



DROPS BEFORE THE RAIN?

INDIA SUSTAINABLE AND RESPONSIBLE INVESTING LANDSCAPE 2017



ckinetics
Accelerating Sustainability



ऑक्सफैम इंडिया
OXFAM
India

PUBLISHED BY:

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www.oxfamindia.org

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DROPS BEFORE THE RAIN?

INDIA SUSTAINABLE AND RESPONSIBLE INVESTING LANDSCAPE 2017

CONTEXT OF THIS REPORT: DEMYSTIFYING SUSTAINABLE AND RESPONSIBLE INVESTING (SRI) IN INDIA

Assets managed and deployed with Sustainable and Responsible Investing strategies total \$22.89 trillion (₹¹ 1476 trillion) globally. Increasingly ESG (Environmental-Social-Governance) information is being incorporated along with financial analysis in decision making. In fact, almost 26.3% of the global capital under management is arguably driven by such strategies².

Investors are now progressively also looking at the emerging markets from an ESG lens and the trend is expected to grow in years to come. As per Wells Fargo Asset Management's report 'Emerging Markets – A New Paradigm for ESG Investing', emerging markets present a high growth opportunity to investors, given the increased focus on building sustainable infrastructure in the region.

In India, responsible or sustainable investment has been viewed as a niche strategy with little or no quantification of the sustainable investment assets allocated to the country. However, investor interest is increasing and more ESG-linked funds are now allocating capital towards India. In **2012**, **cKinetics** came out with a report called '**Cracking the Conundrum**' which presented the landscape of sustainable investment in India from the perspective of various stakeholders, including the policy makers and investors. The report highlighted the trend of an **emerging group of investors that look beyond traditional financial returns** and using ESG factors in their investment decision making.

The Securities Exchange Board of India (SEBI) has made it compulsory for the top 500 companies listed on Indian stock exchanges to publish annual ESG disclosures³ based on National Voluntary Guidelines (NVGs)⁴ for Social, Environment and Economic Responsibilities of Business. A civil society led initiative, India Responsible Business Index (IRBI)⁵, analyses these disclosures of top 100 companies from the lens of social inclusion. The last two editions of the index have highlighted gaps in the quality of these disclosures and engaged regulators, companies, civil society and investors on this issue.

Taking cue from the past work, **this report** tries to capture the **current landscape of Sustainable and Responsible Investment (SRI) in India** and **investor perceptions** on sustainable and responsible investing in India.

Sustainable and Responsible Investing is becoming mainstay worldwide. This report captures the present landscape in India and outlook of investors.

1 Taking 1USD=64.5

2 Global Sustainable Investment Review, 2016, GSIA

3 Business Responsibility Reporting - http://www.sebi.gov.in/sebi_data/attachdocs/1451885364256.pdf

4 http://www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_12jul2011.pdf

5 India Responsible Business Index - http://www.responsiblebiz.org/irbf_index/

REPORT PROPONENTS AND METHODOLOGY

ABOUT OXFAM INDIA

Oxfam is celebrating its 67th year of humanitarian service in India. In the past six decades, Oxfam has supported civil society organizations across the country. In 2008, various Oxfams in India joined forces to form Oxfam India. Registered as an independent organization, Oxfam India has indigenous staff and board members. It is a member of the global confederation of 20 Oxfams.

ABOUT CKINETICS

cKinetics is a mission driven Sustainability Insight, Innovation & Capital Advisory Firm, working with businesses, investors industry groups as well as thought leaders to continually generate market insights and catalyze change.

METHODOLOGY

For the purpose of the report, a bottom-up approach has been adopted to quantify the amount of assets allocated towards India by investors subscribing to a sustainable and responsible investing strategy. Around 24 Asset Management Companies and 145 funds have been analyzed to arrive at the current SRI asset allocation by global and Indian investors for the Indian market.

Additionally, over 35 stakeholders driving Sustainable and Responsible Investment (SRI) in India have been interviewed and surveyed, including ESG information providers for the Indian market, to map the current landscape and opportunities for Sustainable and Responsible Investment in the country.

ACKNOWLEDGMENT

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GLOSSARY

Asset Allocation	Bifurcation of investment funds into broad categories based on asset types, geographies, instruments, sectors etc.
Asset Manager	A company which manages assets / money for clients, offering a range of financial products
Assets under Management (AUM)	Market value of assets that an investment company manages / invests
BRR (Business Responsibility Report)	Is a standardized format for corporates to report on the actions undertaken towards adoption of responsible business practices. The format has been developed by the Ministry of Corporate Affairs, Government of India and is mandatory for top 500 listed firms
CAGR (Compound Annual Growth Rate)	A measure of growth over multiple time periods
Development Finance Institutions (DFI)	Financial institutions which provide financial services to the underserved markets
Equity investors	Investing in, and holding of, shares of stock on a stock market by individuals and firms
ESG	Environmental, Social and Governance information
Ethical funds	Funds that follow an investment philosophy of screening out certain sectors and/or practices
Socially responsible funds	Funds that follow an investment philosophy that includes non-financial, ethical (e.g., social and environmental) objectives
Sustainable and Responsible Investing (SRI)	Investment approach that considers environmental, social and governance (ESG) factors in portfolio selection and management
XBRL (eXtensible Business Reporting Language)	An open international standard for digital business reporting that is being used by the Bombay Stock Exchange (BSE) to help improve the accuracy and utility of filings about corporate voting results

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

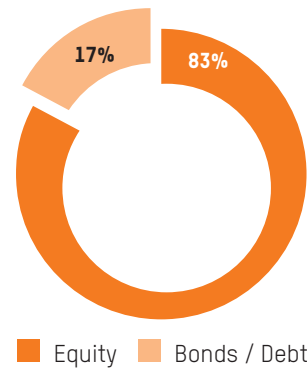
Assets deployed with Sustainable and Responsible Investing (SRI) strategies is rapidly growing globally and stands at approximately \$22.89 trillion (₹1476 trillion) presently. In comparison, this report estimates the present capital deployed with SRI strategies in India to be ~\$30 billion (₹1,962 billion).

This contrasts with \$11 trillion globally 5 years ago and \$13 billion in India at a similar time.

Sustainable and Responsible Investing considers performance of a company with respect to its natural capital (E), its interaction with the society, consumers, employees (S) and measures policies and processes of the company and management of stakeholder interests (G) to make better informed decisions. Investors are incorporating 'ESG' information in their financial decision-making process to have a holistic view of the companies they intend to invest in.

Currently, capital allocation in Indian equities screened using responsible investment strategies holds the lion share of the total responsible asset allocation for the Indian market at about \$25 billion (₹1,636 billion). However, only a miniscule \$0.2 billion (₹14 billion) is held by equity asset managers in India. This equity is held mainly by global equity asset manager using SRI strategies and having an India allocation. Green bonds account for the remaining \$5.1 billion (₹326 billion) of the total responsible investment market in the country.

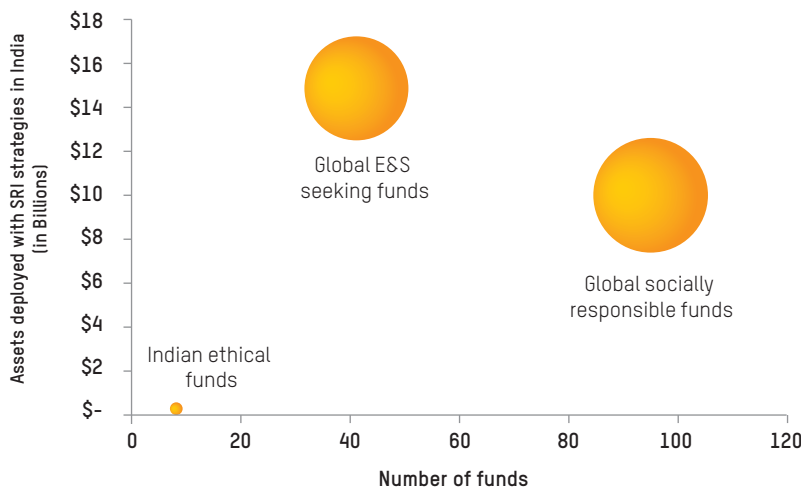
SRI MARKET AS PER CAPITAL ALLOCATION INSTRUMENT



Source: cKinetics Research

SRI ASSETS IN INDIA ARE DEPLOYED MAINLY BY GLOBAL INVESTORS

CATEGORIZATION OF ASSET DEPLOYED WITH SRI STRATEGIES IN INDIA



*Bubble size represents the cumulative size of the funds

Source: cKinetics Research

This study mapped around 145 funds in 3 categories:

- Global socially responsible funds: global investors excluding sectors during decision making based on ESG criteria. **95 Global socially responsible funds** have invested in India and allocated on an average 18.5% of their funds to Indian companies (**total fund size is \$78 billion**).

- Global E&S seeking funds: global investors integrating ESG criteria in their decision making and risk management process. **41 Global E&S seeking funds (total funds of \$67 billion)**, invested on an average **25% of their funds in Indian equities**. This category is rapidly growing and actively driving the SRI conversation.
- Indian ethical funds: Indian investors excluding sectors during decision making based on ESG criteria. They are few in number and are also managing a small asset base. As outlined in subsequent sections, this number has grown and is likely to emulate the global trend of assets being managed with SRI strategies.

SRI ASSETS INDIA WILL CONTINUE TO GROW

Worldwide, SRI has either been driven by a policy push or by investors asking for it. In India, the Business Responsibility Report is a key enabling policy. And while retail investors are yet to ask for SRI in India, more global financial institutions are asking for it as they engage Indian businesses.

SRI assets in India are also likely to be grow due to the following market-driven reasons:

- There is a **global macro trend of assets increasingly being managed with SRI strategies**: which will cause (a) global asset managers to look for opportunities in India since it is a growing country, and (b) Indian asset managers to create funds to attract investors (mirroring the global trend)
- The **benefits of acting on ESG factors is high for companies**; and the corresponding cost of inaction is an increasingly high risk for investors (and companies). This is especially true in India where awareness is increasing among the populace and the social license to operate is something that companies need to consider.
- Indian firms are already disclosing information as per the required Business Responsibility Report (which as this study outlined, needs to be strengthened). This enabling disclosure policy has created a framework for companies to engage in dialogue with their stakeholders. The BRR is also a tool that most investors interviewed in this report are familiar with. As companies improve their BRR reporting, asset managers using SRI strategies will leverage it.

There are increasing sectoral themes that one can invest in using SRI principles- both on the equities and the bond side (which have been elaborated earlier in this study). Specialized investment opportunities are emerging in India – related to renewables, investing in water-infrastructure, etc.

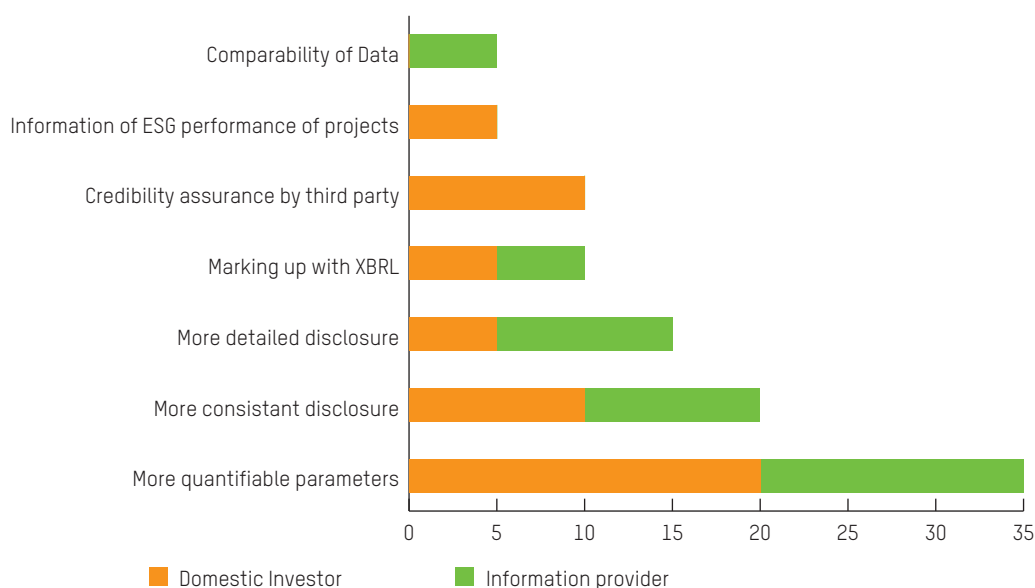
BUSINESS RESPONSIBILITY REPORT⁶: AN OPPORTUNITY AWAITS

As a part of the study, it was found that 8 out of 10 International SRI Asset Managers were aware of the Business Responsibility Report. At the same time, its use is still limited.

Increasing the number of quantifiable parameters was highlighted by **35%** of the respondents to be the key criteria to ensure wider adoption of BRR. **20% of the respondent emphasizing the need to make more quantifiable parameters were domestic investors, while the remaining 15% respondents were the information providers.**

⁶ The Business Responsibility Report is a standardized format for corporates to report on the actions undertaken towards adoption of responsible business practices. The format was developed by the Ministry of Corporate Affairs, Government of India. The Securities and Exchange Board of India (SEBI) has mandated the BRR for the top 500 listed companies in India.

WAYS TO INCREASE ADOPTION OF BRR



* XBRL is an open international standard for digital business reporting that is being used by the Bombay Stock Exchange (BSE) to help improve the accuracy and utility of filings about corporate voting results

Source: cKinetics Research

BUILDING THE CONVERSATION ON SRI IN INDIA

There is room, however, to accelerate the growth in SRI assets through 3 levels:

- ESG Information depth:** As outlined in this study, the existing Business Responsibility Report (BRR) is known by the investor community. India is relatively unique to have a policy-mandated framework for ESG information disclosure. There is room for increasing usability of the framework with quantifiable parameters.
- Mechanism for review and increasing accountability:** Data credibility and reliability was cited as a barrier for SRI in the Indian market. Introduction of a review mechanism and increased ownership and accountability is likely to enhance trust (and relevance) of information being provided by companies.
- SRI dialogue:** The SRI dialogue in India is quite non-existent even though nearly 145 funds are deploying SRI assets in India. Additionally, there are ESG-linked indices like MSCI India ESG Leaders Index and ESG information providers like Sustainalytics, India Ratings and Research, CDP India, MSCI, Bloomberg (covering from 50 to more than 100 Indian companies). There is room to develop the dialogue which can be initially facilitated by exchanges and catalysts.

Information availability and standardization in the financial sector has been the key to unlock capital flow. All participants of the survey echoed the view that increased transparency and access to meaningful information is imperative for providing more visibility into the risk and return characteristics of the underlying assets but a challenge in the Indian context.

As growing number of investors voice support for Sustainable and Responsible Investing, there would be an increased need to leverage existing frameworks such as the BRR and undertake coordinated actions. Challenges for investors are not confined to lack of information availability, but also related to areas of information veracity. Developing processes and frameworks that establish

credibility of information is hence vital. Credibility of information needs to be ensured through audits and increased dialogue. Limited communication between businesses, investors and other stakeholders is a major challenge. Dialogue on Sustainable and Responsible Investing in India is relatively non-existent as compared to the developed parts of the world. There is a need for an engagement platform that will enable all stakeholders to converge and hence provide impetus to responsible investing in the country.

POLICY'S ROLE IN ADVANCING SRI

Insurance companies and pension funds in India have yet to engage in the SRI dialogue. They are also likely to be amongst the larger players since they are using the ESG factors but have not labeled their investing as 'Sustainable and Responsible Investments'. Both these segments are dominated by institutions that are owned by the Government of India; and hence there is a role for policy makers to step in.

At the same time, there is scope to advance the Business Responsibility Report with investors and adapt it for investors: the **IRR - Investor Responsibility Report**, which requires asset managers to state how they incorporate the BRR.

**DEFINING SUSTAINABLE AND
RESPONSIBLE INVESTING (SRI)
AND ESG (ENVIRONMENTAL SOCIAL
GOVERNANCE) INFORMATION**

DEFINING SUSTAINABLE AND RESPONSIBLE INVESTING

Sustainable and Responsible Investing (SRI)⁷ primarily involves incorporation of additional data and analysis into existing approaches. Asset managers and asset owners may incorporate ESG (Environmental- Social- Governance) factors into the investment process by following any of the strategies or a combination of strategies as listed below.



Positive screening: involves the active inclusion of sectors, companies or projects within an investment universe because of their proactive actions related to Environmental, Social and Governance (ESG) factors. For example, seeking to build a portfolio only of companies with a track record of stakeholder value enhancement as borne by their consistent ESG information disclosure.



Negative screening/exclusion: relates to the exclusion of companies, sectors or practices falling short of any absolute ESG criteria from an investment universe. For example, such screening may eliminate companies exposed to industries such as alcohol and tobacco manufacturing.



Norms based screening: It is similar to exclusion strategy and involves screening of investments against international norms such as the Kyoto Protocol, UN Global Compact, UN Declaration of Human Rights, etc.



ESG integration: it is the fundamental analysis involving incorporation of ESG information to identify risks and adjust forecasts of key stock and, thereby, ensure better overall investment decision-making.



Sustainability themed/Thematic investing: – involves investment in companies exposed to industrial trends that arise from the pursuit of sustainable development. For e.g. renewable energy companies, sustainable agriculture technology providers etc.



Corporate engagement and shareholder action (Active Ownership): use of shareholder power such as direct corporate engagement, proxy voting etc. to influence corporate behaviour.

