



## 2022 Investor Meeting

# Importance of ESG

ESG – a ubiquitous term used around the globe today. New businesses, new due diligence processes, new government policies, new certifications, new products, and new acronyms created en masse to serve the powerful forces of ESG. And for good reason. We know where it is coming from. These issues are having a real impact on our daily lives. It is impossible to ignore news of environmental disasters, ongoing social unrest, and a persistent global pandemic.

During 2020, the United States experienced 22 weather and climate disasters, each exceeding \$1Bn in damages and loss of life. This shatters the previous single-year record of 16 climate disasters, a nearly 40% increase. 2020 broke the record for named tropical storms, surpassing 2005, the year of Hurricane Katrina. In late 2019/early 2020 Australia experienced the hottest and driest year on record led to devastating bush fires which consumed over 12 million hectares of land, killing over 1 billion animals and at least 33 people. In 2021, global ocean temperatures reached a new record high, continuing a six-year warming streak. Warmer oceans contribute to supercharged storms, extreme rainfall and the destruction of ice sheets in Greenland and the Antarctic. This leads to a rise in sea level, increased threat of coastal land destruction, and destabilization of global food systems.

That's just the "E". What about the "S" you ask? Well, the Global Peace Index for 2021 highlights that for the ninth straight year the world is a less stable and peaceful place. Murderous events and civil unrest led to North America experiencing the largest regional deterioration of the GPI. Across the globe COVID uncertainty and lockdown measures, farmer's protests in India, and economic and political unrest in Latin and South America added to great unease across the planet.

We are trending in the wrong direction. We have no choice but to take a hard look in the mirror. We must act for the better of the planet and its inhabitants. We must take responsibility and Do the Right Thing. And we believe that, with tens of thousands of private companies doing their part, private markets investors can contribute to real and meaningful progress.

### Progress and Government Action

Let's focus on the environment. Depending on who you ask, opinions on the outcomes of the global COP26 conference range from encouraging to disappointingly inadequate. Analysis of that summit's outcomes indicate current government policies will lead to warming between 2.4° and 2.6°C depending on the success of short term targets. This remains far from the goal of the

Paris Agreement; to limit warming to well below 2°C. Warming in this range meets one of the Intergovernmental Panel on Climate Change's (the "IPCC") more optimistic scenarios, but still is believed to result in catastrophic consequences. Compared with a modestly lower 1.9°C scenario, there would be a significant drop in global food production, and devastating flood and extreme heat risk to many of the world's most vulnerable populations.

The seriousness of the most recent IPCC findings should not be underestimated and highlights a need for cooperation and rapid action. Private companies and their investors need to understand the consequences of failing to take action. So, what is happening in the private sector today?

## LP Action

We are starting with increased awareness, by tracking GP progress in this area on behalf of LPs. Hamilton Lane has tracked questions on ESG topics in the hundreds of RFPs and DDQs we reviewed, and they have doubled in just the past two years. In fact, the average number of ESG questions in RFPs increased over 3x, between 2015 and 2020. As we surveyed the market, GPs reported a significant increase in LP requests pertaining to ESG concerns in the last year alone.

But it is more than just talk. Organizations are joining climate action initiatives increasingly each month. Signatories to efforts like the Net-Zero Asset Owners Alliance and IIGC increased dramatically in 2021. AUM committed to the Net-Zero Asset Owners Alliance doubled to \$10 Trillion from 2020. IIGC reached over €50 trillion in assets represented. The message is clear – LPs want action now and asset managers need to keep up or be left behind.

