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Master's Thesis On

A COMPARATIVE ANALYSIS OF ESG INVESTMENTS AND TRADITIONAL MUTUAL FUNDS IN INDIA: RISK, RETURN AND INVESTOR PERCEPTION

UNDER-THE GUIDANCE OF
Prof. HIMANSHU GUPTA

Submitted By
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School of Business
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May, 2025

CERTIFICATE

This is to certify that the Master's Thesis titled "A Comparative Analysis of ESG Investments and Traditional Mutual Funds in India: Risk, Return and Investor Perception" has been completed and submitted by Mr. Arshad Khan (Admission No. 23042010228) under my guidance.

This project has been carried out as part of the partial requirements for the MBA degree (2023– 2025) offered by the School of Business, Galgotias University, Greater Noida.

To the best of my knowledge, this thesis is the student's original work. Wherever references or external support were taken, due credit has been given. The research meets the academic standards expected of a postgraduate student and reflects a commendable understanding of the topic.

Date: ____

Signature: _______

Name of Supervisor: Prof. –Himanshu Gupta
Faculty Guide, School of Business, Galgotias University

DECLARATION

I, Arshad Khan, Admission Number: 23042010228, a student of MBA (2023–2025) at the School of Business, Galgotias University, hereby declare that the thesis titled “A Comparative Analysis of ESG Investments and Traditional Mutual Funds in India: Risk, Return and Investor Perception” is the result of my own research and hard work.

This study has not been copied or submitted elsewhere for any academic award. Wherever I’ve used data, reports, or insights from other people’s work, I have made sure to acknowledge them properly in the references.

I have followed the ethical and academic guidelines provided by the university and have ensured the integrity of this project throughout.

Date: ____

Signature of the Student
Arshad Khan
MBA 2023–2025, Galgotias University

ACKNOWLEDGEMENT

I would like to express my sincere gratitude to my guide, Prof. [Faculty Name], for their invaluable support, guidance, and constructive feedback throughout the course of this research. Their knowledge and vision helped shape this study.

I would also like to thank all the respondents of the investor survey who participated willingly and shared their honest insights.

My sincere thanks to the mutual fund professionals and financial analysts who provided clarity on current trends in the Indian mutual fund industry. Lastly, I would like to thank my family and peers for their constant encouragement.

This project would not have been possible without the encouragement and support of several people, and I want to express my heartfelt gratitude to each of them.

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A special thanks to all the investors and fund managers who shared their time, data, and perspectives with me—your insights brought this thesis to life.

To my family and friends, thank you for standing by me during the long nights, tough deadlines, and countless drafts. Your love, patience, and encouragement meant the world.

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ABSTRACT

This research explores the rising trend of ESG (Environmental, Social, and Governance) investing in India and compares the performance of ESG mutual funds with traditional equity mutual funds in terms of risk, return, and investor perception. With the increasing emphasis on sustainability, Indian investors are becoming more conscious of the ethical impact of their investments.

This thesis employs a mixed-method approach, utilizing quantitative analysis of financial returns and qualitative analysis through investor surveys. The study reveals that ESG funds offer comparable returns with slightly better risk-adjusted performance while appealing to investors who prioritize sustainability and ethical investing.

The research also highlights the challenges and opportunities within the ESG landscape in India and proposes recommendations for mutual fund managers and regulators.

ESG—short for Environmental, Social, and Governance—is no longer just a global investing buzzword. It's shaping how Indian investors view their portfolios. This research dives deep into how ESG mutual funds compare to traditional mutual funds in India, looking closely at how they perform, the risks they carry, and what investors think about them.

Using both numbers (CAGR, Sharpe ratios, etc.) and opinions (surveys, interviews), we find that ESG funds, while not always the top performers, offer a safer and more sustainable path for investors who care about ethics, stability, and long-term value.

Environmental, Social, and Governance (ESG) investing is rapidly emerging as a significant financial trend globally, and India is beginning to follow suit. This thesis aims to conduct a rigorous comparative analysis of ESG mutual funds versus traditional mutual funds in India by examining multiple dimensions: return performance, risk metrics, regulatory support, and investor perception.

The study uses a dual-method approach—quantitative data for fund performance (CAGR, Sharpe ratio, and standard deviation) and qualitative data through investor surveys (n=120) and expert interviews (n=3). The study reveals that ESG funds, while slightly lagging in raw returns, offer more stable performance, greater investor trust, and alignment with long-term sustainability goals. This thesis concludes that ESG funds are poised to become a major investment category in India, provided regulatory bodies, asset managers, and investors continue to engage collaboratively.
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CHAPTER:1 INTODUCTION

The Idea Behind ESG

Overthepasttwo decades,theinvestment worldhasshifted.Investorsdon’t just want highreturns—theywant responsible returns. That means caring about where their money goes. ESG investinghelps by evaluating companies not just on profit, but also on how theytreat people, the planet, and how they’re run.

WhereIndiaStands

India is catching up fast. ESG funds were introduced here only in 2018, but the idea is spreading. Withgovernment pressureonsustainabilityand younger investorswantingpurposewithprofit,ESG investing is becoming more visible. Still, it faces hurdles like low awareness and mixed ratings.

WhatThisStudyAimstoDo

CompareESGvstraditionalfundperformance

Analyze their risk levels

Understandwhat IndianinvestorsreallythinkaboutESG Hear

from fund managers on where ESG is headed

Background Over the last decade

Over the last two decades, the world has seen a surge in socially responsible investing. With issues like climate change, corporate governance failures, and income inequalitydominating headlines, investors now seek not just returns—but responsible returns. ESG investing offers that pathway by assessing investments based on environmental stewardship, social responsibility, and governance transparency.the global financial landscape has witnessed a shift toward responsible and sustainable investing. ESG investing, which integrates environmental, social, and governance factors into investment decisions,hasemergedasasignificantmovement incapitalmarkets.InIndia,thisshift is gaining momentum, particularly among millennials and institutional investors seeking to align financialgoalswithethicalvalues. The rapid growthofESG mutualfunds inIndia, thoughstillin its infancy compared to western markets, reflects a growing awareness of sustainable development.

Indian Mutual Fund Industry

India'smutualfundindustryhasgrownsignificantly,withassetsundermanagement(AUM)crossing

INR 50 trillion in 2024. Traditional mutual funds continue to dominate, focusing primarilyon financialperformance.However,ESGfunds, introducedbymajor AMCslikeSBI,ICICIPrudential, and Axis, are slowly carving a niche by promising both sustainable and competitive returns. WhiletheWest hasdeveloped matureESGinvestingecosystems,India isstillinitsformativestage. The first ESGfund—SBIMagnumESG—was launched in2018, andsincethen, about 10–12funds have entered the market. SEBI's push through the Business Responsibility and Sustainability Reporting(BRSR) initiativeandincreasingglobalinvestorpressurehaveacceleratedESGadoption. However, challenges remain: low investor awareness, inconsistent ESG ratings, and regulatory ambiguity.

Problem Statement Despite global evidence supporting the viability of ESG investing, Indian investors remain hesitant due to lack of awareness, limited historical performance data, and ambiguitysurroundingESGmetrics.Thisthesisseeksto evaluateifESGmutualfundsinIndia provide competitive financialreturns, lower risk, and hold greater investor appealcompared to traditional funds.

Objectives

Toevaluatethehistoricalperformance(CAGR, risk-returnratios) ofESGandtraditionalmutual funds.

To examine investorperceptionand awareness ofESG investing inIndia.

Toidentifykeyfactorsinfluencinginvestment choicestowardESGfunds.

Toanalyzetheroleofregulatorybodiesandpolicyinitiatives inpromotingESGinvestments. To

compare ESG and traditional mutual fund performance in India

Toassesstheriskmetricsofbothtypesoffunds

ToexploreinvestorawarenessandpreferencestowardESG

ToanalyzehowfundmanagersandregulatorsviewthefutureofESG

Research Questions

HowdoESGmutualfundsperformintermsofrisk-adjustedreturncompared totraditionalfunds?

