

Sustainable Investment with Special Reference to Axis ESG Equity Fund

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ABSTRACT

Sustainable Investment is a rational way of investing wherein investors promote long term environmental and social goals along with the returns from the fund. Asset Management Companies also get an edge by getting a positive point that they not only focus on short term gains but also Environment, Social and Governance (ESG) goals. The traditional ESG approach has led investors to take a more insightful investment decision. This paper studies the performance of Axis ESG Equity Fund against its benchmark and also examines the association of the portfolio against its benchmark NIFTY 100 ESG. It has been observed that there has been significant association between selected ESG Fund and NIFTY 100 ESG and there has been significant correlation between portfolio of Axis ESG Equity Fund and its benchmark NIFTY 100 ESG.

Keywords-ESG, Sustainability, Nifty 100 ESG, Axis Mutual Fund

INTRODUCTION

Sustainability comes into the picture after the introduction of the Sustainable Development Goals. The world's people consider doing this for themselves and for the coming generation to have a better future without any suffering. Not only the person but the government, capital market, and many companies work under sustainability, which is good for the environment, society, and its governance.

Sustainable Investing means investing funds in companies that impact the economy's environmental and social aspects. The investor does not judge the company based on short-term gains, instead focus on the company's contribution for betterment of the society which indirectly reaches through their hands. This ideology of the companies and the investor brought the ESG (Environment, Social and Governance) funds into the light. It began in 1960 in the name of socially responsible investing.

With the other investment option, investors prefer to invest in mutual funds in which fund managers give exposure to various businesses in a single investment by diversifying the funds. In this study, we consider ESG mutual funds. This type of mutual fund was first launched in 1971, under the name Pax world fund. In India, the SBI Magnum Equity ESG fund is the oldest available mutual fund, launched in 2013 under this category.

This study takes into consideration Axis ESG Equity funds. Axis mutual funds were established in 2009 due to a joint venture between Axis Bank and Schroder Singapore holding Pvt Ltd. AMF is one of India's top ten Asset management companies. If we look at the private sector, it is on the top under the ESG funds category based on their size of Rs.1699 crore till October 2022. AMF offers 13 equity schemes, and the ESG equity fund is one of them and also the signatory of UN PRI in the year 2021. Considering all these things, it is a socially responsible move on the part of investor.

REVIEW OF LITERATURE

Gupta S. (2022), the study proposes to investigate the ESG mutual fund growth and performance in India using standalone risk and return measures and others like Jensen's alpha, Treynor ratio, and Sortino Measure. The result shows that the growth in the industry is not as expected due to the beginning but a positive sign in the fund size and

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their numbers. The study's finding suggests that ESG not only complies with the sustainability goal but also gives a better return than traditional funds.

Bhuvneshwari T.S. (2021), the purpose is to show the effectiveness of ESG funds in the mutual fund portfolio of investors and to encourage investors to invest in ESG mutual funds. The study finds the linkage between SBI magnum ESG funds and Nifty 100 indices with the success of the growth schemes and corresponding return and risk in the normal growth and direct growth funds. It concludes that the SBI with the ESG requirement promises long-term investor income, and more ESG funds should focus on better portfolios and thoroughly analyze industries' environmental and social aspects.

Kaur J. (2021), this study shows whether ethical investing affects the portfolio's return for this author compared the ethical fund schemes with the Nifty 500 Shariah Index with six-year data starting from 2014. Jensen's alpha, Treynor's ratio, and Sharpe's ratio are used for the scheme's performance. The result concluded that ninety percent of schemes performed better, which means ethical investment raises positive returns with less risk.

Abate G. (2021), the study examines the performance of high-rating ESG funds with the low-rating ESG funds, considering the risk, higher moments, and investor's cost. The author takes a sample of 634 European mutual funds, uses data envelopment analysis, and concludes that the efficiency is high of the funds that invest in high-rated ESG.

Han Y. (2020), the purpose of the study is to check the risk and benefits of the growing demand for sustainable investment among investors. It evaluates the performance and the return compared to the traditional funds in 30 funds in each fund. All these are measured with the essential statistical tools, Capital Pricing Model, Carhart's four-factor model, and FF's three-factor model. It concludes that the basis of sustainable risk funds is better than traditional, but there is no confirmation that sustainable funds raise higher returns compared to traditional. It is clear that there is no supremacy of these funds over traditional funds.

