Keeping Pace with ESG

Stockholm (HedgeNordic) – Sustainable and responsible investing is rapidly evolving and making significant inroads into the asset management arena's mainstream, including the hedge fund industry. Helsinki-based alternative investment manager AIM Capital, which manages two funds of funds and bespoke advisory mandates for institutional investors, has now updated its Responsible Investment Policy to keep up with this rapidly changing and evolving area.

"The landscape is rapidly changing," Miikka Hautamäki *(pictured)*, the chief executive officer of AIM Capital, tells HedgeNordic. "We recognize that the integration of environmental, social and governance (ESG) factors can lead to superior long-term returns," he emphasizes. "There is a growing interest from hedge funds to incorporate new approaches to ESG. We see a lot of innovation and alpha generation in general." The company committed to the Principles for Responsible Investment ("PRI") in 2015. In response to the accelerating innovation in ESG investing, AIM Capital has recently updated its Responsible Investment Policy.

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AIM's ESG Approach

"Our approach is firstly about incorporating environmental, social and governance factors into investment decisions to better manage risk," Hautamäki explains AIM Capital's approach to responsible investing. "But it is also about identifying investment opportunities to generate sustainable long-term returns," he continues. "The is growing evidence that some managers have been able to generate alpha by employing ESG integration and for some this has been the main component of their excess return."

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In addition to managing bespoke advisory mandates for institutional investors, AIM Capital also manages two funds of funds: **AIM Diversified Strategies Fund** and **AIM Fixed Income Strategies Fund**. AIM Diversified Strategies, a member of the Nordic Hedge Index, is a fund of funds investing in high-quality hedge funds exhibiting high alpha-generation potential. Describing their approach to responsible investing as a fund-of-funds manager, Hautamäki says that "as part of manager due diligence, we analyze ESG issues and implementation as one of many factors in our due diligence process." According to Hautamäki, "the main area of focus has been on governance factors which has been an inherent part of our investment process for many years."

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"We review and monitor managers' practices through periodic meetings and questionnaires and obviously by analyzing the reporting the managers provide to us," Hautamäki describes AIM Capital's ESG due diligence on underlying managers. "For hedge fund strategies specifically, we would seek to understand ESG integration practices, portfolio construction and investment decisions," he continues. "Unfortunately, in many cases, the data available on ESG factors varies significantly, by asset class and strategy," acknowledges Hautamäki, who was appointed as the CEO of AIM Capital in early 2019. "It is a challenge to assess ESG metrics in a systematic way. But it is clear that this data improves over time, making granular assessment easier as well."

ESG: Industry Realities and Challenges

Commenting on the hedge fund industry's ESG efforts, Hautamäki says that "hedge fund managers have been rather slow to integrate ESG principles into their investment process." There are significant fundamental distinctions between different ESG approaches, partly compounded by the subjective judgments of data and ratings providers. "There is an enormous contrast in the methods being used. Generally speaking, many hedge fund managers are still quite vague in their descriptions of their ESG integration practices," says Hautamäki.

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"The lack of consistent and comparable data is an issue," points out Hautamäki. "Transparency on interest alignment with respect to ESG KPIs may be limited," he adds. "You have to have an extra level of skepticism about who is really incorporating ESG and there is obviously a risk of some greenwashing." Even so, "the landscape is rapidly changing," with hedge fund players showing characteristics of dynamism, innovation, and adaptability regarding ESG integration. "Strategies, such as equity long/short and event-driven, are better positioned to implement ESG principles within the investment process," says Hautamäki. "But what we are seeing is that there is so much room for innovation and alpha generation."