FUTURE IS SUSTAINABLE: INVESTING FOR TOMORROW, CULTIVATING A PORTFOLIO WITH ESG MUTUAL FUNDS

Saumya Tiwari[1], Devesh Ranjan Tripathi[2]

[1]*Research Scholar, Department of Commerce, School of Management Studies, Uttar Pradesh Rajarshi Tandon Open University*

[2]*Associate Professor, Department of Commerce, School of Management Studies, Uttar Pradesh Rajarshi Tandon Open University*

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ABSTRACT

The central objective of this study is to investigate how "Environmental, Social, and Governance" (ESG) factors affect mutual fund performance or communal finance. ESG factors are becoming more and more important in the investing world as people become more conscious of sustainable and ethical investment practices. Both investors looking for socially conscious investing alternatives and fund managers trying to modify their strategies in response to changing investor preferences will find great value in the research's findings. This study aims to delve into the key factors driving this trend and understand investor perceptions when selecting ESG funds. The research will analyze the growth of ESG funds across various metrics, including annualized return, expense ratio, beta value, and total Assets Under Management (AUM). Additionally, it highlights how both financial development and environmental effects are beneficial.
Secondary sources are Government publications, AMFI, Monetary Control, Etmoney websites, news stories, international agencies, and other sources. Consequently, this paper's conclusions and discussion are predicated on substantial. As a result, this paper also provides some recommendations and tactics that might act as a catalyst for change, and greatly aid in the expansion of, and improvement of the performance of, a variety of mutual fund-themed (ESG) funds.

Keywords: *ESG mutual funds, Assets Under Management (AUM), ESG Fund Performance & Growth.*

1. INTRODUCTION

In the present scenario of investment, where portfolios are subject to constant scrutiny and evaluation, the significance of the "Environmental, Social, and Governance" (ESG) criteria has risen to the forefront. ESG criteria evaluate a company's commitment to responsible practices in areas such as environmental sustainability, social responsibility, and governance transparency. This shift towards responsible investing reflects a paradigm shift in the mindset of investors keeping in review both perspectives of societal, ethical, and financial knowledge and its implications with regard to ESG Investing. With one-sixth of the world's population and a rapidly expanding economy, India presents a substantial opportunity for socially responsible investment. In spite of achieving economic growth and goals such as Sustainable Development Goals (SDGs) through Schemes like "Pradhan Mantri Sahaj Bijli Har Ghar Yojana (Saubhagya) and Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY), Sarva Shiksha Abhiyan (SSA) Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) and Pradhan Mantri Jan Dhan Yojana (PMJDY)", India grapples with enduring issues like poverty, hunger, inequality, climate change susceptibility, and deficiencies in healthcare and education infrastructure, all of which remain of significant concern. India confronts substantial challenges in "addressing 11 out of the 17 SDGs and is ranked 121st out of 163 countries" according to (Sachs et al. 2022).

Mutual funds, as popular investment vehicles, play a pivotal role in this era of changes in the perspective of a better society. Mutual funds pool investments from numerous individuals and employ professional fund managers to diversify their portfolios to gain maximum return and less risk.

The amalgamation of "Environmental, Social, and Governance" (ESG) Criteria into the investment portfolio has transformed the way mutual funds are managed and evaluated. Historically, mutual funds were primarily assessed based on financial metrics, such as returns and volatility. However, in today's socially conscious environment, ESG considerations have become a critical component of investment decision-making. Through a comprehensive framework, Seth et al. (2020) suggests that "product-side (functional) barriers, investor-side (individual) barriers, firm-side (industry) barriers, and status-quo biases negatively influence investment in a financial product".

The central theme revolves around the intersection of these two prominent elements: mutual funds and ESG criteria and their performance. Specifically, it awakens the idea of the inquisitive question: "Does the mutual fund investment backed by ESG performance provide better results?" This inquiry delves into the intricate relationship between the integration of ESG commitment and investor-informed decisions on collective finances and fiscal issues.

