



# Opportunities for the Private Markets to Support ESG Efforts

With Paul Yett, Director of ESG & Sustainability and Brent Burnett, Co-Head of Real Assets

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**PAUL:** Brent, as investors in the private markets, when we have the conversations again – and a lot of the conversations are all around improving the environment. It sounds like there’s a lot of complexity, there has to be a distinct discussion as it relates to the “S” in ESG as well. The framework for ESG is prolific today. It’s ESG questionnaires, ESG screens – ESG risk framework for everything we do is kind of the price of admission, and as we think about that for private equity investors, what role do we have to play in this?

**BRENT:** I would actually ask you a question, Paul, like what you just described today, was that true five years ago, 10 years ago?

**PAUL:** It absolutely wasn’t. So, if I think back to Hamilton Lane, we’ve been issuing an ESG questionnaire for over a decade, and it wasn’t unheard of 10 years ago to get a response that said something like this from a General Partner, “We think about the environment and social and of course governance, but we don’t really have any policies or a team.” Today, the responses are not only if we have fully dedicated resources to think about ESG, but also if we have policies and procedures in place and manuals written on them. So, the increase over that last decade has been incredible. There’s also the notion

that ESG, as part of the investment decision framework, has become so specific around it, so there might be a due diligence track on the performance, the financial metrics, but there’s also one very much in private equity today that’s increasing in its complexity and its number of questions. So, the growth is incredible.

**BRENT:** It is incredible, and it tells me that you asked about what the role of private equity, private capital, and this energy transition is. In many ways, we’re already seeing it. You’re seeing ESG become a fundamental component to how institutions and private equity managers operate. As you said, it’s not just nice to have, it’s the price of admission today. You have to have a comprehensive ESG policy. So, I think there’s a leadership element of private capital in terms of setting the standards for how we’re going to engage with investments in an environmentally responsible, socially responsible way.

I think that’s a positive, but I think the other reality is that private capital is very uniquely positioned to fund this energy transition. If you think about what’s going to be required for an energy transition, there are certain stages of development that things have to go through. There’s an incubation of an idea, there is the R&D and development of that idea, then there’s

the wide-scale commercialization and adoption and infrastructure that's required to support that. Private capital can play a role in each of those stages of development, and there's capital with different risk and return profiles that can come in and really be a driving force to funding this energy transition. I think governments will play a very substantial role at the federal, state and the local level in terms of setting a regulatory framework that's predictable around the adoption of some of these technologies, but by and large, this transition can be funded by private capital.

**PAUL:** That's great, that's very encouraging. Where is the low-hanging fruit today? Are there areas that you would focus on that you see today that moves us towards that, as we have a need to continue to deploy capital, make good returns for our clients, for the beneficiaries, but also do it in a responsible way?

**BRENT:** I think there are. I think the industries, the fossil fuel industries in particular, have become much better about incorporating environmental stewardship into some of their activities, which is a low-hanging fruit, right? This is, as I mentioned, an energy source that we need today and will continue to need at least in the short to medium term, so focusing on some of the low-hanging fruit in terms of ensuring that we don't have methane leaks in natural gas pipelines, that plug and abandonment responsibilities are taken seriously. Potentially increasing some regulation around how we source water, how we treat water, how we store water used in the drilling and extraction process. So, there are lots of, I think, environmental low-hanging fruit that's already being adopted today by some of those industries, and I think that's a positive.

I think on the private capital side, some of the things that you mentioned around setting the right policies for engagement with GPs is going to be critical to moving this forward. I do think we have to embrace natural gas as a transition fuel in many ways, as I mentioned, the world is still very hooked on coal, which is a terrible environmental fuel, natural gas has about 50% less emissions than coal. So, over this transition period, until we reach a point where we can source 80% of the world's energy supply from renewable energy sources, we need to adopt some transition fuel that's cleaner.

**PAUL:** Globally, is coal still the largest source of energy?

**BRENT:** I believe it is. Yes, and I think the other thing that's interesting, Paul, is that there continues to be net additions to coal. So, it's not just that it's the largest and it's dying. It used to be about 50% of the world's energy supply, it's been hovering in the mid-30s for a very long time, so you think about coal as an example of energy transition of a fuel that shouldn't be phasing out, and it's been roughly stagnant for a very long time. Natural gas could be very similar and that we know eventually we need to get off of it, but it could have a long transition period, and it is a much cleaner burning fuel than coal. Don't get me wrong, it's not without environmental consequence. It is, and it's not without social consequence, but right now, I think there are still better options for transitioning to gas as a fuel source away from coal-fired generation.

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