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प्रमाणन

पेंशन बुलेटिन प्रत्येक महीने नीति अनुसंधान, मार्केट वॉच और सिस्टमिक रिस्क विभाग द्वारा, पेंशन बुलेटिन संपादकीय समिति के निर्देशन में जारी किया जाता है। समिति और पीएफआरडीए व्याख्याओं और प्रकट किए गए मतों के लिए उत्तरदायी नहीं हैं। लेखों के मामले में, जिम्मेदारी लेखक की होती है, न कि पीएफआरडीए की।

टिप्पणियां और अवलोकन कृपया विभाग को market.watch@pfrda.org.in पर अग्रेषित किए जा सकते हैं।

@कॉपीराइट: पेंशन फंड नियामक और विकास प्राधिकरण (पीएफआरडीए).

Glossary

AA	Account Aggregators
AIF	Alternate Investment Fund
DPDP Act	Digital Personal Data Protection Act, 2023
APY	Atal Pension Yojana
ASP	Annuity Service Provider
AUM	Assets Under Management
CAGR	Compound Annual Growth Rate
CDD	Client Due Diligence
CFT	Combating the Financing of Terrorism
CIP	Customer Identification Procedures
CKYCR	Central KYC Records Registry
CRA	Central Recordkeeping Agency
CPI	Consumer Price Index
DC	Defined Contribution
Debt-VRR	Debt Voluntary Retention Route
E	Equity and Related Instruments
EPF	Employees Provident Fund
EPFO	Employees Provident Fund Organization
ETF	Exchange-Traded Fund
EU	European Union
FAR	Fully Accessible Route
FBIL	Financial Benchmarks India Pvt. Ltd.
FII/FPI	Foreign Institutional Investors/Foreign Portfolio Investors
FIP	Financial Information Providers
FIU	Financial Information Users

FSDC	Financial Stability and Development Council
G	Government Bonds and Related Instruments
G-sec	Government securities
GBP	Pound Sterling
GDP	Gross Domestic Product
GST	Goods and Service Tax
GSTN	Goods and Services Tax Network
IGB	Indian Government Bonds
INR	Indian Rupee
IIP	Index of Industrial Production
IRDAI	Insurance Regulatory and Development Authority of India
IT Act	Information Technology Act, 2000
KYC	Know Your Customer
LTCG	Long Term Capital Gain
NBFC	Non-Banking Financial Company
NDC	Notional Defined Condtribution
NPS	National Pension System
OECD	Organization for Economic Cooperation and Development
PIPE	Private Investment in Public Equity
PoP	Points of Presence
RBI	Reserve Bank of India
REIT	Real Estate Investment Trust
STCG	Short Term Capital Gain
USD	United States Dollar
VCF	Venture Capital Fund
WPI	Wholesale Price Index

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Section 1/खंड 1

Economy/ अर्थव्यवस्था

Indian Economy

**The data used in this section has been taken from CMIE's Economic Outlook and MOSPI.*

Capital Market

In May 2025, the NSE Nifty 50 index closed above the 24,750 mark, posting a monthly gain of 1.7%, marking the third consecutive month of positive returns. Similarly, the S&P BSE Sensex recorded a 1.5% rise during the same period.

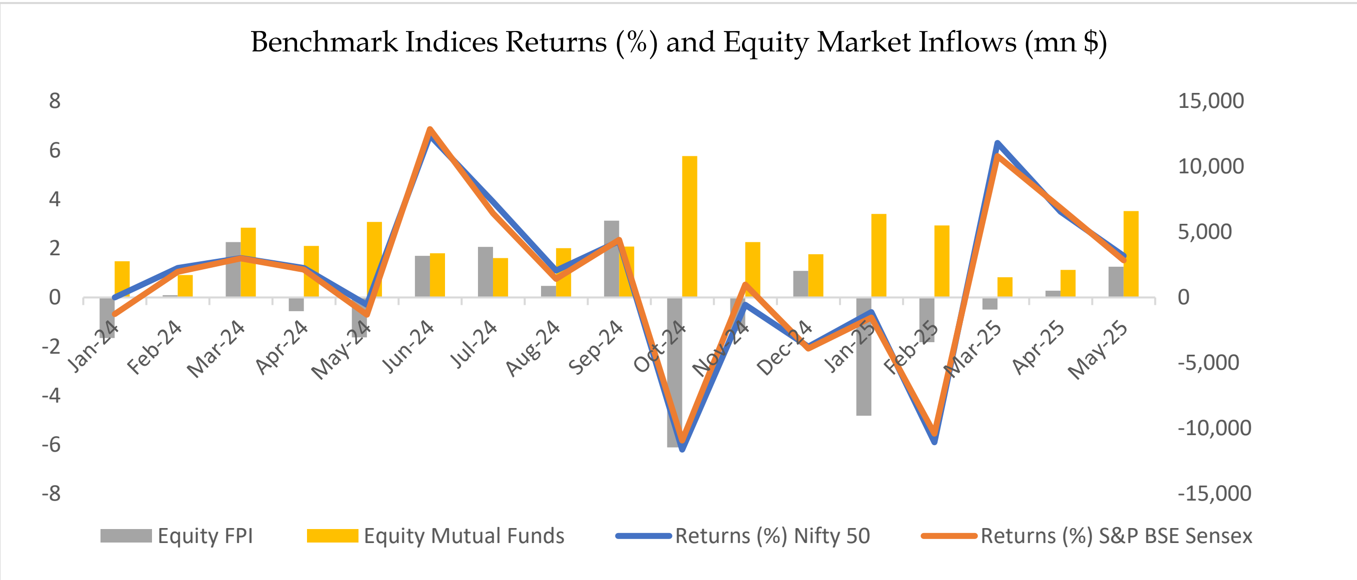
Despite the monthly gains, both indices declined during three out of the four weeks in May, primarily due to ongoing global trade uncertainties, which triggered persistent market volatility. However, continued foreign portfolio investment (FPI) inflows into Indian equities provided strong support, helping the indices end the month on a positive note.

Meanwhile, midcap and small cap stocks outperformed their large cap counterparts. The Nifty Midcap 100 gained in two out of four weeks, while the Nifty Small cap 100 ended in the green for three weeks. Overall, the Nifty Midcap 100 rose by 6.1% and the Nifty Small cap 100 by 8.7% during the month.

Valuations also improved in May. The price-to-earnings (P/E) ratio of the Nifty 50 climbed to 22.3x—its highest level in seven months since October 2024—while the BSE Sensex P/E rose to a six-month high of 22.8x, continuing their recovery trend for a third straight month.

Foreign portfolio investment (FPI) recorded inflows of USD 2.3billion in the equity market in May 2025, making it the second consecutive month to record inflows. These were the strongest inflows in eight months. Foreign investors were net investors in the Indian debt segment, as well. In May 2025, FPI investments in the Indian debt segment recorded net inflows at USD 1.42 billion. After six weeks of outflows, foreign investors invested USD 2.9 billion in the Indian debt market in the week ended May 30, as the rate cut expectation by RBI in its MPC meeting in June 2025 rose. In total, in May 2025, foreign investors were net buyers in the Indian capital market at USD 3.64 billion, the highest inflows since September 2024.

Domestic Institutional Investors (DIIs) were also net investors in the equity market in May 2025. DII invested USD 7.9 billion in the domestic equity market from USD 3.3 billion in the previous month. This was the largest investment by domestic investors in four months.



Commodity Market

In May 2025, price of gold in London Gold market continued to uptrend for the fifth consecutive month and rose by 2.2 per cent to average at USD 3,278 per troy ounce. This was after the gold price rose by 7.5 per cent in the previous month.

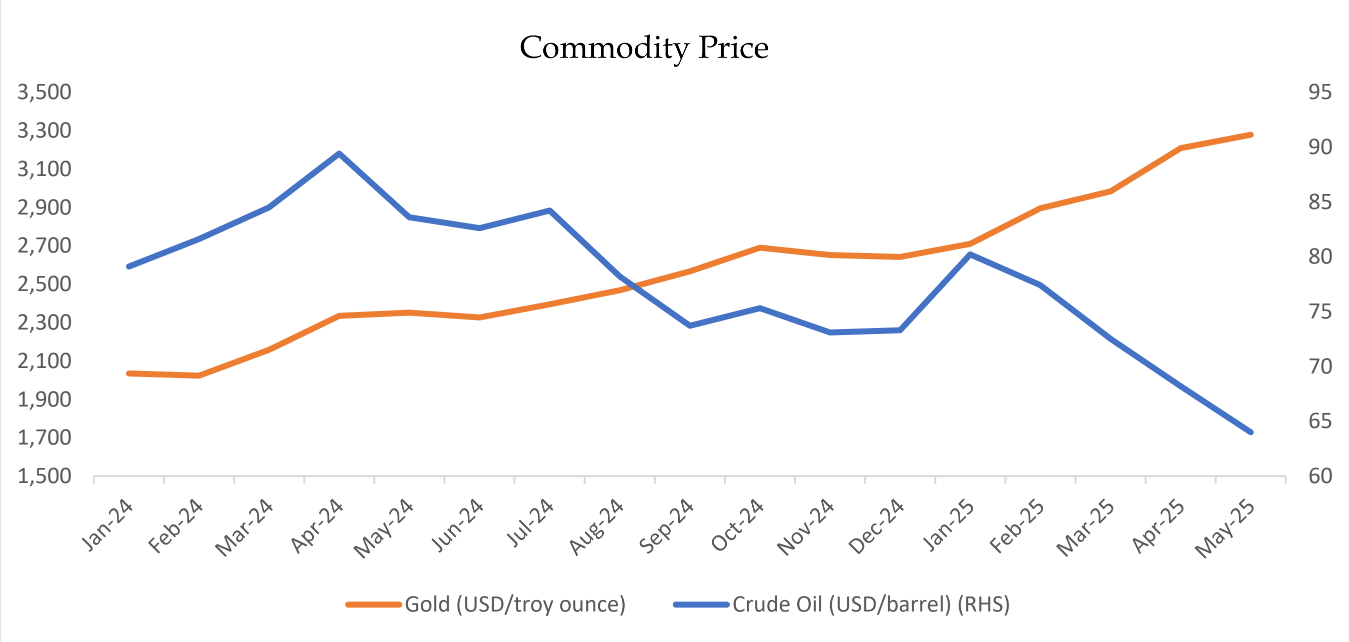
The price of Indian basket of crude oil declined by 6.1 per cent to USD 64 per barrel in May 2025 from USD 68.2 per barrel in the previous month, making it the fourth consecutive month to witness fall in crude oil prices. The weekly average of crude oil price remained below USD 65 per barrel throughout May. The continuous fall in crude oil price is mainly because of weak outlook of the global economy and an expected slowdown in global oil demand. Along with this, the expected increase in supply of oil from OPEC has also put downward pressure on crude oil price.

