EXPERT COMMENTARY

Infrastructure capital's commitments to renewable energy and net-zero are also driving wider positive social outcomes, says Panos Ninios, co-founder and managing partner of True Green Capital (TGC)

Solar's social power

During the past 18 months, we have seen the world's most pressing problems pushed to the forefront. The covid-19 pandemic forced millions out of work, protesters demanded racial justice, and a changing climate wreaked havoc across the globe. On the brighter side, these tumultuous times have prompted a heightened awareness of the need for social change and the critical role of businesses in spearheading this change.

This article focuses on the increasing emphasis on the 'S' in ESG investing, specifically in relation to climate change, where the environmental, social and economic impacts are often linked.

ESG-motivated investors, once primarily interested in the environmental impact of a company's strategy and its governance standards, are now prioritising a business's social intent. Corporate leaders, in turn, are understanding that a socially minded strategy can help address some of our global challenges and drive financial success.

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Defining and measuring the 'S' in ESG, however, and integrating it into a company's strategy is not always easy. At True Green Capital (TGC), we have been committed to social responsibility from the outset. In the aftermath of the 2008 financial crisis, when risky decision-making by some business leaders led to millions of Americans losing their jobs and homes, TGC's founders sought to design a business around investing in environmentally friendly assets, while at the same time bringing value to our stakeholders, the economy and the local communities in which we operate.

A decade after our founding, we continue to believe our business is one in which all three ESG principles are inherently embedded in our investment process and daily operations.

ESG principles

Growth in ESG assets has accelerated during the pandemic, with no signs of a slowdown. Global ESG assets are on track to exceed $50 trillion by 2025, more than one-third of the projected total assets under management, according to a report by Bloomberg Intelligence in February of this year.

Behind this trend is a sharpened focus on our climate crisis, spurred by images of wildfires burning across our planet, the current White House administration's energy strategy, and mounting pressures on the financial industry to step up.

While companies have made progress in mitigating their environmental impact (the 'E') and incorporating good governance practices (the 'G'), they have been slower to recognise the connection among these two components of ESG and certain social outcomes (the 'S'). The climate crisis, consequences of which are felt most harshly by the world's poorest communities, has shown how the 'E', 'S' and 'G' are inextricably related.

As an investor, owner and operator of sustainable real assets in communities across 15 US states, all three components of ESG are critical to TGC's management of its people, operations and portfolio. In TGC's view, value creation and ESG investing are complementary goals.

Renewable energy at the core of 'E'

The E in ESG contemplates how an organisation impacts and is impacted by its environment. It has become clear that renewable energy sits at the core of the effort to combat climate change and, thus, businesses involved in renewable energy production are inherently addressing the E, though investment in clean energy must increase dramatically over the next three decades to achieve net-zero emissions by 2050, according to a report by the International Energy Agency entitled *Net Zero by 2050: A Roadmap for the Global Energy Sector*.

TGC invests in solar power generation, making a zero-carbon footprint an inherent goal. We pursue resource efficiency by building smaller, localised solar power plants, thus minimising the waste involved in distribution over long distances, and we track and report meaningful environmental metrics to our stakeholders. Finally, before approving an investment, environmental issues are identified, and we maintain ongoing dialogue with federal, state and local agencies to ensure adherence to protective measures related to wetland and water bodies, endangered plants and wildlife habitats, archaeological sites, and historical and cultural resources.

Shift to social

The 'S' in ESG addresses how a business manages its relationships with employees, suppliers and communities. The social pillar has lagged for various reasons, but a recent shift is palpable across the investment community.

For example, in its 2021 Stewardship Expectations, BlackRock Investment Stewardship addressed climate change but also spoke of its intensified engagement on social issues, including setting forth a more holistic set of expectations around how companies monitor and manage their impacts on people.

At TGC, we designed our strategy to ensure our firm and employees have a positive impact on the communities in

Case study: LADWP Projects, Los Angeles

There are many significant clean air issues in Los Angeles and the city's mayor, Eric Garcetti, is committed to making improvements – with the goal to reduce GHG emissions by 45 percent by 2025, achieve 50 percent renewable energy production by 2030, and net-zero by 2050. LADWP, the local municipal utility, is particularly motivated to fulfil this mandate by 2025.

TGC's 16.9MW Westmont rooftop solar installation in the city, which is part of the LADWP portfolio, has played its part in keeping the mayor's mission on track. The project, one of the largest solar rooftop projects in the world, operates on four commercial rooftops on what is one of LA's largest distribution centres. To date, it has generated around 60MW in renewable solar energy.

Looking forward, we expect that our 200MW-plus pipeline of actionable projects over the next five years will be a major contributor towards the long-term goal of 50 percent renewable energy production by 2030. Furthermore, in collaboration with the City of Los Angeles and the local unions, TGC implemented a programme to train and employ combat veterans in building our solar project portfolio.

which we operate and at the same time create value throughout the investment process. For example, we bring value to local communities by employing local construction crews and local service providers, working with unions and training veterans. Nearly 100 percent of TGC's construction and operations personnel are residents of the communities where our assets are located.

We also train and employ veterans to build solar projects, and we contribute to the communities where we operate by choosing solutions to business problems that contribute to the local economy. Examples include power price discount offers through our community solar programme that inherently benefit communities suffering from energy poverty; and our affinity marketing programme that, by design, financially benefits local organisations while supporting customer acquisition for our power generation projects.

Promoting energy affordability is another example. Our NY Community Solar Portfolio has enrolled over 14,000 mostly rural residential electricity consumers who receive clean power at discounts off their utility rate.

Improving energy resiliency is another way capital can have a social community impact. Our solar installations across eight US military bases, for example, have enabled those bases to reduce their reliance on power supplied by the grid. We are also partnering with corporations to help them meet their resiliency needs.

Case study: Solar Farms, New York

Through SFNY, our community solar affiliate in New York, we have taken several steps to promote environmental goals, which we believe make a positive impact on the wider local community. For example, we are enrolling residential electricity consumers at a discount. The project has also created around 600 local construction jobs, employing more than 40 full-time sales personnel to acquire and service customers.

TGC is also partnering with local communities to build and operate assets sustainably. We partnered with Cornell University on a sheep grazing study, the goal of which is to mitigate any environmental threats resulting from the removal of land for agricultural purposes. As part of the study, conventional grass mowers were replaced with grazing sheep on our solar farms. This approach controls vegetation, which prevents panel shading, and thus maintains the agricultural use of the land. Further, it employs local shepherds, providing agriculture jobs to the local community.

Good governance

The 'G' in ESG looks at the internal systems, controls and procedures a company follows to govern, make decisions and comply with regulations. Its elements can also include a commitment to giving back to society, values and ethics, and transparency.

Abiding by principles of good governance protects the interests of investors, employees and other stakeholders. Governance considerations are centred on ensuring the happiness of employees and promoting a healthy work/life balance through flexible scheduling and remote work policies, safety, considering the construction activities inherent to TGC's investment strategy, and giving back to the communities in which we operate.

"The social pillar has lagged for various reasons, but a recent shift is palpable across the investment community"

As the events of the past year and a half have proven, the three pillars of ESG are deeply intertwined. By embracing the 'S' and adopting a holistic approach to ESG investing, businesses can drive profitability while maximising value to their employees, stakeholders, local communities and beyond. ■