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PORTFOLIO DIVERSIFICATION EFFICIENCY OF ESG FUNDS VERSUS CONVENTIONAL EQUITY FUNDS WITH MULTI FACTOR MODEL

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ABSTRACT

This research paper is aimed at comparing the effectiveness of portfolio diversification of ESG mutual funds and conventional equity mutual funds through a multi-factor strategy. The current dynamic financial landscape is not only driving investors to seek greater returns but also responsible and sustainable investment choices. Unlike traditional equity funds, ESG funds account for environmental, social and governance factors when picking investments, with financial performance being a primary concern in conventional equity funds. The primary objective of the research is to learn the performance of both kinds of funds in terms of risk, return and diversification. In this study, ten ESG funds and ten conventional equity funds have been chosen and examined with the help of secondary data using the credible financial websites. Such important aspects as Net Asset Value (NAV), Assets Under Management (AUM), expense ratio, standard deviation, Sharpe ratio and portfolio composition have been examined. Our analysis demonstrates that ESG funds tend to have more stable returns with moderate risk and more downside coverage. Conversely, traditional equity funds have greater returns potential, but they are also riskier and more volatile, particularly those funds that hold mid-cap and small-cap stocks. It is also revealed that ESG funds are more concentrated on large-cap companies thus they are less risky as opposed to equity funds that exercise more flexible approach to investing. All in all, both forms of funds have their pros and cons, and a mixed portfolio of ESG and traditional equity funds may assist an investor to diversify and grow more in the long-term. This study assists investors to comprehend the significance of financial performance and responsible investing when making investment choices.

KEYWORDS: *ESG Funds, Conventional Equity Funds, Portfolio Diversification, Risk and Return, Multi-Factor Model, Mutual Funds, Investment Analysis, Sustainable Investing*

INTRODUCTION

The modern era is gradually transforming the manner in which individuals spend their funds. Previously, the topics of interest to most investors were limited to accumulating better returns. They never actually questioned themselves, how companies were operating and what kind of impact they were making in society and in the environment. This is however now changing. Investors have begun to focus on profits, but also ethical practices, environmental protection and social responsibility. Due to this change, the notion of ESG (Environmental, Social, and Governance) investing has gained immense significance in the recent years.

The primary investment by ESG funds is on companies that are responsible in their operations, such as mitigating pollution, treating employees equitably, and ensuring proper management systems. On the other hand, conventional equity funds mostly focus on financial performance and market returns. Because of this disparity, several investors are confused over the kind of fund which is superior. There are those who consider ESG funds to be safer and others believe that traditional funds yield better returns.

Diversification is one of the fundamental concepts in finance. Simply put, it implies not putting all money in a single investment. Rather, the money is distributed among various assets in order to mitigate risk. When one investment is not doing well, the loss can be offset by others. Due to this, diversification is highly essential to any investor. However, it is not sufficient to diversify, the effectiveness of the diversification process is also important. The latter is the efficiency with which a portfolio can handle both risk and return.

Now the main question comes: do ESG funds provide better diversification compared to conventional equity funds? According to some studies, ESG funds are less risky and do better in a volatile market environment. However, simultaneously, other researches indicate that traditional funds can be more beneficial in terms of return when the market is stable. Due to such mixed outcomes, it is hard to provide a clear statement on which of them is more efficient.

In order to get this right, researchers have begun to employ multi-factor models. These models assist in the analysis of various elements such as market risk, size, value and momentum of a company. These models attempt to comprehend what does influence performance, rather than relying solely on returns. With the addition of ESG factors to these models, it will be easier to understand whether ESG is an important or not an important factor.

The other factor is the performance of these funds when times are tough. There is a significant loss of investments in situations such as financial crises or the COVID-19 pandemic. Nevertheless, it has been noted that ESG-based investments proved to be a bit more stable and regained their status more quickly. This indicates that ESG funds can offer superior protection in risky times, which is a significant benefit to the investors.

