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India's Sovereign Linked Fund Advances Responsible Investing

May 2, 2022 Sarah Foote Patrick Schena

By Garima Gupta & Professor Patrick Schena

The pandemic and open military conflict are non-market risks to which institutional investors, including asset owners, until recently have had little practical exposure. These have arrived abruptly on-scene and today occupy considerable investor time and resource to manage. Climate change, social disruption, and global challenges surrounding transparency and accountability are similarly non-market risks and no less existential. Confronting these have recently been met with varying degrees of attention and commitment. However, first Covid and now the Ukrainian conflict have contributed to a heightened awareness among global investors of the impacts of non-traditional risks on investment returns. We believe that these have materially advanced interest in responsible investing practices among global investment institutions.

India's sovereign-linked fund, the National Investment & Infrastructure Fund (NIIF), established in 2016 and with assets under management greater than US\$4.3 billion across three funds, is an interesting case example of proactive adoption of ESG focused investment strategy to mitigate climate risks and promote sustainable growth. NIIF is a member of the International Forum of Sovereign Wealth Funds and in 2020 became a member of One Planet Sovereign Wealth Fund which supports SWF initiatives that align institutional interests to tackle climate change.

NIIF has actively engaged with its external stakeholders to advocate for integration of sustainable finance, clean energy, and, more broadly, ESG into its investment strategy. The Fund has emerged as a committed investor in green and renewable projects, conceptualizing and anchoring the Green Growth Equity Fund, one of the largest single country climate focused fund in emerging markets which is focused on investments in renewable energy, energy storage, energy efficiency, resource conservation, water, sanitation, etc. In addition, NIIF has supported the National Hydrogen Mission via its renewable energy platform – Ayana Renewable Power, which will develop projects to produce green hydrogen with the support of Greenstat Hydrogen. Moreover, it has recently collaborated with India's premier business school (IIM-Ahmedabad) to establish India's first research chair for ESG matters which will help shape the future of adopting best practices in ESG in the country.

Several of NIIF's investments are generating significant positive environmental impact in the country. NIIF's renewable energy company Ayana Renewable Power, which is one of the fastest growing clean energy companies in India, has reduced 15,99,764 tonnes of GHG with generation of solar energy as of

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For #PrideMonth 2022, we updated our 2021 analysis on the share of workers expressing affiliation with #LGBTQ+ on their resumes. We found that over the year, the gap between #STEM and other college graduates identifying as LGBTQ+ reduced: <https://sites.tufts.edu/digitalplanet/pride-and-prejudice-2022/>

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"Measurement doesn't guarantee management. Reporting is not a proxy for disclosure. And disclosure does not assure action" said @kpucker31 to @CapitalMonitorA about sustainability in the fashion industry. <https://tinyurl.com/jyvsh7uu>

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Senior lecturer @kpucker31 of the @FletcherSchool was quoted in a @WBUR article about companies such as Hasbro that are focused on social impact. He said nearly all social impact measurements are unregulated in US—creating a false sense of comfort. <https://tinyurl.com/4x8efe77>

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February 2022. Earlier this year, Ayana achieved a significant milestone in renewable energy generation in India by crossing the 1-gigawatt operational capacity mark. NIIF's smart metering company, IntelliSmart, is managing operations for more than two million smart meters that help improve energy efficiency in the country. The Fund's wholesale infrastructure debt companies, Aseem and IFL (Infrastructure Finance Ltd.), promote development of renewable infrastructure in the country by financing projects. More than 60% of IFL's exposure is to green and renewable projects in the country.

Apart from the environment, NIIF is also contributing to India's social initiatives to provide universal healthcare through its investment in Somerset Fund which provides access to affordable healthcare in tier 2-4 towns in India, and to urban healthcare through its investment in [Manipal Hospitals](#). They have also invested in a fund that promotes access to affordable homes across the country, HDFC Capital's Affordable Real Estate Fund II. Through their fund investments, they currently deliver impact mapped across ten out of the seventeen Sustainability Development Goals.

Gender diversity at the leadership level is shown to have positive impact on talent acquisition, financial performance, and overall decision making, including on issues that drive increased focus and attention to sustainability. Compared to the 14% women in key decision-making roles in PE and VC funds across India and other parts of Asia, NIIF has 33% gender representation at the leadership level, with four female members out of a twelve-member leadership team. Overall, the firm has 40% women employees (thirty-five out of a total of ninety) and 26% when it comes to their investment teams, at par with the wider sector surveyed in BCG and Win PE report. NIIF exceeds the average levels of gender representation seen in the larger financial sector in India and has the potential to match up to global levels in the years to come.

NIIF continues to lead the way in India in integrating responsible investing practices into their long-term investment strategy. NIIF has a robust E&S Management policy based on international best practices and E&S diligence is integrated into their IC process. The fund has 4 dedicated and 40+ wider E&S resources as part of its ecosystem. Building on this strength, there is scope for further improvement which includes, for example, developing a framework to benchmark ESG performance or enhancing disclosure of ESG targets.

Notwithstanding, NIIF's leadership on responsible investing can serve to promote ESG themes among Indian financial institutions, while its example and active engagement can drive greater local awareness and adoption.

(The authors would like to thank NIIF Team for sharing their resources and time.)

Sources:

- NIIF along with NIIF website, LinkedIn posts and press releases
- CEO of NIIF co-Chaired B20 Italy Finance and Infrastructure policy paper for 2021 for sustainable and inclusive growth.
Link: https://www.b20italy2021.org/wpcontent/uploads/2021/10/B20_FinanceInfrastructure.pdf
- Hosted a 'Green Frontier' event in July 2021 to create a shared understanding amongst policy makers, investors, companies, and experts on the topic of India's green transition and its financing
- Women make up 14% of partners who are key decision makers within Private Equity and Venture Capital firms in India and select Asian countries as of March 2022 as per a survey done by BCG and Win PE. Link: <https://winpeforum.com/assets/docs/Women-in-PE-V6-For-Distribution.pdf>

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