

ESG FACTORS AND INVESTMENT FUNDS IN NEPAL

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Certification of Authorship

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **“ESG Factors and Investment Funds in Nepal”**. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation

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REPORT OF RESEARCH COMMITTEE

Mr. Ashish Rawal has defended research proposal entitled “**ESG Factors and Investment Funds in Nepal**” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidelines of supervisor Keshar Singh Khati Submit the thesis for evaluation and viva-voce examination.

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We, the undersigned, have examined the thesis entitled “**ESG Factors and Investment Funds in Nepal**” Presented by Ashish Rawal Candidate for the degree of Master of Business Studies (MBS Semester) and Conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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Abbreviations

CV	: Coefficient of Variance
EMH	: Efficient Market Hypothesis
ESG	: Environmental, Social, and Governance
MBS	: Master in Business Studies
MPT	: Modern Portfolio Theory
PFP	: Perceived Fund Performance
SD	: Standard Deviation
SPSS	: Statistical Package for Social Science
SRI	: Socially Responsible Investment
TU	: Tribhuvan University

Abstract

This study tries to explore the performance of sustainable investment funds in Nepal, with a particular emphasis on the ways in which environmental, social, and governance (ESG) variables impact the perceived of fund performance. The research was conducted utilizing a descriptive and causal comparative research approach, and it included the use of both online and offline questionnaires to collect responses from 384 individuals. These participants included investors, fund managers, and financial analysts. Following portfolio diversity as the most important predictor of perceived fund performance, the data analysis, which includes descriptive statistics, correlation analysis, and regression analysis, finds that governance variables are the most significant predictor of fund performance. Even if they have a smaller influence, environmental and societal elements have a positive impact on how people see funds. The results highlight how important it is to include environmental, social, and governance (ESG) criteria and techniques in order to improve the performance of sustainable funds. The report emphasizes the need for enhancing the incorporation of environmental, social, and governance (ESG) considerations into investment strategies, enhancing financial literacy with relation to ESG principles, and establishing tougher regulatory rules for ESG disclosures. In further study, it is recommended to investigate the long-term performance of these funds as well as the changing attitudes toward ESG aspects held by investors.

Keywords: Sustainable investment funds, ESG factors, governance, fund performance

CHAPTER I

INTRODUCTION

1.1 Background of the Study

A strategy that takes into account a number of different aspects including financial returns, social and environmental effects and other factors is required in order to evaluate the success of sustainable investment funds. Indicators of sustainability must complement traditional performance measurements like return on investment (ROI) and risk-adjusted returns. These indicators often encompass environmental, social, and governance (ESG) factors. These criteria evaluate the influence that the fund has on social and environmental concerns like climate change, labor practices, and corporate governance. Even though sustainable funds may have somewhat lower short-term returns compared to conventional funds, studies have shown that they tend to display stronger resilience during market downturns (Friede et al., 2015). This is because sustainable funds are more environmentally conscious. Their focus on businesses conducting their operations in a sustainable and long-term manner may contribute to their resilience.

Moreover, the incorporation of environmental, social, and governance (ESG) aspects into investment plans necessitates the gathering and analysis of reliable data. Fund managers and investors are required to depend on standardized environmental, social, and governance (ESG) grading systems and sustainability reports in order to evaluate the effect of their investments. But the lack of standardization in ESG reporting criteria is a major issue. According to Kotsantonis and Serafeim (2019) different rating agencies can evaluate organizations based on different criteria, resulting in discrepancies in performance assessment. The need for trustworthy environmental, social, and governance (ESG) data continues to rise, driven by the growing awareness of investors and the pressures exerted by regulatory authorities.

The evaluation of the contribution that sustainable investment funds make to the Sustainable Development Goals (SDGs) established by the United Nations is yet another essential component of the process of monitoring the performance of these funds. A number of particular goals, such as lowering carbon emissions or advancing gender equality, are the targets of funds that are associated with the sustainable development goals (SDGs). The success of these funds would not be evaluated only

by their financial returns but also by the progress they make in achieving these objectives. (Sullivan et al., 2018)

It is also necessary to evaluate the effectiveness of sustainable investment funds in terms of the impact they have on the stakeholders that they serve. These concerns include assessing the investments' socioeconomic and environmental impacts. One subcategory of sustainable investment is known as impact investing, and its primary objective is to provide verifiable social or environmental benefits in addition to financial gains. In order to accurately measure this effect, a complete strategy is required, one that incorporates both qualitative and quantitative measures. Examples of such metrics include improvements in community well-being or decreases in greenhouse gas emissions (Bugg-Levine & Emerson, 2011).

The discourse on sustainable investment in Nepal has gained significant momentum due to the country's unique socio-economic and environmental challenges. Shrestha and Joshi (2020) emphasize the importance of developing robust evaluation frameworks to navigate the opportunities and challenges presented by sustainable investments. Climate change poses a considerable threat to various sectors, particularly agriculture, which is pivotal to Nepal's economy; Gurung and Bhandari (2019) propose sustainable investment strategies to mitigate the adverse effects of climate change on this sector. The Nepal Rastra Bank (2021) highlights the current state of sustainable finance in the country, providing insights into policy recommendations and performance metrics essential for fostering an environment conducive to sustainable investments. Renewable energy investments have emerged as a vital component in achieving sustainable development goals, with Adhikari and Thapa (2018) underscoring their critical role in advancing Nepal's development agenda. Furthermore, the Ministry of Finance (2022) outlines Nepal's progress toward the Sustainable Development Goals (SDGs), showcasing the contributions made by sustainable investment funds. Collectively, these sources underscore the vital role of sustainable investments in addressing Nepal's distinct challenges and promoting its development objectives.

1.2 Problem Statement

Investors and financial institutions in Nepal are showing a growing interest in the notion of sustainable investing, which is developing as a key area of interest.

However, the actual application of sustainable investing remains limited due to the scarcity of reliable secondary data on environmental, social, and governance (ESG) aspects. However, in Nepal, the data required to analyze these aspects in a comprehensive manner is either insufficient or unavailable. These criteria, crucial for assessing the ethical and sustainable impact of investments, remain unrecognized. Investors and fund managers looking to match their investment strategies with global sustainability standards face a significant obstacle as a result.

The growing focus on sustainable investing on a worldwide scale highlights the need for gaining more in-depth knowledge of the ways in which environmental, social, and governance (ESG) variables impact investment performance, especially in developing markets such as Nepal. Despite the fact that awareness is growing, there is a dearth of empirical information about the link between environmental, social, and governance (ESG) aspects and the financial success of investment funds within the country (Bajracharya & Samdani, 2021). The majority of research in this sector has taken place in developed markets, leaving a huge information gap about the relevance of these results to Nepal's unique economic and social environment.

Furthermore, researchers are still thoroughly studying how investors in Nepal perceive the impact of environmental, social, and governance (ESG) aspects on investment performance. Investors and politicians confront difficulties in making informed choices that strike a balance between financial returns and social and environmental responsibility when they do not have access to full data. The lack of understanding that exists between the two parties is a barrier to the development of sustainable investing practices, which has the potential to restrict the growth and efficiency of the sustainable finance sector in Nepal.

Various studies are conducted in relation with sustainable investment fund, their performance etc. Yue et al. (2020) found that sustainable funds are generally less risky than traditional ones, but do not necessarily yield higher returns, with the Fama–French three-factor model being particularly effective in performance evaluation. Bajracharya and Samdani (2021) identified age as a significant demographic factor influencing attitudes towards Socially Responsible Investment (SRI) among Nepalese mutual fund investors. Popescu et al. (2021) emphasized the shortcomings of current sustainability measurement methods, advocating for science-based, life cycle-oriented

assessments. Handayani and Rokhim (2023) revealed that sustainable investments in Indonesia exhibit similar financial returns to conventional ones, though with differing price volatility.

Likewise, Hussain et al. (2023) introduced the green energy sustainable investment index (GESII) as a tool for benchmarking sustainability across multiple dimensions, identifying countries that excel or lag in green energy investments. Karmacharya (2023) found that social and governance factors significantly impact investment decisions in Nepal, with investor awareness moderating the influence of governance factors. Mirza et al. (2023) demonstrated the global interdependence of sustainable investments, especially during economic instability, with gold price volatility emerging as a key driver.

Furthermore, Shanthirathna et al. (2023) showed that while performance persistence exists in SRI funds during crises, it does not guarantee future success. Finally, Yu et al. (2024) highlighted a trade-off between capital investments and environmental spending in BRICS nations, suggesting that firms may prioritize financial profitability over environmental responsibilities, influencing long-term sustainability and corporate decision-making. These findings collectively underscore the complexities of integrating Environmental, Social, and Governance (ESG) factors into investment strategies, highlighting key variables such as risk, return, investor demographics, measurement methods, and global interdependencies that shape sustainable investment outcomes.

The purpose of this research is to address the vacuum created by these obstacles by adopting primary data collection techniques to evaluate the influence of environmental, social, and governance (ESG) issues on the perceived performance of investment funds in Nepal. By focusing on the views and attitudes of local investors, this study aims to provide significant insights into the incorporation of environmental, social, and governance (ESG) factors into the respondent's views on funds perceived performance. It is anticipated that the results will contribute to the growing body of knowledge on sustainable investment in developing countries and offer practical suggestions to enhance the integration of environmental, social, and governance elements in the Nepalese financial system. Mainly the following questions are raised:

- i. What are the perceptions of investors regarding the impact of ESG factors on the performance of sustainable investment funds in Nepal?
- ii. How do ESG factors relate to the perceived performance of investment funds in Nepal?
- iii. What is the effect of ESG factors on the perceived performance of investment funds in Nepal?

1.3 Objectives of the Study

The main aim of the study is to examine the perceived performance of sustainable investment funds in Nepal. However, the specific objectives of the study are as follows:

- i. To assess the perceptions on ESG factors of sustainable investment funds and perceived performance of sustainable investment funds in Nepal.
- ii. To examine the relationship between ESG factors and the perceived performance of sustainable investment funds in Nepal.
- iii. To analyze the effect of ESG factors on the perceived performance of sustainable investment funds in Nepal.

1.4 Research Hypothesis

Based on the research questions, empirical evidences and research objectives of the study, the following hypothesis are formulated and tested using different statistical tools:

H1: There is a positive significant effect of environmental factors on the perceived performance of sustainable investment funds in Nepal.

H2: Social factors have positive significant effect on the perceived performance of sustainable investment funds in Nepal.

H3: Governance factors have a significant positive effect on the perceived performance of sustainable investment funds in Nepal.

1.5 Rationale of the Study

Globally, the increasing emphasis on sustainable investing underscores the importance of integrating environmental, social, and governance (ESG) factors into investment decisions. However, investors and fund managers in Nepal face a substantial obstacle in the form of a lack of trustworthy secondary data on these aspects. This provides a significant difficulty for those who are attempting to align themselves with global

sustainability norms. The nation's lack of available data and research hinders the development of sustainable investing practices. This research intends to address this hole by leveraging primary data in order to provide significant insights into the ways in which environmental, social, and governance (ESG) variables impact the perceived performance of investment funds in Nepal.