⁷ "Investment approach that considers environmental, social and governance (ESG) factors in portfolio selection and management" (GSIA, 2016)

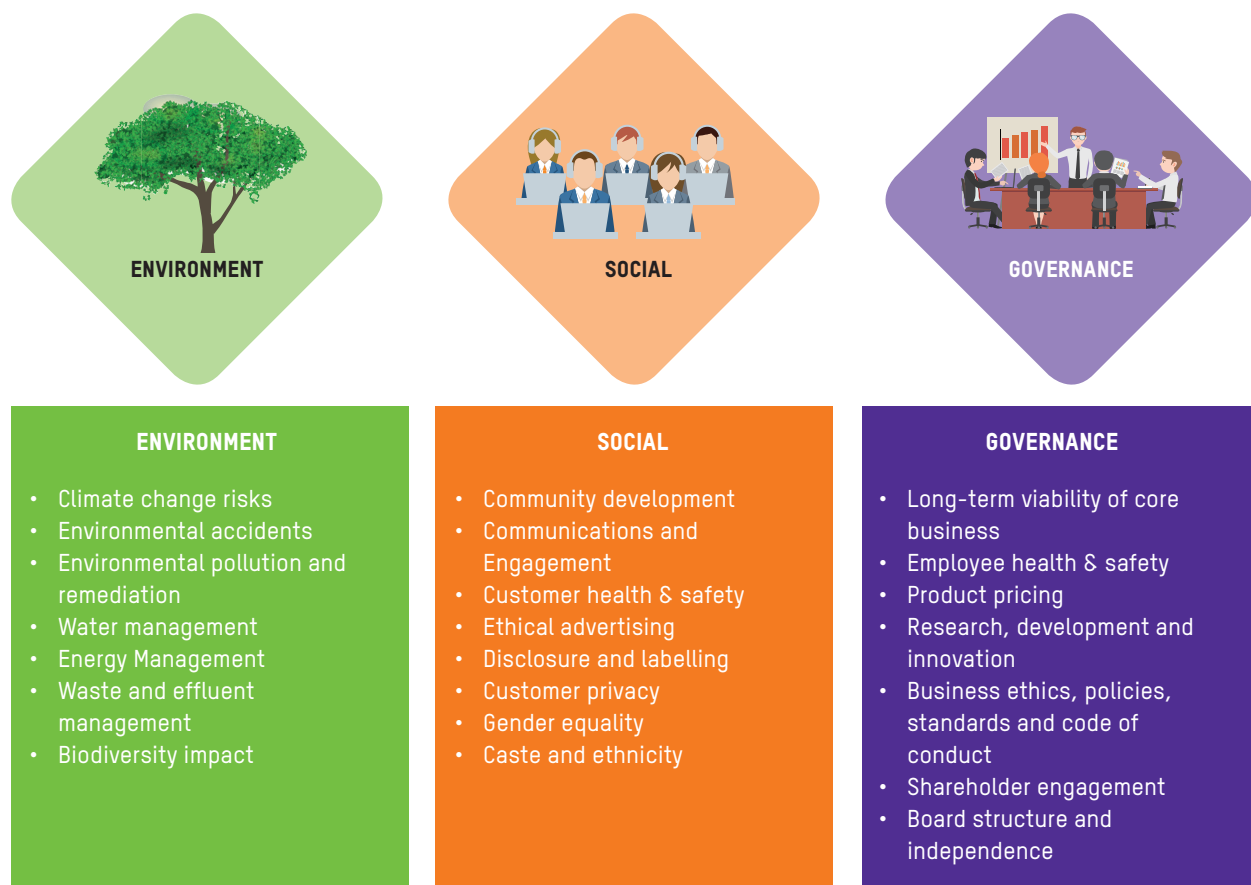
DEFINING ESG INFORMATION

Increasingly, investors are incorporating 'ESG' information in their financial decision-making process to have a holistic view of the companies they intend to invest in. 'ESG' refers to **Environment (E), Social (S) and Governance (G)** factors which can potentially impact long-term returns and hence, is considered as the new risk barometer.

Sustainable and Responsible Investment considers performance of a company with respect to its natural capital (**E**), its interaction with the society, consumers, employees (**S**) and measures policies and processes of the company and management of stakeholder interests (**G**) to make better informed decisions.

For example, Figure 1 below captures some of the potential material **ESG risks** for a pharmaceutical or related industry.

FIGURE 1: ILLUSTRATION OF POTENTIAL MATERIAL ESG RISKS FOR PHARMACEUTICAL INDUSTRY

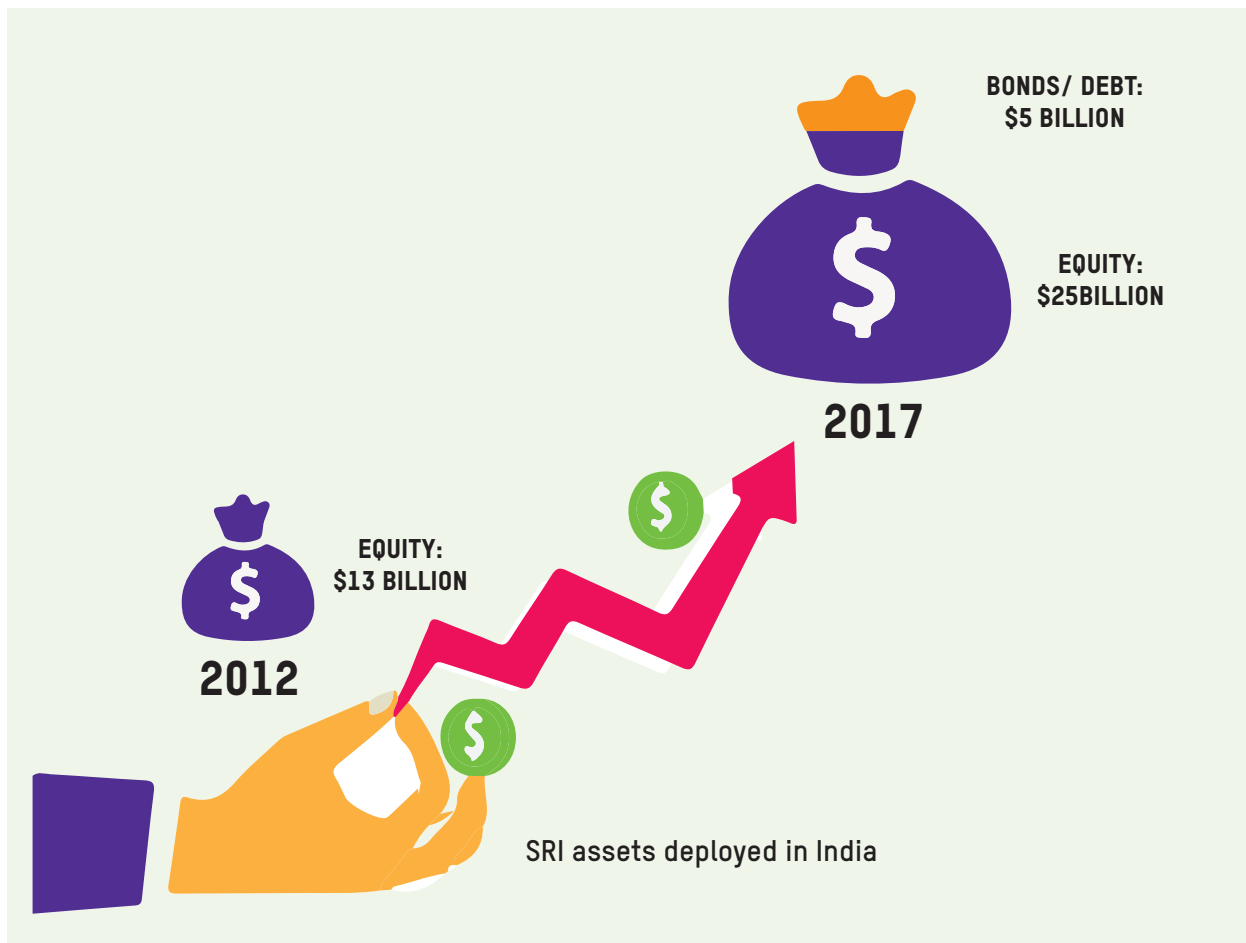


Source: cKinetics Research

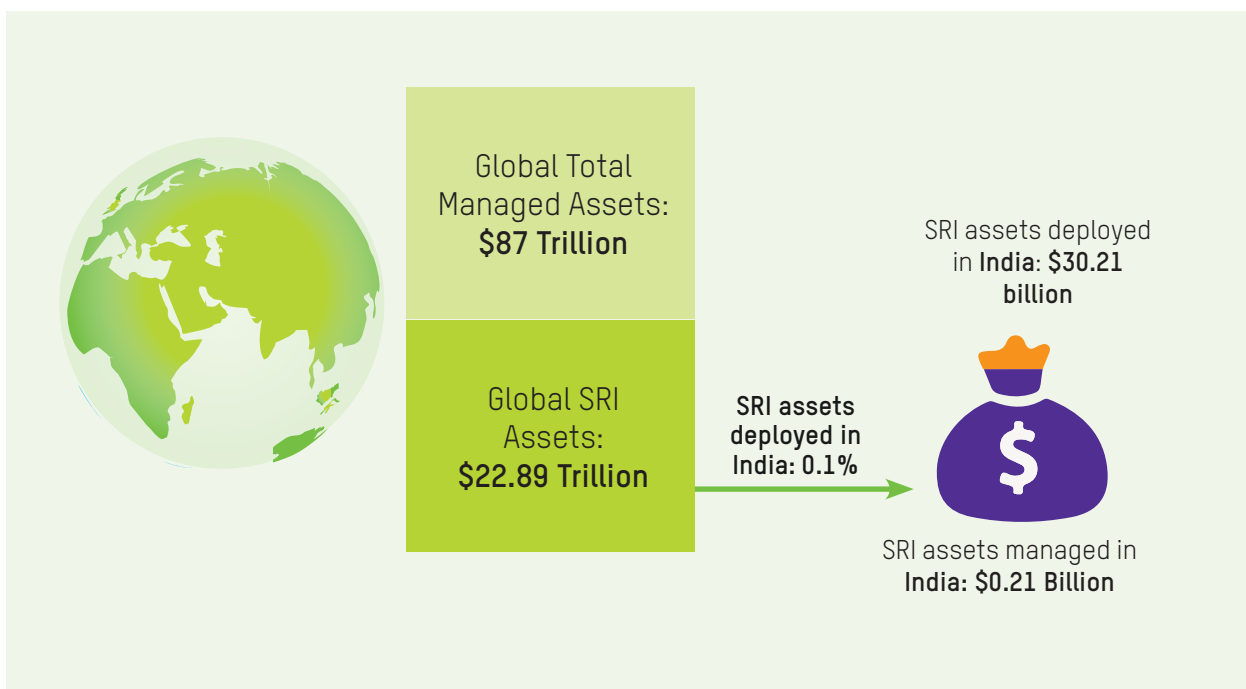
A list of different types of ESG information relevant for different industries is listed in Annexure IV.

**INDIA: \$ 30 BILLION (~₹ 2 TRILLION)
OF ASSETS ARE DEPLOYED WITH
SUSTAINABLE AND RESPONSIBLE
INVESTING STRATEGIES**

SNAPSHOT



Source: cKinetics Research



INDIA: \$30 BILLION (~₹2 TRILLION) ASSETS DEPLOYED WITH SUSTAINABLE AND RESPONSIBLE INVESTING STRATEGIES IN 2017

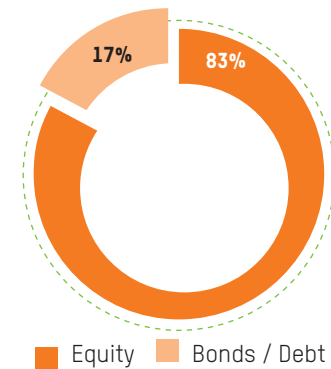
In 2012, responsible investment allocation towards Indian equities was nearly \$13 billion (₹837 billion)⁸. Back then, there was very little discussion in India on responsible investment. However, over the years the investment industry has gradually evolved and now ESG criteria are more actively embraced. There is also an increasing trend of green bond issuances fueled by India's renewable energy targets and climate change commitments.

The research done for this report estimates the present responsible investment allocation in Indian equities and bonds/debt to be ~\$30 billion (₹1,962 billion).

Currently, capital allocation in Indian equities screened using responsible investment strategies holds the lion's share of the total responsible asset allocation for the Indian market at about \$25 billion (₹1,636 billion). SRI assets managed out of India, however, account for a mere 0.1% of the total \$310 billion (₹19,970 billion)⁹ assets managed in the country.

Green bonds account for around \$5.1 billion (₹326 billion) of the total responsible investment market in the country. While that represents only 17% of the total responsible investment allocation, the green bonds instrument of responsible investment is likely to grow in the coming years.

FIGURE 2: SRI MARKET AS PER CAPITAL ALLOCATION INSTRUMENT



Equity Bonds / Debt

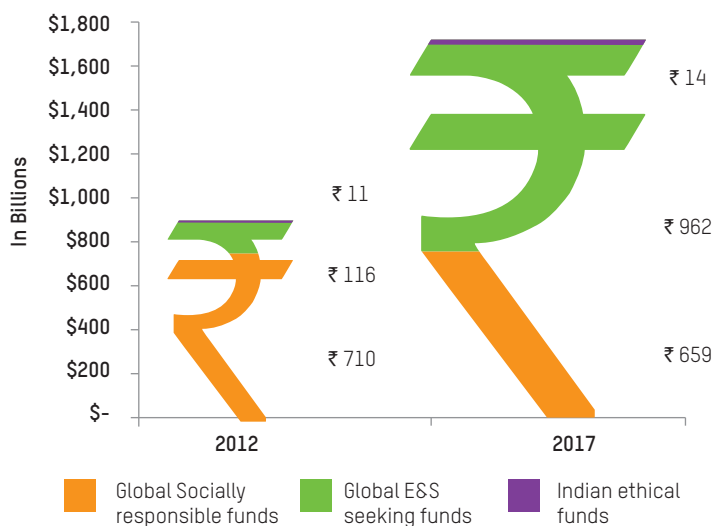
Source: cKinetics Research

RESPONSIBLE INVESTMENT ALLOCATION IN INDIAN EQUITIES LARGELY DRIVEN BY OVERSEAS INVESTORS

Global funds integrating ESG parameters continue to be the large component of the total responsible investment market in India. The Figure 3 below compares the market in 2012 and 2017.

The responsible investment asset allocated towards India has grown by a factor of two in the last five years. This is almost entirely from international investors seeking ESG information to map and manage the risks associated to the portfolio.

FIGURE 3: GROWTH OF RESPONSIBLE INVESTMENT ALLOCATION TOWARDS INDIA IN LAST FIVE YEARS



Source: cKinetics Research

- **Indian ethical funds** refer to Indian investors excluding sectors during decision making based on religious and other principles
- **Global socially responsible funds** refer to global investors excluding sectors during decision making based on ESG criteria
- **Global E&S seeking funds** refers to global investors integrating ESG criteria in their decision making and risk management process

⁸ Cracking the Conundrum: An investor and policy view to leverage standardization of environmental and social disclosure and reporting, cKinetics

⁹ Assets Under Management (AUM) as on July 31, 2017, AMFI

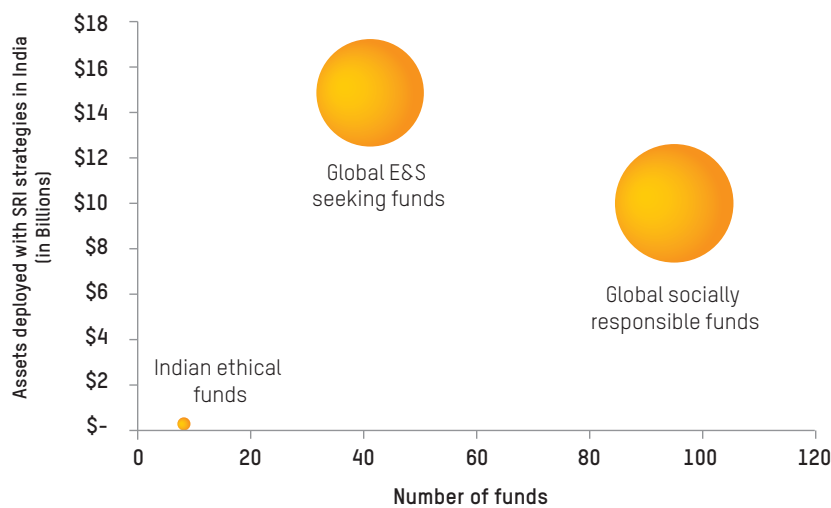
India based investors have also started to adopt Sustainable and Responsible Investing strategies. However, the **domestic ethical investor** segment has not seen as much growth as the other segments with a mere **growth of 4.3%** (CAGR) in the last half decade.

Responsible investment allocation for Indian equities has increased to **\$25 Billion** in 2017

SRI ASSETS IN INDIA ARE HELD MAINLY BY GLOBAL INVESTORS

The matrix below maps the SRI assets deployed in India as per three categories, i.e. global E&S seeking funds, global socially responsible funds and domestic ethical funds.

FIGURE 4: CATEGORIZATION OF ASSET DEPLOYED WITH SRI STRATEGIES IN INDIA



*Bubble size represents the cumulative size of the funds

Source: cKinetics Research

Nearly **95 Global socially responsible funds** have invested in India and allocated on an **average 18.5% of their funds to Indian companies** (their **total fund size is \$78 billion**). At the same time, **41 Global E&S seeking funds (total funds of \$67 billion)** invested on an **average 25% of their funds in Indian equities**. It is the latter category that are rapidly growing and actively driving the SRI conversation.

Indian ethical funds are few in number and also managing a small asset base. As outlined in subsequent sections this number has grown and is likely to emulate the global trend of assets being managed with SRI strategies.

A list of the funds mapped above is provided in **Annexure II**.

GREEN BONDS: \$5.1 BILLION (₹326 BILLION) RAISED OVER THE PAST 3 YEARS AND COUNTING...

Traditionally, infrastructure financing in the country has been supported by NBFCs (Non-Banking Finance Companies), Banks and Financial Institutions. However, given the large quantum of investments required in the infrastructure space, new financial instruments such as 'green bonds' are beginning to play a role.

A green bond is a debt instrument issued by an entity for raising funds from investors to fund 'green' projects, assets or business activities with an environmental benefit, such as renewable energy, low carbon transport, etc.

Capital markets will need to play an important role in leveraging a wide range of investors such as sovereign wealth funds, insurance companies etc. in mobilizing funds to support the funding requirements. These investors have fixed income allocation, which can be leveraged through innovative and appealing design of investment products. Green bond is an exemplary model of fixed income instruments to mobilize capital to fund India's climate change and renewable energy targets.

