Building an Authentic Approach to ESG

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Travis Windle is a Senior Managing Director in the Energy & Natural Resources sector within FTI Consulting’s Strategic Communications segment. Mr. Windle advises clients on a broad range of matters, including crisis preparedness and response, transactions, investor activism as well as public affairs and corporate positioning programs. He also supports clients in managing regulatory investigations and related litigation matters that present reputational and financial risk. Prior to joining FTI Consulting in 2009, Mr. Windle served as Press Secretary for the U.S. House Republican Conference, as Communications Director for the House Financial Services Committee and as an advisor to two senior members of Pennsylvania’s congressional delegation.

BEN HERSKOWITZ
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Ben Herskowitz is a Senior Director at FTI Consulting and is based in New York. Mr. Herskowitz has extensive experience covering multiple industries including greater industrials, FinTech, renewables, and energy. In these sectors, Ben’s experience encompasses optimizing investor messaging, capital-allocation-focused strategic repositioning, enhancing shareholder engagement, maximizing enterprise value around transformative announcements, sustainability/ESG program construction, and shareholder activism preparedness. Mr. Herskowitz has worked on multiple M&A deals in his career, perception due diligence studies, investor/sell-side targeting and NDR formation, in addition to IPO-readiness strategies.

JESS ROSTON
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Jessica Roston is a Senior Director in the Strategic Communications segment of FTI Consulting, specializing in corporate reputation. Ms. Roston has more than a decade’s worth of experience developing and managing integrated corporate reputation strategies and public relations campaigns for a broad range of organizations across the Energy and Industrials sectors, including utilities and renewable energy companies. Ms. Roston frequently helps clients develop corporate positioning strategies, which aim to protect and enhance reputation and drive brand awareness. She brings a wide breadth of experience which includes developing and coordinating thought leadership platforms, media relations campaigns, CEO/executive positioning plans, integrated content strategies, corporate narrative and message development.

DANA GEMMILL
New York, Energy & Natural Resources, FTI Consulting

Dana Gemmill is a Senior Director with FTI’s Energy & Natural Resources team, responsible for developing comprehensive external and internal communication plans, public relations strategies and stakeholder engagements for companies in the oil and natural gas sector. Dana’s work focuses on crisis preparedness and response, public affairs, ESG-driven audits and campaigns, restructurings and litigation.
Building an Authentic Approach to ESG
History of Partnering with IPAA

Showcasing Environmental, Social, and Governance (ESG)
An Opportunity for Oil and Gas Companies to Authenticly Demonstrate Long-Term Sustainability

Oil and Gas Company Investments Serve as a Foundation for Comprehensive ESG Framework
The approach to environmental, social, and governance (ESG) integration varies from company to company, but there are many common themes: a shared recognition of the critical role that companies play in advancing social, environmental, and sustainability goals.

This article highlights how IPAA and its member companies have evolved to embrace and lead the forefront of ESG integration.

The Gaining Necessity of ESG
ESG is an increasingly integrated and rapidly growing aspect of business decision-making. The risk of global events, the impact that climate change could have on our society and economy, and the potential for long-term financial gains from sustainable practices is leading to increased scrutiny and investment in ESG initiatives.

According to a BCG report, sustainable strategies are expected to yield a return of 2.5% higher than non-sustainable strategies within five years.

The ESG Council is the voice of the industry on ESG matters and to develop a framework to bring order and clarity to the rapidly evolving landscape of ESG integration.

IPAA President and CEO on Board of newly formed Energy ESG Council
The Energy ESG Council is a non-profit organization, formed to create a forum for Upstream, Midstream, Downstream and Renewable Energy companies to collaborate and agree on a sensible ESG reporting and measurement framework for investors and the general public. Its mission is to educate all stakeholders, encourage better materiality, greater transparency and accountability.
Questions on Your Mind

• Given the movement of ESG towards stronger goals, how can a business keep up and keep ahead of the situation?

• Can I use ESG to improve access to capital?

• How should I understand -- and address -- the lack of standardization around ESG measurement and reporting?

• Is there a way for the oil and gas sector to win over stakeholders with respect to ESG?

• How can the oil and gas industry be duly recognized in developing and meeting meaningful ESG programs?

• How do I navigate the ESG landscape when everyday it feels like a new standard or group?

• Social issues have grown in the ESG realm. How can we best engage in that area?
The concept of ESG addresses many topics relevant to all stakeholders.

Strategy development and reporting through the lens of ESG is focused -- **systematic** identification, assessment, and management of risks in addition to opportunity identification and alignment with corporate strategy.

Ultimately, sound ESG reporting provides stakeholders - including the investment community - with **key metrics to supplement traditional financial reporting** to assess performance and risk.
Investor View: Why is ESG Important?