Understanding the influence of environmental, social, and governance (ESG) issues on investment performance is essential for Nepal's development of a sustainable financial system, given the country's distinct economic and social environment. By providing investors, fund managers, and policymakers with practical suggestions, this research will significantly contribute to the existing body of information about sustainable investment in developing economies. In light of Nepal's efforts to improve its sustainable finance sector, aligning itself with global trends, and supporting responsible investing practices, this study comes at an especially opportune moment. The findings will not only aid in the process of making informed decisions, but they will also contribute to the development of a robust and ethical investment climate in Nepal.

1.6 Limitations of the Study

The main limitations of the study are as follows:

- The study is confined to the Kathmandu Valley, which may not represent the perceptions and behaviors of investors in other regions of Nepal.
- The research is limited to investors of mutual funds that directly or indirectly contribute to sustainable investment practices numbering 384 respondents. The perspectives of other types of investors may not be fully captured.
- The study only employs descriptive, correlation, and regression analysis, which may limit the depth of insights into the relationships between variables. More complex analyses might reveal additional nuances.
- The study is restricted to fund managers, financial analysts, and investors who are actively involved in sustainable investment funds, potentially excluding broader financial industry participants.
- Mutual funds that invest in sectors like hydropower, manufacturing, and insurance are considered sustainable funds based on indirect coverage of ESG factors, which might not fully capture the direct impact of these investments on sustainability.

CHAPTER II

LITERATURE REVIEW

The literature on sustainable investment funds has evolved significantly encompassing theoretical frameworks and empirical studies that explore the interplay between environmental, social, and governance (ESG) factors and perceived fund performance. Theoretical reviews provide foundational insights into how diversified investment strategies and stakeholder considerations can enhance fund performance. Empirical studies have demonstrated varying degrees of investor perceptions regarding ESG factors and their impact on financial returns, highlighting the importance of stakeholder engagement in shaping these perceptions. However, a research gap persists in understanding how these factors interact specifically within the Nepalese context, necessitating further investigation into the unique dynamics of sustainable investing in this emerging market. So, this chapter is a combination of theoretical review, empirical review and research gap.

2.1 Theoretical Review

The theoretical framework for this research draws upon several key theories relevant to sustainable investment and perceived fund performance. Modern portfolio theory (MPT) posits that diversification can optimize returns while minimizing risk, suggesting that incorporating ESG factors into investment strategies may enhance overall performance. Stakeholder theory emphasizes the importance of considering the interests of all stakeholders in decision-making processes, indicating that effective stakeholder engagement can lead to better fund performance. The efficient market hypothesis (EMH) proposes that asset prices fully reflect all available information, including ESG data, which could influence investor perceptions and behavior. Behavioral finance theory introduces the psychological aspects of investor decision-making, suggesting that cognitive biases may affect perceptions of fund performance when ESG factors are considered. Finally, socially responsible investment (SRI) theory advocates for investments that align with ethical, social, and environmental criteria, reinforcing the idea that investor values can significantly impact perceived fund performance. Together, these theories provide a comprehensive framework for examining the relationships among ESG factors and perceived fund performance.

2.1.1 Modern Portfolio Theory (MPT)

Harry Markowitz is credited with contributing to the development of modern portfolio theory (MPT) in the year 1952. The idea that investors might create an "efficient frontier" of optimal portfolios that offered the highest possible expected return for a given degree of risk was the driving force behind the revolutionary impact that the theory had on the investing industry. The work that Markowitz did win him the Nobel Prize in Economics in 1990, together with William Sharpe, who subsequently developed the Capital Asset Pricing Model (CAPM), which was an expansion of the theory that Markowitz had developed. Diversification is the cornerstone of the Modern Portfolio Theory (MPT), which states that investors may minimize portfolio risk without compromising profits by mixing assets that have different correlations within their portfolios (Markowitz, 1952).

Statman (1987) provided evidence that the advantages of diversity, which Markowitz emphasized, greatly improve portfolio performance. Additionally, Elton and Gruber (1997) provided evidence that the Modern Portfolio Theory (MPT) is successful in mitigating unsystematic risk by means of appropriate asset allocation. This is the core of the MPT-based value proposition.

MPT is a key application in sustainable investment funds. Fund managers can construct portfolios that satisfy environmental, social, and governance (ESG) objectives without sacrificing financial returns by using the concept of diversification. Fund managers are able to construct a portfolio that not only complies with sustainability standards but also minimizes risk by picking a mix of environmentally responsible firms across a variety of industries. Revelli and Viviani (2015) demonstrated that MPT-created ESG-focused portfolios can yield competitive returns compared to standard portfolios. These portfolios mitigate the risks associated with environmental and social concerns.

In the context of sustainable investment, one of the most significant critiques of MPT is that it is dependent on historical data and assumptions about market efficiency. This may not adequately capture the risks and opportunities associated with environmental, social, and governance (ESG) aspects. Some people believe that the modern portfolio theory (MPT) does not take into account the long-term effects of sustainability risks, such as climate change, on asset returns at an acceptable level. According to Gibson

and Krueger (2018), in order to address these issues, academics and practitioners have started incorporating more dynamic and forward-looking data into portfolio creation. As a result, MPT's usefulness for sustainable investment initiatives has increased.

By adding environmental, social, and governance (ESG) factors into portfolio building, this method is applied to investigate how sustainable investment funds might attain an optimum balance between risk and return. This research aims to ascertain if the diversification benefits provided by MPT apply to ESG-focused portfolios in the market, given that the market is characterized by unique risk factors compared to developed markets. The purpose of this research, which utilizes MPT, is to ascertain whether or not sustainable investment funds are capable of achieving competitive returns while also contributing to the achievement of social and environmental objectives.

2.1.2 Stakeholder Theory

Stakeholder Theory initially proposed by R. Edward Freeman in 1984 posits that businesses should create value not only for shareholders but for all stakeholders, including employees, customers, suppliers, and the community. Freeman's work challenged the traditional shareholder-centric view of corporate governance by emphasizing the importance of considering the interests of all parties affected by a company's actions. This theory laid the foundation for the broader adoption of corporate social responsibility (CSR) and later influenced the development of ESG criteria in investment practices (Freeman, 1984).

Empirical evidence supporting stakeholder theory can be found in numerous studies that link stakeholder engagement with improved business performance. Hillman and Keim (2001) found that companies with strong stakeholder relations tend to outperform those that focus solely on maximizing shareholder value. Another study by Eccles et al. (2014) showed that firms with high sustainability ratings, which are often the result of robust stakeholder engagement, exhibit better long-term financial performance. These findings suggest that considering stakeholder interests can lead to sustainable competitive advantages.

In the context of sustainable investment stakeholder theory provides a rationale for integrating ESG factors into investment decisions. By considering the impact of investments on various stakeholders, sustainable funds aim to create value not only

for investors but also for society at large. For instance, funds that prioritize investments in companies with strong labor practices or community engagement may contribute to social welfare while generating financial returns. Research has shown that funds that align with Stakeholder Theory tend to have lower risk profiles due to their focus on sustainable business practices (Kotsantonis et al., 2016).

However, the implementation of stakeholder theory in investment management is not without challenges. Critics argue that balancing the interests of multiple stakeholders can lead to conflicts and dilute the focus on financial performance. Additionally, measuring the impact of investments on stakeholders can be complex and subjective. Despite these challenges, Stakeholder Theory remains a cornerstone of sustainable investment practices, guiding fund managers in their efforts to align financial goals with social and environmental responsibility (Clark et al., 2015).

In the study stakeholder theory was utilized to analyze how sustainable investment funds address the needs and concerns of various stakeholders, including local communities, employees, and the environment. By examining the strategies employed by these funds to engage with stakeholders, the study seeks to identify best practices that contribute to both financial success and positive social impact. The insights gained from this analysis are expected to inform the development of sustainable investment strategies that are tailored to the unique socio-economic context.

2.1.3 Efficient Market Hypothesis (EMH)

The efficient market hypothesis (EMH) formulated by Eugene Fama in the 1960s, asserts that financial markets are "informationally efficient," meaning that asset prices fully reflect all available information at any given time. According to EMH, it is impossible to consistently achieve higher returns than the overall market because price movements are largely unpredictable and reflect the collective information and sentiments of all market participants. EMH has profoundly influenced modern finance and investment strategies, particularly in the development of passive investment products like index funds (Fama, 1970).

Fama and French (1992) found that certain factors, such as company size and book-to-market ratios, could predict stock returns, challenging the notion of market efficiency. Moreover, behavioral finance research has documented various psychological biases and market inefficiencies that suggest markets are not always

perfectly efficient. These findings have led to ongoing debates about the validity and applicability of EMH in different market conditions.

In sustainable investing EMH is utilized to understand the pricing of ESG factors in financial markets. Proponents argue that as more investors recognize the importance of sustainability, ESG information should become fully integrated into asset prices, thereby reflecting the true value of sustainable companies. However, research indicates that ESG factors may not be fully priced into the market, creating opportunities for investors to achieve excess returns by identifying undervalued companies with strong ESG performance. This perspective suggests that markets may not be entirely efficient in pricing sustainability risks and opportunities (Giese et al., 2019).

The application of EMH in sustainable investing also raises questions about the impact of investor behavior on market efficiency. Studies have shown that investor preferences for ESG-aligned investments can lead to price distortions, particularly in markets where sustainable investing is a growing trend. The so-called "green bubble" phenomenon, where stocks of companies with strong ESG credentials become overvalued, has been observed in various markets. This challenges the EMH assertion that markets are always efficient and suggests that behavioral factors play a significant role in the pricing of sustainable assets (Pedersen et al., 2020).

EMH is employed to explore the efficiency of the financial market in pricing ESG factors. By analyzing the performance of sustainable investment funds, the study seeks to determine whether ESG information is fully reflected in asset prices or if there are inefficiencies that can be exploited for higher returns. The findings contribute to the understanding of how market efficiency in emerging markets, like Nepal, differs from that in developed markets and what implications this has for sustainable investing strategies.

2.1.4 Behavioral Finance Theory

Behavioral finance theory emerged as a challenge to traditional financial theories such as EMH by incorporating psychological insights into economic models of investor behavior. Key figures in the development of behavioral finance include Daniel Kahneman and Amos Tversky whose research on cognitive biases and decision-making under uncertainty laid the groundwork for this field. Their work, particularly

the concept of prospect theory, highlights how investors often deviate from rational behavior due to biases such as overconfidence, loss aversion, and herd behavior (Kahneman & Tversky, 1979).

Barber and Odean (2001) found that overconfident investors tend to trade excessively, leading to poorer performance. Similarly, studies on herding behavior have shown that investors often follow the crowd, even in the face of contradictory information, leading to market bubbles and crashes. These findings suggest that financial markets are not always driven by rational decision-making, as assumed by traditional theories, but are instead influenced by human emotions and cognitive biases.

In sustainable investing behavioral finance theory is particularly relevant as it helps explain the growing demand for ESG investments. Investors may be driven by psychological factors, such as the desire to do good or align their investments with personal values, rather than purely financial considerations. Research has shown that the "warm glow" effect, where investors derive satisfaction from contributing to positive social outcomes, can influence investment choices and lead to a preference for sustainable funds even if they offer lower returns (Riedl & Smeets, 2017).

