The new S&P/TSX Battery Metals Index – what were they thinking?

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On June 2nd the Toronto Stock Exchange (TSX) announced the launch of the S&P/TSX Battery Metals Index. The stated goal of this new benchmark is to provide investors increased exposure to, and deeper insights into the cleantech and energy transition story. The TSX website states "The S&P/TSX Battery Metals Index provides investors with a measure of TSX and TSXV listed mining companies which are involved in production and exploration of battery metals Cobalt, Copper, Graphite, Lithium, Manganese, Molybdenum, Nickel, Palladium, Platinum, Zinc. Weighting is 80% divided equally among companies involved in production and 20% divided equally among companies involved in exploration that are not involved in production."

Far be it from me to be critical of this index (or any equity index for that matter) or the logic behind adding it to the TSX mix, especially given I have no idea what their mandate was or what criteria (other than what's noted above) drove their choices. However, I do find some of the top holdings somewhat amusing. Latest data shows Turquoise Hill Resources Ltd. (TSX: TRQ | NYSE: TRQ) as the #1 holding at 11.4%, with China Gold International Resources Corp. (TSX: CGG) as the third largest at 8.9%, followed by Teck Resources Ltd. (TSX: TECK.B | NYSE: TECK) at 8.3%.

Starting with the first name on the list, Turquoise Hill, we have a single asset copper/gold producer located in Mongolia that sells its production to China. Perhaps not what an investor

is expecting the largest holding of the S&P/TSX Battery Metals Index to be. The cynic in me thinks this might be the top holding simply because on March 13, 2022, the board of Turquoise Hill received a non-binding proposal from Rio Tinto, the Company's majority shareholder, to acquire the approximately 49% of the outstanding common shares of Turquoise Hill held by the Company's minority shareholders for cash consideration of C$34.00 per share. This puts a theoretical floor on the share price and would thus potentially help the Index outperform any peers in a market that is currently beating up base metal equities. I would add that Turquoise Hill barely qualifies as a TSX listed company given 51% is owned by Rio Tinto with an outstanding offer for the rest of the shares and I'll save my comments on where the production is and where it's going for the next Index holding.

I've already tipped my hand as to where I'm headed with my questioning of China Gold International as an entrant. Here we have a two asset company, both copper/gold mines of which one is in Tibet and the other is in Inner Mongolia. There's a lot I don't know for sure about this company but I'm reasonably confident that all of their copper production is staying in China. According to its website, China Gold International is 40% owned by China National Gold Group. This at a time when most North American companies are working hard to establish a domestic battery and critical materials supply chain.

Images from China National Gold Group website.

There may also be concerns that Chinese-run mines in Tibet (or elsewhere in China) may not meet a lot of the ESG standards we are placing on other, more transparent mining operations around the world. Granted I find most ESG commentary spends a lot of time talking about the E and seems to ignore the S & G all

together, but I'll save that rant for another day. What I will say, is that I find it a little disappointing that over 20% of this new TSX Index is basically owned or controlled by China. In fact, the press release states "The S&P/TSX Battery Metals Index tracks Canadian-listed companies engaged in the production or exploration of metals used in battery manufacturing.", which almost seems a little bit disingenuous.

Then there's Teck Resources, the one that makes me laugh the most. Especially when you read another quote from the press release – "The responsible mining of critical and battery metals is the first step in achieving global net zero targets, as the transition to electric vehicles and battery storage technologies required to support renewable energy transition to global economies is expected to gain pace and drive demand." Teck is the largest North American producer of steelmaking coal and the world's second largest exporter of seaborne steelmaking coal. As per the Company's first quarter results, 55% of revenue and 69% of gross profit came from coal. And if that wasn't "net zero" enough for you, another 8% of revenue and 3.5% of gross profit came from bitumen (oilsands production). Yes, Teck produces a significant volume of copper and zinc, but seriously, did anyone bother to look at the whole company?

And there you have it, almost 30% of the new S&P/TSX Battery Metals Index summed up by a someone who is scratching his head, wondering how these things work. Especially given you find this index under the ESG tab on the TSX website.