Although numerous researches have been conducted on this field, there are some gaps. The majority of studies primarily concentrate on returns and do not comprehensively describe the effectiveness of diversification. In addition, there are minimal studies in which ESG investing is used together with multi-factor models. The other is that most of the studies are founded on the foreign markets and very minimal research has been done on India. Due to this fact, the Indian investors lack information to make the right decisions. Thus, ESG funds and conventional equity funds need to be examined in a more specific manner. Not only returns but also risk, diversification and performance under various market circumstances should be analyzed. It may be useful to use multi-factor models to provide a better picture of the actual performance of these funds.

The paper aims at comparing the efficiency of portfolio diversification of ESG funds and traditional equity funds using multi-factor models. It attempts to comprehend whether ESG investing can deliver predictable returns in addition to reduced risk. It also targets the Indian market and the study is therefore more pertinent to the local investors.

To put it very simply, this study is attempting to answer a single, fundamental question that is can one make good returns and at the same time invest in a responsible and sustainable manner? The results of the current research will allow investors to make more effective decisions and realize whether ESG funds deserve to be considered in their portfolio.

LITERATURE REVIEW

Using a PCA method, Helliar et al. (2022) compare the features of SRI and conventional funds and conclude that SRI funds are more diversified and lower cost management. Nevertheless, they can be a bit behind in the total returns, but they demonstrate higher long-term performance and management.

Nobrega et al. (2025) note that ESG factors tend to enhance portfolio diversification and performance, however, they have different impact across sectors, regions, and types of investors. The research equally attributes ESG as a risk factor, type of investment, and quality indicator in building a portfolio.

As Baily and Gnabo (2022) discover, ESG mutual funds vary in their portfolio mix but they are gradually becoming more and more similar to traditional funds. Although ESG funds might not perform well on returns, they prove to be more resilient to climate-related risks and this helps keep the investor confidence.

As Azam et al. (2024) demonstrate, the incorporation of ESG-related assets into portfolios leads to better diversification and decreased risk among a variety of asset types. The value of active portfolio management and rebalancing in order to accomplish the best results is also highlighted in their findings.

Gong et al. (2024) show that addition of ESG factors to multi-factor models can enhance performance of a portfolio and lower systematic risk. Their research points out that the ESG variables improve the predictive capacity of the conventional models and render portfolios more effective.

Neves et al. (2023) employ the DEA approach and find that the risk-return trade-off of socially responsible and green funds is more efficient than that of the conventional funds. Their results confront the conventional wisdom that sustainable investing results in poor performance.

According to Geczy et al. (2018), including ESG criteria in the process of selecting a portfolio does not inevitably bring down returns and efficiency. Rather, ESG factors have the potential to enhance the performance of a portfolio at the same level of risk, which contributes to the notion of no-cost sustainable investment.

Hoepner (2010) questions the view that ESG investing diminishes diversification by indicating that although ESG screening might constrain investment decisions, it can also lead to a reduction in specific risk. Such a balance has an opportunity to enhance portfolio diversification.

Cao and Wirjanto (2023) discover that, including ESG in the optimization of portfolios does not harm performance but can actually improve it. Their analysis indicates that some ESG strategies, including thematic investing, may be more effective than conventional strategies.

Iannone et al. (2025) note that ESG investments are more resilient in times of financial crisis despite being volatile to a certain degree. They find that ESG portfolios can be utilized as a risk management instrument in times of market volatility.

Nemani and Buhler (2024) unveil that ESG funds provide returns that are similar to those of the market but are less volatile. This hints that ESG investments have the potential of offering superior risk-adjusted performance in the long term.

Balcilar et al. (2017) demonstrate that the introduction of sustainable stocks in the traditional portfolios enhances the overall risk-return profile. Even though ESG assets remain susceptible to market shocks, they have significant diversification benefits.

Ameur et al. (2024) identify that green investments, e.g., clean energy and green bonds can be useful in decreasing extreme downside risks particularly in the short-term. Yet, their effectiveness in reducing risks in the long term is minimal when it comes to major crises.

