ESG Funds

Why in news?

ESG funds are witnessing growing interest in the Indian mutual fund industry.

What is ESG?

- ESG investing is used synonymously with sustainable investing or socially responsible investing.
- They imbibe environment, social responsibility and corporate governance in their investing process.
- While selecting a stock for investment, the ESG fund shortlists companies that score high on environment, social responsibility and corporate governance, and then looks into financial factors.
- So, the schemes focus on companies with environment-friendly practices, ethical business practices and an employee-friendly record.

Why so much focus on ESG now?

- Fund houses say modern investors are re-evaluating traditional approaches, and look at the impact their investment has on the planet.
- As a result of this paradigm change, asset managers have started incorporating ESG factors into investment practices.
- A majority of studies highlights that companies with good ESG scores tick most of the checkboxes for investing.

How big is ESG?

- There are over 3,300 ESG funds globally and the number has tripled over the last decade.
- The value of assets applying ESG to investment decisions is $40.5 trillion.
- In India, there are three schemes following the ESG investment strategy,
    1. SBI Magnum Equity ESG (Rs 2,772 crore),
    2. Axis ESG (Rs 1,755 crore) and
    3. Quantum India ESG Equity (Rs 18 cr).
- ICICI Prudential's scheme launched its NFO recently and more are expected to follow.

What change can it bring?

- As ESG funds gain momentum in India, companies will be forced to follow better governance, ethical practices, environment-friendly measures and social responsibility.
- Globally there has been a big shift as many funds don’t invest in companies that are seen as polluting or don’t follow social responsibility.
- In coming years, companies that do not follow sustainable business models will find it tough to raise both equity and debt.

Which sectors or companies will lose out?

- Tobacco companies and companies in the coal business may find it tough to make the cut.
- Companies that generate hazardous waste and do not manage them properly will also suffer.
- Sectors that use a lot of water and do not follow best practices on its reuse will find it tough to get funds parked in them.
- Companies that discharge untreated waste in soil, water or air will also find it tough to get funds.

Source: The Indian Express

