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The Briefing Report

ESG's impact on the fund industry

Hedge funds beware

Socially active investors will have noted how easy it was to take on the hedge funds who shorted GameStop. Those who have been shorting companies popular with social investors, such as those in the travel sector who prioritised their employees' welfare over making redundancies, could now be in big trouble. Social activists are acquiring the power to take on hedge funds.

There are many lessons to be learnt from the dramas surrounding the GameStop situation. One of those, which received relatively little press coverage, is just how easy it turned out to be for well organised retail investors to take on hedge funds and other professionals who short stock for a living.

Thanks to advances in technology, allied to a global trading environment and market transparency, it is becoming almost ridiculously easy for groups of motivated amateur traders to take on those that take large, prominent short positions. A few messages are sent around the world, and all of a sudden many thousands of retail investors are buying up the stock of companies that have been shorted by the much-hated hedge fund industry.

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PE & ESG: getting ever closer

Could PE fund's carried interest be linked to progress on ESG goals such as on carbonisation targets and social goals? Many institutional ESG investors would approve of such a development. ESG has become critical to private equity, more so than to other alternative asset classes.

'ESG is critical. It's critical to returns, it's critical to value creation, it's critical to our planet. It is also going to be critical to the PE industry and the viability of the PE industry long-term', said Emily Mendell, former managing director at the largest association of LPs. And Klaus Schwab, founder of the World Economic Forum in Davos, has stated that, 'Performance must be measured not only on the return to shareholders, but also on how it achieves its environmental, social and good governance objectives.'

Traditionally, private equity has not reported non-financial criteria. Also, it is important to remember just how different this part of the investment world is from what goes on in public markets. Public companies have regular and extensive reporting requirements, those that are invested in by the PE industry disclose far less.

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