Vote Bulletin: Rio Tinto Group

Overview

The Rio Tinto Group engages in the exploration, mining, and processing of minerals globally. The group operates in 35 countries under a dual listed company 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.

BlackRock Investment Stewardship (BIS) regularly engages with the Rio Tinto Group to understand how the group identifies and manages risks and opportunities that we believe can impact their ability to deliver sustained financial performance for long-term investors like BlackRock’s clients. Our discussions have covered a range of corporate governance and social issues which the group is addressing, such as board quality, executive remuneration, human capital management, and company impacts on people, including the adverse impacts resulting from the destruction of a 46,000-year-old sacred site in Western Australia at Juukan Gorge.

In addition, as Rio Tinto Group is part of a sector playing a critical role in the global energy transition, we have sought to further our understanding of their approach to climate-related risks and opportunities, and their strategies to navigate the transition to a low-carbon economy successfully.

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1 Rio Tinto, “Annual General Meetings”.
2 Rio Tinto, “Our Business.”
3 Please refer to our 2021 Vote Bulletin to learn more about BIS’ engagement and voting on behalf of clients in the aftermath of the Jukkaan Gorge controversy.
4 Both Rio Tinto plc and Rio Tinto Limited are included in the BIS climate focus universe, a list of approximately 1,000 carbon-intensive public companies that represent nearly 90% of the global scope 1 and 2 greenhouse gas (GHG) emissions of our clients’ public equity.
Rationale for BlackRock’s vote

Item 4-13: Re-election of board members (FOR)

BIS supported all directors up for re-election. After closely analysing each candidate’s profile and engaging with the group – and in consideration of the changes made both at the board and management level following the Juukan Gorge controversy – BIS determined it is in the best interests of our clients as long-term shareholders to support board continuity.

At this year’s annual general meeting (AGM), shareholders voted on the re-election of seven incumbent directors and three candidates nominated for the first time. Two directors indicated their intention to retire at the conclusion of the group’s AGMs, including the chairman, Simon Thompson.

As we explain in our Global Principles, we believe that the performance of the board is critical to the economic success of a company and the protection of shareholders’ interests. As part of their responsibilities, board members owe fiduciary duties to shareholders in overseeing the strategic direction and operation of the company. We believe boards best serve shareholders’ interests when they establish and maintain a framework of robust and effective governance mechanisms to support oversight of the company’s strategic aims.

Rio Tinto Group made a series of leadership changes at the board and management level in 2021 in response to the Juukan Gorge controversy. On the management side, Jakob Stausholm was appointed Chief Executive in January 2021. He joined the group in September 2018 as Executive Director and Chief Financial Officer (CFO). Succeeding Mr. Stausholm as CFO is Peter Cunningham, who was appointed to the position in June 2021 and also joined the board. He joined the group in March 1993 and “has held a number of senior financial and non-financial leadership positions across Rio Tinto in Australia and the UK.” At the board level, non-executive director Michael L’Estrange retired at the conclusion of the 2021 AGM. Following the AGM, the group announced the appointment of Ben Wyatt, the former Treasurer and Aboriginal Affairs Minister in the Western Australian Government, as an independent non-executive director. This is the first time the group has appointed a First Nations person as a director. Lastly, Simon Thompson retired as chairman at this year’s AGM, succeeded by Dominic Barton, an experienced consulting professional and former Ambassador of Canada to China. Mr. Barton brings 30-years’ experience in global business, geopolitics, corporate sustainability, and governance. All directors, except the two that announced their definite retirement, are offering themselves for re-election. Messrs. Barton, Wyatt, and Cunningham are seeking election for the first time. In light of our ongoing engagement with the group, and a close evaluation of each candidate’s profile, BIS determined it is in the best interests of our clients as long-term shareholders to support board continuity at this year’s shareholder meeting.

Regarding other social-related risks and opportunities surrounding the group, BIS also engaged to understand how the group is taking into consideration the results of the comprehensive external review that identified “disturbing findings of bullying, sexual harassment, racism and other forms of discrimination throughout the company.” BIS believes the group’s leadership has demonstrated transparency and a commitment to address the independent reviewer’s findings, including through the implementation of 26 recommendations “to improve how the company prevents and responds to discrimination and unacceptable workplace behaviour.”

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 holdings. The list is derived from public information and is intended to focus BIS’ climate engagement efforts. Many of these companies are leaders in their sectors—they have detailed climate adaptation strategies, rigorous GHG emissions reduction targets, and are creating the technology and solutions that are vital for a low-carbon transition. Others are at a much earlier stage in this journey.

5 Rio Tinto, “Annual General Meetings.”
6 Rio Tinto, “Executive Committee – Jakob Stausholm.”
7 Rio Tinto, “Annual General Meetings.”
8 Rio Tinto, “Executive Committee – Peter Cunningham.”
10 Rio Tinto, “Annual General Meetings.”
12 Elizabeth Broderick & Co. “Report into Workplace Culture at Rio Tinto.”
BIS believes that the group has taken these controversies seriously, has adequately refreshed their board, and has the appropriate oversight as well as responsiveness to shareholders with regards to these issues. BIS will continue monitoring the situation and will engage with members of the board and management to track progress against the group’s commitment to address these issues, and the board’s oversight of social-related risks and opportunities, overall.