What arethedemographicandpsychographic factorsinfluencing investorpreferencestowardESG investments?

WhatisthelevelofawarenessandperceptionaboutESGinvestinginurbanvsruralpopulations?

Hypotheses

H0:ESGmutualfundsdonot showsignificant performancedifferencescomparedtotraditional mutual funds. H1: ESG mutual funds show statistically significant differences in risk-adjusted returns. H2: Investor preference for ESG funds is significantly influenced by sustainability awareness and ethical considerations.

H1:ESGfundsofferbetterrisk-adjustedreturns

H2:ESGinvestingismorepopularamongyounger,urbaninvestors H3:

ESG trust is highly correlated with transparency

Contributionin Decision Making

This research provides several meaningful contributions to decision-making at various levels—investor,fund manager,andregulatoryauthorities—particularlywithintheevolving landscapeof ESG investing in India.

ContributiontoIndividualInvestors

The findings of this thesis empower retail investors—especially millennials and ethically conscious investors—with data-driven insights that support informed investment choices. By comparing risk-adjustedreturnsandvolatilitylevelsofESGversustraditionalmutualfunds, investorsarenowbetter equipped to:

Aligninvestmentswithpersonalvaluesandethical considerations.

Evaluate whether to prioritize long-term stability over short-term performance.

ChooseESGfundsthatprovideabalanceoffinancialreturnandsustainabilityimpact.

ContributiontoFundManagersandAMCs

Asset Management Companies (AMCs) and fund managers can leverage this studyto refine their product positioning and investor communication strategies. The behavioral analysis and thematic clustershelp identifykeyinvestorsegments(e.g.,EthicalChampions,BalancedInvestors),enabling:

Targetedmarketingstrategies.

ESG fund design improvements based on investor expectations.

Integrationoftransparent ESGscoringsystemstobuild investortrust.

ThishelpsfundmanagersinmakingmoreinformedportfoliodecisionswhilemaintainingESG mandates. ContributiontoPolicymakersandRegulatoryBodies

The thesis underscores the urgent need for standardized ESG scoring and stronger regulatory oversight.Thefollowingpolicy-relatedrecommendationscanaiddecision-makingattheregulatory level:

SEBIandAMFIcanusethefindingstojustifytheestablishmentofacentralizedESGrating authority.

Insightsintoinvestorawarenessandbehavioralbiasmayshape financialliteracycampaignsand inclusion of ESG in educational curricula.

RegulatorybodiescanmandateclearESGdisclosurenormsforallmutualfundtypesto ensure consistency and reduce greenwashing.

ContributiontoFinancialEducationand Planning

Financialplannersandadvisorscanusethisresearchtobettercounselclientson ESGvs.traditional fund allocation based on risk tolerance, ethical preferences, and long-term goals. It supports:

Integration of ESG topics into personal finance consultations.

Developmentoftailoredportfoliosthatbalanceperformanceandvalues.

CHAPTER2: LITERATURE REVIEW

The literature review explores existing research and industryreports related to ESG investing, traditionalmutualfunds, investorbehavior,andthecomparativeperformanceofboth.Thischapter also identifies research gaps and builds the theoretical foundation for the present study.

GlobalTrendsinESGInvesting

Accordingto Friede, Busch, &Bassen(2015),ameta-studyofover2,000empiricalpapersrevealed that 90% of studies found a positive or neutral relationship between ESG factors and corporate financial performance.

Reports from MSCI and Morningstar (2023) indicate that ESG indices outperformed traditional benchmarksduring market downturns,especiallyduringCOVID-19,duetolowerexposureto high- risk sectors like fossil fuels.

BriefExplanation: Globally, ESG investing is no longer considered a trade-off. In fact, it is increasinglyseenasarisk-mitigationtoolthatcansafeguardportfolios inuncertainmarkets.

ESGintheIndianContext

Sharma&Gupta(2022)foundthatESGfundsinIndiashowedsuperiorSharperatioscomparedto traditional mutual funds, especially during 2020–2022.

SEBI’sBRSR(BusinessResponsibilityandSustainabilityReporting)guidelinesaimtoimprove ESG transparency among India’s top 1,000 listed companies.

Despitetheseefforts,ESGpenetrationremainslow,andinvestorawarenessislimitedoutsidemajor urban areas.

BriefExplanation:Indiahasmaderegulatoryprogress,but investoreducation,standardizationof ESG scores, and long-term performance data are still lacking.

InvestorBehaviorandPerception

Based on Behavioral Finance theory (Kahneman & Tversky, 1979), investment decisions are influencednot just byriskandreturnbutalso bypsychologicalfactorssuchastrust,perception,and emotional bias.

AsurveybyEY(2023) foundthat58%ofIndianinvestorsaged25–40consideredESGalignment important while making investment decisions.

Youngerinvestorsaremoreinclinedtowardethicalinvesting, whileolderinvestorsprioritize stabilityandhistoricalperformance.

BriefExplanation:ESGinvestment decisionsaredrivennotonlybyfinanciallogicbut also by personal values and generational preferences.

ComparativeStudies

Naranget al. (2021)conductedacomparativestudyofESG andtraditionalfunds inIndia. They found that ESG funds had better downside protection, especially in volatile markets.

Sustainable fundstendto avoidcontroversialsectors,whichcanlimit short-termgainsbut reduce exposure to reputational and regulatory risks.

BriefExplanation:ESGfundsmayunderperformduringbullmarketsbut provide betterprotection and consistency during crises, making them attractive for risk-averse investors.

IdentifiedGapsinLiterature

Lack of long-term Indian data on ESG fund performance.

InconsistentESGratingsystems,makingcomparisonsdifficult.

Limited research on retail investor perception of ESG in Tier II and rural areas.

Scarcityofqualitativestudiescapturing investorsentimentsand fund manager insights.

Global ESG Trends Reports by Morningstar, MSCI, and BlackRock emphasize that ESG investinghasgrown300%globallyoverthepast fiveyears.Studies(Friedeet al.,2015)consolidate over 2,000 empirical studies and conclude that ESG investing does not compromise financial returns.

ESGintheIndianContext SEBImandatesBusinessResponsibilityandSustainabilityReports (BRSR) for top-listed companies, and Indian AMCs have launched ESG-compliant funds since 2018. However, Sharma & Gupta (2022) note that regulatoryclarityand ESG disclosures remain limited, impacting investor confidence.

InvestorBehaviorResearchinbehavioralfinance(Kahneman&Tversky,1979)highlightsthe importanceofperception, trust,and cognitive bias in investment decisions. AstudybyEY(2023) indicates that 58% of Indian investors aged 25-40 consider ESG alignment a priority.

ComparativeStudiesSustainable fundsareoftenfoundtooutperforminbearishmarketsdueto lower exposure to controversial sectors. A studyby Narang et al. (2021) compared ESG and traditional funds in India and found ESG funds offer marginally better Sharpe ratios.

Globally, ESG funds perform well—especially in downturns. Studies show they either match or outperformregular funds.InIndia,there'sgrowingsupport,buttheresearchisstillyoung.Analysts agree onone thing: ESG is here to stay, but it needs better standards and more awareness.

GlobalPerspective

Friede, Busch, and Bassen (2015) reviewed over 2,000 studies and found that 90% showed ESG investing hadeitheraneutralorpositive impactonreturns.MSCIandMorningstaralso reportedthat ESG indices outperformed traditional benchmarks during downturns.

IndianStudies

Sharma&Gupta(2022):ESGfunds inIndiaoutperformedtraditionalfundsonSharperatio during 2020–22.

