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# The Risk Profile and Performance of Environmental Hedge Funds

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## Abstract

This paper studies the risk profile and performance of a category of hedge funds defined as Environmental, meaning oriented to clean technologies, pollution reduction or socially responsible investments. The performance and risk profile of this new category is compared against hedge fund strategies that are not aligned with environmental investments. Seemingly Unrelated Regressions will be run in order to decompose monthly hedge fund excess returns into several market factors and manager value added alpha. The procedure applied aims to ascertain if Environmental or Green hedge funds do really provide additional value than traditional hedge fund strategies. It will be shown that although Environmental or Green hedge funds are riskier, in terms of annualized and monthly volatility, they provide higher annualized and monthly returns and higher manager value added alphas compared to the category of Non Environmental hedge funds. This out-performance is also observed when Environmental hedge funds are benchmarked against the different hedge fund strategies. However, when analyzing the evidence of manager skill with parametric and non-parametric tests, the results do not identify any reasonable degree of performance persistence for hedge fund managers constituting the Green portfolio.

**Key words:** Seemingly Unrelated Regressions, manager value added alpha, six-variable factor model, eight-variable factor model, performance persistence.