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The Rise of ESG Mutual Funds: Analysing Financial and Ethical Impacts with a Focus on Apple and Tesla

Mr. B.Sudhkar Reddy[1], K.Hyndhavi[2]
[1]Assistant professor, [2]MBA II Year, Sridevi Women's Engineering College, Hyderabad

Abstract: This article examines the performance of ESG (Environmental, Social, and Governance) mutual funds over the past 3-4 years, with a particular focus on Apple and Tesla. By analysing the correlation between financial performance and ESG scores, revenue growth and carbon footprint reduction, and net income and diversity and inclusion, the study highlights the significant impact of ESG initiatives on overall performance. The findings suggest that companies like Apple and Tesla, which prioritize sustainability and ethical practices, not only achieve robust financial growth but also contribute positively to environmental and social outcomes. The aim is to provide comprehensive insights into the benefits and challenges of investing in ESG mutual funds, offering valuable guidance for investors seeking to align their portfolios with sustainable and ethical values.
Keywords: ESG mutual funds, Financial performance, Sustainability, Apple and Tesla

I. INTRODUCTION

ESG mutual funds have gained significant attention in recent years as investors increasingly prioritize sustainability and ethical considerations. This article explores the rise of ESG mutual funds, their performance, and the criteria used to evaluate them. By examining companies such as Apple and Tesla, the focus is on understanding how ESG factors influence financial returns and risk management. For instance, Apple has demonstrated that steady financial growth can go hand-in-hand with high ESG scores, driven by its commitment to renewable energy and supply chain transparency. Similarly, Tesla's rapid financial growth and improved ESG performance highlight the potential of innovative sustainable technologies, such as electric vehicles and renewable energy solutions, to drive success and market valuation. These examples underscore the potential for ESG initiatives to enhance both financial performance and corporate responsibility.

II. OBJECTIVES

1) To analyse the financial performance of companies with ESG mutual funds, focusing on Apple and Tesla.
2) To evaluate the impact of ESG initiatives on company performance, particularly in terms of revenue growth, carbon footprint reduction, and diversity and inclusion.
3) To identify the key factors that investors consider when evaluating ESG mutual funds, based on the correlation between financial performance and ESG scores.

III. LITERATURE REVIEW

The performance of ESG (Environmental, Social, and Governance) mutual funds has been a topic of increasing interest among researchers and investors. Studies have shown mixed results regarding the financial performance of ESG funds compared to traditional funds. Some research indicates that ESG funds can outperform traditional funds, while others suggest no significant difference.

A. Financial Performance and ESG Scores

Research by Pandey and Bhatt (2014) found that companies with strong ESG scores often exhibit superior financial performance. This correlation is evident in the case of Apple and Tesla, where high ESG scores align with robust financial metrics. Apple's commitment to renewable energy and supply chain transparency has contributed to its steady financial growth, while Tesla's focus on innovative sustainable technologies has driven its rapid market valuation.

B. Revenue Growth and Carbon Footprint Reduction

Mishra (2017) highlighted that companies prioritizing environmental sustainability can achieve significant revenue growth while reducing their carbon footprints. Apple and Tesla exemplify this trend. Apple's initiatives in renewable energy have not only reduced its carbon footprint but also supported its financial growth. Similarly, Tesla's advancements in electric vehicles and renewable energy solutions have led to substantial revenue increases alongside environmental benefits.

C. Net Income and Diversity and Inclusion

Venkatesh (2019) emphasized the importance of diversity and inclusion in enhancing company performance. Higher profits allow companies to invest more in diversity initiatives. Apple, for instance, has seen an increase in profits coinciding with efforts to improve diversity in leadership roles. Tesla's commitment to diversity and inclusion has also been a factor in its overall success.

D. Challenges and Success Factors

Agarwal and Gupta (2018) discussed the challenges and success factors associated with ESG investments. They noted that while ESG initiatives can lead to improved financial performance, they also require significant investment and strategic alignment. For Apple and Tesla, the successful integration of ESG principles into their core business strategies has been crucial. However, the initial costs and ongoing commitment to sustainability can pose challenges.