Moreover, behavioral finance theory can be used to understand potential pitfalls in sustainable investing. For instance, the phenomenon of "greenwashing," where companies exaggerate their ESG credentials to attract investors, can be particularly problematic in the context of behavioral biases. Investors who are motivated by the desire to support sustainable practices may be more susceptible to greenwashing, leading them to invest in companies that do not genuinely adhere to ESG principles. This can result in suboptimal investment outcomes and undermine the credibility of sustainable investing. Studies have highlighted the need for greater transparency and standardized reporting to mitigate the risks associated with behavioral biases in ESG investing (Delmas & Burbano, 2011).

Behavioral finance theory is utilized to explore the psychological factors influencing investor behavior in sustainable investment market. By examining how biases such as loss aversion, overconfidence and herding behavior affect investment decision the study aims to provide insights into the challenges and opportunities for promoting sustainable investing. Understanding these behavioral dynamics is crucial for

developing strategies that can effectively align investor preferences with sustainable development goals, thereby enhancing the impact of sustainable investment funds.

2.15 Socially Responsible Investment (SRI) Theory

Socially responsible investment (SRI) theory emphasizes the integration of ethical, social, and environmental criteria into investment decisions. SRI emerged in the 1960s and 1970s as a response to growing concerns about corporate practices that were harmful to society and the environment. The movement gained momentum with the publication of the Domini 400 Social Index in 1990, which was the first index to track the performance of companies based on social and environmental criteria. SRI theory advocates for the use of both positive and negative screening methods to include or exclude companies based on their adherence to specific ethical standards (Sparkes, 2001).

Statman (2000) found that SRI portfolios particularly those that exclude companies involved in tobacco, alcohol, and weapons, perform similarly to conventional portfolios in terms of risk-adjusted returns. Moreover, a meta-analysis by Friede et al. (2015) revealed that the majority of studies show a positive correlation between ESG factors and financial performance, indicating that SRI strategies do not necessarily entail financial sacrifices.

SRI Theory is widely applied in the management of sustainable investment funds, where it guides the selection of investments that align with ethical and social values. This approach often involves screening out companies involved in controversial industries, such as fossil fuels or arms manufacturing, while favoring those that demonstrate strong ESG performance. The integration of SRI principles into investment practices has been shown to reduce exposure to reputational risks and enhance the long-term sustainability of portfolios (Renneboog et al., 2008).

However, SRI Theory also faces criticism, particularly regarding the potential trade-offs between ethical considerations and financial performance. Critics argue that the exclusion of certain sectors, such as energy or defense, can lead to under-diversification and potentially lower returns. Additionally, the lack of standardized criteria for what constitutes "socially responsible" can result in inconsistencies in the application of SRI principles across different funds. Despite these challenges, SRI Theory remains a foundational framework for sustainable investing, guiding investors

who seek to align their financial goals with their ethical values (Sparkes & Cowton, 2004).

SRI Theory is applied to examine the strategies employed by sustainable investment funds focusing on how these funds incorporate ethical and social criteria into their investment decisions. The study explores the effectiveness of positive and negative screening methods in the market and evaluates their impact on both financial performance and social outcomes. By applying SRI theory, the study aims to contribute to the understanding of how socially responsible investing can support sustainable development in emerging markets like Nepal.

2.2 Empirical Review

Bhandary (2024) analyzed the impact of environmental, social and governance (ESG) disclosure practices on investment decisions, focusing on how investors utilize this information for risk assessment and informed decision-making. The study aims to provide a comprehensive analysis of the role of ESG disclosures in the investment process, highlighting the benefits, challenges, and opportunities for improving these practices. Through a detailed examination, the study reveals that robust ESG disclosure practices significantly influence investment strategies by providing essential information for assessing risks, identifying investment opportunities, and making informed choices. Companies with strong ESG disclosures are more likely to attract and retain investors, which, in turn, enhances long-term returns. The research underscores the importance of ESG integration for fostering a more ethical and sustainable financial system. The implication is that improved ESG disclosure practices can lead to better investment outcomes and contribute to a sustainable financial future.

Kräussl et al. (2024) explored the expectations, beliefs, and perceptions of investors who consider environmental, social, and governance (ESG) factors in their investment decisions, aiming for either superior financial performance or societal impact. The study reviews literature through equilibrium models, which suggest that while ESG investments may generate lower returns compared to non-ESG assets in the long run, they can outperform in the short run through specific channels. The empirical evidence on ESG investment performance is mixed, but the study finds strong support for the idea that investors' preference for ESG can lead to positive social impact

through active engagement. Furthermore, the shift towards sustainable policies in firms is largely driven by increased market values and lower capital costs for green companies, influenced by investor behavior. This study highlights the role of investor preferences in promoting sustainable practices, suggesting that such actions can drive long-term positive changes in the market.

Yu et al. (2024) examined the relationship between environmental, social, and governance (ESG) performance and investment patterns, specifically focusing on capital investments and environmental investments in nonfinancial sector enterprises from BRICS nations between 2010 and 2022. The study aims to uncover how ESG scores influence earnings-driven capital investments versus environmental investments, highlighting potential trade-offs in corporate decision-making. Utilizing the system generalized method of moments (GMM) for regression analysis, the study finds a significant positive correlation between ESG performance and capital investments, while revealing a negative relationship between ESG scores and environmental investments. This suggests that firms may prioritize financial profitability over environmental spending, presenting a trade-off between financial objectives and environmental responsibilities. The study also identifies other influential factors, including firm size, debt ratios, cash holdings, and CO2 emissions. The findings provide critical insights for corporate managers, suggesting that aligning capital projects with a high ESG focus can enhance long-term viability and stakeholder trust, thereby balancing financial goals with sustainable practices. The study contributes to the broader discourse on responsible corporate practices by illuminating the complexities of integrating ESG into investment decisions.

Handayani and Rokhim (2023) examined the attractiveness of sustainable investments in Indonesia and determine if there is a significant difference in financial performance between sustainable and conventional investments. The study analyzed the performance of green bonds, green equities, and green mutual funds compared to their conventional counterparts from 2018 to 2023, using an independent sample t-test to compare yields or returns. The findings showed no statistically significant difference in the returns of sustainable and conventional investment instruments, though differences in price volatility were observed. The study concluded that while sustainable investments offer similar profit potential to conventional ones, investors should consider price volatility when making decisions. The implication is that

investors can confidently incorporate sustainable investments into their portfolios without sacrificing financial returns, while also considering environmental factors.

Hussain et al. (2023) introduced the green energy sustainable investment index (GESII) as a comprehensive tool to benchmark and evaluate economic performance and sustainability globally. The study aimed to assess the sustainability of green energy investments across 47 Belt and Road Initiative (BRI) countries from 2006 to 2020, using a composite index built with entropy weight and the TOPSIS approach, encompassing 22 indicators across social, economic, environmental, and institutional dimensions. The analysis revealed that Singapore, Estonia, Brunei Darussalam, the United Arab Emirates, and the Czech Republic ranked highest in the GESII, while Iran and Lebanon ranked lowest, reflecting poor performance in all four dimensions. The study also provided comparative analyses of the top-performing countries within each BRI region. The findings suggest that GESII is a valuable tool for guiding investment decisions and informing policy discussions on green energy sustainability. The implication is that policymakers and investors can use GESII to identify strengths and weaknesses in green energy sustainability across different regions and guide strategic decisions accordingly.

Karmacharya (2023) investigated the influence of Environmental, Social, and Governance (ESG) factors on investment decisions among 392 individual investors in Pokhara, Nepal. The study employs a survey-based research design, utilizing Confirmatory Factor Analysis and path analysis to assess the data. The findings reveal that social and governance factors significantly positively impact investment decisions, while environmental factors do not show a significant influence. Additionally, investor awareness was found to moderate the relationship between governance factors and investment decisions, highlighting its crucial role. The independent variables accounted for approximately 69 percent of the variation in investment decisions. The study concludes that ESG factors, particularly social and governance aspects, play a critical role in shaping investment decisions in Nepal. The implication is that brokerage houses and companies can use these insights to develop investment products that align with individual investors' ESG preferences, thereby promoting sustainable investment practices in the region.

Mirza et al. (2023) explored the interdependence and determinants of sustainable investments across multiple countries, particularly in the context of climate change concerns and the impact of the COVID-19 pandemic. The study employs a dependence, centrality, and dynamic network approach to analyze data from January 2009 to March 2021, focusing on how sustainable investments are interconnected globally. The findings highlight France as a major risk transmitter, with Japan and Taiwan as significant risk recipients, especially during periods of economic instability like the COVID-19 crisis. The centrality network analysis underscores the importance of sustainable investments in European countries, likely due to their proactive climate change efforts. Additionally, the study identifies gold price volatility as a key driver of the interdependence of sustainable investments. The implication is that understanding these interdependencies is crucial for stakeholders aiming to navigate the complexities of sustainable investments in a volatile global market.

Plattek and Figueiredo (2023) aimed to compare the financial performance of sustainable investments with conventional investment products in Brazil, focusing on sustainable and governance equity investment funds. The study employed a quantitative analysis of monthly returns, volatility, and Jensen's alpha across two periods: a bull market (January 2017 to December 2019) and a bear market (January 2020 to December 2021). The findings revealed that sustainable investments did not significantly differ from conventional stock funds in terms of financial performance and exhibited similar volatility during the bear market. The study contributes to the literature by providing empirical evidence of the consistent performance of sustainable investments in an emerging market like Brazil across different economic cycles. The study's limitations include the absence of a clear taxonomy and ESG regulatory framework in Brazil and the limited number of sustainable equity funds available. The implication is that sustainable investments can be viable alternatives to conventional funds in emerging markets, offering comparable financial performance even during economic downturns.

Shanthirathna et al. (2023) analyzed the performance persistence of socially responsible investment (SRI) funds in the U.S. from 2001 to 2021, focusing on their behavior before, during, and after the 2008 global financial crisis and the COVID-19 pandemic. The study used the Carhart (1997) four-factor model and the Fama French (2005) extended model to measure SRI fund performance, and categorized funds into

ten portfolios based on prior performance, analyzing their monthly returns. The findings showed that while the best-performing SRI funds exhibited performance persistence before and during the financial crisis, this did not guarantee future success post-crisis. Poorly performing funds continued to underperform during and after the financial crisis, and performance persistence was absent in the best-performing funds during the COVID-19 pandemic. The study concluded that understanding performance persistence across different market conditions is crucial for investors to make informed decisions and manage risk effectively. The implication is that investors and fund analysts should monitor performance persistence to anticipate potential risks and adjust investment strategies accordingly.

