

Adani Enterprises and passive ESG index investors

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From a broader market perspective, one of the more discomfoting headlines during last weeks' Adani saga¹ was "[S&P Dow Jones Indices will remove Adani Enterprises from its sustainability indices](#)". **Why was Adani Enterprises (ADE IN), with documented governance, environmental and social issues, included in "sustainability" or "ESG" equity indices in the first place?**

This is not to single out S&P DJI: [MSCI](#) and [FTSE](#) have had ADE IN in some of its EM-focused ESG indices as well, according to Bloomberg data. As an example of capital allocation, funds with at least USD10bn AUM based on MSCI ESG indices have been holding the stock, see Table 1.²

AFII and others have been discussing ADE IN involvement in greenfield thermal coal mines and other corporate structure factors since well before Hindenburg's report.³ The view has been clear: ADE IN should not be fit as an investment for an investor applying ESG criteria.

Investors in funds following these indices have now likely suffered economic loss due to the ADE IN inclusion, with the stock **down around 49% year to date** (YTD, 10 Feb 2022), translating to a loss of between 5-10bps at fund level for funds in Table 1.⁴ The failure in terms of ESG impact is harder to measure. What is the (negative) value of providing capital to [Carmichael](#) for an ESG investor?

We are not party to these products' development but would ask some questions. Do the indices' composition reflect their stated intentions?⁵ Have the indices been constructed in alignment with the marketed characteristics of the final investment products? Why has name that is both sizable and highly controversial not been screened out through sensibility checks?

Our view is that ESG investors with this unfortunate exposure should engage with their managers and, potentially, regulatory bodies that are better positioned to examine why this index/fund inclusion has occurred and draw conclusions from that.

Table 1. Example list of ESG funds with ADE IN exposure and ESG criteria. Positions as per Dec-22. Source: Bloomberg.

ISIN	Documentation	Underlying index	% in fund	AUM
NL0011515424	Prospectus	MSCI Emerging Markets Custom ESG Index	0.22	EUR 4.4Bn
IE00B8MZ9L26	Supplement	MSCI Emerging Markets Custom ESG Index	0.23	USD 2.7Bn
IE00B4NCR763	Supplement	MSCI AC (All Country) Asia ex Japan Custom ESG Index	0.25	USD 0.3Bn
IE00BFNM3P36	Prospectus	MSCI EM IMI ESG Screened Index	0.19	USD 2.2Bn
LU1493735606	Prospectus	Actively managed quant with exclusions	0.21	USD 0.1Bn

¹ For previous AFII work on the topic, see "[Adani Group: Bonds underperforming equities](#)", 25 Jan, and "[Adani Group: IG to HY risks?](#)", 30 Jan 2023. ADE IN itself does currently not have hard-currency bonds outstanding.

² This list is not exhaustive as we do not have access to data on which funds follow which benchmark index.

³ See '[Passive' money and new thermal coal builds](#)', AFII, 29 Jul 2021; "[Adani: Are we witnessing a corporate Hindenburg?](#)", Climate Energy Finance, 5 Feb 2023; "[As Adani steps up mining, villagers to be displaced third time](#)", Al Jazeera, 30 Jun 2022.

⁴ This does not include exposure to other Adani Group entities that also have fallen dramatically in 2023.

⁵ An earlier discussion of this, with respect to Adani Ports (ADSEZ), a logistics and not directly coal mining part of the Adani Group is available in "[Inside the messy world of ESG indices](#)", Financial Times, 22 Jul 2022.

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