METALS FOR HUMANITY

FUELLING THE GREEN TRANSITION:

THE MINING INVESTMENT GAP

This content was produced in collaboration with

FT LONGITUDE

About the Report

This report, produced by M4H in collaboration with FT Longitude, considers why the mining industry is experiencing worrying levels of underinvestment from institutional investors.

To discover what investors truly think about mining, M4H and FT Longitude surveyed 150 asset managers from around the world, to learn why financiers are reluctant to invest in the mining sector, and to understand what policies or initiatives could encourage the deployment of needed capital in new and existing mining projects.

The interviews conducted with key investors provide qualitative insights into why the mining sector is unappealing to investors. For instance, Michael Rae, Fund Manager at M&G's climate impact fund, outlined that for his fund to consider investing in a mining company would require 'best-in-class' governance practices.

Interviews with key figures in the mining sector, including Blackrock's Evy Hambro, illustrate the reasons behind the negative perceptions of the mining industry, and why it is failing to attract sufficient investment.

The report finds that negative impacts on local communities – including concerns relating to human rights violations and institutional corruption – represent the biggest concern for investors. Among the other worries for investors are the effects of scandals at mine sites on the share prices of mining companies and the resulting reputational risks for the funds themselves, so-called 'guilt by association'.

Looking forward, the report emphasises the need for mining companies to prioritise ESG best practices to attract investment, secure licences for much-needed new mining projects and a social license to operate (SLO) from local communities.

To secure more investment, mining companies must provide greater traceability across supply chains, decarbonise operations and logistics, and develop demonstrably effective and well-thought-out social programmes.

About Metals for Humanity (M4H)

Metals for Humanity (M4H) is a social enterprise that designs and implements strategic social programmes in partnership with mining companies. These programmes leverage the unique properties of metals and minerals, transforming basic resources into tangible solutions to help foster resilient, independent communities.

M4H brings together relevant stakeholders to provide metals-based solutions that address basic needs. Additionally, M4H seeks to increase public understanding of the importance and benefits of metals and minerals in society.

The aim is to realize the mining sector's potential as a partner in development and to create a world in which 'metals work for us all'.

Ingrid Putkonen
Managing Director & Founder

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Foreword

At a time when the energy transition has captured the attention of the world, the mining industry is front and centre in the debates around creating a sustainable planet. Whether it is to produce metals and minerals to purify, pump and distribute water, to enable the production of food to feed the planet and minimise agriculture and urban footprints, the products of mining are critical to each of these endeavours. At the same time, the mining industry remains misunderstood and underfunded and has not been supported in its most fundamental role of serving society.

To change people's understanding of what we do and how we make the world work, we need to tell our story. And we need to do our work in a way that builds trust with our shareholders and potential investors, our broader business and social stakeholders and our local communities. To use the term ESG always worries me, as it is too narrow – but at the same time, people get a sense of what we mean when we talk about our ESG obligations.

Results from this report help us articulate new values for the mining industry: we are shifting towards transparency, both of mining operations and processes as well as measuring the impact of ESG initiatives through standardised metrics and data. The benchmark is moving beyond 'do no harm'. Miners who work with independent third parties to develop social and environmental programmes of real value will help develop a new ESG framework fit for today, enabling our sector to market our products more effectively and positioning the industry as a committed partner in development.

Mark Cutifani
Chairman, Energy Transition Metals Board – Vale Base Metals; Senior Independent Director and Chair of the Sustainability Committee – Lang O'Rourke; former Chief Executive of Anglo American.

GLOSSARY

- Assets under Management (AUM)
- Corporate and Social Responsibility (CSR)
- Critical Raw Materials (CRMs)
- Democratic Republic of the Congo (DRC)
- Environmental and Social (E&S)
- Environmental, Social, Corporate Governance (ESG)
- Global greenhouse gas (GHG)
- International Council on Mining and Metals (ICMM)
- International Energy Agency (IEA)
- Initiative for Responsible Mining Assurance (IRMA)
- Metals for Humanity (M4H)
- Non-governmental organisations (NGOs)
- Price-to-earnings (P/E)
- Return-on-Investment (ROI)
- Science Based Targets Initiative (SBTi)
- Social Licence to Operate (SLO)
- Sustainable Development Goal (SDG)
- United Nations' Principles for Responsible Investing (UN PRI)

Executive Summary

Almost every facet of modern life depends on metals and minerals. Often mined in far-off countries, away from public consciousness, these minerals are essential to producing the technologies on which we rely. From electric vehicles to mobile phones, and wind turbines to medical devices, the modern world subsists on the labours of mining.

Historically, the mining industry has been thought of as an unsightly yet necessary industry: digging up mud and earth is never pretty. Nevertheless, mining has always been valued for its products – resources such as coal for energy production, iron ore and aggregates for construction, metals such as copper and silver for the conduction and storage of heat and electricity.

The green energy transition represents a wholesale shift away from industrial dependencies on hydrocarbons and carbon-emitting fossil fuels, in favour of sustainable, climate-friendly energy solutions. In 2015, The Paris Climate Accords (Paris Accords) brought together the world's governments and industries to agree a new industrial strategy to mitigate the ruinous effects of climate change. Signatories of the Accord proposed a new framework for the financing and adaptation of climate-friendly technologies and energy sources, much to the acclaim of the world's media.

Implementing the policy commitments of the Paris Accords has been fraught with challenges. Almost a decade on, warning signs on the world's climate dashboard are still flashing, and worryingly, despite significant growth in ESG-related funds, investor confidence in mining and metals exploration is not accelerating quickly enough.

