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Haynes Boone and EnerCom Oil & Gas ESG Tracker

Fall 2022

Overview

Haynes Boone and EnerCom Oil & Gas ESG Tracker

This fourth edition of the Haynes Boone and EnerCom Oil & Gas ESG Tracker (ESG Tracker) summarizes the findings from our review of 30 U.S.-listed middle market onshore oil and gas producers' (sample producers) U.S. Securities and Exchange Commission (SEC) filings and other environmental, social and governance (ESG) disclosures located in corporate sustainability reports and on company websites to help the market better understand what is being disclosed and where those disclosures are made.

Since the inaugural ESG Tracker edition in Spring 2021, ESG has become widely adopted in the oil and gas industry. Sample producers are implementing corporate governance policy and disclosing more data than ever in respect of historical achievements and future commitments. This ESG Tracker edition indicates that sample producers are highlighting their efforts across each aspect of ESG, including with disclosures around greenhouse gas (GHG) emissions, company safety records, investments in local communities and enhancement of employee and board diversity, as well as the adoption of ESG policies and formation of ESG committees. As a result, investors, stakeholders, regulators and the general public have greater insight into what actions producers are now taking—and will take in the future—to address ESG.

These commitments have resulted in increased attention and scrutiny, including by regulators. On March 21, 2022, the SEC issued proposed climate-related disclosure rules (Proposed Rules) that would require public companies to disclose, among other things, corporate governance matters, GHG emissions and climate-related risks that are reasonably likely to have a material impact on their businesses. In advance of final rulemaking, companies continue to disclose meaningful climate data, including historical GHG emissions, often in corporate sustainability reports and on company websites. As of the date of this publication, final climate rules have not yet been promulgated.

Haynes and Boone, LLP is an international corporate law firm that helps clients develop and implement a comprehensive approach to managing legal and business risks and addressing ESG-related issues. Click these links to learn more about our Energy Practice Group, Capital Markets Practice Group and ESG Practice Group and access our other oil and gas reports on our Energy Roundup page.

EnerCom, Inc. is an internationally recognized management consulting firm advising companies on ESG, investor relations, corporate strategy/board advisory, marketing, analysis and valuation, media, branding, and visual communications design. Learn more at enercom.com.

Trends and Takeaways

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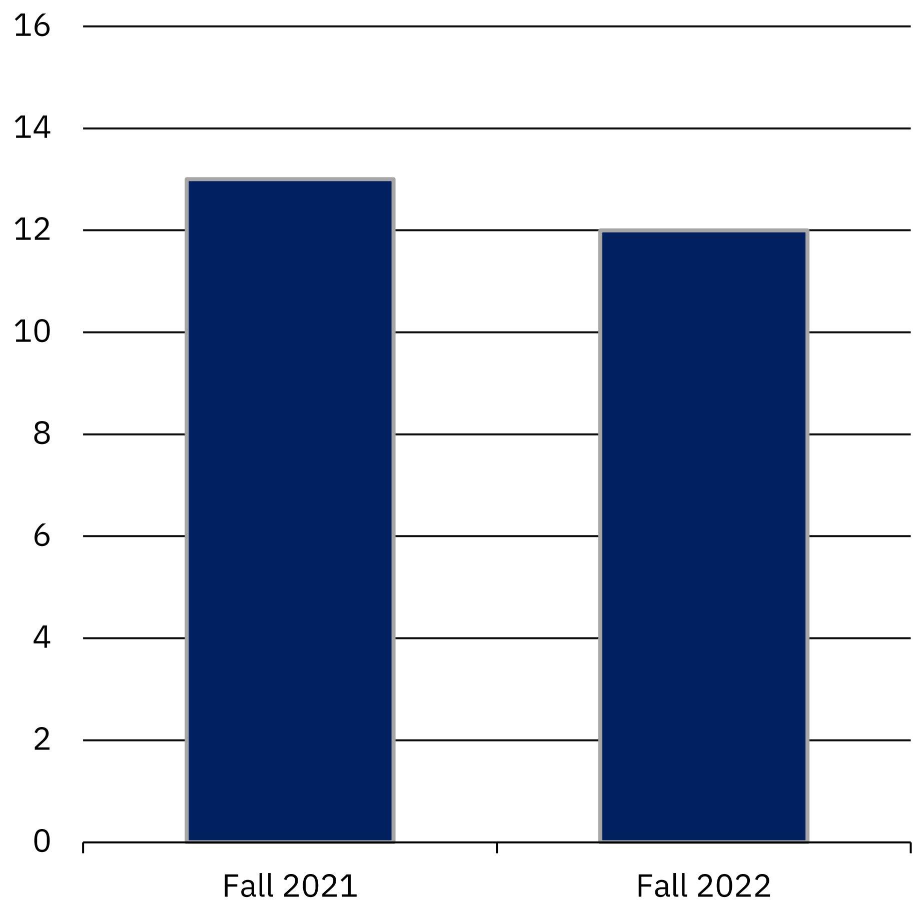
1. 100% of sample producers have publicly disclosed ESG policies in corporate sustainability reports and/or on company websites, with fewer companies disclosing ESG metrics in SEC filings. If enacted, the SEC's Proposed Rules will instead require disclosure of ESG information in SEC filings, including around governance and GHG emissions data.
2. ESG has found its way into most corporate boardrooms in the form of ESG-dedicated committees, and a growing number of companies are hiring directors and executives to oversee ESG-related activities.
3. Producers continue to engage with stockholders concerning ESG matters and are incorporating stockholder feedback into their ESG efforts with respect to, among other things, executive compensation and committee responsibilities.
4. Most producers are disclosing some level of both Scope 1 and Scope 2 GHG emissions, but only a handful are currently disclosing Scope 3 GHG emissions.
5. The race to "Net Zero" has slowed as companies appear reluctant to make new commitments given present and anticipated regulatory scrutiny. As of the date of this publication, fewer than 25% of sample producers have announced "Net Zero" emissions targets, which range from "Net Zero" now to 2050.
6. More producers are incorporating ESG metrics into executive compensation performance targets because investors want to see that executives are incentivized to make progress toward ESG goals.
7. Institutional investors continue to hold oil and gas equities; however, a slowdown in oil and gas investments may reflect a general consensus that prices have temporarily peaked.
8. The fact that investors are focused on strong balance sheets and more comprehensive ESG disclosures does not appear to have a material impact on share price.