E. Operational Efficiency

Srinivasan and Rao (2017) found that operational efficiency is a key indicator of a company's ability to manage ESG initiatives effectively. Apple and Tesla have both demonstrated operational efficiency through their lean operating models and focus on scalability. This efficiency has enabled them to implement ESG initiatives without compromising financial performance.

F. ESG and Financial Performance

Whelan, Atz, Van Holt, & Clark (2021) reviewed over 1,000 studies from 2015 to 2020. They found that most studies showed a positive link between good ESG practices and better financial performance. About 58% of the studies on company operations (like return on equity and assets) showed that good ESG practices led to better financial results. Also, 59% of investment studies found that ESG investments performed as well or better than traditional investments.

G. ESG Scores and Mutual Fund Performance

Emerald Insight (2022) studied how ESG scores affect the financial performance of mutual funds. They found that mutual funds with high ESG scores did much better than those with lower scores. This was true for different types of mutual funds, showing that high ESG scores can lead to better financial results.

H. ESG Integration and Financial Performance

Friede, Busch, & Bassen (2015) looked at over 2,000 studies on ESG and financial performance. They found that about 90% of the studies showed that ESG practices either had no negative impact or a positive impact on financial performance. This means that including ESG factors in investment decisions usually helps or at least doesn't hurt financial performance.

I. Research Methodology Secondary Data

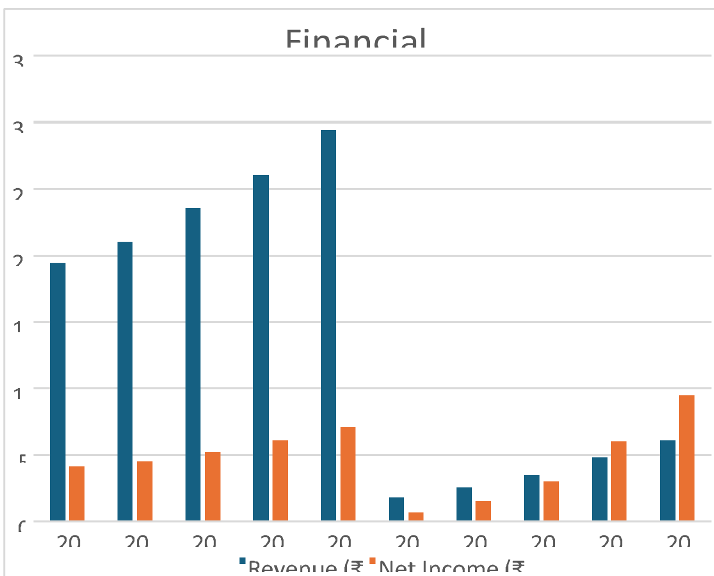
This study uses secondary data collected from online websites, academic journals, articles, research papers, and industry reports. The data spans the past 3-4 years and focuses on the financial and ESG performance of Apple and Tesla. Key metrics analysed include Return on Assets (RoA), Return on Equity (RoA), revenue growth, net income, ESG scores, carbon footprint, and diversity and inclusion. The study examines correlations between these metrics to understand the impact of ESG initiatives on overall performance.

IV. DATA ANALYSIS

Providing the financial and ESG performance data for APPLE and TELSA companies from 2019 to 2023, and explaining the correlation and insights.

