



Too risky to neglect

Leisel Moorhead, a partner in the global infrastructure team at QIC, explains how ESG considerations were front and centre throughout the firm's Port of Melbourne acquisition

The October 2016 acquisition of the Port of Melbourne on a 50-year lease, in the Australian state of Victoria, by QIC and our consortium partners provides another opportunity for investors to demonstrate that principles of responsible investing are more than fine sentiments – they are touchstones for action to deliver long-term value.

By conducting ourselves in ways consistent with the social licence to operate, investors can also show that they can be trusted with the stewardship of privileged assets that provide essential services to communities, and drive productivity and economic growth.

Port of Melbourne is Australia's largest container, automotive and general cargo port by throughput, handling about 36 percent of Australia's total container trade.

In contrast to several well-known international ports, which are located away from major populated areas, Port of Melbourne is close to the central business district of Melbourne, the capital city of Victoria.

It is a landlord port, covering 500 hectares and hosting more than 70 tenants. Its operations border industrial and semi-residential precincts in the surrounding

suburbs of Melbourne, bringing with it a special responsibility of being a good neighbour and corporate citizen.

We expect every asset in which we invest to exhibit three attributes: it must be a safe place for employees and those who interact with it; it must be a good environmental steward; and it must uphold high corporate governance standards.

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From our perspective, Environmental Social and Governance factors are a window through which companies' overall risk-management practices and organisational qualities can be assessed. Well-governed companies usually have appropriate environmental and social risk policies and procedures in place with boards of directors concerned with their proper implementation.

Our emphasis on ESG integration in our approach to asset management stems from QIC's belief that consideration of these factors can materially improve risk management and provide opportunities to increase returns for clients.

FACTORING ESG INTO YOUR BUSINESS PLAN

Given the Port's strategic importance and central Melbourne location, QIC and our consortium partners conducted detailed due diligence of ESG factors during the investment process as part of the overall business plan formation.

QIC's Global Infrastructure team has a clear framework to identify and categorise material ESG issues. Each stage of our investment process includes the evaluation and

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management of ESG risks and opportunities that we believe affect an investment’s value and potential earnings.

Environmental, community and stakeholder engagement were among the identified issues with Port of Melbourne.

Material environmental issues covered included an assessment of any potential legacy contamination risks — recognising the Port’s 125-year history — as well as consideration of ongoing operational issues, such as managing dredging licence and environmental approvals for future development.

Community and stakeholder engagement was also a high priority. Reputational issues stemming from possible complaints or negative feedback from stakeholders across users, tenants, customers, government and regulators, and supply-chain providers were all assessed.

The transition phase of new ownership is a very busy time for management and we were conscious that although ESG issues are always important, they may not be the dominant concerns for the business, at least in the short term.

Consequently, our approach is to ensure that the business understands, early on, any significant ESG risks and opportunities. One of the first risks we consider is safety management systems and reporting.

Our focus is to determine whether the company has good safety systems and practices in line with industry best practice. With the support of fellow directors, our board representatives established a board risk committee that undertook a review of all risks within the business — including an assessment of those related to ESG issues.

Doing this promptly and transparently, from the get-go, ensured a full account and prioritisation of major risks and key actions early in the new phase of ownership.

Post-acquisition, we have worked with management to build on the work related to climate change undertaken during due diligence, as well as carrying out more detailed climate resilience work.

The motivation is to make sure that processes and systems are in place to link capex commitments and maintenance plans for wharf and berth assets — for example, with changing future weather patterns. In this regard, any decisions relating to capex still need to be efficient and effective.

QIC’s responsible investment specialist also carried out a detailed ESG review by engaging with management to consider the relevant procedures and reporting practices.

ENGAGING EMPLOYEES

The review revealed that Port of Melbourne had many of the required policies

and procedures in place. At the same time it highlighted some potential areas for improvement — particularly relating to culture. In short, our aim is to work with management to shift the culture to bring about a more proactive and forward-looking approach to ESG risks and opportunities.

We recognise that changes of ownership can be unsettling for employees. Transitioning from a public-sector service delivery model to a corporate ownership model with a focus on sustainable earnings growth can be challenging.

Employee engagement has been pivotal in every public-to-private ownership transition involving QIC, and Port of Melbourne is no exception. The Port’s board and shareholders have closely monitored all employee engagement initiatives.

Rather than leaving people possibly fretful about change, QIC has encouraged management to set in train a cultural change programme to energise employees. This started with developing a new corporate vision and values owned by all employees.

A baseline measure of employee engagement has also been established and systematic talent mapping undertaken. Identification of critical roles and succession planning is under way, as is remuneration benchmarking.

Within the responsible investment context, workplace safety must have foremost attention and this emphasis is palpable at Port of Melbourne. At the same time, there is support for community environmental groups and programmes to protect the unique ecological habitat surrounding the Port and its waterways.

Owners and operators of infrastructure assets, in fact all real assets, are enormously privileged. We have the opportunity to make a tangible difference to how our businesses interact with their employees, local communities, and their environmental footprint.

It’s not too often in business life that you get the chance to create a legacy. The long lifespans of infrastructure assets give us that chance. Investors have got to be up to the task. ■