MiningJournal

Miners should embrace ESG

If 'ESG' is the heading on the last slide in a corporate presentation, company directors have misunderstood what is expected of them.

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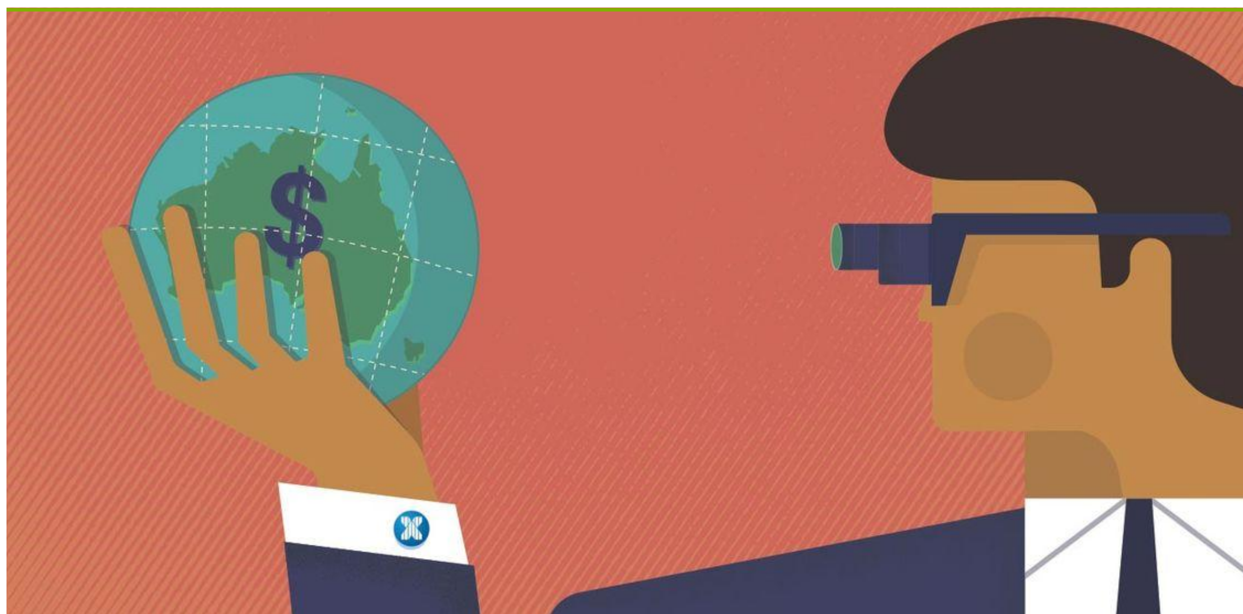

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It is easy enough to be sceptical about the flight to ESG investing. Fund managers have clearly vested financial interests in periodically redesigning how capital is allocated.

A new investment theme, ideally with a catchy acronym, can bolster fee income, whether or not it leads to different investment choices.

Analytical frameworks are of preeminent importance in the world of large fund managers and the ratings agencies and asset consultants feeding off the investment process.

BlackRock, the world's largest asset manager, told clients in January 2020 that "ESG benchmarks should exclude businesses with high ESG risk such as thermal coal and we are engaging with index providers on this topic".

The BlackRock letter illustrated how the largest fund managers habitually seek to alter the ground rules to favour their preferred ways of investing.

BlackRock was essentially confirming that it was not enough for it to change how it selected its own investments. By urging changes to benchmarks, it was trying to force everyone to follow its lead. That way, too, competitors would not be able to easily justify superior returns if they dared to think independently.

BlackRock gained worldwide publicity for its stand against thermal coal at the start of the year when its chief executive, Larry Fink, publicly framed his opposition to coal mining in the context of action against climate change. But Fink's letter to companies

and investors also conceded thermal coal was becoming "less and less economically viable".

In other words, a value investor with a conventional approach to stock selection might well come to the same conclusion about the attractiveness of coal without a highfalutin new investment style to justify the choice.

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Fink cited three examples to justify what he was dressing up as an innovative investment approach. One was a pharmaceutical company "that hikes prices ruthlessly". Another was "a mining company that short-changes safety". The third was "a bank that fails to respect its clients".

Fink said "these companies may maximise returns in the short term" but "these actions that damage society will catch up with a company and destroy shareholder value".

Fink is making stuff up to suit his purpose. Neglecting mine safety is simply bad behaviour. He should be urging toughened criminal penalties, not a new investment philosophy. And how stupid is a money manager for funding a mining company taking risks with safety?

Even the investors who took over mining from King Leopold in the Congo immediately improved safety standards, recognising change was needed for a more sustainable business model. Fink is pretending to discover something which any mining investor has known for a century.

Certainly, standards change. What was once hailed as enlightened can later be seen as poor conduct, whether in mining, drug manufacture or banking. Managers have always had to adapt to changing stakeholder expectations in order to sustain their businesses. That is nothing new.

To enforce its fundamentally mundane views about how companies should behave, BlackRock wants standardised disclosure practices. In the absence of what he refers to as "robust disclosures" Fink threatens to conclude "that companies are not adequately managing risk" and "will hold board members accountable".

The drive to standardise reporting is a way of compelling companies to follow how BlackRock thinks businesses should work with little regard to the costs and potentially negative impact on innovation.

Consistent reporting across companies does allow investors to more easily compare outcomes, at least in principle, but also hides faults. Reporting entities are usually rendered indistinguishable after lawyers have met to formulate what will be acceptable responses to new disclosure obligations. Accounting standards, the ultimate standardisation in corporate reporting, do not prevent financial losses, company failures, maladministration or embezzlement.

Whatever the motivation, the financial muscle behind the ESG investment push is proving hard to resist.

The mining industry could easily adapt to the model outlined by Fink. The BlackRock head wants all companies to recognise "the importance of serving stakeholders and embracing purpose". According to Fink, "a company cannot achieve long-term profits without embracing purpose".

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Perhaps inadvertently, Fink is letting the mining industry off the financial hook. He is giving the industry an opening to think differently about investment worth.

So, when mining companies address investors, they should talk first and foremost about purpose. They should address who will gain from their ventures, what benefits exploration success will bring, how

much revenue governments might receive from their efforts and what impact their success will have on health, education and life expectancy.

By the way, a company chief executive could say after explaining his Finkian purpose, we have drill results or a feasibility study which demonstrate our credibility. A high IRR or NPV should be seen as evidence of fulfilling 'the purpose' and not an endpoint.

Pursuing a purpose would be so much easier than the creation of news flow at the heart of the failing investment model pursued by most junior miners.

Attitudinal research is pointing to a new generation of investors wanting their decisions to have positive social impacts. An audience of geoscientists might still crave the technical detail but modern investors, faced with a dozen pages of drill results and having to rely on a smattering of high-school science, are more likely to look elsewhere to park their savings.

Mining companies are among the best placed to make clear statements about their positive impacts on community outcomes. As things stand, they have little to lose. More pertinently, they would be playing to a strength.

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