Proxy Statement Disclosure Trend #1

Sample producers are including ESG skills in a director skills matrix.



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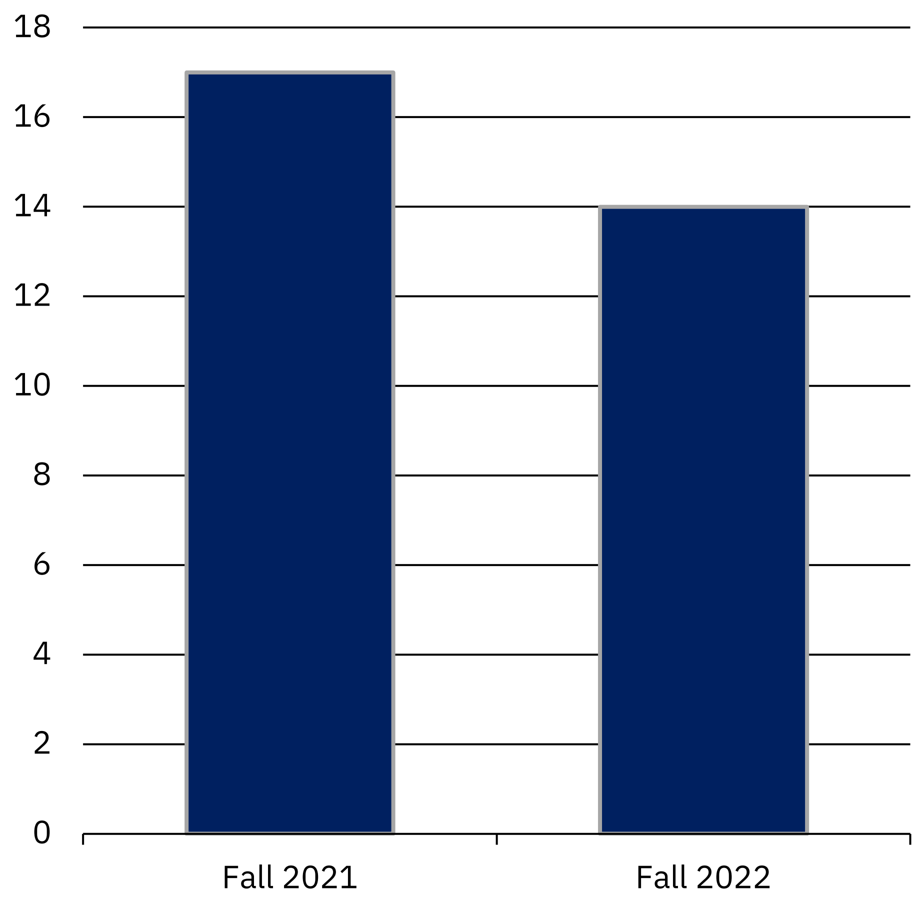
- Nearly half of the sample producers have a skills matrix mentioning ESG.
- Investors have asked for more disclosure on director skills, including ESG skills, because they want to know that the board has the right skills to effectively manage ESG oversight.
- Although not required, many companies include a director skills matrix in the proxy statement, showing the particular skills of each director, including ESG skills.
- The ESG skills matrix can supplement other ESG-related disclosures in the proxy statement, such as around board diversity.

