

PRI Reporting Framework

HEDGE FUNDS

2021

WHO DOES THIS MODULE APPLY TO?

The hedge funds module is designed for signatories who invest directly in hedge funds and implement responsible investment for at least some of those assets.

If investors exclusively use external managers for their responsible investment in hedge funds, this module is not applicable.

Investors will instead report this in the external investment manager selection, appointment and monitoring (SAM) module.

This module seeks information at the organisational level and for hedge fund investments in aggregate; reporting should be done for all hedge funds AUM and not focus on one fund or product.

It is mandatory to complete this module for signatories who have **either 10% of their AUM, or US\$10bn or more**, directly invested in hedge fund strategies in the relevant reporting year.

The hedge fund strategies that can be reported on in this module include:

- Multi strategy
- Long/short equity
- Long/short credit
- Distressed credit, special situations and event driven fundamental
- Structured credit
- Global macro
- Commodity trading adviser
- Other

MODULE HIGHLIGHTS:

- Some indicators require signatories to specify which hedge fund strategies a responsible investment practice is applicable to, while others focus on signatories' overall hedge fund assets.
- A focus on the ESG information used in incorporation strategies and the robustness of investment decision making.
- Includes a new indicator on transparency and communication to clients and/or other stakeholders on responsible investment practices for hedge funds.
- Includes indicators on (proxy) voting practices and disclosure, and shareholder resolutions for equity-linked hedge fund strategies. Engagement and other stewardship activities will feature in the ISP module and in relevant asset class modules.
- Indicators on securities lending programmes focus on public voting policies and how voting is addressed.
- 'Plus' questions outline leading practice or innovative examples for ESG incorporation in hedge funds.

More information on **how to incorporate ESG in hedge funds**, including practical guides, tools and case studies, can be found on the PRI's dedicated [hedge funds](#) webpage.

The module's explanatory notes will provide additional guidance and resources at an indicator level.

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RESULTS OF THE REPORTING FRAMEWORK REVIEW

SIMPLER AND MORE CONSISTENT

- There are fewer indicators and sub-indicators than in previous years.
- We removed indicators that were largely descriptive, open-ended, prone to misinterpretation and geared towards what signatories are doing rather than how.
- Indicators that are more relevant on an organisational level have been amended and/or moved to the firm-level Investment & Stewardship Policy (ISP) module.
- This module has been aligned with the listed equity and fixed income modules, where applicable.

EVOLVED AND MORE CHALLENGING

- The module is still process oriented but is focused on how robust ESG incorporation processes are, and whether they are consistently applied to all assets managed within hedge fund strategies.
- Signatories will be required to indicate the depth of activities for some indicators or indicate the AUM coverage for a practice (this has been detailed in the module overview below).
- This module will be assessed from the 2021 reporting cycle onwards.

19%
decrease
in number of
indicators

compared to 2020

24 CORE

6 PLUS

MODULE OVERVIEW

The hedge funds module consists of the following¹ sections and sub-sections:

POLICY (1 INDICATOR)	PRE-INVESTMENT PHASE (11 INDICATORS)	POST-INVESTMENT PHASE (4 INDICATORS)	REPORTING/ DISCLOSURE (2 INDICATORS)	STEWARDSHIP (12 INDICATORS)
<ul style="list-style-type: none"> ■ Investment guidelines 	<ul style="list-style-type: none"> ■ Materiality analysis (Indicate AUM coverage) ■ Long-term ESG trend analysis (Indicate AUM coverage) ■ ESG <small>PLUS</small> incorporation ■ ESG <small>PLUS</small> incorporation in portfolio construction 	<ul style="list-style-type: none"> ■ ESG <small>PLUS</small> incorporation in portfolio construction ■ ESG risk management 	<ul style="list-style-type: none"> ■ Disclosure on ESG products ■ ESG <small>PLUS</small> incorporation in portfolio construction 	<ul style="list-style-type: none"> ■ Securities lending policy ■ Alignment and effectiveness ■ Pre-declaration of votes ■ Voting disclosure post AGM/EGM ■ Examples <small>PLUS</small>

PLUS 'Plus' indicators included in this sub-section.

¹ While every effort has been made to ensure this overview is a true reflection of the Reporting Framework, elements such as the number of indicators per section or sub-section are subject to change.