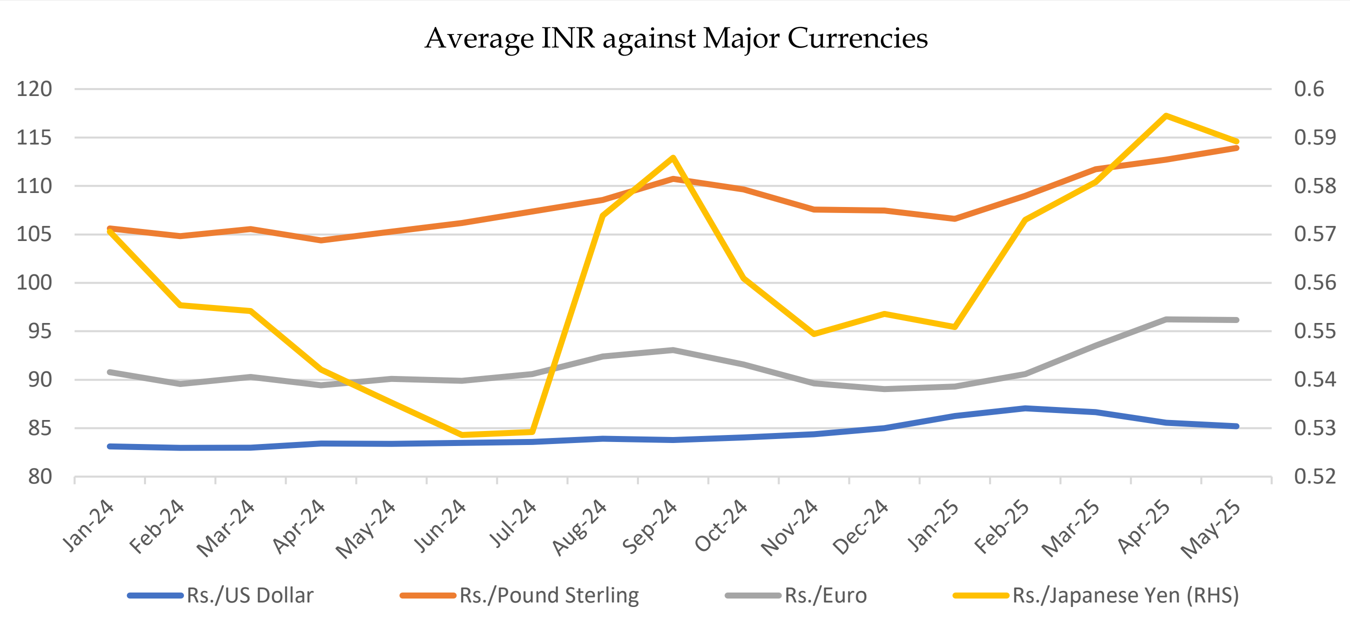
Currency Market

In May 2025, the Indian Rupee (INR) continued its upward trajectory against the US Dollar (USD) for the third straight month, appreciating by 0.43% to settle at ₹85.2 per USD. This strengthening was primarily driven by sustained foreign portfolio investment (FPI) inflows into the domestic capital markets.

Despite the overall appreciation, the INR experienced significant volatility during the month. On May 2, the rupee surged by 1.42%—its sharpest single-day gain in nearly six and a half years—rising to ₹83.86 per USD from ₹85.05 the previous day. However, rising geopolitical tensions between India and Pakistan led to a sharp depreciation of 0.91% on May 9, with the rupee weakening to ₹85.64 per USD. The downward trend continued over the following two weeks, with further depreciations of 0.67% and 0.27%, respectively. By the final week of May, however, the rupee rebounded on the back of strong FPI inflows.

Against other major currencies, the INR showed mixed performance. It depreciated by 1.1% against the Pound Sterling (GBP), averaging ₹115.33 per GBP in May 2025, compared to ₹114.68 in April. Meanwhile, the INR reversed its four-month losing streak against the Euro, appreciating marginally by 0.08% to ₹96.15 per Euro. The rupee also strengthened by 0.9% against the Japanese Yen (JPY), averaging ₹0.58 per JPY during the month.



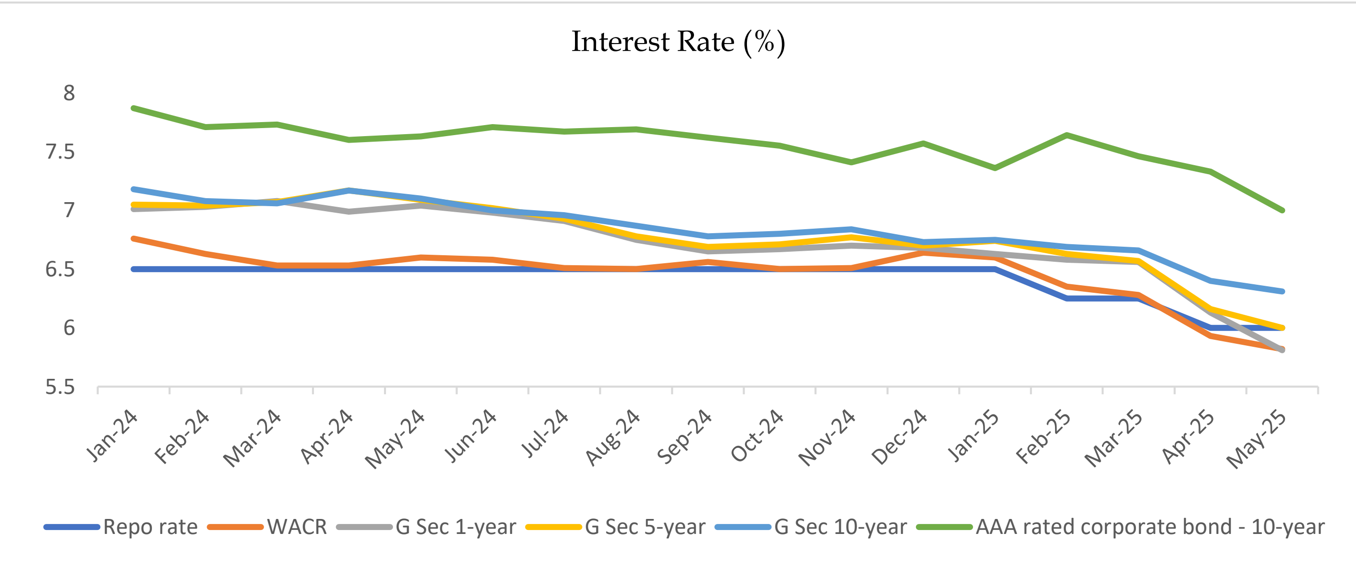


Interest Rate

In May 2025, the yield on 1-year Government securities (G-secs) fell to a three-year low of 5.81%, marking a sharp monthly decline of 32 basis points (bps). Yields on 3-year and 5-year G-secs also declined to their lowest levels in three years. The benchmark 10-year G-sec yield eased to 6.31% in May, down by 9 bps from the previous month.

Yields on AAA-rated corporate bonds mirrored the decline in G-sec yields across both short- and long-term maturities. The yield on 1-year AAA corporate bonds fell for the fourth consecutive month, dropping by 20 bps to 6.88% in May 2025. The 10-year AAA corporate bond yield also declined for the third straight month, falling by 33 bps to 7%. Similarly, yields on 3-year and 5-year AAA bonds dropped by 26 bps and 39 bps, respectively, to 6.9% and 6.82%.

Risk premiums displayed a mixed trend during the month. The spread between 1-year AAA corporate bond yields and 1-year G-sec yields widened to 107 bps in May from 95 bps in April, indicating a rise in short-term risk premium. In contrast, risk premiums for longer maturities



narrowed. The spread between the 10-year AAA corporate bond yield and the 10-year G-sec yield contracted significantly to 69 bps in May, down from 93 bps in the previous month.

GDP Growth 2024-25

In the fiscal year 2024-25, India's GDP grew by 6.5%, a notable deceleration from the 9.2% growth recorded in the previous year. This slowdown can be partly attributed to weaker growth in investment demand, although consumption demand showed stronger growth.

Gross fixed capital formation (GFCF) grew by 7.1% in 2024-25, a slowdown from the 8.8% growth seen in the previous year. Meanwhile, government final consumption expenditure (GFCE) saw a sharp decline, growing by only 2.3%, compared to an 8.1% increase in 2023-24. However, private final consumption expenditure (PFCE), a key indicator of household spending, rose by 7.2%, accelerating from the 5.6% increase in the prior year. The trade deficit also had a negative impact on GDP, reducing it by 0.9%, a significant improvement from the 3.2% reduction in 2023-24.