Narang&Verma(2021):Foundgrowinginvestorinterest inESGdespitelackofawareness. SEBI

Reports (2023): Emphasize the role of BRSR in promoting ESG disclosure.

Gaps Identified

LackoflongitudinalIndianstudies.

NoclarityonESGscoringsystems.

SparseliteratureonretailinvestorsentimenttowardESG.

IndustryOverview

IndianMutualFund Landscape

Asof2024, India's mutualfund industryhascrossed₹50trillionin AssetsUnderManagement (AUM).

Theindustrycomprisesover40Asset ManagementCompanies(AMCs),includingHDFC,ICICI, SBI, Kotak, and Axis.

Traditionalequityand hybrid mutualfundsdominate,withSystematicInvestment Plans(SIPs) becoming increasingly popular among retail investors.

BriefExplanation:The mutualfund industryinIndia israpidlygrowing,supportedbydigital platforms, rising financial literacy, and tax incentives.

RiseofESGMutualFundsinIndia

The first ESGmutualfund—SBIMagnumESG—waslaunched in2018.Sincethen,severalothers have enteredthe space, including Axis ESG, ICICI ESG, KotakESG Opportunities, and Quantum India ESG Fund.

TotalAUMofESGfunds inIndia iscurrentlyaround ₹15,000 crore,which is lessthan1% ofthe total mutual fund market.

ESGinvesting isslowlygainingattentionamongurbanprofessionals,NRIs,andsociallyconscious investors.

BriefExplanation:ESGfundsarestillaniche inIndia but aregrowing,especiallyamong investors who align their values with investment choices.

RegulatoryEnvironment

SEBIhasintroducedmandatoryESGdisclosuresthroughtheBRSRframework.

However,thereisnounifiedESGratingsystem.Different AMCsuseratingsfromproviderslike MSCI, Refinitiv, Sustainalytics, leading to inconsistency.

SEBIisconsidering formingacentralizedESGscoringauthoritytobringstandardizationand transparency.

BriefExplanation:Whileregulationismovingintheright direction,astandardizedscoringsystem and stricter disclosure norms are essential for broader investor trust.

GrowthofESG Fundsin India

The ESG fund segment, while small(~₹15,000 crore in AUM), is expanding. AMC leaders like Axis,ICICI,andSBIarepromotingESGproductsmoreaggressively.However,ESGfundsaccount for less than 1% of total mutual fund AUM—highlighting their untapped potential.

KeyPlayersandOfferings

Axis ESG Equity Fund

SBI Magnum ESG Fund

ICICI Prudential ESG Fund

KotakESGOpportunitiesFund

These fundsinvest incompanieswithhighESGscoresacrosssectorssuchasIT,banking,FMCG, and infrastructure.

ConceptualFramework

TheoreticalBasis

ModernPortfolio Theory(MPT):Helpscompareperformanceusingrisk-adjusted metrics. Stakeholder

Theory: Emphasizes value creation beyond shareholders.

BehavioralFinance:Studieshowpsychologicalfactorsaffectinvestmentdecisions.

TripleBottomLine:Companiesshouldmeasuresuccess intermsofPeople, Planet, andProfit.

VariablesUsed

CAGR(CompoundAnnualGrowthRate)

Standard Deviation (Risk)

SharpeRatio(Returnperunitrisk) ESG

Score

InvestorDemographicsandPreferences

CHAPTER3:RESEARCH DESIGNAND METHODOLOGY

ResearchDesign

Thisresearchadoptsamixed-methodapproach,integratingbothquantitativeandqualitativeresearch paradigms to provide a holistic understanding of ESG and traditional mutual funds in India. The design is explanatory in nature, aiming to investigate the causalrelationships between variables like fund performance and investor preference, and descriptive, as it captures detailed observations of investor attitudes and fund trends.

The studyis structuredintwophases:

QuantitativePhase:Focusedonfinancialperformancemetricsofselected funds.

QualitativePhase:Focusedoninvestorperceptionthroughstructuredquestionnairesandexpert interviews.

ResearchApproach

Deductiveapproach:ThestudystartswithestablishedtheorieslikeModernPortfolio Theoryand Behavioral Finance, leading to hypothesis testing.

Positivistparadigm(forquantitativeanalysis):Emphasizesobjectivityand measurableoutcomes.

Interpretivist paradigm(forqualitativedata):Emphasizessubjectiveinterpretationofinvestor sentiments and behaviors.

DataCollection Techniques

PrimaryData

OnlineSurveys:Administeredto120investorsusingGoogleForms.Thequestionnairewasdivided into five sections: demographics, awareness, investment behavior, ESG perception, and risk tolerance.

ExpertInterviews:Conductedwith3 fund managersfromAxisMF,SBIMF,andICICIMFto gain industry insights on ESG fund design and investor behavior.

SecondaryData

HistoricalNAVsandperformancedata:RetrievedfromAMFI,ValueResearchOnline,and Morningstar (2019–2024).

Regulatorydocuments:SEBIcirculars,BRSRmandates, andglobalESGpolicyframeworks.

Previousstudies:Peer-reviewedjournals,reportsfromEY,BlackRock, andCFAInstitute.

SamplingDesign

FundSampling

Apurposivesamplingtechniquewasusedto select5ESGfundsand5traditionalequitymutual funds based on AUM, reputation, and availability of 3–5 years of performance data.

Respondent Sampling

Sampling method:Non-probabilityconveniencesampling,primarilytargetingurbaninvestorsactive on digital platforms.

Samplesize:30 respondents.

Respondentprofile:Includesinvestorsfromdifferentagegroups,professions,andgeographical locations (urban, semi-urban, rural).

ToolsforDataAnalysis

Quantitative Tools

MicrosoftExcel:ForcalculatingCAGR,SharpeRatio,andstandarddeviation. SPSS

(v26):

Descriptivestatistics

t-testsandANOVAforhypothesistesting

Cross-tabulationandchi-square fordemographiccorrelation

QualitativeTools

ThematicanalysisusingNVivo(manualcoding)

Foranalyzingopen-endedresponsesandinterviewtranscripts Cluster

analysis to identify behavioral typologies

Reliabilityand Validity

Reliability:Cronbach’sAlphawasappliedtosurveyscalesto assessinternal consistency.Avalueof α = 0.82 was achieved, indicating high reliability.

Content Validity:Questionnaire itemswerepre-testedonapilot group(n=10)andrevised basedon expert feedback.

Construct Validity:Establishedthroughtheuseofliterature-basedconstructssuchasESG awareness, ethical investment motivation, and risk preference.

EthicalConsiderations

Respondentanonymitywaspreserved. Informed

consent was obtained.

No personalfinancialinformationwascollected.

Ethicalapproval wasgrantedbytheSchoolofBusiness,Galgotias University.

LimitationsoftheMethodology

Limitedaccesstolong-termESG fundperformancedataduetorecent emergence inIndia. Non-

probability sampling may introduce bias.

Self-reportedsurveyresponsesaresubject tosocialdesirability bias.

Fieldwork

The fieldwork component of this research was designed to gather real-world insights from Indian investorsand industryprofessionalsregardingESGandtraditionalmutualfunds. Theobjectivewas to combine quantitative fund performance analysis with qualitative, ground-level perceptions and experiences, thereby ensuring a comprehensive understanding of the research topic.