Bajrachrya and Samdani (2021) explored how various demographic factors influence the attitudes of Nepalese mutual fund investors toward Socially Responsible Investment (SRI). The study uses a structured questionnaire to collect primary data from 109 mutual fund investors in Kathmandu District, Province 3, selected through non-probability convenient sampling. Employing a descriptive research design, the study finds that age significantly influences the factors considered in investment decisions, while gender, educational qualification, and monthly income do not show any relationship with these criteria. The study concludes that age plays a crucial role in shaping investment attitudes towards SRI among Nepalese mutual fund investors. The implication is that SRI products and strategies might be more effectively targeted by considering the age demographic of investors.

Popescu et al. (2021) critically evaluated current sustainability measurement methods for investment funds responding to the growing demand from investors for reliable non-financial performance metrics amidst concerns of greenwashing. The study used a seven-criteria matrix, developed from gaps identified in academic literature and international reports, to classify and analyze these methods. The evaluation revealed significant shortcomings in widely used metrics such as carbon footprints, exposure metrics, and ESG ratings, which often fail to capture the real-world sustainability impact of investments. The study concluded that sustainability assessments should prioritize open-source, science-based methods that measure positive impact creation and adopt a life cycle perspective. The implication is that future research and reporting should focus on aligning investment products with science-based targets for

sustainable development, incorporating forward-looking assessments and evaluating investors' additionality.

Sládková et al. (2021) evaluated the performance of European sustainable and responsible investing (SRI) mutual funds, exploring their correlation with national identity. The study utilized descriptive statistics, including frequency, mean, and correlation analysis, with a focus on the Synthetic Risk and Reward Indicator (SRRI), ESG funds score distribution, and ESG letter ratings. The findings indicated that SRI funds tend to perform better than funds with different focuses, and the SRI segment is expected to grow over the next decade. However, the study highlighted the lack of clear definitions and metrics for sustainable investing and suggested that examining each country separately could enhance performance evaluations. The study concludes that the development of a model incorporating ESG factors and risks could aid investors in making more informed decisions. The implication is that the model proposed by the study could improve investment decision-making by aligning with ESG criteria and sustainability goals.

Yue et al. (2020) assessed whether the growing popularity of sustainable investments introduces additional risks compared to traditional investments. The study employed a quantitative approach, analyzing annual returns, standard deviations, Sharpe ratios, skewness, and kurtosis for 30 sustainable and 30 traditional funds. Additionally, the Capital Asset Pricing Model (CAPM), Fama–French three-factor model, and Carhart four-factor model were utilized to evaluate different market portfolios. The findings revealed that sustainable funds are generally less risky than traditional funds, though they do not necessarily generate higher returns. The study concluded that while the Fama–French three-factor model is most effective in explaining the performance of both fund types, increased demand for socially responsible assets may heighten risks. The implication is that investors should weigh the potential risk increases associated with the rising demand for sustainable investments.

Table 1

Summary of Literature Review

Author(s)	Year	Objective	Methodologies	Major Findings
Bhandary	2024	To analyze the impact of ESG disclosure practices on investment decisions and how investors use this information for risk assessment.	Comprehensive analysis of ESG disclosure practices and their role in investment decision-making.	Robust ESG disclosures significantly influence investment strategies, attracting and retaining investors and enhancing long-term returns.
Kräussl et al.	2024	To explore the expectations, beliefs, and perceptions of investors considering ESG factors in their investment decisions.	Literature review through equilibrium models, analyzing empirical evidence on ESG investment performance.	ESG investments may generate lower returns long-term but can outperform short-term; investor preferences drive sustainable practices and long-term market changes.
Yu et al.	2024	To examine the relationship between ESG performance and investment patterns in nonfinancial sector enterprises from BRICS nations.	System generalized method of moments (GMM) for regression analysis of data from 2010-2022.	Positive correlation between ESG performance and capital investments; negative relationship with environmental investments, highlighting a trade-off between profitability and environmental responsibility.

Handayani and Rokhim	2023	To examine the attractiveness of sustainable investments in Indonesia and determine financial performance differences with investments.	Independent sample t-test comparing yields or returns of green bonds, green equities, and green mutual funds to conventional counterparts.	No significant difference in returns between sustainable and conventional investments; sustainable investments exhibit price volatility.
Hussain et al.	2023	To introduce the green energy sustainable investment index (GESII) for benchmarking and evaluating economic performance and sustainability globally.	Composite index built with entropy weight and TOPSIS approach, analyzing data from 47 BRI countries from 2006 to 2020 across 22 indicators.	Singapore, Estonia, and Brunei ranked highest in GESII; GESII is valuable for guiding investment decisions and informing policy discussions on green energy sustainability.
Karmacharya	2023	To investigate the influence of Environmental, Social, and Governance (ESG) factors on investment decisions among individual investors in Pokhara, Nepal.	Survey-based research design, Confirmatory Factor Analysis, and path analysis on 392 individual investors.	Social and governance factors significantly impact investment decisions; investor awareness moderates the relationship between governance factors and decisions.
Mirza et al.	2023	To explore the interdependence and	Dependence, centrality, and	France is a major risk transmitter; Japan and

		determinants of sustainable investments globally, especially concerning climate change and the COVID-19 pandemic.	dynamic network approach analyzing data from January 2009 to March 2021.	Taiwan are significant risk recipients; gold price volatility is a key driver of sustainable investment interdependence.
Plattek and Figueiredo	2023	To compare the financial performance of sustainable investments with conventional investment products in Brazil.	Quantitative analysis of monthly returns, volatility, and Jensen's alpha during bull and bear markets from 2017-2021.	Sustainable investments exhibit similar performance and volatility to conventional funds during different economic cycles.
Shanthirathna et al.	2023	To analyze the performance persistence of socially responsible investment (SRI) funds in the U.S. from 2001 to 2021 across different market conditions.	Carhart four-factor model and Fama French extended model, analyzing monthly returns of ten portfolios.	Performance persistence in SRI funds does not guarantee future success, particularly after financial crises; absence of persistence during the COVID-19 pandemic.
Popescu et al.	2021	To critically evaluate current sustainability measurement methods for investment funds.	Evaluation using a seven-criteria matrix developed from gaps identified in academic literature	Significant shortcomings in widely used sustainability metrics; recommendations for open-source, science-

		and international reports.	based methods focusing on positive impact and life cycle perspective.
Sládková et al.	2021	To evaluate the performance of European sustainable and responsible investing (SRI) mutual funds and their correlation with national identity.	Descriptive statistics, including frequency, mean, correlation analysis, focusing on SRRI, ESG funds score distribution, and ESG letter ratings. SRI funds tend to perform better than other funds; suggests developing a model incorporating ESG factors and risks for better investment decision-making.

2.3 Research Gap

The existing body of research on investment performance and sustainability predominantly relies on secondary data, often sourced from historical financial records, market analyses, and publicly available reports. Major studies, such as those by Yue et al. (2020) and Handayani and Rokhim (2023), utilize secondary data to assess the financial performance of sustainable versus conventional investments and evaluate various economic and social factors influencing investment decisions.

However, there is a notable research gap in the context of Nepal, where most available studies have not employed primary data collection methods to provide a firsthand account of investor perceptions and behaviors. The current study aims to address this gap by utilizing primary data gathered directly from Nepalese investors. This approach allows for a more nuanced understanding of how economic, social, governance factors impact perceived fund performance in Nepal. Unlike secondary data analyses, which may reflect broader trends or historical patterns, primary data provides real-time insights into the current investment landscape and investor preferences in Nepal.

By focusing on primary data, this study offers a unique contribution to the field by capturing the specific attitudes and behaviors of Nepalese investors regarding sustainable and conventional investments. This approach not only fills the gap left by secondary data-based studies but also enhances the relevance and applicability of the findings to the local context. Consequently, this research provides valuable information for policymakers, financial institutions, and investors in Nepal, helping to tailor investment strategies and policies that align with the specific needs and preferences of the Nepalese market.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Design

This study adopts a descriptive and causal comparative research design aimed at investigating ESG factors and investment funds in Nepal. The descriptive component is crucial for understanding the demographic characteristics and investment behaviors of the study's participants, while the causal component seeks to identify and explain the relationships between various ESG factors and the perceived performance of these funds. By combining these two approaches, the study provides both a broad overview and a deeper understanding of the factors influencing sustainable investment performance.

3.2 Population and Sample, and Sampling Design

The population of this study includes all investors who are involved in funds that directly or indirectly incorporate ESG factors, as well as fund managers and financial analysts operating within Nepal. A sample size of 384 respondents was selected, comprising, 254 investors, who are directly investing in these funds, 100 fund managers and employees who manage and operate these funds and 30 experts and financial analysts who provide insights and analysis on sustainable investments. A purposive sampling method was utilized ensuring that the selected respondents possess relevant knowledge and experience in sustainable investments. This method was chosen to gather precise insights from key stakeholders directly involved in or impacted by ESG factors in their investment decisions. Given the scarcity of comprehensive secondary data on ESG factors and sustainable investment performance in Nepal primary data collection is vital for obtaining accurate and relevant information. The Cochran formula is ideal for larger populations when the exact population size is unknown. To calculate the sample size, a confidence level of 95% is considered, corresponding to a Z-score of 1.96. The margin of error is set at 5%, equivalent to an e value of 0.05. The formula is as follows:

$$n = \frac{z^2 \times p \times (1 - p)}{e^2}$$

Where:

n is the sample size

Z is the Z -score corresponding to the desired confidence level which is 1.96 for a 95% confidence level in this study

p is the estimated proportion of the population which is 0.5 for maximum variability

e is the margin of error (expressed as a proportion)

Let's assume a confidence level of 95% ($Z = 1.96$) and a margin of error of 5% ($e = 0.05$) and $p=0.5$,

Assuming a 50% estimated proportion of individual investors in the population ($p = 0.5$) since there is no prior knowledge about the proportion, the formula becomes:

$$n = \frac{1.96^2 \times 0.5 \times (1 - 0.5)}{0.05^2}$$

$$n = \frac{3.841 \times 0.25}{0.0025}$$

$$n = \frac{0.96025}{0.0025}$$

$$n = 384.1$$

Rounding up to the nearest whole number, the recommended sample size is 384. Therefore, for an unknown population of individual investors in the sustainable funds in Nepal, a sample size of 384 is used to achieve a confidence level of 95% with a margin of error of 5%.

3.3 Nature and Sources of Data

This study relies on primary data collected through pre-structured questionnaires specifically designed to capture perceptions of ESG factors and their impact on investment fund performance. These questionnaires were based on a five-point Likert scale allowing respondents to express the degree of their agreement or disagreement with various statements related to the study's variables. Data collection was carried out through both online and offline methods to ensure the inclusion of a diverse and representative sample of respondents. Online surveys were distributed via email and

survey platforms, while offline questionnaires were administered in person to target respondents who may not have easy access to digital channels.

3.4 Data Collection Procedures

The data collection process involved the systematic distribution of pre-structured questionnaires to the target population. Given the focus on investors, fund managers, and financial analysts the questionnaires were tailored to gather detailed information on how ESG factors are perceived to influence the performance of sustainable investment funds. Both online and offline distribution channels were used to maximize reach and ensure a high response rate. Follow-up reminders were also sent to encourage participation and ensure comprehensive data collection.

