

Combining Carbon Risk and Active Management: Opportunities for Emerging Market Mutual Funds

Juan Carlos Matallín-Sáez^{1*}, Amparo Soler Domínguez², Diego Víctor de Mingo-López³

Abstract

Investors are becoming more aware of sustainable investment, and several financial institutions aim to meet their needs by investing in companies involved in low-carbon emission activities. Drawing conclusions about active management of funds is therefore a major concern to enhance both financial and sustainable performances. Accordingly, this study explores active management and portfolio carbon risks in emerging market mutual funds. Results show that low-carbon funds and more active funds achieve greater abnormal returns. Specifically, funds with lower carbon risks perform better among less active funds, while more active funds outperform among high-carbon risk funds. This evidence emphasises the role of strategic and tactical asset allocations on fund performance, and entails that active manager, who take a holistic approach by integrating sustainable criteria in financial decisions, navigate towards the best investment opportunities while transitioning towards a low-carbon world.

Keywords: Mutual fund, performance, emerging markets, carbon risk, active management.

* This study is part of the research projects UJI-B2020-48 and GACUJI/2021/09 supported by Universitat Jaume I and grant PID2020-115450GB-I00 funded by the Agencia Estatal de Investigación (AEI), Ministerio de Ciencia e Innovación, Spain MCIN/AEI/10.13039/501100011033. Address for correspondence: Amparo Soler-Domínguez, Departamento de Finanzas y Contabilidad, Universitat Jaume I, E-12080 Castellón, España. Tel: +34 964 387 152, Fax: +34 964 728 565. E-mail: amparo.soler@uji.es