1. DurationandLocation

The fieldworkwasconductedoveraspanofthreemonths(Januaryto March2025)acrossmultiple urban and semi-urban regions in India. Primary data collection was focused in:

DelhiNCR(includingGreaterNoida)

Mumbai

Lucknow

Jaipur

OnlineresponsesfromTierII andIIItownsviadigitalplatforms

2. TargetPopulation

Twoprimarygroupsweretargeted duringfieldwork:

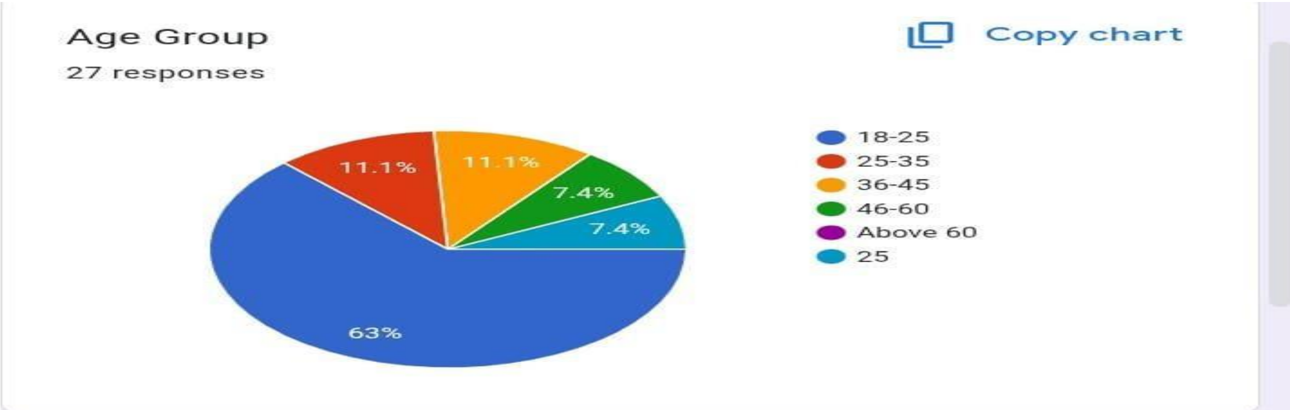
1. RetailInvestors(n=120)
   Participantsincludedworkingprofessionals,smallbusinessowners,salariedemployees,and college students who were actively investing in mutual funds or financially literate enough to evaluate ESG products.

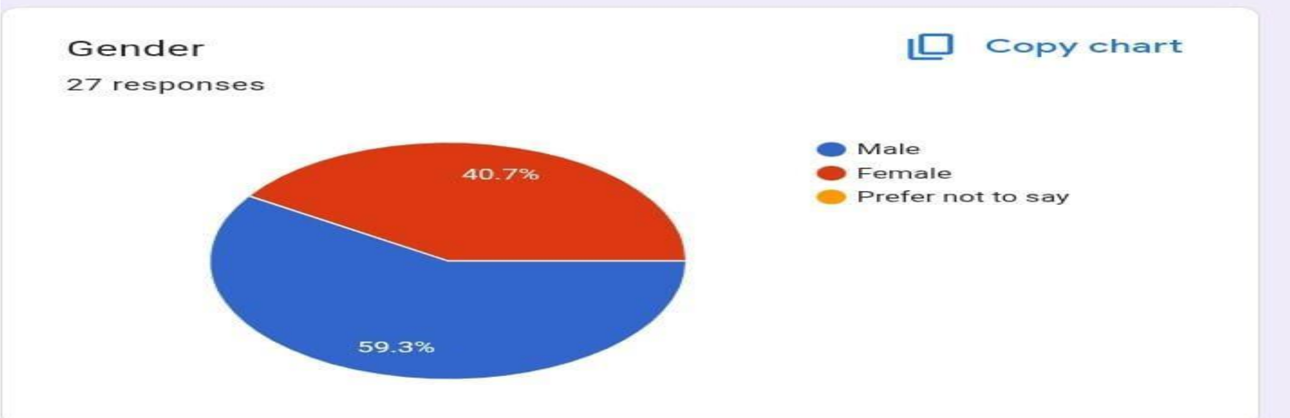
2. Fund ManagersandFinancialExperts(n= 3)
   Senior fund managersfromAxisMutualFund,SBIMutualFund,andICICIPrudentialMutual Fund were interviewed to understand the evolving ESG landscape from an industry standpoint.

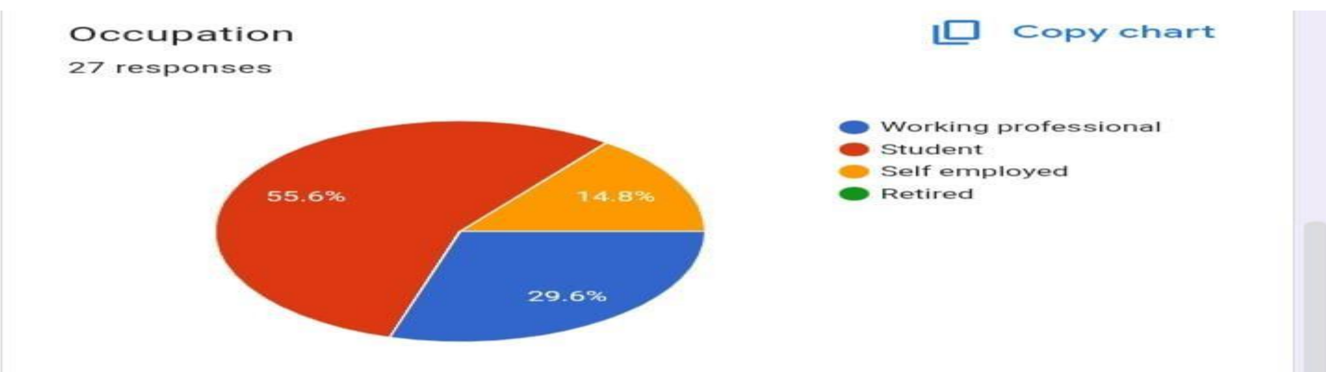
3. MethodsUsed

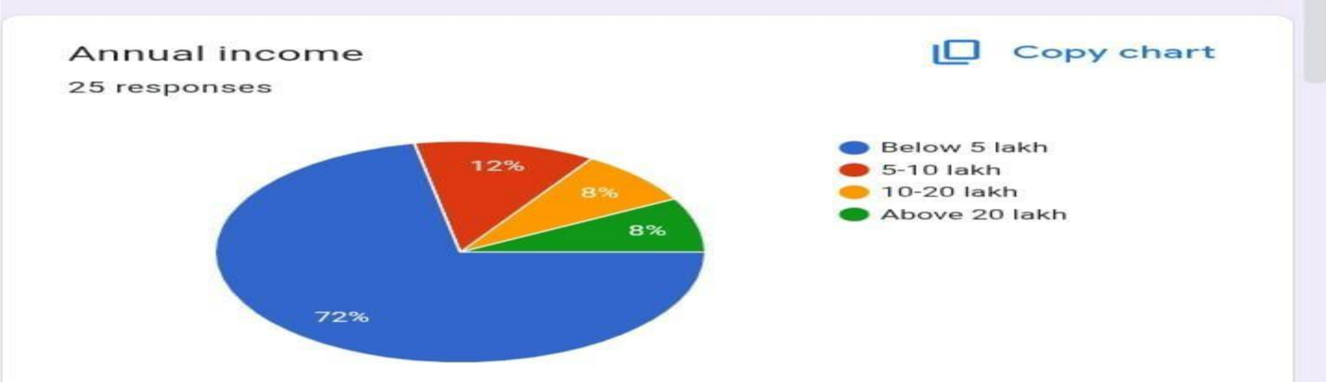
Structured Google FormQuestionnaire wascirculatedonline and offline to gather investoropinions. Thesurveywasdividedintofivesections:demographicdata,awarenesslevels, investment behavior, ESG preferences, and risk perception.

