

Environmental, Social, and Governance

2022 Hedge Fund ESG Hiring



THE KRONOR GROUP

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Observer



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INTRODUCTION

Hedge Fund ESG Hiring

Environmental, social, and governance issues (ESG) are now major determinants in how investors and individuals choose to support or invest in countries, businesses, and brands.

As a result, ESG investment metrics have become a bigger priority within the alternative investment management industry, particularly at large fund managers. This refocusing impacts product development, resource allocation, and capital fund flows. With ESG reporting firmly at the forefront of capital allocator and asset manager concerns alike, coverage of the topic within the United States has also exploded since 2020.

Despite the wide range of ESG reporting, which has shifted focus from growth to measurement and regulation, little attention has been paid to the human capital at the core of companies' ESG efforts, particularly regarding hiring and promotion trends.

AMObserver's ESG report seeks to fill that void by taking a close look at what hedge funds are actually doing on the human capital front and how they are putting these assets to work. Quantifying employee moves, or "flows," provides a clear, leading-indicator picture of where true change is taking place. We believe that our methodology provides the most accurate measure of that change.

Despite the wide range of ESG reporting... little attention has been paid to the human capital at the core of companies' ESG efforts, particularly regarding hiring and promotion trends

AMObserver collected 2020 and 2021 hiring data across all major regions, functional roles, and experience levels. We analyzed this data to identify the amount and types of ESG hiring and promotions, along with race and gender composition, for roles whose primary focus or responsibility relates to ESG.

Quantifying employee moves, or "flows," provides a clear, leading-indicator picture of where true change is taking place

ESG investing — often used interchangeably with socially responsible investing (SRI) and impact investing — has long been employed in several European countries. The United States' embrace of ESG metrics is still fairly new, with Asia starting to make inroads. When it comes to ESG investing, however, hedge funds are much more recent participants compared with their counterparts at traditional asset management firms.

Aside from several recently formed ESG-dedicated hedge funds, ESG focus and branding by hedge funds exists primarily within larger funds, with several very notable exceptions among this group. Undeniably, however, many of the world's most established funds have embraced ESG investing as a part of their firm identity.

We scoured the numerous hedge fund websites that have re-branded their homepages since 2020. Many of them now read more like sites of the mission-centric endowments, foundations, and pensions that allocate capital to them than those of traditional alpha-seeking hedge funds.

From lengthy "commitment" statements about responsible investing to references to ESG organizations and principles, including The United Nations Principles for Responsible Investment; Net Zero Asset Managers; the Task Force on Climate-Related Financial Disclosures; the UK Stewardship Code, and the UK Modern Slavery Act, hedge funds are actively promoting their ESG allegiances to a degree that can be called nothing short of a "movement."

Burgeoning cottage industries have developed during the past few years as well, particularly within various investment banks, credit rating agencies, and other financial consultancies. ESG issuance offerings in equities and fixed income are big business, active even on university campuses where ESG-branded bond debt is funding “green” projects.

The proliferation of online and in-person professional ESG certifications and academic courses is also of note. Type “hedge fund” and “ESG” into any search engine and you will be met with countless advertisements for investment firms and financial service providers. Add the word “course” to your search string and you will get the numerous ESG undergraduate, graduate, and certification programs, including degree offerings from multiple top-tier undergraduate and MBA programs and the CFA Institute. These accreditations are appearing on the résumés of ESG hires with greater frequency.

This movement has been accompanied by a new alphabet soup of ESG buzzwords added to investors’ vernacular, including *green loans* and *green bonds*; *social bonds*; *sustainability bonds*, and *sustainability-linked loans*. Other products include ESG thematic bonds; ESG active funds; ESG ETFs, and index-based ESG mutual funds. And ESG’s version of “growth at a reasonable price” investing style (GARP) has its own term now: *Sustainability at a Reasonable Price (SARP)*.

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Concerns about *greenwashing* by companies have also raised global regulatory red flags. Regulators and investors are pushing for greater accountability from companies and asset managers to help them better differentiate between legitimate ESG initiatives and token references within marketing or financial reporting materials. We see hedge funds on a trajectory of building better defined human capital teams to help differentiate and measure their ESG investment platforms.

METHODOLOGY, DATA & ANALYSIS

Our methodology marks a new approach to measuring ESG commitment at the firm and industry level.

For this report, AMObserver systematically tracked, aggregated and categorized hedge fund personnel moves that occurred throughout 2020 and 2021.

The movement of people into and within hedge funds was the primary determinant of change in firms' human capital commitment to ESG.

To measure hedge funds' human capital investment in ESG and to identify the true nature of change in the industry, AMObserver tracked more than 10,000 hedge fund personnel moves for each year across all regions, functional roles, and experience levels.

Tracking personnel change, as opposed to simply looking at a firm's existing composition, allows us to provide a more accurate measure of ESG progress.

And, unlike reports that rely on firm-reported survey data, AMObserver takes a more accurate approach by utilizing unfiltered hiring data. We do this for the following reasons:

- 1** It is primarily firms more actively hiring ESG staff that have a greater likelihood of responding to surveys, which leads to a skewed data collection/respondent bias.
- 2** Differences in the surveys and self-reporting methods that firms use to define ESG roles and seniority levels can create an inaccurate ESG data set.
- 3** For the DEI portion of the ESG social pillar, low survey response rates stem from individual firm policies or regional data privacy laws and regulations, or both.

The movement of people into and within hedge funds was the primary determinant of change in firms' human capital commitment to ESG

What's Next

Our objective in publishing this report was to produce key market insights on ESG and hedge fund hiring trends. Our unique methodology extends beyond both ESG and the hedge fund industry and can be customized to identify hiring trends within any industry that an employer may seek to identify and understand.



Definition

Numerous terms are routinely used to define the scope of investing as it relates to stated improvements in social and global welfare, including environmental, social, and governance (ESG); socially responsible investing (SRI); and impact investing. While each term has distinct aspects and investment criteria, we have combined them and include diversity, equity, and inclusion (DEI) as a component within the social pillar of ESG.



Timeline

To determine whether firms recruited or promoted individuals with the intent of advancing their ESG goals, the report examines the movement of people globally from January 2020 through December 2021. The time period chosen seeks to capture fully the start of major ESG initiatives in the U.S. investment industry.



Regions

The following regions — where the vast majority of hedge funds are based — are highlighted within the report: United States/Canada; Europe/UK; Asia (ex-Australia), unless otherwise noted. A growing remote workforce population resides within these three regions.



Employee Type

Analysis within the report focuses on full-time hires and personnel promotions and, in some cases, ESG-specific advisory and intern hiring. While full-time staff best capture a firm's commitment to ESG hiring, given the evolving nature of hedge funds' ESG human capital field, inclusion of dedicated advisor and intern roles provides a more comprehensive picture. For the purposes of this report, "hiring" represents both new hires and internal promotions.



Functional Role

This report analyzes hiring information across all functional roles. In some cases, the focus is on functional roles that have been most impacted by ESG hiring and for which prior ESG experience is more relevant. To be counted in the report, a hedge fund hire must have an ESG-focused role or be primarily responsible for a firm's ESG initiatives, or both.



Hedge Fund Specific

AMObserver data includes only hedge fund investment or support roles at firms with both traditional and hedge fund offerings. Several sectors associated with the general phrase "alternative asset management" were excluded, including private equity, venture capital, capital allocators to hedge funds such as fund of funds, pensions, endowments, and foundations (unless direct investors in the financial markets).

RESULTS

ESG is now center stage within the investment community. But when it comes to human capital, ESG-specific hiring is still a nascent area within the hedge fund industry. Nonetheless, some notable changes are already taking place, including striking gender and race diversity trends that are unique within the industry and in financial services more broadly.