3.5 Method of Analysis

To analyze the collected data, the study employs a combination of descriptive statistics, correlation analysis, and regression analysis. Mainly, the following tools are utilized to analyze the data:

3.5.1 Descriptive Analysis

The mean serves to represent the average perception of respondents, where higher values indicate positive opinions and lower values highlight areas of concern. In contrast, the standard deviation assesses the variability of responses; a high SD reflects a range of differing opinions among respondents, while a low SD suggests a stronger consensus. Collectively, these statistical measures offer a comprehensive understanding of the overall sentiments regarding ESG issues and the degree of agreement within the responses.

3.5.1.1 Mean

The mean is used to represent the average value of responses for each ESG factor and perceived fund performance. This helps in understanding the central tendency of the respondents' views, giving a clear idea of the general perception of ESG factors across the sample. A higher or lower mean reflects the inclination of the respondents' opinions towards a particular aspect of ESG and other variables. The mean is calculated using following formula:

$$\bar{X} = \frac{\sum x}{n}$$

\bar{X} = Arithmetic Mean return

$x_1, x_2, x_3, x_4 \dots \dots \dots x_n$ = Set of Observation

Σx = Sum of given Observation

n = Total number of Observations

3.5.1.2 Standard Deviation (S.D.)

The standard deviation (SD) is employed to measure the dispersion or variability of responses around the mean. A high standard deviation indicates that responses are more spread out, suggesting diverse opinions among the respondents, while a lower standard deviation points to more consensus in their views. SD is calculating using following formula:

$$\text{Standard Deviation (S.D.)} = \sqrt{\frac{\Sigma(X - \bar{X})^2}{n}}$$

Where,

X = number of observations in the sample

\bar{X} = mean of number of observations in the sample

n = number of years

$\Sigma(X - \bar{X})^2$ = Sum of Total number of observations deviation from mean in the sample.

3.5.3 Correlation Analysis

Correlation analysis is used to examine the relationships between the independent variable's environmental factors, social factors, governance factors and the dependent variable perceived fund performance. This step involves calculating correlation coefficients to determine the strength and direction of the relationships between these variables. By understanding these correlations, the study identifies which ESG factors are most closely associated with the perceived performance of sustainable investment funds. The correlation is calculating using following formula:

$$\text{Correlation Coefficient (r)} = \frac{(n \times \Sigma XY - \Sigma X \times \Sigma Y)}{\sqrt{[n \times \Sigma X^2 - (\Sigma X)^2][n \times \Sigma Y^2 - (\Sigma Y)^2]}}$$

Where,

r = coefficient of correlation

ΣXY = Sum of product of two series.

ΣX^2 = Sum of squared in X series

ΣY^2 = Sum of squared in Y series

n = number of years

The value of this coefficient can never be more than + 1 or less than -1. Thus, + 1 and -1 are the limit of this coefficient. The $r = + 1$ implies that correlation between variables is positive and vice-versa and zero denoted no correlation.

3.5.4 Regression Analysis

Regression analysis is conducted to assess the impact of the independent variables on the dependent variable. Regression analysis enables the study to quantify the extent to which each ESG factor influences perceived fund performance controlling for other variables in the model. This analysis helps in identifying the most significant predictors of sustainable investment fund performance. The regression model of the study is as follows:

$$PFP = \beta_0 + \beta_1EF + \beta_2SF + \beta_3GF + \beta_4PD + \beta_5SE + \varepsilon$$

Where:

PFP = Perceived Fund Performance

EF = Environmental Factors

SF = Social Factors

GF = Governance Factors

β_0 = Intercept of the regression equation

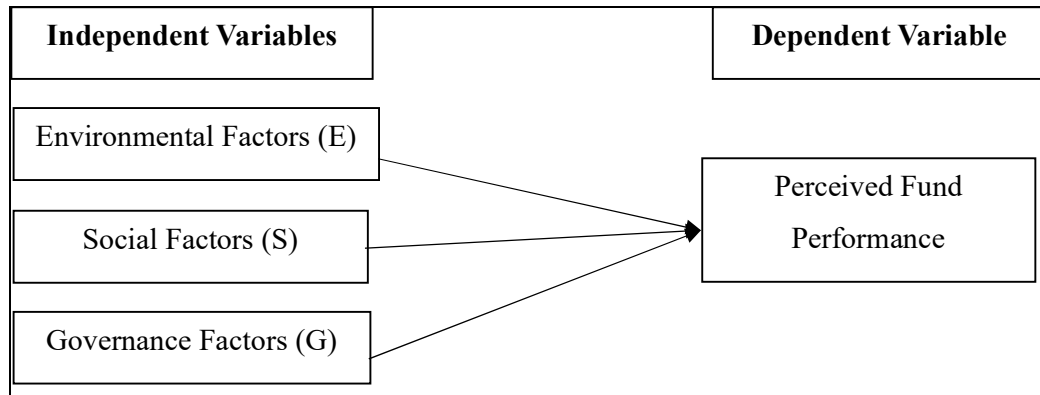
$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = Coefficients for each independent variable, representing the impact of each factor on perceived fund performance

ε = Error term, accounting for variability not explained by the independent variables

3.6 Research Framework and Definition of Variables

The variables examined include environmental factors, social factors, governance factors. The environmental factors are derived from Yue et al. (2020) and Handayani and Rokhim (2023) which provide insights into how environmental indicators influence fund performance. Social factors explored through the works of Bajracharya and Samdani (2021) and Karmacharya (2023) are incorporated to assess how demographic and social aspects affect investment fund performance. Governance factors supported by Bhandary (2024) and Karmacharya (2023) are included to

evaluate the role of governance practices in shaping investment performance. The framework of the study is presented in Figure 1.



Source: Yue et al. (2020); Handayani and Rokhim (2023); Karmacharya (2023); Kräussl et al. (2024)

Figure 1 *Research Framework*

Perceived Fund Performance

This variable encompasses various aspects such as returns, risk management, and overall satisfaction with the fund's performance. According to Yue et al. (2020), perceived performance is influenced by economic factors like returns and volatility, which investors use to judge a fund's effectiveness. Additionally, Handayani and Rokhim (2023) note that investors' perceptions of fund performance can be shaped by comparisons between sustainable and conventional investment options. This variable integrates investors' assessments of how well a fund meets their expectations in terms of financial returns and risk mitigation. By analyzing perceived fund performance, this study aims to understand how different factors such as economic conditions, social influences, governance practices, impact investors' views on the success and effectiveness of their investments. This approach helps in gaining insights into how investors evaluate and react to various aspects of fund performance in the context of their investment decisions.

Environmental Factors

Environmental factors in investment analysis involve assessing the impact of environmental sustainability on the financial performance and risk profile of investment vehicles. These factors include carbon emissions, resource efficiency, energy consumption, and environmental policies. Yue et al. (2020) highlight that carbon emissions and resource efficiency are critical for evaluating how different

funds contribute to environmental sustainability, with energy consumption providing insight into long-term sustainability. These metrics are fundamental for assessing the environmental impact of investments. Handayani and Rokhim (2023) further elaborate on the significance of comparing environmental sustainability between sustainable and conventional investments, illustrating how environmental factors influence investment decisions and perceived performance. By examining these indicators, investors can gauge the potential environmental impact and sustainability of their investments.

Social Factors

Social factors pertain to demographic and societal influences that shape investor behavior and attitudes towards investments. Bajracharya and Samdani (2021) emphasize the impact of age on investment preferences, particularly in relation to Socially Responsible Investments (SRI). Their study indicates that older investors may place greater importance on social and ethical considerations when making investment choices. Similarly, Karmacharya (2023) explores how social factors, such as societal expectations and investor preferences, affect investment decisions, especially within the framework of Environmental, Social, and Governance (ESG) criteria.

Governance Factors

Governance factors refer to the systems and practices that ensure corporate accountability, transparency, and ethical behavior. According to Bhandary (2024), strong governance practices, such as effective board oversight and robust internal controls, are essential for building investor trust and influencing investment decisions. Governance factors are critical for assessing the quality and reliability of companies' management practices. Karmacharya (2023) also highlights the role of governance in shaping investor perceptions, noting that adherence to high governance standards can enhance investor confidence and affect their decision-making process. Governance factors thus significantly impact how investors evaluate and choose their investments, particularly in the context of ESG considerations.

CHAPTER IV

RESULTS AND DISCUSSION

This chapter presents and interprets the findings with utilizing the tools from the methodologies outlined in chapter three. This chapter is divided into two sections i.e., results and discussion. The results section provides a detailed account of the empirical outcomes, including the demographic profile of respondents, descriptive statistics of study variables, correlation analysis and regression results. It lays out the data in a structured manner to illustrate the relationships and impacts observed. The discussion section interprets these findings, linking them back to the research questions and hypotheses established earlier. It delves into the implications of the results, compares them with existing literature and explores the significance of the findings in the context of sustainable investment performance.

4.1 Results

The results section of the study encompasses several key areas of analysis. It starts with the demographic profile of the respondents, providing an overview of their characteristics such as age, education, and investment experience. This is followed by the descriptive analysis of the study variables, which outlines the central tendencies and variability of factors like environmental, social, and governance (ESG) elements. Correlation analysis examines the relationships between these variables, while regression analysis quantifies their impact on the perceived performance of sustainable investment funds. Finally, hypothesis testing evaluates the validity of the proposed hypotheses regarding the influence of ESG factors on investment performance.

4.1.1 Demographic Profile

The demographic profile of the respondents in this study provides essential context for understanding the characteristics of the individuals participating in sustainable investment decisions. Key demographic attributes such as age, gender, education level, and investment experience are examined to ensure a comprehensive understanding of the diversity and backgrounds of the participants. By capturing these

demographic factors, the study ensures that the findings are viewed through the lens of the specific population group involved in the analysis.

Table 2

Demographic Profile of Respondents

Items	Frequency	Percent
Gender		
Male	232	60.5
Female	152	39.5
Age Group		
18-24	56	14.6
25-34	136	35.4
35-44	94	24.5
45- and above	98	25.5
Education		
SLC	0	0.00
Plus Two	10	2.6
Bachelor Degree	132	34.4
Masters and above	242	63.0
Experience		
Less than a Year	10	2.6
One to Three Years	25	6.5
Three to Five Years	152	39.6
More than Five Years	197	51.3
Total	384	100.0

(Source: Survey, 2024)

Table 2 shows the demographic profile of the 384 respondents highlights a predominantly male population, making up 60.5% of the sample, compared to 39.5% female respondents. The age distribution indicates that the majority are in the 25-34 age group, representing 35.4% of the respondents, followed by those aged 45 and above at 25.5%. Respondents in the 35-44 age range account for 24.5%, while the 18-

24 age group comprises 14.6% of the sample. This distribution shows a relatively young and experienced respondent pool.

Educationally, the majority of respondents have achieved advanced degrees, with 63.0% holding a Master's degree or higher, and 34.4% possessing a Bachelor's degree. Only a small fraction of respondents has completed Plus Two (2.6%), and there are no respondents with only SLC qualifications. This indicates a highly educated respondent base, likely to have significant expertise in sustainable investment.