The International Energy Agency (IEA) forecasts that demand for most metals and minerals essential to the clean energy transition will increase by four to six times by 2040. In this scenario, the IEA predicts that, as early as 2030, existing mines and those under construction will produce only about half of the cobalt and lithium and around 80% of the copper required to meet demand.

So how can mining operators secure more funding from institutional investors, to increase the production of critical minerals, and ensure that mineral supply remains reliable and secure? What kind of action can CEOs of mining companies take, to ensure their businesses are future-proofed and capable of meeting the supply demands of the market?

M4H surveyed 150 global asset managers to understand their selection criteria, when considering investment in new and existing mining projects.

M4H research found that 29% of institutional investors considered ESG factors integral to their fund selection criteria, with 49% saying they accorded them greater importance than they used to. In light of the findings of the survey, M4H posits five key recommendations for mining companies to make the sector more appealing to institutional investors:

1. **Develop an ESG framework for decarbonisation and a strategic social investment programme with measurable impact;**
2. **Go beyond a 'do-no-harm' policy: social initiatives must ensure that host communities are properly engaged and can see, experience, and understand the benefits of mining operations and related products;**
3. **Work towards greater visibility and transparency of mining operations and processes, employing independent third parties to offer objective validation;**
4. **Develop an evidence-based communications programme, sharing key data and meaningful stories that can reach wider audiences, to shift the public perception of mining from being a problem to being part of the solution;**
5. **Standardise ESG data to enable investors to better appreciate and easily compare companies across the mining sector, recognising progressive, investment-worthy practices.**

FUELLING THE GREEN TRANSITION: THE MINING INVESTMENT GAP

Fuelling the Green Transition: The Mining Investment Gap

The mining industry is central to realising the policy commitments of the Paris Climate Accords. Mining operations support global efforts to wean industries off their dependencies on hydrocarbons and fossil fuels, in favour of renewable energy, by supplying the essential materials needed for this transition. Yet, the role of the mining sector in the net zero transition is under-appreciated by many institutional investors, despite their advocacy of ESG-focused investments.

Most institutional investors align with the United Nations Principles for Responsible Investing (UN PRI), which apply ESG criteria to modern investment practices.

This report argues that establishing a robust foundation for the energy transition requires more support from institutional investors, and a greater willingness to allocate capital to the mining sector.

When it comes to supporting the green transition, investors have directed most of their investment into areas like electric vehicles, batteries and renewable energy technologies. But none of these technologies would exist without the work of mining companies.

"The energy transition is going to be incredibly complex and involve huge amounts of money. It's going to have to be done at speed and scale to achieve the goal the world is aiming for. But what has been most overlooked is the role that resource companies will play in that transition."

Evy Hambro, Global Head of Thematic and Sector based Investing and Team Leader for the natural resources team at BlackRock.

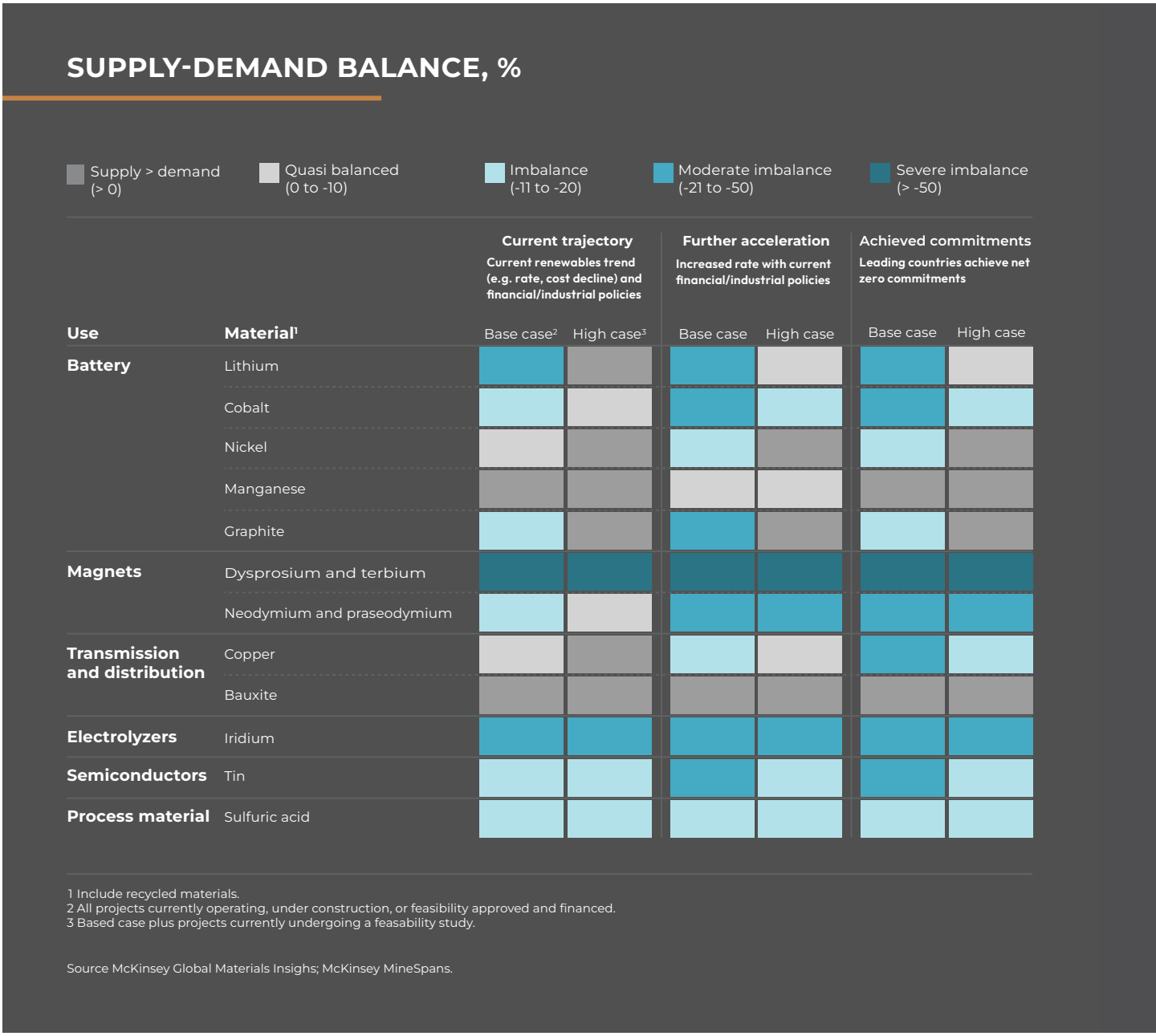
These renewable energy solutions require significant amounts of critical metals and minerals, with demand expected to increase steadily for metals such as copper, cobalt, and lithium, which are essential to the electric vehicle industry, and many others.