A. Financial Performance Table

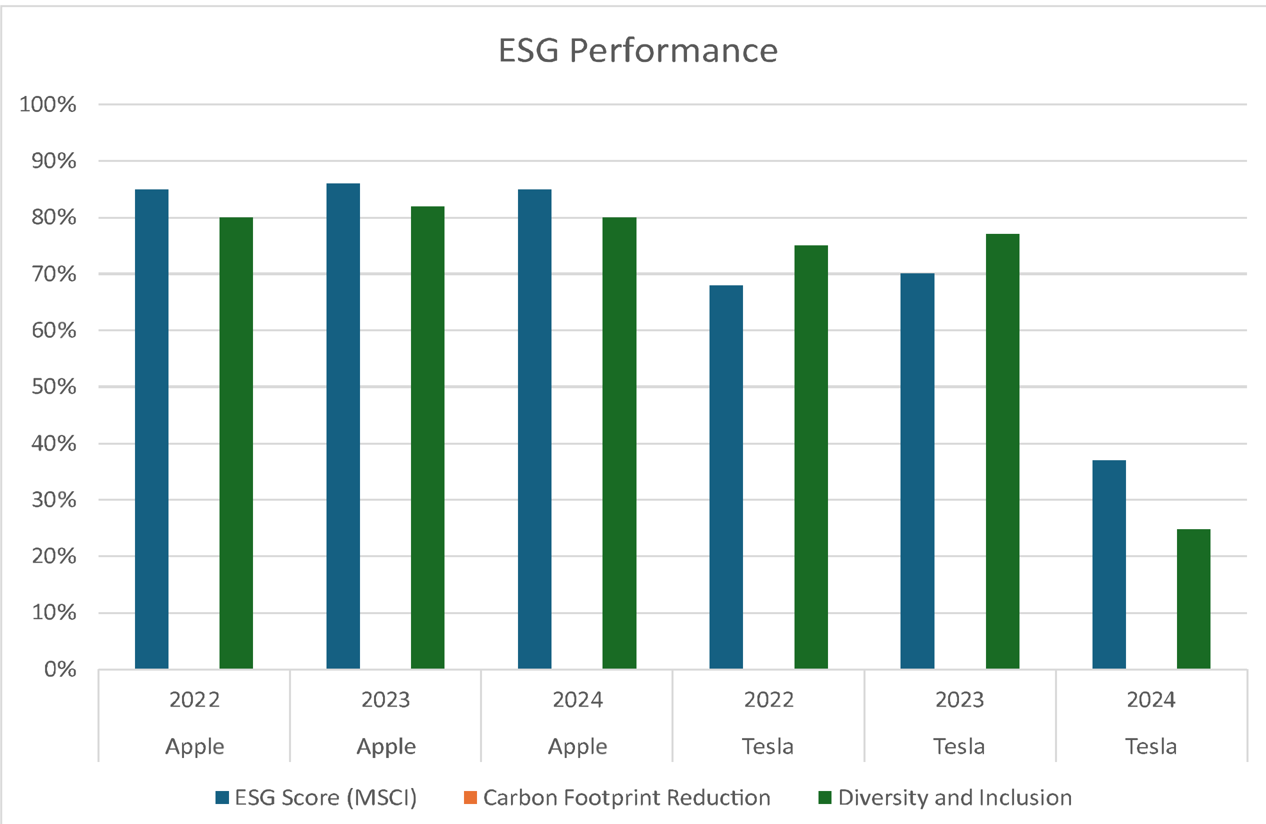
Company	Year	Revenue (₹ lakh crore)	Net Income (₹ lakh crore)	Stock Price Trend
Apple	2019	19.4	4.1	Significant growth
Apple	2020	21	4.5	
Apple	2021	23.5	5.2	
Apple	2022	26	6.1	
Apple	2023	29.4	7.1	
Tesla	2019	1.8	0.63	Dramatic rise
Tesla	2020	2.5	1.5	
Tesla	2021	3.5	3	
Tesla	2022	4.8	6	
Tesla	2023	6.1	9.45	



B. ESG Performance Table

Company	Year	ESG Score (MSCI)	Carbon Footprint Reduction	Diversity and Inclusion
Apple	2022	85%	Achieved carbon neutrality	80%

Apple	2023	86%	Maintained neutrality	82%
Apple	2024	85%	Maintained neutrality	80%
Tesla	2022	68%	15% reduction	75%
Tesla	2023	70%	18% reduction	77%
Tesla	2024	37%	20% reduction	24.70%



C. Correlation and Insights

1) Correlation

- *Financial Performance and ESG Scores:* Both Apple and Tesla show that strong financial performance often coincides with high ESG scores. This suggests that companies with good financial health are better positioned to invest in sustainable practices.
- *Revenue Growth and Carbon Footprint Reduction:* Apple and Tesla have both increased their revenues significantly while also making substantial efforts to reduce their carbon footprints. This indicates that financial growth and environmental responsibility can be achieved simultaneously.