Global Trends

During the 24-month period between January 2020 and December 2021, ESG-specific hirings accounted for approximately 3.0% to 4.0% of global hiring activity within the hedge fund industry. When viewed through a standard “full-time equivalent” (FTE) measure, that number rises to 6.0% to 7.0%.

...some notable changes are already taking place, including striking gender and race diversity trends that are unique within the industry and in financial services more broadly

Regional Trends

U.S./Canadian hedge funds represented the bulk of ESG hiring. Europe/UK, however, stands out with 34.4% of ESG hires compared with overall hedge fund hires of 23.5%, making it the only region where ESG hiring rates exceeded overall hedge fund hiring rates (Chart 1).

The Front-Office Factor

Roughly half of global ESG hiring took place in front-office investment professional roles, with portfolio managers/ESG department heads, traders, and investment analysts accounting for 46.5% of the positions filled (Chart 2).

These ESG hiring rates exceeded overall hedge fund hiring rates for comparable roles (36.5%), a pattern indicating that ESG experience is viewed as more relevant and potentially less fungible for investment roles than for support and operating positions.

Investment professional and strategist/product specialist roles accounted for the highest share of hires with prior ESG work experience (Chart 3).

Note that ESG investment roles can differ from non-ESG investment roles at hedge funds. For example, ESG investment professional hires often include responsibilities for “corporate engagement,” “company advocacy,” and strategy — and are more heavily skewed toward research.

Talent Pools

In contrast to general hiring in the industry, where talent wars between hedge funds are commonplace, a general lack of long-term expertise in the ESG realm precludes such rivalry.

While ESG hiring drew from various talent pools, the following areas exhibited noteworthy talent pool “clustering”:

- ESG investment managers (long-only)
- Activist hedge funds with some/no ESG focus
- Traditional asset managers and investment banks
- ESG divisions of credit ratings agencies and research outfits
- Nonprofit organizations, including foundations, academia, and NGOs

Meanwhile, many hires had earned ESG degrees and certifications and are affiliated with ESG organizations.

External vs. Internal Hiring

Nearly four in five full-time ESG hires (78.6%) were external. And, of the 21.4% of personnel moves through internal promotions, many involved the step-up addition of a new title and coverage responsibility for an existing role not otherwise associated with ESG. Meanwhile, firms making external hires skewed more toward hires with prior ESG experience.

In the majority of cases (86.1%), external hires were for full-time roles. Nonetheless, hedge funds also seem to be building a steady pipeline of ESG advisory (5.6%) and intern roles (8.4%).

Among the most active in the hiring of ESG talent in 2020 and 2021 were Engine No. 1, Inclusive Capital Partners, Y2 Capital Partners, Lior Global Partners, and Inherent Group.

The Gender Breakdown

The most striking trends emerge when ESG hiring is broken down by gender and ethnicity. On a global basis, half (49.6%) of all ESG hires were women, significantly exceeding female hiring within the general hedge fund industry (28.6%) and the financial services industry more generally in 2020 and 2021. This ESG hiring figure was in line with global working-age female population estimates (Chart 4).

This strong female representation trend also held true regionally as well as for investment professional functional roles (Charts 5, 6).

Hiring rates of women into ESG roles among hedge funds was highest in Asia (66.7%), followed by the U.S. (50.3%), and then Europe/UK (44.8%). Women were also substantially more represented in investment roles across all three regions as compared with their representation in hedge fund investing roles more generally: Asia (65.0%), followed by the U.S. (45.6%), and then Europe/UK (42.2%).

In this report, gender categories are based on gender self-representation by- those who identify as male or female; no one identified in any other gender category.

The most striking trends emerge when ESG hiring is broken down by gender and ethnicity

Race Patterns

When broken down by race, Blacks in the U.S. were hired into ESG roles at a rate more than double their representation in the broader hedge fund industry (7.9% vs. 2.7%). Hispanics were also better represented (5.3% vs. 4.5%), though neither group approached their representation in financial services or in the working-age population. In the U.S., Blacks and Hispanics represent approximately 12.7% and 9.8% of financial services and 12.5% and 18.5% the U.S. working-age population, respectively (Chart 7).

These higher rates of hiring or moving Blacks for or into ESG investment roles were more muted on an absolute basis as well, though still higher than hedge fund investment roles more generally. Hispanics, meanwhile, maintained their share of investment professional representation for ESG investment roles (Chart 8).

Blacks in the U.S. were hired into ESG roles at a rate more than double their representation in the broader hedge fund industry (7.9% vs. 2.7%). Hispanics were also better represented... though neither group approached their representation in financial services or in the working-age population

Whites in the U.S. were hired at relatively lower rates than they were within the hedge fund industry and financial services. Asians were also hired at relatively lower rates when compared with the hedge fund industry, but their representation remained high relative to their representation in financial services (9.0%) and the general working population in the U.S. (6.0%).

No noticeable difference was seen on the race front in Europe/UK between ESG and general hedge fund hiring except for investment professional roles. Race patterns in Asia were not as meaningful, given the preponderance of Asians living and working in the region and the relatively smaller sample sizes (Charts 9, 10, 11).

AMObserver's methodology can be used to address a range of questions pertaining to the movement of talent in various sectors. If you are interested in customizing an ESG analysis or exploring other specialty areas, please contact [AMObserver](#) to learn more.

Chart 1. Global Hiring - Region Comparison

Key Message: USA/Canada hired the most ESG talent, but only Europe/UK hired ESG talent at a rate exceeding their share of total hedge fund hires.