Yang (2025) explains the impacts of ESG constraints on portfolio optimization and concludes that its impact on efficiency is ambivalent. The research paper notes that there is a need to strike a balance between sustainability objectives and financial performance.

Research Gaps

Despite the fact that an increasing body of research has paralleled ESG/SRI funds with conventional equity funds, the existing body of literature is not complete in a number of key aspects. The notion of portfolio diversification efficiency is not analyzed thoroughly as most of the research is primarily interested in the return performance or the simple measures of risk. Moreover, few studies combine ESG consideration with multi-factor models, resulting in the inability to properly interpret whether ESG is a real financial consideration or merely a moral filter. Results of the studies also vary, some indicating that ESG enhances stability and risk management whereas some point to lower returns causing confusion to investors. The other significant drawback is that much of the research is grounded on developed markets and there is hardly any empirical evidence when it comes to emerging markets such as India. Thus, there is an evident necessity of conducting a more detailed study that will simultaneously examine ESG funds, traditional equity funds, and multi-factor portfolios in the same framework based not only on returns but also on the efficiency and performance of the diversification under various market conditions.

RESEARCH OBJECTIVES

- To measure and compare the portfolio diversification efficiency and risk-return performance of the ESG mutual funds, the conventional equity mutual funds, and the multi-factor portfolios with the various market environments.
- To test the hypothesis that ESG funds are less risky and better cushion the downside than conventional equity funds.
- To compare the behaviour of ESG funds and conventional equity funds in times of market crisis.
- To compare the total risk and returns of the ESG funds and conventional equity funds.
- To examine how multi-factor models help in improving portfolio diversification efficiency.

RESEARCH METHODOLOGY

1. Research Design

This research is a quantitative research design, because it is grounded on the numbers and basic statistics. The overall purpose is to compare ESG mutual funds and conventional equity mutual funds in terms of diversification, risk and return.

2. Nature of Data

The paper relies on a secondary research. No primary data, such as surveys or questionnaires has been used in this research.

3. Sources of Data

The data has been collected from reliable financial websites such as Moneycontrol. The information comprises of NAV, AUM, expense ratio, standard deviation, Sharpe ratio and portfolio of the key mutual funds.

4. Sample Selection

The study has chosen 20 mutual funds (10 ESG mutual funds and 10 conventional equity mutual funds). It will be chosen according to the availability of regular and updated data. The entire amount is an Indian mutual fund market.

5. Time Period of Study.

The study is based on recent available data, mainly focusing on the last 3 to 5 years performance of the selected funds.

6. Tools and Techniques Used

The analysis is done using simple statistical and financial measures which are directly used in the study:

a. Standard Deviation

It is employed in gauging the risk or the volatility of the funds. The larger the value the higher the risk is.

b. Sharpe Ratio

It is employed to calculate risk-adjusted return. It displays the level of risk taken to generate the amount of return.

c. Portfolio Analysis

The data on portfolios like equity allocation, large-cap, mid-cap, small-cap distribution and the number of stocks are studied to have a feel of diversification.

d. Descriptive Analysis

The NAV, AUM and expense ratio are basicly compared to get an understanding of the fund size, cost, and performance.

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7. Multi-Factor Consideration

Rather than relying on complicated mathematical models, this research takes into account several crucial aspects that include:

- Risk (Standard Deviation)
- Return (NAV and performance)
- Risk-adjusted return (Sharpe Ratio)
- Portfolio diversification (asset allocation and market cap distribution)

The combination of these factors assists in comprehending the overall effectiveness and performance of the funds.

8. Comparative Analysis

A comparative analysis is done between ESG mutual funds and conventional equity mutual funds based on:

- Risk and return performance
- Portfolio diversification
- Market cap allocation
- Stability of funds

This assists in determining the kind of fund that does better under varying circumstances.

ANALYSIS AND DISCUSSION

This section examines the data of ESG mutual funds by applying various financial measures like returns, risk and performance ratios. Data will be gathered using valid sources of finance such as Moneycontrol to ascertain accuracy.