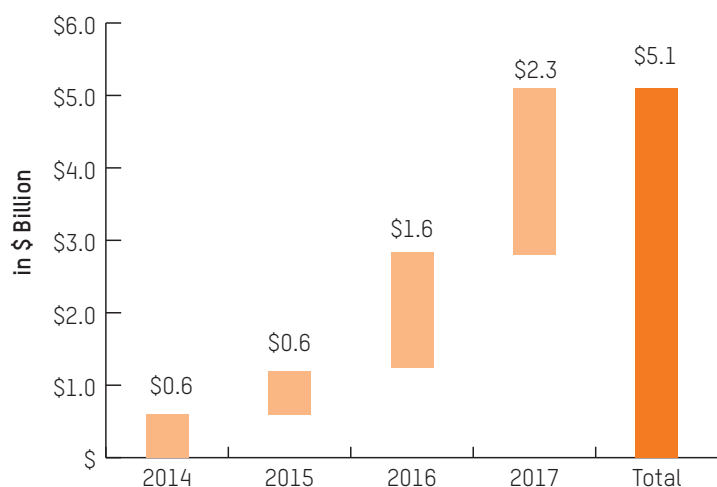
Sebi Releases Disclosure Requirements for Issuance and Listing Green Bonds

Recently, the Securities and Exchange Board of India (SEBI) finalized the **disclosure requirements for issuance and listing of green bonds**.¹⁰

The issuer of a green bond under the new requirement will have to disclose about the environmental objectives of the issuance of such securities in the offer documents. Further, the issuer would have to provide details of the procedures and systems to be employed for tracking the proceeds of the issue, including the investments made and reserved for eligible projects, which would need to be verified by external auditors. Disclosure on the green investments would need to be made on a continuous basis and reported to the Stock Exchanges by annual report or periodical filings.

The move is aimed to provide support to the huge investment requirements for supporting the climate change action plans of the country. The Figure 5 below represents the green bond issuances in the country as of August 2017¹³

FIGURE 5: GREEN BOND ISSUANCES IN INDIA (AS OF AUGUST 2017)



Source: cKinetics Research

¹⁰ <http://www4.unfccc.int/submissions/INDC/Published%20Documents/India/1/INDIA%20INDC%20TO%20UNFCCC.pdf>

¹¹ <http://pib.nic.in/newsite/PrintRelease.aspx?relid=132129>

¹² http://www.sebi.gov.in/sebi_data/meetingfiles/feb-2017/1487934575665_1.pdf

¹³ Azure Power Energy was to issue a green bond worth USD 500 million while the report was being written

India has a **\$16.9 billion** worth climate aligned bond issuance but majority of them fall under the unlabeled category

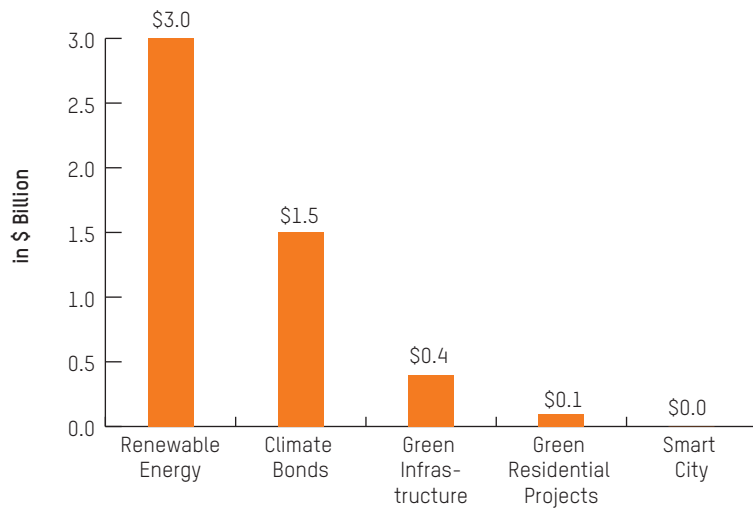
FINANCING INDIA'S SUSTAINABILITY DREAMS

India has made global commitments to adopt low carbon strategies, making a significant push towards ensuring that its economic transition is not reliant on fossil fuels and hence support inclusive growth. India's INDC (Intended Nationally Determined Contribution) document¹⁰ puts forth targets for following low carbon path to support and contribute to climate improvement. Furthermore, the country has also embarked upon the ambitious target of building 175 GW of renewable energy capacity by 2022.

As per preliminary estimates given in the INDC document, India would need a minimum of **\$2.5 trillion (at 2014-15 prices) between now and 2030** to support the stated goals. Additionally, as per Mr. Piyush Goyal, Minister of State (IC) for Power, Coal & New and Renewable Energy, India would require at least **\$200 billion** (at an average installation cost of 6.5 crore per MW)¹¹ to support its renewable energy targets.

Majority of labelled green bonds in the country have been linked to **renewable projects** as can be seen in Figure 6 below. As per Climate Bond Initiative’s report ‘Bonds and Climate Change: The state of the market in 2016’, India has a climate aligned bond market worth **\$16.9 billion**, but a majority of it falls under the unlabeled category and hence has not been included in the Indian responsible investment market quantification.¹⁴

FIGURE 6: GREEN BOND ISSUANCES AS PER THEME

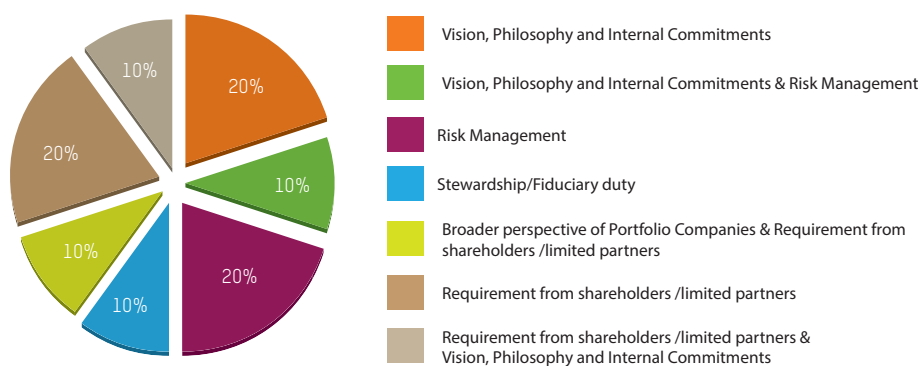


Source: cKinetics Research

What is driving these investors to adopt Sustainable and Responsible investing strategies?

Evaluation of environmental, social, and governance factors as extra-financial dimensions of a stock’s performance to measure return, portfolio performance and volatility is being increasingly adopted and accepted across the globe. Various researches have shown a compelling case for ESG linked investment strategies for risk diversification in emerging markets.¹⁵ As a part of this report, surveys and interviews were conducted with 18 investors and drivers for investors to adopt SRI investment strategies were mapped as shown in Figure 7 below.

FIGURE 7: DRIVERS FOR CONSIDERATION OF RESPONSIBLE INVESTMENT BY INTERNATIONAL INVESTORS



Source: cKinetics Research

¹⁴ Greenko’s bond issuance in 2014 worth \$550 Million is the only unlabeled bond included in the green bonds market estimation

¹⁵ Sherwood, Matthew W., and Julia L. Pollard. “The risk-adjusted return potential of integrating ESG strategies into emerging market equities.” *Journal of Sustainable Finance & Investment* (2017): 1-19.

Vision, Philosophy and Internal Commitments- Many investors are driven by their goals to have a beneficial impact on society and environment at large. Thus, a driver for such investors to incorporate environmental, social and governance factors in their decision making is a result of their own philosophy and commitments. Emerging market exposure require their fund managers to follow their principles and practices when making investments.

Risk Management- Screening, evaluation and classification of investments based on ESG linked score is significantly driven by the need for risk identification and mitigation. Assessment and categorization of companies (as high risk / impact, medium risk / impact, low risk / impact) is a common practice amongst investors.

Stewardship/ Fiduciary duty- Asset managers are also increasingly taking full account of material ESG parameters in their investment practices as a part of their obligations in line with their fiduciary duty to protect the long-term interest of the wider financial system and their beneficiaries.

Broader perspective of portfolio companies- Incremental factors give a broader perspective of companies being considered and the belief that companies faring well on ESG parameters are more sustainable in the long run, was also highlighted as a reason for ESG information consideration while making allocations. ESG information is often considered as a reflection of the 'invest-ability' of the company, cost of capital and level of monitoring required.

Requirement from shareholders /limited partners- Limited Partners (LPs) influence the assessment process in various ways:

Institutional investors, especially DFIs and global pension funds mandate their fund managers to make investments by incorporating E&S assessment.

Some LPs and lenders create funds and credit lines with the aim to create a desired E&S impact and hence deploy capital in companies related to a specific impact.

**INDIAN SUSTAINABLE AND
RESPONSIBLE INVESTMENT ASSETS
IN THE GLOBAL CONTEXT: STILL AT A
NASCENT STAGE**

INDIAN SUSTAINABLE AND RESPONSIBLE INVESTMENT ASSETS IN THE GLOBAL CONTEXT: STILL AT A NASCENT STAGE

Financial markets as they currently function have a significant influence on environmental and social outcomes. Commitments under COP21 agenda, SDG's have resulted in increased requirement of capital flow. Investors play a major role in supporting growth and operation of industries and thus influence the sustainable development trajectory making responsible investment all the more important.

Policy developments across the world have helped drive sustainable and responsible investment. The extension of disclosure requirements reinforced by regulations has resulted in increased emphasis on benchmarking and assessment of relative performance based on environmental, social and governance factors. Furthermore, the thrust to enhance and improve transparency and disclosure through reporting has helped cater to the problem of information asymmetry and erosion of trust.

In **India**, the mandate by Securities and Exchange Board of India (SEBI) for the top 500 companies to publish Business Responsibility Report is a step towards increasing transparency and disclosure by the Indian corporates. The table below highlights some of the regulatory frameworks issued globally to enhance disclosure and support responsible investment.

TABLE 1: GLOBAL POLICY FRAMEWORKS ON ENHANCING DISCLOSURE

Country/Region	Title	Description
Argentina	Law 2594	Local and international companies in Buenos Aires with over 300 employees required to generate annual sustainability reports. At a minimum, companies are required to produce their reports in accordance with the Ethos Reporting Initiative's G3 indicators and the Accountability 1000 standard.
Australia	The Corporations Act 2001	Disclosure of social and environmental information required on companies filing director's reports. Also, superannuation funds are required to disclose on how ESG considerations are integrated into investment decisions.
	ESG Reporting Guide for Australian Companies	Voluntary guidelines for companies to produce sustainability data
Belgium	The Social Balance Sheet	Voluntary stewardship code for 98% of Belgian companies to file accounts using a standard model, including a social balance sheet covering metrics such as social costs, and breakdown of employees by gender for companies with more than three employees.
Chile	Norma de Carácter General N° 386 – Modifica norma de caracter general n 30 de 1989.	Requires listed companies to disclose on gender diversity
China	Shanghai Municipal Local Standards on Corporate Social Responsibility	First voluntary local CSR standard in china which encourages companies to assess their CSR policies and report on progress
	Shanghai Stock Exchange's Notice on Strengthening Listed Companies' Assumption of Social Responsibility and the Guidelines on Listed Companies' Environmental Information Disclosure	Listed companies offered incentives like priority election into the Shanghai Corporate Governance Sector, etc. for promoting CSR. The Shanghai Environmental Disclosure Guidelines allow for the exchange to take "necessary punishment measures" against companies for violations of the disclosure rules.

Country/Region	Title	Description
	Shenzhen Stock Exchange-Social Responsibility Instructions to Listed Companies	Voluntary instructing document provides a comprehensive set of CSR guidelines from a Shenzhen Stock Exchange perspective
Denmark	Danish Financial Statement Act	Requires large business to develop CSR initiatives and account for aspects like human rights and climate impact reduction on a comply or explain basis
European Union	Transposition of the EU non-financial Reporting directive 95/14	The Directive 2014/95/EU on disclosure of non-financial and diversity information, requires companies concerned to disclose in their management report, information on various ESG parameters
Finland	General Guidelines for Disclosing Environmental Issues	Voluntary guidelines for disclosure environmental issues as part of legally required financial statements
	The Finnish Accounting Act	Requires certain companies to include material non-financial issues in the annual/financial report
France	Code de l'Environnement, Livre II, Titre II, Article L229-25	Companies with over 500 employees have been mandated to publish a report on GHG emissions every three years
	Code du Travail	Companies with over 300 employees mandated to publish a social review. The 2007 update requires companies with over 50 employees to report on gender equality initiatives and enforcement.
	French Energy Transition Law	Listed companies required to disclose on financial risks related to climate, mitigation efforts, and consequences of climate on its goods and services. Institutional investors must disclose how ESG criteria are taken into consideration and how their policies align with the national strategy for energy and ecological transition.
Germany	German Sustainability Code	Voluntary guidelines covering disclosure against 20 criteria related to environmental, social and economic factors on a comply-or-explain basis
Hong Kong	Hong Kong Securities Exchange (HKEX) ESG reporting Guide	Requires companies to disclose on environmental factors on a comply-or-explain basis and disclose voluntarily on social parameters
Indonesia	Rule X.K.6	Requires listed companies to submit annual reports describing activities and spending related to society and the environment
	Law No 40/2007 for Limited Liability Companies	Mandates companies to undertake and disclose on their CSR activities
	Government Regulation No. 47 of 2012	Article 2 highlights that every company has environmental and social responsibility. Article 3 of the regulation further provides that it is an obligation for companies engaged in business related to natural resources
Japan	Environmental Reporting Guidelines	Voluntary guidelines on environmental reporting for corporates
	Eco-Action 21	Certification and registration system to encourage small and medium-sized enterprises, Public facilities and schools to take voluntary initiatives related to environmental issues

Country/Region	Title	Description
Malaysia	Sustainable Reporting Guide	Voluntary guidelines to aid listed companies to embed sustainability in their organization and reporting on it
	Listing Rule Main Market	Mandatory listing rules by Bursa Malaysia to enhance standards of corporate governance
Philippines	Philippines Stock Exchange Corporate Governance Guidelines for Listed Companies	Voluntary ESG reporting guidelines developed by the stock exchange for the protection of the environment and society
Singapore	Code on Corporate Governance	Voluntary guideline for listed companies on sustainability reporting, which highlights the board's responsibility to consider sustainability issues
	Sustainability Reporting Guidelines	Voluntary ESG disclosure guidelines by Singapore Exchange Limited (SGX), which encourages use of internationally accepted reporting frameworks while developing reports and third-party assurance
	SGX Listing Rule	Requires listed companies to prepare an annual sustainability report on a comply-or-explain basis
South Africa	The Companies Act	Requires companies over a certain size to have a social and ethics sub-committee reporting on the UN Global Compact's ten principles
	The King Codes	Voluntary code for corporates, including integrated sustainability reporting, which has been adopted as a listing requirement for JSE
	Code for Responsible Investing in South Africa (CRISA)	Voluntary code for implementation of ESG investing; it also provides investors with guidance to implement the ESG component of Regulation 28 and other voluntary ESG related codes of conduct
	JSE Listing Rule	Requires listed companies publish an integrated report in accordance with the King Codes
Sweden	Nasdaq ESG Reporting Guide	Voluntary ESG reporting guide for all companies listed on the Nasdaq exchanges in Stockholm, Helsinki, Copenhagen, Iceland, Tallinn, Riga and Vilnius
	Guidelines for External Reporting by State-owned Companies	Requires state-owned companies to publish information related to sustainability
United Kingdom	Women on Boards	Voluntary recommendations to disclose on gender metrics to promote gender equality across corporate boards
	Modern Slavery Act	Section 54 requires certain organizations to develop slavery and human trafficking statement each year
	Companies Act	Mandatory reporting on GHG, human rights and diversity by all listed companies in Director's report
	The UK Gender Pay Gap Reporting Act	Requires public disclosure of overall, mean and median gender pay gaps across the workforce for companies with over 250 employees; deadline to disclose in the first reporting cycle is April 2018
United States	US SEC Climate Guidance	Requires disclosure on material business risks including climate change related risks through regular filings with the Securities and Exchange Commission (SEC)
	Clean Water Act	Mandatory disclosure on discharge into water

Source: UNPRI, cKinetics

ASSETS DEPLOYED IN INDIA WITH SUSTAINABLE AND RESPONSIBLE INVESTMENT STRATEGIES MAKE UP 0.1% OF THE GLOBAL SRI ASSETS

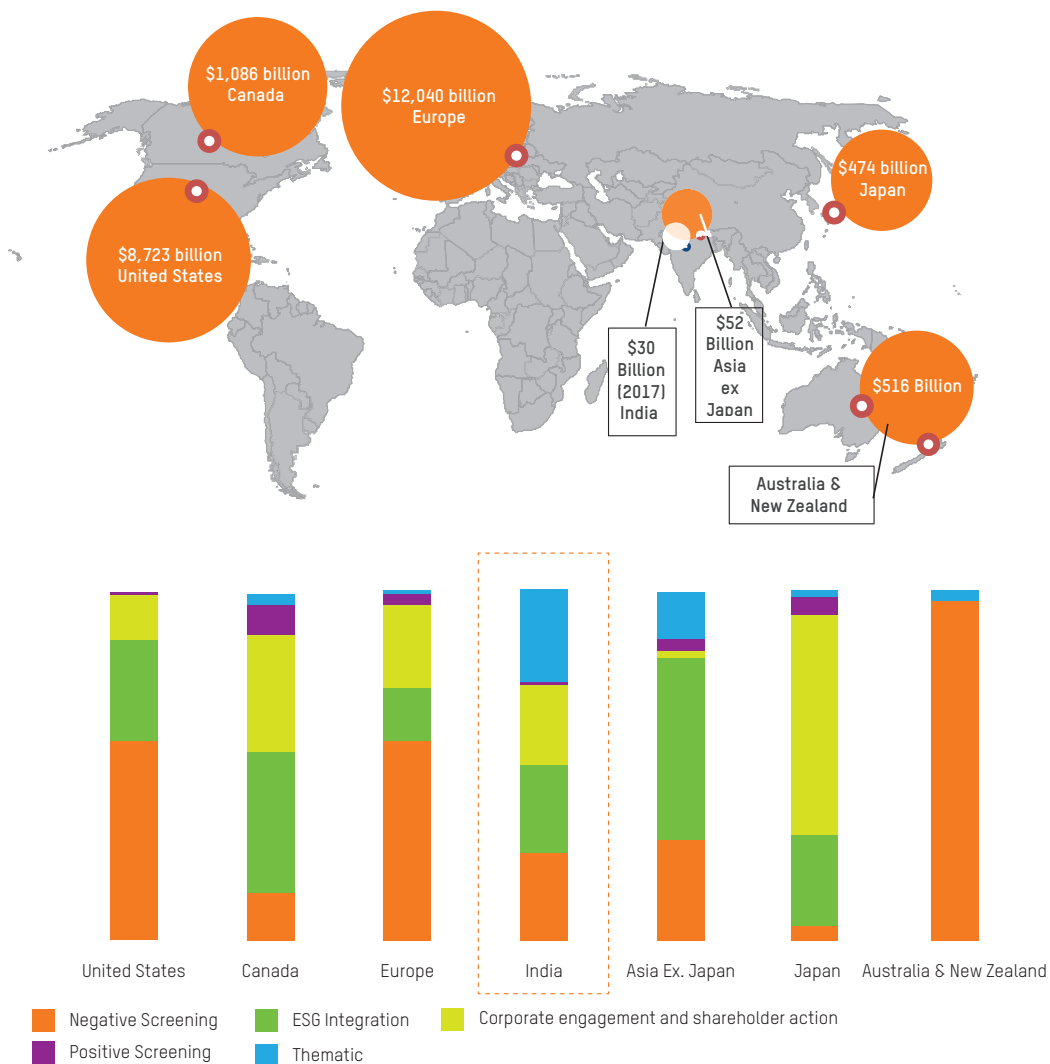
The Indian sustainable and responsible investment market has seen a two-fold increase as compared to 2012. However, despite the increase; the current Indian assets make a miniscule portion of the global managed SRI assets.