**Item 17: Approve Climate Action Plan (FOR)**

BIS voted FOR the management proposal seeking shareholders’ approval of the Rio Tinto Group’s Climate Action Plan, which is described in the report “Our Approach to Climate Change 2021.” The group’s climate action plan, targets, and disclosures are consistent with what we look for and, in our assessment, demonstrate management and board responsiveness to shareholder feedback. Accordingly, BIS determined that it is in the best interests of our clients as long-term shareholders to support the proposal to approve the Climate Action Plan.

At this year’s AGM, management proposed an advisory, non-binding shareholder vote on the Rio Tinto Group’s Climate Action Plan as set out in the special report “Our Approach to Climate Change 2021.”

As discussed in our commentary, Climate risk and the global energy transition, BlackRock’s stewardship approach is based on our fundamental role as a fiduciary to our clients. As the world transitions over decades to a low-carbon economy, we are interested in hearing from the companies in which our clients are invested how they are assessing and managing the risks and opportunities arising from the global energy transition, while also managing for a reliable energy supply and a just transition. Specifically, we look for companies to demonstrate they have strategies in place that address and are resilient to a range of scenarios, including likely decarbonization pathways well below 2°C, as well as global ambitions to limit temperature rise to 1.5°C.

As captured in their report “Our Approach to Climate Change 2021”, the group has accelerated their plans in “managing physical climate change risk through risk-based adaptation practices” that the group deems “essential to enhance the resilience of assets and communities.” The Climate Action Plan articulates the steps the group will take in alignment with their commitment to net zero by 2050, which includes setting more ambitious interim targets and clear board oversight. By way of example, the group aims to reduce their scope 1 and 2 emissions by 15% in 2025 and 50% in 2030, in alignment with the goals of the Paris Agreement. The plan also considers a $7.5 billion capital investment between 2022 and 2030 to deliver the group’s decarbonization strategy.

The Rio Tinto Group has also proposed to hold an advisory vote in relation to the plan every three years. If the group should make significant changes to the plan, they have also committed to “put the amended plan to an advisory vote at the next AGM.” Moreover, the group has committed to “regular engagement with shareholders and other stakeholders on our low-carbon transition strategy and its implementation.”

Lastly, the group’s Climate Action Plan acknowledges the physical and transition risks that climate change poses across the group’s portfolio, in particular as it relates to their fossil-fuel-based steel and aluminum production activities. Whilst acknowledging that the carbon efficiency of the steelmaking process is partly outside of the group’s control, Rio Tinto has articulated a plan that relies on the development of innovative new technologies and partnerships to address the scope 3 emissions resulting from the processing by their clients of the iron ore that the group produces (which represents more than 70% of Rio Tinto’s scope 3 emissions). The plan identifies portfolio risks and opportunities in the transition to a low-carbon economy and presents a

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scenario analysis highlighting “significant potential for commodities such as copper, hydro-based aluminum and battery minerals if the transition outpaces [our] scenario expectations.”19

We are encouraged by the actions the group has taken to date and their improving transparency in this regard. We will continue to engage to further assess progress, especially in relation to the group’s strategy of "combining investments in commodities that enable the energy transition with actions to decarbonise [our] operations and value chains.”20

About BlackRock Investment Stewardship (BIS)

Our clients depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and ultimately individual investors, among others. Consistent with BlackRock’s fiduciary duty as an asset manager, BIS’ purpose is to support companies which we invest for our clients in their efforts to create long term durable financial performance.

BIS serves as an important link between our clients and the companies they invest in – and the trust our clients place in us gives us a great responsibility to advocate on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients’ investment outcomes and financial well-being.

We look to boards and executive management to demonstrate that they are taking into consideration the interests of long-term shareholders and other stakeholders. Our, often multi-year, dialogue with the leaders of these companies provides us the opportunity to improve our understanding of, and provide feedback on, the governance and sustainability (ESG) risks and opportunities that are material to their businesses and thus to their ability to generate long-term returns for our clients. For those clients who have given us authority, we vote proxies in their best long-term financial interests, in line with our public voting guidelines and informed by our analysis of company disclosures and, where relevant, our engagements.21

To support investors’ assessment, it is helpful when companies provide timely, accurate, and comprehensive disclosure on all material governance and business matters, including sustainability-related issues. This transparency allows shareholders to better understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or we believe the approach taken may be inconsistent with sustainable, long-term value creation, we will engage with a company and/or vote in a manner that signals our concerns.

We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our website. For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting, disclosing and explaining how we voted on key proposals.

Want to know more? blackrock.com/stewardship
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21 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.