On the supply side, real Gross Value Added (GVA) grew by 6.4% in 2024-25, slower than the 8.6% growth achieved the previous year. The industrial sector saw a slowdown, with industrial GVA growing by just 5.9%, compared to 10.8% in the previous year. The manufacturing sector, in particular, underperformed, with GVA growth falling to 4.5% from 12.3% in the preceding year. Mining and electricity generation also experienced slower growth, while the construction sector remained robust, expanding by 9.4%, albeit slower than the 10.4% growth in the prior year.

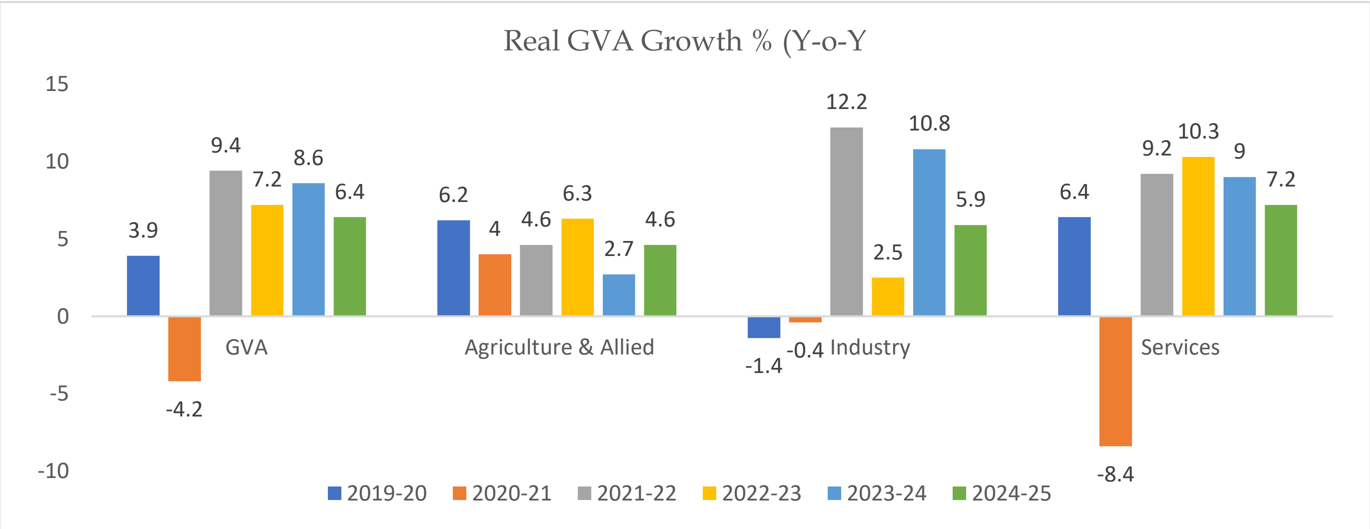
The services sector's GVA growth slowed to 7.2% in 2024-25, compared to 9% in the previous year. Sub-sectors like trade, hotels, transport & communication, as well as financial services, real estate & professional services, saw their growth moderate to 7.2% and 6.1%, respectively. On the other hand, public administration and defense GVA growth remained stable at 8.9%.

Agriculture also saw an improvement, with GVA growth rising to 4.6% in 2024-25, a notable recovery from the 2.7% growth in the previous year.

Inflation

Consumer Price Index

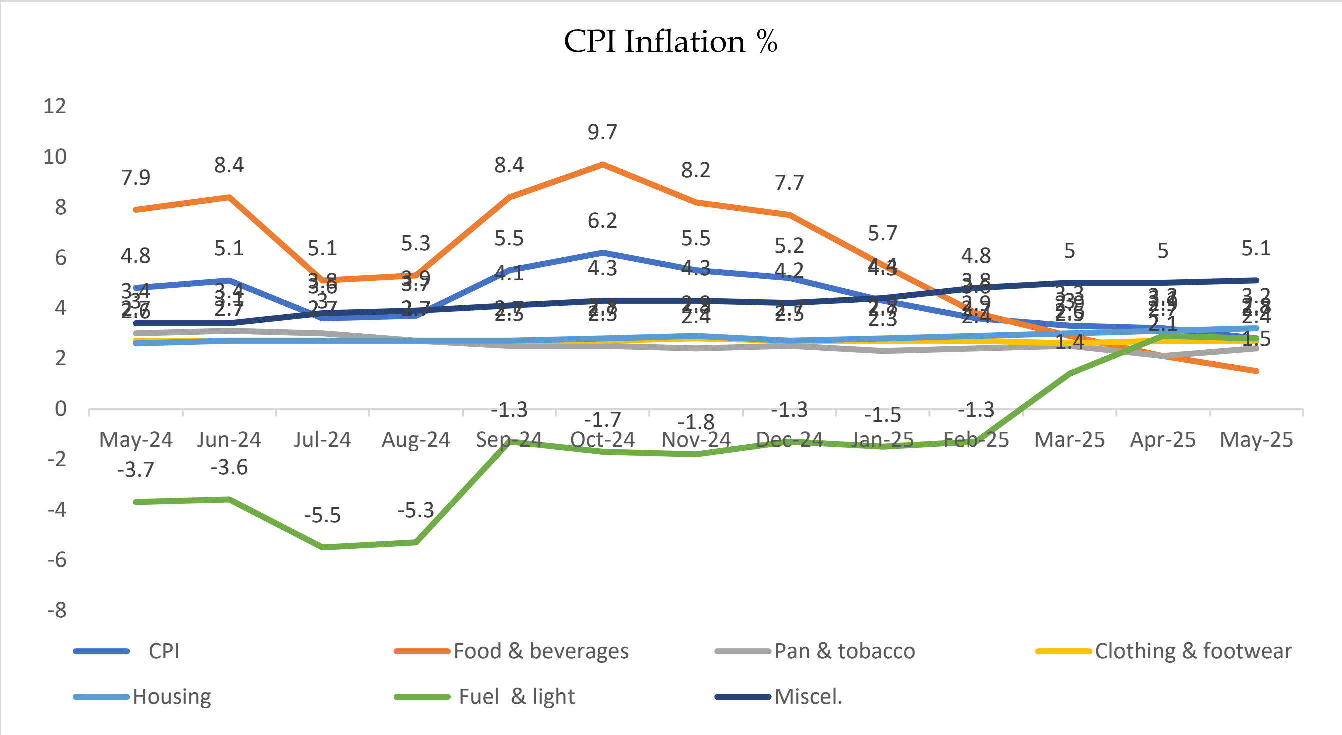
In May 2025, the Consumer Price Index (CPI) dropped to a more than six-year low of 2.82%. This decline in headline inflation was primarily driven by a sharp decrease in food inflation. Inflation in fuel and light also eased, while inflation in housing and pan, tobacco & intoxicants saw an uptick. The miscellaneous



category also experienced a slight rise in inflation, though the increase was minimal.

Food inflation fell to its lowest level in 43 months, reaching just 1%. For the fourth consecutive month, vegetables and pulses & products recorded deflation. Vegetables saw a significant deflation of 13.7%, while pulses & products recorded a deflation of 8.2%. Inflation in cereals & products continued to decline but remained elevated at 4.8%. In contrast, inflation in milk & milk products and oils & fats increased.

21.6% from 32.6% last year. This was helped by decline in index for potato, tomato, onion, ginger, cabbage, spices and condiments and eggs, meat and fish. Index for milk inflation noted moderation. Food grain inflation index reported flat growth in May 2025. Decline in inflation is witnessed for pulses (-10.4% versus 21.9%) and softening in cereal inflation (2.6% versus 9%). In contrast, decline in wheat prices has accelerated from (-) 6.2% to (-) 15.5%.



Core inflation, which excludes the more volatile food and fuel sectors, edged up slightly to 4.2% in May 2025, from 4.15% in April. After falling to 3.6% in December 2024, core inflation has been steadily rising and has remained above 4% since March 2025.

Wholesale Price Index

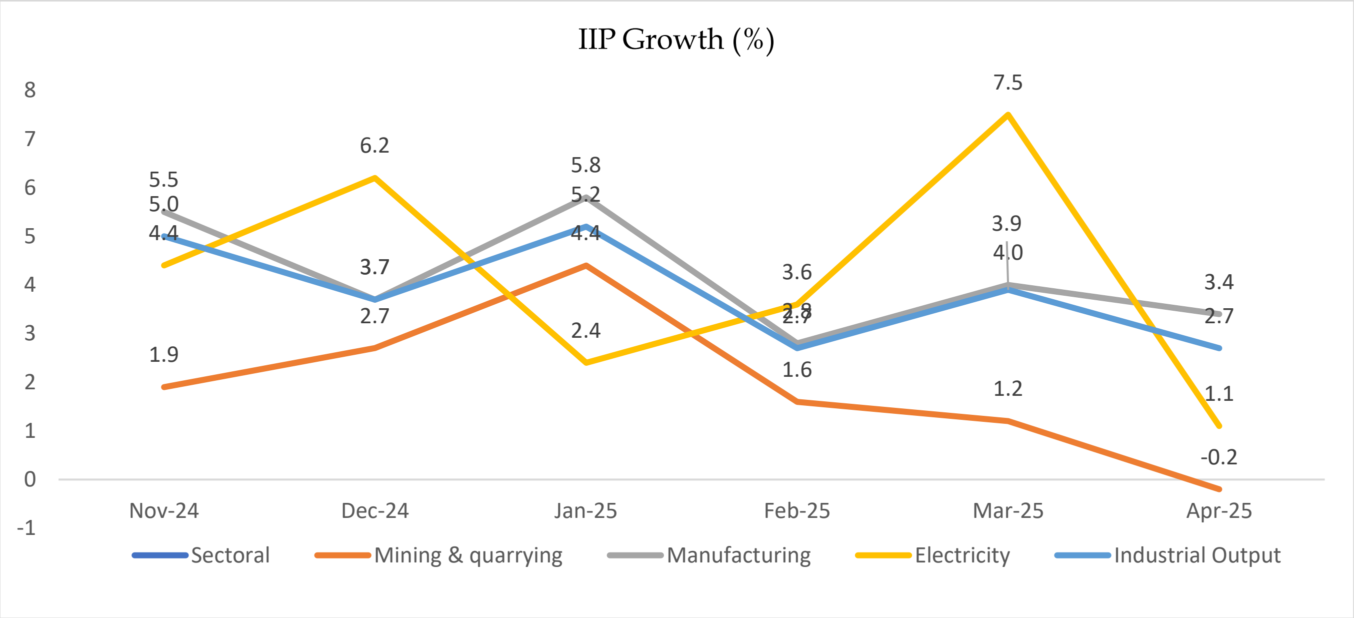
The WPI inflation for May'25 is 0.4%, slowing from 2.7% in May'24 and 0.9% in Apr'25. Food inflation eased to 1.7% in May'25 from 7.8% last year.Vegetable inflation index declined for the 4th consecutive month in May'25 and fell by (-)

