As we transition away from **fossil fuels,** the demand for raw materials grows. The path to a net zero economy will be metal-intensive, which presents a special challenge to mining companies poised to act as the suppliers of the critical inputs needed to drive the transition ahead.

However, the extraction and utilisation of the Earth's finite resources do not come without risks. Mining companies have a large impact on the physical world, leading to pollution, soil erosion, human-wildlife conflict, and biodiversity loss. These in turn can result in increased costs, loss of license to operate, and reputational damage.

For instance, in 2019 the **Brumadinho tailings** dam failure in Minas Gerais, Brazil, killed 270 people and caused considerable environmental damage. The mining company responsible was ordered to pay $7 billion to the communities affected by the disaster and 16 of its senior staff, including the former CEO, were charged with murder and environmental crimes.

With the mining sector having a range of serious environmental and social impacts, it is important for investors to do their due diligence when it comes to determining the risks involved with investment in these companies.

Mining is very capital-intensive, requiring hundreds of millions to take a project from exploration to production, so debt financing plays a big role in the sector. It is important for credit investors to understand the impact of the companies they invest in. This also helps us to identify opportunities for engagement where needed.

In 2021 Schroders' sustainable investment team looked into sectors that were most exposed to nature-related risks, starting its research by using data from Exploring Natural Capital Opportunities, Risks and Exposure (ENCORE). This work helped us on the credit team to identify relevant sectors and defined the initial starting points for our analysis.

The analysis was split into two stages:

Identifying company risk exposure and disclosures

Managing this risk

To identify each risk exposure, we combined data for around 70 different companies, joining their mine locations with academic studies on biodiversity richness using indicators of the overall number of species as well as the number of threatened species. The Investment Insights Unit then conducted geospatial analysis to plot the mine locations against the biodiversity richness data.

Once we had identified the companies' risk exposure, we assessed their level of disclosure against global standards by going through their policies, sustainability reports, and other external data sources. This also gave us an idea of how actively these companies are

managing their impact and risk.
For example, assessing operations in biodiversity-relevant areas, threatened/endangered species that are impacted, land areas disturbed and rehabilitated, biodiversity management plans, and requirements based on standard frameworks such as the Global Reporting Initiative (GRI), The Sustainability Accounting Standards Board (SASB), and CDP.
The research and subsequent analysis gave us a starting point for engagement with those mining companies we wanted to push towards better practices.
One of these companies was **Endeavour Mining**, a diversified gold producer, with which we engaged in June 2022. Our main objective was to gain a better understanding of how the company was managing nature-related risks at its production sites. We stressed our interest in seeing better practice on natural capital and biodiversity issues.
The company had recently become **West Africa's biggest gold miner** with the $2 billion acquisition of Teranga Gold, which had added several operating mines in West Africa to its list of active mining sites along with other smaller acquisitions. There was a concern that the recent acquisition activity could present increased risk for biodiversity, which was highlighted to the company. In addition, we emphasised the importance of having a comprehensive environmental and social impact assessment for any new sites acquired, and that all sites should have a standardised approach to biodiversity.
Endeavour Mining has taken action to reduce the impact of its mining operations. For example, in Senegal, at the beginning of any project, the company undertakes a social and environmental assessment of the area it is planning to start operations in.
Recently, during one of the assessments, the company identified a group of chimpanzees present in one of their locations. The West African chimpanzee is a critically endangered species and is protected in Senegal.
To protect, and hopefully grow, the chimpanzee population, Endeavour Mining put in place a no-go zone of approximately 1500 hectares where no mining or mining-related activities are to take place. Furthermore, the firm is committed to working in collaboration with a range of local government authorities and environmental bodies to protect wildlife near the Sabodala-Massawa mine. Endeavour also provided more detail on its future strategy, outlining targets for land preservation and mine rehabilitation.
The company's positive approach to enhancing its current **ESG strategy**, makes us more confident in its ability to manage material environmental issues. Within the engagement we also covered other important topics ranging across human rights, climate change and water use. We look forward to monitoring the company's progress this year and providing further feedback on strategy and implementation.

Positive engagement, such as Endeavour Mining, is an important factor when it comes to determining whether we want to make, or continue an investment in a company. Creating an impact is not only a job for equity investors. It is an important part of our work at the credit desk as well.

Source: Schroders