In terms of investment experience, over half of the respondents (51.3%) have more than five years of experience, and 39.6% have three to five years of experience. In contrast, those with less than a year and one to three years of experience make up smaller proportions, at 2.6% and 6.5%, respectively. This distribution underscores a sample with substantial experience in investment providing a rich perspective on the factors influencing sustainable investment performance.

4.1.2 Descriptive Analysis

The descriptive analysis shows a summary of the basic statistical characteristics of the variables under investigation, including the mean, standard deviation, minimum, and maximum values. This analysis helps in understanding the general distribution and central tendencies of the data related to the environmental, social, and governance (ESG) factors and perceived performance of sustainable investment funds. This foundational analysis is essential for interpreting how each factor behaves within the dataset and for ensuring the appropriateness of subsequent correlation and regression analyses. SPSS 25.0 software is utilized to analyze the data and each variables carry five statements which was measured on five-point Likert scale.

4.1.2.1 Environmental Factors

Environmental factors refer to the consideration of ecological impacts in investment decisions, such as the carbon footprint, resource usage, and sustainability practices of a fund's portfolio companies. Investors are increasingly incorporating environmental criteria, particularly in light of growing awareness around climate change and regulatory pressures. Funds that prioritize environmentally sustainable practices tend to attract environmentally conscious investors and are often viewed more favorably in

long-term risk management strategies. Environmental sustainability is now a key driver of both financial performance and corporate reputation.

Table 3

Descriptive Analysis of Environmental Factors

Statements	N	Min	Max	Mean	SD
The fund's performance is affected by the environmental sustainability practices of the companies in the portfolio.	384	1.00	5.00	3.15	1.41
Climate change and its associated risks have impacted the returns of the fund.	384	1.00	5.00	3.26	1.33
Environmental regulations influence the success of the fund.	384	1.00	5.00	3.23	1.29
Resource scarcity and pollution control efforts play a role in the fund's overall performance.	384	1.00	5.00	3.12	1.39
The adoption of renewable energy and efforts to reduce carbon emissions contribute to the fund's profitability.	384	1.00	5.00	2.89	1.19
Environmental Factors	384	1.20	4.60	3.13	0.86

(Source: Survey, 2024)

The descriptive analysis of environmental factors, presented in Table 3 provides information into respondents' perceptions of how various environmental considerations influence fund performance. The statement "The fund's performance is affected by the environmental sustainability practices of the companies in the portfolio" had a mean score of 3.15 with a standard deviation of 1.41, indicating moderate agreement but a wide range of responses. The statement "Climate change and its associated risks have impacted the returns of the fund" received a slightly higher mean of 3.26 (SD = 1.33), reflecting stronger agreement among respondents on the importance of climate-related risks in influencing fund returns.

Environmental regulations were also perceived to be significant, with a mean of 3.23 (SD = 1.29), suggesting that regulations are seen as an important factor in fund success. The statement regarding resource scarcity and pollution control had a mean score of 3.12 (SD = 1.39), reflecting moderate concern, while the statement on renewable energy adoption and carbon emissions reduction yielded the lowest mean score of 2.89 (SD = 1.19), indicating a lower level of agreement about its contribution

to profitability. The aggregated mean for environmental factors was 3.13, with a standard deviation of 0.86, suggesting a moderate consensus on the impact of environmental factors on fund performance, with some variation in responses across individual factors.

4.1.2.2 Social Factors

Social factors encompass the impact of societal norms, demographics, and corporate social responsibility on fund performance. Investors are increasingly considering issues such as labor practices, community relations, and environmental sustainability in their investment decisions. Funds that align with positive social values, including those adhering to socially responsible investment (SRI) principles, tend to attract socially conscious investors. These factors are crucial in fostering long-term loyalty, as investors seek not only financial returns but also positive societal impact, making social considerations an integral aspect of modern investment strategies.

Table 4

Descriptive Analysis of Social Factors

Statements	N	Min	Max	Mean	SD
The fund aligns well with social responsibility principles.	384	1.00	5.00	3.25	1.44
Investments in the fund contribute to positive societal outcomes.	384	1.00	5.00	3.29	1.42
The fund prioritizes companies that have strong community involvement.	384	1.00	5.00	3.33	1.29
I prefer investing in funds that focus on improving social welfare.	384	1.00	5.00	3.25	1.40
Social issues, such as labor practices, are considered in the fund's investment decisions.	384	1.00	5.00	3.26	1.31
Social Factors	384	1.40	4.80	3.28	0.83

(Source: Survey, 2024)

The descriptive analysis of social factors, presented in Table 4 reflects respondents' perceptions of the social responsibility and impact of the fund. The statement "The fund aligns well with social responsibility principles" had a mean score of 3.25 with a standard deviation of 1.44, indicating moderate agreement but with significant variation in responses. The statement "Investments in the fund contribute to positive societal outcomes" received a slightly higher mean of 3.29 (SD = 1.42), showing that

respondents generally believe the fund plays a role in generating positive social impacts.

The highest level of agreement was for the statement "The fund prioritizes companies that have strong community involvement," with a mean score of 3.33 (SD = 1.29), indicating that respondents perceive community engagement as an important factor in the fund's investment decisions. Similarly, the statement "I prefer investing in funds that focus on improving social welfare" had a mean score of 3.25 (SD = 1.40), reflecting the importance of social welfare considerations in respondents' investment preferences. Lastly, the statement "Social issues, such as labor practices, are considered in the fund's investment decisions" received a mean score of 3.26 (SD = 1.31), indicating that social issues are somewhat factored into the fund's decision-making process. The aggregated mean score for social factors was 3.28, with a standard deviation of 0.83, suggesting a moderate level of agreement among respondents that social factors are integral to the fund's performance and strategy, with a fairly consistent level of response across the various social considerations.

4.1.2.3 Governance Factors

Governance factors refer to the internal policies, management practices, and overall corporate governance structures that influence fund performance. Good governance ensures transparency, accountability, and ethical decision-making, all of which contribute to investor confidence. Poor governance, on the other hand, can lead to mismanagement, fraud, and financial instability. In the context of funds, robust governance practices such as clear oversight mechanisms, regulatory compliance, and ethical standards are essential for safeguarding investor interests and ensuring sustainable growth over time.

Table 5

Descriptive Analysis of Governance Factors

Statements	N	Min	Max	Mean	SD
The fund invests in companies with strong corporate governance practices.	384	1.00	5.00	3.28	1.39
Transparency in fund management enhances my trust in its performance.	384	1.00	5.00	3.26	1.38
The fund considers environmental, social, and governance (ESG) factors in decision-making.	384	1.00	5.00	3.32	1.27

Companies with ethical business practices are prioritized in the fund's portfolio.	384	1.00	5.00	3.19	1.39
Good governance practices have a positive impact on the fund's performance.	384	1.00	5.00	3.62	1.22
Governance Factors	384	1.40	5.00	3.33	0.88

(Source: Survey, 2024)

The descriptive analysis of governance factors, presented in Table 5 highlights the respondents' views on the role of governance in sustainable fund management. The statement "The fund invests in companies with strong corporate governance practices" had a mean score of 3.28 with a standard deviation of 1.39, indicating moderate agreement, with some variation in respondents' views. Similarly, the statement "Transparency in fund management enhances my trust in its performance" had a close mean of 3.26 (SD = 1.38), reflecting a strong belief that transparency is crucial to building trust in the fund's performance.

The importance of incorporating environmental, social, and governance (ESG) factors in decision-making was evident, with a mean score of 3.32 (SD = 1.27), indicating respondents' general agreement that ESG considerations are a key component of the fund's decision-making process. Ethical business practices in the portfolio were viewed slightly less positively, with a mean of 3.19 (SD = 1.39), showing that while they are valued, there is slightly less consensus on their prioritization. Notably, the strongest agreement was found in the statement "Good governance practices have a positive impact on the fund's performance," with a mean score of 3.62 (SD = 1.22), suggesting that respondents strongly believe in the connection between good governance and fund performance. The aggregated mean for governance factors was 3.33, with a standard deviation of 0.88, indicating moderate consensus that governance factors are important to the fund's success, with a generally positive perception of the governance practices applied to the fund's portfolio.

4.1.2.4 Perceived Fund Performance

Perceived fund performance refers to investors' subjective evaluations of how well a fund has performed over a given period, which may not always align with actual performance metrics. It often incorporates investors' expectations, risk tolerance, and the fund's ability to meet financial goals. This perception is crucial as it influences investment decisions, reinvestment, and long-term trust in the fund. Positive perceived performance can attract more investors, while negative perceptions, even if

not entirely reflective of actual performance, can lead to divestment and reputational challenges for fund managers.

Table 6

Descriptive Analysis of Perceived Performance

Statements	N	Min	Max	Mean	SD
The fund has consistently provided good returns over the past years.	384	1.00	5.00	3.18	1.38
I believe the fund's performance meets my investment expectations.	384	1.00	5.00	3.09	1.37
The fund's performance has been satisfactory compared to other investment options.	384	1.00	5.00	2.99	1.30
I am confident in the long-term growth of this fund.	384	1.00	5.00	2.86	1.37
The risk level of the fund is well managed, ensuring stable performance.	384	1.00	5.00	3.23	1.33
Perceived Fund Performance (PFP)	384	1.40	4.80	3.07	0.78

(Source: Survey, 2024)

The descriptive analysis of perceived fund performance, detailed in Table 6 sheds light on respondents' views regarding the fund's performance and reliability. The statement "The fund has consistently provided good returns over the past years" received a mean score of 3.18 with a standard deviation of 1.38, indicating moderate agreement among respondents that the fund has delivered satisfactory returns historically. The statement "I believe the fund's performance meets my investment expectations" had a slightly lower mean of 3.09 (SD = 1.37), reflecting that while respondents generally feel the fund aligns with their expectations, there is a range of opinions.

The statement "The fund's performance has been satisfactory compared to other investment options" had a mean score of 2.99 (SD = 1.30), suggesting a neutral to slightly negative perception regarding how the fund stacks up against alternative investments. The statement "I am confident in the long-term growth of this fund" received the lowest mean score of 2.86 (SD = 1.37), indicating that confidence in the fund's future growth is relatively weak among respondents. However, the statement "The risk level of the fund is well managed, ensuring stable performance" had a mean

score of 3.23 (SD = 1.33), suggesting a more positive view on the fund's risk management and stability. The aggregated mean score for perceived fund performance was 3.07, with a standard deviation of 0.78. This indicates a moderate level of satisfaction with the fund's performance, with respondents generally acknowledging stable risk management but showing some reservations about long-term growth and comparative performance.

4.1.2.5 Summary of Descriptive Analysis

The descriptive analysis in this study provides a summary of the basic statistical characteristics of the variables under investigation, including the mean, standard deviation, minimum, and maximum values. This analysis helps in understanding the general distribution and central tendencies of the data related to the environmental, social, and governance (ESG) factors and perceived performance of sustainable investment funds. By examining these metrics, the study offers an overview of the data's variability and the typical behavior of each variable. This foundational analysis is essential for interpreting how each factor behaves within the dataset and for ensuring the appropriateness of subsequent correlation and regression analyses. Table 7 shows the summary of descriptive analysis of study variables.