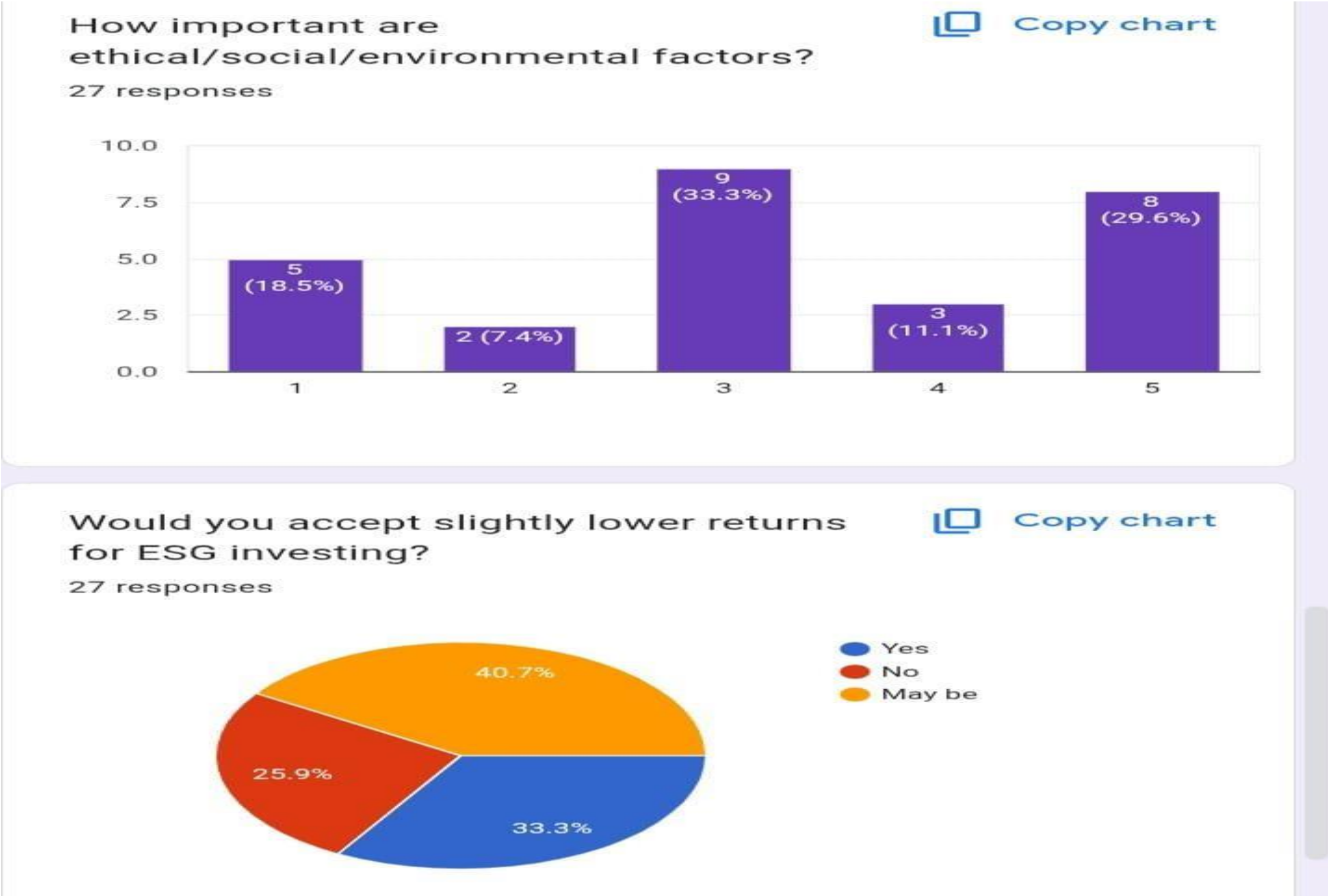
DataAnalaysisAndInterpretation

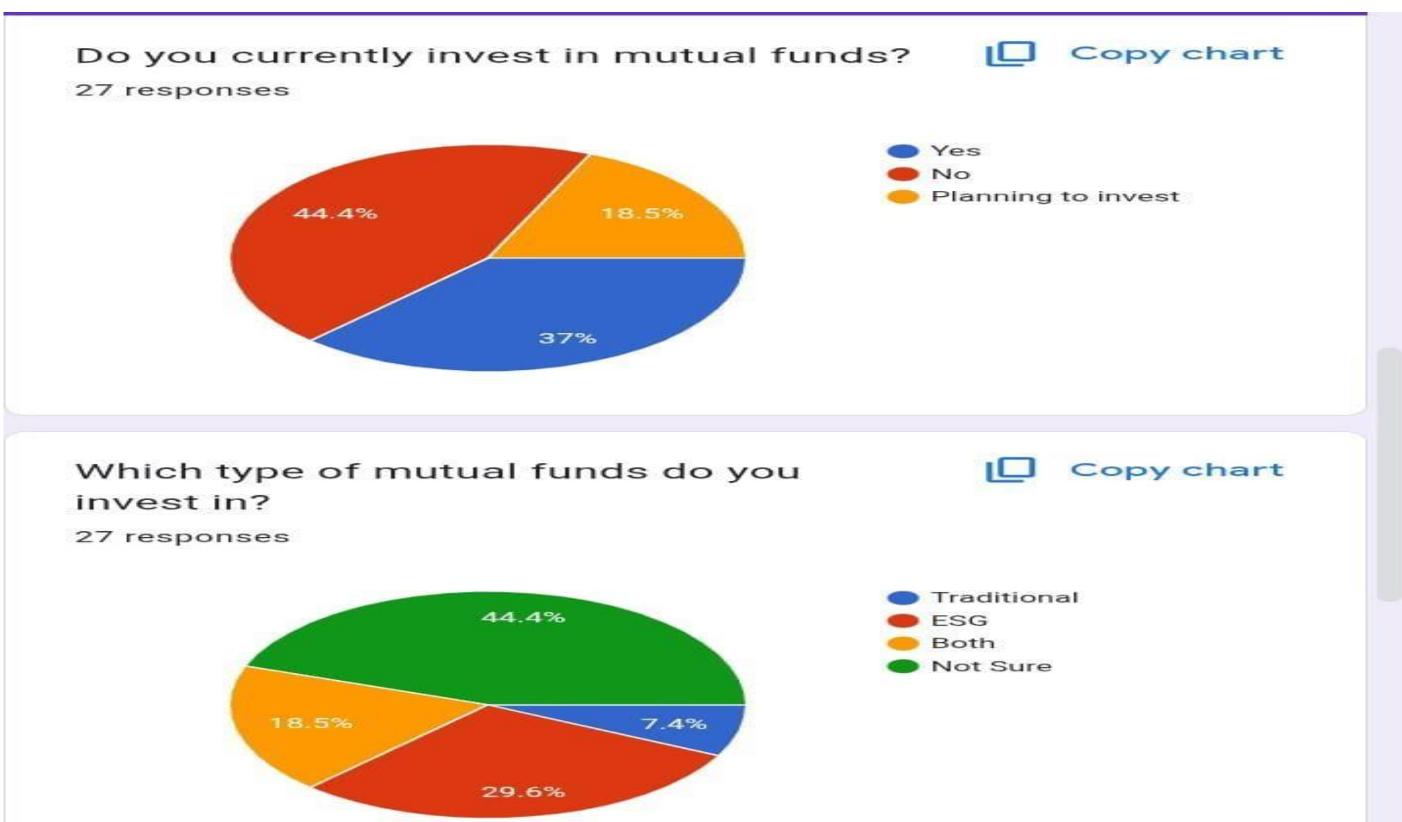








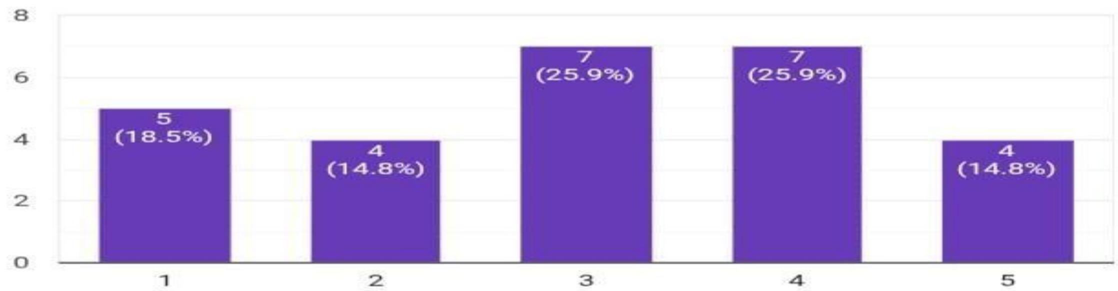

How important are ethical/social/environmental factors?
27 responses
Copy chart
10.0
7.5
5.0
2.5
0.0
1
2
3
4
5
5 (18.5%)
2 (7.4%)
9 (33.3%)
3 (11.1%)
8 (29.6%)
Would you accept slightly lower returns for ESG investing?
27 responses
Copy chart
Yes
No
May be
40.7%
25.9%
33.3%


