BlackRock.

Investment Stewardship

Vote Bulletin: Rio Tinto Group

Company	**Rio Tinto Group (Rio Tinto plc and Rio Tinto Limited)**
Market and Sector	United Kingdom, Australia/Materials
Meeting Date	Rio Tinto plc, 9 April 2021; Rio Tinto Limited, 6 May 2021
Key Resolutions[1]	**Rio Tinto plc:** **Item 3**: Approve Remuneration Report for UK Law Purposes **Item 4**: Approve Remuneration Report for Australian Law Purposes **Rio Tinto Limited:** **Item 19**: Approve Emissions Targets **Item 20**: Approve Climate-Related Lobbying
Key Topics	Remuneration, climate risk
Board Recommendation	The Board recommended voting FOR these items
BlackRock Vote[2]	BlackRock[3] voted AGAINST Items 3 and 4 because we did not consider it appropriate to support the remuneration report, specifically the exit pay package for the CEO, due to the destruction of the Juukan Gorge and resulting environmental, social, and reputational damage. BlackRock voted FOR items 19 and 20 because we believe shareholders would benefit from enhanced disclosure on climate and climate-related lobbying disclosures

Overview

Rio Tinto Group engages in the exploration, mining and processing of minerals globally. It operates under a dual listed companies structure, with the businesses of Rio Tinto plc and Rio Tinto Limited sharing a board and management structure. Rio Tinto plc's principal market is the London Stock Exchange, whereas Rio Tinto Limited's shares are listed on the Australian Securities Exchange. The two businesses conduct individual annual general meetings (AGMs) where the majority of items under voting consideration are the same (Items 1-17 for this year). Items 18, 19 and 20, however, are exclusive to the Rio Tinto Limited AGM in Australia on 6 May 2021.[4]

[1] Rio Tinto, "2021 Notice of annual general meeting".

[2] The BlackRock Fundamental Active Equity (FAE) Team abstained from voting on Items 3 and 4. Please see the end of this Vote Bulletin for the FAE team's vote rationale.

[3] See previous footnote.

[4] Rio Tinto, "2021 Notice of annual general meeting".

BlackRock Investment Stewardship (BIS) regularly reviews Rio Tinto's governance structure and risk profile. Over the past two years we have engaged over ten times with members of Rio Tinto's board and management. We have discussed a range of material environmental, social and governance issues, including climate-related risks and opportunities, operational sustainability, human capital management and remuneration.

In 2020, the company's expansion of an iron ore mine resulted in the destruction of a 46,000-year-old sacred site in western Australia at Juukan Gorge. This site is of significant cultural and historical importance, including to the First Nations of Australia and Traditional Owners the Puutu Kunti Kurrama and Pinikura peoples (PKKP). Its destruction prompted a parliamentary inquiry and a public outcry against the company and its lack of oversight. As a result, three senior executives, including CEO, Jean-Sébastien Jacques, left the company and more recently the Chairman of the Board, Simon Thompson, accepted ultimate accountability and announced that he will not seek re-election at the 2022 AGM.

Rationale for BlackRock's Vote

Item 3: Approve Remuneration Report for UK Law Purposes (AGAINST)

Item 4: Approve Remuneration Report for Australian Law Purposes (AGAINST)

BIS voted AGAINST these proposals because the exit package did not adequately reflect the severity of the destruction of the Juukan Gorge and the resulting damage to the environment, relevant communities, and the company's social license to operate.

As a consequence of the destruction of the Juukan Gorge, former CEO Jean-Sébastien Jacques, together with two other senior executives, the Chief Executive Iron Ore and the Group Executive Corporate Relations, left the company. Jean-Sébastien Jacques received total remuneration under his exit package of £7.2m in 2020 and may receive sizeable payments over the next few years as well.

Although the entire 2020 Short-term Incentive Plan (STIP) award was forfeited (the policy allowing a maximum of 200% of base salary, about £2.2 million) and a £1 million malus adjustment was applied to reduce the amount to which Jacques was paid under the 2016 Long-term Incentive Plan (LTIP), the "eligible leaver" treatment resulting from the termination by mutual agreement will allow for the vesting of the outstanding LTIP awards, prorated for time and performance.

When executive compensation practices or structures are not aligned with our expectations, BIS may vote against proposals to approve remuneration reports. We appreciate that the amount to which Jacques is eligible under the LTIP is partly explained by the positive performance of the company since 2016. However, we did not consider it appropriate to support the remuneration report given the social and reputational harm done by the destruction of the Juukan Gorge, for which Jacques is held partially responsible, and the exit package that did not reflect the severity of the damage done. As discussed in our commentary, "Incentives aligned with value creation," perceived or actual disproportionate pay severs the link between compensation structures and long-term performance, and has the potential to create reputational risk.