The IEA predicts that, as early as 2030, existing mines and those under construction will produce only about half of the cobalt and lithium, and around 80% of the copper required.

It bears mentioning in this context: climate commitments alone will not create the necessary material conditions.

In the graph below, McKinsey shows that demand for some of these materials will outpace supply from 2030:

SUPPLY-DEMAND BALANCE, %



1 Include recycled materials.
2 All projects currently operating, under construction, or feasibility approved and financed.
3 Based case plus projects currently undergoing a feasability study.

Source McKinsey Global Materials Insighs; McKinsey MineSpans.

Even for those metals where known reserves are plentiful, lead times from exploration to extraction can easily exceed a decade, leading to potential shortages. Some carmakers are taking note:

- In 2022, China's biggest electric vehicle producer, BYD, bought a 5% stake in China's third-largest lithium producer. In 2024, BYD announced negotiations with Brazilian producer, Sigma Lithium, over a possible supply agreement.
- In 2021 Tesla signed a long-term contract to buy nickel from BHP, the world's largest miner. The contract is reportedly worth up to 18,000 metric tonnes of nickel per annum.
- Ford Motor has an offtake agreement with battery minerals producer Liontown Resources.

"I think one of the reasons why we are asking ourselves whether there will be sufficient critical minerals in the future to enable the energy transition is to a large extent due to the fact that there has not been enough investment in exploration and development of mines. One of the reasons for that is that the social acceptance of mining remains very low."

Christophe Roux, EMEA Head of Mining, Metals and Industries Finance at Société Générale.

Those with a more optimistic outlook for supply still harbour concerns about the declining accessibility of these metals. A July 2022 McKinsey and Company report posits that increasingly challenging logistical issues emerge, as mining develops beyond the most accessible ore deposits towards those that are more difficult to access. Finding new deposits often involves operating in more remote, higher-risk investment jurisdictions, resulting in logistical complications and increased costs.

The mining industry is also contending with poorer quality ores. For instance, the average ore grades of copper have progressively decreased from 6.0% in 1890 to 1.76% in 1959, and further declined to 0.56% in 2018, posing increasing challenges to extraction. As a consequence of these factors, another McKinsey study published in August 2022 found that the 10 largest mining companies have only managed to grow their productivity by around 1% over the last 25 years. By contrast, the 10 largest companies in manufacturing and business services have boosted their productivity by 15% and 25% respectively.

It is taken for granted that the mining industry will keep pace with the growing demand for materials to support renewable technologies, but this complacency could be tested in the years ahead. Levels of investment in fresh supply will need to accelerate well beyond historical rates for production and for the downstream elements such as smelting and refining, with McKinsey suggesting as much as US$4 trillion will be required by 2030.

Meanwhile, the mining industry has come under increasing pressure over the last two decades from regulators, investors and end users to improve its performance on ESG issues, according to an article published in Responsible Investor on 17 October 2022.

There has been progress in certain areas; large mining companies have made important strides to better protect the safety of their workforces. The US-based National Mining Association noted that fatal injuries at mines in the US have declined by almost two-thirds over the past fifteen years.

"Resources are absolutely essential for a modern-day high standard of living. Without the supply from these assets, the world would be a very different place."

Evy Hambro at BlackRock.

A smooth energy transition – away from hydrocarbons and harmful gases to renewables and nuclear – will require a dependable, affordable supply of critical raw materials.

A major concern is that some of these materials are concentrated in one or just a few countries. For example, around 70% of cobalt, a key component of lithium-ion batteries, is produced in the Democratic Republic of the Congo (DRC). New mines must be developed elsewhere to diversify supply, with countries such as Australia, Canada and the Philippines all holding key geological potential.

The energy transition could also be held hostage to the emerging trend of resource nationalism, as governments may seek to squeeze higher prices from buyers. Chile's recent plans to nationalise its lithium reserves provide further evidence of this trend. Indeed, the Chilean government has expressed a desire to form a regional lithium association with Argentina and Bolivia, covering 65% of the world's reserves of the metal. If the pact materialises, this could give the three countries considerable pricing power. The effects of resource nationalism – tighter supplies and higher prices – might be mitigated to some extent by bringing mines online elsewhere. However, this course of action would require considerable investment.

