Responsible Investment at Man Group: an Inclusive Journey

Stockholm (NordSIP) – At a recent investor day in Stockholm, we caught up with Steven Desmyter (*pictured right, with NordSIP´s Aline Reichenberg Gustafsson*), who co-heads Responsible Investment at global active investment manager Man Group. We talked about the evolution of responsible investment within alternative investments, the importance of thorough integration and not leaving laggards behind.

A few months ago, Man Group announced that Desmyter would be joined at the helm of Responsible Investment by Jason Mitchell, previously Sustainability Strategist and member of the Responsible Investment committee. "This was not as big a change as it seemed," comments Desmyter, "our firm has been expanding resources dedicated to responsible investing for a while, and Jason has already been playing an important role in that area, but it was time to formalise it."

Getting hedge fund managers or such a global alternative investments-focused firm, such as Man Group, into sustainability is not for the faint at heart. Man Group's journey has proven arduous, and, while he is proud of what he and his colleagues have achieved, Desmyter still looks forward to many remaining challenges. "Many people know what ESG means," he explains, "but responsible investing is broader than the acronym suggests. Many managers have some idea of what it is about, and they come at it with many presumptions. However, RI is non-consensual. It is the subtleties and grey zones that make the field so interesting and challenging at the same time. With responsible investing, I meet many people who think they understand RI because the bar isn't so high, but they still don't know how to implement it. In parallel, we still hear those who ask what ESG has to do with hedge funds."

Desmyter has worked with Man Group since 2002 and has been associated with sustainable activity at its onset. "At the beginning, we got to work with RI as a side project. It has taken a while until we could take it to the forefront of the firm's agenda. We needed to align our values and culture at the firm level, while a lack of understanding and prioritisation still lingered. I headed the RI committee from inception and drove the establishment of our RI policy, which evolved as we customised it to fit our specific needs. Some of our strategies are discretionary, others are systematic, for example. Our policy has to include clear minimum standards, but we must stay realistic and ensure that everyone can come onboard."

The idea of bringing everyone along has been on top of Desmyter's mind all along, but it is today more than ever. "I think of leading pension funds, for example, who are pushing the bar higher in RI, be it through direct engagement or exclusions. However, sometimes they are already so far ahead of the pack that other managers may not be able to keep up and risk potentially being discouraged from even trying to integrate more sustainable investment practices. Pioneers, especially large institutional investors, have the option to use managed accounts when they require a tailor-made solution to fit their higher RI threshold –this is a great tool and an opportunity to move capital towards more responsible strategies. However, I also believe that commingled funds shouldn't be forgotten – they are available to smaller players and could be a more viable, cost-effective option at the same time."

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Many asset managers are now jumping on the bandwagon of sustainable investing by launching a dedicated ESG fund. “Everyone can create a dedicated ESG strategy,” Desmyter argues. “That is not the battle I want to win. I am glad we didn’t just monetise the opportunity from the start by generating suitable products. Otherwise, the rest of the firm wouldn’t have had the chance to potentially benefit from the work we’ve done.”

The in-depth work took time. “We had to do a lot of internal and external promotion and education,” says Desmyter. “We spent a lot of time explaining what clients need. We also had to work on changing our managers’ mind-set and get them to think about fiduciary duty in a broader way than just focusing on returns. Taking care of money doesn’t mean imposing our moral values either. We had to get to the right balance. We also faced some pushback from investors, as they often want different things.”

“Putting in place our stewardship framework was a large part of the process,” Desmyter continues. “We also set up ESG tools and analytics to produce enhanced reporting. Providing all the inputs was a real effort and getting it at the forefront of our managers’ agenda proved hard work. We also worked intensely with one of our investment managers, Man Numeric. With five dedicated people, we tried to sort out our data sets. In the quant space, there are hundreds of unstructured data sets, with very poor correlations. Ironically, this has proved to be an opportunity for us, as we found what we feel are additional positive alpha signals. The work performed by our quant teams can now potentially benefit our discretionary managers as well.”

Looking ahead, Desmyter looks forward to exploiting new opportunities, while consolidating the milestones he has just completed. “We have finalised our firm-wide fund framework, which rests on a robust set of minimum ESG standards. We do need to complete our work on stewardship – we are perhaps three-quarters of the way there. Now we have to make sure this is not opportunistic. There are some fair comments out there around greenwashing, but I’m not worried about that. We have the potential to generate real impact; as we do so, we need to make sure that we are not leaving anyone behind.”

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