Proxy Statement Disclosure Trend #2

Companies are disclosing details of stockholder engagement efforts relating to ESG.



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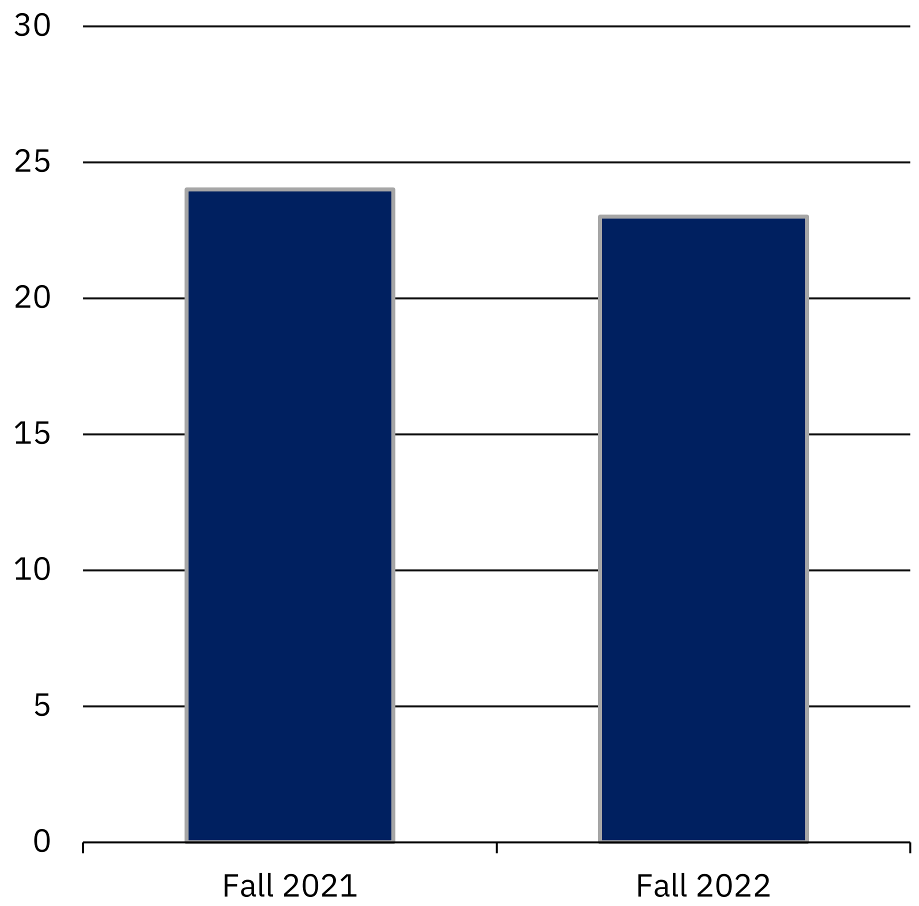
- A relatively constant number of producers have discussed stockholder engagement on ESG and a majority have disclosed specific stockholder engagement activities related to ESG.
- Approximately half of sample producers disclosed specific investor requests and the company's response.
- The below is a representative list of stockholder ESG-related engagement efforts addressed in proxy statements:
  - Disclosure of performance scorecards containing ESG-related measures for use in analyzing company performance and executive compensation.
  - Amendment of committee charters to task responsibilities regarding and oversight of climate-related risks and opportunities.
  - Implementation of emissions reduction goals and intensity targets in executive compensation programs.