As financier and entrepreneur Frank Giustra points out in an article published in the Toronto Star in 2023, large, diversified mining companies have prioritised dividends and share buy-backs at the behest of investors. This conservatism reflects a fear on the part of shareholders that overly ambitious expansion plans of previous decades, which damaged shareholder value, will be repeated. Meanwhile, the junior mining subsector – a strong source of new discoveries that can be bought up by the bigger companies – is starved of capital.

"You used to have an ecosystem of funds of different sizes that would invest in mid-tier and smaller mining companies. The small-to midsize management funds have largely disappeared or changed their investment strategies."

Christopher Ecclestone, Principal and Mining Strategist at Hallgarten & Company.

Optimists point to recycling as a potential solution. Encouragingly, the lead time for a new recycling plant is estimated at two years, whereas building a mine can take up to ten years. Recycling plants have the added advantage of limited ESG concerns, making them a more attractive prospect for funding. But this is only a partial solution; the IEA predicts that, by 2040, recycling minerals may only account for an aggregate 10% of the necessary supply of cobalt (12%), nickel (7%) and lithium (5%).

Also, recycling assumes a prior supply. The growing need for critical minerals for new green technologies means that access to old technology products from which to extract materials, especially in the Global South, is unequal to the task at hand.

INVESTOR CAUTION AND ITS IMPACT

Investor Caution and its Impact

The survey reveals that institutional investors have strong reservations about allocating capital to the mining sector.

By far the main concern, cited by 31%, is that mining companies will have a negative impact on the local communities in which they operate, potentially leading to allegations of human rights abuses.

"For us to invest in a mining company, it would need to be best-in-class in terms of governance and labour practices."

Michael Rae, Fund Manager at the M&G Climate Solutions Fund.

THE MAIN FACTOR DISSUADING INVESTORS FROM INVESTING IN MINING
(SELECT TWO OPTIONS)

Q2: In your view, what – if anything – dissuades investors from investing in mining?
Base: All answering: TOTAL=150

A related concern, cited by 25%, is the fear of reputational damage arising from scandals, which can result in a fall in the share price of the mining company concerned (and, therefore, of a fund manager's returns). Reputational damage can also stain the reputation of fund managers through 'guilt by association'.

"Today, there are very few funds and banks capable of investing in mines. When we onboard a client, we review their reputation, their organisation, their ESG strategy, their disclosures, and update our assessment on a regular basis thereafter. If our financing is dedicated to a particular project, then we implement the Equator Principles, which is a risk-management framework for determining, assessing, and managing E&S [environmental and social] risk in projects. Without ESG, I don't think that you can increase the investor base of the mining industry."

Christophe Roux at Société Générale.

Mining companies have not always helped themselves. Historically, they have often viewed host communities through the lens of operational risk – as a potential threat to business continuity rather than a potential partner in a collaborative endeavour. Notwithstanding recent efforts by many mining majors to mitigate their environmental and social impacts, the traditional image of miners as poor corporate citizens lingers in the minds of many institutional investors.

"I think the vast majority of asset owners are very removed from mining and understanding its dynamics and therefore have pretty limited exposure to it. So, when a disaster happens, it reinforces a negative perception of the industry. And that's part of the challenge."

Adam Matthews, Chief Responsible Investment Officer of the Church of England Pensions Board.

Increasingly, pursuing responsible mining practices is in the interest of mining companies. Not only do end-consumers want promises of sustainable, socially responsible manufacturing, they also want evidence that it is happening. Mining companies that embed ESG practices into their business models stand to enhance both their attractiveness to potential investors and their relationships with local communities and end users. Furthermore, they will stand out in contrast with less scrupulous operators that ignore best social practices, giving the former a better chance of winning new mining concessions in many countries and gaining preferential access to some markets.

Cost of Neglect

The manifold concerns about mining companies are reflected in their valuations, which are low compared to those of companies in other sectors.

In March 2024, Financial Times data revealed that a number of mining companies had depressed price-to-earnings (PE) ratios, such as Rio Tinto (10), Vale (7), Fortescue Metals (9) and Teck Resources (11), even though many of these firms carry strong balance sheets. By comparison, the S&P 500 trades on a PE ratio of around 23 and the valuations of many mining companies – despite good long term prospects – are on a par or priced even lower than the FTSE 100, currently one of the cheapest markets in the developed world.

Nevertheless, institutional investors and the mining sector will need to collaborate to achieve increasingly urgent net zero goals. Unless human-driven climate change is tackled, it could cost the global economy US$178 trillion by 2070 and, the longer the issue is left unaddressed, the higher this projected figure will rise. The IEA puts the figure at US$5 trillion in annual investments by 2030, to meet net zero emissions goals.

Moreover, the IMF predicts that, with government coffers depleted by the significant costs of COVID-19, around 80% of near-term climate funding will need to come from the private sector. A significant tranche of that investment will need to be deployed into the capital-intensive mining sector, to increase both capacity and output.

"Mining companies are significantly undervalued and trading at deep discounts relative to their replacement costs. If you had to recreate the materials industry globally, you couldn't do it for the valuation that it trades at right now. It would cost many more times."