In recent years, ESG considerations have gained momentum due to their potential to mitigate risks, align investments with ethical values, and enhance long-term performance. As governments and regulatory bodies worldwide tighten their grip on ESG reporting, analyzing the result of ESG backed footprints in the mutual fund industry becomes not just a matter of choice but of necessity. "It advocates that investment constraints such as the ESG criterion restrict exposure to some high-performing sectors and should ideally lead to a lower return for a given risk class and a less diversified portfolio" (Jones et al., 2008).

The impact of ESG criteria on mutual fund performance. It aspires to shed light on whether mutual funds that incorporate ESG factors exhibit distinct risk-return profiles compared to their conventional counterparts. Furthermore, it explores investor preferences in this evolving landscape, discerning whether ESG-conscious investing is gaining traction and influencing investment decisions. It suggests that those companies that are following ESG footprints must have performed better.

2. THE ESG PHILOSOPHY OF INVESTMENT

ESG investing represents a strategic approach where individuals allocate their investments where companies work to safeguard their economic growth, environmental factors as well as society as a whole. It is a holistic approach motivating the financial literacy among investors This is achieved under the leadership of a management team committed to these objectives through effective corporate governance. ESG stands for "Environmental, Social, and Governance", forming the fundamental pillars of this investment philosophy.

2.1 Environmental (E)

This dimension assesses how a company manages its environmental impact. It considers factors such as the company's progress in adopting renewable energy sources, efforts to reduce its carbon footprint, measures taken to address air and water pollution resulting from its operations, its stance on climate change, and sustainability initiatives within its supply chain. Essentially, it reflects a strong commitment to environmental sustainability.

2.2 Social (S)

The social aspect concentrates on the company's societal impact, encompassing factors like fair employee compensation, policies promoting LGBTQ+ equality, racial diversity, and inclusive hiring practices. Additionally, it evaluates the company's advocacy for broader social causes beyond its immediate business scope, reflecting a commitment to social well-being.

2.3 Governance (G)

Corporate governance is central to this factor, emphasizing how management and the board of directors prioritize the interests of employees, shareholders, and customers. Key considerations include the fairness of executive compensation compared to other employees, the company's commitment to driving positive change, the promotion of diversity in leadership positions, and positive interactions with shareholders. It underscores a commitment to ethical conduct and regulatory compliance.

3. LITERATURE REVIEW

There is an ongoing debate about whether ESG-themed mutual funds provide positive returns. i.e. socially responsible objectives are achieved in hand with profit maximization goals. According to a study, a "negative correlation between mutual funds and ESG-backed funds i.e. socially responsible funds leads to lower returns than traditional funds" (El Ghoul and Karoui, 2017). "SRI Funds managed by management companies specialized in SRI perform better than traditional funds rather than those who are not specialized in SRI" (Gil-Bazo, Ruiz-Verdú, and Santos, 2010). "In a study, investors believe that high-sustainability funds outperform and are a positive indicator of future funds and thus preferred as investment choices" (Hartzmark and Sussman, 2019).

The volatility of mutual fund performance across various fund categories, including equity, bond, and balanced funds. The study finds significant differences in volatility between actively managed funds and passively managed index funds. Actively managed funds display higher volatility, largely due to active trading strategies and attempts at market timing. "Mutual funds that focus on specific sectors or niche markets (e.g., technology or healthcare) exhibit higher volatility compared to diversified funds. This is attributed to the concentration of investments in a limited number of industries, which increases exposure to sector-specific risks" (Livingston, Yao, and Zhou, 2019).

"In a study, 70 empirical studies concluded that, on average, ESG funds do not underperform compared to non-ESG funds. However, ESG funds often show lower volatility due to their focus on long-term sustainability" Revelli and Viviani (2015). "ESG factors have a positive impact on corporate performance, which is reflected in the returns of ESG equity funds. Firms with higher ESG ratings "tend to have more stable cash flows" and lower risk profiles, resulting in more consistent, albeit not necessarily higher, returns for ESG funds" Giese et al. (2019). "In a study, it is observed that non-ESG funds often outperformed ESG funds during periods of market growth due to investments in high-risk, high-reward sectors" Renneboog et al. (2008).