While 26.3% of the total assets managed globally are SRI, only **0.1% of the global SRI assets** are deployed in the Indian market.

Globally, sustainable investment reached \$22.89 trillion in 2016. Europe accounted for 52.6% of the total SRI assets managed per region and negative/exclusionary screening approximated to 36% of the total assets under management in 2016.

Figure 8, presents the scenario of global responsible investment assets deployed in 2016 and the current responsible asset deployed in India and the strategy-wise split of the assets.¹⁶

FIGURE 8: ASSETS DEPLOYED IN INDIA WITH SUSTAINABLE AND RESPONSIBLE INVESTMENT STRATEGIES COMPARED TO OTHER COUNTRIES

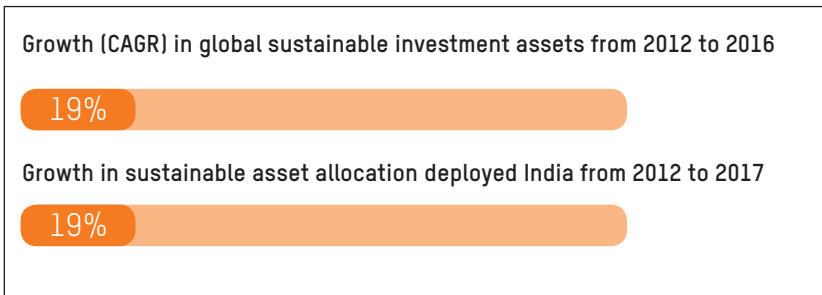


Source: GSIA, cKinetics Analysis
*India figure represents data from 2012 to 2017

¹⁶The strategy-wise split of assets for India has been calculated by attributing asset screened by each of the strategy for funds using a combination of strategies. Norms based screening has been excluded due to lack of India specific data and globally too it makes up merely 15% of the total responsible investment market

In the **global scenario**, assets have been deployed under **negative or exclusionary screening** as the most widely adopted strategy. However, in **Asia excluding Japan region**, **ESG integration** has seen maximum espousal followed by negative screening.

In **India**, of the \$30 billion assets deployed following **Sustainable and Responsible Investing**, 26% of assets were deployed using thematic screening (52% in equity and 48% in bonds), 25% of the assets allocated were negatively screened, and approximately 25% followed ESG integration.

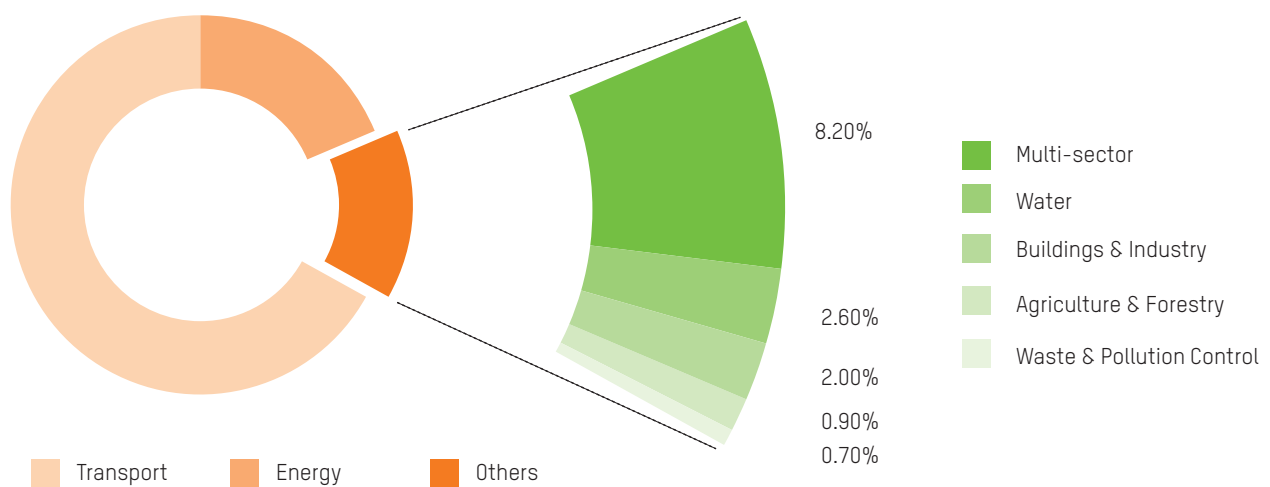


Assets deployed globally with **SRI strategies** have grown at a **CAGR of 19%**, and assets deployed towards the Indian market also **grew at a CAGR of 19%**.

Green bonds: India market compared to the global market

Climate-aligned investment prospects have emerged in response to investor demand across various asset classes. An emerging trend in the financing market is in the green bonds space. Increasingly, investors are using green bonds instead of conventional bond that enables the issuer to include non-financial criteria in their investment choices and hence broaden their funding base.

FIGURE 9: GLOBAL BOND MARKET AS PER THEME



Source: Climate Bond Initiative

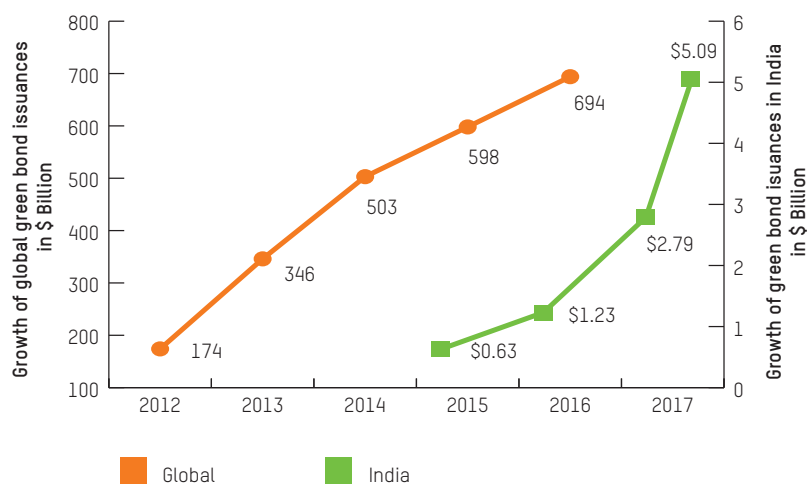
Globally, as per Climate Bond Initiative’s estimates there was an outstanding amount of climate resilient bonds worth **\$694 billion in 2016**. **Labelled green bonds** accounted for only **17%** of the **total amount (\$118 billion)**. The **transport and energy sectors** were found to be the **largest themes** for investments for the

climate aligned bonds. The split of bond issuances as per theme is given in the Figure 10 below.

As per Climate Bond Initiative’s reports, the green bond sector has grown from **\$174 billion in 2012 to \$694 billion in 2016** (approximately at a CAGR of 41%). The Indian green bonds market too has been growing rapidly and has grown from a meagre **\$0.63 billion in 2014 to \$5.1 billion as of July 2017** (approximately at a CAGR of 100 %) as can be seen in the given below.¹⁷

To support the transition of the country and the world to a low carbon and climate resilient economy, opportunities attracting huge investments and efficient use of indirect and direct sovereign credit would be imperative. Hence, in the times to come, funding in the fixed income asset class of green or climate bonds is expected to grow at an increasingly rapid rate.

FIGURE 10: GROWTH OF GLOBAL AND INDIAN BONDS MARKET



Source: Climate Bond Initiative and cKinetics Research

SRI ASSETS MANAGED BY REGION: SIGNIFICANT HEAD-ROOM IN INDIA

As outlined earlier, the global sustainable investment assets have been steadily growing. The total sustainable investments reached **\$22.89 trillion** in 2016 as compared to **\$18.28 trillion** in 2014.¹⁸

Though the number of Indian ethical funds have increased over the past half-decade, **SRI assets managed out of India make 0.1% of the total managed assets in the country.** There is room for growth as outlined in the next section.

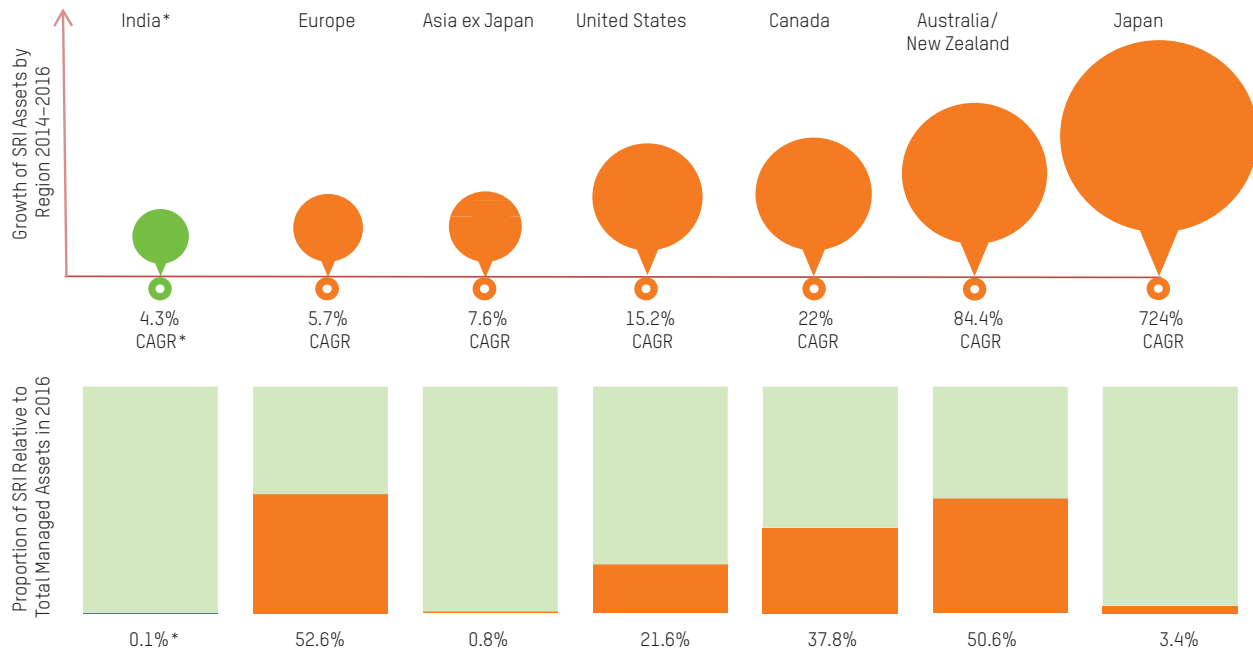
By contrast, **Japan** saw a steep double digit increase in sustainable investment assets in a two-year time frame. While all regions saw an increase in sustainable investments assets being managed compared to the total professionally managed assets, **Australia and New Zealand** witnessed the maximum increase.

¹⁷ *Note: Global numbers include unlabeled green bonds as per Climate Bond Initiative’s estimates, while Indian figures only represents the growth of labelled green bond issuance except Greenko’s bond issuance in 2014 worth \$550 Million

¹⁸ Global Sustainable Investment Review, 2016

Figure 11 highlights the Compound Annual Growth Rate (CAGR) of SRI assets managed by region from 2014 to 2016 and the proportion of SRI relative to the total managed assets in 2016.¹⁹

FIGURE 11: GLOBAL SUSTAINABLE INVESTMENT ASSET SCENARIO



*India figure represents data from 2012 to 2017

Source: GSIA and cKinetics Research

¹⁹ Note: The diagram is for visual representation and the object sizes have not been made to scale

**THREE TRENDS ADVANCING
SUSTAINABLE AND RESPONSIBLE
INVESTING IN INDIA**

THREE TRENDS ADVANCING SUSTAINABLE AND RESPONSIBLE INVESTING IN INDIA

India's attractiveness vis-à-vis the global investment market has resulted in an increased interest of foreign investors in India. At the same time, many Indian corporations have established themselves to be at par with their global peers with regards to capital efficiency and competitiveness.

The Indian economy is also transforming: there is a growing population entering the workforce, increasing demand for infrastructure development and access to natural resources. However, these competitive advantages can also result in critical environmental and social challenges and hence can greatly impact shareholder value in the long run. The risks associated with environmental and social factors thus creates a compelling case for integration of E&S information across the entire investment value chain- from increasing transparency and disclosure by the corporates to equity research, stock valuation, portfolio construction and engagement with the shareholders.

Sustainable and responsible investing in India is likely to continue growing and this can be mainly attributed to three major reasons highlighted in this section:

- Macro trend of responsible investing becoming an increasing portion of global funds
- Indian asset managers beginning to adopt ESG Strategies
- Growing 'Green Bonds' market

Macro trend of responsible investing becoming an increasing portion of global funds

As highlighted earlier, the total sustainable investments reached \$22.89 trillion in 2016 and that forms approximately 26.3% of the total assets under management globally. This amount has been increasing at a CAGR of 11.9% over the last two years.

At the same time, Indian companies are likely to continue receiving part of an overall allocation, especially as the Indian economy is likely to continue its growth rate of 5-8% annualized GDP growth.

Investors have a positive outlook towards India with respect to responsible investing. Until recently, application of responsible investment strategies was thought to be an unfeasible option in India for a myriad of reasons including low availability of data and low focus on corporate responsibility and governance. However, now with companies reporting on various ESG related frameworks such as Business Responsibility Reports, GRI reports etc., Indian businesses have become relatively more forthcoming on ESG data. Some companies are also positively responding to global standards and demand for corporate accountability, and hence present attractive investment opportunities. That trend is likely to continue.

“Ethos already exist in Indian corporates and so does the ability to manage environmental and social issues, hence there is a positive outlook for responsible investment in India”

-Director, Global Development Finance Institution

“Opportunities in India exist, but it is important for the boards to be cognizant of their power and be aware of the E&S risks.”

-Director, Global Asset Management Company following responsible investment strategies

INDIAN ASSET MANAGERS BEGINNING TO ADOPT ESG STRATEGIES

An emerging trend of Indian asset managers are now looking beyond financial returns and incorporating environmental and social criteria in making their portfolio decisions. The advent of this investor group has been driving responsible investment in the country.

There are 2 drivers at play here. One is that several asset managers in India have affiliations or shareholding from global asset management companies (e.g. DSP Blackrock, Franklin Templeton, BNP Paribas Mutual Fund, etc.) and will adopt ESG strategies being used in the global market.

The second is that there are fund managers in India who sense an opportunity to create differentiated products for the Indian market. This is likely to emulate the global trend listed earlier i.e. where increasingly assets are managed with Sustainable and Responsible Investing strategies baked in. In India, ethical funds are just 0.1% of the overall assets under management. These ethical funds amounting to \$210 million are **'Shariah-screened'**, which means that these funds are compliant with the Islamic principles of not investing in stocks which derive income from the sales of alcohol, tobacco etc. and hence have negative influence on the society. It is a matter of time before this aligns with the global trend.

For instance, SBI Mutual Fund (amongst the top 10 mutual fund managers in India) has put an ESG framework in place and is beginning to use it for equity investing. We can expect that this framework would translate into a publicly documented policy in the fund-schemes and also the launch of newer / specialized funds.

“ It is a trade-off between looking at ESG aspects and the short term returns they can generate by ignoring them; the conviction of the leadership that longer term sustainable value creation is more important than short term profit is a driver for responsible investment ”

-CIO, Domestic Asset Management Company following responsible investment strategies

TABLE 2: INDIAN ETHICAL FUNDS

Asset Manager	Fund/ Product Name	Strategy Adopted
Taurus Mutual Fund	Taurus Ethical Fund	Negative Screening
Tata Mutual Fund	Tata Ethical Fund	Negative Screening
Reliance Mutual Fund	Reliance ETF Shariah BeES	Negative Screening
HDFC Mutual Fund	HDFC Charity Fund for Cancer Cure	Gains sent to charity/ philanthropy
Bajaj Allianz Life Insurance	Pure Equity Fund	Negative Screening
Bajaj Allianz Life Insurance	Pure Stock Fund	Negative Screening
Bajaj Allianz Life Insurance	Pure Stock Pension Fund	Negative Screening
SBI Mutual Fund	Growth with values (PMS)	Negative Screening

Source: Sites of different fund managers, data filed with regulators

GROWING GREEN BONDS MARKET

In 2015, India committed a plan to set up 175 GW of renewable infrastructure by 2022. This is enumerated as part of its commitment in the INDC (Intended Nationally Determined Contribution) and part of its drive toward energy security.

Financing this outcome requires long-term capital that is looking for infrastructure returns. Estimates are that capital requirement is in the range of \$2.5 trillion to \$2.7 trillion between now and 2030. A conducive policy landscape further makes funding of low-carbon transport, renewable energy projects, smart city project, energy efficiency projects etc. an attractive opportunity for investors.

Green bonds are an effective tool to potentially provide long-term source of low-cost capital. Low cost capital is particularly important for developing the above listed green infrastructure. By the middle of 2017, \$2.27 billion was raised in green bonds (almost the same as in the last 3 years combined). This growth is likely to continue and thematic investors subscribe to Indian green bonds.