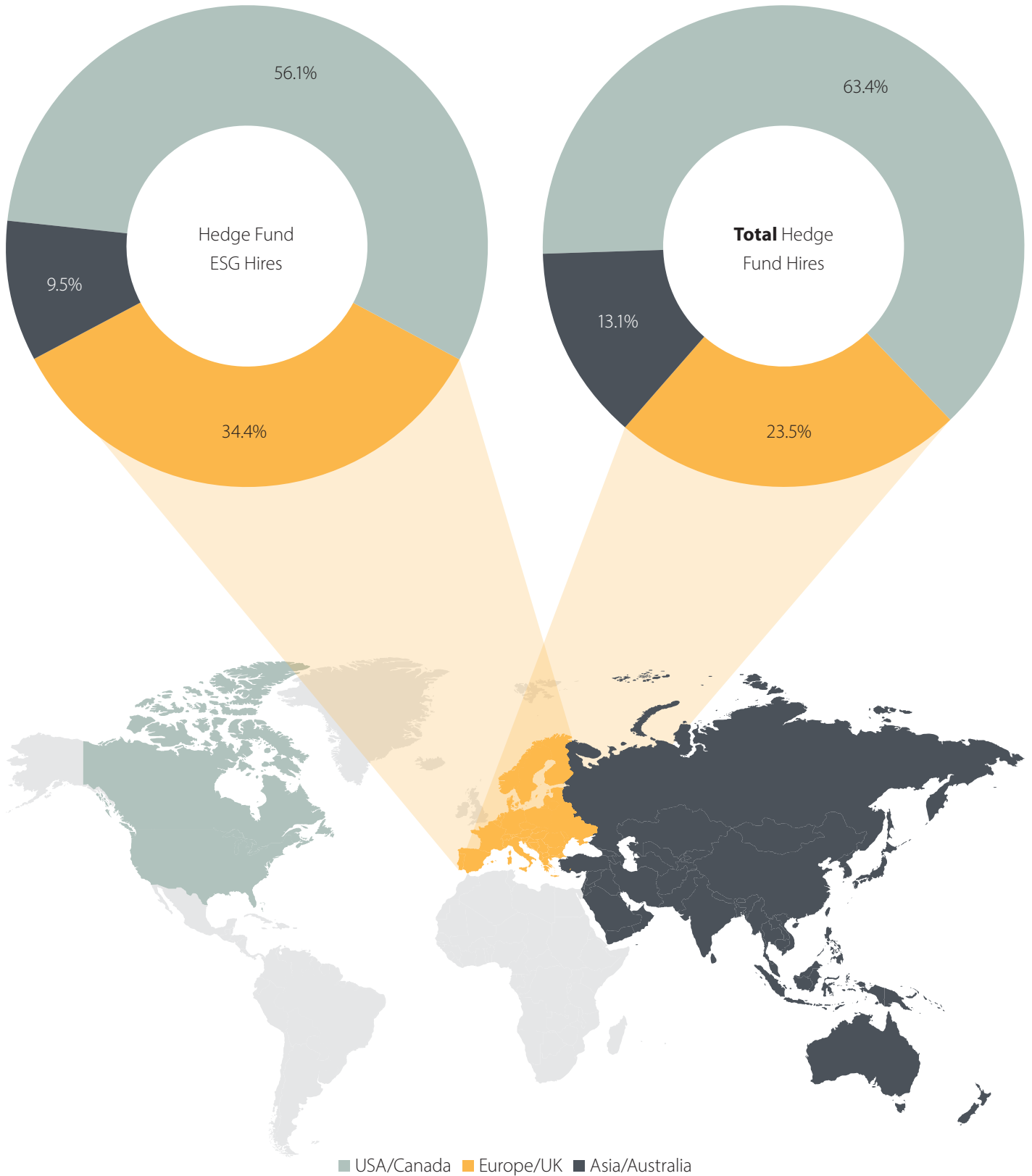


Chart 2. **Global - Functional Role**

Key Message: Nearly half of global ESG hiring (46.6%) was made in front-office investment professional roles, with senior hires outpacing their share of total hedge fund hires.

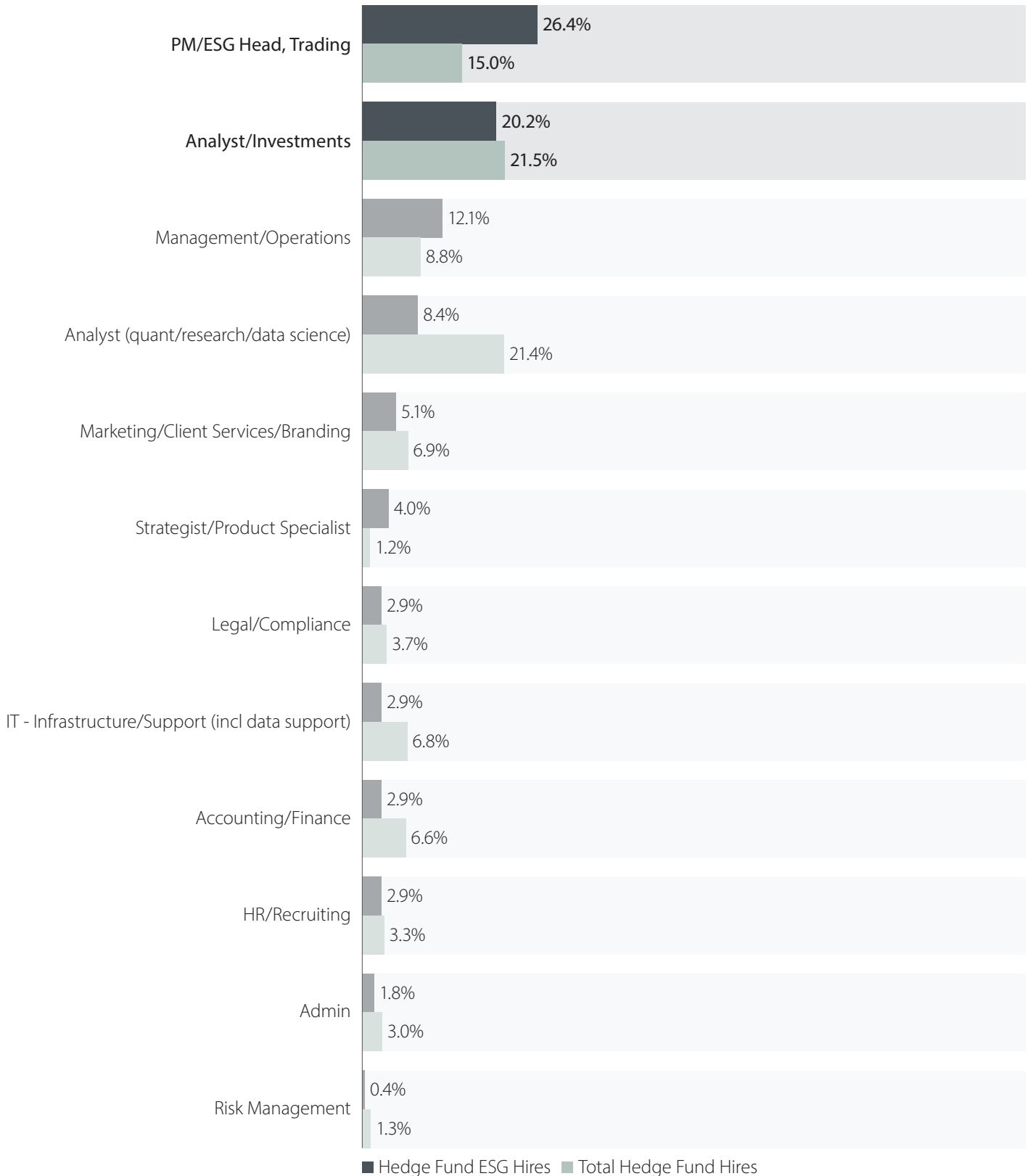


Chart 3. Global - Functional Role

Key Message: Among experienced hires, investment professionals and strategist/product specialists had the most prior ESG work experience.

