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Imperial Study on the Comparative Performance Evaluation of ESG Mutual Funds and Normal Mutual Funds in India

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ABSTRACT

Mutual funds are professionally managed investment vehicles that pool money from multiple investors to invest in diversified portfolios of financial securities such as equities, bonds, money market instruments, and other assets. Managed by Asset Management Companies (AMCs) like SBI Mutual Fund and HDFC Asset Management Company, mutual funds aim to generate returns in line with specific investment objectives, such as capital appreciation, income generation, or capital preservation. Investors in mutual funds are allotted units based on the Net Asset Value (NAV), which represents the per-unit value of the fund's holdings. The NAV fluctuates according to changes in the market value of the underlying assets. Mutual funds offer diversification, professional management, liquidity, and accessibility, making them suitable for both small and large investors. They are broadly categorized into equity funds, debt funds, hybrid funds, and index funds, each varying in risk and return profile. Due to regulatory oversight, transparency, and ease of investment through mechanisms like Systematic Investment Plans (SIPs), mutual funds have become a popular investment avenue for long-term wealth creation and financial planning. Overall, mutual funds serve as an efficient financial intermediary that connects individual investors to capital markets while managing risk through diversification and professional expertise.

Keywords: professional, accessibility, popular

Introduction:

ESG (Environmental, Social, and Governance) mutual funds differ from normal mutual funds by prioritizing companies with strong sustainability and ethical practices, whereas traditional funds focus primarily on financial metrics and profit maximization. While normal funds may invest in high-risk sectors (e.g., tobacco, fossil fuels), ESG funds screen out these companies, focusing on long-term resilience and risk reduction. Every era of growth faces its challenges. Sustainability is no longer a challenge but a necessity; ESG investing transforms this necessity into an opportunity. Beyond conservative financial measures, ESG (environmental, social, and governance) funds are a type of mutual fund that invests in companies that align with economic, social, and governance factors in investment decision-making and focus on sustainable growth. The Securities and Exchange Board of India (SEBI) has introduced guidelines requiring the top 250 listed companies to disclose their ESG-related activities (FY 2024-25). This has enhanced transparency and encouraged companies to improve their ESG practices. ESG investing presents significant business opportunities for companies in India. By adopting sustainable practices and focusing on ESG factors, businesses can enhance operational efficiency, mitigate risks, attract capital from responsible investors, and gain a competitive edge in the market. ESG mutual funds are a recent trend in India's investment landscape. It is a subpart of the

SDGs, a new concept that has gained recognition worldwide. ESG has been adopted throughout the United States financial industry to describe and measure the sustainability and societal influence of a company or business. MSCI, a global ESG rating agency, defines ESG investing as the consideration of environmental, social, and governance factors alongside financial factors in the investment decision-making process. These funds invest in companies that meet specific criteria in these three areas. Environmental aspect: Data is reported on climate change, greenhouse gas emissions, biodiversity loss, deforestation/reforestation, pollution mitigation, energy efficiency, and water management. Social aspect: Data is reported on employee safety and health, working conditions, diversity, equity, and inclusion, and conflicts and humanitarian crises, and is relevant in risk and return assessments directly through results in enhancing (or destroying) customer satisfaction and employee engagement. Governance aspect: Data is reported on corporate governance, such as preventing bribery, corruption, Diversity of the Board of Directors, executive compensation, cybersecurity and privacy practices, and management structure.

Evolution of ESG Mutual Fund Investing:

From Global Emergence to Indian Adoption Global ESG assets surpassed $30 trillion in 2022 and are on track to surpass $40 trillion by 2030 —over 25% of projected $140 trillion assets under management (AUM) according to the latest ESG report from Bloomberg Intelligence (BI). India is following the lead of its international counterparts and utilising investment trusts and asset management firms to engage in the ESG trend of investing. Under the Paris Agreement, India pledged to invest $2.5 trillion between 2015 and 2030 to meet climate goals. Additionally, India is committed to the Sustainable Development Goals (SDGs), aiming to achieve economic growth while minimizing environmental harm. Global investors are also eyeing India's ESG potential. The Global Sustainable Investment Alliance (GSIA) reports that 41 international ESG funds have allocated an average of 25% of their investments to Indian equities. This indicates growing confidence in India's sustainable business landscape. Domestically, major players like Quantum Asset Management have launched ESG-focused funds. In 2019, Quantum introduced India's first open-ended ESG fund, and Avendus followed with another ESG-based fund. Since then, the number of ESG mutual funds has steadily grown, and as of 2025, there are 11 ESG mutual fund products available. These developments highlight the rising interest in responsible investing. Government policies are further driving ESG adoption. India has introduced reforms to boost renewable energy investments and ensure ethical corporate behaviour. SEBI has also mandated ESG disclosures for the top 1,000 listed companies, increasing transparency and accountability. Tracking ESG performance has become easier with sustainability indices like the NIFTY 100 ESG Index and the S&P BSE 100 ESG Index. These benchmarks help investors measure companies' environmental and social impact, making it easier to make informed decisions. ESG funds in India now hold a growing AUM of nearly ₹10,946 crores, reinforcing their resilience. A survey by the CFA Institute found that 60% of Indian investors consider ESG funds for their higher risk-adjusted returns, compared to just 29% globally. However, ESG-focused funds saw a net outflow of ₹891.53 crore in 2023, largely due to a global rally in defence stocks and renewed interest in fossil fuel companies. These sectors are typically excluded from ESG portfolios, which might have caused the outflow. Yet, the belief in ESG investing remains strong. Beyond ethical considerations, it aligns portfolios with the future growth of ESG investing trends. Short-term fluctuations may challenge ESG funds, but their long-term potential remains promising. As awareness and regulatory support grow, ESG funds are well-positioned to deliver both financial returns and sustainable impact. Finally, given that India is among the top five economies of the world and a beacon for global investments in emerging markets, this paper seeks to evaluate whether ESG mutual funds, despite their rising popularity, are indeed delivering superior performance compared to Conventional mutual funds. To achieve this, we have undertaken a comparative analysis of five ESG mutual funds and five conventional mutual funds, employing key risk–return

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metrics such as the Sharpe Ratio, Treynor's Ratio, Sortino Ratio, and Jensen's Alpha for each of the funds. Through this examination, the study aims to provide a comprehensive assessment of performance differentials, thereby offering investors and policymakers meaningful insights into the role and effectiveness of ESG-oriented investment strategies within the Indian mutual fund landscape.

How ESG Mutual funds are different from normal mutual funds:

- **Investment Focus**: ESG funds select companies based on environmental impact, social responsibility, and corporate governance. Normal funds focus on profitability, past performance, and growth potential.
- **Risk Management:** ESG funds aim to mitigate risks related to environmental disasters and poor corporate management, potentially leading to better, long-term, stable returns. Normal funds, such as sector or thematic funds, often have higher market-linked volatility.
- **Performance:** Studies show ESG funds can deliver competitive, or sometimes superior, long-term returns, with many showing resilience during market downturns.
- **Portfolio Composition:** ESG funds tend to be more concentrated in sectors with high ESG ratings, while normal funds often have a broader, more diversified, or traditional market-tracking approach.

ESG vs. Normal Mutual Funds Summary

Feature	**ESG Mutual Funds**	**Normal Mutual Funds**
Primary Goal	Ethical investing + Financial returns	Maximizing financial returns
Selection Criteria	E, S, G scores + Financials	Financials (Profit/Growth)
Risk Focus	Reduced, long-term, sustainable	Market-driven, often higher volatility
Sectors Avoided	Often, sin stocks (tobacco, etc.)	Usually none, focus on profit

Pros and Cons of ESG Funds:

Pros: Potential for higher long-term growth, better risk management, and alignment with ethical values.

Cons: Limited, younger, or less diverse, which may lead to higher expense ratios and potential underperformance over shorter periods.

Overall, ESG funds offer a way to achieve market-competitive returns while supporting socially responsible businesses, making them suitable for long-term investors seeking both profit and ethical impact.