“ *There is a good growth potential of the green bonds market in India majorly driven by India’s renewable energy targets, smart city mission, etc. but significant hurdles exist in terms of financing mechanism, quality of projects structuring, financial health of Municipal Corporations/ULB’s, etc. which need to be catered to so as to catalyze the market* ”

-India Projects Manager,
Green Bonds focused catalyst

OTHER EMERGING STRATEGIES AND SEGMENTS TO WATCH

OTHER EMERGING STRATEGIES AND SEGMENTS TO WATCH

In addition to investing using SRI strategies and green bonds, there are additional niche strategies that leverage ESG information globally. This section covers a few of these strategies that are relevant to investing in India:

- Niche themed investing
- Social impact bonds
- Impact investing

Niche themed investing on the rise

A growing trend in the responsible investment space is thematic investment. Capital deployed for specific theme related investments have seen a rise globally in the last few years.

In **India**, an emerging trend of investment in clean energy space, water management etc. segment has been seen. For example, the **KBI Institutional Water Fund** focuses on investing primarily in securities of companies involved in the water sector. The emerging interest of investors in thematic investment in India is to a large extent catalyzed by the fiscal policies of the country and the increasing demand for development of green infrastructure to achieve its renewable energy target of 175 GW by 2022.

Niche thematic investment is an attractive investment opportunity which can potentially increase the chances of delivering high returns over time by investing in well-researched segments after consideration of the sector exposure.

Various initiatives in India such as '**Extension Scheme for Generation Based Incentive for Grid Connected Wind Power Projects**²⁰, which intends to broaden investor base and facilitate Foreign Direct Investment (FDI) in the **wind power sector**; inclusion of **renewable energy under Reserve Bank of India's (RBI) revised guidelines for all scheduled commercial banks on priority sector lending**²¹; and **ratification of the Paris Climate Accord** has made the investment landscape conducive for investors intending to deploy capital in thematic streams and hence growth potential for thematic investment strategy is foreseen for the country.

So far, approximately \$40 million is deployed through niche themed investors in India.

Table 3 below gives a snapshot of **some niche thematic funds** allocating in India.

TABLE 3: NICHE THEMATIC FUNDS ALLOCATING IN INDIA

Fund Name	Description
PARVEST Green Tigers (Classic)	Seeks to invest in shares issued by companies which bring solutions to environmental problems in Asia
KBI Institutional Water	Seeks to invest in securities of international companies involved in the water sector.
KBI Institutional Agri	Seeks to invest in securities of international companies involved in the agricultural sector.

²⁰ [http://www.ireda.gov.in/writereaddata/RevisedOperationalGuidelinesforGridConnectedWindPowerProjectsunderExtensionGBIScheme\(2012-2017\).pdf](http://www.ireda.gov.in/writereaddata/RevisedOperationalGuidelinesforGridConnectedWindPowerProjectsunderExtensionGBIScheme(2012-2017).pdf)

²¹ <https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=10497&Mode=0#P7>

Fund Name	Description
KBI Institutional GESS	Seeks to invest in securities of international companies involved in environmental sectors.
F&C BMO Responsible Global Emerging Markets Equity	Seeks to invest in companies within six defined themes: Financing for the future, Access to new technologies, Infrastructure for development, Energy for growth, Human capital and Rise of the low-income consumer.

Source: cKinetics Research

SOCIAL IMPACT BONDS: FINANCIAL INSTRUMENT TO COMBAT SOCIAL CHALLENGES

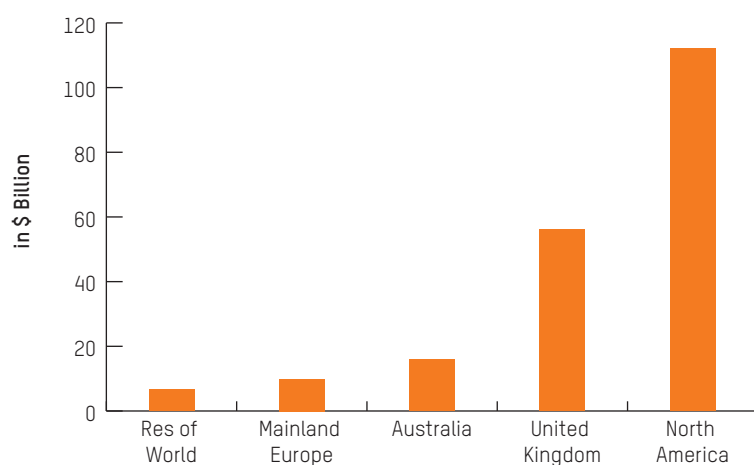
Social Impact Bonds is an emerging financing tool to address global social challenges through a performance based contract. Interest in this instrument has been driven by various macro-trends like increasing social needs and emergence of a new set of investors willing to deploy capital in expectation of social returns along with financial returns.

The **first Social Impact Bond (SIB)** was launched in **2010** in **Peterborough, United Kingdom by Social Finance Ltd.**²² The SIB was launched to raise investment to fund rehabilitation programs of ex-offenders. Reintegration of offenders into the society is a step to reduce re-offending but requires long term commitment, time and investment. Through the SIB, the rehabilitation services were funded by the investors instead of government. On success of the services with reduced cases of re-offending, the investors would get paid a proportion of cost saved by the government from reduced criminal justice and prison costs.

Ever since the first SIB pilot, various such bonds have been launched across the globe aimed at creating social impact. As per report by Social Finance Ltd., **60 projects have been launched as of June 2016**, and **4 such projects have fully repaid the investor capital.**²³

The capital raised by impact bonds as per region is given in the figure below.

FIGURE 12: SOCIAL IMPACT BOND CAPITAL RAISED BY REGION



Source: Social Finance

²² http://www.socialfinance.org.uk/wp-content/uploads/2014/07/SF_CriminalJustice.pdf

²³ http://www.socialfinance.org.uk/wp-content/uploads/2016/07/SIBs-Early-Years_Social-Finance_2016_Final-003.pdf

SIBs launched in developing economies are known as **Development Impact Bonds (DIBs)**. In **India**, DIBs are at a very nascent stage. The first DIB in India was launched in **Rajasthan in 2014²⁴** and recorded by the Instiglio database. The impact bond raised a capital of **\$0.3 Million** and aimed **at improving the state of girl's education in Rajasthan** where 40% of girls drop out of school before the fifth class. The bond targeted about 15,000 girls with the aim to enroll those excluded from government primary school education.

Social Impact Bonds or Development Impact Bonds are still at an infancy stage but can potentially be an effective instrument to fund social development projects to tackle problems such as poverty, inequality, human rights etc. and enable more impact investment in the sustainable development space by providing a common platform for governments, investors, firms, civil society.

IMPACT INVESTING

Impact investing or social investing has also become a prominent approach of deploying capital with the aim to generate positive environmental and social impact along with financial returns. This growing asset class having a relatively low ticket size (ranging from \$100,000 to \$5 million²⁵) includes global foundations, charitable trusts and early stage & angel private equity funds focused on deploying capital in companies having positive social and environmental impact.

Accion, Acumen, Aavishkaar, Caspian, Unitus Seed Fund, etc. are some examples of this category of investors, that are committed to cultivate a financial ecosystem to scale and support sustainable development along with financial returns.

A positive movement is afoot representing significant opportunities for businesses and capital markets to drive sustainable development thus creating positive environmental and social impact.

Japan recently launched its first Social Impact Bond to fund a Kobe city program on **chronic kidney disease**. Sumitomo Mitsui Banking Corporation and other investors teamed up with Japan Social Impact Investment Foundation (SIIF) to invest around 30 million yen (\$267,714) in the program. Under the program, 100 patients will be provided health guidance and the investors will receive annual interest of up to around 5% based on the project meeting its target and saving public medical cost

²⁴ <https://www.oecd.org/cfe/leed/SIBs-State-Play-Lessons-Final.pdf>

²⁵ Cracking the Conundrum: An investor and policy view to leverage standardization of environmental and social disclosure and reporting, cKinetics

**MESSAGE INVESTORS HAVE
FOR INDIA INC. ON ADVANCING
SRI**

MESSAGE INVESTORS HAVE FOR INDIA INC. ON ADVANCING SRI

As outlined earlier, India accounts for just 0.1% of the overall global market for responsible investment. However, increasingly investors are now looking at the Indian market from the ESG lens.

The emerging trend of sustainable and responsible capital flow makes it important for Indian corporates to embrace the change. Currently, low demand for ESG in the Indian market is an important factor for India’s slow motion in this space but supportive regulatory measures, increasing awareness, and push from investors can help increase India’s responsible investment footprint.

This section highlights views on sustainable and responsible investing in India. It is based on the survey and interviews conducted with over 35 stakeholders driving SRI in India.

Good ESG data: potential accelerator for Sustainable and Responsible Investing in India

The investors and information providers stated that while there does exist **a group of Indian corporates which is more forthcoming in their approach and are willing to disclose** environmental, social and governance data; yet access to standardized and credible data is a pertinent problem in the Indian context. With global peers progressively maturing and adopting transparent operations approach, standardized reliable disclosure becomes all the more important to attract ESG linked capital.

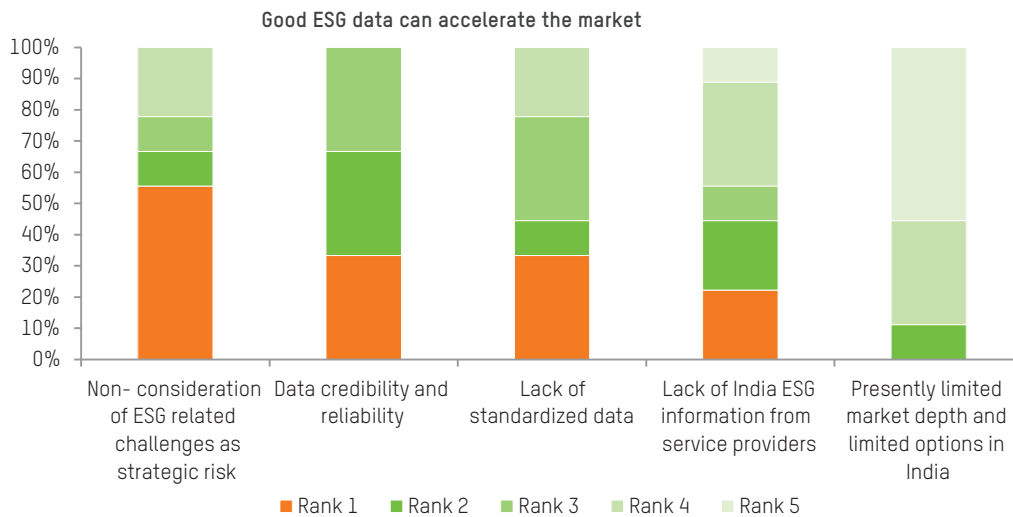
Investors and India ESG information providers were requested to take a short survey and **rank the following issues from 1 to 5.**

- Presently limited market depth and limited options in India
- Lack of standardized data
- Data credibility and reliability
- Lack of India ESG information from service providers
- Companies do not consider ESG strategically



The figure below highlights the key findings from the survey.

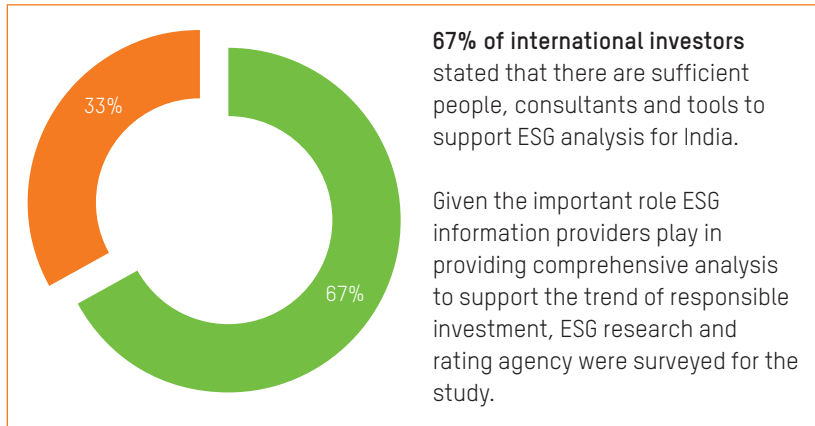
FIGURE 13: CHALLENGES RANKED AS PER THE SURVEY



Source: cKinetics Research

Are data providers available? The answer is yes

FIGURE 14: INTERNATIONAL INVESTOR VIEW ON AVAILABILITY OF ESG DATA TOOLS AND ANALYSTS FOR INDIAN MARKET



Source: cKinetics Research

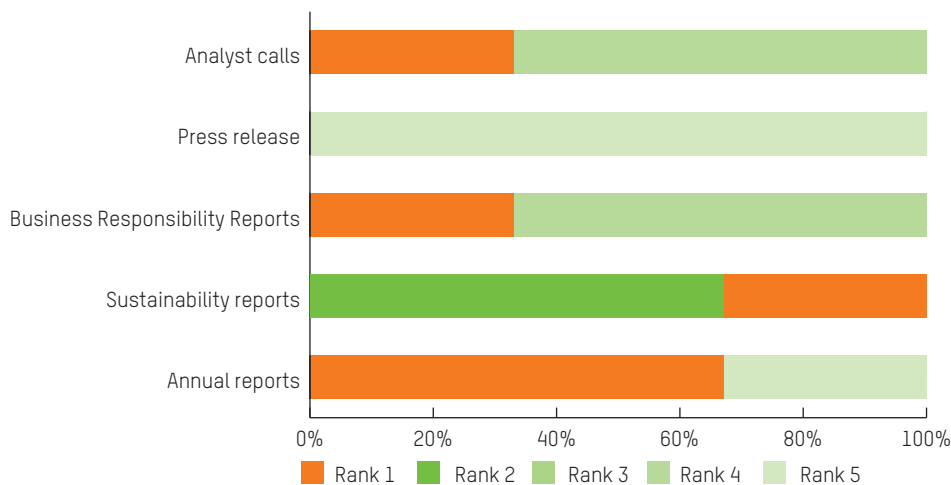
Data providers are relying mainly on Sustainability reports

Given that investors with SRI strategies rely on ESG information providers (MSCI, Sustainalytics, etc.), this study also surveyed these providers.

The survey result shows that information providers find **sustainability reports** as the most informative source of information. **67%** of the respondents ranked **sustainability reports** to be the most important, while **33%** of the information provider considered it to be the second most important.

The survey suggests that **67%** of the ESG information providers surveyed ranked **BRR (Business Responsibility Report)** third in terms of helpfulness, and **33%** ranked **BRR to be second** as can be seen in the **Figure 15** given below.²⁶

FIGURE 15: RANKING OF DIFFERENT INFORMATION SOURCES BASED ON THEIR IMPORTANCE IN ANALYSIS



Source: cKinetics Research

²⁶ The Business Responsibility Report is a standardized format for corporates to report on the actions undertaken towards adoption of responsible business practices. The format was developed by the Ministry of Corporate Affairs, Government of India. The Securities and Exchange Board of India (SEBI) has mandated the BRR for the top 500 listed companies in India.

The **Business Responsibility Report (BRR)**, now mandated for top 500 companies, is a positive step towards addressing the challenge of access to data. The next chapter delves into the Business Responsibility Report and the opportunities associated to put India on the global responsible investment map.

INDIAN COMPANIES YET TO GO BEYOND DISCLOSING ESG INFORMATION

Though environmental, social and governance factors usually are known to have long-term implications, investors are increasingly pushing investee companies to consider ESG factors beyond just disclosure. ESG related issues can impact company reputation and also have substantial operational risks. Conversely, good ESG performance can help mitigate and manage risks, enhance productivity and improve efficiencies, which may impact shareholder value.

Some leading Indian businesses have started to incorporate Sustainability into their core operations. Conglomerates such as Aditya Birla Group, Mahindra Group, Tata group etc.; corporates such as Wipro, Infosys, Yes Bank etc.; Public Sector Undertakings such as SAIL (Steel Authority of India), GAIL India etc.; have all developed sustainability visions. The vision is usually tracked at a board level; and is operationally implemented by Sustainability teams. Investor Relations work to capture the actions and disclose ESG information in the sustainability reports and business responsibility reports. **However, all of this is limited only to some Indian corporates.**

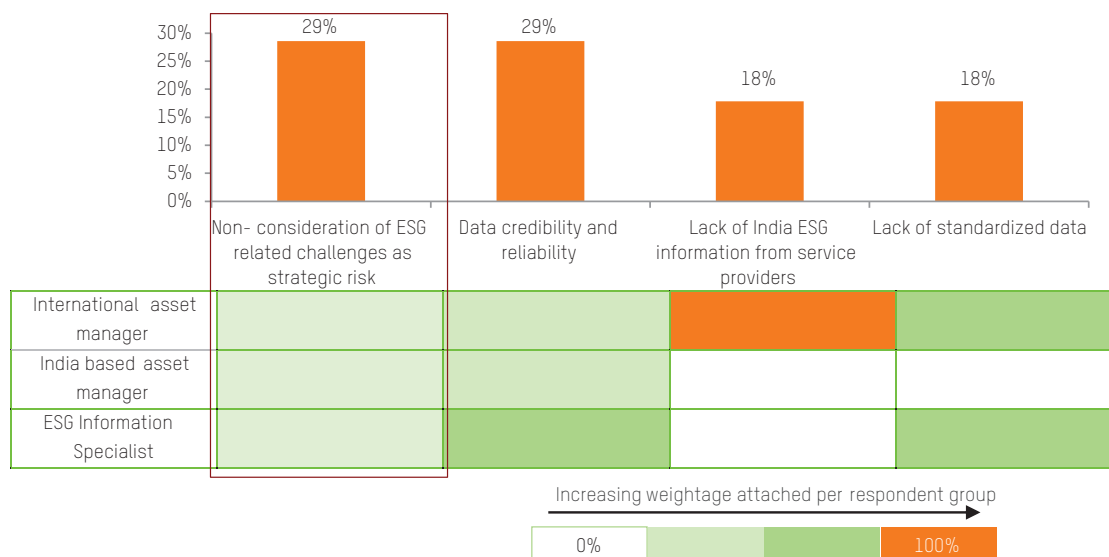
Many of India's firms are family owned and closely held; and though they have embraced sustainable operations, corporate governance was highlighted to be a major issue by the investors. Lack of awareness on corporate governance and its importance in enhancing credibility, trust and valuation was cited as a major challenge in the Indian context. Furthermore, lack of willingness on the part of the promoters to change their method of operations and consideration of environmental and social factors as a strategic risk is a major barrier for investors wanting to invest in India.