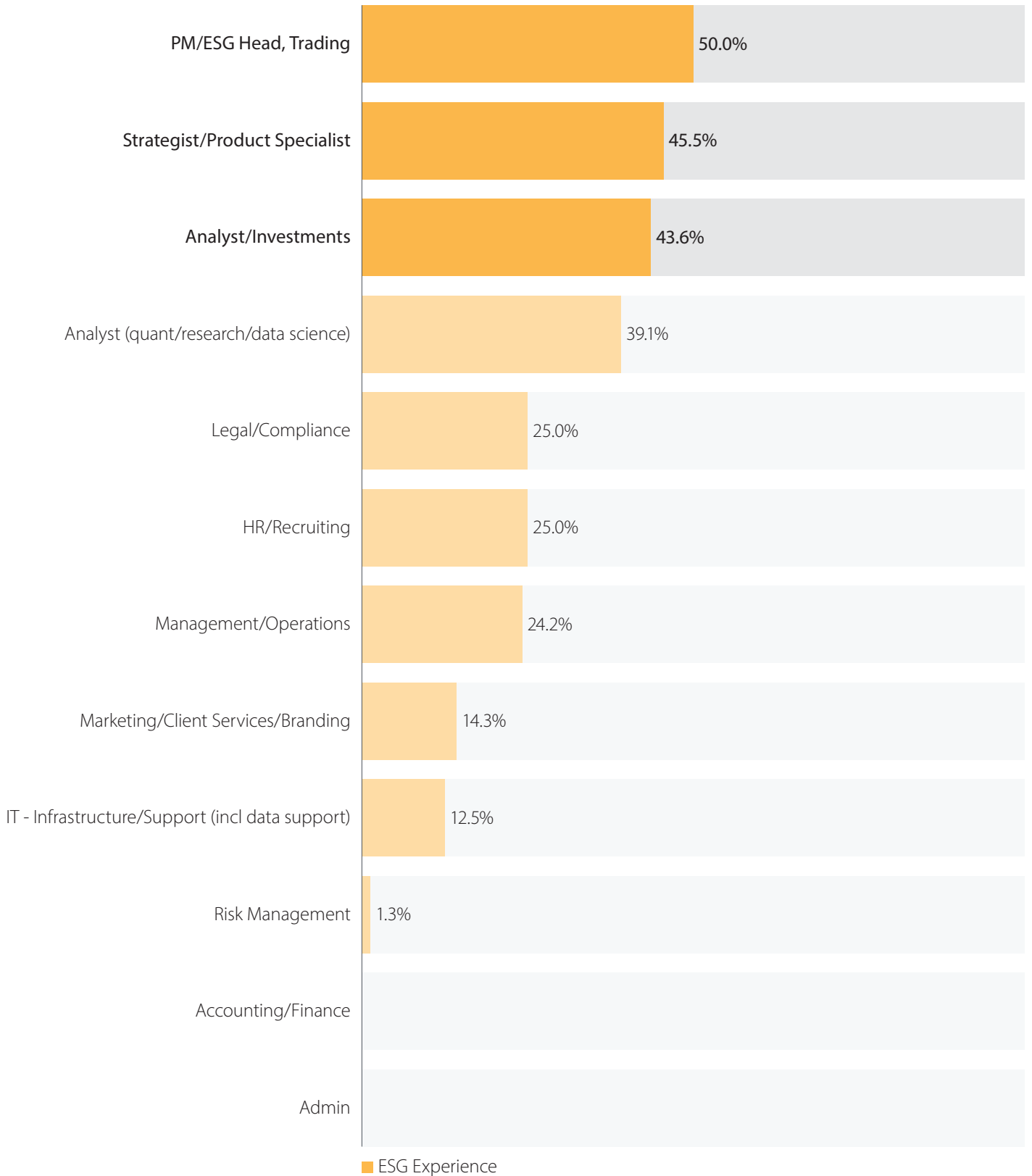


Chart 4. Global – Gender

Key Message: On a global basis, half (49.6%) of all ESG hires were women, significantly exceeding women's share of hires within the general hedge fund industry (28.6%).

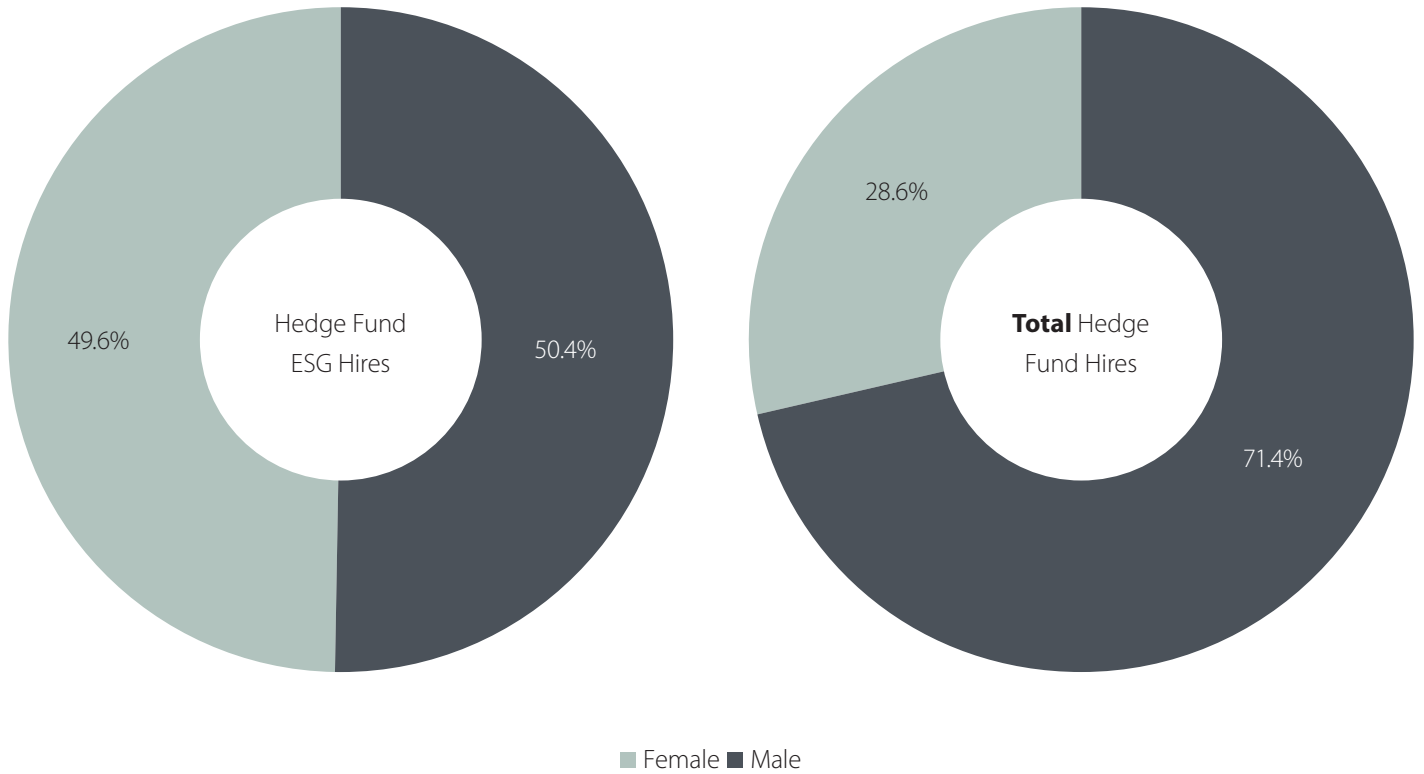
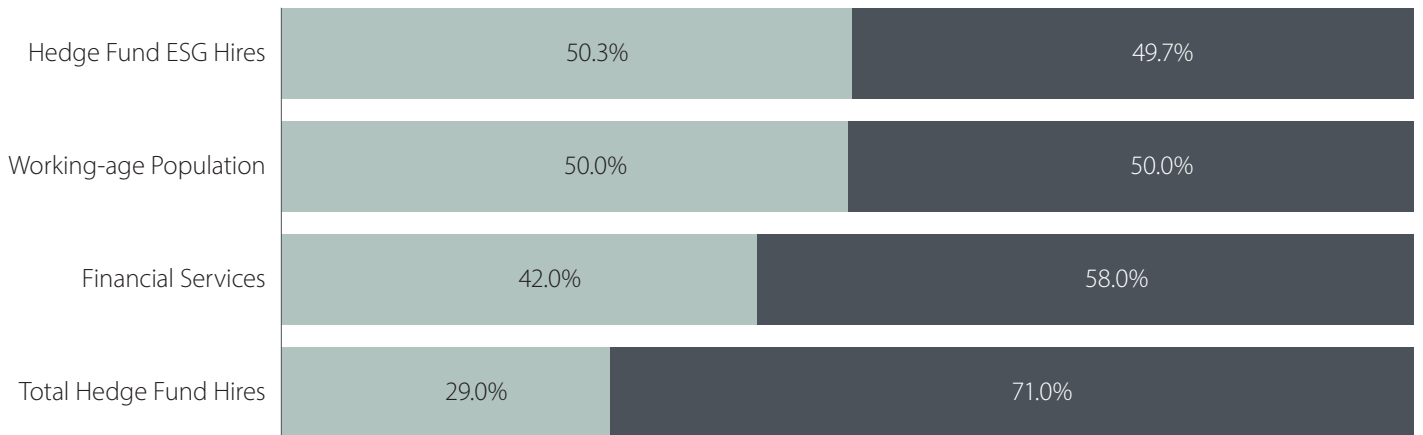