4. OBJECTIVE OF THE STUDY

- ✓ To describe the key drivers behind ESG investing
- ✓ To know the perception of investors on different factors while selecting ESG funds
- ✓ To study the growth of ESG funds (based on annualized return, expense ratio, beta value, and total AUM)

5. KEY DRIVERS BEHIND ESG INVESTING

"Environmental, Social, and Governance" (ESG) investing has embarked on achievement these years, driven by a combination of factors that reflect changing investor priorities, regulatory changes, and societal awareness. Here are the key drivers behind ESG investing:

1. **Sustainability Concerns:** Growing awareness of environmental issues such as climate change, resource depletion, and pollution has led investors to keep a broader perspective and align their goals towards robust investment options- recognizing the potential impact as well as being responsible toward a better future.

2. **Regulatory Changes:** Governments and financial regulators have started to emphasize ESG considerations. Regulations and reporting requirements related to ESG disclosures have been implemented in various regions, encouraging companies and investors to integrate ESG factors into their decision-making processes. SEBI, the regulatory authority, mandates that ESG funds allocate a minimum of 80% of their assets to securities aligned with ESG principles. Simultaneously, the remaining 20% must not invest in securities that fundamentally contradict the core ethos of the ESG-backed investment.

3. **Technology:** Advanced technologies such as "Artificial Intelligence (AI) and Machine Learning (ML)" significantly impacted ESG investing and have played a substantial path in ESG investing. Here's how AI & ML are instrumental in ESG investing:
    - Data Extraction: AI and ML algorithms can extract relevant ESG data from the abundant data collection. This reduces reliance on voluntary disclosures by companies, making it possible to gather more comprehensive and real-time information.
    - Data Analysis: Advanced analytics powered by AI and ML can process large volumes of ESG data with speed and accuracy. This enables investors to identify trends, correlations, and anomalies in performance. Earlier through traditional it may be not possible; thus, AI plays a Game-Changer role.
    - Risk Assessment: AI-driven tools can assess ESG risks more effectively by analyzing vast datasets for factors like climate risk, supply chain vulnerabilities, and regulatory compliance. It helps to address the risks and opportunities associated with ESG factors.
    - Scoring and Rankings: Al can be used to create ESG scoring models that evaluate companies based on a different set of ESG values and criteria. These models provide investors with quantifiable metrics for comparing and ranking companies on their ESG performance.
    - Predictive Analytics: AI and ML can also be used for predictive analytics, helping investors anticipate how ESG-related factors may impact a company's future financial performance.
    - Customized Portfolios: Technology allows for the creation of customized ESG portfolios that align with specific investor preferences and values.

4. **Risk Mitigation:** ESG factors can be indicative of financial risks. Companies pursuing ESG practices are often better prepared to manage risks related to resource depletion, climate variability, supply chain management control, risk management, regulatory changes, and reputational damage. Investors are thus, able to comprehend the risk and monitor better financial literacy and performance through making sound decisions.

5. **Long-Term Performance:** Companies practicing ESG performance can outrun competitors because they act as a competitive edge/ sword over other companies and outperform their competitors in the long run. Investors are drawn to ESG investing because they believe it can lead to better financial returns and lower portfolio risk.

6. **Millennial and Gen Z Influence:** Younger generations, such as "Millennials and Gen Z", are more socially and environmentally conscious. As they accumulate wealth and become more significant participants in the investment landscape, they are driving demand for ESG investments by amalgamating their goals with their values.

7. **Evolving Investment Products:** Financial analysts enhance the growing demand for ESG investments by offering a wide subset of ESG-focused products, including ESG-themed funds, green bonds, and impact investing opportunities. This diversification of investment options has attracted a broader range of investors.