Proxy Statement Disclosure Trend #3

Companies are incorporating ESG metrics into performance targets.



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- Investors are very focused on ESG-related performance metrics.
- More than 2/3 of sample producers included ESG performance metrics in their proxy statements.
- Producers are incorporating ESG metrics into executive performance targets because investors want executives to be incentivized to achieve ESG goals.
- Some companies use quantitative metrics, including a scorecard, while others measure a discretionary element.
- For example, in Compensation Discussion and Analysis (CD&A), companies may disclose that the annual performance bonus amount may be adjusted up or down (within a range) depending on certain ESG metrics.
- The number of sample producers including this disclosure has remained relatively constant since Fall 2021.

Sample Stockholder Proposals

Public Advocacy

Stockholders request that the Board of Directors conduct an evaluation and issue a report within the next year (at reasonable cost, omitting proprietary information) describing if, and how, the Company's lobbying activities (direct and through trade associations) align with the goal of limiting average global warming to well below 2 degrees Celsius (the Paris Climate Agreement's goal). The report should also address the risks presented by any misaligned lobbying and the Company's plans, if any, to mitigate these risks.

Alignment with Paris Agreement Goals

Stockholders request that the Company issue a report, at reasonable cost and omitting proprietary information, describing if, and how, it plans to reduce its total contribution to climate change and align its operations with the Paris Agreement's goal of maintaining global temperature increases at or below 1.5 degrees Celsius.

Say on Climate

Stockholders request that the Company provide stockholders with the opportunity, in the annual proxy statement (starting with 2022), to provide an advisory vote on whether, in consideration of global climate benchmarks, they approve or disapprove of the Company's publicly available climate policies and strategies.

