



Case Study:
Grupo Mexico

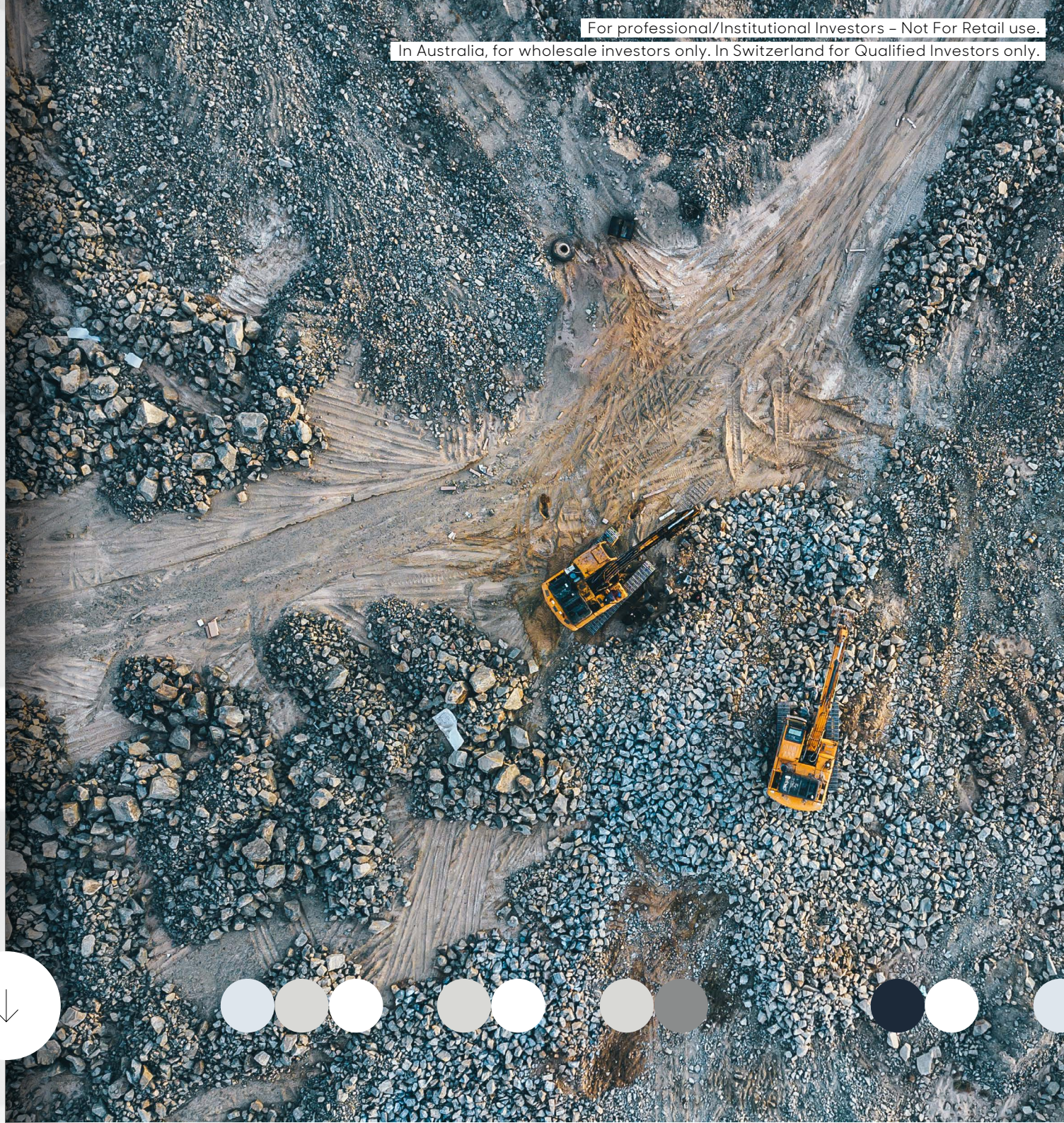
How we consider ESG factors in our investment analysis and company engagement

