

# Hedge Funds Fixing Image Problem via Sustainable Investing

HedgeNordic (Stockholm) – The public’s perception of hedge funds is not always positive, more so in the United States than in the Nordics. In response to increased investor demand for sustainable-investment strategies, hedge funds may fix a long-standing image problem by managing their money more sustainably. According to a study by AIMA, the Alternative Investment Management Association, and the Cayman Alternative Investment Summit, more than 10 percent of hedge fund assets are committed to strategies that respect the United Nations-backed Principles for Responsible Investment (PRI), with some funds allocating up to 50 percent of their capital to sustainable-investment strategies.

“The same transformation that is occurring in the traditional asset management industry is now happening in the alternative investment industry as well,” Tony Cowell, head of asset management for KPMG Cayman Islands, was cited in a recent Financial Times article. “This sector is only going to grow in importance as more hedge fund managers and investors work together to make an impact,” added Cowell. The trend towards the adoption of sustainable investing has been observed in the Nordic countries as well. In a panel discussion at this year’s Nordic Hedge Award ceremony in Stockholm, Optimized Portfolio Management’s CEO, Simon Reinius, and other panellists noted an acceleration in the adoption of sustainability in the hedge fund industry (read more details).

According to a survey of 80 investment managers, which collectively manage \$550 billion in hedge fund assets, 40 percent of those managers had already hired a responsible investment specialist or had plans to do so. In addition, the respondents observed a 50 percent increase in demand for responsible investment strategies from current and prospective hedge fund investors in the past year. Survey results also show that larger vehicles have made more efforts to integrate sustainability-related factors into their investment strategies, with 80 percent of those overseeing assets in excess of \$1 billion saying they increased their sustainability efforts and capabilities.

Interestingly enough, hedge fund vehicles are taking different paths to following the set of six responsible investing principles formulated by the United Nations, which guide investors on how to engage in more responsible investing. For example, 38 percent of the aforementioned survey’s respondents use environmental, sustainable and governance factors to evaluate investment opportunities, 18 percent use negative screening, and 5 percent engage in impact investing. A total of 20 percent of respondents already signed the PRI, 17 percent had plans to do so, and the remaining indicated no intention of signing the PRI.

“Responsible investment is becoming increasingly important to the hedge fund industry and firms are responding to investor demand by investing in the data and expertise they need in order to accurately measure the social and environmental dimensions of their investments,” said Jack Inglis, chief executive of AIMA – the global representative of alternative investment managers.

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