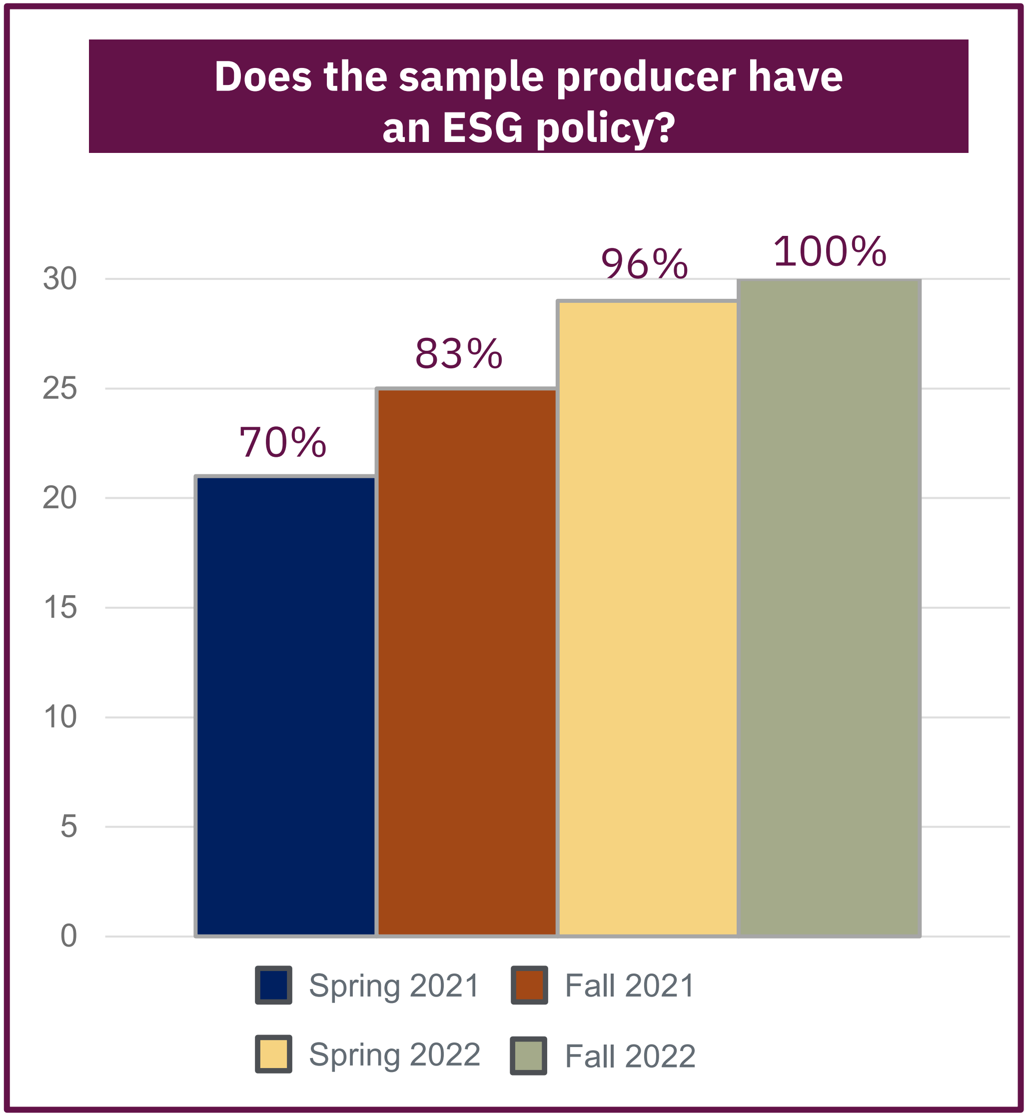
Greenhouse Gas Emissions

Stockholders request that the Company address the risks and opportunities presented by the global transition towards a lower emissions energy system by setting emission reduction targets covering the greenhouse gas (GHG) emissions of the Company's operations as well as their energy products (Scope 1, 2, and 3).

Fossil Fuel Financing

Stockholders request that the Board of Directors adopt a policy by the end of 2022 committing to proactive measures to ensure that the Company's lending and underwriting do not contribute to new fossil fuel supplies inconsistent with fulfilling the IEA's Net Zero Emissions by 2050 Roadmap and the United Nations Environmental Program Finance Initiative recommendations to the G20 Sustainable Finance Working Group for credible net zero commitments.

ESG Policies Are Expected Among Producers



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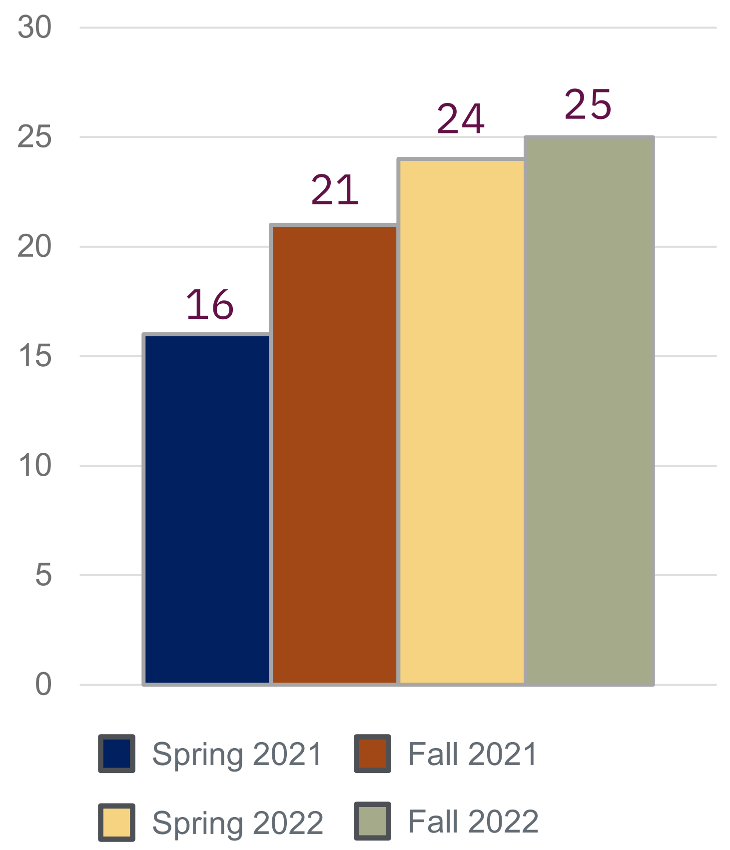
- 100% of sample producers have adopted ESG policies, up from 70% in our inaugural Spring 2021 report.
- Producers continue to devote considerable resources to the implementation and maintenance of ESG policies.
- Sustainability reports and company websites continue to be the primary location for climate-related disclosures.