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Literature Review:

Sarkar (2022) observed that ESG investment in India is still in a developmental phase and lags behind more advanced economies, primarily due to investor hesitation in incorporating ESG criteria into portfolio decisions. However, with increasing regulatory support from SEBI and the potential for competitive returns, ESG investing is expected to witness significant growth in the near future. The study further highlighted that funds such as Quant ESG Equity Fund and Invesco India ESG Equity Fund demonstrated strong performance, whereas older schemes like SBI Magnum Equity ESG Fund underperformed. Nevertheless, six out of eight ESG funds outperformed the market in 2021 and since inception, indicating strong risk-adjusted returns and long-term potential. Singh, Babarinde, and Hedau (2025) reported that ESG mutual funds in India exhibited notable resilience, generating an average annual return of 14.2% and a Sharpe ratio of 0.85 during the period 2020–2025, with relatively low volatility reflected by a beta of 0.92. This performance was largely driven by robust regulatory frameworks introduced by SEBI and the RBI, along with growing investor interest in sustainable investments. However, the study also pointed out ongoing challenges such as greenwashing, lack of reliable data, and limited investor awareness. Kaleeswari and Chaudhuri (2024) emphasized that the rising popularity of ESG investing has prompted regulators to enhance transparency in disclosures to mitigate risks like greenwashing. SEBI has implemented initiatives such as ESG ratings and Business Responsibility and Sustainability Reporting (BRSR), although gaps in investor awareness still remain. The study further noted that companies require improved ESG capabilities to effectively adapt to evolving governance and social expectations, and that India's regulatory framework aligns with global trends but needs localized adjustments for better implementation. Gupta (2022) highlighted that ESG mutual funds in India are relatively new, having emerged around 2018, resulting in limited data availability of approximately 3.5 years. The study recommended conducting long-term comparative analyses between ESG and conventional funds, identifying it as an important area for future research. Singh and Bahl (2023) analysed ESG mutual fund schemes and found that sectors such as financial services and technology attracted the highest ESG-integrated investments. ESG fund investments have grown rapidly since 2019, with around ten schemes available in the market. While certain funds, such as the Quantum India ESG Equity Fund, outperformed benchmarks with lower expense ratios, others like the HDFC Housing Opportunities Fund displayed stability but higher volatility. The study also identified key challenges, including unreliable ESG data, limited historical performance, traditional investment preferences, and a lack of technical expertise in ESG integration. Gupta and Chaudhary (2023) concluded that investing in ESG-compliant companies enhances portfolio risk management by reducing volatility and protecting against downside risk. These firms tend to be more resilient to economic shocks and may attract both domestic and international capital at lower costs, thereby encouraging investors to influence corporate behaviour toward greater social responsibility. Singh and Maurya (2021) found a statistically significant positive growth trend in the Nifty 100 ESG Index over time. Their analysis indicated that ESG-based investments contribute to long-term wealth creation and exhibit a strong positive correlation with the broader market index. Additionally, ESG investments tend to perform better during periods of economic and financial instability, reinforcing their role as relatively safer investment options. Kapadia (2022) pointed out that ESG-related risks are not adequately addressed within organizations. Despite the presence of sustainability policies, the limited existence of dedicated sustainability committees suggests insufficient monitoring of ESG risks. Furthermore, although many banks disclose risk assessment practices in their investment strategies, they continue to finance high-risk sectors, indicating a gap between policy and implementation.

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Present Study –

Research Gap:

A review of existing literature highlights the following gaps in the current body of knowledge:

- There is a lack of comprehensive research specifically comparing ESG mutual funds with conventional mutual funds in the Indian context.
- Most prior studies focus on short-term performance (typically around a 3-year period), resulting in limited understanding of the long-term performance of ESG mutual funds in India.

Objectives:

Based on the identified research gaps, the study aims to achieve the following objectives:

- To assess whether ESG mutual funds generate returns that are comparable to those of conventional mutual funds.
- To analyse and compare the risk–return characteristics of ESG mutual funds and conventional mutual funds in India by applying key performance indicators such as the Sharpe ratio, Jensen's alpha, beta, and standard deviation.

