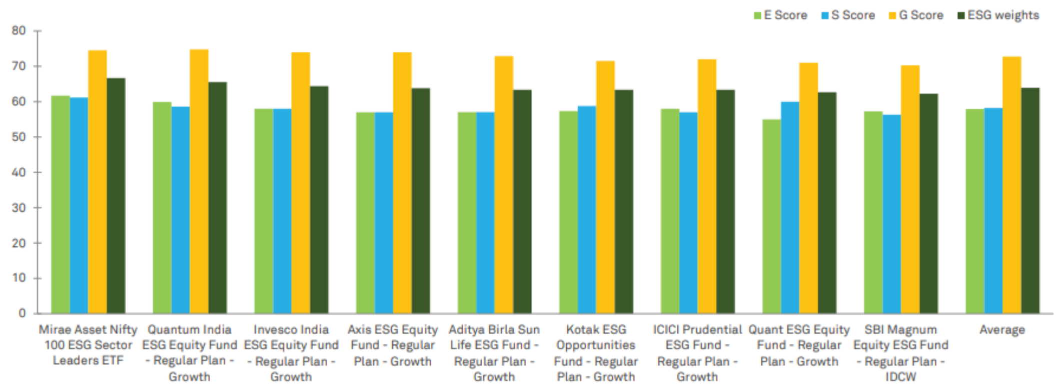
Own analysis

According to results of the table it is clear that there is strong positive correlation between Nifty100 ESG Sector Leaders Index and Nifty100 which means changes in Nifty 100 Index results in changes in Nifty100 ESG Sector in same direction.

4.2. Analysis of ESG Mutual Fund performance

The ESG ratings of ESG mutual funds in India, depicting the environmental, social, and governance scores assigned to each fund. These visual representations offer a concise overview of how ESG factors are integrated into investment decision-making processes, providing investors with valuable insights into performance and governance practices of ESG mutual funds. This highlight the relative strengths and weaknesses of each fund across ESG dimensions, allowing investors to compare and assess the alignment of these funds with their ESG preferences and investment goals.

Figure 4.7 ESG Scores of ESG Funds



Source: Crisil Report

Average total return of ESG funds compared with other Non-ESG funds categories from January 2021 to December 2023.

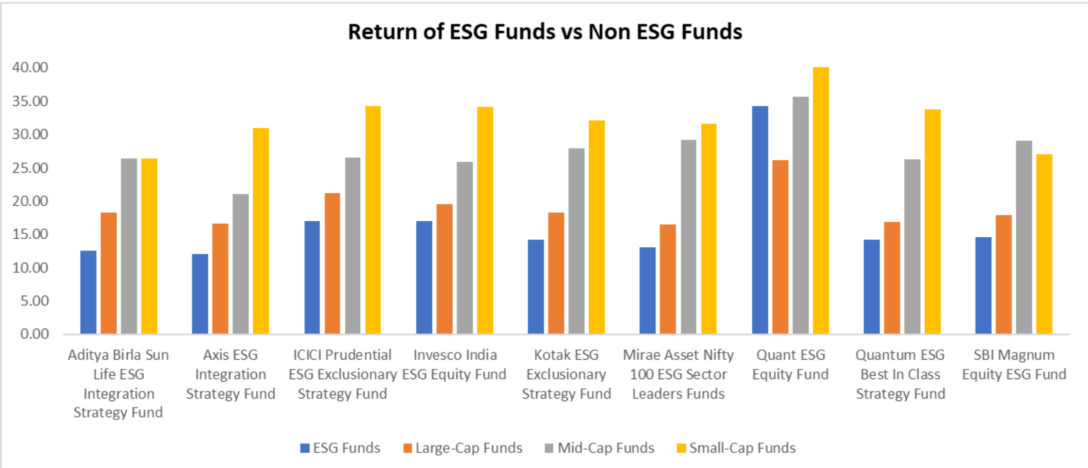
Figure 4.8 Average Returns

ESG Funds
16.55 %

Large Cap Funds
19.03 %

Mid Cap Funds
27.57 %

Small Cap Funds
32.94 %



Own analysis

It is seen that ESG funds have tended to underperform against most of their non-ESG fund peers.