8. **Global Challenges:** Global challenges, the COVID-19 pandemic, have underscored the impactful and meaningful sustainable and resilient business models. Savvy Investors recognize those companies with resilient ESG foundations because they act as a beacon of stability in turbulent times and are better equipped to navigate crises (crisis-ready companies attract investor eyes).

The drivers behind ESG investing are multifaceted, encompassing environmental concerns, social responsibility, corporate governance, regulatory changes, and the evolving preferences of investors. As ESG considerations become more integrated into the mainstream investment landscape, their impact on investment decisions is likely to continue growing.

Different ESG funds have their unique methodologies and approaches for determining which companies are considered ESG-compliant or suitable for investment. ICICI Prudential ESG Fund and the Kotak ESG Opportunities Fund aim to invest in ESG-compliant organizations, they use different methods for identifying such companies. ICICI Prudential relies primarily on external ESG scores for simplicity and transparency, while Kotak combines ESG scores with its proprietary BMV approach to provide a more holistic and customized assessment. These examples illustrate the diversity of ESG investing strategies, ranging from passive approaches that track ESG-focused indices to actively managed funds that employ various methods to select investments based on ESG criteria. Additionally, some funds emphasize impact investing, shareholder engagement, or risk management as integral parts of their ESG strategies. Financial analysts acknowledge that a company's sustainable value creation practices can impact its profitability, competitive edge, and reach financial goals, and thus, they need to consider these alongside traditional financial metrics. ESG-compliant companies aim to deliver strong financial performance while minimizing "environmental, social, and governance" risks, ensuring a balanced and responsible approach to investment.

Table 1: Significant Developments in ESG Investing in India (2008-2022)

Year	Development
2008	Launch of the S&P E.S.G India Index by CRISIL, Standard and Poor, K.L.D. Research &Analytics, the first investible index of Indian enterprises committed to E.S.G. standards.
2009	Introduction of voluntary CSR guidelines by the Ministry of Corporate Affairs, recommending businesses to focus on stakeholders, workers' rights, human rights, environment, and social development.
2011	Release of National Voluntary Guidelines (NVGs) by the Indian government, promoting responsible business conduct and sustainability.
2012	SEBI's Business Responsibility Reporting (BRR) Framework made it mandatory for the top 100 listed companies to disclose ESG-related reports.
2015	India adopted the United Nations Sustainable Development Goals (SDGs), providing a global framework for sustainability.
2017	SEBI issued a circular allowing mutual funds to launch ESG-focused schemes.
2018	Indian stock exchanges introduced ESG indices like S&P BSE Carbonex and S&P BSE Greenex to track ESG performance.
2019	SEBI mandated business responsibility reporting for the top 1,000 listed companies in India, expanding ESG disclosures.
2020	Amendments to the Companies Act, of 2013, allowed companies to carry forward unspent CSR funds, incentivizing long-term CSR initiatives.
2021	Growing ESG Fund Offerings-Asset management companies launched ESG-focused mutual funds and ETFs to meet investor demand.
2022	Increasing ESG Awareness-More Indian companies embraced ESG principles and reporting practices as ESG awareness and adoption continued to grow.

Table 1 presents the evolution of ESG ("Environmental, Social, and Governance") investing in India between 2008 and 2022.

From the launch of the first ESG investible index in 2008 to increasing awareness and adoption of ESG principles in 2022, it traces the major regulatory, market-driven, and institutional changes that have shaped ESG practices in India. These milestones highlight the progressive incorporation of sustainability and responsible business conduct into corporate and investment strategies in the country.

