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Research Article

Exclusionary Strategy

Strategy-Driven Performance Variations in ESG-Themed Mutual Funds in India: A Comparative Study

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The ESG-themed mutual funds have progressively evolved from a niche concept to a recognized green investment option. Beyond the general notions of being "Environment-Friendly" or "Socially Responsible," it is the strategies in which these funds select and mobilise their portfolios towards sustainability and ensure profitability. The present study aims to investigate the growth behaviour, risk–return characteristics, and comparative performance efficiency of selected strategy-based ESG-themed mutual funds in India. Annualised secondary data, spanning 2022–23 to 2024–25 for four actively managed ESG mutual funds, has been used. The Growth performance was assessed through Net Asset Value (NAV) and Assets under Management (AUM), and Risk-adjusted performance has been measured using the Sharpe Ratio, Treynor Ratio, and Jensen's Alpha. Kruskal–Wallis non-parametric test was employed to evaluate performance patterns and determine significant differences among funds. Findings suggest Exclusionary Strategy Funds exhibited consistent and stable growth in both NAV and AUM, and performed positively in terms of each risk-adjusted ratio. Further, the Kruskal–Wallis test statistically confirms significant differences in Sharpe and Treynor ratios ($p < 0.05$) across the four funds, with mean ranks favouring the Exclusionary Strategy reflecting strong investor confidence and a favourable perception of strictly ethical and sector-screened investment portfolios.

Keywords: exclusionary strategy, integration strategy, responsible investment, ESG mutual funds, risk-adjusted performance, sustainable finance

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1. Introduction

The business practice worldwide is prioritising ethical and social initiatives and moving towards sustainability. This changing attitude globally raises the need for sustainable or green funds. According to GSIA's report, 2022, the total value of sustainable investment assets worldwide increased to $30.3 trillion, which indicates the growing priority for sustainable investment globally. The environmental, social, and governance framework is the practical initiative through which funds can be channelled toward a sustainable avenue. In India, ESG-themed mutual funds gain momentum in this regard. ESG Themed Mutual Funds are an aggregate capital channelized to the destinations by prioritising the adherence to environmental, social, governance, and ethical standards, along with the financial performance. Although sustainability is central to these funds, their true identity is shaped by their specific investment strategies. Portfolio selection and fund management policies distinguish them and extend beyond merely being categorized as "environmentally friendly" or "socially responsible. Most ESG funds in India rely on two strategic approaches.

Exclusionary Strategy: Exclusionary Strategy is a straightforward and rules-driven approach where the fund manager strictly follows the ESG compliance, ranks, and performance of the individual companies before including them in the portfolio. These strategies provide clarity about the ethical practices and represent themselves as a trustworthy avenue to the responsible investors. At the same time, the restricted investment universe may sometimes limit diversification.

Integration Strategy: A Strategy that includes ESG consideration into the conventional investing strategy. Instead of blocking certain sectors completely, it blends ESG factors with regular financial analysis to identify companies that show promise on both financial and sustainability grounds. Integration Strategy is more flexible and analytical in nature. The advantage here is that fund managers have more scope to explore opportunities across industries.

Alongside, there are some strategies that funds can adopt, including Best-in-Class, Impact Investing, and Thematic investment.

As these two strategies are prime and continue to shape the ESG mutual fund in the Indian market, thoughts arise in investors, fund managers, and policymakers as well about which strategic investment performs better in terms of risk-return and has a growth perspective in real market situations. Here lies the importance of running this extensive research.

2. Research Aim

The research aims to explain the way the strategic difference influences the funds' behaviour and investor outcomes by analysing the growth and return trends, after adjusting for the risk of selected ESG funds that follow exclusionary and integration strategies in a developing ESG market like India.