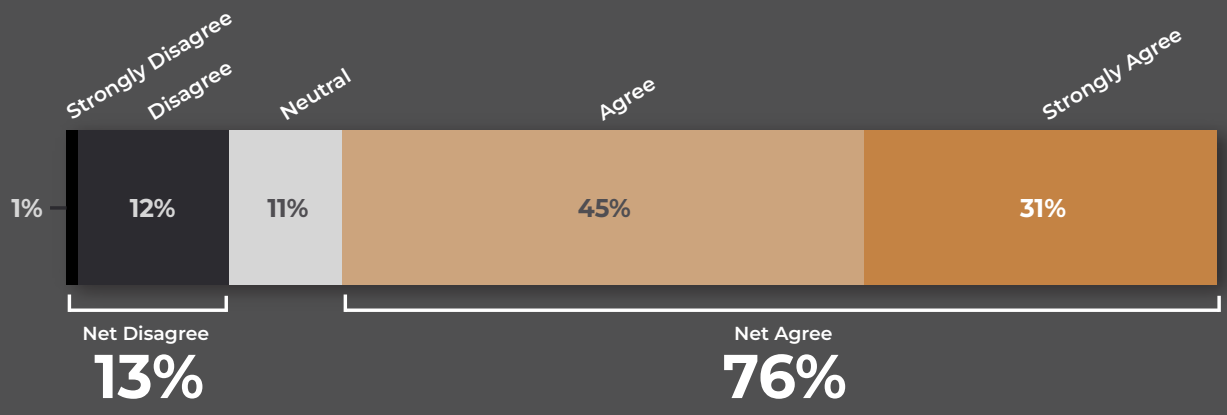
Evy Hambro at BlackRock.

THE OPPORTUNITY FOR THE MINING SECTOR

The Opportunity for the Mining Sector

Where there is change, there is always opportunity. Some institutional investors are becoming aware that the mining sector has a critical role to play in creating a sustainable global economy. In response to the M4H survey, 31% of participants 'strongly agree' that meeting decarbonisation ambitions will require an increase in metals for renewables, with a further 45% more broadly 'agreeing' with the statement. Only 13% disagreed.

PERCENTAGE OF INVESTORS WHO BELIEVE THAT MINING IS ESSENTIAL FOR ACHIEVING A GREEN ECONOMY



Q1: To what extent do you agree or disagree with the following statement: Hydrocarbon reduction ambitions are impossible without an increase in the availability of metals to support renewable energy and electric vehicles.
Base: All answering: TOTAL=150

A significant number of investor groups recognise that decarbonising the global economy is a mega-trend comparable to the first industrial revolution. This is cause for optimism over the long-term prospects for the mining sector, which also played a vital role in that first industrial revolution.

Another supportive factor is that mining companies are aware that adopting ESG criteria is beneficial to their businesses. One example is that they are drawing a greater share of their energy requirements from renewable sources, such as Antofagasta Minerals, which in 2022, declared the deployment of 100% renewable energy sources across its mining portfolio. This has the added advantage that, once a 'mine-life' ends, the localised power source can be redeployed by local communities. Developing power and electricity infrastructure networks in emerging market nations – or traditionally higher-risk mining jurisdictions – is a positive and lasting action that mining companies can undertake, to bring social benefits to their host communities.

"There is unquestionably good practice in the mining industry with people trying to do the right thing for the communities and countries they operate in. But the challenge is when one part of the sector has an incident, it doesn't just impact that individual company, but the whole sector. It reinforces the perception that this is a risky sector."

Adam Matthews of the Church of England Pensions Board.

Premium Pricing

Companies that behave responsibly often see their share prices trade at a premium compared with those of their peers. Conversely, if they are perceived to be bad corporate citizens, they may trade at a deep discount.

To encourage change, investors should consider backing forward-looking, transitioning companies and supporting their ESG goals, rather than restricting themselves to companies which are already ESG leaders. Given that so many mining companies are starting from a low base in terms of investor goodwill, a change in attitude could be rewarded with higher valuations

"We view the mining sector as hugely important, yet deeply challenged, and there is a lack of understanding across the wider investor community in terms of that importance. We do constructively engage with management on ESG issues."

Adam Matthews of the Church of England Pensions Board.

In light of social and investor pressures, mining companies are engaging more with their host communities. Increasingly, projects are expected to include additional socially beneficial infrastructure, such as schools and healthcare. For example, over a decade ago, First Quantum Minerals started running numerous health programmes in Zambia, which grew out of its desire to promote the health and safety of its staff working in its mines in that country. Later, this evolved into supporting projects related to building clinics and hospitals and voluntary counselling and testing programmes for HIV and malaria within host communities near its mines in Zambia.

The scheme is still running and covers health issues such as epidemic preparedness and water sanitation and hygiene.

One of the challenges around implementing social programmes is that host communities differ by country and even by individual mine. Unlike climate change mitigation strategies, it is difficult to come up with a structured, widely applicable scientific framework for managing community relations. Rather, mining companies must engage differentially with communities in a manner which emphasises three core areas:

- Listening
- Building trust
- Delivering real benefits

This approach will ensure that the rights, traditions, and welfare of host communities are respected and considered in the design and operation of mining projects, effectively attaining a 'social licence to operate'.

"Miners who are reducing their carbon footprints and being good corporate citizens, giving back to the community, are probably going to be the ones that will survive. All the information that mining companies produce has to be credible and stand up to scrutiny. There has to be independent institutions that verify this information and can then translate it in a manner that anyone can understand."

Nitesh Shah, Head of Commodities & Macroeconomic Research, Europe at Wisdom Tree.