Hypothesis:

The above research objectives can be further delineated into the following thesis to be addressed as part of the study:

- Null Hypothesis (H_0): There is no significant difference in the average returns of ESG mutual funds and Conventional mutual funds in India since 2020.
- Alternative Hypothesis (H_1): There is a significant difference in the average returns of ESG mutual funds and Conventional mutual funds in India since 2020.

Research Methodology:

The study adopts a quantitative research approach to compare the performance of ESG mutual funds and conventional mutual funds in India. A representative sample of both categories of funds is selected based on availability of consistent historical data over a defined time period. Secondary data relating to Net Asset Values (NAVs) is collected from reliable sources, and periodic returns are computed for analysis. To evaluate and compare the risk–return profile of the selected funds, several standard financial performance measures are employed. Risk is assessed using standard deviation, which captures the volatility of returns. Risk-adjusted performance is measured through the Sharpe ratio and Sortino ratio, where the former considers total risk and the latter focuses specifically on downside risk. Additionally, the Capital Asset Pricing Model (CAPM) is applied to estimate beta and expected returns, enabling an assessment of systematic risk and the funds' performance relative to the market. The results derived from these parameters are then compared to determine whether ESG mutual funds provide performance comparable to or better than conventional mutual funds.

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Equations & Models Used –

- **Capital Asset Pricing Model (CAPM)** is a widely used financial framework that estimates the expected return of a fund by considering its exposure to systematic risk. It also helps determine whether ESG mutual funds generate returns above what is predicted by the market benchmark. Through CAPM, important measures such as alpha and beta can be calculated, allowing for a detailed comparison of risk-adjusted performance. In the context of ESG mutual funds, the model provides insight into how sustainability-focused portfolios perform in relation to overall market risk. For conventional mutual funds, CAPM serves as a tool to evaluate how effectively they achieve returns in line with their level of risk exposure.

The CAPM formula is given by -
Ra = Rf + β x (Rm - Rf)

The different factors of this equation are –
Ra = Expected dividend from investment.
Rf = Risk-free rate.
β = Beta factor of the underlying transaction.
(Rm - Rf) = Current market risk premium.

- **Sharpe ratio,** developed by Nobel laureate William F. Sharpe, measures the excess return earned by an investment relative to the total risk undertaken. This risk includes both systematic and unsystematic components associated with holding a portfolio. The ratio indicates how effectively a portfolio compensates investors for the level of risk assumed, with a higher Sharpe ratio reflecting better risk-adjusted performance.

$$\text{Sharpe Ratio} = \frac{\sigma p}{Rp - Rf}$$

The different factors of this formula are –
Rp = return of portfolio
Rf = risk-free rate
σp = standard deviation of the portfolio's excess return

- **Sortino Ratio:** The Sortino ratio is an extension of the Sharpe ratio that focuses specifically on downside risk. It measures the excess return earned by an investor in relation to negative volatility or potential losses associated with a risky portfolio. This metric is particularly useful for retail investors who are more concerned with minimizing losses rather than overall variability in returns. A higher Sortino ratio indicates better risk-adjusted performance, as it reflects greater returns per unit of downside risk.

$$\text{Sortino Ratio} = \frac{rp - rf}{\sigma d}$$

The different factors of this formula are –
Rp = Actual or expected portfolio return
Rf = Risk-free rate
σd = Standard deviation of the downside

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- **Standard Deviation:** Standard deviation is a statistical measure that quantifies the extent of variation or dispersion in a set of data values relative to their mean. It indicates how closely the observations are clustered around the average, with a lower standard deviation reflecting more consistency and a higher value indicating greater variability. Widely used in fields such as finance, economics, and research analysis, standard deviation helps assess the level of risk, uncertainty, or stability within a dataset by measuring the average deviation of each data point from the mean.

$$S = \sqrt{\frac{\Sigma(x_i - \underline{x})^2}{n-1}}$$

xi = Each Value
$\underline{x}$ = Mean (average)
n = Number of Observations

A higher standard deviation indicates greater volatility in the mutual fund.

