

Are Hedge Funds Embracing ESG Investing?

Stockholm (HedgeNordic) – Almost two-in-five hedge fund managers currently consider environmental, social and governance (ESG) factors in their stock selection process, according to a survey conducted by hedge fund index provider BarclayHedge. Among those considering ESG factors, 52 percent of their assets are currently allocated based on ESG ratings.

According to the Barclay Hedge Fund Manager Survey, which collected 70 responses from hedge fund professionals between June 24 and July 11, 58 percent of next year's allocations are expected to be based on ESG measures. On average, about 42 percent of last year's asset allocations were based on ESG ratings. "The trend is consistent with reports that ESG investing grew at record levels during this year's first quarter," wrote BarclayHedge.

Around 62 percent of the hedge fund managers employing ESG factors in their stock selection process said they use ESG ratings to screen candidates for both long and short positions. Almost one-in-three managers (38.5 percent) use ESG considerations merely to screen candidates for the long portfolio. No respondents use ESG factors solely to screen candidates for short positions.

Of the three elements of ESG, hedge fund managers overwhelmingly focus on the governance factor in their stock selection process. Of the 70 hedge fund professionals surveyed, 56 percent selected governance as the most important element of ESG in identifying long positions. About 61 percent rely on that factor to identify short positions. In the process of identifying short positions, 28 percent of respondents said they weight the environmental element most heavily, while 11 percent said social sustainability was their top consideration. The focus on the "E" factor is lower when considering long candidates at 19 percent.

"The increasing role of ESG ratings among the survey participants isn't surprising," said Sol Waksman, the president of BarclayHedge, in news release accompanying the quarterly survey. "Several factors are converging that are driving the trend," one of which is "an increased interest among managers in social impact investing," said Waksman. "There's also a growing recognition of the link between governance and performance," Waksman said, adding that "finally, the growing awareness of how human activity causes climate change has led investors to place greater importance on trying to reduce the impacts of the most egregious activities."

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