In one notable example of the new world of mining, Fresnillo plc, the world's largest primary silver-mining company, uses the antibacterial properties of silver to help provide clean water to communities living near its silver mines and to other underserved rural and urban communities in Mexico. This initiative, rolled out with the help of M4H, fulfils a key UN Sustainable Development Goal (SDG #6) to 'ensure access to water and sanitation for all'.

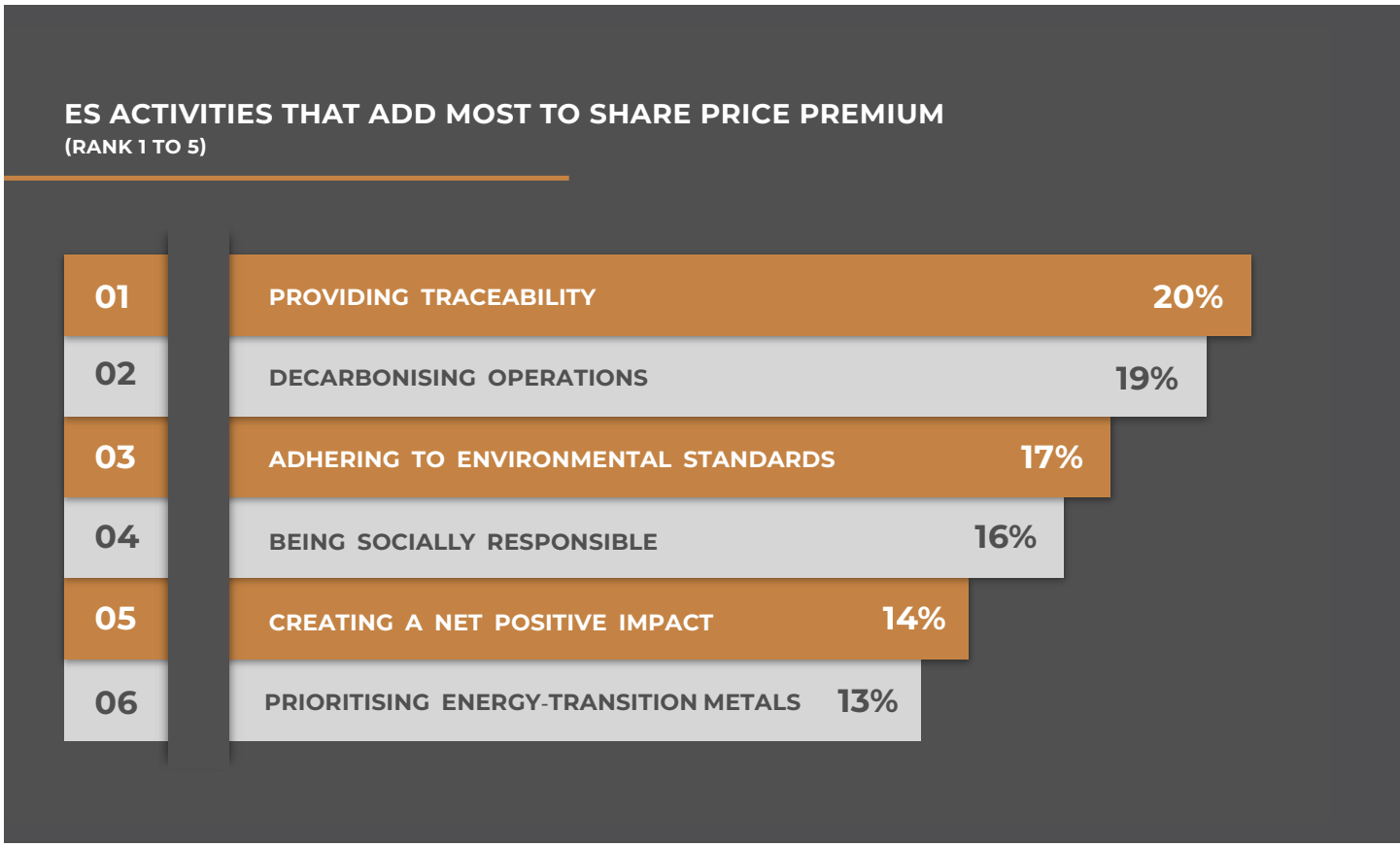
In its pilot phase, Fresnillo's Pure Silver Initiative has benefitted over 32,000 people across 3 states and in Mexico City, bringing silver-based water disinfection and sanitation solutions to schools and healthcare centres. A key objective of the community school programme is that local schools can secure access to an independent source of clean water. An added benefit is that school children consume more water and fewer sugary beverages, thus helping to lower obesity levels and tackle a public health crisis.

The initiative has also been a catalyst for participants to replicate lessons learned, amplifying the impact of the programmes. Engineers extended rainwater harvesting systems beyond communal areas to small family homes. Teachers created effective dialogues with other teachers to widen collaboration over water challenges. Students re-created 'Citizen Scientists' workshops to produce solutions using silver as an antibacterial agent.

"We recognise the benefits of investments in minerals in order to support the energy transition and that mining can enable sustainable development. However, it is a potentially sensitive and high-impact operation and we need to ensure that what we're financing is well managed. Mining companies need to give us the means to be able to defend our investment case with our stakeholders."

Christophe Roux at Société Générale.

Institutional investors are well aware that good relations with host communities are integral to sourcing metals and minerals, with 20% of survey respondents saying that providing traceability in the way these materials are mined and processed would support a share-price premium, and 19% citing decarbonisation.