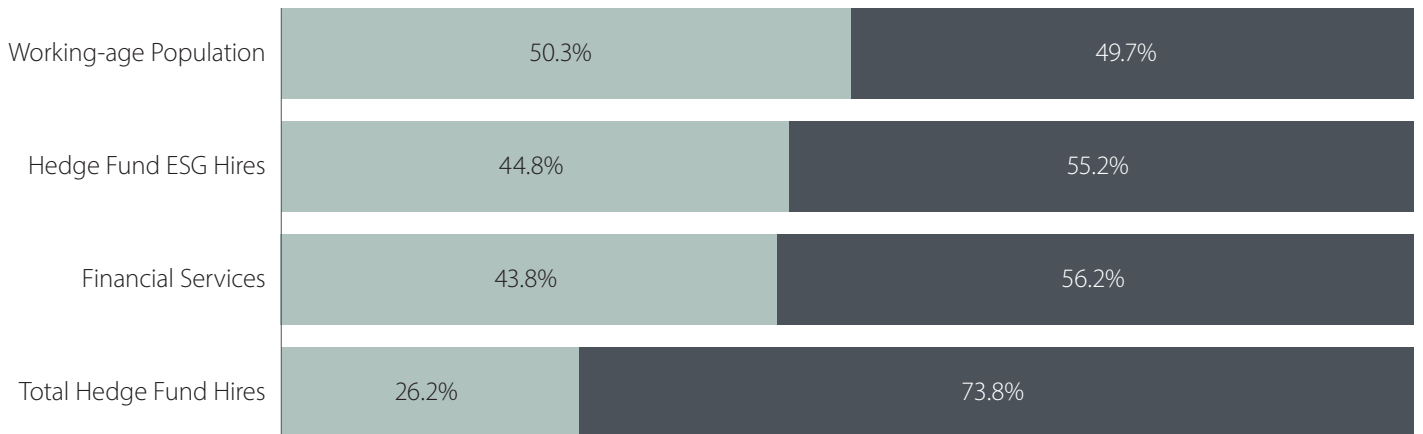
Chart 5. Gender Breakdown by Region

Key Message: Women's share of ESG hiring was at least as high as their share of hiring in financial services and comparable to their share of working-age population rates. Meanwhile, women's share of hiring was lowest within the general hedge fund sector.

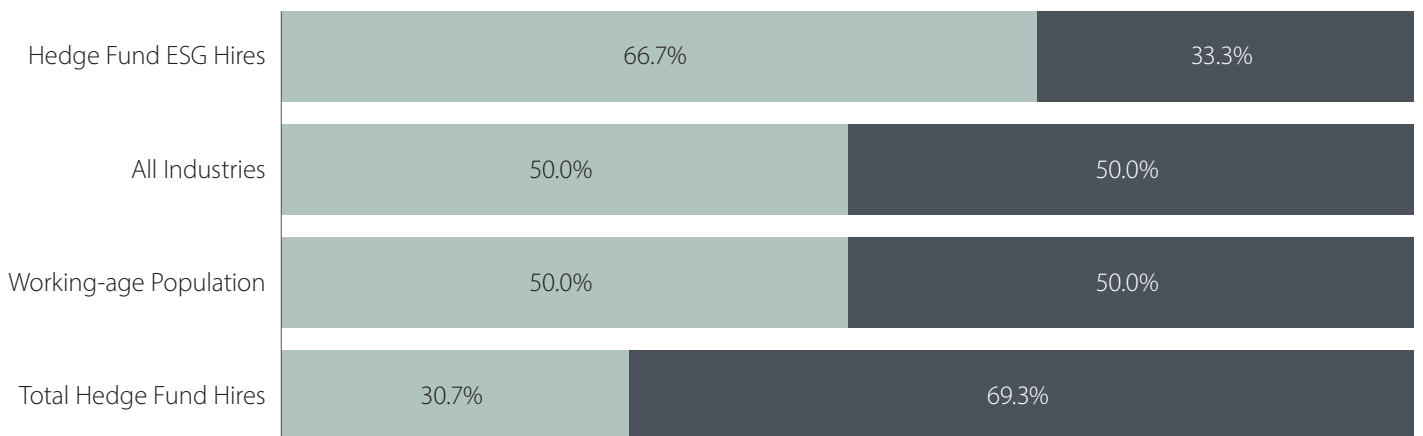
USA/Canada



Europe/UK



Asia (ex-Australia)

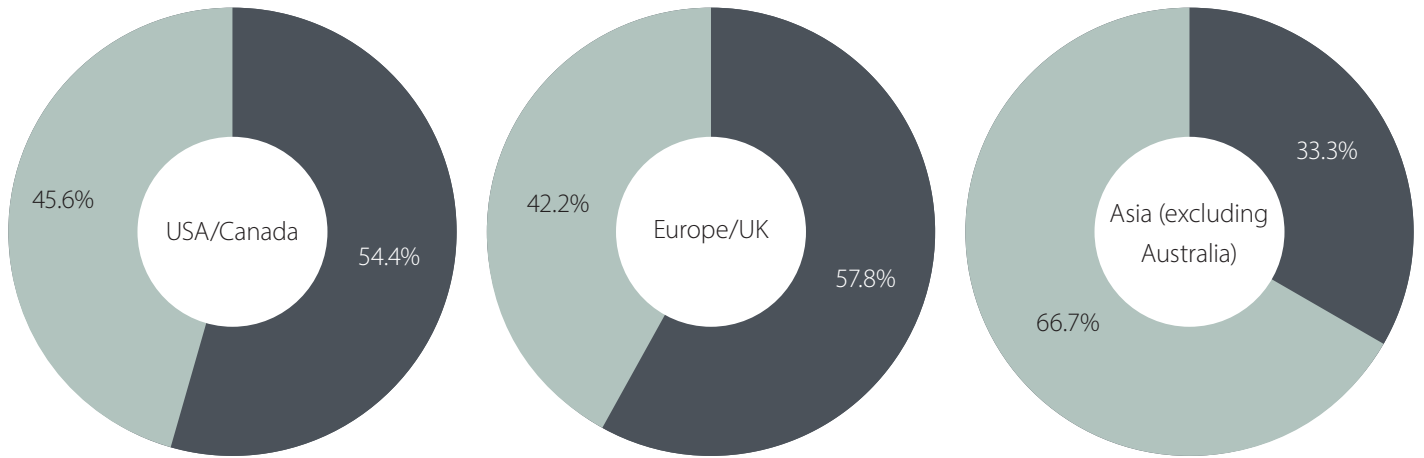


■ Female ■ Male

Chart 6. Female Investment Professionals by Region

Key Message: Women were also substantially more represented in investment roles across all three regions as compared with their representation in hedge fund investing roles more generally.

