Money can't buy you love

Are hedge funds as amoral as they've been painted by the press? SAFI THIND looks into the relationship between hedge funds and philanthropy – and which managers are giving the most

AT THE HEIGHT of the Covid-19 crisis in March, one canny soul in Tennessee bought 17,700 bottles of hand sanitiser, which he was selling at the upmarket premium of between $8 and $70 each.

When word got out to the press, the guilty entrepreneur confessed shame and donated the entire stock to his local church.

This kind of arbitrage may seem shocking to the average Joe when you're suffering from job losses, reduced income, death and disaster – and this year seems just to be the tip of an ever-advancing iceberg. But what about when it's referenced in the frame of the capital markets?

According to the World Economic Forum, wealth disparity between the rich and the poor is likely to grow through the pandemic. It was already headed that way. Last year saw the first widening of the poor/rich gap since 2016. Meanwhile, twelve billion dollars was earned by 15 hedge fund managers in 2019.

And this year, investors have shown no mercy to markets. In March, hedge funds made £1.5bn profits shorting the 50 most sold stocks in the UK. AQR and Citadel made more than £40m each on the fall of easyJet's stock value alone.

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> **"It may be heresy to call out the forces of what is, after all, a free market. But could Covid be the start of a revolt against these types of profiteering practises?"**

The traditional press has long since turned. An article in *Vanity Fair* in July is one of countless examples, damning the greed of Wall Street gaining from the Fed-backed corporate bond bonanza, even as lower income businesses struggle.

In April, MSNBC's anchor Stephanie Ruhle laid into hedge fund manager and ex-head of White House communications Anthony Scaramucci as he attempted to make the case for hedge fund managers getting handouts from the US government's stimulus package.

Even the rightest of right-wing arms of the media is at it. In March, Fox News' Tucker Carlson, launched a scathing attack on hedge funds and specifically "amoral greedhead" Bill Ackman who he criticised for refusing to donate any of his considerable cash to the American public.

So what's the deal? Are hedge funds as amoral as they're being painted? What about their oft-vaunted philanthropy? Is the business teetering?

Charity

It would be wrong to say hedge funds have not helped this year. The list of philanthropic donations is both sizeable and well publicised.

Stanley Druckenmiller, founder of Duquesne Capital, set up a charitable foundation called Blue Meridian, made up of other wealthy business folk which, in April, announced it would deploy a $100m Covid-response fund to support help communities and low-income individuals access much-needed public aid.

Ken Griffin's Citadel pledged to contribute $7.5m to help China's Hubei province in February – and has since gone on to give $5m in donations to New York's hospitals in April, and a $2m to Imperial College's vaccine search.

David Tepper, worth around $12bn, spent $22m on Covid relief to April.

Even the 'amoral greedhead' Bill Ackman may be more sinned against than sinning. In 2012, he had already signed Warren Buffett's The Giving Pledge, promising to give away "at least half" of his wealth to charity before he dies.

Study

But some just don't believe it. A study by Sugata Ray, Yan Lu and Vikas Agarwal – *Are Hedge Fund Managers' Charitable Donations Strategic?* – examines the motives behind hedge fund managers' charitable donations and the effects these donations have on both their net flows and also their performance.

The researchers took a sample of 6,642 charitable donations by 667 hedge fund managers between January 1994 and June 2016. Interestingly they found that the probability for managers of poorly performing funds making a donation is almost double that for managers of relatively well-performing funds. In addition, the donation probability for the managers in funds with the lowest net flows is about 50% greater compared to the managers of other funds with higher flows.

"The fact that hedge fund managers are more likely to give when their funds are doing badly is suggestive of strategic intent behind their gifts," say the authors.

And the tactics seem to work.

Hedge fund donations are followed by about 9% greater annualised net flows compared to similar, non-donating peers.

The study showed that managers win even more assets with donations to marquee institutions where their hedge fund peers are also likely to give, such as the Clinton Foundation, Columbia University and New York's Metropolitan Museum of Art and Museum of Modern Art.

Gifts to these hallowed institutions were followed the subsequent year by an increase in net inflows of 11%.