6. KEY CONSIDERATION WHEN CHOOSING E.S.G. STOCKS

Investing in ESG ("Environmental, Social, Governance") mutual funds involves a process similar to traditional mutual funds but with a specific focus on companies that align with ESG criteria. Here is a step-by-step guide to the investment mechanism of ESG mutual funds:

- **Research and Selection:** Start by researching ESG mutual funds offered by various fund providers. You can do this by visiting their websites or consulting financial news sources. Look for funds that align with your ESG preferences, such as funds that prioritize environmental sustainability, social responsibility, or strong corporate governance. Consider the fund's investment objectives, risk profile, and fees.
- **Fund Selection:** Choose the specific ESG mutual fund(s) one wants to invest in based on their research and investment goals.
- **Investment Amount:** Decide how much money one wants to invest in the chosen ESG mutual fund. This can be a lump sum or regular contributions through a systematic investment plan (SIP). Many E.S.G. funds employ a meticulous selection process when choosing stocks, prioritizing companies that align with their values and vision. They primarily analyze quantitative E.S.G. metrics and take into account factors like greenhouse gas emissions. Consequently, businesses with substantial carbon footprints, such as tend to receive lower scores and are typically excluded from E.S.G. portfolios. Conversely, companies operating in renewable energy, fast-moving consumer goods (FMCG), technology, and healthcare sectors often find a place in ESG portfolios.

Figure 1: Holdings and ESG Scores of Selected Equity Funds

Fund Name	Top 5 Holdings	Morningstar Current ESG Score
Quantum India ESG Equity Fund	TCS Ltd., Infosys Ltd., HDFC Ltd., Tata Motors Ltd., Tata Communications Ltd.	26.31
Kotak ESG Opportunities Fund	HDFC Ltd., TCS Ltd., Infosys Ltd., ICICI Bank Ltd., Bharti Airtel Ltd.	27.06
Mirae Asset ESG Sector Leaders ETF	Infosys Ltd., HDFC Bank Ltd., TCS Ltd., Reliance Industries Ltd., TCS Ltd.	25.02
Axis ESG Equity Fund	Avenue Supermarts Ltd., TCS Ltd., HDFC Bank Ltd., Bajaj Finance Ltd., Kotak Mahindra Bank Ltd.	23.05
Aditya Birla Sun Life ESG Fund	Infosys Ltd., Axis Bank Ltd., HDFC Bank Ltd., Bajaj Finance Ltd., State Bank of India	23.3
ICICI Prudential ESG Fund	Infosys Ltd., TCS Ltd., HDFC Bank Ltd., Divi's Laboratories Ltd., Marico Ltd.	24.75
Quant ESG Equity Fund	Fortis Healthcare Ltd., Infosys Ltd., General Insurance Corporation of India, Oracle Financial Services Software Ltd., PTC India Ltd.	31.29
SBI Magnum Equity ESG Fund	Infosys Ltd., HDFC Bank Ltd., TCS Ltd., ICICI Bank Ltd., L&T Ltd.	25.16

**Source: Morningstar*

- **E.S.G. ratings or scores**: These are indispensable tools for investors to assess a company's sustainability. These scores are calculated by external agencies based on criteria like "Environmental Social & Governance" impact to best practices. Typically, ESG, scores fall on a scale from 0 to 100. These metrics serve as a standardized and measurable means for investors, stakeholders, and companies themselves to gauge and compare the sustainability and ethical performance of different businesses. Investor rely on these ratings or score published by rating companies publicly traded companies based on their efforts to address these crucial ESG concerns.
- **Submit an Order**: To purchase shares of the selected ESG mutual fund through your investment account. One can typically do this online or through your financial advisor. ESG mutual funds typically hold a diversified portfolio of ESG-compliant stocks and bonds. Investment is spread across various companies and sectors to mitigate risk.

7. SEBI GUIDELINES

Mutual Funds were allowed to launch only one scheme with an ESG investing focus under the thematic category for equity schemes. This meant that a mutual fund company could offer a single ESG-themed equity mutual fund to investors. Industry representations or requests from various stakeholders, which likely include mutual fund companies, asset managers, and industry associations advocated for the flexibility to launch multiple ESG-focused schemes with different strategies. The decision to launch multiple ESG schemes with different goals or purpose is likely to have several implications such as now Investors will have a wider array of ESG-themed mutual funds to choose from, each with a distinct investment strategy that aligns with their preferences. Mutual fund managers will have greater flexibility to design and manage ESG-focused portfolios that cater to different sustainability themes or goals. This change encourages mutual fund companies to innovate and develop unique ESG strategies, potentially leading to more tailored and effective approaches to sustainable investing.

