ESG Funds
- The environmentally responsible way to invest

As the COVID-19 crisis ravages through the world, concerns over health, safety and sustainability have come to the fore. In keeping with sweeping changes in consumer behaviour, a distinct change is noticeable in investor psyche too, with investors veering towards responsible investing. This has caused a flurry in activity in ESG or environment, social and governance themed funds that are witnessing renewed traction in times of the pandemic.

Why is ESG investing different?

What makes ESG funds more attractive at times like this? For one, they focus on sustainable investing. This means, such funds invest in themes such as environmental protection, low carbon, green transport and renewable energy. Thus, investors who choose these funds are driven by the values of such fund that hold good over the long term. Typically, there is a feeling of “doing right” that is associated with sustainable investing. This feeling holds good now more than ever, when everything around us is fraught with uncertainty.

Fund managers however believe that given the difficulties that we are presently going through, the sustainable approach to investment cannot be discretionary or be restricted to a feel-good factor. Sustainable investment, they believe is essential for long term profitability. It has become a necessity in the present day context. In other words, the sustainability factor is central to the idea of a holistic investment approach.

The ESG Advantage

What is the advantage that these funds offer over regular equity diversified funds? In terms of return potential there may not be any significant differences in the short term, but what works in favour of these funds is their high quality orientation. These funds invest in companies that consciously engage in positive social, environmental and corporate governance practices. As a result, they are seemingly more aligned with the value system of investors.

It is not merely about the values or the high quality orientation of these funds. There is empirical evidence that supports the theory that the long-term impact of E, S, G factors on the financial prospects of an organisation are often underestimated. Better accountability, corporate governance practices and conscious approach towards environmental protection has far reaching positive financial consequences.

The proof lies in the pudding. *An MSCI report shows that companies that improved their ESG credentials have outperformed in the emerging markets by 14.4% and in developed markets by 5.2% over a five-year period.

Having said that, ESG or sustainable investing, though it is at its nascent stages in India is clearly a responsible way to invest. A long term approach, with the willingness to stay invested through periodic volatility will yield desired results for investors.

*Source: livemint.com, Past performance may or may not be sustained in future.