

Hedge Funds Putting More Focus on ESG

Stockholm (HedgeNordic) – Hedge funds are responding to increasing investor interest in responsible investing. According to a recent white paper, asset owners consider that the importance of integrating responsible investment practices into hedge funds is on the rise and is here to stay.

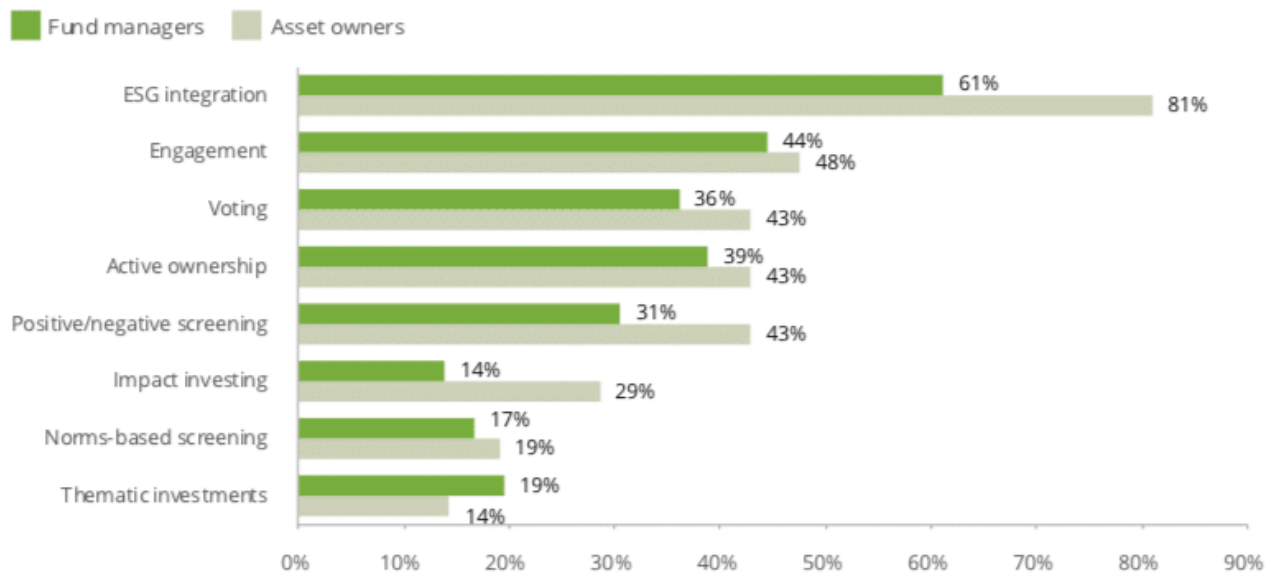
Cerulli Associates partnered with the UN-supported Principles for Responsible Investment (UNPRI) to conduct two surveys to find out how hedge fund managers are positioned with regard to responsible investment and what asset owners want to see from the hedge fund industry.

According to the white paper titled “Responsible Investment in Hedge Funds: The Growing Importance of Impact and Legacy”, the 42 hedge fund managers surveyed “report that they face increasing demands from asset owners that want improved ESG [environmental, sustainability, and governance] reporting standards and increased commitment to ESG integration and engagement.” Similarly, asset owners want hedge funds “to integrate ESG factors into their investment decision-making in a sophisticated way.” According to the surveys, 27 percent of hedge funds managers surveyed report that growing client demand is the main driver for increasing ESG integration in the industry.

“In time, the value of a business will be its impact on societal issues; asset owners recognize this, and hedge fund managers have a role to play in helping them make good choices,” says Justina Deveikyte, associate director of European institutional research at Cerulli. “Companies must be part of the solution to challenges such as climate change and inequality. Hedge funds can help individual and institutional investors secure legacies that incorporate financial, climate, and social considerations—asset owners do not want to choose between these criteria and hedge funds can make sure they do not have to.”

The hedge funds surveyed employ a range of responsible investing approaches, ranging from ESG integration, engagement, negative or positive screening to active ownership. ESG integration, which involves the explicit consideration of ESG factors in the investment decision-making and portfolio construction, is the most popular approach among hedge funds (used by 61 percent of respondents). More importantly, “hedge funds must work with their investors to determine what approach to ESG is best for them,” the white paper writes. A one-size-fits-all approach “will not be enough.”