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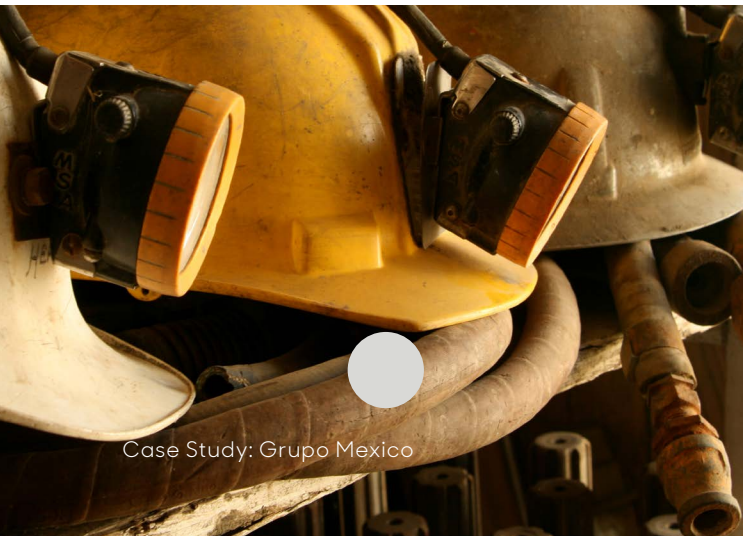


Overview



Spotlight

Grupo Mexico (GMEX), a Mexican conglomerate with **extensive mining assets.**



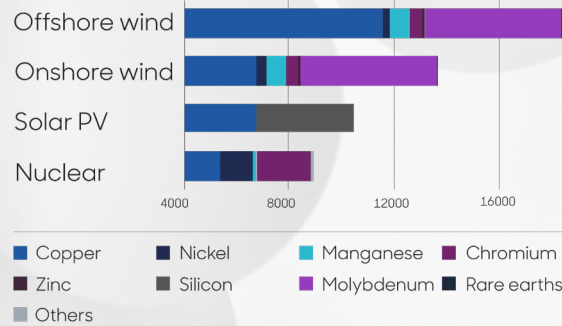
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Why

The role of critical minerals in the clean energy transition

Power generation (kg/MW)



A stacked line graph showing the use of minerals such as Copper, Nickel, Manganese, Chromium, Molybdenum, Zinc, Silicon, Rare earths and others used in power generation (kg/MW), specifically in Offshore wind, Onshore wind, Solar PV and Nuclear.

Copper is heavily used in all clean power generation, whilst Molybdenum is prominently used for Offshore and Onshore wind. Solar PV requires large quantities of Silicon, whilst Nuclear uses Chromium and Nickel amongst others.

Source: IEA, 2021



Opportunity

- The operation and evolution of our global economy **makes the extraction, production and use** of many metals unavoidable.
- Metals like copper are **critical for the infrastructure** needed to switch from fossil fuels to **renewable energy and to power electric vehicles.**
- **We believe investors and capital allocators do not need to exclude metal miners from portfolios,** and instead can choose to support environmentally well-managed producers that are benefitting from demand growth and minimising risk from ESG factors.

Materiality assessment by abrdrn



Mining can impact the surrounding environment:

- Landscape changes
- Water discharges
- Community relations
- Air quality
- Biodiversity impacts
- Accidents



Through its subsidiary, Southern Copper, GMEX is a member of the International Copper Association, and has the two mines participating in the Copper Mark standard. This includes stringent requirements on biodiversity, community relationships and engagement with indigenous people.



The company has published a corporate tailings policy in which the company commits to plan, design, build, operate and close the tailings systems in a responsible manner, aiming to minimize risks and impacts to employees, communities and the environment.

Active engagement



Over the past two years, we have interacted with Grupo Mexico multiple times, engaging on the most material ESG factors for its business.