Capitalize on massive transfer of wealth from baby-boomers to millennials

Largest asset managers are becoming more vocal and more active

Top active holders and private equity are increasingly integrating ESG factors into their allocation decisions

- 88% of institutional investors take ESG issues into account when making investment decisions.
- 67% of investors say strong ESG practices help mitigate company risk.
- 90% of Millennials want to grow responsible investments in the next 5 years.
- $30 trillion wealth transfer from baby boomers to 90 million millennials over the next few decades.
- 75% of employees between the ages of 18-34 expect their employer to take a stand on important social issues. (Glassdoor 2017)
- 3% - 19% premium valuation multiples to the top performers in ESG. (Cone Communications 2016)

Source: 1) Lev, Baruch, The End of Accounting and the Path Forward for Investors and Managers, Wiley Finance; 2) OECD, Corporate Reporting of Intangible Assets: A Progress Report
ESG & Sustainability: Key Players

Sustainability Reporting Frameworks
- SASB
- UN Global Compact
- GRI
- TCFD

ESG Rating Agencies and Proxy Advisors
- MSCI
- ISS ESG
- ROBECOSAM
- Sustainalytics

Sustainability and ESG Indices

Investors
- BlackRock
- State Street
Companies in the energy sector cannot achieve strong ESG ratings due to environmental concerns

ESG ratings are based on a multitude of factors within E, S, and G dimensions, with specific dimension weights within rating models varying based on subsector. ESG ratings are largely based on disclosure and management of risk, not exposure to risk.

Sustainable and impact investing are one in the same

As opposed to impact investing where the goal of financial returns is secondary to 'social good', ESG investors largely use an integration-centric method where ESG criteria is incorporated into traditional fundamental analyses to enhance long-term return and manage risk.

Sustainable investment strategies involve only screening out 'sin' stocks

Some institutional investors currently use exclusionary screening. However, investors are increasingly taking a positive approach to sustainability by integrating ESG factors into fundamental analysis.

Sustainable investing is only applicable to equities

Fixed income securities of ESG Leaders (AAA, AA) exhibited tighter credit spreads during market turbulence in both 2016 and 2020, outperforming ESG Laggards (CCC, B). ESG factor integration into credit analyses by allows investors to reduce volatility and construct more resilient portfolios.*

*Source: MSCI Oil & Gas Exploration & Production Industry Report; July 2020; "ESG Leaders Drill Past Pandemic Blowout in a Highly Leveraged Industry"
Multi-Stakeholder View: Enhancing License to Operate

An effective ESG strategy has the ability to drive optimal performance and returns and enhance corporate reputation.

“The company would soon appoint someone from outside the oil industry to enforce better environment, social and governance performance at QEP’s companies, Mr. Van Loh added.”

“As a further commitment to ESG, Duke has announced a net-zero methane target in its natural gas business by 2030.”

“Oil, gas companies talk up role in advancing clean energy transition”

“Wyoming industry and ranchers combine forces to take on wastewater issue”

“Oil and gas industry, New Mexico works to curb greenhouse gas emissions, fight climate change”
Where to Start: Mitigate Risk, Capture Opportunity

PROTECT
We support clients developing authentic ESG-focused programs that protect their permission to operate and position them for long-term business success.

PROMOTE
We help clients get credit for good work they are doing and enhance their position among their peers, employees, communities and customers.
The Path to ESG Success

Research & Assessment
- Determine Reporting Framework/s
- Identify Disclosures, Goals, KPIs & Reputational Drivers

Program & Landscape Assessment
- Develop ESG Narrative & Messaging
- ESG Messaging Integration/Sustainability Report
- Develop Engagement Strategy

Index Inclusion
- Strategic Engagement
- Refinement & Measurement

Strategy Design & Positioning Platform Development

Messaging Amplification & Stakeholder Engagement
Every engagement begins with some level of research to inform the strategy and positioning recommendations.

We have developed a proprietary tool that helps us identify and assess strengths and weaknesses in the company’s ESG program within each component, in addition to gaps and opportunities in how the company is telling its ESG story.
Strategy Design & Positioning Platform Development

ESG Reporting Framework(s)

Disclosures, Goals/KPIs, and ESG Narrative

Sustainability Report and Engagement Strategy
Messaging Amplification & Stakeholder Engagement

Customers
- Sustainability marketing
- Social media campaign
- Corporate ESG microsite

Employees
- Culture
- Safety communication platform
- Volunteer & charity initiative
- Employee ambassadors
- Employee diversity program

Media
- Reporter outreach
- Social media influencer campaign
- ESG-focused editorials & interviews
- Crises preparedness
- Thought leadership
- Sustainability ranking outreach

Investors
- Targeting ESG-focused investor
- ESG-focused market intelligence
- Proxy support / activism defense
- ESG influencer engagement

Regulators/Policy Makers
- Legislator alliances
- Legislation sponsorship
- Constituent targeting
- NGO partnerships
- ESG-focused conferences
Creatively Leverage ESG Programs

learn more in the 2019 corporate sustainability report

Report Highlights

- \$2+ billion increasing and supplying payments
- Zero emissions goal
- \$10 million invested through our corporate social responsibility organizations
- 153% of goals met
- 70% employees getting results the right way

Protecting the environment

The human energy company

Empowering people

Getting results the right way

Delivering sustainable value

Environmental, Social & Governance (ESG)

CEO Lynn Good discusses how Duke Energy is delivering sustainable value to customers, investors and our communities.
In Summary: Questions to Leave You With

• Are you aligned internally on an ESG-focused program?
• Do you know how you stack up against your peers?
• Where does the company feel it has a “right to win” in the ESG space?
• What are authentic goals for your company?
• Have you engaged with investors on ESG to date?
• What are you hearing from customers, suppliers, and community members?
• What structure do you have to organize, align, and share commitments?
• Are you getting credit for your efforts?
Questions? Thank you!

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