The stakeholder conversations reflected that other than getting good ESG data, they would like to see Indian corporates go beyond basic disclosure and work on it strategically. This was a view expressed by all stakeholder conversations as mapped below.

Corporate Governance is an important criterion for consideration, but investors are now also increasingly looking at environmental and social performance of the companies.

Investors highlighted that analysis of the **social risks is still amorphous** as it is based more on qualitative measurement rather than quantitative analysis. Hence, the **need for researchers and ESG information providers to develop quantifiable and comparable parameters on social aspects** was highlighted.

FIGURE 16: CHALLENGES TO RESPONSIBLE INVESTMENT IN INDIA (THE SHADING INDICATES THE WEIGHTAGE ATTACHED BY THE RESPONDENT GROUP TO THAT CHALLENGE)



**BUSINESS RESPONSIBILITY
REPORT: AN OPPORTUNITY
AWAITS**

BUSINESS RESPONSIBILITY REPORT: AN OPPORTUNITY AWAITS

Ministry of Corporate Affairs, Government of India, in **July 2011**, came out with the '**National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business**', which provided a comprehensive and structured format for reporting on the steps taken by the entities from environment, social and governance perspective.²⁷The reporting framework for the guidelines were captured in a 'Business Responsibility Report (BRR)'.

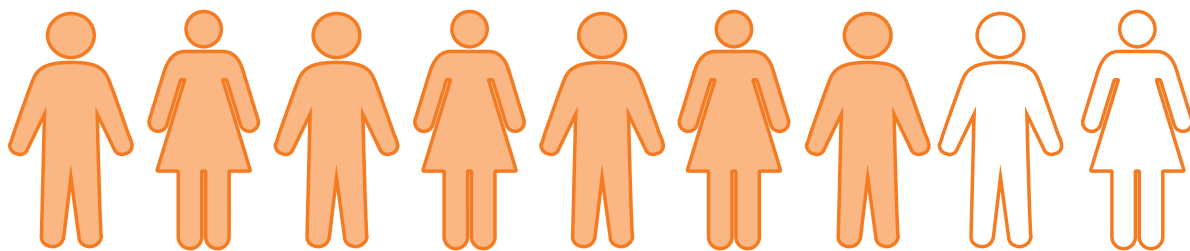
On **March 31, 2012**, **Securities and Exchange Board of India (SEBI)** made submission of **Business Responsibility Report mandatory** for top 100 listed entities based on market capitalization at BSE and NSE.²⁸ Recently, on **February 6, 2017**,²⁹ **SEBI mandated the submission of Business Responsibility Report ('BRR') for top 500 listed companies** and recommended the voluntary adoption of **integrated reporting** as per the framework by **International Integrated Reporting Council**.³⁰

The recent notification by SEBI is likely to increase transparency among Indian businesses and also help improve the quality of disclosure on environmental, social and governance aspects and to a large extent solve for the problem of access to data for the investors amalgamating ESG factors in their decision making.

8 out of 10 International SRI Asset Managers aware of the Business Responsibility Report

At the time when responsible investment is being increasingly recognized and adopted, Business Responsibility Report is a good starting point for increasing transparency among Indian businesses. Our survey of some of the leading domestic and international investor (profile in Annexure I) shows increased use of BRR in investment decision making process.

75% of the international investors mentioned that they were aware of the annual Business Responsibility Reports (BRR).



8 out of 10 International Asset Managers are Aware of BRR

²⁷ http://www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_

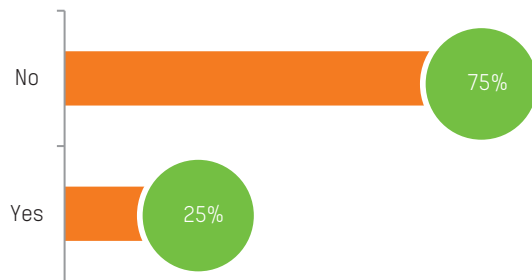
²⁸ http://www.sebi.gov.in/sebi_data/attachdocs/1344915990072.pdf

²⁹ http://www.sebi.gov.in/sebi_data/attachdocs/1486375066836.pdf

³⁰ <http://integratedreporting.org/wp-content/uploads/2015/03/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf>

However, usage is limited and 75% of information providers say BRR to be a check-box exercise

FIGURE 17: INFORMATION PROVIDER PERSPECTIVE ON USEFULNESS OF THE BRR



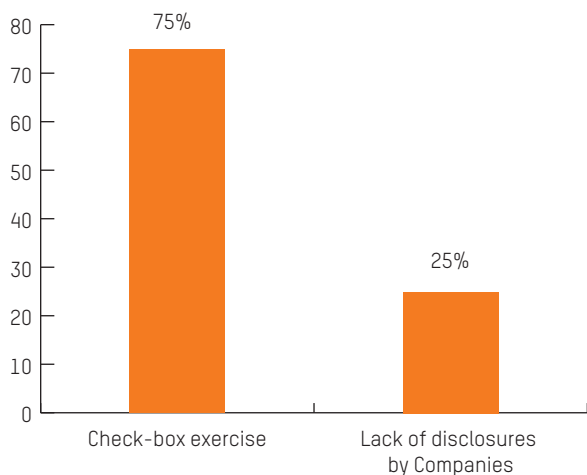
Source: cKinetics Research

While many of the respondents were aware of the BRR, the information was not being used.

75% of the ESG information providers surveyed say that the information provided could not be used.

On probing deeper, 75% of the information providers (who had earlier highlighted that the information from BRR could not be used) highlighted BRR to be becoming a check-box exercise; but only 25% shared that there was a lack of disclosure by companies.

FIGURE 18: REASONS IMPACTING THE USEFULNESS OF BRR



Source: cKinetics Research

It was also highlighted that ESG performance should be considered by companies as a part of their long-term business strategy rather than once a year tick box checking exercise in order to catalyze responsible investment in the country.

Increasing the number of quantifiable parameters is key to wider adoption of BRR

Domestic investors and information providers were asked to highlight ways to increase the adoption of BRR. Increasing the number of quantifiable parameters was highlighted by 35% of the respondents to be the key criteria to ensure wider adoption of BRR. 20% of the respondents emphasizing the need to make

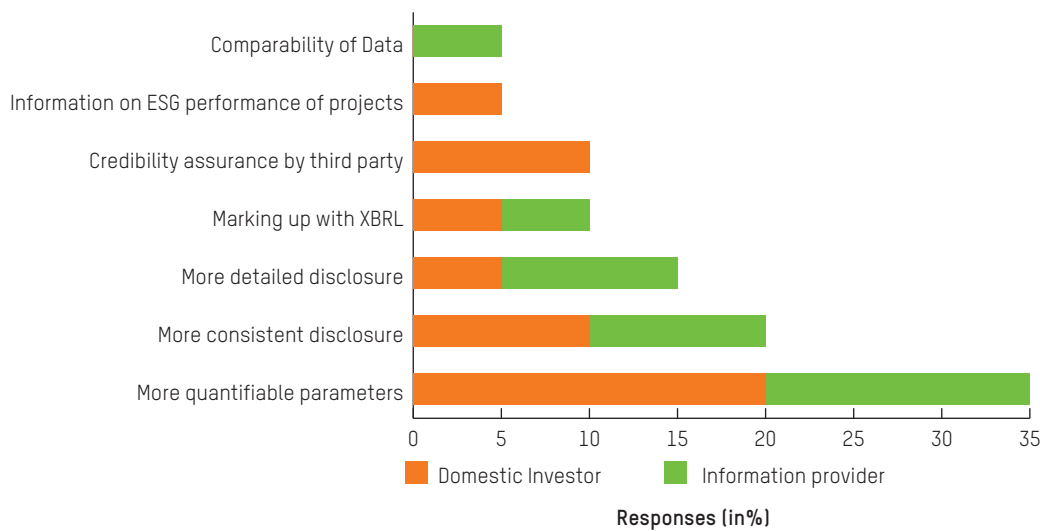
“ BRR is a work in progress, continuous evolution of the framework is necessary to keep it relevant for the investor, which also will act as a learning curve for the companies ”

- Director, ESG India information provider

more quantifiable parameters were domestic investors, while the remaining 15% respondents were the information providers.

20% of the responses underlined the need to make disclosure more consistent, while another 15% of the responses accentuated the need to increase the depth and details of the disclosure to ensure higher acceptance of BRR. 10% of the domestic and information providers surveyed also suggested marking up of XBRL, to improve the reception of BRR by the domestic investors and information providers.

FIGURE 19: WAYS TO INCREASE ADOPTION OF BRR



* XBRL (eXtensible Business Reporting Language) is an open international standard for digital business reporting that is being used by the Bombay Stock Exchange (BSE) to help improve the accuracy and utility of filings about corporate voting results

Source: cKinetics Research

**INDIAN CORPORATES
BENEFITING FROM SUSTAINABLE
AND RESPONSIBLE INVESTING**

INDIAN CORPORATES BENEFITING FROM SUSTAINABLE AND RESPONSIBLE INVESTING

A few Indian corporates are leveraging the trend of rising demand of Sustainable and Responsible investing. Many of them are now constituents of ESG linked indices and are hence drawing attention of many global investors. The table below highlights some of these Indian corporates that featured in ESG indices.

TABLE 4: COMPANIES FEATURED IN VARIOUS ESG INDICES

Name	Market CAP (₹Cr.) (as of 31 st July 2017)	Dow Jones Sustainability World Index	Dow Jones Sustainability Emerging Markets Index	MSCI India ESG Leaders Index	MSCI Emerging Markets ESG Universal Index	Featured in funds following ESG strategy studied for the report
Tata Consultancy Services	476,274.75	✓	✓	✓		✓
Tech Mahindra	37,579.25	✓	✓			✓
Wipro	140,631.70	✓	✓			✓
Mahindra & Mahindra	87,083.10		✓	✓		✓
Tata Motors	150,945.56		✓	✓		✓
Yes Bank	82,797.35		✓	✓		✓
Larsen & Toubro	166,908.86		✓			✓
Mahindra & Mahindra Financial Services	22,722.16		✓			✓
Tata Steel	55,121.36		✓			✓
Dr. Reddy's Laboratories	39,552.06		✓			✓
Infosys	232,290.01			✓	✓	✓
Housing Development Finance Corporation	284,515.79			✓		✓
Reliance Industries	524,753.94			✓		✓
Axis Bank	124,369.05			✓		✓
Hindustan Unilever Limited	249,638.52			✓		✓
ICICI Bank	193,635.40			✓		✓

Source: Money Control, DJSI, MSCI, cKinetics

Our analysis of 145 funds following responsible investment strategy showed that there are many Indian companies that are amongst the top few holdings of the funds analyzed for this report.

Companies that feature the most (outside those listed in the table above) are listed in Table 5.

TABLE 5: LIST OF INDIAN COMPANIES HELD IN THE SRI FUNDS ANALYZED (IN ADDITION TO THE COMPANIES LISTED IN THE GLOBAL SUSTAINABILITY INDICES MENTIONED IN TABLE 4)

Companies	Frequency of occurrence in the portfolio
Kotak Mahindra Bank	
State Bank of India, Maruti Suzuki India Limited, IndusInd Bank, Godrej Consumer Products Limited	
HCL Technologies, Bharat Petroleum, Motherson Sumi Systems, United Phosphorus Limited, Vakrangee Software, Nestle India Limited, Asian Paints Limited, GAIL, Hindustan Petroleum, Sun Pharmaceutical Industries Limited, Indraprastha Gas Limited, Ramco Cements, Container Corporation of India Limited, Ultratech Cement, Power Grid Corporation of India, Bharti Airtel, Tata Chemicals, Cipla, Phoenix Mills, Tata Global Beverages, Marico Limited, Tata Power Company Limited, Dabur India Limited, Cyient, Rural Electrification Corporation, Jain Irrigation Systems, VA Tech Wabag, Astral Poly Technik, Glenmark Pharmaceutical, Heidelberg Cement India Ltd, TVS Motors, Oberoi Realty, Redington (India) Limited, V-Mart, Voltas, Adani Ports and Special Economic Zone, Bharat Financial Inclusion, Crompton Greaves Consumer Electricals Limited, Gruh Finance Limited, Eicher Motors, Federal Bank Limited, PVR Limited, Future Retail Limited, IOCL, Apollo Hospitals, Redington India Limited, Shriram City Union Finance Limited, LIC Housing Finance Limited, Piramal Enterprises Limited, Hero Motocorp Limited, Tata Communications Limited, IL&FS Transportation Networks, Jubilant Organosys Limited, Ambuja Cements, ACC Limited, Ashok Leyland, Grasim Industries, Bharat Electronics Limited, ICICI Prudential Life Insurance, NBCC India Limited	

Source: cKinetics Research

These funds adopt various approaches such as integration, negative screening, etc. to narrow down to companies they would like to invest in.

MAHINDRA & MAHINDRA: AN EXAMPLE OF PROACTIVE ENGAGEMENT WITH INVESTORS

Mahindra & Mahindra is a leading Indian conglomerate that has shaped its long-term strategy based on sustainability principles. It has integrated sustainability at the group level to pave its way to long-term profitability in conjunction with sustainable development.

The Mahindra group began its sustainability journey driven by an investor query. A formal structured sustainability function was incorporated in view of increasing investor interest in sustainable business operations. Ever since, sustainability-linked Key Performance Indicators (KPIs) have been core to the organization's business.

The group's sustainability goals are defined, implemented and tracked at two levels, i.e.

- 1) Board Sustainability and CSR (Corporate Social Responsibility) goals, including five-year plans; and
- 2) Through "Sustainability Council Meetings" involving discussions between representatives from senior levels across companies within the group and the Chief Sustainability Officer.

The group actively engages with its shareholders via various channels such as annual report, sustainability report, press releases, investor presentations, corporate website, quarterly and annual results.

Additionally, business heads meet annually with the Chief Sustainability Officer for a sustainability oriented review and map progress on a Sustainability Dashboard. The group has also started to work with its extended supply chain to create resilience for its operations.

The Mahindra group also proactively engages investors seeking ESG information and for this reason periodic calls are planned with the investors where only key Environment, Social and Corporate Governance (ESG) initiatives and matters of the company are discussed.

BUILDING THE SRI CONVERSATION IN INDIA

BUILDING THE CONVERSATION ON SRI IN INDIA

The **conditions are ripe for Sustainable and Responsible Investing in India** to become more prevalent.

Worldwide SRI has either been driven by a policy push or by investors asking for it. In India, the Business Responsibility Report is a key enabling policy. And while retail investors are yet to ask for SRI in India, more global financial institutions are asking for it as they engage Indian businesses.

The Indian SRI development is also likely to be influenced by the following market-driven reasons:

- There is a **global trend of assets increasingly being managed with SRI strategies**; which will cause: (a) global asset managers to look for opportunities in India since it is a growing country, (b) Indian asset managers will create funds to attract investors (mirroring the global trend)
- The **benefits of acting on ESG factors is high for companies**, and the corresponding cost of inaction is an increasingly high risk for investors (and companies). This is especially true in India where awareness is increasing among the populace and the social license to operate is something that companies need to consider.
- Indian firms are already disclosing information as per the required Business Responsibility Report (which as this study outlined needs to be strengthened). This enabling disclosure policy has created a framework for companies to engage in dialogue with their stakeholders. The BRR is also a tool that most investors interviewed in this report are familiar with. As companies improve their BRR reporting, asset managers using SRI strategies will leverage it.
- There are increasing sectoral themes that one can invest in using SRI principles- both on the equities and the bond side (which have been elaborated earlier in this study). Specialized investment opportunities are emerging in India – related to renewables, investing in water-infrastructure, etc.

Near term levers to advance SRI

There is room however to accelerate the growth in SRI assets through 3 levers as outlined below:

Levers to advance SRI in India	Stakeholders involved						
	Institutional investors	Companies	Exchanges	Policy/ regulator (MCA, SEBI, RBI,...)	ESG Information providers/ advisors	Catalysts	Civil society
ESG Information depth: As outlined in this study, the existing Business Responsibility Report (BRR) is known by the investor community. India is relatively unique to have a policy-mandated framework for ESG information disclosure. There is room to Increasing usability of the framework with quantifiable parameters.	✓	✓	✓	✓	✓	✓	

Levers to advance SRI in India	Stakeholders involved						
	Institutional investors	Companies	Exchanges	Policy/ regulator (MCA, SEBI, RBI,...)	ESG Information providers/ advisors	Catalysts	Civil society
Mechanism for review and increasing accountability: Data credibility and reliability was cited as a barrier for SRI in the Indian market. Introduction of a review mechanism and increased ownership and accountability is likely to enhance trust (and relevance) of information being provided by companies.	✓	✓	✓			✓	✓
SRI dialogue: The SRI dialogue in India is quite non-existent even though nearly 150 funds are deploying SRI assets in India. Additionally, there are ESG-linked indices like MSCI India ESG Leaders Index and ESG information providers like Sustainalytics, India Ratings and Research, CDP India, MSCI, Bloomberg (covering 50 to more than 100 Indian companies). There is room to develop the dialogue which can be initially facilitated by exchanges and catalysts.	✓	✓	✓	✓	✓	✓	✓

Information availability and standardization in the financial sector has been the key to unlock capital flow. All participants of the survey echoed the view that increased transparency and access to meaningful information is imperative for providing more visibility into the risk and return characteristics of the underlying assets but a challenge in the Indian context.

As growing number of investors voice support for Sustainable and Responsible Investing, there would be an increased need to leverage existing frameworks such as the BRR and undertake coordinated actions. Challenges for investors is not confined to lack of information availability, but also related to areas of information veracity. Developing processes and frameworks that establish credibility of information is hence vital. Credibility of information needs to be ensured through audits and increased dialogue. Limited communication between businesses, investors and other stakeholders is a major challenge. Dialogue on Sustainable and Responsible Investing in India is relatively non-existent as compared to the developed parts of the world. There is a need for an engagement platform that will enable all stakeholders to converge and hence provide impetus to responsible investing in the country.

POLICY'S ROLE IN ADVANCING SRI

Insurance companies and pension funds in India have yet to engage in the SRI dialogue. They are also likely to be amongst the larger players since they are using the ESG factors but have not labeled their investing as 'Sustainable and Responsible Investments'. Both these segments are dominated by institutions that are owned by the Government of India, and hence there is a role for policy makers to step in.

