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UNDERSTANDING ESG INVESTING STRATEGIES

A Guide you needed

Written by

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ACKNOWLEDGEMENT

Before I dive into the intricacies of ESG investing strategies, I would like to extend my heartfelt gratitude to Xavier Institute of Management and Research, Mumbai, for generously providing access to their Bloomberg Terminal – a resource that feels like a superpower for anyone passionate about data-driven insights. This thought leadership is a culmination of countless hours spent on Bloomberg's ESG tools, slicing through metrics and trends.

A special mention to Bloomberg itself – not just for simplifying ESG complexities but for showing us how doing good for the planet can also mean doing well for our portfolios.

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INTRODUCTION

ESG investing is no longer a "good-to-have"; it's a must-have. From corporate boardrooms to investor portfolios, Environmental, Social, and Governance considerations have become central to decision-making. ESG is not just about saving the planet (although we'd all like a few more glaciers around); it's also about smart business.

Studies consistently show that companies with strong ESG performance not only weather market storms better but also outperform their peers. According to Bloomberg, global ESG-focused funds have ballooned to a staggering ₹6.5 trillion - a number that tells us investors are putting their money where their conscience is.

Here's where it gets interesting - it's not all about tree-hugging and solar panels. Companies with high ESG scores tend to have lower risks, better governance, and, let's be honest, fewer scandals. If you think ESG investing is boring, imagine NOT investing in companies leading the charge in electric vehicles, renewable energy, or gender equity. The future is here, and it's green.

So, let's break down the six ESG strategies that every investor should know. Trust me, these strategies are like a well-planned Indian thali - every ingredient adds value, and together, they make something remarkable.

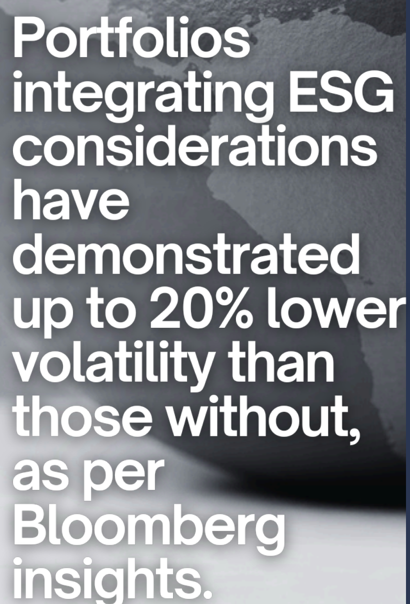
ESG INTEGRATION

Bloomberg reports indicate that ESG investments have seen significant global growth, with more funds aligning portfolios to sustainability goals and outperforming in many cases.

ESG Integration is the fine art of blending ESG factors into traditional financial analysis. Think of it as updating an old car with a hybrid engine – you keep the foundations but add something powerful for the future.

Here, investment managers evaluate environmental, social, and governance factors alongside financial metrics to assess a company’s overall value. The goal? Better risk management, smarter decision-making, and a portfolio that stands the test of time.

Example: Take an Indian FMCG company investing in energy-efficient manufacturing and plastic-free packaging. While competitors scramble to meet regulations, this company not only saves costs but also earns investor trust.



Portfolios integrating ESG considerations have demonstrated up to 20% lower volatility than those without, as per Bloomberg insights.

NEGATIVE/EXCLUSIONARY SCREENING

Exclusionary screening strategies help avoid industries with higher regulatory and reputational risks, ensuring portfolios align with ethical standards.

Negative screening is the “no-go” strategy - actively excluding industries or companies that don’t align with ethical or sustainable goals. Think alcohol, tobacco, weapons, or gambling, often termed “sin stocks.”

While these industries can churn out profits, their long-term risks - be it regulatory scrutiny or social backlash - make them volatile investments. Negative screening ensures that ethical lines are drawn, but profits aren’t compromised.

Example: Several Indian mutual funds have stopped investing in coal-dependent energy companies, redirecting capital toward renewable power producers like Adani Green Energy.

Norms-Based Screening

Think of norms-based screening as holding a moral report card for companies. This strategy screens investments against internationally accepted standards like the UN Global Compact, ILO conventions, and the OECD Guidelines.

Why is this important? Businesses violating labour laws, indulging in corruption, or disregarding environmental norms often end up paying heavy fines or losing market trust – both of which hurt long-term value.

Example: An Indian mining corporation caught displacing indigenous communities for resources would face norms-based exclusion. Meanwhile, a competing company upholding transparency and fair labour practices would pass the test.

Positive/Best-In Class Screening

Positive screening is about backing the toppers – companies leading their sectors in ESG performance. Rather than punishing bad actors, this strategy rewards those that are truly best-in-class for sustainability and governance.

Investors look for firms achieving exceptional performance across ESG factors, setting benchmarks for their industries.

Example: Indian IT firms like Infosys and TCS are champions of carbon neutrality and ethical governance. Infosys has been carbon neutral since 2020, making it a favourite for ESG-focused portfolios.

Sustainability-Themed Investing

This is where profit meets passion. Sustainability-themed investing channels funds into companies or assets contributing to specific solutions like clean water, renewable energy, and sustainable agriculture.

Why does it matter? These sectors solve real-world problems while offering investors exposure to high-growth markets.

Example: Renewable energy firms like ReNew Power or companies producing electric vehicles are perfect sustainability-themed investments. They not only address India's energy needs but attract large-scale capital inflow.

Thematic ESG funds have grown 30% year-on-year in India, driven by rising investor interest in climate and clean energy solutions.

Impact Investing

Impact investing delivers measurable social and environmental benefits alongside competitive financial returns, proving profitability and purpose can coexist.

Impact investing delivers double returns – measurable social or environmental benefits alongside financial gains. It's not charity; it's investing with purpose and profitability.

Here, capital is directed toward businesses solving critical ESG issues like affordable healthcare, education, clean energy, and microfinance.

Example: Indian microfinance institutions empowering women entrepreneurs in rural areas are classic impact investments. These institutions create jobs, uplift communities, and generate steady investor returns.

The future of finance is no longer just about numbers; it’s about impact, responsibility, and resilience. ESG investing isn’t a fad - it’s the financial evolution we all need. Whether you’re integrating ESG factors, rewarding best-in-class companies, or making sustainability-themed investments, the end result is clear: better returns and a better world.

THANK YOU FOR READING

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