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Board Advisory

June, 2020

Recent Trends in Mining Boards

Even before the global pandemic hit, mining company boards have been immersed in a series of governance challenges over the last several years. These range from the need for increased engagement with shareholders (including activists) over performance concerns to balance sheet-straining capital allocation decisions to broader ESG and cyber-security risk assessments. CEO and leadership succession generally also remain a major focus, particularly in an industry where management teams are aging, and the global talent pool for senior positions is quite limited and not very diverse (gender or otherwise).

It is not surprising that board renewal remains a major theme, with composition/selection decisions around new directors facing heightened scrutiny. Having the right group of people around the boardroom table has never been so important.

A 2016 study of board composition in the global mining industry that I led looked at how boards were configured at that low point in the commodity cycle. It is interesting to now compare those results with findings from a very recent analysis of board composition over the last four years among the top North American-based mining companies to see if and how things have changed along the following dimensions:*

57

- *New directors are younger.* Whereas the average age of a director was 63 in 2016, new appointments over the last four years average 57. This is unlikely to be a surprising result given that mining boards actually got older in the period 2011-2016. It also aligns with trends we're seeing in board searches across all industries.

55%

- *Diversity continues to grow.* 55% of new director appointments are female, further evidence of a strong commitment by mining boards over the last several years to increase gender diversity from a low base of just over 20% in 2016 (which itself was a big increase from roughly 10% in 2011). Other elements of increasing diversity are also in evidence, with visible minorities now representing 13% of new appointments. Both of these findings also line up with broader trends we're witnessing in board composition.

87%

- *Geographic representation remains concentrated*. Canada and the US continue to account for the vast majority of new directors: 87% of new appointments over the last four years are based in those two countries, very similar to results from 2016 and 2011. This remains a somewhat surprising finding given the geographic diversity of most companies' mining assets and the vital role that host jurisdictions play in their development, operation and regulation. As an example, only 8% of new appointments – and 4% of all directors – are from Latin America even though more than 75% of the companies in this sample have meaningful operations or investments in that region.

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53%

- *Mining industry experience is valued but not essential.* Just more than half (53%) of all new directors have spent most, if not all of their careers in the mining industry, either in operating companies or in service/advisory/financing firms focused on supporting the industry. This result is consistent with previous years. It is clear that non-mining experience is valued by many boards but is tempered by the somewhat unique features of the industry, especially its global, capital-intensive nature and the intense ESG scrutiny it commands. For that reason, the most common source for non-industry appointments is the energy sector.

27%

- *Operational/Technical expertise has increased but from a low base.* The most surprising finding from the 2016 analysis was that only 15% of directors in that sample had operational/technical backgrounds (and even then with a generous application of the term). More than a quarter (27%) of new appointments are deemed to possess a strong operational/technical background, with many of them bringing valuable expertise from adjacent industries (e.g. oil & gas and manufacturing). Given the technical complexities and risks involved in safely developing and operating mining assets, and the financial consequences of poor capital allocation decisions, this remains a potential area of exposure for many mining boards.

Going forward one of the questions we're asking is whether the current lockdown-mandated trend of holding virtual meetings will turn into more of a permanent reality. If so, how does that affect how boards look at director candidates from farther afield who otherwise would have to travel very long distances to attend meetings (and run the frequent risk of not being able to attend in person). Do individuals based outside North America now warrant additional consideration given shifting expectations around remote participation in board meetings, as well as search processes? We'll continue to follow this trend and others over the coming months.

*The analysis reviewed board appointments in 2017, 2018, 2019, 2020 (to date) of independent, non-executive directors made by a large sample of North American-based mining companies, i.e. the 20 largest (by marcap) precious metals companies, the 10 largest non-precious metals companies and the three largest streaming/royalty companies. 83 director appointments in total were reviewed over that period, representing 29% of all current independent directors. Note: directors who briefly joined a board – typically as a result of a transaction – and left shortly thereafter are not included.