9. HOW ESG FUND PERFORMED

ESG theme mutual funds in India have witnessed remarkable growth, driven by various factors that have spurred interest in sustainable investing. This surge in popularity has been significant, with assets under management (AUM) growing by 4.7 times between November 2019 and November 2021, reaching a total of INR 12,320 crore across ten funds. This growth is expected to continue as more similar schemes are introduced. Here are the top few ESG Mutual funds.

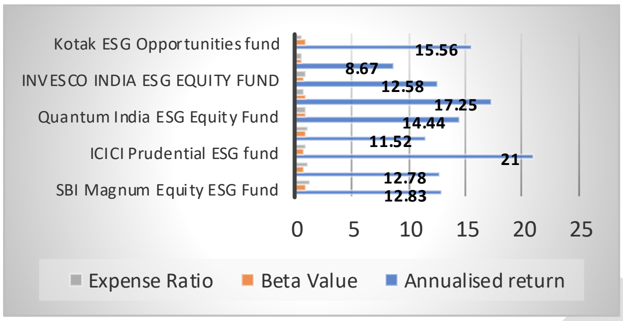
Table 2: Performance Metrics of Major ESG Funds in India

ESG FUND	Annualized Return%	BETA VALUE	EXPENSE RATIO	TOTAL AUM
SBI Magnum Equity ESG Fund	12.83	0.95	1.34	4978
Axis ESG Equity Fund	12.78	0.79	1.07	1483
ICICI Prudential ESG fund	21	0.74	0.90	1292
Aditya Birla Sun Life ESG fund	11.52	0.96	1.01	751
Quantum India ESG Equity Fund	14.44	0.88	0.97	72
Quant ESG eqt Dr.	17.25	0.99	0.64	192
INVESCO INDIA ESG EQUITY FUND	12.58	0.79	0.94	575
Mirae Asset ESG Sector Leaders EFT	8.67	0.59	0.59	138
Kotak ESG Opportunities fund	15.56	0.89	0.61	1099

Source: Author

This table provides a comparative analysis of key performance metrics for major ESG ("Environmental, Social, and Governance") funds in India. It includes details on annualized returns, beta values (risk relative to the market), expense ratios (management fees), and the total AUM. The data reflects varying returns, with ICICI Prudential ESG Fund showing the highest return (21%), while Mirae Asset ESG Sector Leaders ETF has the lowest expense ratio at 0.59%. This information helps investors assess fund performance, cost efficiency, and risk profiles to make informed decisions about ESG investments.

Figure 2: Comparison of Expense Ratio, Beta Value, and Annualised Return of Selected ESG Equity Funds

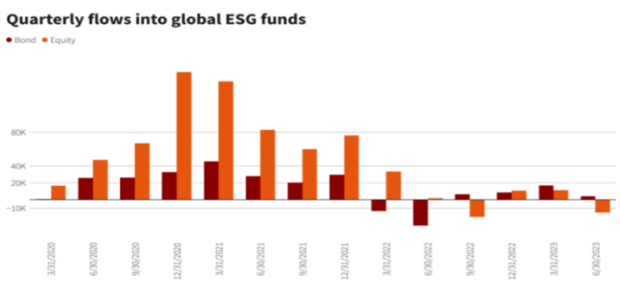


Source: Author

In the current financial year, the growth of sustainable funds is expected to be subdued as ESG (Environmental Social and Governance) investing is still in its early stage in India. Data compiled by Morningstar India reveals that, as of March 2023, 12 ESG funds collectively managed assets worth ₹10427 crore. This marked a decrease of ₹2000 crore or 16% from ₹12447 crore recorded the previous year.