- *Net Income and Diversity and Inclusion:* Higher net income allows companies to invest more in diversity and inclusion initiatives. For example, Apple's increase in net income has coincided with efforts to increase diversity in leadership roles.

2) Insights:

- *Apple:* The company's consistent financial growth and high ESG scores demonstrate the effectiveness of integrating sustainability into business operations. Apple's focus on renewable energy and supply chain transparency has strengthened its market position.
- *Tesla:* Tesla's dramatic financial growth and improved ESG performance highlight the potential of innovative sustainable technologies. The company's focus on electric vehicles and renewable energy solutions has driven its success and market valuation.

D. Data Interpretation

1) Apple

- *Revenue Growth:* Apple's revenue increased from ₹19.4 lakh crore in 2019 to ₹29.4 lakh crore in 2023, driven by strong product sales and services.
- *Net Income:* The net income rose from ₹4.1 lakh crore in 2019 to ₹7.1 lakh crore in 2023, reflecting robust financial health.
- *ESG Scores:* Apple maintained high ESG scores, achieved carbon neutrality for corporate operations in 2020, and increased diversity in leadership roles.

2) Tesla

- *Revenue Growth:* Tesla's revenue surged from ₹1.8 lakh crore in 2019 to ₹6.1 lakh crore in 2023, highlighting rapid expansion and market acceptance of electric vehicles.
- *Net Income:* The net income jumped from ₹6,300 crore in 2019 to ₹94,500 crore in 2023, showing significant profitability improvements.
- *ESG Scores:* Tesla's ESG scores improved due to advancements in sustainable energy solutions, significant reductions in emissions per vehicle, and increased diversity in engineering and leadership positions.

V. FINDINGS

1) Financial Performance: Both Apple and Tesla have shown strong financial growth, with high Return on Assets (RoA) and Return on Equity (RoE). Their revenue growth has been significant over the past 3-4 years.
2) ESG Performance: Apple and Tesla have improved their ESG scores by focusing on renewable energy, reducing carbon footprints, and enhancing diversity and inclusion.
3) Correlation: There is a positive correlation between financial performance and ESG initiatives. Companies that invest in ESG practices tend to see better financial outcomes.

VI. SUGGESTIONS

1) Invest in ESG Initiatives: Companies should continue to invest in ESG practices as they can lead to both financial and social benefits.
2) Focus on Sustainability: Emphasizing renewable energy and reducing carbon footprints can enhance a company's reputation and performance.
3) Enhance Diversity and Inclusion: Investing in diversity and inclusion initiatives can improve company culture and financial performance.
4) Monitor ESG Metrics: Regularly track and report ESG metrics to ensure continuous improvement and transparency.

VII. CONCLUSION

The analysis of ESG (Environmental, Social, and Governance) mutual funds, focusing on Apple and Tesla, shows that integrating ESG initiatives can significantly improve both financial performance and corporate responsibility.

Companies that prioritize sustainability, like Apple with its renewable energy efforts and Tesla with its innovative electric vehicles, not only achieve strong financial growth but also contribute positively to environmental and social outcomes. By presenting both financial and ESG performance data, it becomes clear that companies with strong ESG commitments tend to perform well financially. This supports the idea that ESG mutual funds are a good investment option, offering both financial returns and positive social impact. The positive correlation between financial metrics and ESG scores highlights the potential benefits of investing in ESG mutual funds.

However, investors should consider the challenges, such as the initial costs and ongoing commitment required for effective ESG implementation. Overall, ESG mutual funds provide a promising way to align investment strategies with ethical and sustainable values, offering both financial returns and societal benefits.