3. Literature Review

The growing emphasis on sustainability in business practice has increased the relevance of sustainable funds and the adoption of sustainable strategies to utilize those funds. ESG has become the practical framework for implementing those funds worldwide, thereby gaining the attention of researchers, academicians, and industrialists alike. With this background, this study adopts an extensive literature review. **Karoui (2019)** evaluates the performance of socially responsible funds with comparison to the funds not marked as socially responsible by considering two variables, namely, socially active share and social tracking error analyses. The findings suggest that the SAS results align with more socially responsible funds outperforming less socially responsible funds**.** **Rohilla (2023)** analyses the AAUM pattern and risk-return performance of select mutual funds in India and concludes that ESG funds provide a healthy return in the long run. This research also mentioned that Aditya Birla mutual funds, being a new entrant in the market, are still the best performers in terms of risk-return. **Soni (2023)** evaluates the relationship between risk-adjusted returns and ESG disclosures of mutual funds. This study examines both the pre-pandemic and post-pandemic periods. The Fama-French five factors have been considered as controlled variables, and concluded that the performance of mutual funds with higher ESG scores neither generated significant positive alphas during the normal period nor during the pandemic period,

Priya & Sharma (2024) adopt a cross-country approach and highlight a global comparative analysis of ESG mutual fund evolution, evaluating status and performance across both developed, developing, and underdeveloped economies. With a particular focus on India, this paper articulated that India has made considerable progress in ESG adoption. From 2019 onwards, Indian ESG-themed mutual funds have gained higher AUM compared to the rest of the world. **Jayadev & R A. (2025)** evaluate the performance of ESG funds with the benchmark index and conclude that the Quantum ESG Fund is the most responsive, and the Axis ESG Integration Strategy Fund is the least responsive to the selected benchmark.

4. Research Gap

After an extensive review, it has been observed that academic exploration regarding ESG investment in India has followed an increasing trend. Some research at the national level found that funds being socially responsible shows higher performance tendency than conventional funds (Karoui, 2019; Rohilla, 2023), on the contrary, some reports negative outcomes even after controlling for major risk factors (Soni, 2023). However, most of the studies focus only on return-based evaluation and overlook important dimensions such as volatility behaviour, benchmark responsiveness, and efficiency analysis. Furthermore, some international studies identified the rapid growth of ESG investment in the Indian market (Priya & Sharma, 2024). Although the trend was observed, but still a lack of long-term, India-specific empirical work that could link this growth to actual fund performance. Again, there exists little knowledge about performance analysis for ESG-themed investment by considering the fund management strategies in India, as well as for the global market. Therefore, there is a clear research gap in conducting a comprehensive, India-focused analysis that simultaneously examines risk–return characteristics, volatility dynamics, performance efficiency, and adherence to ESG strategies to understand the true behaviour and effectiveness of ESG-themed mutual funds.

5. Research Question

1. What is the growth perspective of the strategy-based ESG-themed mutual fund in India as a sustainable Investment Avenue?
2. What are the notable differences in risk-adjusted performance among the strategy-based ESG-themed mutual funds?
3. What is the ability of strategy-based ESG-themed mutual funds in India to deliver competitive profitability while upholding sustainability principles?

6. Research Objectives

The Research Objectives of the study are as follows –

- To evaluate the Growth performance of selected strategy-based ESG-themed mutual funds in India.
- To evaluate the risk-adjusted performance of selected strategy-based ESG-themed mutual funds in India.

7. Research Methodology

An empirical and quantitative methodology has been applied to analyse the impact of different investment strategies on the profitability, risk adjustment, and growth consistency of selected ESG-themed mutual funds within the Indian mutual fund sector.

Source and Nature of Data: Annualised secondary data has been used for the study. Necessary data has been collected from different authorized sources, including the websites of respective mutual funds, the Association of Mutual Funds in India (AMFI), books, magazines, and journals.

Period of Study: In alignment with the long-term perspective of the research, necessary data, contingent upon their availability, have been collected for a duration of three financial years. The specified time frame extends from 2022-23 to 2024-25.

Sample and Sampling Techniques: At present, several ESG-themed mutual funds, which comply with SEBI regulations, both under Active and Passive categories, are offered by prominent asset management firms in India. A convenience sampling approach is utilized to select four actively managed, regular growth, strategy-based ESG-themed mutual funds from a population of eight actively managed ESG-themed mutual funds. For the assessment of profitability, risk adjustment, and growth consistency, criteria like having a minimum three-year performance record, explicit disclosure of the asset allocation pattern, and having a consistent monthly NAV data available for the study period have been considered.

Nature of Fund: For the purpose of both growth perspective and risk-adjusted financial performance, funds have been collected from two categories of mutual funds.

1. Exclusionary Strategy Fund: Under this category, the following fund has been considered,

SBI ESG Exclusionary Strategy Fund.