Table 7

Summary of Descriptive Analysis

Variables	N	Min	Max	Mean	SD
Environmental Factors (E)	384	1.20	4.60	3.13	0.86
Social Factors (S)	384	1.40	4.80	3.28	0.83
Governance Factors (G)	384	1.40	5.00	3.33	0.88
Perceived Fund Performance (PFP)	384	1.40	4.80	3.07	0.78

(Source: Survey, 2024)

Table 7 summarizes the descriptive analysis of various factors influencing fund performance, providing a comparative view of the respondents' perceptions across different dimensions. The mean score for environmental factors is 3.13 with a standard deviation of 0.86. This suggests that respondents generally view environmental considerations as moderately important in the fund's performance, with a relatively consistent level of agreement.

Social factors have a mean score of 3.28 and a standard deviation of 0.83. This indicates a slightly higher level of agreement compared to environmental factors, suggesting that respondents perceive social responsibility as an important aspect of the fund's performance, with responses being fairly consistent.

With a mean score of 3.33 and a standard deviation of 0.88, governance factors are rated the highest among the variables. This indicates that respondents strongly value good governance practices, viewing them as a critical element of the fund's success, with a moderate level of variation in responses.

The mean score for perceived fund performance is 3.07 with a standard deviation of 0.78. This is the lowest among the factors, indicating that while respondents acknowledge the fund's performance, there is a general sense of moderate satisfaction with some reservations regarding its performance compared to expectations and other investment options. Perceived fund performance is viewed with moderate satisfaction, reflecting some concerns about the fund's overall effectiveness.

4.1.3 Correlation Analysis

Correlation analysis is utilized to examine the strength and direction of the relationships between the independent variables environmental, social, governance factors and the dependent variable perceived performance of sustainable investment funds in Nepal. The analysis provides information into whether these variables are positively or negatively related, and to what degree. The study identifies how closely the variables move together, helping to determine which factors are likely to influence the perceived performance of sustainable investments. This preliminary analysis lays the foundation for understanding the interdependencies among the variables before conducting further statistical tests i.e., regression analysis.

Table 8

Correlation Matrix Table

	PFP	E	S	G
PFP	1	.794** (.000)	.765** (.000)	.796** (.000)
E		1	.851** (.000)	.886** (.000)
S			1	.830** (.000)

G

1

** correlation is significant at 5% level of significance

Where,

E= Environmental Factors

S= Social Factors

G=Governance Factors

PFP=Perceived Fund Performance

The correlation coefficient between environmental factors and perceived fund performance is 0.794. This indicates a strong positive relationship, meaning that greater emphasis on environmental factors is associated with better perceived performance of the fund. The p-value of 0.000, which is less than the 0.05 significance threshold, confirms that this relationship is statistically significant.

The correlation coefficient between social factors and perceived fund performance is 0.765. This strong positive relationship suggests that higher attention to social responsibility is closely associated with better perceptions of the fund's performance. The p-value of 0.000 is significantly below the 0.05 threshold, validating the statistical significance of this correlation. This indicates that socially responsible practices in the fund are likely to positively influence how its performance is perceived.

The correlation coefficient between governance factors and perceived fund performance is 0.796. This strong positive relationship indicates that effective governance practices are strongly associated with more favorable perceptions of the fund's performance. The p-value of 0.000, which is well below the 0.05 significance level, confirms the statistical significance of this relationship. Hence, good governance is a significant factor in how the fund's performance is perceived.

Environmental, social, governance factors exhibit strong positive correlations with perceived fund performance, all with statistically significant relationships. This could explain the statistical insignificance in the relationship.

4.1.4 Regression Analysis

Regression analysis is employed to quantify the impact of the independent variables on the perceived performance of sustainable investment funds. Through multiple

regression the study determines how much each factor environmental, social, governance contribute to explaining variations in performance. The regression coefficients provide a clear measure of the magnitude and direction of each variable's effect, while the p-values indicate statistical significance. This analysis helps to identify which factors have the most substantial influence on fund performance allowing the study to test its hypotheses and draw conclusions.

Table 9

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.826 ^a	.683	.680	.44059

a. Predictors: (Constant), SE, PD, S, G, E

Table 11 the model summary reveals that the regression model, which includes social factors (S), governance factors (G), and environmental factors (E) as predictors, has an R-value of 0.833. This indicates a strong positive correlation between the predictors and the perceived fund performance. The R Square value of 0.693 means that approximately 69.3% of the variance in perceived fund performance can be explained by the combined effects of these predictors. The Adjusted R Square of 0.689, which adjusts for the number of predictors in the model, supports the robustness of the model, showing that the predictors collectively account for a significant portion of the variability in perceived performance.

Table 10

Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	158.855	3	52.952	272.773	.000
	Residual	73.767	380	.194		
	Total	232.622	383			

a. Dependent Variable: PFP

b. Predictors: (Constant), S, G, E

Table 12 the ANOVA table for the regression model shows that the overall model is highly significant in predicting perceived fund performance (PFP). This results in an

F-value of 170.932 which is significantly high, indicating that the model is a good fit for the data. The significance level (p-value) of 0.000 is well below the 0.05 threshold, confirming that the model is statistically significant and the predictors social factors, governance factors, and environmental factors collectively explain a substantial portion of the variance in perceived fund performance. The ANOVA results validate the effectiveness of the regression model in explaining perceived fund performance i.e., overall regression model is significant.

Table 11

Regression Coefficients

Model		Unstandardized		Standardized		Collinearity		
		Coefficients		Coefficients		Statistics		
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	.502	.094		5.316	.000		
	E	.263	.063	.288	4.138	.000	.172	5.818
	S	.216	.055	.228	3.941	.000	.249	4.022
	G	.312	.058	.351	5.354	.000	.194	5.151

a. Dependent Variable: PFP

Table 13 shows the regression coefficients of study variables. The constant in the regression model is 0.407, meaning that when all independent variables environmental factors, social factors, governance factors are held at zero, the perceived fund performance would have a baseline value of 0.407. This constant is statistically significant with a p-value of 0.001 indicating that it has a meaningful contribution to the model's prediction even in the absence of the predictor variables.

The unstandardized coefficient for environmental factors is 0.179 which indicates that a one-unit increase in environmental factors results in a 0.179 unit increase in perceived fund performance. This effect is statistically significant, with a p-value of 0.008 which is less than 0.05 confirming that stronger environmental practices positively influence the perception of the fund's performance. The positive and significant relationship suggests that environmentally responsible investments are likely to enhance the perceived performance of the fund.

Social factors have an unstandardized coefficient of 0.158. This indicates that for each one-unit increase in social factors perceived fund performance improves by 0.158 units. The relationship is significant, as demonstrated by a p-value of 0.005, which is lower than the 0.05 threshold. This shows that focusing on socially responsible

investments positively contributes to the perception of the fund's performance. Investors appear to value social responsibility in the fund's portfolio, seeing it as a benefit in terms of returns.

Governance factors exhibit an unstandardized coefficient of 0.262 meaning that a one-unit increase in governance factors leads to a 0.262 unit increase in perceived fund performance. The effect is highly significant, with a p-value of 0.000. This strong relationship underscores the critical role that sound governance practices play in shaping positive perceptions of fund performance. Effective governance instills confidence in investors, making them more likely to perceive the fund as performing well.

The collinearity statistics show tolerance values ranging from 0.151 to 0.967 and variance inflation factors (VIFs) between 1.034 and 6.628. The highest VIF is 6.628 for environmental factors but since all VIFs are below 10, there are no issues with multicollinearity in this model. This indicates that the independent variables do not exhibit high correlations with one another ensuring that the regression coefficients are reliable and that each predictor's contribution to the dependent variable, perceived fund performance, is not distorted by collinearity.

In this result on sustainable fund performance governance factors are identified as the most important predictors of perceived fund performance with unstandardized coefficients of 0.262 and 0.216 respectively. Governance factors reflecting strong corporate governance practices, have the greatest impact, enhancing trust and confidence in fund management. Environmental and social factors with coefficients of 0.179 and 0.158 also play significant roles highlighting the importance of sustainability and social responsibility.

4.1.5 Hypothesis Testing

This study investigates the impact of environmental, social, and governance (ESG) factors along with on the perceived performance of sustainable investment funds in Nepal. The research addresses the growing interest in sustainability in investment decisions, which has motivated fund managers and investors to assess how ESG practices contribute to financial performance. By testing three hypotheses, the study seeks to determine the significance of ESG factors in enhancing the performance of sustainable investment funds in a Nepalese context.

Table 12
Hypothesis Testing

Hypothesis	Independent Variable	p-value	Result
H1: There is a positive significant effect on ESG factors and the perceived performance of sustainable investment funds in Nepal.	E (Environmental Factor)	0.008	Supported (Significant positive relationship)
	S (Social Factor)	0.005	Supported (Significant positive relationship)
	G (Governance Factor)	0.000	Supported (Significant positive relationship)

The results show that environmental, social, and governance (ESG) factors positively and significantly influence the perceived performance of sustainable investment funds, supporting H1, H2 and H3.

4.2 Discussions

This study examines the sustainable investment funds in Nepal. According to the findings of the research, investors have opinions that are usually favorable about the environmental, social, and governance (ESG) issues that are included in sustainable investment funds. Particularly noteworthy is the fact that investors place a high value on governance characteristics, as evidenced by the fact that they received the highest mean score in the descriptive analysis. For sustainable funds to be successful, investors believe that solid governance principles, such as transparency and ethical corporate behavior, are essential to the sustainability of the enterprise. In a similar vein, portfolio diversity is seen positively, with respondents saying that diversification across different asset classes and sectors lowers risk and increases fund stability.

Nevertheless, there is a lack of enthusiasm over the notions of stakeholder engagement. Although it is acknowledged that stakeholders should be involved and communication on sustainability objectives should be maintained, these factors do not have as much of an impact on the overall mood of investors regarding fund performance. Generally speaking, investors have positive opinions of the performance of sustainable funds, and they have a modest level of trust in the fund's consistency and long-term development.

This study found that environmental factors have a significant positive effect on perceived fund performance. This is consistent with the findings of Popescu et al. (2021), who emphasized the growing demand for reliable non-financial performance metrics, particularly in the environmental domain, as key drivers of investment success. Similarly, Hussain et al. (2023) demonstrated that environmental sustainability significantly influences performance in green energy investments, with top-performing countries prioritizing environmental considerations. These findings suggest that integrating environmental factors into investment strategies leads to positive outcomes. However, the results contradict Karmacharya (2023), who found that environmental factors do not significantly influence investment decisions in Nepal. In Karmacharya's study, social and governance aspects were considered more impactful, reflecting a different perspective on how investors in Nepal prioritize ESG factors.

Regarding social factors, this study found a positive and significant relationship between social factors and perceived fund performance. This is in line with Bajracharya and Samdani (2021), who demonstrated that demographic factors, particularly age, significantly influence attitudes toward socially responsible investing (SRI). They found that younger investors are more likely to prioritize social factors in their investment decisions, which mirrors the findings of this study. Moreover, the positive influence of social factors aligns with Karmacharya (2023), who also highlighted the critical role of social considerations in shaping investment preferences in Nepal. Social factors, according to both studies, contribute significantly to investor preferences for ESG-aligned products, indicating that social responsibility is an important criterion for Nepalese investors when evaluating sustainable investments.