Soler-Domínguez A. (2020), the study is on low carbon designation (LCD), given to that portfolio with low carbon emission and less fossil exposure. This study examines the relationship between the score the financial performance. For this, the author analyses the 3920 mutual funds from around the world which are responsible for society and concludes that the funds have higher sustainability performance wise better than the funds which have higher exposure to fossil fuels and carbon emissions. The study emphasizes promoting green finance and confirms that performance can be increased through sustainability in life and low economies with less carbon emission.

Durán-Santomil P. (2019), the purpose of the study is to measure the effect of sustainable Investments on the performance of the European equity fund, taking into consideration the sustainability score of 2016 to 18. The study concludes that sustainability scores give positive result regarding performance. The study also tests the relationship between risk and flow of the mutual funds, which results in negative relation of sustainability level and risk of the fund and support losses are less in high-scored funds.

Das N. (2018), this study investigates the risk-weighted performance of socially responsible funds for the period 2005-16 by using the FF 5-factor model. The study concluded that the SRF performance could be more satisfactory in the selected period. Other results indicate that the SRF in which the ESG rating is higher performed well than the lower ESG rating during the recession.

OBJECTIVES OF THE STUDY

1. To study the performance of Axis ESG Equity Fund against its benchmark NIFTY 100 ESG
2. To examine the portfolio of Axis ESG Equity Fund for its effectiveness against allocation in its portfolio

HYPOTHESIS

1. There is no significant association between Nifty 100 ESG and Axis ESG Equity Fund.
2. There is no positive correlation between Axis ESG Equity fund and sectoral portfolio allocation of Nifty 100 ESG

DATA ANALYSIS

H_0 : There is no significant association between Nifty 100 ESG and Axis ESG Equity Fund

Table 1: Comparison of Axis ESG Equity Fund and NIFTY 100 ESG

Anova: Single Factor						
SUMMARY						
Groups	Count	Sum	Average	Variance		
NIFTY 100 ESG	495	1422050	2872.827515	362803.55		
AXIS ESG EQUITY FUN	495	6692.25	13.51969697	6.0913556		
ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	2023471197	1	2023471197	11154.451	0	3.850888
Within Groups	179227964.6	988	181404.8225			
Total	2202699161	989				

Source: Researcher's own calculation

There is a significant relationship between the NAV of Axis ESG Equity Fund and NIFTY 100 ESG indices as the p-value stands to be 0 which is less than 0.05(significance value). Hence, the null hypothesis H_0 has been statistically rejected and the association between the two is statistically significant.

H_1 : There is no positive correlation between sectoral portfolio allocation of Axis ESG Equity fund and Nifty 100 ESG

Table 2:SECTOR-WISE PORTFOLIO ALLOCATION

SECTORS	NIFTY 100 ESG TRI	AXIS Equity ESG FUND
Financial	31.27	26.24
Services	8.2	20.06
Technology	15.62	12.92
Consumer Staples	6.24	11.75
Healthcare	5.85	6.36
Energy	4.68	4.27
Capital Goods	4.37	3.85
Consumer Discretionary	3.4	1.88
Textiles	0.75	1.54
Automobile	7.05	0.94
Diversified	0.44	0.61
Chemicals	2.17	0.06

Source: ValueResearch website

Pearson Correlation	
Coefficient r:	0.843243
N	12
T Statistic:	4.960757
DF	10

p value	0.000569
Spearman's Rho	0.818182

Source: Researcher's own calculation

There is significant degree of correlation between sectoral portfolio allocation of Axis ESG Equity fund and Nifty 100 ESG, the values Pearson's correlation 0.843243 and Spearman's Rho 0.818182 clearly proves it. The p value is 0.0005 is less than 0.05(significance value), hence the null hypothesis stands rejected and alternate hypothesis that there is significant degree of correlation between sectoral portfolio allocation of Axis ESG Equity fund and Nifty 100 ESG is accepted.

CONCLUSION AND SUGGESTION

The fund diverts its portfolio to companies which fulfil Environmental, Social and Governance (ESG) guidelines. The paper concludes that the Axis ESG Equity Fund is performing well since its inception against its benchmark NIFTY 100 ESG. Further, the fund's sectoral portfolio allocation is well up to mark to a great extent with its benchmark NIFTY 100 ESG. A certain percentage of fund's allocation to services shall be shifted to sectors like Automobiles, Chemicals and Consumer Discretionary for better performance.

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