Results and discussion -

Growth of ESG Funds in India:

The growth of ESG (Environmental, Social, and Governance) mutual funds in India has been significant over the past few years, driven by increasing investor awareness, regulatory support, and a shift toward sustainable investing. The assets under management (AUM) of ESG funds have grown rapidly from around ₹2,300–₹2,700 crore in 2019–2020 to approximately ₹9,700–₹11,000 crore by 2024–2025, reflecting a strong upward trajectory in investor participation. This expansion was particularly accelerated after the COVID-19 period, as investors began prioritizing ethical and long-term investment strategies. Additionally, the number of ESG-focused schemes and fund offerings has increased, indicating growing acceptance among asset management companies. However, despite this growth, ESG mutual funds in India are still at a relatively early stage compared to global markets, with market concentration in a few large funds and ongoing concerns such as greenwashing and performance consistency. Overall, the future outlook remains positive, supported by regulatory initiatives like enhanced ESG disclosures and increasing global investor interest in India's sustainable investment landscape.

Performance of the five selected ESG and Conventional mutual funds
• Details of the Selected Schemes:

The study sample comprises five ESG mutual funds and five conventional large- and mid-cap mutual funds selected for comparative evaluation. A benchmark, typically an index, is used to assess the overall performance of a mutual fund by providing a reference point against which actual returns can be compared. It represents the return an investment is expected to generate under similar market conditions, and ideally, a mutual fund aims to achieve or outperform its benchmark. The following table presents a comparison of key performance indicators for the top five ESG funds as of 16.04.2026, using the **NIFTY 100 ESG TRI (Total Return Index)**, as the benchmark index.

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Snapshot of the Selected ESG Thematic Schemes

Funds	Launch Date	Expense Ratio (%)	Latest NAV	Fund Manager (Tenure)
SBI ESG Exclusionary Strategy Fund – Direct Plan	14-05-2020	1.34	250.18	Rohit Shimpi (≈3.5)
ICICI Prudential ESG Exclusionary Strategy Fund – Direct Plan	09-10-2020	1.03	23.31	Mittul Kalawadia (≈3.4)
Quant ESG Integration Strategy Fund – Direct Plan	21-07-2020	0.93	33.91	Sanjeev Sharma (≈3.5)
Aditya Birla Sun Life ESG Integration Strategy Fund – Direct Plan	24-12-2020	1.41	18.68	Chanchal Khandelwal (≈3.0)
Kotak ESG Exclusionary Strategy Fund – Direct Plan	29-12-2020	0.93	18.02	Harsha Upadhyaya (≈4.0)

Source: https://dhan.co/mutual-funds/mf-to-invest/esg-funds/?utm_source

The subsequent table compares the key performance indicators for the leading five conventional funds as of 16.04.2026, concerning the NIFTY Large Midcap 250 TRI as a benchmark.

Snapshot of the Selected Conventional Schemes

Funds	Age	Expense Ratio (%)	Latest NAV	Fund manager (Tenure)
Bandhan Large & Mid Cap Fund – Direct Plan	12Y 7M	0.58	153.81	Manish Gunwani (≈2.5), Rahul Agarwal (≈1.9)
SBI Large & Midcap Fund – Direct Plan	11Y 3M	0.86	412.67	Saurabh Pant (≈4.0)
ICICI Prudential Large & Mid Cap Fund – Direct Plan	12Y 7M	0.77	1,088.24	Ihab Dalwai (≈3.2)
Motilal Oswal Large & Midcap Fund – Direct Plan	5Y 9M	0.68	188.78	Rakesh Shetty (≈2.7), Ajay Khandelwal (≈1.7), Atul Mehra (≈0.9)
Mirae Asset Large & Midcap Fund – Direct Plan	10Y 2M	0.63	132.45	Neelesh Surana (≈6.0)

Source: https://www.indmoney.com/mutual-funds/equity/large-mid-cap?utm_source

The following conclusion can be drawn from the above table:

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The comparison shows that conventional large & mid-cap mutual funds are more established, with longer track records, lower expense ratios, higher NAVs, and relatively stable fund management, making them more proven and cost-efficient investments benchmarked against indices like the NIFTY Large-Midcap 250. In contrast, ESG funds are relatively newer, have higher expense ratios, and lower NAVs due to recent launches, but they focus on sustainability and future-oriented investing; therefore, the choice between the two depends on whether an investor prioritizes proven performance and cost efficiency or aligns with ESG-driven, long-term thematic growth.

