Strategic Communications

Memorandum

TO:	**Jeff Eshelman, Independent Petroleum Assn. of America (IPAA)**
FROM:	**FTI Consulting, Inc.**
DATE:	**04/10/2015**
RE:	**Investment Community Divestment Research Results**

This memo presents the results of an online survey conducted by FTI Consulting, Inc. over the period of March 17-25, 2015 at the request of the Independent Petroleum Assn. of America (IPAA). This research was undertaken for the purpose of acquiring a better and more complete understanding of the views and impressions of professionals in the capital markets community with respect to the proposition of fossil-fuel divestment – and specifically, the efficacy and merit of activist-led campaigns designed to compel institutional investors to divest securities associated with firms that explore for, produce, market and or/ exploit fossil fuels.

The poll was conducted among N=324 members of the institutional investment community, which includes traditional investment managers and hedge funds, pension funds and endowments, as well as investment banks. The buy-side sample of N=245 (i.e., non-investment banks) represents in total roughly $4.2 trillion in equity assets under management, or 14 percent of the approximately $29.2 trillion in available capital among North American and European institutional investors. Practitioners from several of the largest and highest-profile investment firms and institutional funds were participants in this survey, among them: Fidelity Investments, T. Rowe Price, Blackrock, JP Morgan Chase, CalPERS, TIAA-CREF, Neuberger Berman, and Invesco.

The list of qualified professionals to whom FTI sent initial participation invitations was provided by Ipreo and included N=9,004 institutional investment practitioners. All potential participants received a unique and protected link via email with which to complete the survey on the Qualtrics platform. Because the sample is made up of participants who self-selected for the project, estimates related to sampling error cannot be calculated.

Summary of Findings

Notwithstanding broad (if not particularly acute) awareness on the part of the investment and capital markets community of the existence of activist-led campaigns in support of fossil-fuel divestment, the vast majority of professionals surveyed indicated that the movement heretofore has had virtually no impact on the way they view the energy sector, or on the decisions they make with respect to investing in, and/or assigning value to, the firms that comprise it.

Greater than nine out of 10 respondents identified the energy sector as one that is "inextricably linked" to other major sectors of both the global and U.S. economies, and nearly nine out of 10 conveyed the view that the sector is a "critical component" of those economies. Nearly 80 percent of respondents told us the inclusion of fossil-fuel related investments is an "essential element" of having a "balanced, diversified portfolio."

Despite the deleterious impact that presently low commodity prices have had on the valuations of many publicly traded oil and gas firms, a majority of respondents believe that fossil-fuel related securities have the greatest potential to generate the highest returns compared to other sectors over the next three to five years. Only 13 percent of respondents expressed the view that so-called "green" energy investments will outperform fossil-fuel related equities over that same period.

Although many divestment proponents argue that the policy is unlikely to have a negative impact on investment returns (some even suggest it will positively impact returns), that view does not appear to be shared by our respondents. In fact, among the professionals we surveyed, barely five percent indicated that they would find credible any study or research arguing that portfolio performance would increase under a divestment scenario. A plurality of respondents told us they would expect portfolio returns to decrease if divested of fossil-fuel related stocks, and on a separate question, another plurality said that a best-guess estimate of what those losses could be is between one and three percent of a portfolio's total value, shed on an annual basis.

Finally, the overwhelming majority of professionals included in this survey identified themselves, and their firms, as having little to no interest in purging their portfolios of fossil-fuel related securities either in the near-term, or in the foreseeable future. Nearly 88 percent of respondents said they "have not and do not intend to divest any securities related to fossil fuels," at least due to any pressure being exerted by divestment advocates (certainly, these professionals may decide to buy and sell energy-related stocks for any number of other reasons).

Individual Key Findings

- Advocacy for fossil fuel divestment has not had a meaningful impact on institutional investment decisions.
  - For 88 percent of those surveyed, divestment advocacy has not spurred divestment activity or increased the likelihood that fossil-fuel related securities will be divested in the future.
  - Only two percent of those surveyed indicated some interest in potentially divesting at least a portion of their fossil-fuel related equities in the future.
- Moreover, among the endowments and pension funds at the center of many divestment discussions (seven percent of those surveyed), only 4.5% have taken action to divest some or all fossil fuel securities (i.e., 0.3% of all participants).
- From the perspective of portfolio returns, only eight percent of those surveyed believe that undertaking fossil fuel divestment on an otherwise optimal, fully-diversified portfolio would have a positive impact on returns.
  - Alternatively, 62 percent believe the impact on returns would be negative.
  - Furthermore, 74 percent of those surveyed said that the most significant costs associated with fossil fuel divestment would come from surrendering the long-term benefits of diversification.
- Divestment proponents have not achieved significant penetration into the institutional investment community.
  - For two-thirds of those surveyed, exposure to and/or engagement with those advocating for divestment has been limited to reading or hearing about it the media.
  - Fewer than 10 percent of respondents report having had personal contact, or having received direct solicitations, from divestment proponents
- Advocacy for fossil fuel divestment is not expected to gain significant additional traction within the institutional investment community.
  - 47 percent of those surveyed characterize it as unlikely that more institutions will choose to divest as a direct result of divestment-related advocacy.
  - Even among those who have engaged in divestment, or intend to pursue it in the future, a majority believes that it is unlikely that a significant number of additional institutions will follow their lead.

- The majority of those surveyed said they would not alter their stance on fossil-fuel divestment, or would only do so in response to a direct request from a client. Among the "open-ended" responses we received when respondents were asked what would have to change for them to alter their view on divestment:
    - *"Our first and foremost job is to make money for clients and if we believe the best investments are in the fossil fuel industry, then we will make those investments."*
    - *"Not from the standpoint of environmental or political correctness. We might reduce exposure to fossil fuels for economic reasons, i.e. too much supply, too little demand, but not for social reasons."*
    - *"As long as there is an economic benefit to investing in fossil fuel securities and it is a meaningful portion of the economy, we plan to maintain exposure to the area."*
  - Fewer than three percent of respondents said that they would change their view based on increased media attention, concerns about climate change, or a major catastrophic event.
- The energy sector as a whole is viewed as an important component of the broader economy.
  - 92 percent believe the sector is inextricably linked to other economic sectors.
  - 88 percent view the sector as a critical component of the U.S. and global economies.
  - 78 percent view the sector as essential element of a balanced, diversified portfolio.
  - Only 13 percent believe its importance to the U.S. economy is overstated.
- In fact, the investment community believes that fossil fuel securities present higher return potential compared to "green" energy securities over both the near- and long-term,
  - 29 percent of those surveyed believe fossil fuel securities will generate the highest returns over the next twelve months, compared to 66 percent for non-energy securities and four percent for "green" energy securities.
  - Half of those surveyed believe fossil fuel securities will generate the highest returns over the next three to five years, compared to 37 percent for non-energy securities and only 13 percent for "green" energy securities.

Appendices attached:

- Aggregated data file capturing how each of the 324 participants responded to each question on the survey
- Complete list of questions included on the survey, along with full answers provided and percentage-breakdowns attached to each response