Index of Industrial Production

India's industrial production grew by 2.7% in April 2025. The manufacturing sector contributed significantly to this growth, expanding by 3.4% in April, down from 4% in March. Year-on-year, production increased in 16 of the 23 subcategories. Notably, the basic metals sector saw a strong growth of 4.9%. However, there was a slowdown in textile production and the leather and related products segment remained in contraction.

Electricity production slowed to 1.1%, compared to 7.5% in March, while mining output contracted by 0.2%, a reversal from the 1.2% growth seen in March.

From a use-based perspective, the growth in infrastructure and construction goods moderated to 4% in April, down from 9.9% in March. However, capital goods output surged by 20.3%. On the consumption side, consumer durable goods production grew by 6.4%, though slightly lower than the 6.9% growth in March. In contrast, consumer non-durables remained in a contractionary phase for the third consecutive month.



Data Table

Economic Indicators

Indicators	**May-24**	**Apr-25**	**May-25**	**YoY change (% / bps)**
FPI Equity Investments (USD billion)	-3.06	0.51	2.34	176.47
Rupees per dollar	83.39	85.56	85.19	2.16
Rupees per Pound Sterling*	105.3	112.7	113.92	8.19
Rupees per Euro*	90.1	96.23	96.15	6.71
Rupees per Japanese Yen*	0.5353	0.5945	0.5892	10.07
Crude Oil (USD/Barrel)*	83.6	68.2	64	-23.44
Gold (USD/troy ounce)*	2352.1	3207.5	3278	39.36
Weighted Average Call rate (%)	6.6	5.93	5.82	- 78
Market repo rate (%)	6.5	6	6	-50
G sec 1-year (%)	7.04	6.13	5.81	-123
G sec 10-year (%)	7.1	6.4	6.31	-79
AAA rated corporate bond 10-year (%)	7.63	7.33	7	-63
CPI Inflation (%)	4.8	3.16	2.82	-198
WPI Inflation (%)	2.74	0.85	0.39	-235
IIP# (%)	6.3	2.7	1.2	-250

 # IIP data as on May 24, April 2025 and May 2025 respectively.

** Average Monthly Exchange Rate*

Section 2/खंड 2

Article/लेख

ESG Investing: A Historical Risk- Return Analysis in India

-By Aaditya Maruti Magdum, Manager, PFRDA. The views expressed in the article are personal and do not necessarily represent that of the Authority.

Introduction:

With climate change becoming an emerging concern across the planet, it became necessary for governments and institutions across the world to come up with sustainable initiatives and targeted policy measures to address climate change. The term "ESG" in ESG Investing, is an acronym of Environmental, Social and Governance however is a broader term. Whilst "Environmental" addresses awareness towards climate change and its impact on economies, the "Social" aspect addresses parameters such as human rights, labour standards, diversity and inclusion which create a social impact. The term "Governance" addresses the requirement of strong corporate governance, ethical leadership, transparency and accountability in the way business is conducted.

In November 2015, SEBI prescribed the format for the Business Responsibility Report (BRR). Later via Amendment to Regulation 34 (2) (f) of Listing Obligations and Disclosure Requirements (LODR) Regulations dated 05.05.2021, the Business Responsibility and Sustainability Report (BRSR) reporting requirements were introduced. The information reported through this disclosure requirement forms a big part of the ESG evaluation of a business in the Indian context.

Further, SEBI via circular dated 20.07.2023 has stated that Mutual Funds in India are allowed to launch Multiple ESG Schemes under the thematic category of Equity Schemes with one of six type of strategies. Thus, as ESG investing evolves from a niche ethical strategy to a mainstream investment philosophy, it becomes increasingly important to understand the return as well as risk associated with this style of investment.

Methodology:

In the Indian context, an acceptable way to understand the performance of the ESG Investment style could be by tracking the movement of ESG Indices. This shall help overcome the problem of periodic reconstitution and survivorship bias. To understand this, there may be certain securities which are a part of the list today but weren't during historic periods (implying higher returns leading to entry of the stock in the list). Also, certain securities which aren't a part of the list today but were during historic periods (implying lower returns leading to exit from the list) will be eliminated from the analysis.

The S&P BSE CARBONEX, S&P BSE GREENEX and NIFTY 100 ESG Index were amongst the earliest ESG indices in India. Further, a variety of Indices such as the NIFTY 100 Enhanced ESG index, NIFTY 100 ESG Sector Leaders Index, S&P BSE ESG 100 Index, etc. were constituted as well. In order to analyse the investment style for a longer period, we shall consider the following two indices as the others have recent base years.

Index Name	Base Date	Parent Index	Important Criteria
NIFTY 100 ESG Index	April 01st 2011	NIFTY 100	Stocks forming part/going to form part of the Nifty 100 index and should have an ESG score at the time of review.
NIFTY 100 Enhanced ESG Index	April 01st 2011	NIFTY 100	Apart from the requirements for the NIFTY 100 ESG Index, companies with 'ESG score' lesser than 60 shall be excluded.

The detailed methodology of constructing these indices can be referred to in the "NIFTY Indices – Methodology Document released by NSE Indices limited. The S&P BSE CARBONEX as well as S&P BSE GREENEX have been discontinued as of 02.09.2024. We shall compare the performance of these indices against its parent index viz. NIFTY 100 as well as the most widely utilised Market Index in the Indian context viz. NIFTY 50.

It is widely believed that sustainable business practises, inclusive and progressive work environments as well as a good governance and ethical culture improves the company's chances of staying a going concern. This in turn may lead to greater long-term growth and shareholder wealth creation. This factor shall reflect in the company's share price and an investment strategy with heavier weights to such shares shall experience greater returns.

- **Return:** To understand the Returns of the different ESG strategies, we shall study the Time-weighted returns (TWR) a.k.a. Point to Point returns based on daily Index values as well as the relative movement of the index values post equalisation.

$$\textbf{\textit{Point to Point Return}} = \frac{P_2 - P_1}{P_1} \times 100$$

  The equalisation method involves converting the values of all sub-indices to a certain base value (Base value =1000 in our case) and then replicating the daily returns of the original index over the new equalised index values. This helps us compare the relative movements of indices with different bases and different start periods.
- **Risk:** It is believed that companies with better ESG characteristics are likely to face lower risk of large left tail losses (negative returns of large magnitude) emanating from factors such as negative news, regulatory action, internal frauds, violation of laws/rules, etc. Thus, we shall observe factors such as the Annualised Standard Deviation, Beta, Average drawdown and Maximum Drawdown during various periodicities for the sub-indices.

To understand the performance across periods, we shall analyse the above-mentioned parameters for 1 year, 3-year, 5-year, 7-year and 10-year periods between 01-01-2015 to 31-12-2024.

Observations and Discussion:

Return:

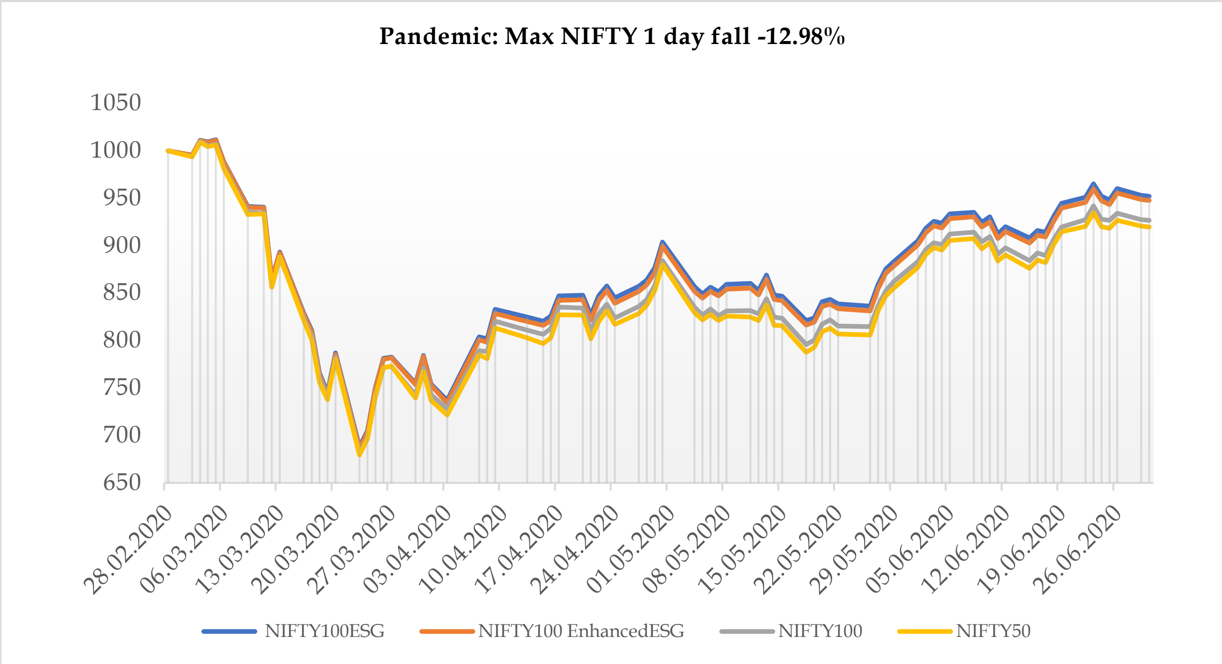
It was observed that for the 5 periods studied, apart from the 3-year period, the ESG indices have delivered better returns than the NIFTY 50. The ESG indices have performed better than their parent index in the long term i.e. in the 5-year, 7-year and 10-year window.