These funds (SBI Magnum Equity ESG Fund, Axis ESG Equity Fund, Kotak ESG Opportunities Fund) have beta value greater than 1. This suggests their returns tend to be more volatile than the market returns represented by the S&P 500. For example, if the market increases by 10%, these funds could potentially increase by more than 10%, but they could also decrease by more than 10% if the market declines. The ICICI Prudential ESG Fund and Mirae Asset ESG Sector Leaders EFT have betas less than 1. This indicates their returns tend to be less volatile than the market. So, if the market goes up by 10%, these funds might increase by less than 10%, but they also might decline by less than 10% if the market goes down.

Figure 3: Quarterly Flows into Global ESG Funds



Source: Refinitiv Lipper | Patturaja Murugaboopathy

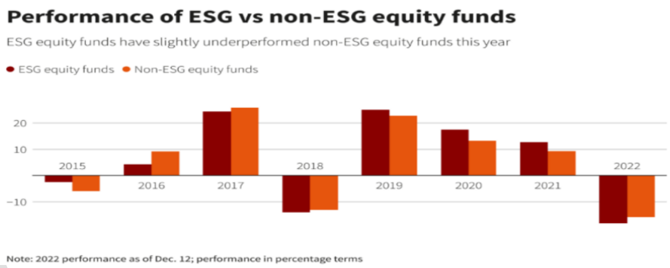
Several factors contributed to the decline in AUM for ESG funds in FY23. These include shifts in overall market sentiment and investor preferences towards alternative investment options during this period. Additionally, some investors may have chosen to take profits or rebalance their portfolios, reducing their exposure to ESG funds.

It is important to note that short-term fluctuations in AUM do not necessarily reflect the long-term potential or performance of ESG funds. ESG funds have delivered returns in the range of 9% to 17% in the past fiscal year.

Sustainable funds in India, although in the early stages of retail investor participation, focus on themes such as renewable energy, low carbon, green transport, and environmental protection. While ESG investing has gained significant momentum globally, India is still at a nascent stage in this regard. However, the launch of ESG funds in recent years has provided investment options for interested investors.

Within the Indian mutual fund industry, ESG funds are expanding, with asset management companies (AMCs) introducing equity schemes and exchange-traded funds (ETFs) in the ESG space. Most inflows into sustainable funds have occurred during the new fund offer (NFO) period, and the financial year 2021-22 witnessed substantial inflows due to multiple ESG fund launches.

Figure 3: Performance of ESG vs Non-ESG Equity Funds



Source: Refinitiv Lipper | Patturaja Murugaboopathy

Recognizing the global interest in sustainable investing, India's capital markets regulator, SEBI, is proposing measures to enhance sustainable investing and disclosure practices. These proposals include allowing mutual funds to introduce five new categories under ESG schemes and mandating ESG schemes to invest at least 65% of their assets under management (AUM) in listed entities that adhere to the BRSR code. The proposed changes are anticipated to boost ESG India collective finances are a popular investment vehicle in India and investing in the preface of five new ESG orders will make it easier for investors to invest in ESG. The accreditation for ESG schemes to invest at least 65% of their AUM in listed realities that cleave to the BRSR law. The five new ESG cedars that are proposed to be introduced are- Climate Action, Social Inclusion, Good Governance, Sustainable Development, and Thematic ESG will also help to ensure that ESG schemes are investing in companies that are committed to sustainability. These regulatory measures aim to promote transparency, authenticity, and adherence to ESG principles in the Indian financial market.

Some recent research raises questions about the effectiveness of ESG practices. For example, one study found that companies in ESG portfolios had a worse track record regarding labor and environment compared to non-ESG companies. It also discovered that adding companies to ESG portfolios did not lead to better compliance with these rules. Research analyzing sustainability ratings of thousands of mutual funds found that highly-rated sustainability funds did not outperform the lowest-rated ones. Some companies may use ESG as a way to distract from poor financial performance. When they miss earnings expectations, they tend to emphasize stakeholder-focused goals in their communications, which may be an attempt to divert attention from shareholder-based measures.