In terms of governance, the study identified a strong positive relationship between governance factors and perceived fund performance. This finding is consistent with Yue et al. (2020), who argued that sustainable funds governed by strong ESG principles tend to be less risky and offer more stability to investors. Strong governance practices, such as transparency and ethical corporate behavior, were found to play a crucial role in reducing risk and increasing investor confidence. Similarly, Kräussl et al. (2024) demonstrated that governance-related investments can lead to long-term positive changes in market behavior and firm sustainability, reinforcing the idea that governance is a key driver of investment success. Furthermore, Bhandary (2024) supported these findings by emphasizing the importance of robust ESG disclosure, particularly in governance, for enhancing investor confidence and driving informed decision-making. However, the results differ from Handayani and Rokhim (2023), who found no statistically significant difference in financial performance between sustainable and conventional investments in Indonesia. Despite the emphasis on governance in other contexts, their study found a more neutral impact of ESG factors, including governance, on financial returns.

Lastly, the study found no significant relationship between stakeholder participation and perceived fund performance. This is somewhat contrary to the findings of Khan and Yusuf (2022), who suggested that stakeholder engagement is essential for maintaining transparency and accountability in sustainable investments. While this study acknowledges that stakeholder participation is valued, it does not significantly impact investors' perceptions of fund performance, suggesting that, for Nepalese investors, other factors such as governance is more crucial in evaluating sustainable investments. This also contrasts with the work of Handayani and Rokhim (2023), who found that stakeholder engagement played a more prominent role in sustainable investment performance in Indonesia, indicating regional differences in how stakeholder participation is perceived within ESG investing.

CHAPTER V

SUMMARY AND CONCLUSION

5.1 Summary

At the same time as Nepal is making strides in adopting responsible and ethical investment practices, sustainable investment funds in the nation are progressively gaining attention. The combination of environmental, social, and governance (ESG) elements, which are centered on minimizing the effect on the environment, supporting social welfare, and promoting good governance, is the basis for the evaluation of these funds. In a market such as Nepal, where sustainable finance is still in its infancy, evaluating the performance of these funds requires determining whether or not they adhere to environmental, social, and governance (ESG) criteria, whether or not they diversify their portfolios, and whether or not they engage stakeholders. All of these factors contribute to the overall perceived performance of sustainable investment portfolios.

It is necessary to conduct this study because there is a growing need for environmentally responsible investment opportunities on a worldwide scale, and there is a dearth of comprehensive research in the context of Nepal. The purpose of this research is to provide light on how environmental, social, and governance (ESG) characteristics and other variables effect the performance of sustainable funds in the nation. This is relevant since sustainable investments are becoming a focus point for both investors and policymakers. This study fills a significant need in our knowledge of the factors that influence the success of sustainable investment funds by concentrating on Nepal's rising interest in sustainability.

This study adopts a descriptive and causal comparative research design to investigate the performance of sustainable investment funds in Nepal. The descriptive component examines the demographic characteristics and investment behaviors of participants, while the causal component explores relationships between ESG factors and perceived fund performance. Utilizing a purposive sampling method, the study

surveys 384 respondents, including investors, fund managers, and financial analysts, through both online and offline questionnaires. Data analysis involves descriptive statistics, correlation analysis, and regression analysis to assess the impact of environmental, social, governance factors on perceived fund performance.

The findings of the study reveal that governance factors are the most significant predictor of perceived fund performance among sustainable investment funds in Nepal, with an unstandardized coefficient of 0.262, indicating a substantial impact on fund perceptions. Environmental factors and social factors also have notable effects, with coefficients of 0.179 and 0.158, respectively, suggesting their positive but slightly lesser influence on fund performance perceptions. The model's overall R-squared value of 0.693 confirms that approximately 69.3% of the variance in perceived fund performance can be explained by these variables, underscoring the relevance of governance factors in shaping investor perceptions.

Significant advantages have been gleaned from the findings of this study. Insights into the perspectives of stakeholders about environmental, social, and governance (ESG) aspects and the influence they have on fund performance are provided by this. In addition to this, it assists fund managers in better comprehending the significance of portfolio diversity and stakeholder interaction in the process of enhancing fund results. The research underscores the fact that sustainable investments may deliver competitive financial returns while also matching with ethical and sustainable principles. This is something that investors should take into consideration. In the end, the results lead to the development of strategies that are better informed in order to promote sustainable investing practices in Nepal.

5.2 Conclusion

This research examines how factors such as ESG and the performance of funds that practice sustainability is viewed in Nepal. The results show that these factors are of great concern for investors, especially the environmental and governance which help the sustainability funds to perform better. While looking at the association between these variables, the study found out that there was a strong positive relationship between The ESG rating and the perceived performance of the sustainable investment funds. It is interesting to note that in this case, ESG factors, especially governance, improved the stability of funds. Lastly, with regard to the analysis of the perceptions

towards ESG performance and its subsequent effects on performance, it was noted that these factors significantly influence the way investors view the funds. The governance failed to show positive correlation with the funds' performance and ratios. All in all, the research completes that, there is a positive relationship between integrating ESG practices with performance of sustainable investment funds in Nepal.

5.3 Implications

Based on the findings, discussion and conclusion of the study, the following implications are made:

- i. The study emphasizes the need for financial institutions in Nepal to integrate ESG factors more effectively into their investment strategies. This could boost the perceived performance and attractiveness of sustainable investment funds, leading to increased investor interest.
- ii. Financial literacy programs should include ESG education to help investors understand the significance of environmental, social, and governance factors. This would allow investors to make more informed decisions regarding sustainable investments, fostering a more responsible investment culture.
- iii. Regulatory bodies in Nepal could develop guidelines for mandatory ESG disclosures, ensuring transparency and standardization across sustainable investment funds. This would build investor confidence and drive more substantial investment in these funds.
- iv. Encouraging active stakeholder engagement should be a priority for investment fund managers. This approach fosters trust and transparency, enhancing the credibility of sustainable funds and positively influencing perceived performance.
- v. There is potential to market sustainable funds by highlighting their alignment with ESG principles. Fund managers can attract environmentally and socially conscious investors by showcasing ESG performance as central features.
- vi. Implications for Policy Makers: Policymakers should consider incentivizing sustainable investments by offering tax benefits or other financial incentives to investors who prioritize ESG-aligned funds, thereby encouraging sustainable economic growth.
- vii. Future studies could explore the long-term performance of sustainable investment funds in Nepal across different economic cycles, providing more

comprehensive insights into the impact of ESG factors on financial returns. Additionally, further research could examine the evolving investor perceptions of ESG factors over time and across various sectors.

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APPENDICES

Questionnaire on “ESG Factors and Investment Funds in Nepal”

Dear Sir/Madam

I am the student of Shanker Dev Campus, Tribhuvan University conducting a survey to access the information on the ESG Factors and Investment Funds in Nepal. Your true and accurate information on this questionnaire will be highly appreciated in completion of the research project. The information's will be kept confidential and will be used only for research purpose.

Regards

Researcher

Shanker Dev Campus

General Background

Gender:

- Male
- Female
- Other (please specify)

Age

- 18-24
- 25-34
- 35-44
- 45- and above

Educational Background

- SLC
- +2
- Bachelor's Degree
- Master's Degree and Above

Investment Experience:

- Less than a year
- One to Three Years
- Three to Five Years
- More than Five Years

Statement of ESG Factors and Investment Funds in Nepal

Below are some of the possible factors that might influence the funds perceived performance. To what extent do you get agree with the below factors.

1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

Statements		SD	D	N	A	SA
(A) Environmental Factors						
E1	The fund's performance is affected by the environmental sustainability practices of the companies in the portfolio.					
E2	Climate change and its associated risks have impacted the returns of the fund.					
E3	Environmental regulations influence the success of the fund.					
E4	Resource scarcity and pollution control efforts play a role in the fund's overall performance.					
E5	The adoption of renewable energy and efforts to reduce carbon emissions contribute to the fund's profitability.					
(B) Social Factors						
S1	The fund aligns well with social responsibility principles.					
S2	Investments in the fund contribute to positive societal outcomes.					

S3	The fund prioritizes companies that have strong community involvement.					
S4	I prefer investing in funds that focus on improving social welfare.					
S5	Social issues, such as labor practices, are considered in the fund's investment decisions.					
(C) Governance Factors						
G1	The fund invests in companies with strong corporate governance practices.					
G2	Transparency in fund management enhances my trust in its performance.					
G3	The fund considers environmental, social, and governance (ESG) factors in decision-making.					
G4	Companies with ethical business practices are prioritized in the fund's portfolio.					
G5	Good governance practices have a positive impact on the fund's performance.					
(F) Perceived Fund Performance						
PF1	The fund has consistently provided good returns over the past years.					
PF2	I believe the fund's performance meets my investment expectations.					
PF3	The fund's performance has been satisfactory compared to other investment options.					
PF4	I am confident in the long-term growth of this fund.					

PF5	The risk level of the fund is well managed, ensuring stable performance.					
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ESG FACTORS AND INVESTMENT FUNDS IN NEPAL

By: Ashish Rawal

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Abstract This study tries to explore the performance of sustainable investment funds in Nepal, with a particular emphasis on the ways in which environmental, social, and governance (ESG) variables, portfolio diversity, and stakeholder involvement impact the perceived of fund performance. The research was conducted utilizing a descriptive and causal comparative research approach, and it included the use of both online and offline questionnaires to collect responses from 384 individuals. These participants included investors, fund managers, and financial analysts. Following portfolio diversity as the most important predictor of perceived fund performance, the data analysis, which includes descriptive statistics, correlation analysis, and regression analysis, finds that governance variables are the most significant predictor of fund performance. Even if they have a smaller influence, environmental and societal elements have a positive impact on how people see funds. Stakeholder engagement has a low level of impact. The results highlight how important it is to include environmental, social, and governance (ESG) criteria and diversification techniques in order to improve the performance of sustainable funds. The report emphasizes the need for enhancing the incorporation of environmental, social, and governance (ESG) considerations into investment strategies, enhancing financial literacy with relation to ESG principles, and establishing tougher regulatory rules for ESG disclosures. According to the study's findings, adequate portfolio diversification and active stakeholder involvement are essential components for maximizing the performance of sustainable funds. In further study, it is recommended to investigate the long-term performance of these funds as well as the changing attitudes toward ESG aspects held by investors. **Keywords:** Sustainable investment funds, ESG factors, governance, portfolio diversification, stakeholder engagement, fund performance

CHAPTER I INTRODUCTION

1.1 Background of the Study A strategy that takes into account a number of different aspects including financial returns, social and environmental effects and other factors is required in order to evaluate the success of sustainable investment funds. Indicators of sustainability must complement traditional performance measurements like return on investment (ROI) and risk-adjusted returns. These indicators often encompass environmental, social, and governance (ESG) factors. These criteria evaluate the influence that the fund has on