ICICI Prudential ESG Exclusionary Strategy Fund.

2. Integration Strategy Fund: Under this category, the following fund has been considered,

Axis ESG Integration Strategy Fund.

Aditya Birla Sun Life ESG Integration Strategy Fund**.**

Variables: The following ratios have been considered to examine the financial performance of selected ESG-themed mutual funds in India during the study period.

Net Assets Value (NAV) | Assets Under Management (AUM) | Sharpe Ratio | Treynor Ratio |

Jensen's Alpha.

Benchmark Index and Risk-Free Rate of Return: To substantiate the performance efficiency of the selected variables, the NIFTY 100 ESG Mutual Funds have been designated as the benchmark, and the 10-year government bond rates in India have been utilised as the risk-free rate of return to accomplish the research objectives.

8. Methods and Techniques

- To describe the characteristics of observations, different descriptive analyses, including the mean, standard deviation, variance, skewness, and kurtosis, will be calculated to provide a summary of fund performance.
- The growth position of selected funds has been evaluated using different growth components, including Net Asset Value and Assets under Management.
- To check whether the data follows the normality, different tests, including the Kolmogorov-Smirnov and Shapiro-Wilk has been applied.
- The significance of performance differences among funds is evaluated statistically using the Kruskal-Wallis analysis.
- Data compilation and analysis will be performed using Microsoft Excel and SPSS.

9. Data Presentation, Analysis, and Interpretation

Table 1: Showing Growth Performance through Net Assets Value (NAV) and Assets under Management (AUM) Growth

Name of Fund	Nature of Fund	Date of Allot-ment	Year	NAV (As on 31st March)	AUM (As on 31st March) (Rs. in Cr)
SBI ESG Exclusionary Strategy Fund	Exclusionary Strategy Fund	1991	2024-25	66.58	5,433.25
			2023-24	51.05	5,525.30
			2022-23	51.37	4,412.65
ICICI Prudential ESG Exclusionary Strategy Fund		2020	2024-25	18.34	1,428.28
			2023-24	13.10	1,406.52
			2022-23	12.75	1,223.16
Axis ESG Integration Strategy Fund	Integration Strategy Fund	2020	2024-25	14.98	1,190.16
			2023-24	12.00	1,371.79
			2022-23	13.95	1,460.59
Aditya Birla Sun Life ESG Integration Strategy Fund		2020	2024-25	14.81	577.14
			2023-24	11.56	699.00
			2022-23	12.47	817.58

Source: Author's Self-Calculation

The above table (Table 1) reflects the last 3 years' trajectory of growth of selected funds through Net Assets Value and Assets under Management. A comparative assessment reveals that funds under the Exclusionary Strategy Fund, that is, SBI ESG Exclusionary Strategy Fund and ICICI Prudential ESG Exclusionary Strategy Fund, exhibit stable and consistent growth trends in terms of NAV as well as AUM for all the observed periods in the study. In contrast, funds under the Integration Strategy, including the Axis ESG Integration Strategy Fund and the Aditya Birla Sun Life ESG Integration Strategy Fund, are demonstrating declining trends in terms of AUM. A fluctuating momentum in NAV has been observed for both funds. So it can be concluded that the growing AUM and NAV reflect that Funds under the Exclusionary Strategy are gaining growing attention from investors year by year and indicate a clear picture of the strategic attitude of socially responsible investors.

Analysis 2: Risk–Adjusted Financial Performance of Selected ESG-Themed Mutual Funds in India

To evaluate the abilities of ESG-themed mutual funds to generate consistent and efficient returns while aligning with environmental, social, and governance (ESG) principles as a sustainability-oriented investment strategy, three traditional risk-adjusted financial metrics, namely, Sharpe Ratio, Treynor Ratio, and Jensen's Alpha, have been evaluated for selected mutual funds.