Female Share of Hedge Fund ESG Hires



Female Share of Total Hedge Fund Hires

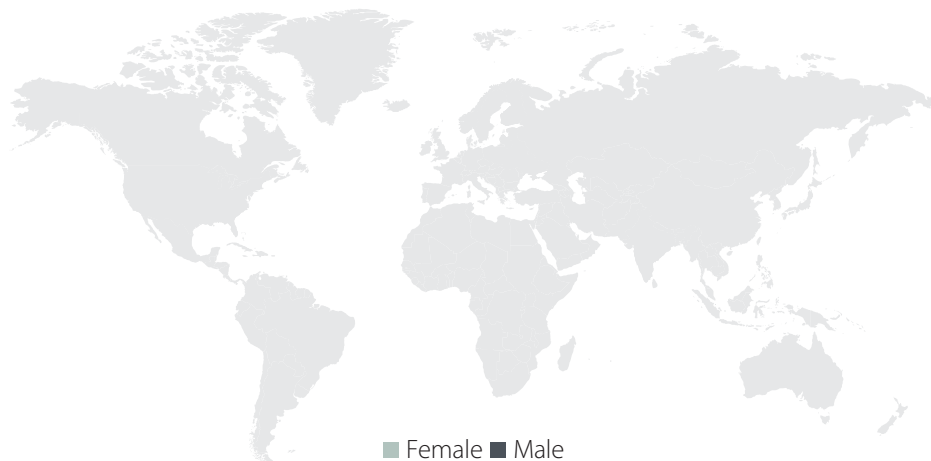
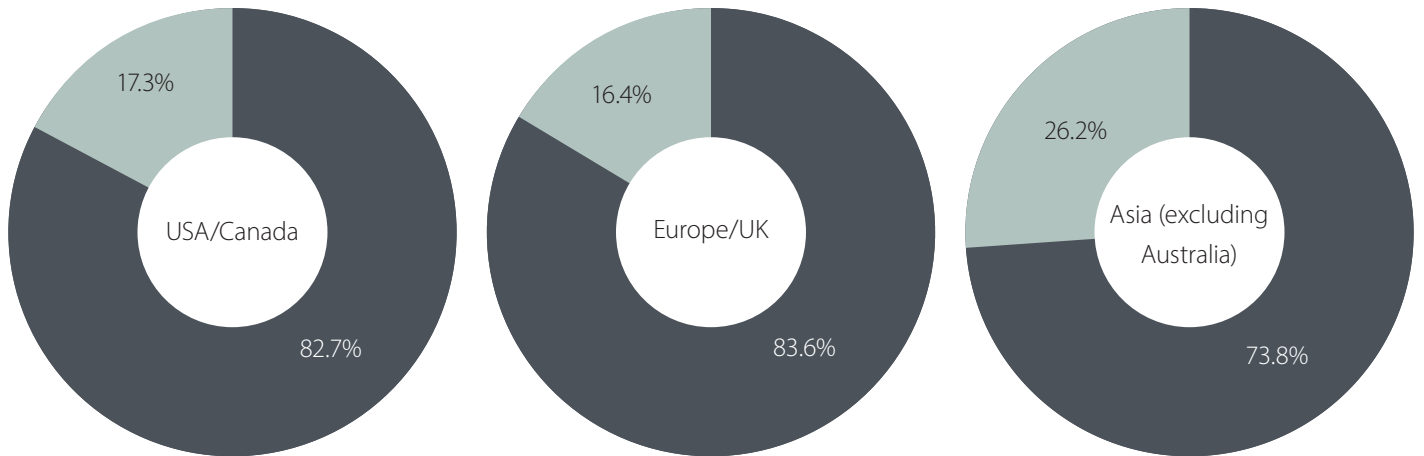
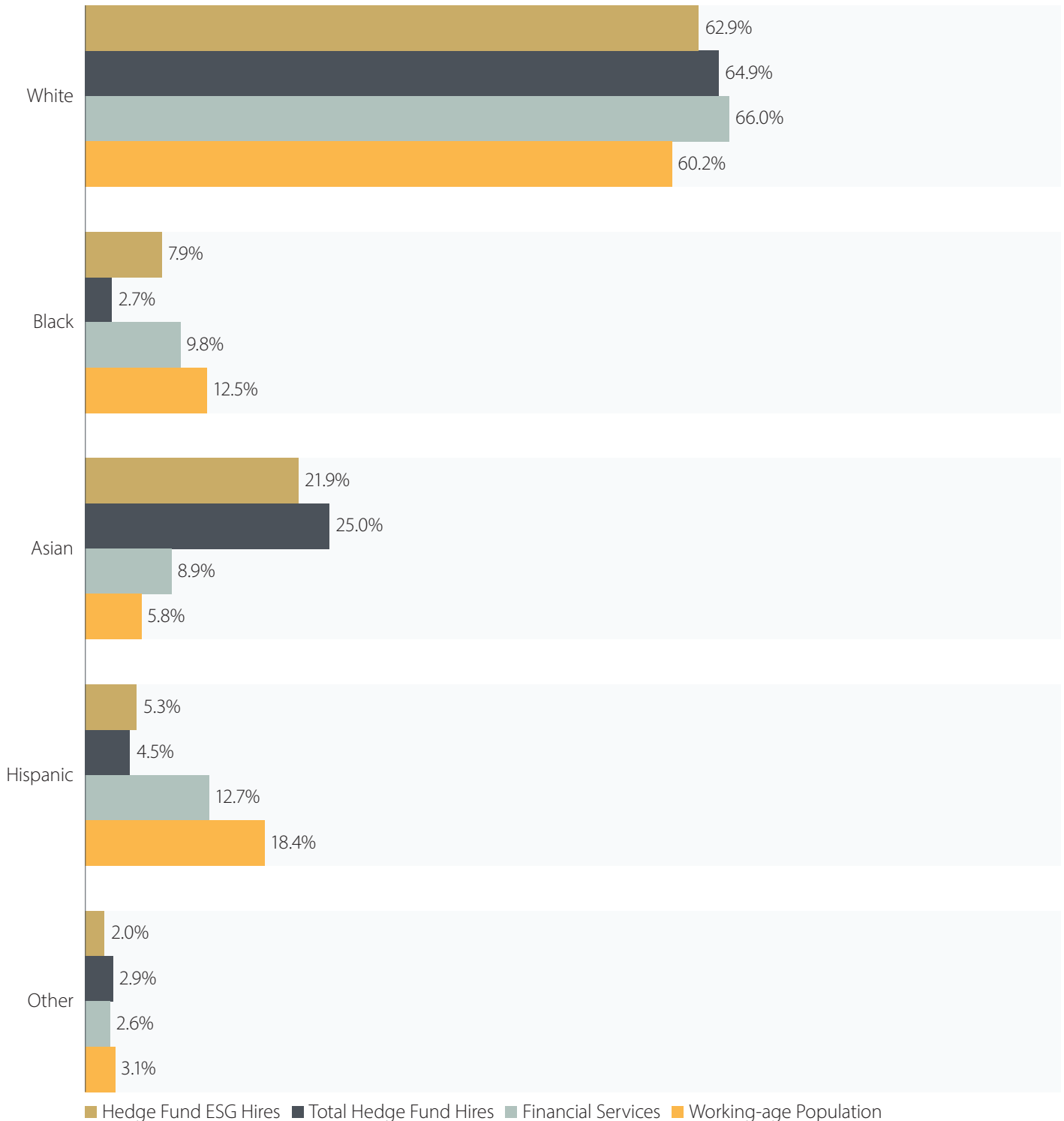


Chart 7. USA Race Breakdown

Key Message: Blacks in the U.S. were hired into ESG roles at a rate more than double their representation in the broader hedge fund industry. Hispanics were also better represented. Whites and Asians, meanwhile, were hired at lower rates than they were in the hedge fund industry.



Note: March 2022 Post-Enumeration Survey and Demographic Analysis for 2020 Census did not impact overall conclusions of this report.

Chart 8. USA Race Breakdown for Investment Professionals

Key Message: These higher rates of Black hiring were more muted for investment professional roles. Hispanics, meanwhile, maintained their share of investment professional representation for ESG investment roles.