At the same time, there is scope to advance the Business Responsibility Report with investors and adapt it for investors: the IRR - Investor Responsibility Report, which requires asset managers to state how they incorporate the BRR³¹.

³¹ The Indian Bankers Association has developed a 'Guideline for Responsible Financing' meant specifically for bankers.

There is precedence of policy makers in other regions to play a role in advancing SRI. For instance:

High level Expert group appointed by European Commission recommended reformation of European Union's rules and financial policies to facilitate sustainable investment: The high-level expert committee appointed by the commission in 2016 recommended reviewing of legislation impacting pension funds and insurance companies. Adjustment of the Solvency II rules (EU insurance regulation) was recommended to enable greater investment in sustainable equity and long-term assets.

Japan's Government Pension Investment Fund committed 1 trillion yen (\$8.9 billion) to socially responsible investments. The world's largest retirement fund (GPIF) committed to allocate about 3% of its domestic stock portfolio to socially responsible investments. Reports stated that GPIF intends to increase the proportion to 10% of their domestic stock portfolio and integrate ESG strategies information while investing in foreign stocks.

Dialogue on Sustainable and Responsible Investing in India

In order to track actions in the space, Oxfam and Sustainability Outlook are launching a platform to track the dialogues and actions on Sustainable and Responsible Investing in India. To participate in the initiative and to learn more visit: www.responsiblebiz.org/investing

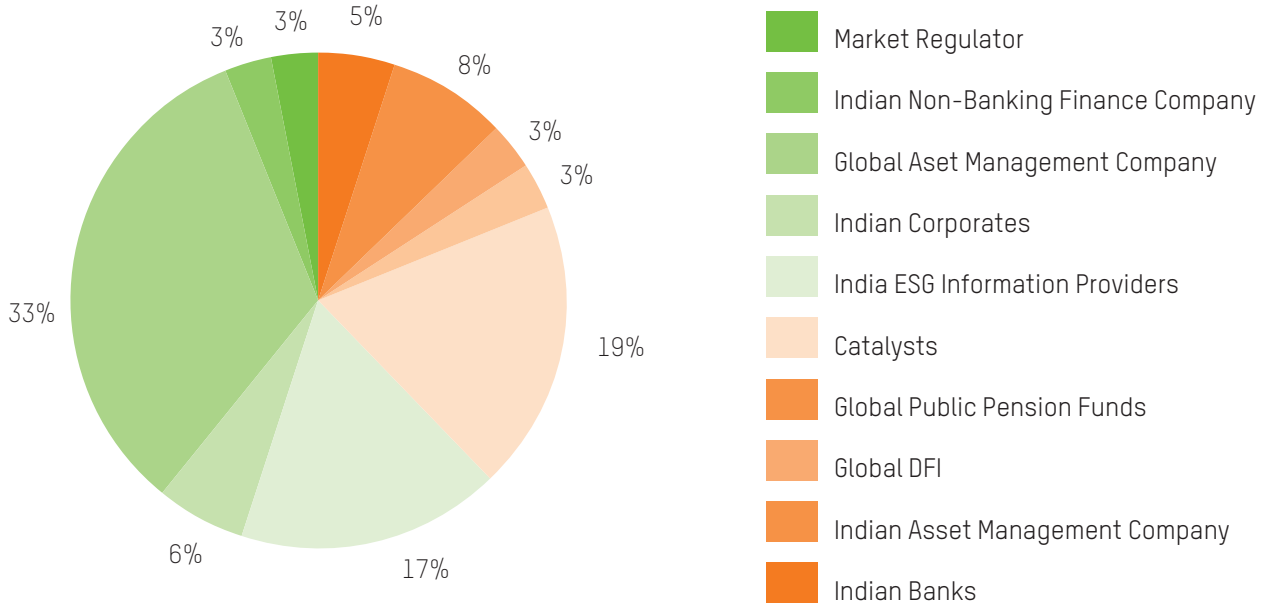


ANNEXURES

ANNEXURE I- PROFILE OF INTERVIEWEES AND SURVEY RESPONDENTS

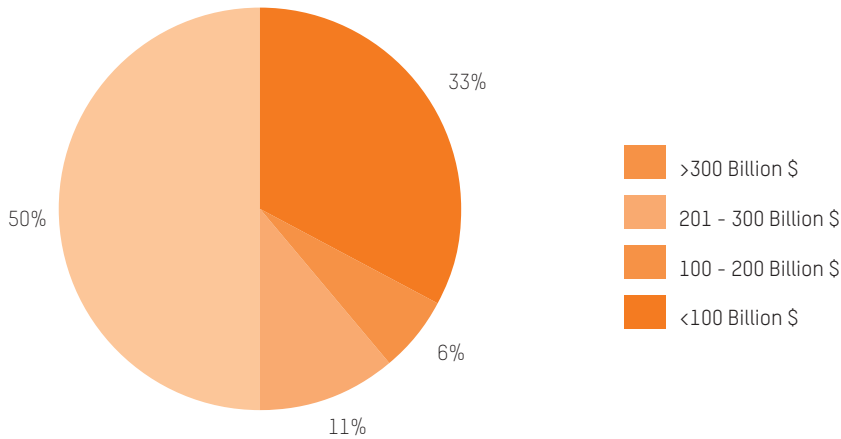
The insights presented in this report are an aggregate view of 35 investors, catalysts, information providers and corporates. The following figure gives the breakdown of the interviewees and survey respondents.

PROFILE OF THE INTERVIEWEES AND SURVEY RESPONDENTS



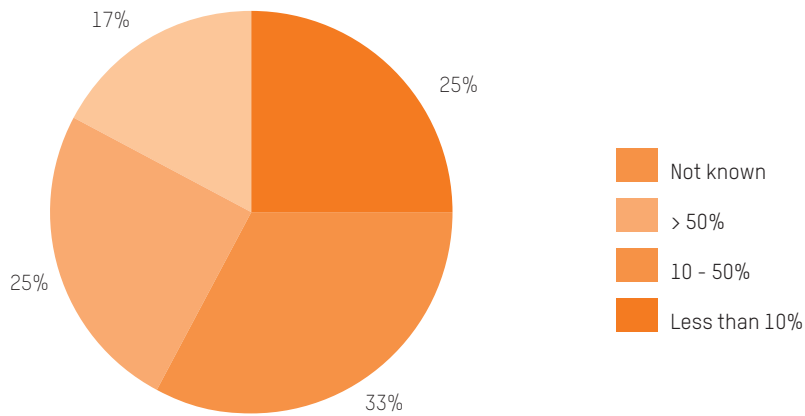
The breakdown of the global asset management companies surveyed based on their Asset under Management (AUM) in 2016 is given in the figure below.

BREAKDOWN OF GLOBAL ASSET MANAGEMENT COMPANIES SURVEYED: BY AUM



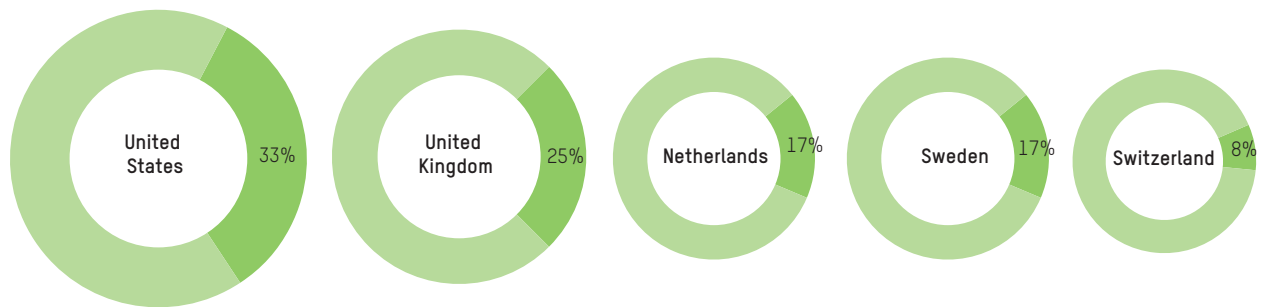
The breakdown of the global asset management companies surveyed based on their Asset under Management (AUM) in 2016 for emerging, frontier and other related markets is given in the figure below.

BREAKDOWN OF GLOBAL ASSET MANAGEMENT COMPANIES SURVEYED: BY AUM FOR EMERGING AND RELATED MARKETS



The breakdown of the global asset management companies surveyed based on the location of their headquarters is as given below.

BREAKDOWN OF GLOBAL ASSET MANAGEMENT COMPANY SURVEYED: BY GEOGRAPHY



ANNEXURE II- LIST OF EQUITY FUNDS MAPPED

Fund Name	Asset Management Company	HQ Country	Asset allocation for India (\$million)	Strategies Adopted					
				Positive screening	Negative screening	ESG integration	Sustainability themed	Corporate engagement shareholder action	Other SRI strategy
Asian ex-Japan Equity Fund – Class A	T. Rowe Price	United States	\$88.71		✓	✓		✓	
AB SUSTAINABLE GLOBAL THEMATIC FUND	AB	United States	\$42.09				✓		
Aberdeen Islamic Asia Pacific ex Japan Equity Fund	Aberdeen Asset Management	United Kingdom	\$0.91		✓				
Aberdeen Asian Opportunities Fund	Aberdeen Asset Management	United Kingdom	\$46.68						✓
Aberdeen Emerging Opportunities Fund	Aberdeen Asset Management	United Kingdom	\$151.71						✓
Aberdeen Global - Asia Pacific Equity Fund	Aberdeen Asset Management	United Kingdom	\$506.60						✓
Aberdeen Global - Asian Smaller Companies Fund	Aberdeen Asset Management	United Kingdom	\$248.00						✓
Aberdeen Global - Emerging Markets Equity Fund	Aberdeen Asset Management	United Kingdom	\$1,071.00						✓
Aberdeen Global - Emerging Markets Infrastructure Equity Fund	Aberdeen Asset Management	United Kingdom	\$31.85						✓
Aberdeen Global - Emerging Markets Smaller Companies Fund	Aberdeen Asset Management	United Kingdom	\$167.20						✓
Aberdeen Global - Indian Equity Fund	Aberdeen Asset Management	United Kingdom	\$3,400.00						✓
Aberdeen Global - World Equity Fund	Aberdeen Asset Management	United Kingdom	\$21.08						✓
The India Fund, Inc.	Aberdeen Asset Management	United Kingdom	\$859.10						✓
Allianz Asia Pacific Equity	Allianz Global Investors	Germany	\$1.39		✓	✓		✓	
Allianz Emerging Asia Equity	Allianz Global Investors	Germany	\$24.68		✓	✓		✓	
Allianz GEM Equity High Dividend	Allianz Global Investors	Germany	\$6.51		✓	✓		✓	
Allianz Little Dragons	Allianz Global Investors	Germany	\$29.73		✓	✓		✓	
Allianz Tiger	Allianz Global Investors	Germany	\$4.06		✓	✓		✓	
Allianz Total Return Asian Equity	Allianz Global Investors	Germany	\$12.83		✓	✓		✓	

Fund Name	Asset Management Company	HQ Country	Asset allocation for India (\$million)	Strategies Adopted					
				Positive screening	Negative screening	ESG integration	Sustainability themed	Corporate engagement shareholder action	Other SRI strategy
Allianz Asian Fund	Allianz Global Investors	Germany	\$7.37		✓	✓		✓	
Allianz Choice Asian Fund	Allianz Global Investors	Germany	\$31.27		✓	✓		✓	
Allianz Asian Small Cap Equity - AT - USD	Allianz Global Investors	Germany	\$7.84		✓	✓		✓	
ALQUNITY ASIA FUND	Alquity Investment Management Limited	United Kingdom	\$18.10		✓	✓		✓	
Alquity Indian Subcontinent Fund	Alquity Investment Management Limited	United Kingdom	\$28.71		✓	✓		✓	
AMP CAPITAL ASIAN EQUITY GROWTH FUND	AMP Capital	Australia	\$6.22						✓
AMUNDI FUNDS EQUITY EMERGING FOCUS - IU	Amundi	France	\$77.41						✓
AMUNDI FUNDS SBI FM EQUITY INDIA - IU	Amundi	France	\$555.40						✓
Amundi India Infrastructure Fund	Amundi	France	\$3.00		✓				
AMUNDI FUNDS EQUITY ASIA EX JAPAN - AE	Amundi	France	\$18.17						✓
Pioneer Emerging Markets Fund	Amundi Pioneer Asset Management	Italy	\$5.01		✓				
ASIAN EQUITY INCOME FUND (SHARE CLASS A)	AVIVA Investors	United Kingdom	\$8.00						✓
EMERGING MARKETS EQUITY INCOME FUND (SHARE CLASS A)	AVIVA Investors	United Kingdom	\$218.35						✓
EMERGING MARKETS EQUITY SMALL CAP FUND (SHARE CLASS A)	AVIVA Investors	United Kingdom	\$31.20						✓
AXA Rosenberg All Country Asia Pacific Ex-Japan Equity Alpha Fund	AXA Investment Managers	France	\$4.34						✓
AXA Rosenberg Global Emerging Markets Equity Alpha Fund A USD	AXA Investment Managers	France	\$2.76						✓
Emerging Markets Growth Fund	Baillie Gifford	United Kingdom	\$121.25						✓
Emerging Markets Leading Companies Fund	Baillie Gifford	United Kingdom	\$91.49						✓

Fund Name	Asset Management Company	HQ Country	Asset allocation for India (\$million)	Strategies Adopted					
				Positive screening	Negative screening	ESG integration	Sustainability themed	Corporate engagement shareholder action	Other SRI strategy
Baillie Gifford Worldwide Emerging Markets Horizon Fund	Baillie Gifford	United Kingdom	\$16.25						✓
Pure Equity Fund	Bajaj Allianz Life Insurance Company Ltd	India	\$6.20		✓				
Pure Stock Fund	Bajaj Allianz Life Insurance Company Ltd	India	\$106.97		✓				
Pure Stock Pension Fund	Bajaj Allianz Life Insurance Company Ltd	India	\$2.12		✓				
BGF Asia Pacific Equity Income Fund D2 USD	Blackrock	United States	\$69.05						✓
BGF Asian Dragon Fund A2 USD	Blackrock	United States	\$464.59		✓	✓		✓	
BGF Asian Growth Leaders Fund D2 USD	Blackrock	United States	\$228.45						✓
BGF India Fund D2 USD	Blackrock	United States	\$579.72		✓	✓		✓	
BGIF Emerging Markets Equity Index Fund Class A2 USD	Blackrock	United States	\$45.30		✓	✓		✓	
BGF Pacific Equity Fund A2 USD	Blackrock	United States	\$6.88						✓
iShares MSCI India Index ETF	Blackrock	United States	\$332.21						✓
BMO LGM Global Emerging Markets Growth and Income Fund	BMO Global Asset Management	Canada	\$127.24		✓	✓		✓	
F&C BMO Responsible Global Emerging Markets Equity	BMO Global Asset Management	Canada	\$32.68		✓	✓	✓	✓	
PARVEST GREEN TIGERS (Classic)	BNP Paribas Investment Partners	France	\$3.10	✓	✓		✓	✓	
PARVEST EQUITY WORLD EMERGING (Privilege)	BNP Paribas Investment Partners	France	\$92.59		✓				
THEAM Quant - Equity Emerging GURU® (I USD, ACC)	BNP Paribas Investment Partners	France	\$0.54		✓				
THEAM Quant - Equity Asia GURU® (C USD ACC)	BNP Paribas Investment Partners	France	\$0.51		✓				
C WorldWide Asia	C WorldWide Asset Management	Denmark	\$79.76	✓	✓	✓	✓		

Fund Name	Asset Management Company	HQ Country	Asset allocation for India (\$million)	Strategies Adopted					
				Positive screening	Negative screening	ESG integration	Sustainability themed	Corporate engagement shareholder action	Other SRI strategy
Calvert Emerging Markets Equity Fund Y	Calvert	United States	\$29.07		✓	✓		✓	
Carnegie Asia	Carnegie Fonder	Sweden	\$6.27		✓	✓		✓	
Cartica Capital	Cartica Capital	United States	\$912.60			✓		✓	
Danske Invest FCP India	Danske Bank	Denmark	\$81.20		✓	✓		✓	
Danske Invest FCP Global Emerging Markets Class A (SEK)	Danske Bank	Denmark	\$55.99		✓	✓		✓	
Global Emerging Markets Small Cap (SEK)	Danske Bank	Denmark	\$16.50		✓	✓		✓	
Emerging and Frontier Markets Class A	Danske Bank	Denmark	\$14.80		✓	✓		✓	
DNB Asian Small Cap Retail A	DNB	Norway	\$121.85		✓	✓		✓	
DNB Global Emerging Markets SRI retail A	DNB	Norway	\$6.56		✓	✓		✓	
DNB India retail A	DNB	Norway	\$87.19		✓	✓		✓	
East Capital Emerging Asia	East Capital	Sweden	\$5.37		✓	✓		✓	
East Capital Sustainable Emerging Markets	East Capital	Sweden	\$9.88		✓	✓	✓	✓	
Asia Focus Fund	Fidelity International	Bermuda	\$297.11		✓	✓		✓	
Asia Pacific Dividend Fund	Fidelity International	Bermuda	\$28.31		✓	✓		✓	
Asian High Yield Fund	Fidelity International	Bermuda	\$399.05		✓	✓		✓	
Asian Smaller Companies Fund	Fidelity International	Bermuda	\$159.89		✓	✓		✓	
Asian Special Situations Fund	Fidelity International	Bermuda	\$205.11		✓	✓		✓	
Emerging Markets Fund	Fidelity International	Bermuda	\$547.49		✓	✓		✓	
PACIFIC FUND A-USD	Fidelity International	Bermuda	\$105.26		✓	✓		✓	
Emerging Asia Fund	Fidelity International	Bermuda	\$295.16		✓	✓		✓	
India Focus Fund	Fidelity International	Bermuda	\$1,602.49		✓	✓		✓	
FIM Emerging Markets Småbolag A	FIM Asset Management	Finland	\$19.56		✓	✓		✓	
First State Indian Subcontinent Fund	First State Investments	Australia	\$375.70						✓