Table 2: Showing Financial Performance of selected ESG-themed Mutual Funds in India

Name of Fund	Year	Annualise Sharpe Ratio	Annualise Treynor Ratio	Annualise Jensen's Alpha
SBI ESG Exclusionary Strategy Fund	2024	0.47	0.70	7.74
	2023	0.43	0.51	-1.17
	2022	0.40	0.38	8.65
ICICI Prudential ESG Exclusionary Strategy Fund	2024	0.53	0.88	12.37
	2023	0.46	0.63	0.22
	2022	0.41	0.46	11.69
Axis ESG Integration Strategy Fund	2024	-0.47	-0.33	-5.32
	2023	-0.21	-0.11	-8.58
	2022	-0.58	-0.10	3.32
Aditya Birla Sun Life ESG Integration Strategy Fund	2024	-0.60	-0.45	-6.62
	2023	-0.29	-0.16	-9.00
	2022	-0.60	-0.14	2.80

Source: Author's Creation by using Annualised Mean in Excel

The results presented in Table 2 indicate that funds categorized under the Exclusionary category initially demonstrated a positive trend among all three ratios except in 2023–24, resulting in -1.17, a negative Jensen alpha value.

These positive trends indicate strong risk-adjusted returns, efficient market-risk utilization, and consistent outperformance of benchmark expectations of Exclusionary Funds. Again, a constant negative attitude has been observed for funds categorised under the integration strategy, and hence reflecting underperformance across all three ratios. This negative trend signifies that these ESG funds did not sufficiently compensate investors for the associated risks by incorporating sustainability considerations into fund allocation strategies and asset management practices.

Overall, in the short run, the Exclusionary strategy, which avoids allocating resources to companies with the least ESG records, appears relatively more resilient than the Integration strategy, which blends ESG performance with traditional analysis.

Though the overall ratio reflects underperformance for all the selected funds during the selected study period, it's time to understand statistically how significant the performance of risk-adjusted parameters is.

Descriptive Analysis

The descriptive statistics reveal the negative mean values for most of Sharpe, Treynor, and Jensen's Alpha ratios, and exhibited weak risk-adjusted financial performance statistically during the study period. The high skewness and kurtosis across nearly all variables indicate non-normal return distributions, implying that these funds were subject to irregular volatility and extreme market movements. Among all, ICICI ESG Fund displayed relatively better stability and systematic risk efficiency, whereas Axis and Aditya Birla ESG Funds underperformed the most. The results suggest that the risk-adjusted performance of India's ESG-themed mutual fund remains underperformed, possibly due to evolving ESG integration frameworks and market sensitivity to global sustainability-linked shocks.

Table 3: Descriptive Statistics of Selected ESG-Themed Mutual Funds

Descriptive Statistics									
	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
SHARP SBI	37	-.672	.206	.0732	.193	-3.158	.388	9.024	.759
SHARPE ICICI	37	-10.091	.224	-.134	1.682	-6.079	.388	36.967	.759
SHARPE AXIS	37	-.6776	.0000	-.1566	.1394	-2.356	.388	5.912	.759
SHARPE AB	37	-.662	.000	-.186	.154	-1.749	.388	2.551	.759
TREYNORSBI	37	-37.808	.000	-6.854	7.456	-3.130	.388	9.886	.759
TREYNOR ICICI	37	.000	3.275	2.310	.8165	-1.608	.388	2.421	.759
TREYNORAXIS	37	-166.994	.000	-12.667	28.252	-4.846	.388	26.064	.759
TREYNORAB	37	-51.465	.0000	-13.089	9.874	-2.199	.388	6.132	.759
JENSEN SBI	37	-48.750	24.136	6.579	14.683	-2.270	.388	6.427	.759
JENSEN ICICI	37	-687.427	132.648	-8.429	120.92	-5.109	.388	29.479	.759
JENSEN AXIS	36	-48.93	2.83	-6.756	10.00	-2.966	.393	10.137	.768
JENSEN AB	37	-48.38	.000	-7.40	9.846	-2.762	.388	8.712	.759

Source: Author's Creation using SPSS

Normality Test

Again test of normality via Kolmogorov-Smirnov as well as Shapiro-Wilk suggests a value less than 0.05, and hence all variables indicate non-normal return distributions.

