

# Case 6

## Engagement Case Study with an Overseas Company (Mining Company F)

Combining collaborative and individual engagement activities leading to better disclosures and more proactive dialogue

### Issue

Sustainability management  
Risk management  
Health and wellbeing  
Air, water and land pollution

### Identification of material issues

The company is facing substantial challenges in managing various environmental and social externalities.

We believe it is essential for the company to implement a holistic approach and effective practices of sustainable and responsible mining activities, leading to the long-term success and sustainable value creation for shareholders. We think there is also a significant need for the company to improve its disclosures and investor communication around its sustainability strategy and ESG-related initiatives.



### Issue

#### [Issues of target company]

Mining company F (below, “company F”), headquartered in China, has transitioned from a pure gold producer to a globally diversified miner engaging in the exploration and development of a portfolio that includes copper, zinc, and lithium. The company has more than 48,000 employees and nearly half of them are employed overseas. It operates across multiple continents, focusing on green metal and mining investment projects in 16 countries. In particular, it is positioned among the top ten copper producers globally, which currently accounts for about 20% of the company’s gross revenue. As a critical and enabling material required for electrification infrastructure and green energy transition, the copper production of the company is expected to largely increase in the coming years.

Meanwhile, mining companies are facing major challenges in managing various environmental and social externalities. The key concerns were centered around labor conditions, local community relationship management, climate change and other adverse environmental and social impacts such as pollution, water stress and waste management. A holistic approach towards sustainable and responsible mining activities and the effective practices are essential for the company’s long-term success and sustainable value creation for shareholders. Furthermore, there is also a significant need for the company to improve disclosures and communication with investors around its sustainability strategy and ESG-related initiatives.

### Action

#### [Dialogue content]

During this reporting period, Asset Management One had three direct engagement interactions with company F. Firstly, we joined collaborative engagement activities together with other investors since 2022, led by the ACGA (Asian Corporate Governance Association). Under this initiative, the investor group held two collective engagement dialogues with company F. The first meeting was with the investor relations and ESG specialists in the company, focusing on the following three issues.

- (1) Seeking improvement of environment-related disclosures
- (2) Encouraging the company to set KPIs for pollution and social indicators
- (3) Gaining reassurance about its labor management practices especially regarding health and safety of workers

Furthermore, this engagement evolved into another dialogue with senior management, to raise concerns and gain additional insights on its ESG activities in a broader context of the company’s growth strategy, progress and performance. We have actively participated in this investor group engagement, particularly seeking a further clarity about the company’s climate strategy, as well as its governance practices around sustainability matters including the role of the ESG Committee and its interaction with other key committees at the board level.

In June 2023, we also held a 1-on-1 engagement meeting with company F, at which we were able to have a more in-depth discussion about the company’s strategic thinking and execution planning for its climate goals of achieving carbon peak emissions by 2029 and carbon neutral by 2050. Company F plans to significantly improve its renewable energy mix to more than 30% of total by 2030, from the current 16.2%. We discussed in detail its action plans set out for each project, and questioned whether and how the company’s capital allocation decisions are reflecting the related projects respectively. In the 2022 ESG Report, it highlights that ESG and sustainability factors account for 20% of senior executives’ performance assessment for remuneration. We further encouraged the company to increase transparency of the KPIs and to explain how the selected metrics are well aligned with its strategic aims and performance over a relevant time horizon.

### Outcome

#### [Status of dialogue achievement]

We are pleased to see a remarkable turnaround in company F’s communication with investors about ESG issues and the progress made in related disclosures over the past year. The company has newly appointed a dedicated ESG specialist, aiming to further enhance transparency and investor communication. Senior management also made a commitment to having direct engagement dialogue with investors in a more strategic and proactive manner. In late-January 2023, the company announced its 2023-2025 business plan and 2030 development target, along with an action program on climate change. The company announced its carbon targets for the first time and published the first TCFD report in China’s non-ferrous metal industry. In the latest 2022 ESG Report, the total number of indicators and data points being disclosed has increased by 16% compared to the previous year, demonstrating the company’s strategic planning and progress in implementing various ESG initiatives.

We believe the combined approach of collaboration with other investors and our individual engagement activities has proved to be most effective in this case. While sending influential joint messages together with other global investors in the collaborative engagement activities, we were also able to gain a deeper understanding and form qualitative and forward-looking views of the company’s approach through our individual dialogue.

To date, company F has received some lower ratings and scores from external ESG rating providers and has frequently been exposed to controversies associated with its mining operations. However, the engagement activities above have enabled us to gain additional valuable insights into the company’s growth strategy and ESG performance beneath the surface and beyond ESG ratings. Given the vital importance and long investment lead time of some critical minerals, such as copper, amidst the heightened demand from low-carbon and energy transitions, this engagement case is aligned with our firm’s aims of stewardship and proactive engagement on material ESG factors not only from the perspective of downside risk management, but also for optimizing the investment upside potentials and value creation opportunities.

We will continue monitoring the progress towards the goals and targets set by company F, and engaging on its performance around sustainability and material ESG matters. We would also like to see more progress and accountability in the area of enhanced due diligence on its supply chain and in sensitive regions, and in managing ESG externalities and improving disclosures for joint venture projects.