1. ESG FUNDS

Portfolio Analysis

Fund Name	Equity %	Large Cap %	Mid Cap %	Small Cap %	No. of Stocks
ABSL ESG	99.37	75.53	15.39	7.56	60
Axis ESG	87.77	68.47	3.49	8.80	42
ICICI ESG	96.16	66.35	8.47	22.34	54
Invesco ESG	98.94	78.76	5.72	14.54	42
Kotak ESG	98.88	80.83	14.79	3.55	51
Quant ESG	93.39	56.30	23.40	14.13	32
Quantum ESG	98.31	48.70	24.68	22.85	54
SBI ESG	98.82	78.35	14.22	4.07	45
WhiteOak ESG	99.21	64.36	12.91	14.48	75
Mirae ESG ETF	99.99	97.49	2.49	0.00	68

From the above table, it is clear that almost all ESG mutual funds invest a very high percentage in equity. Most of the funds have equity allocation above 95%, which shows that they mainly focus on long-term growth. Only Axis ESG Fund has comparatively lower equity allocation and higher cash holding.

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Looking through the markets capitalization, most of the ESG funds invest more in big companies. This implies that fund managers would want to invest in established companies that are stable. Nevertheless, there are funds such as Quant ESG and Quantum ESG that are more invested in mid-cap and small-cap stocks indicating a marginally aggressive approach to gain greater returns.

Each fund has a range of stocks that are between 32 and 75. The number of stocks in such funds as WhiteOak ESG is very high, indicating high diversification. Quant ESG, on the other hand, has a lower number of stocks, translating to increased concentration and a small increase in risk.
Most funds have a moderate concentration as their top 10 holdings are between 40 to 55. Quant ESG, however, has a very high concentration of approximately 66% which means that the ESG relies on a few stocks. This has the ability to enhance risk and return.
It is also apparent to sector concentration whereby the top 3 sectors contribute an average of 55 to 72 percent to the portfolio.This shows that ESG funds are more mindful of certain industries e.g. IT and financial services.

In general, ESG mutual funds have a sufficient balance of diversification and concentration. The majority of funds are stable as they have a high exposure to large-cap whereas others are riskier as they invest in mid and small-cap stocks. This combination helps the ESG funds to provide predictable performance with controlled risk.

Risk and Return Metrics (ESG Funds)

Fund Name	NAV (₹)	AUM (₹ Cr)	Expense Ratio (%)	Std Dev	Sharpe Ratio
ABSL ESG Fund	16.45	592.39	2.47	12.46	0.73
Axis ESG Fund	19.45	1133.18	2.27	11.72	0.50
ICICI ESG Fund	20.02	1400.25	2.17	12.33	0.89
Invesco ESG Fund	14.86	399.56	2.45	12.77	0.46
Kotak ESG Fund	15.76	809.60	2.30	11.21	0.74
Quant ESG Fund	30.14	256.90	2.44	16.30	0.64
Quantum ESG Fund	21.19	94.88	2.18	12.25	0.53
SBI ESG Fund	217.70	5526.06	1.94	11.34	0.72
WhiteOak ESG Fund	9.18	54.98	2.38	--	--
Mirae ESG ETF	39.17	107.58	0.40	11.39	0.70

Based on the table above it is evident that ESG mutual funds tend to perform moderately and safely. Standard deviation of most funds is between 11 and 13, which is controlled volatility. Quant ESG Fund has however, a higher standard deviation indicating it is riskier as compared to other ESG funds.

On Sharpe ratio, ICICI ESG Fund has the best performance followed by Kotak and ABSL ESG funds. This implies that these funds can yield higher returns to the amount of risk assumed. Conversely, the Sharpe ratios of funds such as Invesco and Axis ESG are lower, which means that they perform less effectively risk-adjusted.

AUM of funds differs greatly where SBI ESG Fund has the largest AUM that indicates stability and confidence among the investors. Smaller funds such as Quantum and WhiteOak have a smaller AUM, which means that they are either new or not that popular.

