

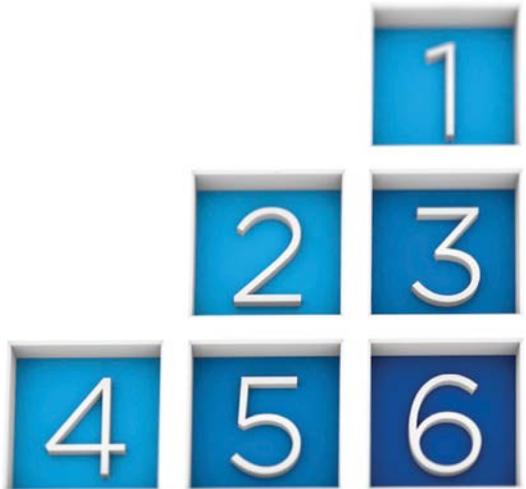
**RESPONSIBLE  
INVESTMENT  
DUE DILIGENCE  
QUESTIONNAIRE  
FOR HEDGE FUNDS**

# THE SIX PRINCIPLES

## PREAMBLE TO THE PRINCIPLES

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

- 1** We will incorporate ESG issues into investment analysis and decision-making processes.
- 2** We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 3** We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 4** We will promote acceptance and implementation of the Principles within the investment industry.
- 5** We will work together to enhance our effectiveness in implementing the Principles.
- 6** We will each report on our activities and progress towards implementing the Principles.



## PRI's MISSION

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

# ACKNOWLEDGEMENTS

The PRI would like to thank the members of the Responsible Investment Due Diligence Questionnaire (DDQ) Working Group for their contribution to the development of this questionnaire:

- William Bryant, Partner, Portfolio Analyst, Albourne Partners
- Eric Cockshutt, Director, Head of RFP & Responsible Investment Coordinator, Unigestion
- Thomas Deinet, Executive Director, HFSB
- Rebecka Elkert, Responsible Investment Specialist, SEB Life & Pension
- Ulrika Hasselgren, Global Head of Responsible Investment Strategy, ISS
- Marta Jankovic, Senior Sustainability and Governance Specialist, APG Investment Management
- James Jarvis, Head of Multistrategy, Trium Capital
- Stephen Kennedy, Partner, Portfolio Analyst, Albourne Partners
- Edward Mason, Head of Responsible Investment, Church Commissioners for England
- Jarkko Matilainen, Director of Hedge Fund, Varma Mutual Pension Insurance Company (Chair)
- J. Jason Mitchell, Sustainability Strategist, Man Group
- Christopher Palazzolo, Principal, Client Strategies, AQR Capital Management
- Gallus Rechsteiner, Executive Director, LGT Capital Partners
- Peter Smith, Investment Officer, TPT Retirement Solutions
- Chris Varco, Senior Investment Director, Cambridge Associates
- Jennifer Wood, Managing Director, Global Head of Asset Management Regulation & Sound Practices, AIMA

# ABOUT THIS DDQ

## PURPOSE

This responsible investment due diligence questionnaire (RI DDQ) is the **first industry-standard** RI DDQ to assist investors when assessing external hedge fund managers on their responsible investment policies and practices. It helps identify those hedge funds that have the personnel, knowledge, and structure to incorporate environmental, social and governance (ESG) factors in the investment decision-making process.

## OBJECTIVES

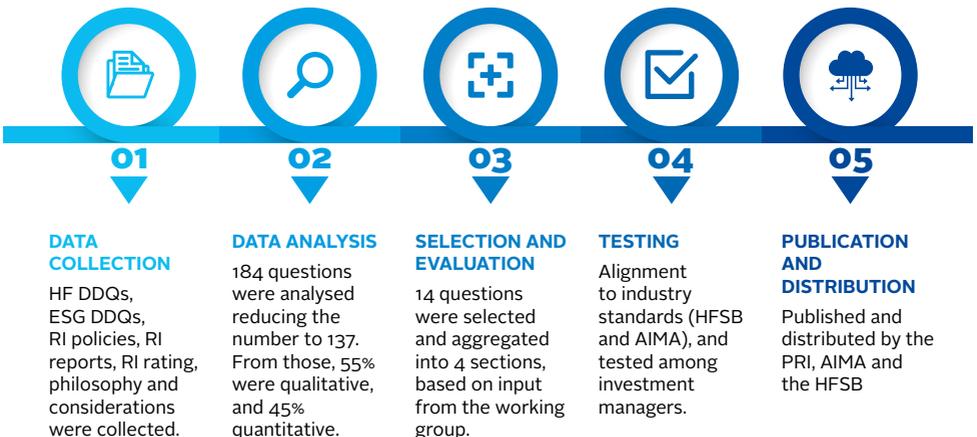
- **GUIDANCE:** A standard for investors on RI in the due diligence of a hedge fund investment.
- **DIALOGUE:** A tool to facilitate a two-way dialogue between investors and investment managers on RI.
- **DATA:** Use standardised questions to reduce reporting burden, facilitate peers' comparison, cross checking of information and data consistency.

- **ACCESS:** Users will have access to the questionnaire across different platforms – the PRI, the Alternative Investment Management Association (AIMA) and the Hedge Fund Standards Board (HFSB).

