ROUNDTABLE

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'If you had to rise to the occasion, then it is simply too late'

With the pandemic still raging across the globe, good corporate citizenship and community relations have never been more important, three industry participants tell Zak Bentley and Amy Carroll

Nothing could have shone a spotlight on the 'S' in ESG like a ravaging global pandemic. Of course, infrastructure managers have long prided themselves on the relationships they have built with all stakeholders and, in particular, with the communities in which they operate. But an unparalleled health crisis and international lockdowns have tested to the limit their ability to continue providing essential services – as well as to support portfolio companies' employees, customers and suppliers.

As we kickstart a second year blighted by covid-19, three experienced infrastructure professionals discuss how they have maintained and even reinforced their licence to operate during some of the most turbulent times in recent history.

For many, the first challenge was facilitating the transition to remote working, both at a manager level and within investee businesses. During our roundtable discussion, held on Zoom last month, Michael Ryder, senior managing director and head of Americas at OMERS Infrastructure, concedes that this was a prodigious task.

"We had to transition staff in our own offices around the world to remote working, helping them balance personal obligations – such as home schooling with no childcare – with the ability to continue to function professionally," he says. "We also had to support the management teams of our portfolio companies, which represent approximately $25 billion of AUM globally, as they made their own transitions to working from home, whilst protecting employees that needed to operate on site or in the field in order to continue to provide essential services. Personnel safety was of critical importance."

"Our view is that best practice starts at home," adds Tom Maher, head of business development at Whitehelm Capital. "From that perspective, everything was pretty seamless. We benefit from working in a business where people have been operating on the move for decades. But at a portfolio company level, a lot of effort went into making that transition happen. Each business had very different requirements, and it came down to

Tom Maher

Head of business development, Whitehelm Capital

Maher leads Whitehelm's business development and capital-raising initiatives globally. His responsibilities include infrastructure equity, as well as high-yield infrastructure debt and listed infrastructure. He is also a non-executive director on several Whitehelm Capital portfolio company boards.

Michael Ryder

Senior managing director and head of Americas, OMERS Infrastructure

Ryder is responsible for leading the OMERS Infrastructure team and investment strategy in the Americas. He joined the business in 2018 from Blackstone Energy Partners, where he was senior managing director. He previously worked at Morgan Stanley Capital Partners, where he served as managing director and a member of the investment committee.

Juan Angoitia

Senior managing director, co-head infrastructure Europe, Ardian

In addition to investment activities, Angoitia is part of Ardian Infrastructure's asset management team and board member of multiple portfolio companies. He previously worked at Citi Infrastructure Investors and prior to that at Spanish construction business Grupo Ferrovial. He began his career at Cintra as part of its toll roads management team and then moved to Ferrovial Aeropuertos, where he was involved in the acquisition and management of several airports.

working with the boards and senior management teams on an individual basis to figure out how they could continue to provide their essential services in exceptionally challenging circumstances."

The learning curve was steep. Juan Angoitia, senior managing director and co-head, infrastructure Europe at Ardian, also says his firm prioritised the health and safety of employees at a management and portfolio company level, as well as among clients and suppliers. He adds that it proved vital to leverage the experiences from assets that were hit early and to export that knowledge elsewhere in the portfolio. Within Europe, for example, Italy was the first country to be slayed by the pandemic.

"We learned from everything that we saw happen in Italy and that gave us a couple of weeks' advantage in other countries," he says. "We were able to see it coming and ensure the requisite measures were in place to allow those on the ground to work effectively and safely. After all, essential services such as telecom towers or water utilities don't close. They have to adapt."

Close to the action

OMERS also had an early taste of what was to come – through an investment in Seattle-based utility Puget Energy, less than five miles from the Kirkland care facility that was the original epicentre of the coronavirus in the US.

"That gave us insight into the kinds of business continuity practices that would soon be required worldwide," Ryder says. "We then brought CEOs from across our portfolio together on conference calls to discuss best practice when approaching these challenges."

Cross-portfolio education was critical, but different sectors and jurisdictions were impacted in different ways and at different times.

"While there are elements that all our businesses had in common – such as making sure IT systems were capable of supporting working from home and ensuring assets had the necessary liquidity – every company and every situation is ultimately unique," says Maher. He points to a Nordic social infrastructure portfolio company providing nursery care across Sweden, Finland and Norway as a case in point. The company "operates across a number of jurisdictions. Each of those regimes had a very different philosophical response to covid, which put different

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>
> **TOM MAHER**
> **Whitehelm Capital**

pressures on the systems in which the company was operating."

Norway and Finland closed pre-schools, while Sweden kept them operating. Norway provided widespread governmental support, but in Finland it was more selective. "There is no one-size-fits-all solution, even within a single business," says Maher. "It's about getting in there and working closely with the management team to agree a strategy that is right for the company. And then that strategy must remain under assessment. You always need to think one step ahead to protect the business and to keep providing those essential services."

Ryder wholeheartedly agrees that the response needed to be bespoke, describing experiences with Canadian portfolio company LifeLabs, which provides blood testing facilities and experienced a critical shortage in personal protective equipment in early 2020. "We needed to protect employees at a time when the world was still learning about transmission of the virus," he says. "PPE in those early days was hard to come by, but we worked with the senior executive team and the authorities to secure what was needed."

LifeLabs then began working with the authorities on providing rapid testing for covid. The company developed a test that could be used to help public and private sector organisations get employees back to work. "Each individual business had to find a way to adapt to the new environment, whilst supporting not only employees, but customers and the broader community," says Ryder.

