Hamilton Lane

ESG Considerations Within Infrastructure

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

PAUL YETT: As I think about it today, Brent, let's talk a little bit about ESG as it relates to infrastructure. When we think about that, that's an area that gets a lot of attention, perhaps most of the attention. Let's take the "G," the governance side. That's very important in the private markets. We're all focused on good governance structure. In many ways, governance is the given. I think we're not going to invest with a company or a manager that doesn't have a good governance structure or one that isn't fixable. That's pretty simple.

Then we think about the "E" side of it, the environment, as it relates to infrastructure, gets a lot of attention, a lot of focus on climate change, a lot of focus on greenhouse gas emissions, oil and gas, coal, all these things that are environmental. People think about that, talk about how to fix this problem. I'd say within the "E," how do you think about it? Are we missing anything? Is there an "S" side to this as well?

BRENT BURNETT: Yes, absolutely there is. And I think, to your point, Paul, we tend to sometimes myopically focus on the "E," and the reason that we do is because the "E" is somewhat measurable and quantifiable, and the "G" is somewhat fixable, or at least you think that it is. So, when you have one element of ESG that's quantifiable and measurable, you have another element that's probably fixable. What gets most ignored, I think, in that conversation is the "S," the social element of infrastructure and the social element of an ESG policy. I think as institutions think about their ESG policies, trying to more comprehensively integrate the environmental, the governance, but not ignoring the social is going to be a critical part to that rollout.

PAUL: In ESG, the "S" sits in a different category typically around gender, racial diversity and ethnicity; things along those lines, and they don't usually conflate over necessary infrastructure. So, talk a little bit more about that. How does the "S" play into how we should think about infrastructure investing?

BRENT: Well, remember how this conversation came up, right? So you were, I think, railing about evil fossil fuels, and I asked you about how you liked the power prices in California?

PAUL: Yeah, yeah, yeah, and I cringed a little bit on that.

BRENT: And you weren't too happy about those, right?

PAUL: I don't like it. Yeah.

BRENT: So, let's talk a little bit about California. I'll pick on California because it's easy and because you're from there, right?

PAUL: My home state right now.

BRENT: California is a very interesting microcosm of some of the issues – environmental, social and governance issues – that can come up related to energy transition and how infrastructure impacts those things. I'll use a couple of examples specific to California. Kern County, I don't know if you're familiar with Kern County in California, a big agricultural area. It's also a very large oil and gas-producing area of California. It produces about 70% of California's oil, about 90% of its gas. It also happens to be a county where there's a lot of poverty in that county. Estimates of some 20% of the county that live below the poverty line. The oil and gas industry in Kern County generates about $200 million of revenue per year for the county. About half of that goes to fund public schools in Kern County.

PAUL: So, that's good.

BRENT: So, that's good, that's a good social benefit in that you are funding some of your public education through an industry in Kern County, not to mention that employs about one in seven people in that county. So, you have an industry that is on a net basis that's a negative environmental industry, and yet it has a social benefit in that it funds a lot of your public education for the county. Now, Kern County also has produced about 25% of the state's renewable energy, so it's a large renewable energy producer. It is starting to transition away from an oil and gas economy potentially to a more renewable-oriented economy, but that renewable industry is nowhere near where it needs to be to offset the revenue declines that would happen if it shut down its oil and gas production. So, it's an example to me of where you're making trade-offs around, what are we willing to absorb from an environmental perspective? What is the consequence to that though, from a social perspective? Because if you were to just shut that industry down completely today, how would you fund your public schools?

Don't get me wrong, there are social costs to oil and gas emissions, severe social costs, but it's an example to me where things are not always as cut and dry as we would like them to be when we're developing ESG policies. There are social consequences in terms of how we fund certain programs that have social benefits, the cost of electricity, particularly on poor communities, and these social elements, I think are the ones that often get ignored.