## Hamilton Lane & GP Action

You've heard it before, but it bears restating – private markets investors are uniquely positioned to affect

positive change. But we have work to do. The good news is over 80% of the GPs we surveyed are doing some level of portfolio company monitoring and reporting across E, S, and G metrics. 50% report that they are tracking diversity metrics at the portfolio company level for the majority of their holdings. This is positive momentum on the "S". However, measurement falls short on climate metrics. Less than 20% of the GPs surveyed had a Climate Investment Policy in place. Perhaps more concerning is that less than 20% of GPs track emissions data for at least a majority of portfolio companies. Numerous private companies do not have any carbon emissions data. There are a host of reasons why. A universal challenge in ESG reporting is standardization, with numerous initiatives underway to address this.

At Hamilton Lane, we strive to do our part by creating solutions and demonstrating best practices. We have a long history of embracing DE&I and ESG metrics into our corporate and investment activities. During 2021 we became a signatory to the newly formed ILPA Diversity in Action initiative and in 2022 have joined iCI (the Initiative Climat International). We have measured our firm's carbon footprint and offset those emissions for the past two years. We overhauled our investment reports to fully incorporate ESG considerations into all sections. We have a longstanding ESG rating system that scores each manager we invest capital with. We will continue to build on these initiatives in the years to come.

The next big push will be in producing more robust ESG monitoring systems and reporting for stakeholders. Investors, lenders, and governments are all clamoring for more ESG information. Of course, it all starts with gathering data and being able to access it. We all know the saying – if you can't measure it, you can't manage it. To that end, Hamilton Lane has proudly partnered with a powerful consortium to create Novata, a company created to solve the private market's ESG data fragmentation and confusion. Let's hear from the CEO of Novata – Alex?

Thank you, Paul and good to be here with you today.

Novata is a public benefit corporation created by a unique consortium of philanthropic and for-profit leaders in social justice, financial data, and private markets, that includes Hamilton Lane, S&P Global, The Ford Foundation & The Omidyar Network.

We were founded to help empower the private markets to achieve a more inclusive form of capitalism by building the technology infrastructure needed to make collecting, managing, and benchmarking ESG data easy. Put another way, we are building an 'on ramp' for GPs to navigate the ESG challenge.

While there is clearly urgency to building out your ESG capabilities, it is much easier said than done. As we engaged with dozens of leading GPs to design and build our technology platform and products, three challenges surfaced as the most pressing ones.

The first is proliferation of ESG reporting frameworks and standards that makes it difficult to understand where to start on your ESG journey. At Novata, we make getting started easy. You can focus on the core metrics that matter to most stakeholders by using our curated and comprehensive starting point, or you can leverage our flexible, open architecture metric library to customize an approach that supports your specific ESG priorities.

The second challenge is that collecting data is a time- and resource-intensive process, and there are few neutral, trusted, secure repositories that give you full control of your data. We offer Painless Data Collection with a simplified and guided data collection process with support at every step, from guidance within the platform itself to ongoing human support. All within one, secure, multi-user platform where - critically - you control your own data.

The third challenge is a lack of relevant analytics and reporting tools which prevents a company and its owners from effectively understanding and communicating ESG performance. Novata's analytics and reporting tools allow you to uncover insights about your portfolio to address areas that need improvement, seamlessly share your ESG performance with multiple stakeholders, and compare companies to anonymized industry peers, as well as public company peers.

Along with the Hamilton Lane team, we are eager to support you on your ESG journey. Please get in touch with me directly for a free preview of the tools as well as access to our metric selection guide. Thank you very much.

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or fund-of-funds consisted of \$100 million in commitments with a fee structure of 1.0% on committed capital during the first four years of the term of the investment and then declining by 10% per year thereafter for the 12-year life of the account. The commitments were made during the first three years in relatively equal increments and the assumption of returns was based on cash flow assumptions derived from a historical database of actual private equity cash flows. Hamilton Lane modeled the impact of fees on four different return streams over a 12-year time period. In these examples, the effect of the fees reduced returns by approximately 2%. This does not include performance fees, since the performance of the account would determine the effect such fees would have on returns. Expenses also vary based on the particular investment vehicle and, therefore, were not included in this hypothetical example. Both performance fees and expenses would further decrease the return.

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