## BACKGROUND

The PRI published a discussion paper in March 2012 to raise awareness about applying RI into hedge funds. Subsequently, a working group led by the PRI, with the support of asset owners, investment managers, investment consultants, the AIMA and the HFSB developed a standardised set of questions which are: applicable to any hedge fund strategy; and easy to access and use by asset owners, investment managers and consultants. The working group followed a five-stage process shown in Figure 1.

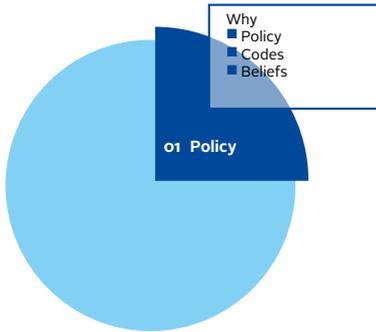
Fig. 1: HF RI DDQ development process



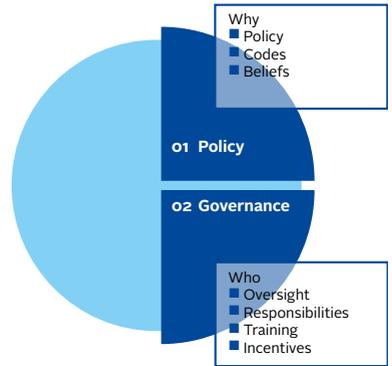
## SECTIONS OF THE DDQ

A top-down approach was used to define the structure of the questionnaire. The RI DDQ has 14 questions divided into four

sections: policy, governance, investment process, and monitoring & reporting.



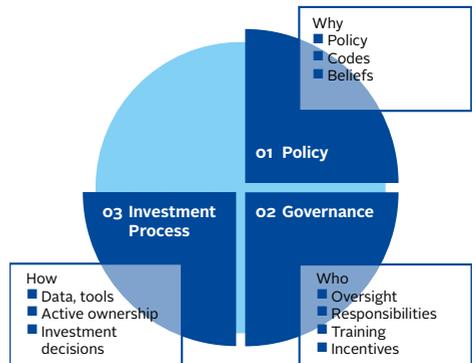
The policy section identifies why an investment manager considers RI.



The governance section assesses who takes responsibility for the investment decisions, at what level these decisions are taken in the organisation, and if the investment manager has the capacity and governance structure to implement and oversee them.



The monitoring & reporting section evaluates how asset owners can assess implementation, both initial and ongoing, of RI into the investment process.



The investment process section evaluates how investment decisions are made and implemented in light of RI.

# THE RI DDQ

## 1. POLICY

- 1.1. Does the investment manager have a policy addressing its approach to the incorporation of ESG factors within the investment process? If yes, please provide a copy of the policy and indicate the coverage of the policy by asset class, funds, strategy and AUM. If there is no policy, please explain why.
- 1.2. What is the investment manager's rationale for adopting a policy to incorporate RI into the investment decision-making process?
- 1.3. To which normative codes and initiatives is the investment manager a signatory or a voluntary adherent (e.g. the PRI, national stewardship codes, HFSB Hedge Fund Standards, CFA's Asset Manager Code of Professional Conduct, AOI Hedge Fund Principles 2014)?

## 2. GOVERNANCE

- 2.1 Please indicate the methods of investment manager internal oversight (e.g. oversight by investment committee, firm management, board of directors, etc.), and reporting of RI incorporation across the investment manager's organisation.
- 2.2 Please describe how the investment manager has organised RI responsibilities within its investment team(s) and indicate whether the investment manager employs RI professionals.
- 2.3 Please explain what RI training is provided by the investment manager to its employees.
- 2.4 Does the investment manager's annual employee performance review or remuneration metrics reflect any component for the inclusion of RI? If yes, please describe them. If not, please explain.

### IMPORTANT NOTES TO USERS:

- The answers to these questions may vary according to each fund(s) strategy, and their knowledge of and ability to implement RI.
- Users may want to consider using this questionnaire in conjunction with their own DDQ, either embedded within it or as an addendum to it.

### 3. INVESTMENT PROCESS

- 3.1 Please describe what ESG data, research, third-party consultants, resources, tools and practices the investment manager uses. How are these incorporated into the investment and risk management process?
- 3.2 Have there been any changes to the investment manager's RI incorporation process over the past 12 months (e.g. additional resources, information sources)? If yes, please describe them. If not, please explain.
- 3.3 Please explain how active ownership practices, both voting and engagements, are integrated into investment decisions.
- 3.4 Please provide examples of where ESG risks and opportunities were incorporated into the investment manager's investment decisions over the past 12 months.

### 4. MONITORING & REPORTING

- 4.1 Please describe what metrics (internal and/or external) the investment manager uses to measure its progress in incorporating RI into the investment process.
- 4.2 Does the investment manager assess its fund's exposure to climate risk and measure and monitor the carbon footprint of its investment portfolio? If yes, please explain the assessment process. If not, please explain why.
- 4.3 How often and in what format (e.g. meetings, written reports) does the investment manager report to its investors on ESG activities and portfolio ESG risks assessments? Please provide reporting examples.

## CREDITS

Author: Marisol Hernandez, PRI

## The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: [www.unpri.org](http://www.unpri.org)



The PRI is an investor initiative in partnership with **UNEP FINANCE INITIATIVE** and the **UN GLOBAL COMPACT**.