The cost ratios of ESG funds tend to be high, with majority of them being actively managed funds. But, Mirae ESG ETF is a very cheap fund with a low expense ratio.

In general, the ESG funds are a well-balanced investment choice with medium risk and predictable returns. There are more aggressive funds and others are more stability, and all the funds will provide investors with an alternative depending on how risky they want to be.

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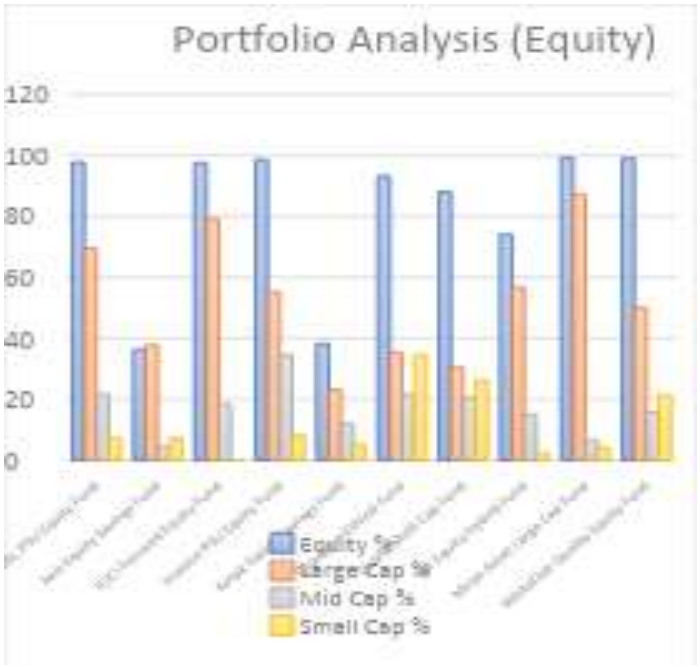
2. Equity Funds

Portfolio Analysis (Equity Mutual Funds)

Fund Name	Equity %	Large Cap %	Mid Cap %	Small Cap %	No. of Stocks
ABSL PSU Equity Fund	97.77	69.52	21.64	7.30	36
Axis Equity Savings Fund	36.26	37.73	4.46	7.24	174
ICICI Focused Equity Fund	97.55	79.26	18.29	0.00	36
Invesco PSU Equity Fund	98.63	55.17	34.47	8.24	25
Kotak Equity Savings Fund	38.24	23.28	11.98	5.09	199
Quantum Ethical Fund	93.25	35.26	21.50	34.77	50
Quant Multi Cap Fund	88.01	30.48	20.48	26.34	71
SBI Equity Hybrid Fund	74.02	56.72	14.95	2.36	113
Mirae Asset Large Cap Fund	99.20	87.22	6.62	4.25	81
WhiteOak Quality Equity Fund	99.07	50.06	15.88	21.30	84



Based on the above table, it can be noted that the equity mutual funds pursue various strategies in regard to investment. Other funds such as Mirae Asset and ICICI Focused Equity are nearly fully invested in equity which indicates that the funds are very geared towards long term growth.

Conversely, investments such as the Axis Equity Savings and Kotak Equity Savings have smaller equity allocation as they invest in both equity and debt hence are more stable and less risky.

In terms of market capitalization, majority of funds tend to invest in large-cap stocks that are more stable and reliable. The allocation of funds such as Quant Multi Cap and Quantum Ethical Fund is more in the middle cap and small cap stocks, however, this amplifies the risk and potential returns too.

The size of stocks differs greatly among funds. A good number of stocks in a few funds such as Kotak and Axis demonstrate a good level of diversification. On the other hand, the number of stocks in funds such as ICICI Focused and Invesco PSU is lower, meaning that it is more concentrated in investment strategies.

WhiteOak Quality Equity Fund has a balanced portfolio in terms of large, mid and small-cap stocks and Quant Multi Cap Fund has more aggressive portfolio with more exposure to smaller companies.