This could be because of the following reasons:

• Since ESG funds typically have a large portion of their holdings in large-cap companies, their performance is on a par with large-cap funds, which, in turn, are underperforming small- and mid-cap funds.

• They do not invest in high returns-generating small- and mid-cap companies, possibly because ESG data on such companies are scarce.

• Retail investors who truly want their money to make a positive impact through ESG funds are potentially not seeing many ESG-aligned constituents. As observed in the overall ESG scores of the funds analysed, none of them fell in the 'Leadership' category.

This table delves into risk factors of nine prominent mutual funds that prioritize ESG factors in their investment strategies. We'll be examining key metrics like net assets, expense ratios, and risk-adjusted performance to uncover funds that offer a compelling combination of growth potential, responsible investing, and cost-effectiveness.

Table 4.9 Risk factor values associated with ESG funds

Funds	Net Assets (Cr)	Expense Ratio	Standard Deviation	Sharpe Ratio	Beta	Alpha
Aditya Birla Sun Life ESG Integration Strategy Fund	699.00	1.21	14.49	0.66	0.99	-2.30
Axis ESG Integration Strategy Fund	1370.00	1.36	14.12	0.59	0.91	-2.55
ICICI Prudential ESG Exclusionary Strategy Fund	1442.00	0.90	11.25	1.19	0.72	4.78
Invesco India ESG Equity Fund	541.00	0.93	12.88	0.59	0.86	N.A.
Kotak ESG Exclusionary Strategy Fund	986.00	0.71	13.10	0.76	0.95	-1.38
Mirae Asset Nifty 100 ESG Sector Leaders Funds	111.00	0.58	12.99	0.72	0.98	-2.60
Quant ESG Equity Fund	234.00	0.77	12.78	0.70	0.97	16.53
Quantum ESG Best In Class Strategy Fund	78.00	0.84	17.44	1.63	0.99	0.29
SBI Magnum Equity ESG Fund	5482.00	1.32	11.52	0.89	0.83	-0.48

Own analysis

5. FINDINGS AND RECOMMENDATIONS

5.1. Findings

- Data suggest there is no significant relationship between gender and investment exposure & awareness level of ESG Funds. As most of the respondents are retail so, the exposure to such complex data and understanding may not be possible to great extent.
- There is a significant relationship between awareness and incorporation of ESG into investment decision making. Shows that respondents who are aware of ESG some where or not incorporate these in investment decision making.
- It is observed from data that respondents major factor for considering ESG investment is either Financial return or Ethical values and Social responsibility.
- But if we look at the Index return or ESG funds return they underperform against most non ESG Index or funds. Their returns are close to large-cap funds as most of the ESG funds incorporate large cap companies. Where as Risk factor which is lowest motivating factor for investors is actually provided by the ESG funds these are comparatively less risker or volatile then non ESG funds.
- Quant ESG Equity fund has outperformed the other ESG Funds and also Large Cap funds.

5.2. Recommendations

- The result of our findings shows that awareness of such funds must be increased through more research and study in this field.
- Data related to study or performance measure would be available to public for better understand risk return metrics.
- Given the surge interest, few more indices focusing on ESG criteria withing Mid-Cap and Small-Cap need to be designed.
- To enable informed investment decisions, regulations should mandate the disclosure of a project's ESG impact alongside its financial performance.

6. LIMITATION OF STUDY

- The scope of this research is limited to retail investors and does not encompass the viewpoints of financial service professionals like advisors, brokers, analysts, or mutual fund professionals.
- The sample size of the study is small consist of 54 respondents only.
- The study focuses on short term performance metric limited to three years and may limit the ability to capture long term impact of ESG investing.

7. CONCLUSION

The landscape of investment has evolved significantly in recent years, witnessing a surge in interest towards Environmental, Social, and Governance (ESG) investing worldwide, including in the Indian market. This research endeavors to delve into the Indian investor perspective on ESG investments, exploring various facets from perception and awareness to performance and future outlook. The culmination of extensive data analysis and hypothesis testing offers valuable insights into the dynamics shaping ESG investing in India.