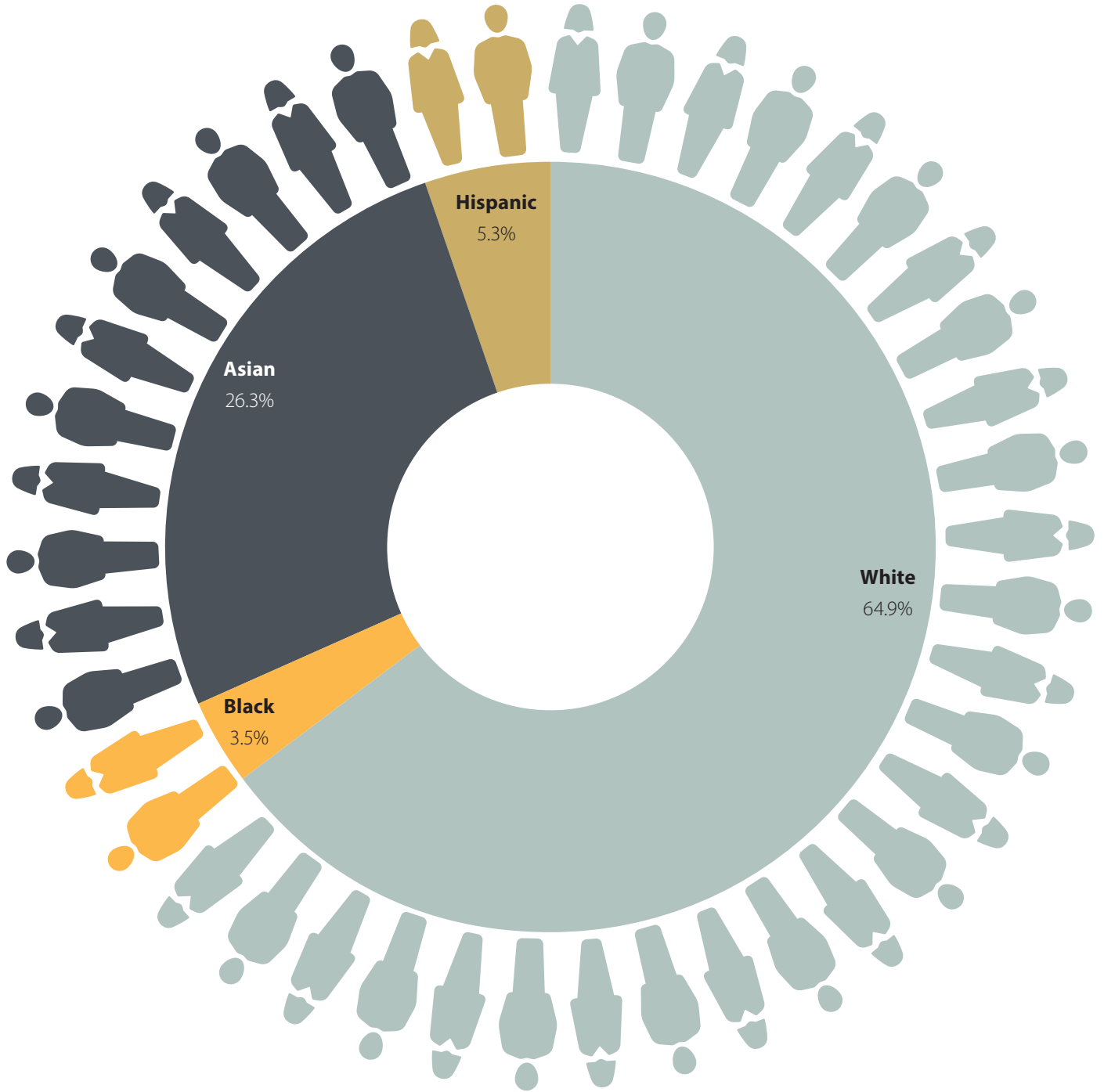


Chart 9. Europe/UK Race Breakdown

Key Message: No major race differences were found in Europe/UK when comparing hedge fund ESG versus total hedge fund hiring.

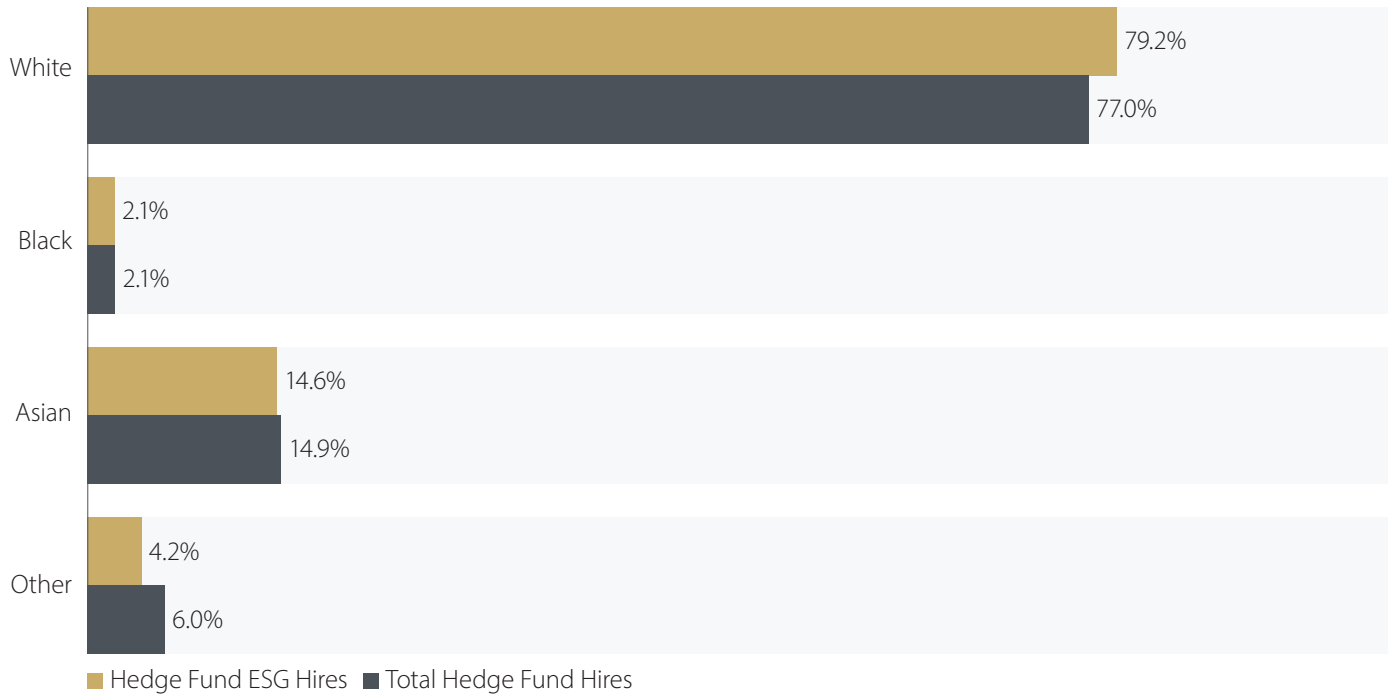


Chart 10. Asia Race Breakdown

Key Message: No statistically significant differences were found in Asia when comparing hedge fund ESG versus total hedge fund hiring.