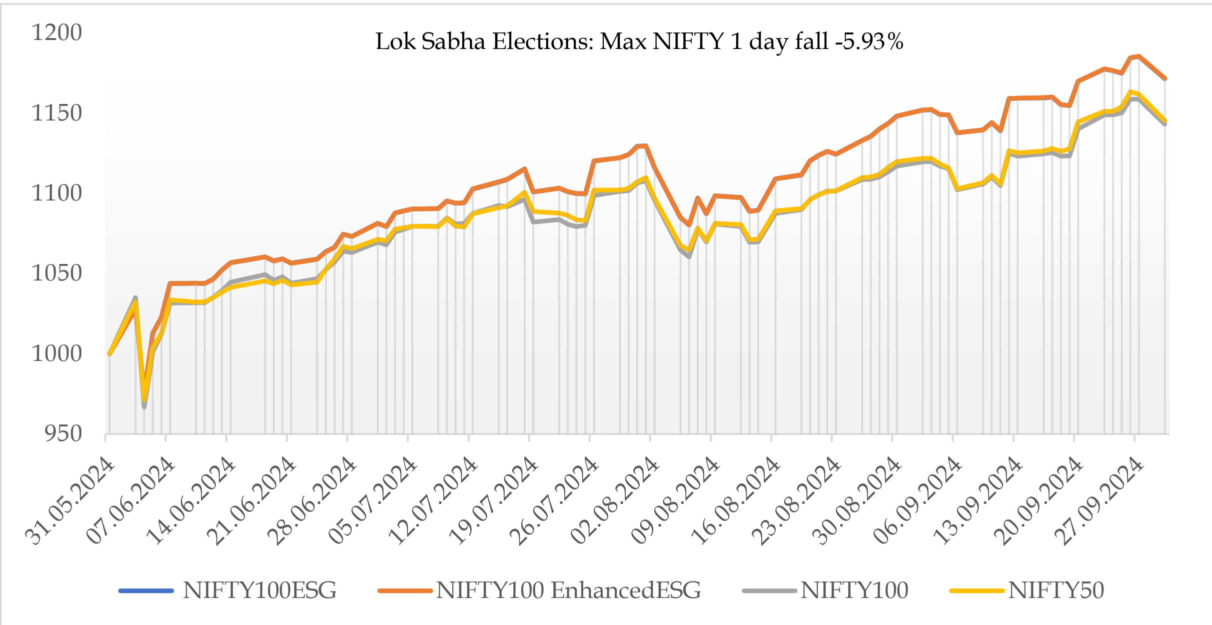
P2P Returns as on 31.12.2024	NIFTY 100 ESG Index	NIFTY 100 Enhanced ESG Index	NIFTY 100	NIFTY 50
1 year	11.52%	11.57%	11.67%	8.75%
3 year	9.32%	9.31%	11.62%	10.87%
5 year	15.71%	15.66%	14.82%	14.19%
7 year	13.43%	13.26%	12.27%	12.40%
10 year	12.27%	12.30%	11.44%	11.06%

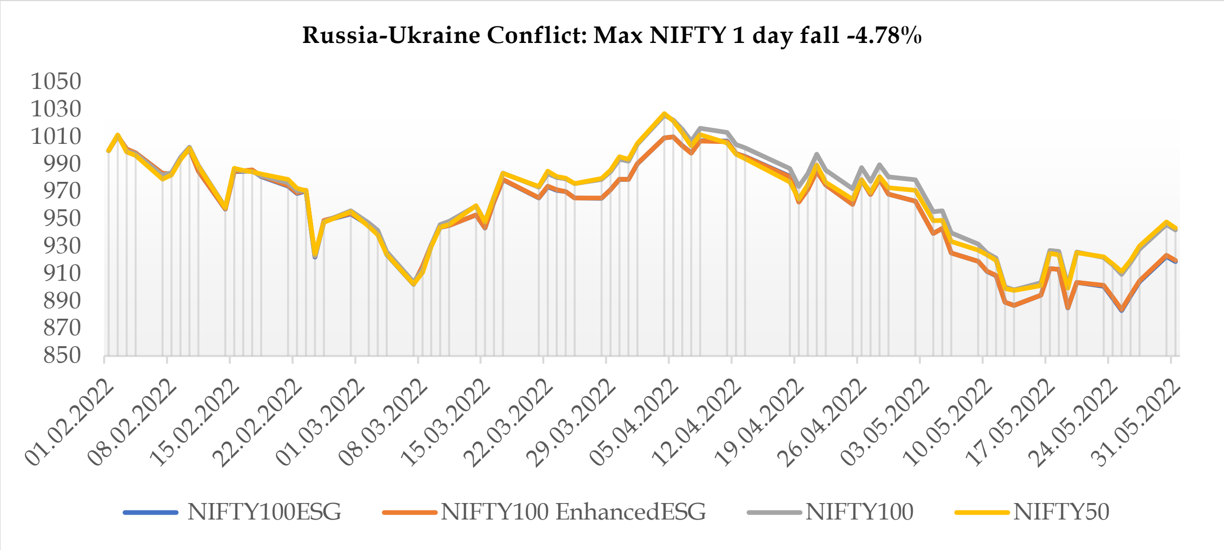
To understand the drop in these indices during periods when the broad market index i.e. NIFTY 50 experienced large-scale single day drops, let us observe the equalised movement of these indices during these periods. To observe the downside risk as well as recovery potential of these indices, we shall observe the movement of the equalised index values in the month of the fall and three months that follow:

The **largest** single day fall of 12.98% during the period 01.01.2015 to 31.12.2024 occurred on 23.03.2020 in the NIFTY 50. As observed from the graph below the fall in the ESG indices is not significantly different from the parent as well as the market index, however, the recovery has been better in the period that follows.

The **second largest** single day fall which was not pandemic related was observed during the announcement of the results of the Lok Sabha elections with the NIFTY 50 facing a single day fall of 5.93%. Again, the fall in the ESG indices is not significantly different from the parent as well as the market index, however, the recovery has been better in the period that follows.







The **third largest** single day fall was observed with the commencement of the Russia-Ukraine Conflict with the NIFTY 50 facing a single day fall of 4.78%. Again, the fall in the ESG indices is not significantly different from the parent as well as the market index, however, this time, the recovery has lagged in the period that follows. This is around the same 3-year period for which the returns of the ESG indices lag both the parent as well as the market index. The causes for the same may have to analysed and evaluated separately.

The summary of Lowest equalised values and the equalised values at the end of the next 3 months are as follows:

Indices	Pandemic period Lowest Value	Value as on 30.06.20	L.S. Election Lowest Value	Value as on 30.09.24	Ukraine Conflict Lowest Value	Value as on 31.05.22
NIFTY100ESG	688.09	952.11	975.20	1171.75	883.14	918.97
NIFTY100 Enhanced ESG	686.26	947.82	975.18	1171.84	883.90	919.87
NIFTY100	682.12	926.71	966.90	1143.38	898.31	942.19
NIFTY50	679.38	919.69	971.32	1145.59	897.89	943.55

Risk:

To understand the risk lets observe the annualised Standard deviation, Beta, maximum and average drawdown (decline in value relative to the most recent peak) of the indices under observation. We shall treat the NIFTY 100 as the Benchmark index being the parent Index. The NIFTY 50 index shall thus act like a portfolio following a top 50 securities only investment policy for our analysis.

STD dev as on 31.12.2024	NIFTY 100 ESG Index	NIFTY 100 Enhanced ESG Index	NIFTY 100	NIFTY 50
1 year	13.75%	13.88%	14.62%	13.98%
3 year	14.10%	14.14%	14.25%	14.01%
5 year	18.68%	18.75%	18.94%	19.17%
7 year	17.34%	17.39%	17.52%	17.69%
10 year	16.42%	16.43%	16.52%	16.62%

Beta as on 31.12.2024	NIFTY 100 ESG Index	NIFTY 100 Enhanced ESG Index	NIFTY 100	NIFTY 50
1 year	1.0444	1.0257	1.0000	1.0340
3 year	0.9867	0.9805	1.0000	1.0090
5 year	1.0007	0.9958	1.0000	0.9840
7 year	0.9977	0.9933	1.0000	0.9864
10 year	0.9930	0.9903	1.0000	0.9895

From the table above, we can observe that the standard deviation for the ESG indices for all periods is lower as compared to the Parent index as well as the Market Index. The Beta of the ESG indices is closer to 1 or at times higher in comparison to the NIFTY 50. This may be arising from the larger similarity in constituents, the ESG indices share with the Parent Index than the NIFTY 50.