Overall, equity mutual funds provide a mix of stability and growth opportunities. Depending on their risk-taking, investors may select funds that have low risk, or those with high risk and greater returns.
risk preference, whether they are more comfortable with a low growth and low risk, or more with a high growth and more risk.

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Risk and Return Metrics (Equity Funds)

Fund Name	NAV (₹)	AUM (₹ Cr)	Expense Ratio (%)	Std Dev	Sharpe Ratio
ABSL PSU Equity Fund	34.64	6085.65	1.83	21.06	1.15
Axis Equity Savings Fund	22.00	901.88	2.28	4.88	0.76
ICICI Focused Equity Fund	86.20	15145.40	1.68	12.36	1.24
Invesco PSU Equity Fund	63.53	1510.76	2.12	21.77	1.12
Kotak Equity Savings Fund	26.32	9853.13	1.75	5.16	0.89
Quant Multi Cap Fund	554.42	7273.84	1.81	15.93	0.40
Quantum Ethical Fund	8.75	96.66	2.18	--	--
SBI Equity Hybrid Fund	288.47	82317.65	1.38	8.49	0.99
Mirae Asset Large Cap Fund	103.68	40184.41	1.52	11.10	0.65
WhiteOak Quality Equity Fund	9.23	615.20	2.36	--	--

As can be clearly observed in the above table, conventional equity mutual funds have a large range of risk and return. The standard deviation of some funds such as ABSL PSU and Invesco PSU is very large indicating that they are riskier and volatile.

In contrast, there are funds such as Axis Equity Savings and Kotak Equity Savings with very low standard deviation meaning that they are more stable as they invest a combination of equity and debt instruments.

Quant Multi Cap Fund has a moderate Sharpe ratio, very high volatility implying that it takes more risk but is not getting that much higher returns.

Looking at Sharpe ratio, ICICI Focused Equity Fund is the best followed by ABSL PSU Fund. This implies that the returns of these funds are more favorable to the amount of risk assumed.

Big funds such as SBI Equity Hybrid Fund and Mirae Asset Large Cap Fund have a huge AUM that demonstrates high investor confidence and stability. However, newer funds such as WhiteOak have smaller AUM and poor performance track record.

Moreover, risk measures are not provided in case of certain funds such as Quantum Ethical and WhiteOak Quality Fund because there is no sufficient historical data.

Generally equity mutual funds have a lot of variety, with high-risk high-return funds on one end to low-risk stable funds on the other. Investors are free to make decisions based on their level of risk and objectives of investments.

Comparative Analysis of ESG Funds and Conventional Equity Funds

Parameter	ESG Mutual Funds	Conventional Equity Funds
Equity Allocation	Mostly very high (95% – 100%)	Varies (35% – 100%)
Risk (Std Dev)	Moderate (11 – 13)	Low to very high (4 – 21+)
Sharpe Ratio	Moderate (0.5 – 0.89)	Higher in many funds (0.65 – 1.24)
Diversification	Well diversified	Mixed (some highly concentrated)
Market Cap Focus	Mostly Large Cap	Mix of Large, Mid & Small Cap
Volatility	Moderate	High in some funds
Return Potential	Stable returns	Higher return potential
Downside Protection	Better	Lower in high-risk funds
Expense Ratio	Slightly higher	Moderate
AUM	Moderate	High (especially large funds)

Based on the above comparison, it is clear that ESG mutual funds and conventional equity mutual funds take different approaches to investing.

The primary target of ESG funds is the companies adhering to the principles of environmental, social and governance. Due to this, they largely invest in big cap companies, which are more stable. This gives less riskiness and stable returns. The standard deviation of ESG funds tends to be average and that demonstrates that they are less volatile.

Conversely, traditional equity funds are invested according to the financial performance and expansion prospects without ESG limitations. This enables them to hold higher investment in mid-cap and small-cap stocks, which enhances the potential of returns and risk. Certain funds are highly volatile, but also give high returns in most occasions.

In most instances, the equity funds have a better performance in terms of risk-adjusted returns because they have higher Sharpe ratios. This, however, is accompanied by increased risk. Instead, ESG funds offer enhanced downside protection particularly when the market environment is volatile.