Although the medical testing industry may have been a 'covid winner', there are sectors that have been decimated by the pandemic, most notably aviation. Ardian owns Milan Malpensa airport in Italy. With passenger traffic down 70 percent last year, Malpensa closed two of its three terminals. However, it also positioned itself to benefit from an increased demand for air cargo – and, in particular, the provision of PPE. Fortunately, and with national government and EU support, no lay-offs have been necessary, but Ardian has had to work tirelessly to protect the business.

"Every single euro counts," says Angoitia. "Airports have been burning through cash, so optimising every opex line is critical. It has also taught us that anything that can be shifted from a fixed cost to a variable cost is a bonus. If you manage to shift 15 or 20 percent, that is a major achievement and it means your airport will be in much better shape for the next crisis, whatever and whenever that is."

Community service

Covid has demonstrated just how important a robust licence to operate can be. "The time and effort that an organisation has spent developing relationships with stakeholders is paying off during covid," says Maher. "It has provided the strong foundations that are critical to surviving this storm." He points to the example of a portfolio company where a key supplier went bankrupt. "The quality of our relationships meant we were able to work through that efficiently and effectively, so that we ended up in a better position than when we started. These things have always been vitally important to us and covid won't change our approach to licence to operate. It does, however, reinforce the value of the time and effort that goes into that stakeholder management."

Ryder also says that covid had not caused OMERS to change its approach, but has reiterated the importance of core values and of holding management teams to the highest possible standards. Puget Energy, for example, became one of the first US utilities to announce a moratorium on customer disconnections for non-payment. "The company waived all late fees, as well as making donations to Washington area food banks, hospitals and other rapid response funds, in order to support the community," he says.

Ryder also points to OMERS portfolio company London City Airport, which made itself available for the delivery of medical supplies for the nearby Nightingale hospital set up to deal with excess medical demand from covid: "These are decisions that have been made in specific response to a unique environment, but they are absolutely consistent with the values we have long instilled into our own organisation and the executive teams of our investee businesses."

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>
> **MICHAEL RYDER**
> **OMERS Infrastructure**

Values-driven approach

It is clear, therefore, that any manager only considering sustainability and community relations in light of the pandemic is woefully late to the table. "If you had to rise to the occasion, then it is simply too late," says Angoitia. "If it didn't come naturally – if these values weren't built into your culture and philosophy from the outset – then you don't have what it takes to operate in this industry.

"This isn't private equity, when you might buy a business, hold it for four or five years and then sell. When you make an infrastructure investment, you have to be thinking about what you can add to the community in which that asset resides. With an airport, for example, it might be noise reduction, or better traffic planning. You have to be looking to make changes for the better or you are not doing your job properly."

Licence to operate can be tricky to measure and report on, even if an organisation has the best of intentions. Infrastructure managers recognise, nonetheless, that measurement is key. "If you claim to be doing something, you have to be able to measure it," says Angoitia. "Otherwise it is soft, while infrastructure itself is hard, dealing with concrete assets. We always spend the first 10 or 15 minutes of board meetings dealing with ESG issues."

Maher, however, concedes there is an intangibility to licence to operate. "You get all the hard information that you can," he says. "But things like the strength of your relationships with a local regulator or the goodwill generated by various community engagement measures can be hard to quantify. It is difficult to distil those types of effort into numbers in a board pack."

Different managers take different approaches to the way they measure and benchmark. Some, such as Whitehelm, are heavily engaged with externally available ESG and sustainability methodologies, like the UN Principles for Responsible Investment, the Task Force on Climate-related Financial Disclosures and GRESB, although the firm also uses an internally developed questionnaire. "External providers have an important role to play," says Maher. "We are not abdicating our approach to them. What we do is internally driven. But it is informed by what we see in the external frameworks. We pick what we see as most useful from GRESB, TCFD and UNPRI. We are focused on embodying the values that those standards capture."

OMERS, however, has developed an internal framework because it believes a one-size-fits-all approach is limiting. "We have developed a comprehensive score card that includes not only climate-related metrics, but metrics around diversity, health and safety and social value contribution," Ryder says. "We do look at our portfolio on an aggregate level, but we also recognise that each portfolio company has its own priorities, and so adopting a single external methodology didn't make sense for us. We have incorporated a lot of GRESB factors and measurements, but we find a more tailored approach works best."

Leading from the front

Although firms may differ in their approach to measuring it, there is a high level of agreement on how licence to operate should be resourced. The consensus is that the drive must come from the top. "Ardian chief executive Dominique Senequier is fixated with this topic," says Angoitia. "She knows that if you are not sustainable, then you will not survive. Licence to operate is key to that. It is part of our culture as a house and something that we all embrace."

As Ardian has an 'eat-what-you-kill' ethos, where the deal team also takes responsibility for asset management, licence to operate is truly a responsibility for all. "We do have a centralised asset-management team that supports us, as well as operating partners from industry," Angoitia adds.

"But it is up to all of us to implement ESG principles and make companies sustainable. It is also extremely important that portfolio company management teams buy into sustainability and ESG because, at the end of the day, it is they who have to implement the policies, make the decisions and create impact in communities. They have to feel empowered to do that."

At OMERS, it is also the chief executive who is taking the lead. In November, Blake Hutcheson made a statement alongside a number of his peers – which has become known as the 'Maple 8 statement' – in support of greater sustainability, comparability of data, information leveraging and TCFD disclosure. "It starts from the top and it then filters through the rest of the organisation," explains Ryder. "We have a sustainable investment committee, made up of representatives across the different business segments, but then we all take responsibility as part of our portfolio management role. It is not siloed. It is a collective effort. It is in our DNA."

"The idea of someone responsible for the licence to operate, sitting in a corner office making decisions about ESG, while everyone else gets on and invests, could never work," adds Maher. "Yes, we have champions. But it is the responsibility of everyone.

"The long-term economic outcome of an investment goes hand-in-hand with long-term ethical sustainability. There is absolutely no distinction between the two." ■