Tests of Normality							
	FUND NAME	Kolmogorov-Smirnovwhere			Shapiro-Wilk		
		Statistic	df	Sig.	Statistic	df	Sig.
SHARP	AB	.203	36	.001	.855	36	.000
	AXIS	.232	36	.000	.723	36	.000
	ICICI	.532	36	.000	.168	36	.000
	SBI	.488	36	.000	.421	36	.000
TREYNOR	AB	.227	36	.000	.765	36	.000
	AXIS	.363	36	.000	.403	36	.000
	ICICI	.158	36	.023	.842	36	.000
	SBI	.371	36	.000	.512	36	.000
JENSEN	AB	.238	36	.000	.671	36	.000
	AXIS	.304	36	.000	.615	36	.000
	ICICI	.383	36	.000	.410	36	.000
	SBI	.300	36	.000	.571	36	.000
a. Lilliefors Significance Correction							

Source: Author's Creation using SPSS

Analysis 3: **A Comparative Financial Performance of the Selected ESG-Themed Mutual Funds**

As data is not normally distributed, the Kruskal-Wallis Test has been applied to justify the significant difference in median value among the selected funds. For the said purpose, the following hypothesis has been formed,

- **H01:** There is no significant difference in the median values of the Sharpe Ratio among the selected ESG mutual funds.
- **H02:** There is no significant difference in the median Treynor Ratio among the selected ESG mutual funds.
- **H03:** There is no significant difference in the median Jensen’s Alpha among the selected ESG mutual funds.

Kruskal-Wallis Test

Ranks

	Name of Fund	N	Mean Rank
Annualise Sharp Ratio	SBI ESG Exclusionary Strategy Fund	3	9.00
	ICICI Prudential ESG Exclusionary Strategy Fund	3	10.00
	Axis ESG Integration Strategy Fund	3	4.33
	Aditya Birla Sun Life ESG Integration Strategy Fund	3	2.67
	Total	12	
Annualise Treynor Ratio	SBI ESG Exclusionary Strategy Fund	3	9.00
	ICICI Prudential ESG Exclusionary Strategy Fund	3	10.00
	Axis ESG Integration Strategy Fund	3	4.33
	Aditya Birla Sun Life ESG Integration Strategy Fund	3	2.67
	Total	12	
Annualise Jensen's Alpha	SBI ESG Exclusionary Strategy Fund	3	8.00
	ICICI Prudential ESG Exclusionary Strategy Fund	3	9.67
	Axis ESG Integration Strategy Fund	3	4.67
	Aditya Birla Sun Life ESG Integration Strategy Fund	3	3.67
	Total	12	

Test Statistics[a,b]

	Annualise Sharp Ratio	Annualise Treynor Ratio	Annualise Jensen's Alpha
Kruskal-Wallis H	8.774	8.744	5.462
df	3	3	3
Asymp. Sig.	.032	.033	.141

a. Kruskal Wallis Test

b. Grouping Variable: Name of Fund

Source: Author’s Creation using SPSS

The results indicate that the mean rank of the selected funds differs significantly. For both the Sharpe ratio and Treynor Ratio of funds under the Exclusionary strategy, secure the higher rank. Hence, it can be statistically concluded that funds under the exclusionary category perform better in terms of risk-adjusted returns. Furthermore, results of Kruskal–Wallis H values of 8.774 for the Sharpe Ratio, 8.744 for the Treynor Ratio, and 5.462 for Jensen’s Alpha, all with corresponding p-values of less than 0.05, confirm the statistically significant differences in risk-adjusted performance among the four ESG-themed mutual funds, and hence, the null hypothesis of equal median performance across the funds is rejected. Though the p-value for Jensen Alpha is .141 more than .05, again, the mean rank is also higher for Exclusionary Funds. This implies that ESG funds in India exhibit heterogeneous performance outcomes, largely driven by differences in fund strategy, portfolio composition, and sustainability integration approaches.

10. Findings

The present study comprehensively analysed the growth and risk-adjusted returns performance of selected ESG-themed mutual funds in India over the financial years 2022–23 to 2024–25 by using quantitative measures such as NAV, AUM, Sharpe Ratio, Treynor Ratio, and Jensen’s Alpha, Based on the findings derived from comparative, descriptive, and non-parametric statistical tests, several critical insights emerged.

