

Rio Tinto

The story so far.

Rio Tinto put the Juukan Caves in Western Australia on the map in May last year, just after it removed the caves from the map for all time. On 24 May 2020 Rio Tinto set off explosives around the caves so it could recover iron ore that would be shipped off and sold to China for the market price at the time, about \$US100 a tonne. These caves had evidence of human habitation from tens of thousands of years ago. It is an event many of us will not forget, a day Australia – indeed the world – lost a significant piece of indigenous heritage. It also shone a light on the cultural and systemic breakdown that had taken place over a number of years between the traditional owners and one of Australia's largest mining companies, one that had until then been perceived as an ESG leader among mining companies.



Picture Source: [archaeology.wiki](https://www.archaeology.wiki)

It still makes us extremely sad to think how easily this could have been avoided. If only the Traditional Owners had been adequately consulted in order to ensure their prior and informed consent, which would not have been given. If only cultural heritage was managed the way safety is, in an integrated and holistic way. If only the CEO and Board, including the sub-committees, recognised the critical importance of governance and oversight in heritage matters. And if only the team on the ground was empowered to speak up. These are all things Rio Tinto is now trying to resolve.

The event triggered a series of shareholder actions that would end up costing three executives and at least two Board members their jobs. A few days after the blast, in the midst of all the Covid travel restrictions, we had a call with the London-based Chairman of Rio Tinto to try and work out what went wrong. He promised a Board report and full co-operation with the many other enquiries around the matter. To his credit the Chairman was very accessible over succeeding months to us and other shareholders, and he made the CEO endure quarantine to go to the Pilbara himself in an attempt to make personal amends.

But when the Board report was delivered a few months after the blast, not only was it far from adequate, in our view, it failed to find anyone really accountable for the incident; apparently all the blame lay with people who had already left the company. Many shareholders, including ourselves, expressed surprise and concern about this and eventually the CEO and two senior executives announced their resignations.

Rio Tinto massively underestimated the implications of what it had done and the strength of the views of shareholders. Almost all decisions related to accountability it made after that – especially the decision to award the ex-CEO and executives almost full bonuses – has shown how out of touch it was with its shareholders' expectations. The director who produced the report into the incident resigned soon after. Another director resigned because of other business commitments. The Chairman has promised to resign this time next year and a few others are (or should be) considering their positions.

Rio Tinto is holding its annual shareholders meeting in May. Considering all the changes that have so far taken place: the Chair not seeking re-election next year, the changes to the Executive Committee and structure, and fundamental changes to the way they engage with traditional owners and heritage issues on site, we believe Rio Tinto is on the right path to start to repair its reputation and mitigate the risk of this type of event re-occurring. We are however highly concerned about the payouts received by the departed executives, who have left with bulging wallets. We are also highly concerned about the poor judgement demonstrated time and time again by members of the Board, including the Chair of the Remuneration Committee. These concerns are being reflected in the votes we will be casting.

Otherwise we are supportive of the changes Rio Tinto is making to its heritage management approach, the revised organisational structure, and the introduction of a new Social Performance Team. We will continue to monitor the implementation of these changes, as well as the company's response to any further recommendations from the ongoing Federal Government enquiry when it is released, but it appears that Rio Tinto will go onto be a much better operator in the future.

Since the day of the blast up to the end of April, Rio Tinto shares have risen 17%, a bit less than the overall market's +22%. This compares with iron ore peers BHP +30% and Fortescue +44%. The strong absolute numbers are a result of the very strong resource environment the world has experienced over the past year, but Rio Tinto itself underperformed. It could be reasonable to blame at least some of that underperformance on the events in the Pilbara – but at the end of the day the high iron ore price continues to support Rio Tinto shares.

Ultimately, when considering how to manage significant controversies and ESG related issues, we try to be forward-looking. Considering the changes it has made, we feel that the Rio Tinto of the future will be a very different company to the Rio Tinto of the past. The new CEO appears to be a cleanskin and has surely learned from the firestorm of public criticism the company was subjected to in 2020. For now, we are prepared to remain shareholders, thereby keeping a seat at the table and a degree of influence in future developments, but we will be keeping a close eye on the company's policies and conduct to make sure the changes are real and enduring.

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