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AN OVERVIEW OF ESG FUNDS IN INDIA

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ABSTRACT

ESG stands for environment, social, and governance funds which invests in the companies that attempts to protect the environment and considerate to the society they operate in and comply with all regulations in all these matters. The investments made into such socially and environmentally responsible companies will help create a safer and better future for the coming generations. This study is an attempt to understand the concept of ESG funds and their growth in recent years. The paper is divide into three parts, in the first part the evolution of ESG is described , in the second part brief description of the companies which are operating ESG funds in India and finally in the third section the challenges faced by ESG funds in India.

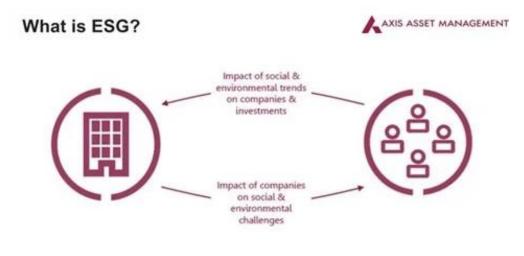
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INTRODUCTION

Sustainable investing is an investment discipline that considers environmental, social and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact. According to the US SIF Foundation's 2020 Report on US Sustainable and Impact Investing Trends, as of year-end 2019, one out of every three dollars under professional management in the United States— \$17.1 trillion—was managed according to sustainable investing strategies. The first ethical mutual fund was launched in 1971 in the US by two United Methodist ministers, Luther Tyson and Jack Corbett, who sought to avoid investing in companies contributing to the Vietnam War. Growing concerns around a warming planet is making stakeholders demand increased accountability and transparency in how companies are assessing the likely environmental impact of a business proposal and identifying options to minimise environmental damage.

As a result, ethical investing from negative screening has now evolved into ESG.

ESG stands for Environmental, Social, and Governance. Investors are increasingly considering these nonfinancial factors as part of their analysis process to identify the potential of material risks and growth opportunities. Over the years, ESG has risen from being just a fuzzy concept to a political priority globally. ESG metrics are gaining popularity among investors to evaluate companies in which they might want to invest.



Source: Axis Mutual Fund

The world's biggest asset managers are also coming under severe pressure as they are expected to play a critical role in arresting climate change. Blackrock recently declared that it is integrating sustainability into all of their firm's actively managed investment strategies. Large institutional investors, including pension funds and sovereign wealth funds have embraced ESG, and the practice is gaining momentum.

Asset management companies are signing up for the United Nations principles for responsible Investment and some are factoring in the ESG lens while making investment decisions across their actively managed strategies. A few asset management companies have launched dedicated ESG funds while others are in different stages of planning their launch.

ESG FUNDS IN INDIA

In total, India has currently 10 ESG funds out of which seven were launched post June 2020. Some of the newly launched ESG funds are Aditya Birla Sun Life, ICICI Prudential, Kotak ESG Opportunities, Quant ESG Equity, two funds by Mirae AMC and Invesco India ESG Equity. SBI Magnum Equity ESG Fund with an asset base of Rs 3,518 crore is the oldest ESG Fund in India. It was initially a diversified equity fund that reoriented itself as an ESG-compliant fund in 2018.

| | Return (%) as on March 12, 2021 | | | | |
|-------------------------------|---------------------------------|----------|--------|--------|---------|
| Fund (Regular/Growth option) | 3 Months | 6 Months | 1 Year | 3 Year | 5 Years |
| Axis ESG Equity | 8.53 | 30.02 | 48.04 | | |
| ICICI Pru ESG | 7.45 | | | | |
| Quant ESG Equity | 17.04 | | | | |
| Quantum India ESG Equity | 13.63 | 35.97 | 64.30 | | |
| SBI Magnum Equity ESG | 11.60 | 30.52 | 49.90 | 13.55 | 14.83 |
| Mirae Asset ESG Sect Ldrs FOF | 9.66 | | | | |

These funds look for stocks that adhere ESG (environmental, social and governance) principles.

Source:Morning star

Environmental, Social and Governance issues, sustainable funds in India attracted Rs 3,686 crore in the 2020-21, a jump of 76 per cent from the preceding fiscal year 2019-20. These funds offer exposure in the area of renewable energy, low carbon, green transport and environmental protection.

As per the data released by the Association of Mutual Funds (AMFI) in December 2020, the combined assets under management (AUM) of ESG Funds in India were Rs.9516 crore.

CHALLENGES FACED BY ESG FUNDS INDIA

1.Availability of quality data: Data credibility and reliability hence continues to be a barrier in scaling ESG investments in India.

2.Lack of market standards & Taxonomy: There is a lack of standardisation in ESG data collection, reporting methodology and impact measurement standards, which adds another level of complexity for investors, who are seeking clarity and comparability in ESG performance of companies.

3.Traditional mindset of investors& asset managers

4.*Lack of track record of ESG funds:* India does not have a long track record of ESG-aligned funds and their performance as compared to non-ESG products, which inhibits investments.

5.*Limited technical capacities:* ESG as a theme is evolving at a rapid stage and all the players along the value chain are gradually becoming familiar with it. There is a dire need to upgrade skills, to include social, environmental considerations, for greater understanding of risk and opportunities, to provide financing solutions.

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