Providing the origin of metals in the supply chain and explaining how they were mined is clearly an advantage. It also allows downstream users to demonstrate the sustainability of their supply chains.

The mining sector can no longer rely on having what everyone needs as sufficient reason to be granted the necessary investment funds or project approvals. Rather, it has to prove to a sceptical investor base that it is part of the solution.

"If you don't invest in ESG, you may not be able to produce at all, because you will not get the permit, or the local population will block your operation, or you will have severe litigation on your back."

Christophe Roux at Société Générale.

Several institutional investors approached for this report feel that mining companies should prioritise decarbonising their own operations to improve their attractiveness to investors. Indeed, BlackRock, citing IEA data, states that the materials industry had contributed over 17% of the 36.8 billion tons of global greenhouse gas (GHG) emissions in CO2 equivalent, as of 2022.

"Many of the diversified miners have ambitious ESG goals, but this is only the start of turning these businesses into sustainable companies. We want to monitor and understand all the other aspects that they need to work on, such as water management, biodiversity, how they interact with nature, etc … before we can get comfortable with it."

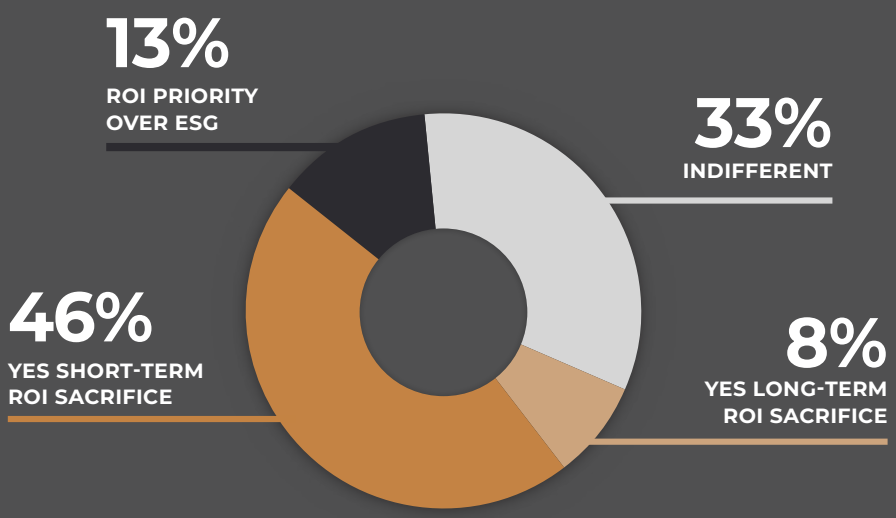
Michael Rae at M&G

Rio Tinto estimates that it will invest US$7.5 billion in decarbonisation projects in the second half of the decade. Around US$600 million will be spent on solar-power facilities at its Pilbara mine in Australia and more than US$500 million to decarbonise RTIT Quebec Operations in Canada. Since April 2022, 100% of Antofagasta's power-supply contracts are from renewable sources, leading to a 90% reduction in scope 2 emissions.

Survey respondents mentioned several solutions that could help mining companies achieve better valuations through a stronger ESG framework. A mere 13% of respondents said that they would not invest in a company that prioritised net zero goals over return on investment (ROI). Almost half (46%) said they would be prepared to accept a short-term sacrifice in ROI to achieve ESG and climate-change goals. However, that number drops to a mere 8% as far as long-term returns are concerned. Goodwill evidently does have a shelf life.

SACRIFICING ROI TO ACHIEVE ES OBJECTIVES

(1. ROI PRIORITY OVER ESG / 2. INDIFFERENT / 3. YES SHORT-TERM ROI SACRIFICE / 4. YES LONG-TERM ROI SACRIFICE)



Q3: Would you continue to invest in mining companies that sacrifice returns on investment (ROI) in order to support social and climate change goals?
Base: All answering: TOTAL=150

One third of respondents to the M4H survey indicated that independent reporting of ESG performance is important to them. Despite appearing a 'box set', the three components of ESG differ amongst themselves in ways that are relevant to reporting. The contrast is clearly visible in comparing the environmental and social dimensions. While environmental performance can be adequately expressed in quantitative terms, akin to the financial metrics that are the stock-in-trade of business reporting, this is less the case with social reporting. The results of social performance are as qualitative as they are quantitative, which makes their assessment and reporting more challenging. Finding appropriate all-purpose means for conveying social achievements remains a priority for the sector.

According to a Harvard Law School study published in June 2022, institutional investors are placing more weight on compliance with the specific SDGs.

The study says many investors associate strong sustainability credentials with better share-price performance. Certainly, in the case of mining companies, adherence to SDGs promotes harmonious relations with local communities and host governments, putting them in a stronger position to win new mining concessions and obtain planning permission.

TELLING THE WORLD: THE IMPORTANCE OF COMMUNICATION

Telling the World: The Importance of Communication

While many mining companies contribute to the communities they operate in, they must communicate these benefits more effectively. One issue is that mining companies tend to focus on their own individual success stories, rather than centralising resources to promote the sector as a whole. This approach would also pave the way for more independent verification of credentials. Examples include initiatives such as Sustainable Palm Oil, or the commercial and regulatory isolation of unscrupulous 'blood diamond' miners.

"The industry doesn't do a good enough job of telling people about the positive side of its impact. Materials producers are too often seen as the problem rather than the solution. If the industry spoke as one, and actually showcased what they do as a whole, it would be a much more powerful way of helping people understand that the majority of their activity is actually positive. And not only positive, but also essential."