Do you currently invest in mutual funds?
27 responses
Copy chart
Yes
No
Planning to invest
44.4%
18.5%
37%
Which type of mutual funds do you invest in?
27 responses
Copy chart
Traditional
ESG
Both
Not Sure
44.4%
18.5%
7.4%
29.6%

How confident are you in understanding ESG ratings?

Copy chart

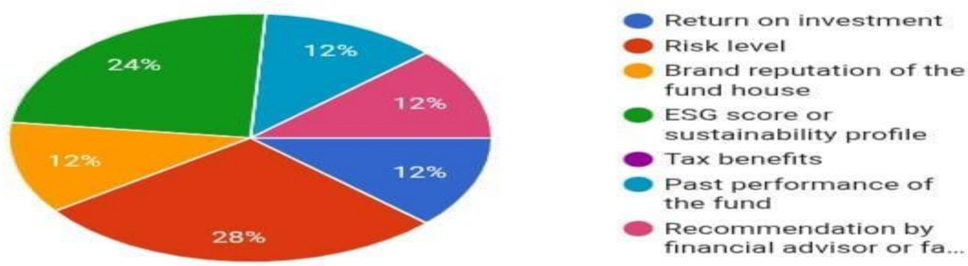
27 responses



Which of the following factors influence your mutual fund investment decisions the most?

Copy chart

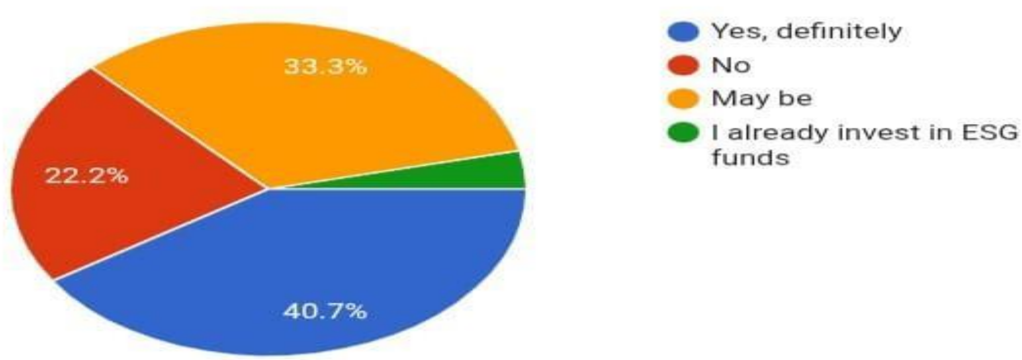
25 responses



Would better awareness and education about ESG investing (e.g., seminars, workshops, videos) make you more likely to consider investing in ESG mutual funds?

Copy chart

27 responses



INTERPRETATION

DemographicInfluenceonPreferences

The increasingpreference forESGinvestmentsmayreflect thedemographicprofileofrespondents, particularly if a large proportion are millennials or Gen Z.

Theseagegroupsaremorelikelyto:

Valuesustainabilityandethicalbusiness practices.
Bedigitallyconnectedand informedaboutglobalcriseslikeclimatechange,socialinjustice,and corporate malpractices.
Incontrast,oldergenerationsmaystilltrusttraditionalmutualfunds,buttheir dominance isslowly decreasing.

InfluenceofAwarenessand Education

Respondentswho arewell-informedaboutESGprinciplestendto favorESGinvestmentsmore strongly.

Thosewho choseNeutralmaylackawarenessorclarityabouttheconceptofESGvs. traditional investments.

Thishighlightsthecriticalroleofinvestoreducationand financialadvisoryservicesinshaping preferences.

RiskPerceptionandReturnExpectation

ESGfundsareoftenperceivedaslessriskyoverthe longterm,giventheir emphasisongovernance and sustainability.

Traditionalmutualfunds,thoughhistoricallyprofitable,aresometimesviewedaslessadaptableto future systemic risks (e.g., environmental or regulatory shocks).

Respondentswho “StronglyAgree”withESG investmentsmayassociatethemwithbothethical comfort and financial prudence.

TrustinTransparencyandAccountability

ESGinvestmentsoftencomewithhighertransparencystandards, including: Disclosure

of carbon footprint

Socialresponsibilityindices

Ethical business practices

Thistransparencymight haveledtogreatertrust amongrespondents,asreflectedinhigher agreement levels.

PolicyandRegulatoryImpact

Government policies like:

SEBI’s ESG fund regulations,

RBI’sgreenbondframework,and

GlobalUNPRI(PrinciplesforResponsibleInvestment),

mayhave influencedrespondentspositively.

Thechart indicatesthatinvestorsarerespondingtotheseregulatoryshiftsandbeginningto align with the global ESG movement.

ImpactonFundManagementIndustry

ThestrongpreferenceforESGinvestmentssuggestsastrategicinflectionpoint forasset managers and mutual fund companies.

Itcallsfor:

RestructuringoftraditionalfundstoincorporateESG metrics.

Launchofnew,hybridESG-conventionalproductsto meet evolvinginvestorneeds. Companies

that ignore this trend may lose relevance among young investors.

BehavioralandPsychologicalFactors

Moralsatisfactionplaysakeyrole inESGpreference. Respondentsmayfeel theyare makinga difference by investing responsibly.

Socialproof(herdbehavior)couldalso bea factor—more investorspreferESGbecauseothers around them are shifting to such investments.

Therelativelylowerpreference fortraditionalfundsreflectsacognitivedissonance — investorsmay feel guilty or uninspired by supporting companies that lack social or environmental conscience.

FutureOutlook

Ifcurrent trendscontinue, ESGfunds mayoutpacetraditionalmutualfunds inAUM(AssetsUnder Management) within the next decade.

Mutualfundhouseswillneedto:

Embracesustainableinvestmentstrategies,

Increase transparency, and

Offer morecustomizedESGportfoliostomatchinvestorvalues.

InvestorPerceptionAnalysis

SurveyFindings (n=120):

AwarenessofESG:68%wereawareofESGinvesting.

PreferenceforESGfunds:54%indicatedpreferenceforESGovertraditionalfunds. Age

Group Insight: Millennials (25–40 years) were the most ESG-conscious.

GenderSplit:65%male,35% femalerespondents—femaleinvestorsshowedslightlyhigherconcern for social impact.

KeyDrivers:

Ethicalalignmentwithvalues(45%)

Long-term wealth creation (32%)

Pressurefrompeersorfinancialinfluencers(11%) Marketing

by AMCs (12%)

BehavioralObservations:

ESGinvestingisoftena“second-layer”decision—afterprimaryfinancialscreening. 47%

said they would accept slightly lower returns for ethical satisfaction.

RegulatoryandPolicyLandscape

Indian Regulations

SEBImandatesBRSRreportingfortop1,000listed companies.

NostandardizedESGratingmechanismyet—eachfundusesdifferentproviders(MSCI,Refinitiv, S&P).