That being said, recognizing the contractual and legal constraints under which the board had to operate and the reasons for which it was not in a position to terminate the former CEO for cause, we did not vote against relevant board members in addition to our vote against the remuneration reports, which would typically be our policy when we have concerns about remuneration governance.

Item 19: Approve Emissions Targets (FOR)

Item 20: Approve Climate-Related Lobbying (FOR)

BIS voted for these two shareholder proposals because we believe that greater disclosure on climate and climate-related lobbying disclosures would benefit shareholders.

As previously mentioned, the Rio Tinto Limited AGM in Australia on 6 May 2021 had one additional management item (Item 18: Approve the Renewal of Off-Market and On-Market Share Buy-back Authorities), which we supported, as well as two non-binding shareholder proposals related to the company's management of climate risk. The board recommended supporting both shareholder proposals, reflecting the progress it is making on climate and climate-related lobbying disclosures.[5]

Item 19 requested the company to disclose short, medium, and long-term targets for its scope 1 and 2 GHG emissions and performance against those targets. All targets should be independently verified as aligned with the climate goals of the Paris Agreement. BIS supported this proposal as it is consistent with our expectation that companies to disclose scope 1 and 2 emissions and accompanying GHG emissions reduction targets. We believe that the companies that critically evaluate their current baseline, set rigorous GHG emissions reduction targets, and act on an accelerated timeline are those most likely to avoid operational disruption in the future.

Item 20 requested that the company enhance its annual review of industry associations to ensure that areas of inconsistency with the Paris Agreement are identified, and that if identified those memberships be subsequently suspended for a period deemed suitable by the Board. The proposal would not limit the Board's discretion to make decisions it deems are in the best interests of the company. In line with management's recommendation, BIS supported this proposal to signal the importance of the opportunity for Rio Tinto to engage its trade associations to further advance their policy positions in support of the global energy transition. We believe that improved disclosures regarding the company's ability to influence its industry associations would help investors understand and assess the possible misalignment in public positions on key strategic policy issues with those of certain associations of which it is a member.

BlackRock Fundamental Active Equity (FAE) Vote Rationale

BIS is strategically positioned as an investment function and interfaces with BlackRock's various portfolio management groups, including the fundamental active equity (FAE) team. BIS confers with, and engages alongside, FAE portfolio managers where an issue is closely related to long-term shareholder value, e.g. deciding how to vote on a material financial transaction. To enable FAE portfolio managers to execute votes in a manner consistent with their view of what is in the best interests of the clients invested in their funds, they have full discretion to vote the shares in the funds they manage based on their own analysis of the economic impact of a particular ballot item.

Two active fundamental equity teams hold shares in Rio Tinto. Regarding approving the remuneration report, one active equity team voted against Items 3 and 4, in line with the view held by BIS. The second active equity team decided to abstain from voting on Items 3 and 4 based on the conclusion that previous measures taken by the Board on pay as well as the departure of the CEO and several other accountable executives, were adequate.

Both FAE teams aligned with the views of BIS on Items 19 and 20.

[5] Rio Tinto, "Rio Tinto Limited 2021 AGM – Addendum to the Notice of Meeting".

About BlackRock Investment Stewardship (BIS)

BlackRock Investment Stewardship (BIS) plays a key role in our fiduciary approach. As an essential component of our responsibility to our clients, we engage with companies to advocate for the sound corporate governance and business practices that drive the sustainable, long-term financial returns that enable our clients to meet their investing goals.

Our approach is from the perspective of long-term, minority shareholders in public companies on behalf of our clients. We look to boards and executive management to serve the interests of long-term shareholders and other stakeholders. Our active and ongoing dialogue with the leaders of these companies gives us a valuable perspective on their long-term strategies, financial performance, and the business challenges they face.

As stewards of our clients' assets we have a responsibility to make sure companies are adequately managing and disclosing environmental, social and governance (ESG) risks and opportunities that can impact their ability to generate long-term financial performance — and to hold them accountable if they are not. Engaging with companies is how BIS builds an understanding of a company's approach to governance and sustainable business practices, how we communicate our views, and how we ensure companies understand our expectations. If a company falls short of our expectations and we have been given the authority to vote the company's shares, we would hold them accountable by voting in the best long-term economic interests of those clients that have given us proxy voting authority. As detailed in our Global Principles, proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.

We are committed to transparency in our stewardship practices. Our vote bulletins provide detailed explanations of key votes relating to a range of business issues including ESG matters that we consider, based on our Global Principles, market-level voting guidelines, and engagement priorities, material to a company's sustainable long-term financial performance. We publish select vote bulletins after the shareholder meeting to provide transparency for clients and other stakeholders into our approach to the votes that we believe require more detailed explanation.