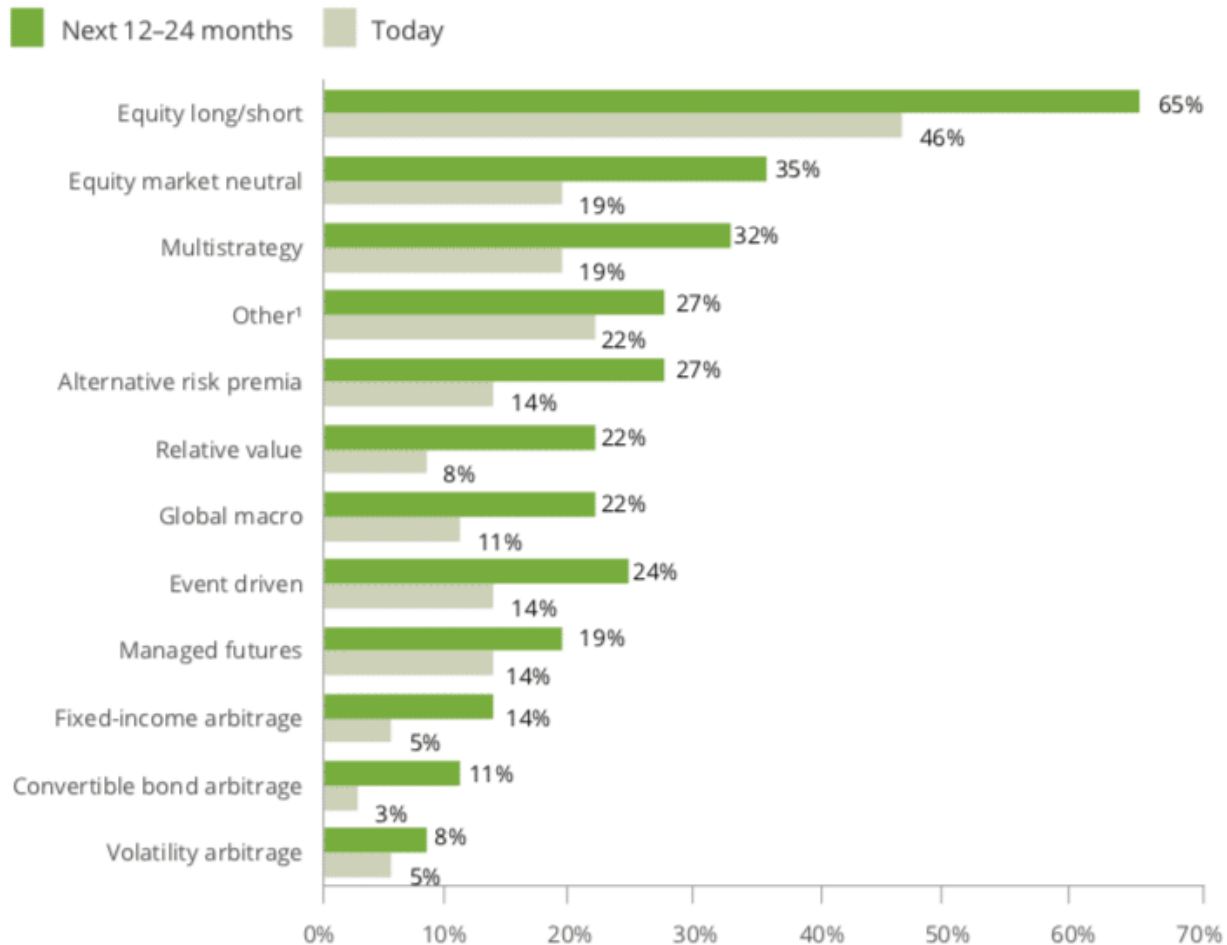
The Responsible Investment Approaches Used by Asset Owners and Fund Managers for Hedge Funds, 2019



Source: Cerulli Associates in association with UN-supported Principles for Responsible Investment.

Hedge funds are increasingly incorporating ESG investing across various strategies and asset classes. The surveys conducted by Cerulli and UNPRI indicate that equity long/short is the strategy where most respondents (46 percent) currently incorporate responsible investing criteria and plan to do so in two years (65 percent). “The reason that many hedge funds are focusing on implementing RI in their equity long/short strategies is that it can be easier to integrate ESG criteria into investment decision-making in this area,” the white paper writes. Some hedge fund strategies such as volatility arbitrage and managed futures, however, can scarcely engage in responsible investing.

Fund Managers' Incorporation of Responsible Investment Criteria in Hedge Fund Strategies Today and in the Next 12-24 Months, 2019



Source: Cerulli Associates in association with the UN-supported Principles for Responsible Investment.

Analyst Note: ¹Includes credit funds and answers depicting incorporation across all hedge fund strategies.

The complete white paper can be downloaded below:



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