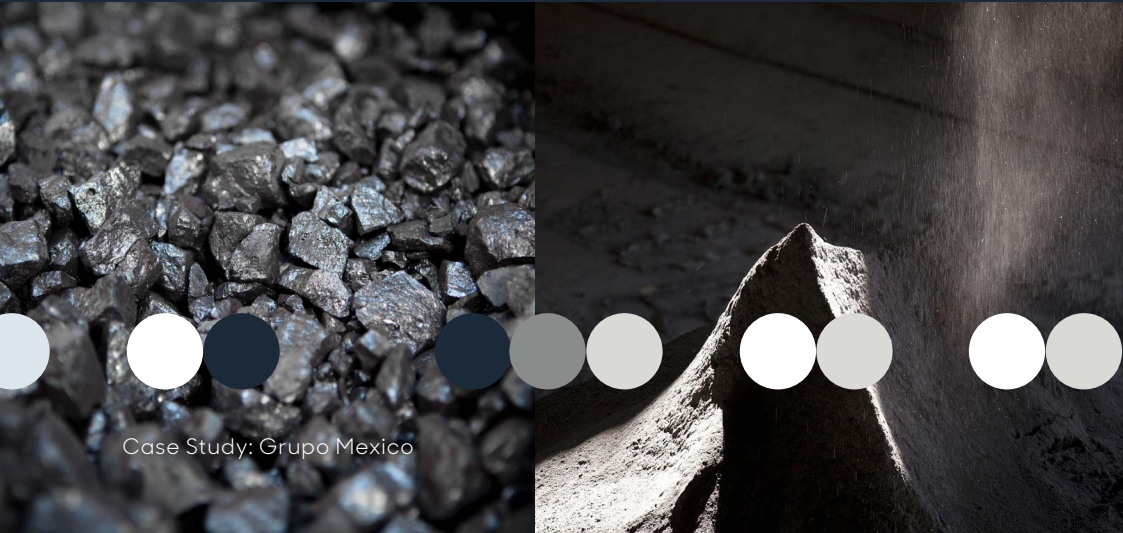
We are focused on **fostering a greater emphasis on ESG considerations** in the company's culture, operations and strategy, especially in the following areas:

- Carbon emissions
- Water usage
- Worker safety
- Risk management
- Social responsibility
- Board independence



In safety and risk management, we have stressed the importance of following **industry best practices**, including:

- Obtaining appropriate operational excellence certifications
- Joining industry bodies such as the International Council on Metals and Mining (ICMM)





Progress



Through its subsidiary Southern Copper, Grupo Mexico is in the process of **adhering to global best practices on mining.**



Grupo Mexico shows signs of **proactivity:**

- Hiring dedicated ESG-related senior professionals
- Quarterly reporting of ESG Risk factors
- Obtaining numerous additional operational certifications



We believe that the company is on an **improving trajectory** in the management of the most material ESG factors to its business.



Third party ratings agencies are now **endorsing this view.**



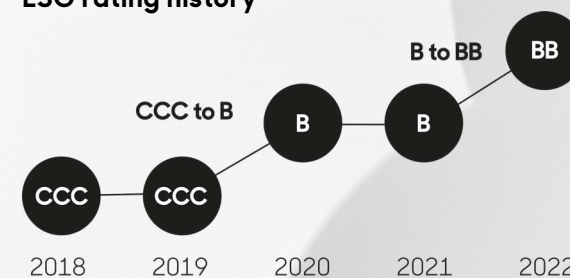
The company is no longer seen as a 'Laggard' under MSCI's ESG methodology.



There is room for further improvement and companies in sectors with significant environmental and social risks like mining **should be subject to ongoing engagement.**



Since 2019, MSCI has **upgraded Grupo Mexico twice: ESG rating history**



A line graph showing Grupo Mexico's ESG rating history from 2018-2022. Ratings are: CCC in 2018, CCC in 2019, B in 2020, B in 2021, and BB in 2022

Source : MSCI ESG Research, March 2023



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