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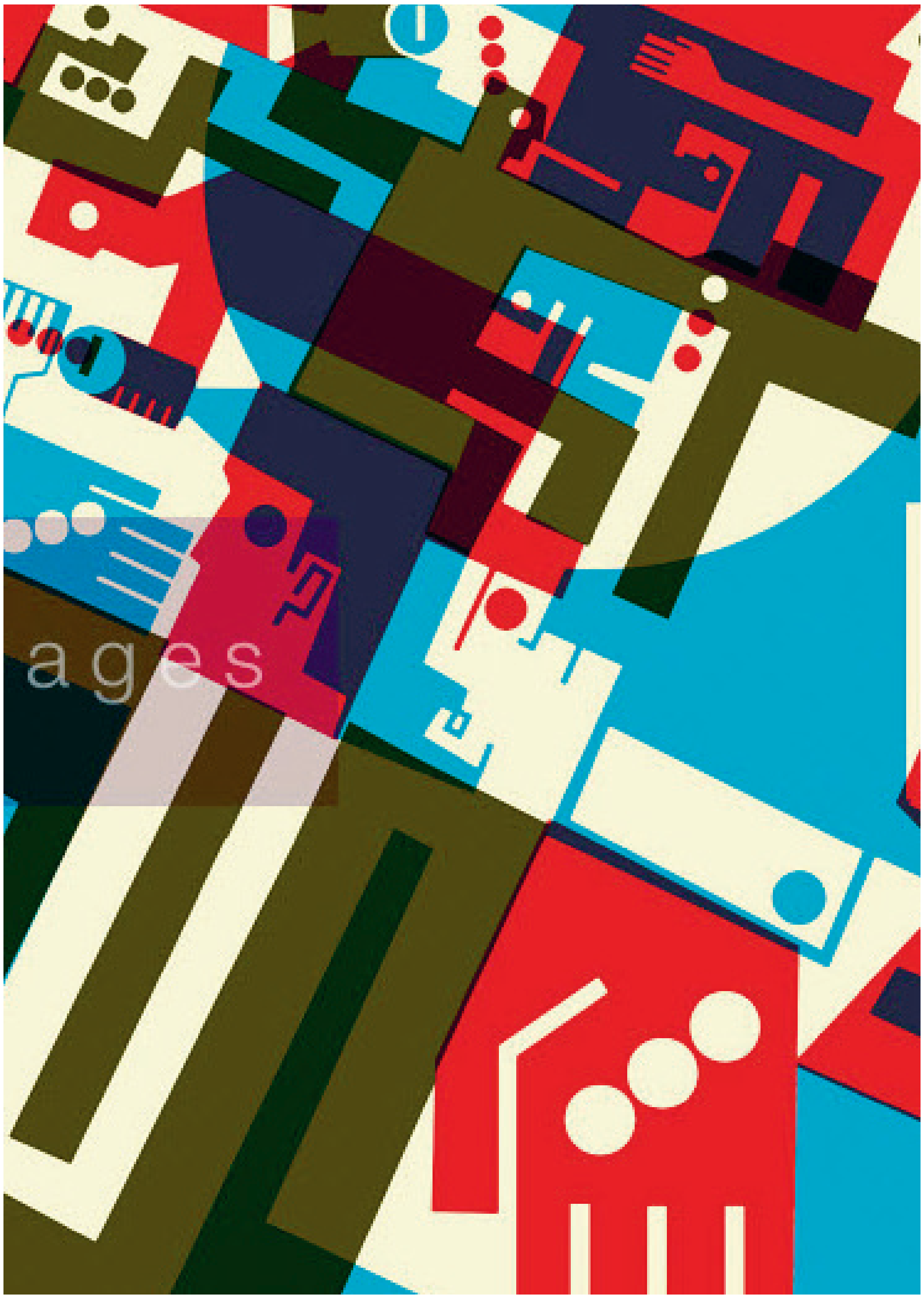

“In these events you find high net worth individuals or investment offices mingling with hedge fund managers and learning about their good deeds,” says Sugata Ray. “That engenders trust and more propensity to give them a second chance.”

Balancing capitalism

Ray does not believe all hedgie donations are strategic, of course. There are the vast swathe of anonymous donations which are done simply for the sake of helping.

Jack Inglis, chief executive of the Alternative Investment Management Association (AIMA), backs this and says nothing could be further from the truth when asked if the hedge fund industry is insular and self-serving.

“It may be said that hedge funds don’t always offer transparency about what they are doing and they operate similarly in the philanthropic domain,” he says. “There is a huge amount going on. But some of these are private people and don’t feel the need to make their work public.”

Inglis is also chair of the charity Help for Children’s UK affiliate, which has distributed some $55m it has raised from hedge funds since 1998 to help underprivileged children.

He is adamant that hedge funds are a valuable resource in the wider social fabric – part of the asset management industry working to protect and produce returns on the world’s pool of savings.

Michael O’Leary, co-author of *Accountable: How we Can Save Capitalism*, meanwhile, believes the problem is not the individual industry but capitalism as a defining system.

“Too much of the finance industry buys into this ‘Gospel of Wealth’ approach to their lives,” he says. “They make money during the week and then give it away on the weekends. Our world is dominated by big corporations. If they’re run in ways that hollow out communities, undermine our political system, trap people in meaningless, low-paying jobs, and render our environment unlivable, donating a new wing at the local museum is enough.”

But, says O’Leary, we are seeing a shift. He points to the $715bn that has gone into impact investing over the last few years or the $100trn of investment money now committed to the United Nations Principles for Responsible Investment.

“It’s a better theory of value,” he says. “And investors are starting to wake up.”

Many things are facing a reckoning at the moment. It could be that 2020 induces more hedge fund managers to wake up. **H**

The fundraising environment is incredibly tough right now. If you can, please give generously to Help For Children at hfc.org