Conventional mutual fund:

The following table displays the absolute and annualised returns of the Large and Mid-Cap Conventional mutual fund schemes under consideration. The table highlights that the selected conventional funds have consistently delivered strong returns, reflecting their long-standing presence and relatively stable performance in the market.

Funds	Net Assets (Cr)	Latest NAV	1 Yr Ret (%)	1 Yr Rank	3 Yr Ret (%)	3 Yr Rank
SBI ESG Exclusionary Strategy Fund – Direct Plan	4200	19.85	6.1	~2 / 5	17.8	~2 / 5
ICICI Prudential ESG Exclusionary Strategy Fund – Direct Plan	1549	23.31	6.73	~1 / 5	20.14	~1 / 5
Quant ESG Integration Strategy Fund – Direct Plan	350	21.4	5.95	~3 / 5	18.25	~3 / 5
Aditya Birla Sun Life ESG Integration Strategy Fund – Direct Plan	631	18.55	5.1	~4 / 5	14.01	~5 / 5
Kotak ESG Exclusionary Strategy Fund – Direct Plan	1200	16.75	4.8	~5 / 5	15.6	~4 / 5

Fund Name	Net Assets (₹ Cr)	Latest NAV (₹)	1-Year Return (%)	1-Year Rank	3-Year Return (%)	3-Year Rank
Bandhan Large & Mid Cap Fund – Direct Plan	~14,100 – 14,780	~155.3	~14.2%	~5 / 30	~26.2% CAGR	~3 / 26
SBI Large & Midcap Fund – Direct Plan	~34,800	~688.6	~11.6%	~3 / 6	~18.0% CAGR	~5–7 / category
ICICI Prudential Large & Mid Cap Fund – Direct Plan	~27,000	~1,151.8	~9.3%	~4–5 / category	~22.2% CAGR	~3–4 / category
Motilal Oswal Large & Midcap Fund – Direct Plan	~14,000	~37.6	~18.2%	~1–2 / category	~27.7% CAGR	~1 / category
Mirae Asset Large & Midcap Fund – Direct Plan	~38,100	~166.1	~9.8%	~2 / 5	~16.9% CAGR	~4–5 / category

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Source: https://www.etmoney.com/mutual-funds/sbi-esg-exclusionary-strategy-fund/31969?utm_source

A direct comparison of the two tables shows a clear performance gap between ESG mutual funds and conventional large & mid-cap mutual funds over the observed period. The conventional mutual funds outperform ESG funds across both 1-year and 3-year horizons. While ESG funds delivered relatively modest returns (around ~2%–7% for 1-year and ~14%–20% for 3-year), conventional funds generated significantly higher returns (roughly ~9%–18% for 1-year and ~17%–27% CAGR for 3-year). Funds like Motilal Oswal and Bandhan stand out with particularly strong long-term performance, indicating better capital appreciation potential. In terms of consistency and rankings, ESG funds show tighter clustering but generally lower rankings relative to broader equity categories, whereas conventional funds demonstrate stronger competitive positioning within their category. Additionally, AUM (Assets Under Management) is substantially higher for conventional funds, reflecting greater investor confidence and wider adoption. Overall, the data suggests that while ESG funds provide more stable and sustainability-focused investment exposure, they currently lag behind conventional funds in terms of returns and scale. Investors prioritizing higher returns may prefer conventional funds, whereas those focused on ethical investing and long-term sustainability may still consider ESG funds despite relatively lower performance.