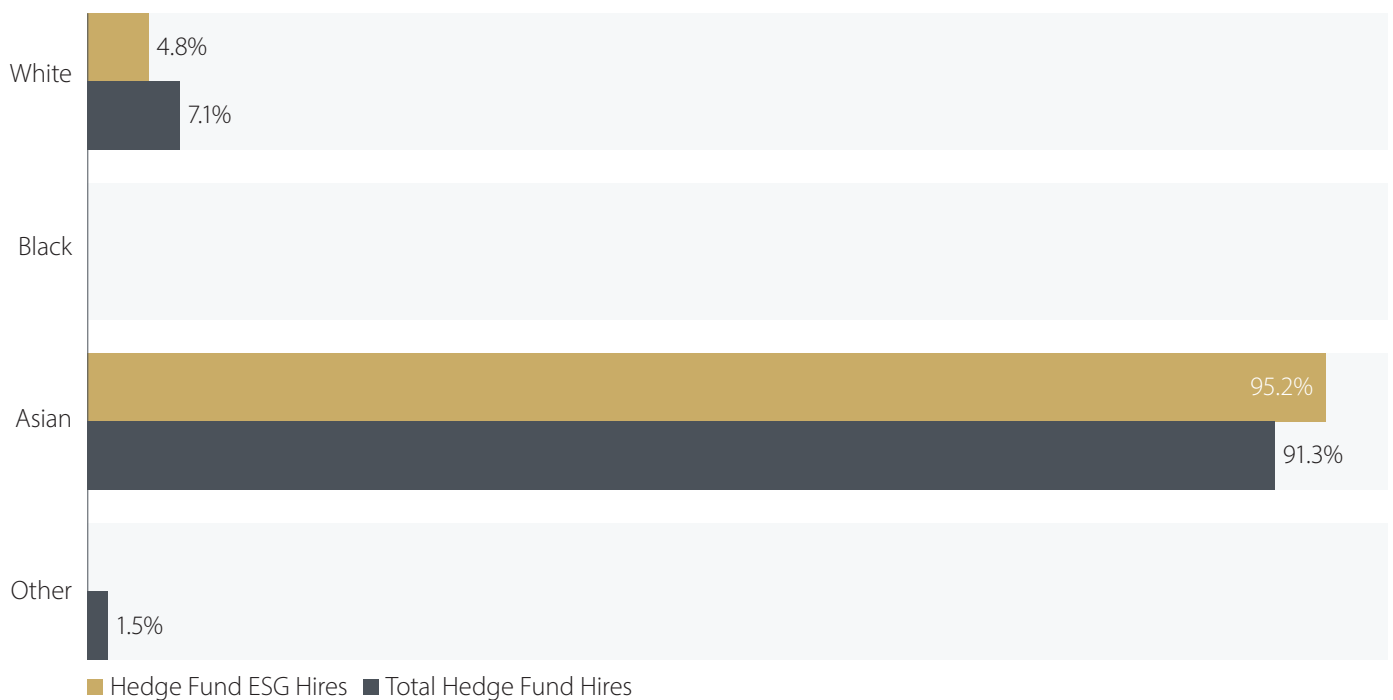
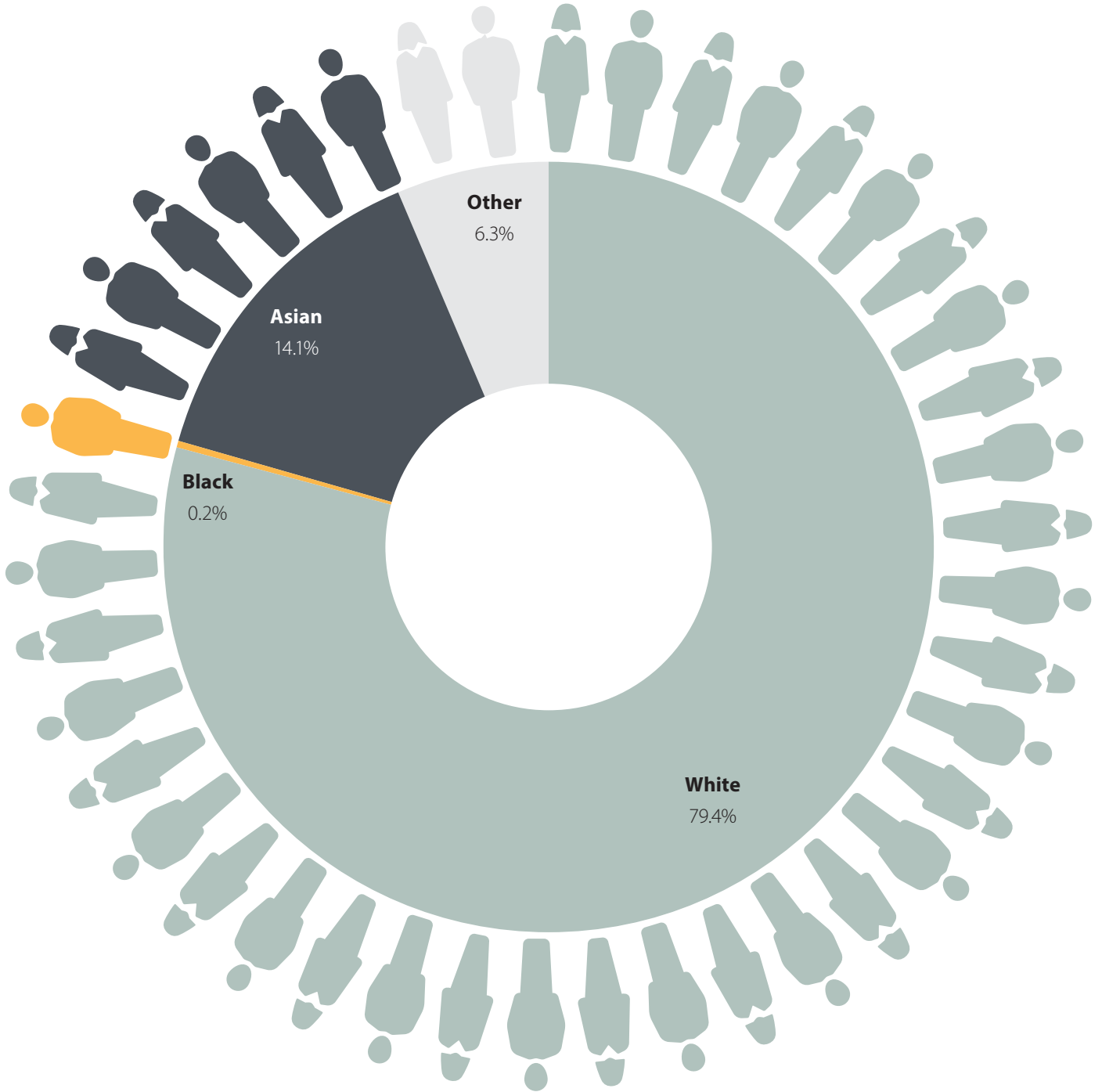


Chart 11. Europe/UK Race Breakdown for Investment Professionals

Key Message: The Black hiring rate declined for investment roles in Europe/UK. Meanwhile groups categorized by “Other” increased their share of ESG investment hires.



SOURCES

AMObserver for all hedge fund hiring and promotions data in the United States/Canada, Europe/UK, and Asia/Australia.

USA DATA

[Post-Enumeration Survey and Demographic Analysis \(March 2022\) for 2020 Census](#)

[United States Census '20 for United States Population data](#)

[United States Census '19 for United States Population data](#)

[U.S. Equal Employment Opportunity Commission '18 for Financial Services data](#)

EUROPE/UK DATA

[Europe/UK Population: Office of National Statistics: Annual Population Survey '20](#)

[Europe/UK Financial Services: International Labor Organization '20](#)

ASIA DATA

Hong Kong

[General Population: Hong Kong Census and Statistics Department '20](#)

[Financial Services: International Labor Organization '20](#)

Note financial services in this country is inclusive of Trade, Transportation, Accommodation and Food, and Business and Administrative Services

China

[General Population: China Statistics Press '20](#)

India

[General Population: Central Intelligence Agency World Factbook '21](#)

[Financial Services: International Labor Organization '20](#)

Singapore

[General Population: Singapore Department of Statistics '21](#)

[Financial Services: International Labor Organization '21](#)

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ABOUT US

The Author

Claude Schwab is founder and CEO of AMObserver. Claude served as Bridgewater Associates' talent strategist for senior investment talent and consulted with BW's CIO team. He has also led several executive search firms' alternative asset management divisions. Earlier in his career, Claude founded a hedge fund search and media firm that was acquired by Heidrick & Struggles (NASDAQ: HSI) and where he served as a partner in charge of alternative asset management for North America. Claude has authored several reports and publications, including the *2021 Hedge Fund Diversity, Equity, and Inclusion* report; *Hedge Me*; and *Pay Me*. He holds an MBA from The Wharton School, an MA from Columbia University, and a BA from the University of Pennsylvania.

AMObserver

AMObserver (AMO), formerly HFObserver, is an online platform that tracks human capital developments in the alternative asset management industry. AMO leverages a network of experts and a unique data methodology that optimizes firm and industry benchmarking and talent insights.

AMO is owned by The Kronor Group.

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