Max Drawdown as on 31.12.2024	NIFTY 100 ESG Index	NIFTY 100 Enhanced ESG Index	NIFTY 100	NIFTY 50
1 year	-11.83%	-11.83%	-11.45%	-10.93%
3 year	-20.43%	-20.37%	-16.70%	-16.47%
5 year	-37.12%	-37.22%	-38.10%	-38.44%
7 year	-37.12%	-37.22%	-38.10%	-38.44%
10 year	-37.12%	-37.22%	-38.10%	-38.44%

Average drawdown as on 31.12.2024	NIFTY 100 ESG Index	NIFTY 100 Enhanced ESG Index	NIFTY 100	NIFTY 50
1 year	-2.53%	-2.54%	-2.49%	-2.54%
3 year	-5.78%	-5.75%	-4.03%	-3.93%
5 year	-5.56%	-5.55%	-5.14%	-5.14%
7 year	-5.40%	-5.43%	-5.10%	-5.03%
10 year	-5.61%	-5.59%	-5.24%	-5.43%

Based on data in the table above, it can be observed that the maximum drawdown experienced by the ESG indices in the near term are of a larger magnitude than the Parent Index and the Market Index. However, the average drawdown in the ESG indices is higher than both the parent as well as the market index.

Risk-Adjusted Performance:

To understand the risk-adjusted performance of the indices, let us observe the Sharpe Ratio, Treynor Ratio and Information Ratio of these indices. To calculate the Sharpe as well as the Treynor ratio, the Risk-free rate has been assumed to be 7% which is roughly closer to the historic levels around which the 10-year G-Sec benchmark security trades. However, as the comparison is between the various indices, as long as we keep the Risk-free rate same for each index, this rate in our study has merely served as a threshold value to draw a comparison.

Sharpe Ratio as on 31.12.2024	NIFTY 100 ESG Index	NIFTY 100 Enhanced ESG Index	NIFTY 100	NIFTY 50
1 year	0.3360	0.3360	0.3264	0.1305
3 year	0.1703	0.1693	0.3315	0.2831
5 year	0.4714	0.4670	0.4175	0.3795
7 year	0.3784	0.3673	0.3077	0.3121
10 year	0.3284	0.3298	0.2755	0.2508

Treynor Ratio as on 31.12.2024	NIFTY 100 ESG Index	NIFTY 100 Enhanced ESG Index	NIFTY 100	NIFTY 50
1 year	0.0442	0.0455	0.0477	0.0176
3 year	0.0243	0.0244	0.0472	0.0393
5 year	0.0880	0.0879	0.0791	0.0739
7 year	0.0658	0.0643	0.0539	0.0560
10 year	0.0543	0.0547	0.0455	0.0421

As observed from the table above, the ESG indices have provided a better risk adjusted return as compared to the Parent Index (Benchmark) as well as the Market Index apart from the 3-year period we discussed above.

The Information Ratio:

Information Ratio as on 31.12.2024	NIFTY 100 ESG Index	NIFTY 100 Enhanced ESG Index	NIFTY 100	NIFTY 50
1 year	-0.0541	-0.0325	0.0000	-1.3422
3 year	-0.7540	-0.7093	0.0000	-0.4290
5 year	0.2929	0.2652	0.0000	-0.3713
7 year	0.4206	0.3380	0.0000	0.0821
10 year	0.3172	0.3072	0.0000	-0.2470

The Information ratio is a ratio of the active return generated per unit of active risk taken. The negative Information Ratio generated in the 1-year and 3-year period demonstrate lack of ability of the ESG indices to produce excess risk-adjusted returns in the short term. However, in the longer term i.e. 5-year, 7-year and 10-year, the ESG indices have produced positive excess risk-adjusted returns as compared to the Parent Index as well as the Market Index.

Conclusion

Thus, from observing the historical data, the notion that businesses with better ESG prospects have the potential to provide better growth in the long term may hold some relevance. However, even with lower annual standard deviation, these indices have observed similar or higher drawdowns, higher portfolio Beta's and thus may not be as immune to downside risk as the theory might suggest.

With increasing push towards improving disclosure requirements, developing ESG rating providers and launching of ESG thematic Indices and Mutual Funds - the ESG investment philosophy is still evolving in India. Our study is also based in a period when measures in this direction had recently commenced and this may have some effect on the results observed. As the sustainable finance space further evolves in India, we may have to conduct this study again at a future date to observe if the agreement between the data and the theory improves even further.

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Section 3/खंड 3

International Section/ अंतर्राष्ट्रीय खंड

Notional Defined Contribution (NDC) Pension System: A Brief Overview

- **Introduction:**

A Notional Defined Contribution (NDC) scheme is a type of Defined Contribution (DC) system in which a fixed portion of the earnings is recorded in an individual notional account. Unlike Financial Defined Contribution (FDC) schemes, the contributions in NDC are not actually invested in financial markets. Instead, they are used in notional accounting to calculate future pension benefits.

NDC system is based on a combination of Pay-As-You-Go (PAYG) financing and a pension formula mimicking FDC schemes: Contributions are accumulated until retirement in an account using a notional rate of return. At retirement age, the account is converted into a lifelong annuity. The scheme is notional because of the underlying PAYG mechanism: the accounts are virtual and not invested in the financial markets; they are just used for computation of the benefits. Hence, NDC may be termed as DC form of PAYG. From an individual point of view, NDCs can be considered as actuarially fair because of the direct link between the contributions and the pension paid after retirement.

- **Emergence of NDC:**

The combination of population ageing, sluggish economic growth and low employment rates has placed significant strain on PAYG pension systems across the globe. As life expectancy rises, many countries such as France, Sweden, Austria have responded by increasing the retirement age and some have linked Retirement age with life expectancy. Another common approach has been to reduce pension benefits. On the other side, several countries are transitioning from Defined Benefit (DB) schemes to Defined Contribution (DC) systems—either through Funded DC plans or NDC. The NDC system automatically adjusts the benefits according to changes in demographic and economic condition.

The following are the measures adopted by various countries:

Measures	Countries
Increasing number of years for benefit calculations	Austria, Finland, France, Poland, Portugal
Increasing Retirement Age	Australia, Austria, Czech Republic, Greece
Linking Pensions to Life expectancy	Austria, Hungary, Germany, Greece, Sweden, Japan
Less generous indexation	Austria, Finland, Hungary
Moving to Defined Contribution	Hungary, Poland, the Slovak Republic, Sweden

Table 1: Source: OECD

Comparison with FDC:

FDC is a defined contribution scheme where the contributions are invested and the wealth is generated as per the returns realized in the financial markets, however in case of NDC the contributions are not invested and the returns are determined on the basis indicators of economic growth such as GDP growth, growth of contributions, etc. The Funds invested in FDC are counted as National Saving until maturity whereas the funds under NDC are not considered as a part of Savings.

- **Journey so far:**

Sweden was one of the first countries to adopt NDC system in 1994, replacing its traditional PAYG pension scheme, with the transition period covering persons born 1938–1953 (gradual shift) and full NDC applied from cohorts born 1954 onward. Under the reformed system, a total contribution of 18.5% of an individual's earnings is made. Of this, 16% is credited to the notional NDC account, while 2.5% is allocated to a FDC scheme, known as the Premium Pension.

The notional account does not involve actual investment; instead, it is credited annually with a rate of return equivalent to the per capita growth rate in contributions in the NDC system. Upon retirement, the pension is calculated based on the accumulated notional capital and life expectancy at the retirement age.

In addition to the NDC-based National Pension, the Premium Pension (FDC component) is invested in the financial markets. Participants can choose the type of investments for this portion from a range of available funds.

Italy has also adopted NDC system in 1995 with broad contours of the scheme remaining the same. The contributions are invested in notional account with notional rate based on geometric mean of previous five year of GDP. The amount of pension shall be based on the notional wealth and transformation coefficient. The transformation coefficient is calculated half yearly based on the mortality rates. The pension amount is revised as per price index.

Latvia is another country that transitioned from a Defined Benefit PAYG system to a Defined Contribution model. The contribution rate is 20% of earnings, which is split between a NDC and a FDC component. Interestingly, spouse pensions are not provided under the FDC. However, individuals may opt for a spouse pension within the FDC, though the pension wealth accumulated in the FDC is generally not substantial due to relatively low contribution in FDC account.

- **Calculation of Pension:**

The annuity in NDC is calculated as per the following formula as

$$P = K/G$$

Where P is the annuity amount;

K is the notional wealth in the account of the retiree;

G is the annuity factor that depends on life expectancy at retirement and internal rate of return of the cohort.

- **Criticism of NDC**

Like other variants of Defined Contribution (DC) systems, NDC provides transparency and individual account tracking, aligning benefits with contributions. However, it also faces critical challenge of pension adequacy. Since benefits are linked with individual earning and contribution history, workers with low contributions may receive inadequate pensions, raising concerns about old-age poverty and social equity.

- **Conclusion:**

As discussed earlier, NDC system is considered actuarially fair, in the sense that the expected present value of lifetime contributions is designed to equal the expected present value of pension benefits. Further, to maintain sustainability the system automatically adjusts benefits based on the notional internal rate of return often linked to wage growth and life expectancy at retirement.

Thus, while the NDC model enhances financial sustainability and actuarial fairness, ensuring pension adequacy is still a challenge as the case in FDC. Further, the system may require to ensure minimum guaranteed pension to all income groups for poverty protection.

References and Further Readings

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Section 4/ खंड 4

Did You Know? / क्या आप जानते हैं?

IMF Quota System: A Brief Overview

Overview of the IMF Quota System

The International Monetary Fund (IMF) quota system is the cornerstone of the institution's financial structure, governance and operational capacity. Quotas represent both a member country's financial commitment to the IMF and its relative position in the global economy. They determine a member's voting power, access to IMF resources and share in Special Drawing Rights (SDRs) allocations. The quota system is periodically reviewed and adjusted to reflect changes in the world economy and to ensure the IMF remains effective in fulfilling its mandate.

