

# ESG (Environment, Social and Governance) Funds

December 25, 2021

**In news-** The asset size of ESG funds has ballooned nearly five times to Rs 12,300 crore over the last couple of years.

## **About ESG funds-**

- ESG funds are those **funds whose asset allocation mostly includes shares and bonds of companies that are evaluated based on the factors of environmental, social, and governance.**
- ESG funds are suitable for those that are looking to invest in companies that are sustainable and conscious about the environment.
- **The term ESG investing is used synonymously with sustainable and socially responsible investing.**
- While selecting a stock for investment, an **ESG fund shortlists companies that score high on environment, social responsibility, and corporate governance, and then looks at financial factors.**
- **Recently, the National Stock Exchange (NSE) launched NSE Prime, a framework that allows companies to submit to standards of corporate governance that are higher than those required by existing regulations.**
- **Most top fund houses, including SBI Magnum Equity, Aditya Birla Sun Life, ICICI Prudential, Quantum India, Kotak Mutual Fund, and Axis Mutual Fund offer ESG investment opportunities.** Because this is a niche area, the fund houses have set the expense ratio of their ESG funds in the higher range.
- **ESG funds use parameters such as** greenhouse gas and carbon emissions, and employment generated to assess the ESG impact of the companies.
- Thus, companies with higher carbon outputs such as

tobacco manufacturers, coal miners, oil and gas companies, and fossil fuel-based power generators typically **do not feature in ESG fund portfolios.**

- On the other hand, companies in the technology, renewable energy, healthcare, and FMCG space feature heavily in these portfolios.
- **However, the area of concern is “greenwashing”,** understood as an **act of conveying a “false impression** or providing misleading information about how a company’s products are more environmentally sound”.