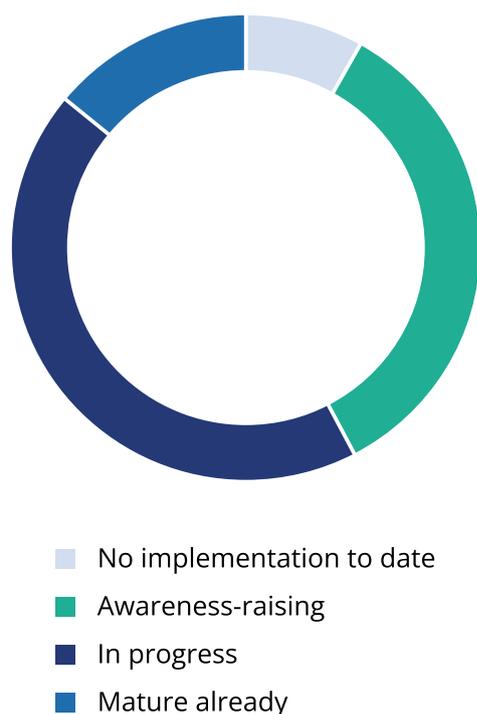


## A quant's eye view

Teza Capital Management is a global quantitative asset management firm. We pride ourselves on attracting and retaining top talent, developing strategies with a data-driven and science-backed methodology, and continuously innovating in pursuit of alpha for our clients. Our Manager Insights pieces delve into our “quant’s eye view” on markets, investment strategies, and industry developments.

As ESG considerations have begun to extend outside of public equities portfolios, a new wave of confusion and debate has arisen – how does the industry translate ESG categories that evolved in public markets to hedge funds, where it is possible to go both long and short? The fundamental question at play is: *How can hedge funds maximize the ESG impact of their investors’ funds?* This question is still very much up for debate, with the majority of hedge funds just beginning to consider or implement ESG into their investment processes. (See Figure 1).

Figure 1. Hedge Fund ESG Implementation Status, 2020



Source: [KPMG-CAIA-AIMA-CREATE Survey 2020](#)

While this debate extends to a variety of securities and ESG factors, we will focus on our area of expertise – climate impact in commodities portfolios – where there are three basic schools of thought:

### 1. Long-green; short-“dirty”:

This school of thought holds that both long and short positions can play an important role in a green portfolio. Opening long positions in green

commodities provides price support to encourage investment in “green” commodity production (or carbon removal), while shorting “dirty” commodities can help discourage their production and reduce new capital investment in upstream resources. A long-green, short-dirty portfolio can also allow a manager to express their long-term view of prices: e.g. that carbon prices must rise to meet climate goals, and oil prices will fall as transportation becomes electrified in the coming decades.

### 2. Long-only:

The Long-only camp believes that climate-conscious investors can maximize impact by focusing on the long side of their book. They hold that while shorting “dirty” commodities might discourage production by driving down producer profits, the lower price makes dirty commodities more appealing to end consumers. In their view, the most impactful way to use a commodity allocation is to provide price support for green commodities, encouraging investment in new production (or carbon mitigation/removal) technologies. These managers are investing with the expectation that regulatory pressure will raise demand for green commodities, and that for the foreseeable future prices will continue rising at a rate which outpaces inflation in order to support new investment and production, rewarding the patient long-only investor.

### 3. Long-short with a green-filtered portfolio:

These investors hold that market efficiency, not position direction, should be the metric for evaluating a portfolio’s impact – and that both long and short positions are important for efficient price discovery. In their view, investors should buy underpriced commodities – e.g. by holding long positions in carbon allowances if they expect additional regulatory pressure will drive prices up. However, if an environmentally friendly commodity is overpriced, they would advocate that its benefit can be maximized by driving down the price to increase adoption by end consumers – e.g. biofuels adoption will only grow if biofuels are net cost-competitive with conventional fuels. This perspective is unique to commodity markets,

where high prices might benefit producers but hurt consumers (and vice versa) - in contrast with the equities market, where driving down the stock price of renewable energy companies will not benefit end consumers. Managers with a long/short approach to ESG commodity investing see their goal as improving the efficiency of price discovery in these markets so that natural hedgers, both producers and consumers, benefit from liquid futures markets. They see the future as one with increasing market liquidity in green commodities, and want to see investors being rewarded for correcting inefficient pricing, whether long or short.

With increased attention on “greenwashing” in the asset management industry (i.e. marketing conventional products as “ESG” in order to gather assets), it is critical for investors to understand the various approaches to ESG in any given asset class, ensure that managers are truly serving ESG goals, and that the manager’s philosophy aligns with the investor’s values and stakeholder requirements.

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## Teza’s Edge

Teza has built an institutional-strength organization consisting of a highly talented group of world-class researchers and investment professionals driven by success.

- **HERITAGE:** Our endeavors in institutional asset management are based on our 10+ year tenure as a proprietary, algorithmic low-latency trading firm, as we strive to leverage the extensive synergies we’ve identified between the two models.
- **TEAM:** We have world-class talent with over 60 employees in 4 locations. Our 30+ accomplished researchers and investment professionals hold advanced degrees from renowned universities in science, technology, engineering, and mathematics.
- **APPROACH:** We follow a rigorous, scientific process and have deployed state-of-the-art portfolio construction and optimization.
- **EXECUTION:** We have highly developed futures execution capabilities given our quantitative trading roots.
- **RISK PHILOSOPHY:** We ensure controls and checks and every key step of research and operations.
- **INFRASTRUCTURE:** As a result of significant investments into our operational infrastructure, we have created a scalable, robust platform.

## Founder Biography

Misha Malyshev has led Teza Group as the CEO since the company’s founding in 2009. He earned his Ph.D. in Astrophysics from Princeton University in 1998. He also holds an M.S. in Theoretical Physics and a B.S. degree summa cum laude in Physics and Mathematics from Moscow Institute of Physics and Technology. Dr. Malyshev worked for Bell Labs conducting scientific research until 2000. From 2000 through early 2003, he worked as a consultant with McKinsey & Company, where he developed substantial experience working for asset management and investment banking clients. Dr. Malyshev joined Citadel Investment Group, L.L.C. in April 2003 as a member of its strategy group. In 2004, he moved to Citadel’s Quantitative Analytics group, where he developed a quantitative trading business. Dr. Malyshev was rapidly promoted to the position of Managing Director and Global Head of High Frequency Trading at Citadel, which he held until he resigned in the winter of 2009. Dr. Malyshev is an avid supporter of education initiatives, and has partnered with organizations that inspire young people, particularly women and minorities, to pursue careers in science, technology, engineering and math. He is currently on the global leadership council of buildOn, an international nonprofit organization that runs youth service after-school programs in United States high schools and builds schools in developing countries.

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