Determination of Quotas

Quota Formula

When a country joins the IMF, it is assigned an initial quota based on a formula that reflects its relative economic standing. The current quota formula, agreed upon in 2008, is a weighted average of four key economic variables[1][2][3][4]:

- **Gross Domestic Product (GDP):** 50% weight. GDP is measured using a blend of market exchange rates (60%) and purchasing power parity (PPP) exchange rates (40%).
- **Openness:** 30% weight. This measures the sum of current payments and receipts (goods, services, income and transfers) averaged over five years.
- **Economic Variability:** 15% weight. This captures the variability of current receipts and net capital flows, reflecting the need for IMF support during economic volatility.
- **International Reserves:** 5% weight. This is the twelve-month average of official reserves, including foreign exchange, SDR holdings, reserve position in the Fund and monetary gold.

A "compression factor" is applied to the calculated quota shares to reduce disparities among members, ensuring that extremely large or small economies do not have disproportionate influence[1][3][4].

Quota Reviews

The IMF's Board of Governors conducts general quota reviews at least every five years. These reviews assess the adequacy of overall quotas and their distribution among members, considering changes in the global economy. Adjustments require approval by 85% of the total voting power and a member's quota cannot be changed without its consent[5][4]. This helps avoid over-concentration of power in a few hands.

Functions of Quotas

Financial Contributions

Quotas are the primary source of the IMF's financial resources. Upon joining, each member subscribes to a quota, which is denominated in Special Drawing Rights (SDRs), the IMF's unit of account. Members must pay up to 25% of their quota in SDRs or specified foreign currencies, with the remainder paid in their own currency[3][6].

Access to IMF Resources

A member's quota determines the maximum amount of financial resources it can access from the IMF. For example, under Stand-By and Extended Arrangements, a country can borrow up to 200% of its quota annually and 600% cumulatively, though higher access may be granted in exceptional cases[1][3]. The quota system thus ensures that access to IMF resources is commensurate with a country's economic size and need.

Voting Power

Quotas are a key determinant of voting power within the IMF. Each member receives basic votes (fixed at 5.502% of total votes since the 2008 reform) plus one additional vote for each SDR 100,000 of quota[1][5][2][4]. This system aims to balance the influence of large and small economies, though larger economies naturally have more voting power due to their greater financial contributions.

Notably, voting power, while closely tied to quotas, is distinct as it determines a country's decision-making influence in IMF governance. Each member receives a base votes plus additional votes proportional to their quota. Thus, a country with a larger quota has greater voting power, but the two are not identical due to the fixed base votes, which give smaller economies slightly more proportional influence in voting compared to their financial contribution.

SDR Allocations

Quotas also determine a member's share in general allocations of SDRs, which are international reserve assets created by the IMF to supplement members' official reserves[2][3]. The share of SDRs a country receives is directly proportional to its quota.

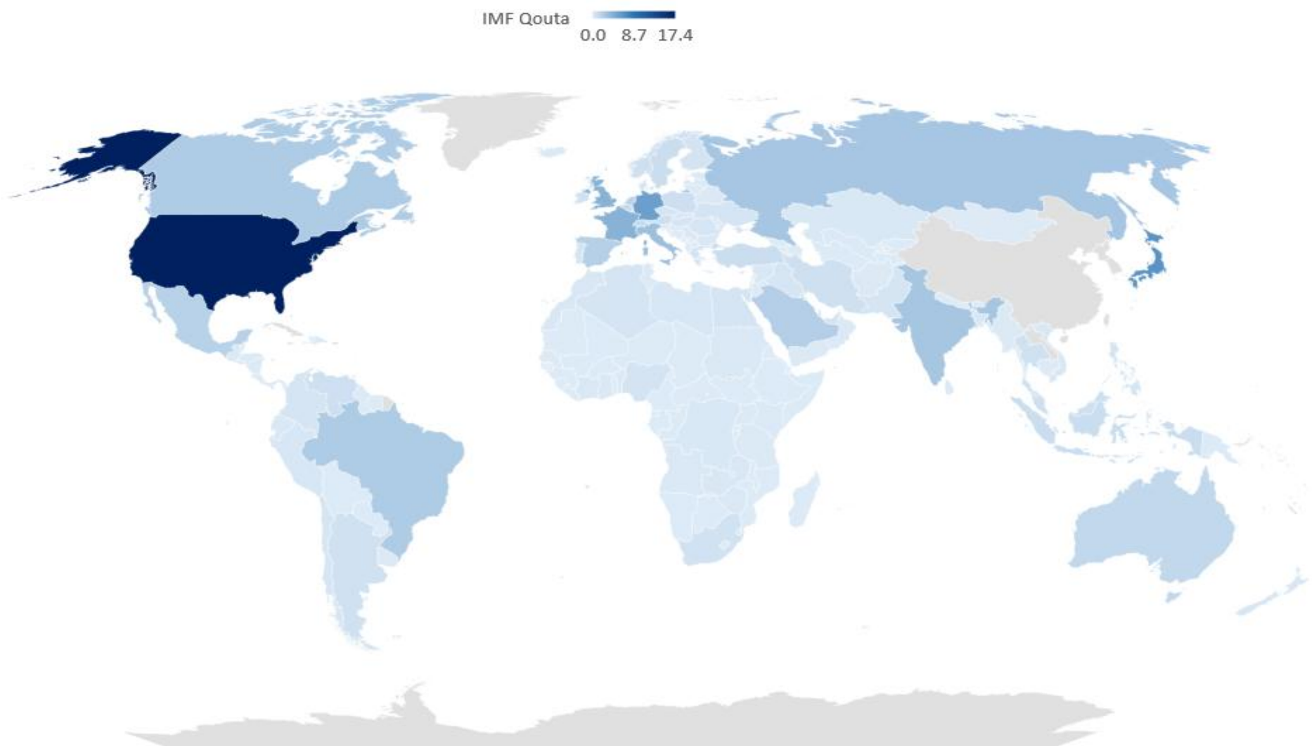
Evolution and Reforms

Historical Context

At the IMF's inception in 1944, quotas were determined by a negotiated formula that considered factors such as gold and foreign exchange holdings, balance of payments and national income[7]. Over time, the complexity and political significance of quota allocation became apparent, as different economic criteria favoured different countries.

IMF Quota System- A brief timeline

- **1944: IMF Established:** The IMF was created at the Bretton Woods Conference. Quotas were introduced, based on a negotiated formula reflecting economic indicators like national income, gold reserves and trade, determining each member's financial contribution and voting power.
- **2008: New Quota Formula Adopted** A reformed quota formula was implemented, emphasizing four factors: GDP (weighted 50%), openness (30%), economic variability (15%) and international reserves (5%). This aimed to



better reflect members' economic positions in the global economy.

- **14th General Review (2010, effective 2016):** This reform doubled total quotas and shifted more voting power to dynamic emerging market and developing countries, better reflecting their growing role in the global economy[5][3].
- **16th General Review (2023):** The IMF Board of Governors approved a 50% increase in quotas, aimed at strengthening the Fund's resources and reducing reliance on borrowed funds. This increase is distributed based on existing quotas, with an emphasis on fair representation and safeguarding the shares of the poorest members[6][5][2].

Criticisms and Challenges

Representation Issues

Despite periodic reforms, the quota system has faced criticism for not adequately reflecting the economic realities of the 21st century. Advanced economies, particularly the United States and European countries, retain significant influence, while emerging markets argue for greater representation commensurate with their economic weight[2][5].

Complexity and Politics

The quota formula, while grounded in economic variables, is subject to political negotiation. The weights assigned to different variables and the application of the compression factor are often the result of compromise, reflecting both economic logic and geopolitical considerations[7][4].

Resource Adequacy

Ensuring that the IMF has sufficient resources to respond to global financial crises is a continual challenge. Quota increases are essential for maintaining the IMF's lending capacity, but require broad consensus among members, which can be difficult to achieve[6][5].

Country	IMF Quota
United States	17.395
Japan	6.460
China	6.389
Germany	5.582
France	4.224
United Kingdom	4.224
Italy	3.159
India	2.749
Russian Federation	2.705
Brazil	2.314
Canada	2.311
Saudi Arabia	2.094
Spain	1.999
Mexico	1.868
The Netherlands	1.831
Korea	1.799
Australia	1.378
Belgium	1.344
Switzerland	1.210
Türkiye	0.976
Indonesia	0.974

Table- IMF Quota *(as on September 4, 2024)*

Source- https://www.imf.org/external/np/fin/quotas/2024/0905.htm

The Quota System in Practice

Quota Subscription

Each member's quota subscription is both a financial commitment and a reflection of its economic stature. The total of all quotas constitutes the IMF's core financial base, currently amounting to about SDR 982 billion (as of December 2023)[6].

Voting and Decision-Making

Major IMF decisions—such as changes to quotas, SDR allocations and amendments to the Articles of Agreement—require a supermajority (typically 85%) of total voting power. This system ensures that no single country can dominate decision-making, though the largest members retain veto power over critical issues[5][4].

Access to Lending

Quotas set the ceiling for how much a member can borrow from the IMF. In times of crisis, countries may request exceptional access, but such requests are subject to rigorous scrutiny and additional conditions[1][3].

Conclusion

The IMF quota system is fundamental to the institution's ability to promote global monetary cooperation, financial stability and economic growth. By linking financial contributions, voting power and access to resources to a member's economic size, the quota system seeks to balance the interests of diverse economies. Ongoing reforms aim to ensure that the system remains fair, representative and capable of addressing the evolving challenges of the global economy[5][2][3]. As the world economy continues to change, the IMF quota system will remain a focal point for discussions on international economic governance and cooperation.