Risk Profile and Risk-Adjusted Performance of ESG Schemes:

The study further evaluates the risk profile and risk-adjusted performance of the selected ESG mutual fund schemes using key financial indicators such as standard deviation, Sharpe ratio, Sortino ratio, and Beta (CAPM). Standard deviation is used as a measure of total risk, indicating the degree of volatility in the fund's returns over the study period; a higher value reflects greater fluctuation and risk. The Sharpe ratio assesses the excess return generated by the fund per unit of total risk, thereby measuring overall risk-adjusted performance. The Sortino ratio, a refinement of the Sharpe ratio, focuses specifically on downside risk by considering only negative deviations, making it particularly relevant for investors concerned with minimizing losses. Beta, derived from the Capital Asset Pricing Model (CAPM), measures the systematic risk of the fund in relation to the market benchmark, indicating how sensitive the fund's returns are to market movements. Together, these measures provide a comprehensive understanding of both total and market-related risk, enabling a more accurate comparison of the performance of ESG mutual funds on a risk-adjusted basis.

Risk Profile of the ESG Schemes:

Funds	**Standard Deviation**	**Sharpe Ratio**	**Sortino Ratio**	**Beta (CAPM)**
SBI ESG Exclusionary Strategy Fund – Direct Plan	12.45	0.88	1.28	0.91
ICICI Prudential ESG Exclusionary Strategy Fund – Direct Plan	12.1	1.16	1.83	0.87
Quant ESG Integration Strategy Fund – Direct Plan	13.35	0.97	1.42	1.06

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Aditya Birla Sun Life ESG Integration Strategy Fund – Direct Plan	12.89	0.67	1	0.93
Kotak ESG Exclusionary Strategy Fund – Direct Plan	12.6	0.78	1.12	0.92

Risk Profile of Conventional Mutual Fund Schemes:

Funds	**Standard Deviation**	**Sharpe Ratio**	**Sortino Ratio**	**Beta (CAPM)**
Bandhan Large & Mid Cap Fund – Direct Plan	13.85	1.05	1.55	1.02
SBI Large & Midcap Fund – Direct Plan	13.2	0.92	1.35	0.98
ICICI Prudential Large & Mid Cap Fund – Direct Plan	12.95	0.88	1.3	0.96
Motilal Oswal Large & Midcap Fund – Direct Plan	14.6	1.2	1.75	1.1
Mirae Asset Large & Midcap Fund – Direct Plan	12.7	0.9	1.32	0.95

Conclusion -

The study indicates that ESG fund investments in India are steadily gaining traction, although their growth is still slower compared to that in more developed markets. This relatively gradual adoption may be attributed to the fact that many Indian investors have yet to fully embrace environmental, social, and governance factors in their investment decision-making. Nevertheless, ongoing efforts by the Securities and Exchange Board of India to enhance sustainability disclosures and strengthen governance frameworks, along with the promising long-term return prospects of ESG investments, are likely to support increased acceptance and expansion of ESG investing in the future.

A comparative analysis of the ESG and conventional mutual funds reveals a clear distinction in their risk–return profiles. Conventional funds exhibit higher standard deviation (≈12.7–14.6) and higher beta values (≈0.95–1.10), indicating greater volatility and stronger sensitivity to market movements. However, this higher risk is compensated by superior risk-adjusted performance, as reflected in generally higher Sharpe ratios (up to 1.20) and Sortino ratios (up to 1.75), with funds like Motilal Oswal and Bandhan demonstrating strong efficiency in generating returns per unit of risk. In contrast, ESG funds show relatively lower volatility (≈12.1–13.35) and beta values mostly below 1, suggesting more stable and defensive behaviour against market fluctuations. While ESG funds such as ICICI Prudential ESG perform well on a risk-adjusted basis, the overall category delivers moderate Sharpe and Sortino ratios, indicating comparatively lower return efficiency. Thus, the findings suggest that conventional funds are better suited for investors seeking higher returns despite higher risk, whereas ESG funds are more appropriate for risk-averse investors prioritizing stability, sustainability, and long-term resilience over maximum returns.

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