10. CONCLUSION

In the realm of modern investments, Socially Responsible Investing (SRI) stands as an evolving and influential concept. It offers a bridge between economic objectives and social responsibility, addressing a growing demand for sustainable investment solutions. While traditional investment theories have long dominated discussions on market behaviour, SRI presents a unique set of challenges and opportunities that demand a more comprehensive understanding.

ESG theme mutual funds in India have witnessed remarkable growth, driven by various factors that have spurred interest in sustainable investing. This surge in popularity has been significant, with assets under management (AUM) growing by 4.7 times between November 2019 and November 2021, reaching a total of INR 12,320 crore across ten funds. This growth is expected to continue as more similar schemes are introduced.

In conclusion, this study contributes to the growing body of knowledge surrounding ESG and retail investor behavior toward ESG-based Mutual Funds. Understanding the factors influencing investment choices in the context of social responsibility and ethical investing. As ESG Funds continue to shape the investment ongoing research and exploration are vital to comprehending its intricacies and potential for sustainable financial and societal impact.

The debate around ESG and corporate social responsibility is complex. Recent research questions the effectiveness of ESG practices. It's essential to understand that social responsibility is not as easily measurable as financial performance, and investing based on ESG principles may not guarantee better financial returns.

10. SUGGESTION

1. Policymakers should establish a well-defined framework for measuring and reporting corporations' ESG performance. This framework should include specific guidelines on scope, format, and parameters.
2. To enhance the effectiveness of ESG reporting, regulatory bodies should conduct regular and rigorous monitoring and supervision of corporations' ESG practices Corporations should be encouraged to provide fair, transparent, and comprehensive ESG disclosures adhering to international standards. This will increase credibility, and build a proper rapport, trust, and goodwill among public eyes and retail investors (shareholders).
3. Financial reports should be prepared to present their "Environmental, Social, and Governance" performance separately to ensure investors are fully aware of the details and thus can reduce the risk of errors. Such that Socially Responsible Investment Decisions are taken by investors without any mistrust, misuse and full confidence. This approach simplifies the assessment process as well as verification for investors.
4. It promotes and encourages investors to shift from conventional investment approaches i.e. traditional to environmental, social, and governance-promoting investment approaches that encourage positive societal and environmental impact. Investors who perceive that their efforts contribute to "society and the environment" are more likely to embrace SRI and shift from conventional investment approaches.
5. Addressing the lack of awareness is crucial, especially given the misconceptions arising from vague ESG definitions. Partnering with industry experts, educational institutions & Policymakers.
6. Fund managers should focus on maintaining competitive returns, diversifying their Portfolio, and reducing the risk of SRI-based funds. Ensuring that investors do not have to compromise on financial returns is key to attracting and retaining SRI investors.
7. Governments can incentivize ESG compliance by offering tax rebates to companies that excel in ESG practices. Moreover, applying reduced tax rates to long-term earnings from ESG-focused investments compared to non-ESG funds may encourage, ethical investing without compromising returns. This would enable ESG-compliant companies to provide relatively higher tax-adjusted returns to investors. Additionally, long profits from ESG funds at a lower rate compared to non-ESG funds can encourage responsible investing without sacrificing returns.
8. Encourage companies to provide detailed ESG information, including specific actions taken to improve their ESG performance. These ESG commitments encourage informed decisions and promote active engagement between corporations, investors, and other stakeholders to foster a collaborative approach towards sustainability. This engagement can drive improvements in ESG practices and enhance investor trust.
9. Encourage global alignment of ESG standards and reporting requirements to create a consistent framework that transcends borders. This will facilitate international investments in ESG funds and broaden the impact of responsible investing

10. Encourage companies to align their ESG initiatives with the United Nations SDGs. This alignment can highlight the broader societal benefits of ESG investments and attract socially conscious investors.

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