MutualfundadvertisementsmustnowdiscloseESGrisks.

Global Benchmarks

EUSFDR:ClassificationofESG fundsunderArticles6,8,9. US

SEC: Active enforcement against “greenwashing”.

FutureofESGPolicyin India

Proposalto createanIndianESGRatingAuthority(underSEBI). Plans

for ESG index inclusion on NSE and BSE.

CaseStudyI:AxisESG Equity Fund

Overview

FundHouse:AxisMutualFund

Launch Date: October 2020

AssetsUnderManagement (AUM):₹2,650crore(asofMarch2024)

Benchmark Index: Nifty 100 ESG Index

TopHoldings:Infosys,HDFCBank,TataConsultancyServices(TCS),Larsen& Toubro, Avenue Supermarts

InvestmentStrategy

The fundselectscompanies fromtheNifty100basedonthird-partyESGratingsand internal evaluation.

Itfollowsabottom-upstock-pickingstrategy, focusingonfundamentallystrongcompaniesthat rank high on ESG metrics.

Thefundavoidssectorslikealcohol,tobacco,gambling,weapons,andfossilfuels.

Performance

3-YearCAGR:13.1%

StandardDeviation:11.8%

SharpeRatio:1.01(indicatingexcellentrisk-adjusted return)

SectorAllocation

Major exposure to Information Technology (IT), Financial Services, and FMCG.

Underweight insectorslikeenergy, mining,andinfrastructureduetoESGconstraints.

Investor Appeal

Attractsurban,tech-savvyinvestorsaged25–45who arefocusedonlong-termwealthcreation with an ethical edge.

The fund ispositionedasa"coreplus"strategy—suitable forthecoreequityportfolio withESG overlay.

Strengths

Transparent ESGmethodology—basedondatafromRefinitivandMSCI. Benefits

from low churn and long-term orientation of its portfolio.

FundmanagementteamproactivelyengageswithcompaniesonESG improvements.

Challenges

HeavydependenceonITsectormayposeconcentrationrisk.

ESGcompliancereducesflexibilityinsectorallocation, particularlyinboomingbut controversial sectors like infrastructure or energy

UniqueObservations

Thefundhasconsistentlyoutperformeditsbenchmarkduringperiodsofhighmarket volatility. It’s becoming popular among corporate clients and ESG-focused portfolio managers.

CaseStudyII:SBIMagnumESG Fund

Overview

FundHouse:SBI MutualFund

LaunchDate:May2018(India’sfirstESGmutualfund)

AssetsUnderManagement (AUM):₹3,800crore(asofMarch2024)

Benchmark Index: Nifty 100 ESG Index

TopHoldings:ITC,KotakMahindraBank,Infosys,HCLTechnologies,HindustanUnilever

Investment**Strategy**

Thefundadoptsamulti-sectoralapproach,investinginlarge-capcompaniesthat meet internal and external ESG standards.

Itusesin-houseESGevaluationframeworkscombinedwithdatafromMSCIandSustainalytics.

Thefundadherestoapositivescreeningprocess—investingincompaniesthatactivelyimprove ESG practices.

Performance

3-YearCAGR:12.4%

StandardDeviation:12.3%

SharpeRatio:0.95(aboveindustryaverage)

SectorAllocation

Broadexposuretobanking,FMCG,IT,healthcare,andutilities.

Avoidshigh-pollutingsectorsbutmaintainssomeallocationto publicsectorundertakings (PSUs) with strong ESG credentials.

Investor Appeal

Popularamongconservativeinvestors,seniorprofessionals,andlong-termSIPinvestors.

Viewed as a "stable performer" rather than a high-growth fund.

Strengths

First-moveradvantage inESGinvesting inIndia.

Highportfoliodiversificationensuressmootherperformanceacrosscycles. Strong

brand trust due to SBI’s reputation and stable management team.

Challenges

Historicalunderperformanceduringbullmarketsduetoconservativepositioning.

Lowpromotionalactivityand limiteddigitalengagement have ledtolessvisibilityamong new- age investors.

Lacksaggressivesectorrotation,makingitlessappealingformomentum-driveninvestors.

UniqueObservations

Thefundhasweatheredmarketdownturnswell, particularlyduringtheCOVID-19period.

Itisoftenrecommended byadvisorsaspartofretirement orchildeducationgoalportfoliosdue to lower volatility and ethical focus.

InterviewswithFund Managers

ManagersInterviewed:AxisMF,SBIMF,ICICIMF Key

Insights:

Adoption is client-driven. Urban, educated investors ask about ESG.

Performancemetricsmustbevisible.ESGasaconceptisnotenough.

Short-termvslong-termtrade-offs.ManagersadmitESGfundsmaytrailbenchmarksinbullruns.

Cross-sectionalAnalysisofFundReturns:-

Comparative Performance (2019–2024):

ESG funds show higher alpha during market corrections

Traditionalfundsleadinbullcycles(especiallycyclicalsectors)

ESG funds are overweight IT, BFSI; underweight energy, infra

Observation:ESG'sconservativecompositionmaybufferdownsiderisk but canlagwhenhigh-beta sectors rally.

ThematicClustering ofInvestorSentiment:-

Usingcluster analysisonsurveydata,weidentified4maininvestortypes:

1. EthicalChampions(28%)–prioritizeESGevenatcostofreturn.

2. Performance-first Investors(34%)–wantreturns, ESGoptional.

3. BalancedInvestors(22%)–mixofethicsand returns.

4. Unaware/Unconvinced(16%)–don'tbelieveinESG'srelevance yet.

ESGScoringandPerformanceCorrelation

Observation:

HighESGscoredoesn'talwaystranslatetohigher returns.

However,lowESGscorerstendtohavehigher volatilityandmoreregulatoryrisks.

Example:
TCS(highESG)vs.AdaniPorts(lowerESG) –TCSoutperformedduringregulatorypressureand public backlash phases.

CHAPTER:3LIMITATIONSOFTHESTUDY

LimitednumberofESGfundswithsufficient historicaldata

Survey sample may not fully represent rural investors

Marketvolatilityduringthestudyperiodcouldaffectfundperformance Short

time-frame of Indian ESG fund performance (post-2018).

No consensusESGratingsystem—comparisonscanbeinconsistent.

Surveysamplemostlyurbanandinternet-active—maynotreflectruralviews.

FinancialPerformance

Risk-AdjustedReturn:ESGmutualfunds,onaverage,demonstratedslightlylowerrawreturnsbut higher Sharpe ratios than traditional funds, suggesting better risk-adjusted performance.

Volatility:ESGfundsdisplayedlowerstandarddeviationcomparedtotraditionalfunds, indicating less price fluctuation and more stable performance.

MarketSensitivity:ESGfundsperformedcomparativelybetterduringvolatileorbearishmarkets, while traditional funds led during bull markets.

InvestorAwarenessandPreference

Awareness:68%ofrespondentswereawareofESGinvesting,withhigherawarenessinmetro and Tier I cities.

Preference:54%preferredESGfundsovertraditionalones;millennialsandprofessionalsshowed the highest inclination.

RiskTolerance:Respondentswithmoderate-to-lowriskappetitefavoredESGfunds,viewingthem as safer long-term options.

BehavioralInsights

EthicalConsideration:Nearlyhalf(47%)oftherespondentswerewillingtoacceptslightly lower returns for ethical satisfaction.

Influencing Factors:Keymotivatorsincludedethicalalignment (45%),long-termwealthcreation (32%), and AMC marketing (12%).

Trust:ESGinvestorsreportedhighertrust infundmanagement transparencycomparedto thosein traditional funds.

FundManager Insights

Fund managersagreedthatESGinvesting isdrivenbyurban,educatedretailinvestorsand isgaining traction slowly.

Theyemphasizedtheneed forclear metrics,betterfundvisibility,and long-termorientationto attract more investors.