Growth Performance through NAV and AUM Trends

Based on the fund allocation strategies followed by selected funds, growth is measured by segregating them into the Exclusionary strategy and the Integration strategy. Funds under the Exclusionary strategy, i.e., SBI ESG and ICICI ESG funds, have experienced a stable, both upward NAV as well as AUM trend throughout the period of study, which reflects their ability to generate long-term value for investors by avoiding resource allocation to companies with the least ESG records. In contrast, funds under the Integration Strategy, such as Axis ESG and Aditya Birla ESG, exhibited declining AUM levels in spite of moderate NAV appreciation. This pattern indicates that the investors prefer to invest responsible way, and particularly in ESG funds, they likely prefer exclusion-based approaches to perceive them as more transparent and ethical investors.

Risk–Adjusted Performance Analysis

- **Sharpe Ratio:** Indicates the excess return a fund generates for each unit of total risk or volatility. For each fund selected under the Exclusionary Strategy, there is a positive Sharpe ratio over the study period. Again, a negative trend for each fund selected under the Exclusionary Strategy, reflecting a negative Sharpe ratio over the study period.

Hence, there is a clear observation that Exclusionary strategic mutual funds perform better in terms of investment in ESG performance.

- **Treynor Ratio**: Indicates the excess return a fund generates for each unit of market risk or systematic risk. For this analysis, funds selected under the exclusionary strategy result in positive returns, and integration funds reflect negative results; the Exclusionary strategy hence outperforms the market risk.
- **Jensen Alpha:** Indicates the fund's abnormal returns, indicating whether it outperforms or underperforms the expected return predicted by CAPM. This result also favours the Exclusionary strategy.

To examine significant differences statistically in the risk-adjusted performance measures, the Kruskal-Wallis H test was applied. The mean ranks results show a clear performance hierarchy for the exclusionary ESG funds (ICICI and SBI) across the Sharpe, Treynor, and Jensen's Alpha, whereas Integration-based ESG funds (Axis and Aditya Birla) show comparatively weaker performance in this regard.

11. Practical Implications

The significance of the present study lies in its strategy-oriented evaluation of ESG-themed mutual funds within the Indian capital market, an area that remains underexplored in existing literature. While prior studies largely focus on return comparison between ESG and conventional funds, this research advances the discourse by demonstrating how different ESG investment strategies, specifically exclusionary and integration approaches, produce distinct growth patterns and risk-adjusted performance outcomes. By employing both growth indicators and multiple risk-adjusted performance measures along with non-parametric statistical testing, the study provides a comprehensive and robust assessment of ESG fund behaviour in a developing market context. The findings contribute to sustainable finance literature by offering India-specific empirical evidence that challenges the assumption of homogeneity among ESG funds and highlights the importance of strategic design in responsible investing.

The analysis aids investors, fund managers, and regulators in understanding performance differentiation across ESG strategies, thereby supporting informed investment decisions and policy formulation. Overall, the study strengthens the empirical foundation of ESG investing in India and contributes meaningfully to the evolving global conversation on sustainable finance effectiveness.

12. Future Research Scope

India's ESG regulatory landscape continues to evolve. Future studies can examine how newly introduced SEBI guidelines, mandatory sustainability disclosures, and changing reporting norms influence fund strategies and investor outcomes. Furthermore, this study puts short-term emphasis on selected strategies and provides meaningful insights about growth perspectives and risk-adjusted performance of selected strategic funds in India, and hence, further study can be attempted by considering all the funds together for a long period of time.

13. Conclusion

In conclusion, the present study evaluates the strategic impact of ESG-themed mutual funds on the growth and risk-adjusted performance of selected strategy-based ESG-themed mutual funds in India by using annualized Sharpe ratio, Treynor ratio, and Jensen alpha for the period between 2022–23 and 2024–25. The results revealed that the funds adopts Exclusionary Strategy outperform Funds following the Integration Strategy in both growth and risk-adjusted measures, highlighting the effectiveness of exclusion-based ESG approaches in generating stable returns in the case of investment in a mutual fund. Furthermore, the study emphasizes that strategy selection is critical for investors aiming for optimal risk-return outcomes. Particularly, the investors who aim to invest ethically and secure a return are more interested in funds that completely ignore the companies practicing unethical or harmful business models, and hence articulate that Exclusionary Strategy Funds outperform Integration Strategy Funds in both growth and risk-adjusted measures. The study highlights the effectiveness of exclusion-based ESG approaches in generating stable returns. Risk-adjusted performance analysis indicates that ESG investments, especially exclusionary ones, can achieve competitive profitability while upholding sustainability principles.

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