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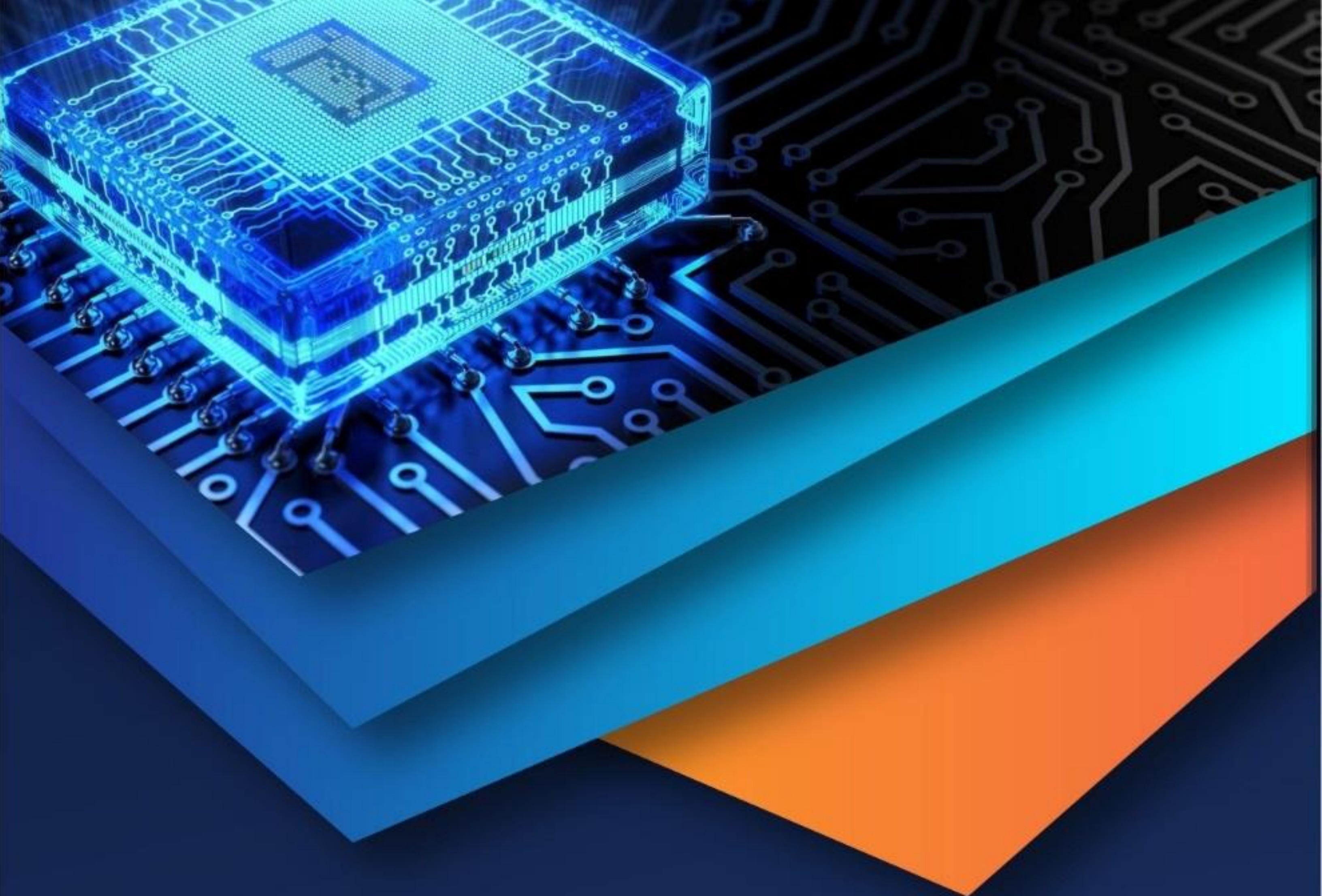

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