Fund Name	Asset Management Company	HQ Country	Asset allocation for India (\$million)	Strategies Adopted					
				Positive screening	Negative screening	ESG integration	Sustainability themed	Corporate engagement shareholder action	Other SRI strategy
HDFC Charity Fund for Cancer Cure - Arbitrage Plan	HDFC Mutual Fund	India	\$14.02						✓
Impax Asian Environmental Markets (Ireland) Fund	Impax Asset Management	United Kingdom	\$6.05				✓		
Invesco Emerging Market Quantitative Equity Fund	Invesco	United States	\$6.73						✓
JPMorgan Funds - India Fund	J.P. Morgan Asset Management	United States	\$1,085.50		✓	✓		✓	
Emerging Markets Small Cap Fund	J.P. Morgan Asset Management	United States	\$208.66						✓
Pacific Equity Fund	J.P. Morgan Asset Management	United States	\$39.11		✓	✓		✓	
KBI Institutional Water Fund:	KBI Global Investors	Ireland	\$3.36				✓		
KBI Institutional Agri Fund	KBI Global Investors	Ireland	\$0.18				✓		
KBI Institutional GESS Fund	KBI Global Investors	Ireland	\$0.46				✓		
Nordea 1 - Indian Equity BP USD (Indian Equity Fund)	Nordea Asset Management	Sweden	\$366.63		✓				
Nordea 1 - Emerging Stars Equity Fund	Nordea Asset Management	Sweden	\$352.23		✓			✓	
Asian Focus Equity Fund	Nordea Asset Management	Sweden	\$28.94		✓	✓			
Nordea 1 - Emerging Markets Focus Equity Fund	Nordea Asset Management	Sweden	\$7.50		✓	✓			
Nordea 1 - Emerging Markets Small Cap Fund	Nordea Asset Management	Sweden	\$21.24		✓	✓			
Nordea 1 - Stable Emerging Markets Equity Fund	Nordea Asset Management	Sweden	\$212.33		✓	✓			
Nordea 1 - Emerging Consumer Fund	Nordea Asset Management	Sweden	\$9.75		✓	✓			
Nordea 1 - Stable Return Fund	Nordea Asset Management	Sweden	\$941.54		✓	✓			
ODIN Emerging Markets C	ODIN Fund Management	Norway	\$11.29		✓	✓		✓	
Parnassus Asia Fund	Parnassus Investments	United States	\$0.27			✓			

Fund Name	Asset Management Company	HQ Country	Asset allocation for India (\$million)	Strategies Adopted					
				Positive screening	Negative screening	ESG integration	Sustainability themed	Corporate engagement shareholder action	Other SRI strategy
Raiffeisen Emerging Markets Equities fund	Raiffeisen Capital Management	Austria	\$27.31	✓	✓	✓		✓	
Reliance ETF Shariah BeES	Reliance Mutual Fund	India	\$0.25		✓				
Robeco Emerging Markets Equities USD	Robeco	Netherlands	\$120.89		✓	✓			
Robeco Asia-Pacific Equities D USD	Robeco	Netherlands	\$17.14		✓	✓		✓	
Robeco Asian Stars Equities D EUR	Robeco	Netherlands	\$19.18		✓	✓		✓	
Robeco Emerging Markets Smaller Companies Eq. I USD	Robeco	Netherlands	\$22.89		✓	✓		✓	
Robeco Emerging Stars Equities D USD	Robeco	Netherlands	\$109.69		✓	✓		✓	
Robeco Global Consumer Trends Equities D USD	Robeco	Netherlands	\$22.43		✓	✓		✓	
Robeco Global Growth Trends Equities D EUR	Robeco	Netherlands	\$0.47		✓	✓		✓	
Robeco Indian Equities D USD	Robeco	Netherlands	\$37.59		✓	✓		✓	
Robeco New World Financial Equities I USD	Robeco	Netherlands	\$24.74		✓	✓		✓	
Robeco Property Equities D USD	Robeco	Netherlands	\$2.53		✓	✓		✓	
Robeco QI Asia-Pacific Active Equities F USD	Robeco	Netherlands	\$0.24		✓	✓		✓	
Robeco QI Emerging Conservative Equities C USD	Robeco	Netherlands	\$225.43		✓	✓		✓	
Robeco QI Emerging Markets Active Equities I EUR	Robeco	Netherlands	\$37.13		✓	✓		✓	
Robeco QI Emerging Markets Enhanced Index Equities I USD	Robeco	Netherlands	\$4.81		✓	✓		✓	
Rolinco	Robeco	Netherlands	\$8.85		✓	✓		✓	
Institutional Emerging Markets Fund	Robeco	Netherlands	\$153.63		✓	✓		✓	
Institutional Emerging Markets Quant Fund	Robeco	Netherlands	\$140.44		✓	✓		✓	

Fund Name	Asset Management Company	HQ Country	Asset allocation for India (\$million)	Strategies Adopted					
				Positive screening	Negative screening	ESG integration	Sustainability themed	Corporate engagement shareholder action	Other SRI strategy
Robeco Emerging Opportunities Equities I USD	Robeco	Netherlands	\$0.51		✓	✓			
Robeco High Dividend Property Equities B EUR	Robeco	Netherlands	\$2.52		✓	✓		✓	
Robeco QI Customized Enhanced Index Equities I Z USD	Robeco	Netherlands	\$6.13		✓	✓		✓	
Robeco QI Emerging Markets Active Large Cap Equities I USD	Robeco	Netherlands	\$0.29		✓	✓		✓	
RobecoSAM Sustainable Agribusiness Equities D USD	RobecoSAM	Switzerland	\$1.23		✓	✓		✓	
Growth with Values	SBI Funds Management Private Limited	India	\$3.88		✓				
Schroder ISF Asian Smaller Companies	Schroders	United Kingdom	\$94.88		✓	✓		✓	
Ethical Emerging Markets Value EUR R	Sparinvest Group	Luxembourg	\$8.15	✓	✓	✓		✓	
Responsible Asian and Emerging Markets	Sparinvest Group	Luxembourg	\$0.20	✓	✓	✓		✓	
State Street Disciplined Emerging Markets Equity Fund - Class K	State Street Global Advisors	United States	\$0.25					✓	
State Street Emerging Markets Equity Index Fund - Class K	State Street Global Advisors	United States	\$42.61					✓	
Stewart Investors Asia Pacific Fund	Stewart Investors	United Kingdom	\$273.27	✓		✓	✓	✓	
Stewart Investors Global Emerging Markets Leaders Fund	Stewart Investors	United Kingdom	\$296.29				✓		✓
Stewart Investors Global Emerging Markets Sustainability Fund	Stewart Investors	United Kingdom	\$102.75				✓		✓
Stewart Investors Worldwide Equity Fund	Stewart Investors	United Kingdom	\$1.82				✓		✓
Stewart Investors Asia Pacific Leaders Fund	Stewart Investors	United Kingdom	\$3,855.48				✓		✓

Fund Name	Asset Management Company	HQ Country	Asset allocation for India (\$million)	Strategies Adopted					
				Positive screening	Negative screening	ESG integration	Sustainability themed	Corporate engagement shareholder action	Other SRI strategy
Stewart Investors Asia Pacific Sustainability Fund	Stewart Investors	United Kingdom	\$177.24				✓		✓
Stewart Investors Global Emerging Markets Fund	Stewart Investors	United Kingdom	\$195.97				✓		✓
Stewart Investors Indian Subcontinent Fund	Stewart Investors	United Kingdom	\$281.03				✓		✓
Stewart Investors Worldwide Sustainability Fund	Stewart Investors	United Kingdom	\$15.25				✓		✓
SPP Emerging Markets SRI	Storebrand Asset Management	Norway	\$95.65		✓	✓		✓	
Swisscanto (LU) Equity Fund Green Invest Emerging Markets B	Swisscanto Fondsleitung AG	Switzerland	\$13.22	✓	✓	✓	✓	✓	
Tata Ethical Fund	Tata Mutual Fund	India	\$71.92		✓				
Taurus Ethical Fund	Taurus Mutual Fund	India	\$4.64		✓	✓			
UBS (Lux) Equity SICAV - Emerging Markets Sustainable	UBS Asset Management	United Kingdom	\$2.12		✓	✓	✓	✓	
UBS International Sustainable Equity Fund	UBS Asset Management	United Kingdom	\$1.03			✓			

Source: cKinetics Research

ANNEXURE III- GREEN BOND ISSUANCES

Issuer Name	Issuance Date	Year	Tenor (in years)	Value (in Million)	Coupon (in % per annum, doesn't include hedging cost)
IREDA	17-Feb-14	2014	10,15,20	₹5,000	8.16%, 8.55%, 8.55%
GreenKo	24-Jul-14	2014	5	\$550	8%
Yes Bank	16-Feb-15	2015	10	₹10,000	8.850%
CLP Wind Farms (India)	15-Sep-15	2015	3, 4, 5	₹6,000	9.150%
IDBI Bank Limited	24-Nov-15	2015	5	\$350	4.250%
Hero Future Energies	4-Feb-16	2016	3, 6	₹3,000	10.750%
PNB Housing Finance Limited	6-Apr-16	2016	N/A	₹5,000	8.010%
Axis Bank	24-May-16	2016	5	\$500	2.875%
NTPC	3-Aug-16	2016	5	₹20,000	7.480%
GreenKo	11-Aug-16	2016	7	\$500	4.875%
Yes Bank	27-Sep-16	2016	7	₹3,300	7.62%
ReNew Power	4-Nov-16	2016	N/A	₹5,000	10.4%
ReNew Power	7-Feb-17	2017	5	\$475	6%
IREDA	24-Mar-17	2017	10	₹2,000	8.12%
IREDA	29-Mar-17	2017	10	₹5,000	8.05%
Pune Municipal Corp	19-Jun-17	2017	10	\$31	7.59%
Rural Electrification Corporation	1-Jul-17	2017	10	\$450	3.97%
L&T Infrastructure Finance Co.	6-Jul-17	2017		\$103	
GreenKo	11-Jul-17	2017	5, 7	\$1,100	5.10%

Source: Various Sources

ANNEXURE IV: MATERIALITY MAP - ESG INFORMATION RELEVANT FOR DIFFERENT INDUSTRIES (FROM THE SUSTAINABILITY ACCOUNTING STANDARDS BOARD)

Sectors →	Health Care						Financials					
Issues ↓	Biotechnology	Pharmaceuticals	Medical Equipment and Supplies	Health Care Delivery	Health Care Distribution	Managed Care	Commercial Banks	Investment Banking and Brokerage	Asset Management and Custody Activities	Consumer Finance	Mortgage Finance	Security and Commodity Exchanges
Environment												
GHG emissions												
Air quality												
Energy management	R	R	R	R, A								
Fuel management					R							
Water and wastewater management	R	R	R									
Waste and hazardous materials management	R	R	R	R, A								
Biodiversity impacts												
Social Capital												
Human rights and community relations	R, A, C	R, A, C										
Access and affordability	R	R	R, C	R		R	R, A, C			R, A, C	R, A	
Customer welfare	R, A, C	R, A, C	R, A	R, A, C		R, A				R, A, C	R, A, C	
Data security and customer privacy				R, A		R, A	R, A			R, A, C		
Fair disclosure and labeling				R		R, A						
Fair marketing and advertising	R, A	R, A	R, A						R, A	R, A, C	R, A	
Human Capital												
Labor relations												
Fair labor practices												
Employee health, safety and wellbeing	R, A	R, A										
Diversity and inclusion								R, A	R			
Compensation and benefits								R, A	R, A		R, A	
Recruitment, development and retention	R	R		R								
Business Model and Innovation												
Lifecycle impacts of products and services	R, A, C	R, A, C	R		R		R, A, C	R, A	R, A, C			
Environmental, social impacts on assets & operations				R, A, C	R	R, A, C	R, A, C				R, A, C	
Product packaging												
Product quality and safety	R, A	R, A	R, A		R, A							
Leadership and Governance												
Systemic risk management							R, A, C	R, A, C	R, A, C		R, A, C	R, A, C
Accident and safety management												
Business ethics and transparency of payments	R, A	R, A	R, A	R, A	A		R, A, C	R, A, C	R, A, C			R, A, C
Competitive behavior												R, A, C
Regulatory capture and political influence												
Materials sourcing			R, A, C									
Supply chain management	R, A, C	R, A, C	R, A, C									

		Technology and Communications						Renewable Resources & Alternative Energy					
	Insurance	Electronic Manufacturing Services and ODM	Software and IT Services	Hardware	Semi-conductors	Telecommunications	Internet Media and Services	Biofuels	Solar Energy	Wind Energy	Fuel Cells and Industrial Batteries	Forestry and Logging	Pulp and Paper Products
					R, C			R, A, C					R, C
								R, A					R
			R, C		R, C	R, C	R, C		R		R, C		R
		R, A, C	R, C		R, A, C		R, C	R, A	R, C				R, C
		R, A, C			R, A, C				R, A, C				
									R, A, C	R, A, C		R, A, C	
									R, A, C	R, A, C		R, A, C	
	R, A								R, A, C			R, A, C	
			R, A, C	R, A, C		R, A, C	R, A, C						
	R, A												
		R, A											
		R, A											
		R, A			R, A					R, A	R, A		
			R, A, C	R, A			R, A, C						
			R, A, C		R, C		R, A, C						
	R, A		R, A	R, A	R, A			R, C	R, A, C	R, A, C	R, C		
	A, C											R, A, C	
	R, A, C				R, A, C								
								R, A, C					
				R, A, C	R, A, C	R, A, C							
								R, A, C	R, A, C	R, A, C	R, A, C		
		R, A, C	R, A, C					R, A, C					R, A, C
		R, A, C						R, A, C					R, A, C

Industry Level Map	Financial Impact	
Likely a material issue for companies in the industry	Low	
	Medium	
	High	
Not likely a material issue for companies in the industry		

Financial Impact	
Revenue/Cost	R
Asset / Liabilities	A
Cost of Capital	C

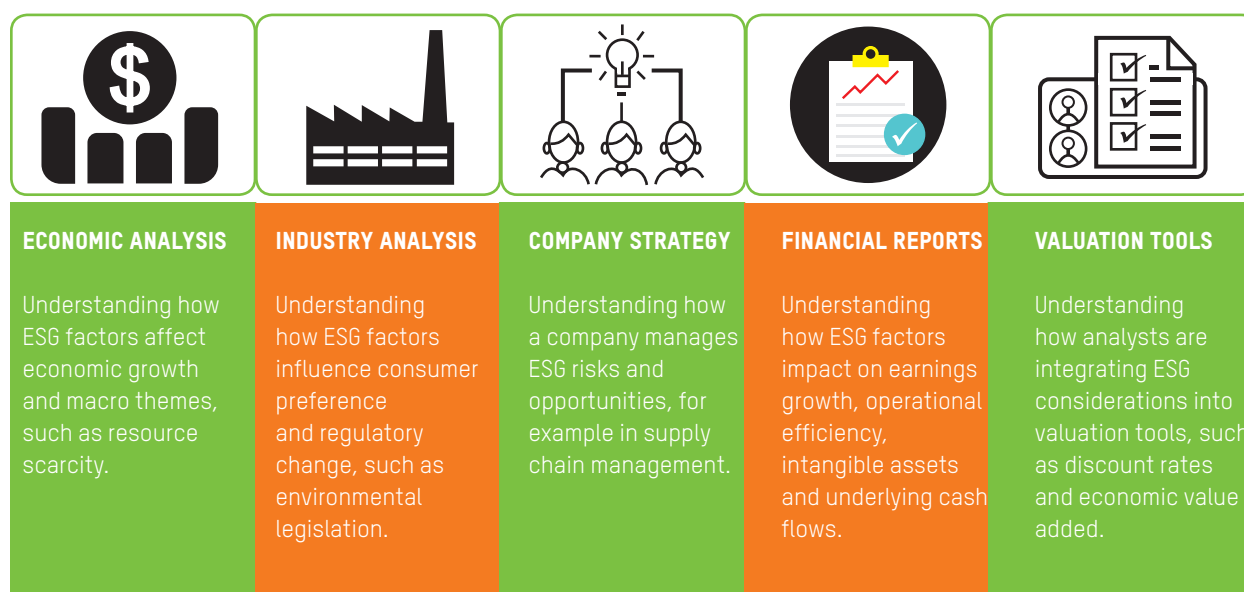
Source: SASB Materiality Map

ANNEXURE V: HOW ESG INFORMATION IS USED IN SUSTAINABLE AND RESPONSIBLE INVESTING

Incorporation of environmental, social and governance (ESG) information in investment decision making process has evolved significantly over the years from its original form of exclusion of certain listed equities based on moral values. A variety of new strategies and methodologies are now being adopted by investors considering Sustainable and Responsible Investing strategies across asset classes. ESG information is used systematically by these investors to analyze and make better-informed investment decisions based on holistic view of the securities being analyzed.

As per UNPRI³², ESG information can be used in five different components of analysis for investee company selection as highlighted in the figure given below:

INTEGRATING ESG INFORMATION INTO LISTED INVESTMENT ANALYSIS



Source: UNPRI

Economic analysis entails determination of economic growth based on factors related to environmental capital, social capital and governance factors such as consideration of resources which face constraints and are likely to impact growth, policies and regulatory structures such as carbon trading schemes, political and social pressures on corporates to internalize social and environmental costs, etc.

Industry analysis involves consideration of factors affecting market dynamics and changing consumer preferences driven by social and regulatory trends, for example companies having clean energy capacity will potentially have less share price risk given in terms of legislations becoming more stringent.

Company strategy is an important indicator of how the company seeks to exploit opportunities and manage risks presented by the industry and geography it operates in. Increased consumer awareness, civil society push, etc. can impact long-term strategic success and hence long-term return thus forms an integral element of ESG integration.

³² UNPRI Report "How investors are addressing environmental, social and governance factors in fundamental equity valuation", Feb 2013 India: \$ 30 Billion (~₹ 2 Trillion) of assets are deployed with Sustainable and Responsible Investing strategies

Financial report is a vital element in providing a snapshot of company's corporate health in terms of assets and liabilities. Human capital management, community investment, and other ESG parameters can impact a company's reputation and hence have reputational and operational risks. Thus, consideration of ESG factors and intangible assets can help gauge a company's fair value of the assets and help make informed decisions.

Valuation tools can be adjusted to reflect market risks and hence play an important role in integrated analysis. ESG related risks and opportunities usually play out in the medium to long term. However, reputational and environmental disasters can have impacts in the short term and result in fall of share price.

Underlying performance of metrics based on ESG parameters is an effective tool for assessing business performance and value and can be thus used for risk management and to generate long term competitive returns.



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