Diversification is another crucial aspect. ESG funds are typically well diversified, yet are not completely diversified. Equity funds have mixed performance with some being highly diversified and others being more concentrated.

On balance, ESG funds can be recommended to investors who are willing to have steady returns at a lower risk, as well as be responsible investors. Conversely, traditional equity funds are more suitable to individuals who can afford to take greater risk in an attempt to realize greater returns.

FINDINGS AND SUGGESTIONS

Findings

- They found that ESG mutual funds tend to invest more in large-cap companies and thus become more stable and less risky than conventional equity funds.
- The risk of ESG funds is moderate, since the standard deviation is not so high as that of many traditional equity funds.
- The traditional equity funds offer potential of higher returns, however there is also a greater amount of risk particularly in funds that invest in mid-cap and small-cap stocks.
- When markets are fluctuating, ESG funds are better to protect against downside, thereby minimizing losses.
- Sharpe ratio of certain equity funds is greater as compared to the ESG funds and this implies that equity funds are able to achieve higher returns given the amount of risk taken.
- ESG funds maintain good diversification, but still have some concentration in top sectors and companies.
- Traditional equity funds present diversification in both ways. There are those that are very diversified and those that are more concentrated.
- Active management and ESG screening add a bit of expense ratio to ESG funds.
- A high AUM of certain equity funds reflects a high level of trust by investors and stability of the long-term performance.
- Multi-cap and aggressive equity funds are more volatile but have a high growth potential.

Suggestions

- ESG mutual funds should be considered by investors who want to invest in low-risk and consistent returns.
- Willing investors could invest in traditional equity funds, particularly multi-cap and focused funds, which involve higher risk in order to get higher returns.
- ESG and conventional equity funds can be used together to make up a balanced portfolio that can be used to manage risk and return.
- Before investors make any investment decisions, they should always verify the risk measures such as standard deviation and Sharpe ratio.
- Both ESG and equity funds should be invested in the long term to receive higher returns.
- To minimize the overall risk, investors are advised to diversify their investments in various types of funds.
- The choice of funds should not be on the basis of returns alone but also risk, portfolio structure as well as the aim of investment.
- Novices are advised to start with low-risk or hybrid funds and progress to high-risk funds.
- Fund performance should be monitored regularly to be able to make timely investment decisions.
- ESG factors are also worth considering among investors who would wish to invest responsibly, in addition to making returns.
- To target the Gen Z generation, brands ought to pay increased attention to short-form video marketing.
- Business organizations ought to develop innovative and appealing short videos to enhance the interaction.
- Instagram Reels and YouTube Shorts should be actively used by businesses to promote their brand.
- Marketers are encouraged to incorporate trending songs, hashtag, and algorithms to expand reach of videos.
- Users should be encouraged to comment, like and share content on the brand so that they can be engaged.
- Firms need to emphasize on real and relatable content to establish trust amongst users.
- Brands can help to reach a greater number of people by collaborating with influencers and content creators.
- To persuade consumers to buy products, short video adverts need to be clear on the product benefits.

CONCLUSION

To summarize the findings, this paper has demonstrated that ESG mutual funds and conventional equity mutual funds are neither better nor worse, but it is primarily up to the investor and his/her risk-taking capacity to choose between the two. ESG funds tend to be less risky since they tend to invest in large and well established companies which have responsible business practices. This makes them less risky and more advantageous in dealing with market ups and downs, which is beneficial to investors seeking safety and predictable returns. Conversely, the traditional equity funds have greater potential returns since they hold large-cap, mid-cap and small-cap companies, although they are riskier and more volatile. It is also revealed in the analysis that ESG funds are good in terms of consistency and downside protection whereas some equity funds have better risk-adjusted returns. In general, both these types of funds are essential, and rather than investing in only one fund, investors can do better by investing in a combination of ESG and equity funds to have a balanced portfolio. This assists in realizing both long-term stable returns and growth as well as taking into account responsible investment practices.

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