The research journey commences with a nuanced exploration of investor perceptions and awareness regarding ESG investments. Contrary to preconceived notions, gender emerges as a non-factor in shaping ESG awareness among Indian investors. This revelation underscores the universality of ESG principles, transcending gender divides and fostering inclusivity in sustainable investing endeavors. Furthermore, the analysis unveils the disconnect between investment exposure and ESG literacy, challenging the assumption that market participation inherently fosters ESG consciousness. Instead, the incorporation of ESG considerations into investment decision-making emerges as a pivotal determinant of ESG awareness levels, underscoring the transformative potential of informed investment practices in driving sustainable outcomes.

The survey results revealed that financial returns emerged as the primary motivator, with a significant portion of respondents (55.6%) prioritizing this aspect (Other data analysis). Ethical considerations (46.3%) followed closely behind, highlighting the dual focus on both financial gain and positive impact (Other data analysis). This aligns with the finding that nearly half the respondents (48.1%) acknowledge the critical role of ESG issues for future generations and the global economy

The CAGR returns for study period are used to analysis the annual growth in returns of Nifty 100 ESG Sector Leaders Index and compared with the CAGR returns of Nifty100 and Nifty50. It is clear1from the table that Nifty100 ESG Sector1Leaders Index has underperformed with 18.08% CAGR return against 19.55% & 19.42% return for the Nifty 100 and Nifty 50 in last one year. Similarly, in the last three years Nifty 100 ESG Sector Leaders1Index has returned 13.25% compared to 15.34% & 14.51% return for the Nifty 100 and Nifty 50. From the above analysis it is clear that the Nifty 100 ESG Sector Leaders Index had given decent1CAGR returns over the years compared to Nifty 100 and Nifty 50 Index.

Further analysis revealed that the average ESG fund return (16.55%) lagged behind large-cap funds (19.03%), mid-cap funds (27.57%), and small-cap funds (32.94%). Several potential explanations exist for this underperformance. Firstly, ESG funds often hold a higher proportion of large-cap companies, leading their performance to mirror that of large-cap funds, which can underperform smaller-cap counterparts. Secondly, a lack of ESG data on smaller companies may restrict ESG funds from investing in potentially high-return options . Finally, a potential disconnect exists between investor expectations and the actual composition of ESG funds. The study observed a lack of "Leadership" category ESG funds, suggesting that many retail investors seeking a strong social impact through their investments may not be finding suitable options within the current market landscape.

Recommendations stemming from this research emphasize the importance of enhancing awareness through targeted educational efforts, promoting transparent ESG reporting, and expanding the range of ESG indices to include mid- and small-cap segments. By addressing these recommendations, policymakers and financial advisors can support informed decision-making and foster greater engagement with ESG investing among Indian investors.

The growing interest in ESG investments signals a significant market opportunity for fund managers and policymakers alike. As investors increasingly prioritize environmental sustainability, social responsibility, and good governance, there is a clear mandate for policies that facilitate the growth of ESG investing in India. By capitalizing on this momentum and addressing the identified challenges, stakeholders can drive positive change while delivering sustainable returns for investors and society as a whole.

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ANNEXURE

Questionnaire

Q1. Gender

Male

Female

Q2. Do you invest in Equity Market?

Yes

No

Q3. How would you describe your investment Experience?

Less than 2 years

2 years to 4 years

More than 4 years

Q4. How do you invest in the financial market?

Self

Mutual Fund

Q5. Are you aware of ESG investing or ESG funds?

Yes

No

Q6. How do you incorporate ESG factors into your investment decisions?

ESG integration into whole investment decision process

Thematic Investing

Impact Investing

Not Applicable

Q7. What factor motivates you to consider investing in ESG funds or Companies having higher ESG Score?

Ethical Consideration or Personal Values

Potential for Financial Return

Managing Investment Risk

Not Applicable

Q8. To what extent do external factors (e.g., media coverage, societal trends) influence your decision to invest in ESG funds?

Significantly

Somewhat

Not at All

Not Applicable

Q9. What do you feel ESG Issue's are important for Future Generations or Global Economy?

Significantly

Somewhat

Not at All

Not Applicable

Q10. How do you feel about ESG investing?

Excited and optimistic

Cautious and intrested

Skeptical and unsure

Not interested at all

Not Applicable

Q11. Are you considering increasing your allocation to ESG investments in the future?

Yes

No

May be

N.A