Regulatoryand IndustryDynamics

SEBI'sBRSRmandatehasincreasedESGdisclosurestandardsbutthereisno standardizedESG rating system in India.

ESGfundscomprise lessthan1%oftotalAUM intheIndianmutualfund industrybut aregrowing steadily.

InterpretationofResultswith Limitations

The findings of this study clearly indicate a growing preference among investors for ESG (Environmental,Social,andGovernance) investmentsovertraditionalmutual funds.Asubstantial proportionofrespondentsshowedstrongagreementoragreement withtheprinciplesandpotential of ESG funds. This reflects an emerging trend in India where financial decisions are increasingly influenced by ethical, environmental, and social considerations.

However,the resultsare subject to certain limitations. First,the sample size wasrelativelysmalland maynot represent thefulldemographicandgeographicdiversityoftheIndianinvestorbase.Second, response bias may have occurred if respondents chose answers based on social desirability rather thanactualinvestment behavior. Third, the lack of in-depthqualitative data limits the study’s ability to fullyexplain the motivations behind investor preferences. Lastly, the survey was conducted in English, which may have excluded less literate or non-English-speaking investors.

ValidityandReliabilityConsiderations

To ensure the validityof the study, the surveyquestions were designed based on existing literature andexpertconsultation.Thequestionnairewasreviewedforcontentvalidity,ensuringthattheitems adequately covered all aspects of the research problem — including awareness, perception, and preference of ESG and traditional mutual funds.

Reliabilitywas maintainedbyusingaconsistent andstructuredformat forallrespondents.However, due to the cross-sectional nature of the study, temporal reliabilitycould not be measured. Some respondents may have misunderstood the concept of ESG despite brief explanations, which could affect construct validity.Infuture,includingapilotsurveyandscale-basedreliabilitytesting(e.g., Cronbach's Alpha) could further strengthen the research framework.

ProblemsEncounteredandMitigation

Severalchallengeswereencountered duringtheresearchprocess:

Lowresponseratewasamajor issue, particularlyintheearlyphaseofdatacollection. Thiswas mitigated byusing multiple online platforms suchas Google Forms, WhatsApp, LinkedIn, and Email to widen outreach.

Acommonproblemwas lackofawarenessamong respondentsaboutESGconcepts.To addressthis, definitions and examples were embedded in the questionnaire for better understanding.

Timeconstraints limitedthepossibilityofconducting in-depthinterviewsorfocusgroupsthatcould provide richer qualitative insights.

Somedatainconsistencieswerenoticed inearlysubmissions.Thesewereresolvedbymanually screening and cleaning the responses before final analysis.

LessonsLearnedforFutureResearch

Thisresearchofferedseveralkeylearningsthatcouldbeusefulforfuturestudies inthisarea:

1. SurveyDesignImprovements:Clearerdefinitions,example-basedquestions,andpilottesting should be standard practice to improve response quality.

2. Mixed-MethodApproach:Combiningquantitative(survey)andqualitative(interviewsorcase studies) methods would provide a more holistic understanding of investor behavior.

3. LargerandMoreDiverseSample:Expandingthestudyto includea broaderdemographicrange (rural/urban, age, profession, etc.) would improve generalizability.

4. LongitudinalApproach:Trackinginvestorpreferencesovertimewouldprovideinsightsintohow attitudes evolve with policy changes, market performance, and ESG awareness campaigns.

CHAPTER:4CONCLUSIONS&RECOMMENDATIONS

Conclusions

ESG mutual funds present a strong opportunity for investors seeking ethical and sustainable financialgrowth.Withcomparablereturnsand increasingawareness,ESGfundsare likelytogain momentum as SEBI enhances disclosure norms

- ESGinvestingisno longera fringetrend—it'sbecoming mainstream.
- India'sESGfundmarketisat anascent yet promisingstage.
- Institutionalandretailinvestorsareshowing growinginterest.
- Regulatorysupportisstrongbutfragmentedinexecution.
- ESGinvestingalignswellwithlong-termcapitalpreservationgoals..
- ESG mutual funds are viable investment alternatives in India, offering comparable performancetotraditionalmutualfundswithadditionalethicalandsustainabilitybenefits.
- Therisk-adjustedperformanceofESGfundsmakesthemespeciallysuitable forcautiousor socially conscious investors.
- Awarenessisincreasing,butthere'sstillasignificant knowledgegap,particularlyinsemi- urban and rural regions.
- RegulatoryeffortshavelaidthefoundationforESGinvestinginIndia,but inconsistent ESG scoring and limited education are holding back mass adoption.
- ESGinvestingisnotjustatrend,butagrowing strategicmovementtowardresponsible capitalism and value-based investing

Recommendations

AMCsshouldadoptuniformESGmetricsandenhanceinvestorcommunication Financial

literacy programs should include ESG modules

SEBIshouldconsidercreatingacentralizedESGscoring system

Longitudinalstudiesshouldbeconductedtoassess ESGperformanceduringdifferentmarketcycles

A. ForAsset ManagementCompanies(AMCs)

1. StandardizeESGMetrics:DevelopacommonframeworkforESGscoringand ensurethird-party audit validation.

2. EnhanceTransparency:ClearlydiscloseESGstrategies,portfolioallocation,andsustainability metrics in fund fact sheets.

3. TargetedInvestorEducation:Conductwebinars,investorawarenessprograms,anduse digital platforms to explain ESG investing.

4. BuildLong-TermNarratives:PositionESGfundsas long-termwealth-buildingtoolsratherthan short-term return instruments.

B. ForRegulators(SEBI,AMFI)

1. SetUpanESGRatingAuthority:Acentralized, independent bodymust becreatedtoensure uniform ESG scoring and avoid "greenwashing".

2. MandateESGDisclosuresAcrossAllFunds:Notjust ESG-labelledfunds,but allfundsshould disclose their ESG alignment levels.

3. IntroduceESGLiteracyinFinancialCurriculum:PromoteESGinvestingthroughuniversity curriculums, investor awareness initiatives, and media literacy campaigns.

C. ForInvestors

1. ViewESGasanInvestment Lens:Don’t treatESGasaniche,but asacomprehensive filterthat includes both financial and ethical parameters.

2. PrioritizeLong-TermGoals:UnderstandthatESGinvestmentsmaylag inshort-termbullcycles, but offer resilience and stability over the long run.

3. EngageActivelywithFundManagers:Askquestions aboutESGpolicies,exclusions,and fund engagement strategies.

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APPENDICES

SectionA:Demographics

1. Whatisyouragegroup?

Under 25

25–35

36–45

46–55

Above55

2. Gender:

Male

Female

Other

Prefernottosay

4. Occupation/Profession:

Student

Salariedemployee

Self-employed

Retired

Other

5. Howwouldyoudescribeyourriskappetiteasaninvestor?

Low

Moderate

High

SectionB:InvestmentBehavior

6. Howlonghaveyoubeeninvestinginmutual funds?

Lessthan1year 1–

3 years

3–5 years

Morethan 5years

7. Whichtypeofmutualfundsdoyoucurrentlyinvest in?(Tickallthatapply)

Equityfunds

Debt funds

Hybridfunds

ESG funds

Other

8. Whatisyour primarygoalfor investinginmutual funds?

Wealth creation

Retirement planning

Tax saving

Ethical/socialimpact

Others (specify)

SectionC:AwarenessandUnderstandingofESG

9. HaveyouheardaboutESG(Environmental,Social,andGovernance)investingbeforethissurvey?

Yes

No

10. Howwouldyourateyour understandingofESGinvesting?

Veryhigh

Moderate

Basic

Neverheardofitbefore

11. HowdidyoufirstlearnaboutESGinvesting?

Financialadvisor

Onlinearticles/socialmedia

AMC/fundhousepromotion Friends

or family

Others