Evy Hambro at BlackRock.

Companies can also come under the umbrella of third-party organisations such as the Science Based Targets Initiative (SBTi), whose goal is to define a target-setting standard for financial institutions to promote economy-wide net zero emissions by 2050. SBTi is particularly exacting, in that it does not permit carbon offsetting: it will not condone polluting in one country because a forest is planted in another. Rather, to gain credit, a mining company must objectively reduce its overall carbon footprint.

Adhering to strict environmental standards was cited by 17% of respondents, with 16% believing that being socially responsible, and 14% saying that exceeding a strict 'do no harm' ethos would help enhance the share prices of mining companies.

"If they're just trying to improve their image, then they're going to fail. It's evidence of implementation of best practice and having transparency and an independent audit. If they can demonstrate that, then it's incumbent on us to be thinking differently around how we perceive the sector and invest in it for the long term."

Adam Matthews of the Church of England Pensions Board.

The mining sector has not only improved its environmental and social standards substantially over the years but is striving to do more. Non-governmental organisations (NGOs) such as the Initiative for Responsible Mining Assurance (IRMA) produced an independent standard of best practices while the industry body, the International Council on Mining and Metals (ICMM), is attempting to roll out more standardised metrics for sustainable mining.

Meanwhile, a growing number of institutional investors recognise the importance of mining. One very positive development in this area is the investor-led initiative Mining2030. It aims to create a socially and environmentally responsible mining sector by 2030. Notably, it acknowledges the vital role of mining in the transition to a low-carbon economy.

MINDING THE GAP: THE COST OF UNDERINVESTMENT IN THE SECTOR

Minding the Gap: The Cost of Underinvestment in the Sector

The clear consensus is that failure to provide sufficient investment in adequate supplies of critical metals and minerals could delay or even derail the push for net zero.

As climate change affects most industries and geographies, the ensuing social problems and the hit to economic growth would likely undermine returns across entire investment portfolios. Decarbonisation planning must place the mining sector front and centre.

Institutional investors have valid concerns. There have been many cases of negative social impacts and environmental degradation, sometimes due to negligence. But mining is adapting, with good governance, technology and automation reducing risks. Financially, moreover, the sector trades at a valuation that compensates investors for the risks that remain.

To meet net-zero targets, investors should acknowledge the vital role played by the mining sector in the energy transition and recognise that it is trying to improve its ESG performance.

The focus needs to shift to the benefits of mining and mineral extraction for host communities. Meanwhile, to win wider investor approval, mining companies have to minimise environmental damage, decarbonise and return decommissioned mines to their natural state.

The alternative is that the global economy is effectively forced to continue to rely on fossil fuels as a primary energy source, which will inflict considerable damage on the entire planet. Investors, including those with sustainability mandates, should consider supporting ESG-focused mining companies as part of their portfolios.

Furthermore, decarbonising the global economy could represent a long-term commercial tailwind for the mining companies supplying the necessary materials for this latest industrial revolution.

“The cost of not transitioning is much higher than the cost of transitioning – we would lose 5% of GDP per year. It would be hypocritical to say that we cannot invest in mining, even on a sustainability basis. Most of the energy transition will need materials such as cobalt and copper.”

Fiona Frick, CEO at Circe Invest.

CONCLUSION

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In recent years, mining companies have made welcome progress in adhering to international ESG standards and frameworks. Unfortunately, the good work of many mining operators is being marred by the actions of a few bad actors.

Whilst the number of safety or environmental-related incidents is on the decline, they still attract the attention of the international media and contribute to the narrative of a fundamentally risky industry for investors. Here, the old adage, 'good news happens slowly and bad news happens all at once', certainly applies. Individual incidents, while significant, should not detract from the commendable efforts of the wider industry, to improve its environmental credentials and relationships with local communities.

It is undeniable that the global economy's transition to renewable energy sources requires the full participation of the mining industry. Fulfilling the burgeoning demand for critical raw materials requires support from institutional investors in terms of supplying much-needed capital, for both new and existing mining projects.

Identifying reasons for investor reluctance towards the mining sector – which is reflected in the modest valuations of listed mining companies – helps to identify tangible steps which mining companies must take to assuage these concerns. Hesitance shown towards the sector is partly due to geopolitical volatility, and the 'boom-bust' nature of the industry – but, as demonstrated by this report, ESG risks rank as the chief concern for institutional investors considering investment in the sector.

To make the sector more appetising for investors, mining companies must demonstrably prioritise ESG best practices across their global operations. The variety of investor concerns relating to the sector calls for a holistic approach that is attentive to all aspects of ESG; mining companies must go beyond 'do-no-harm' and aim to be 'best-in-class'.

More specifically, mining companies must decarbonise their own operations and develop strategic and measurable social programmes which engage mining communities. Greater transparency and third-party verification of mining processes and operations will also play an integral role in demystifying the 'murky' sector.

This approach will require investment but will bring multifaceted benefits to mining companies going forward, not least by making operators more attractive to investors.

Prioritising sustainability and social responsibility will also be appreciated by the regulators responsible for granting mining licences. Furthermore, the already-evident and growing focus on upstream supply chains for renewable technologies, like electric vehicles, may lead to price premiums for responsibly-produced metals.

Without mining, there can be no green transition. Leading figures in the mining industry must also step up their efforts in publicising the sector's sustainablity credentials and its inextricable link to the scale-up of renewable technologies.