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Section 5/ खंड 5

NPS/APY Statistics/ एनपीएस/ एपीवाई आँकड़े

I. Sector Wise Growth / क्षेत्रवार वृद्धि

Table 1: NPS & APY growth in Subscribers base as on 31st May 2025
३१ मई २०२५ तक एनपीएस और एपीवाई के अभिदाताओं की संख्या में वृद्धि

S.N. / क्रम संख्या	Sector / क्षेत्र	No. of Subscribers (in lakh) / अभिदाताओं की संख्या (लाख में)			YoY (%) / वार्षिक वृद्धि (%)	Share (%) / हिस्सेदारी (%)
		31-May-24	31-Mar-25	31-May-25		
i	CG	2,628,843	2,726,039	2,748,659	4.6%	3.2%
ii	SG	6,664,498	7,132,145	7,232,619	8.5%	8.5%
	Sub Total	9,293,341	9,858,184	9,981,278	7.4%	11.7%
iii	Corporate	2,016,285	2,275,356	2,381,227	18.1%	2.8%
iv	All Citizen	3,618,698	4,265,479	4,304,984	19.0%	5.0%
v	Vatsalya	-	107,523	114,583	-	0.1%
	Sub Total	5,634,983	6,648,358	6,800,794	20.7%	8.0%
vi	NPS Lite	3,335,335	3,350,389	3,350,478	0.5%	3.9%
vii	APY	56,415,569	64,134,198	65,303,153	15.8%	76.4%
viii	**Grand Total**	**74,679,228**	**83,991,129**	**85,435,703**	14.4%	100.0%

Source: CRAs

Table 2: NPS & APY growth in Contribution as on 31st May 2025
३१ मई २०२५ तक एनपीएस और एपीवाई के कॉन्ट्रिब्यूशन में वृद्धि

S.N. / क्रम संख्या	Sector / क्षेत्र	Contribution (Rs. in crore) / योगदान (रु. करोड़ में)			YoY (%) / वार्षिक वृद्धि (%)	Share (%) / हिस्सेदारी (%)
		31-May-24	31-Mar-25	31-May-25		
(i)	CG	226,283.44	261,347.65	268,898.13	18.83%	25.12%
(ii)	SG	431,463.69	505,769.09	521,462.20	20.86%	48.71%
	Sub Total	**657,747.12**	**767,116.75**	**790,360.33**	20.16%	73.82%
(iii)	Corporate	121,219.42	152,189.94	158,031.43	30.37%	14.76%
(iv)	All Citizen	55,027.48	66,184.19	68,149.54	23.85%	6.37%
(v)	Vatsalya	-	94.11	124.56	-	0.01%
(vi)	Tier-II	8,372.38	10,088.45	10,467.86	25.03%	0.98%
(vii)	TTS	16.73	19.48	19.55	16.85%	0.00%
	Sub Total	**184,636.02**	**228,576.18**	**236,792.94**	28.25%	22.12%
(viii)	NPS Lite	3,391.36	3,550.38	3,584.55	5.70%	0.33%
(ix)	APY*	32,321.45	38,569.70	39,906.63	23.47%	3.73%
	Grand Total	**878,095.95**	**1,037,813.01**	**1,070,644.45**	21.93%	100.00%

** Fig does not include APY Fund Scheme; Source: CRAs*

Table 3: NPS & APY growth in AUM as 31st May 2025
३१ मई २०२५ तक एनपीएस और एपीवाई के एयूएम में वृद्धि

S.N. / क्रम संख्या	Sector / क्षेत्र	AUM (Rs. in crore) / एयूएम (रु. करोड़ में)			YoY (%) / वार्षिक वृद्धि (%)	Share (%) / हिस्सेदारी (%)
		31-May-24	31-Mar-25	31-May-25		
(i)	CG	331,793.70	384,016.79	403,370.08	21.60%	26.51%
(ii)	SG	601,735.29	716,724.78	755,021.98	25.50%	49.62%
	Sub Total	**933,528.99**	**1,100,741.57**	**1,158,392.06**	**24.10%**	**76.13%**
(iii)	Corporate	175,144.44	218,550.26	233,189.09	33.10%	15.33%
(iv)	All Citizen	56,845.00	66,336.46	68,917.58	21.20%	4.53%
(v)	Vatsalya	-	92.89	126.17	-	0.01%
(vi)	Tier-II	5,686.62	6,901.03	7,341.19	29.10%	0.48%
(vii)	TTS	17.93	19.9	20.27	13.10%	0.00%
	Sub Total	**243,340.45**	**297,894.04**	**315763.56**	**29.80%**	**20.75%**
(viii)	NPS Lite	5,646.45	6,086.39	6,295.43	11.50%	0.41%
(ix)	APY*	37,161.18	44,780.48	47,261.46	27.20%	3.11%
	Grand Total	**1,214,030.61**	**1,443,508.98**	**1,521,543.25**	**25.30%**	**100.00%**

** Fig does not include APY Fund Scheme; Source: CRAs*

II. PFM-wise Assets under NPS schemes / पीएफएम के अनुसार एनपीएस योजनाओं के अंतर्गत संपत्तियाँ

Source: NPS Trust

Table 4: Pension Fund-wise Assets under Management (in crore) as on 31st May 2025
३१ मई २०२५ को पेंशन फंड के अनुसार एयूएम (करोड़ में)

PF	AUM (Rs. In Crore)			Growth (%)		% share
	31-May-24	31-Mar-25	31-May-25	May 25 over Apr 24	May 25 over Mar 25	
SBI	446,676	514,752	538,705	20.60	4.65	35.37
LIC	331,148	382,441	401,143	21.14	4.89	26.34
UTI	310,677	359,180	378,736	21.91	5.44	24.87
ICICI	31,028	45,455	48,466	56.20	6.62	3.18
Kotak	5,024	6,378	6,921	37.76	8.51	0.45
HDFC	83,203	115,627	126,316	51.82	9.24	8.29
Aditya Birla	1,662	4,025	4,485	169.80	11.42	0.29
Tata	1,510	4,385	4,423	193.02	0.88	0.29
Max Life	718	1,607		-	-	-
Axis	3,039	8,854	10,160	234.34	14.75	0.67
DSP	239	2,049	3,495	1361.48	70.62	0.23
Total	**1,214,924**	**1,444,753**	**1,522,849**	**25.35**	**5.41**	**100.00**

Source: CRAs

III. Scheme Wise AUM under NPS / एनपीएस के अंतर्गत योजनावार एयूएम

Table 5: Scheme-wise Assets under Management (in Crores) as of 31st May 2025
३१ मई २०२५ को योजनावार एयूएम संपत्तियाँ (करोड़ में)

Scheme		AUM (Rs. In Crore)			Growth (%)		% share
		31-May-24	31-Mar-25	31-May-25	YOY	Over March 25	
CG		309,174	338,663	352,420	13.99	4.06	23.14
SG		590,404	690,249	725,282	22.84	5.08	47.63
Corporate CG		80,287	96,143	95,754	19.26	-0.41	6.29
TIER I	**A**	443	635	691	56.01	8.81	0.05
	E	83,209	110,012	123,069	47.90	11.87	8.08
	C	36,731	54,782	59,788	62.77	9.14	3.93
	G	65,272	95,238	103,204	58.11	8.36	6.78
NPS Lite		5,646	6,086	6,295	11.49	3.43	0.41
TIER II	**E**	2,725	3,255	3,483	27.82	7.00	0.23
	C	1,078	1,296	1,365	26.69	5.37	0.09
	G	1,877	2,347	2,493	32.83	6.18	0.16
	TTS	18	20	20	13.11	1.89	0.00
APY		37,162	44,781	47,262	27.18	5.54	3.10
Tier II Composite		0	2	3	-	-	0.00
UPS CG		-	-	438	-	-	0.03
Total Asset		**1,214,026**	**1,443,511**	**1,521,567**	**25.33**		**100**

Source: NPS Trust

Minor difference in AUM provided in Table 3 is due to difference in the methodology of calculation of PFs and CRA.

IV. PFM-wise Return on NPS Schemes / पीएफएम के अनुसार एनपीएस योजनाओं पर लाभ

Table 6: Returns since inception (in %) as on 31st May 2025
३१ मई २०२५ तक आरंभ से लाभ (% में)

Pension Funds→		SBI	LIC	UTI	ICICI	KOTAK	HDFC	Aditya Birla	TATA	Axis	DSP
CG		9.70%	9.56%	9.53%							
SG		9.42%	9.53%	9.50%							
Corporate-CG		9.47%	9.61%								
TIER I	A	9.11%	7.61%	6.96%	7.39%	7.12%	8.59%	6.83%	8.87%		7.05%
	E	11.14%	13.31%	12.95%	12.96%	12.48%	15.00%	13.55%	16.54%		15.04%
	C	9.62%	9.08%	8.79%	9.60%	9.31%	9.38%	8.55%	8.09%		8.64%
	G	9.27%	10.01%	8.52%	8.73%	8.70%	9.32%	8.42%	9.77%		9.88%
TIER II	E	11.16%	11.62%	11.79%	11.75%	12.03%	13.59%	13.70%	16.48%		15.93%
	C	9.20%	8.63%	8.79%	9.44%	8.68%	8.73%	8.08%	8.40%		7.91%
	G	9.27%	10.21%	8.99%	8.79%	8.48%	9.44%	7.88%	9.93%		9.40%
	TTS	7.00%	8.58%	7.51%	8.15%	8.71%	7.56%	8.91%	9.63%		6.41%
NPS Swavalamban		9.80%	9.86%	9.81%		9.75%					

APY		9.06%	9.38%	9.34%							
Tier II Composite		5.17%	5.17%	0.34%	0.20%	0.84%					

Source: NPS Trust

#- *Max Life Pension Fund Management Limited has decided to cease its operations as a Pension Fund under the National Pension System (NPS) effective from 19th April, 2025.*