More Producers Disclose GHG Emissions Data

Sample producers that publicly disclosed GHG emissions data



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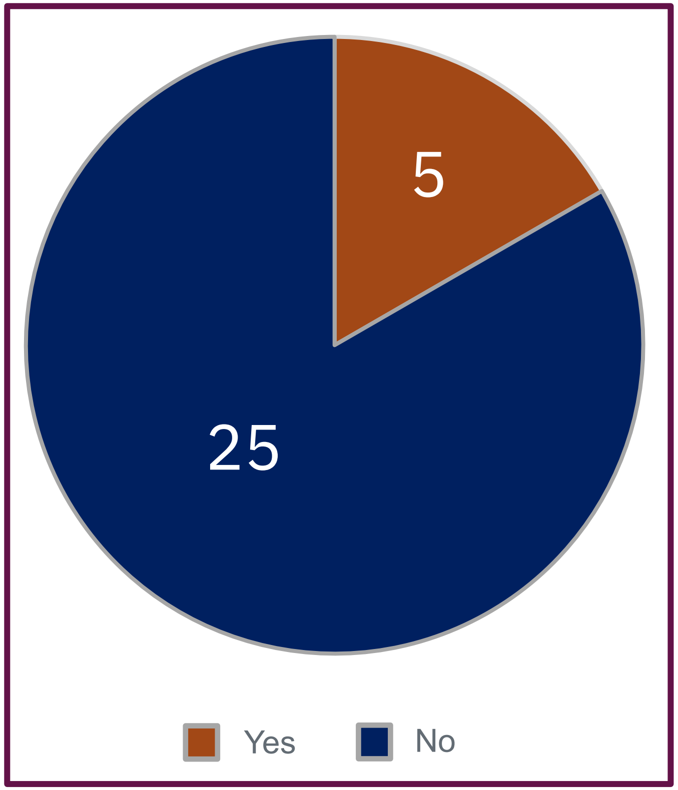
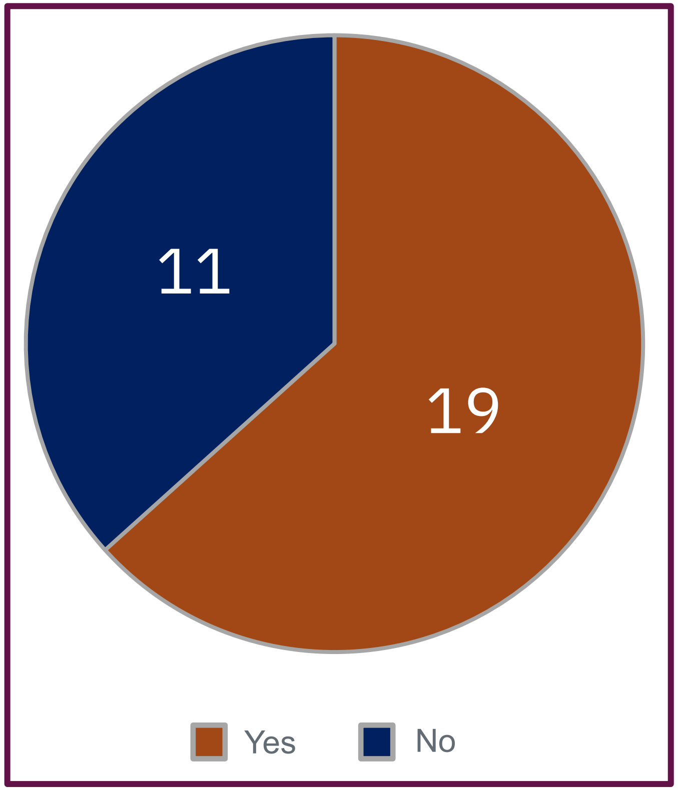
- The market demands that producers monitor, track and report GHG emissions reductions.
- Producers are disclosing more GHG emissions data and enhancing emissions reduction programs that include:
  - Leak detection and repair strategies;
  - Electrification of drilling activities and operations;
  - Elimination of old/high-emitting equipment;
  - Reduction or elimination of routine flaring;
  - Improved well design, drilling and completion techniques; and
  - Implementation of renewable energy in field operations.

ESG Committees Are Common and Producers Are Beginning to Hire Executives with ESG Titles

Some producers have added new positions with ESG titles to the C-Suite.

Approximately 2/3 of producers have ESG-dedicated committees. Other producers have delegated ESG-related responsibilities to (and in some cases renamed) a standing committee, such as the Nominating and Governance Committee.





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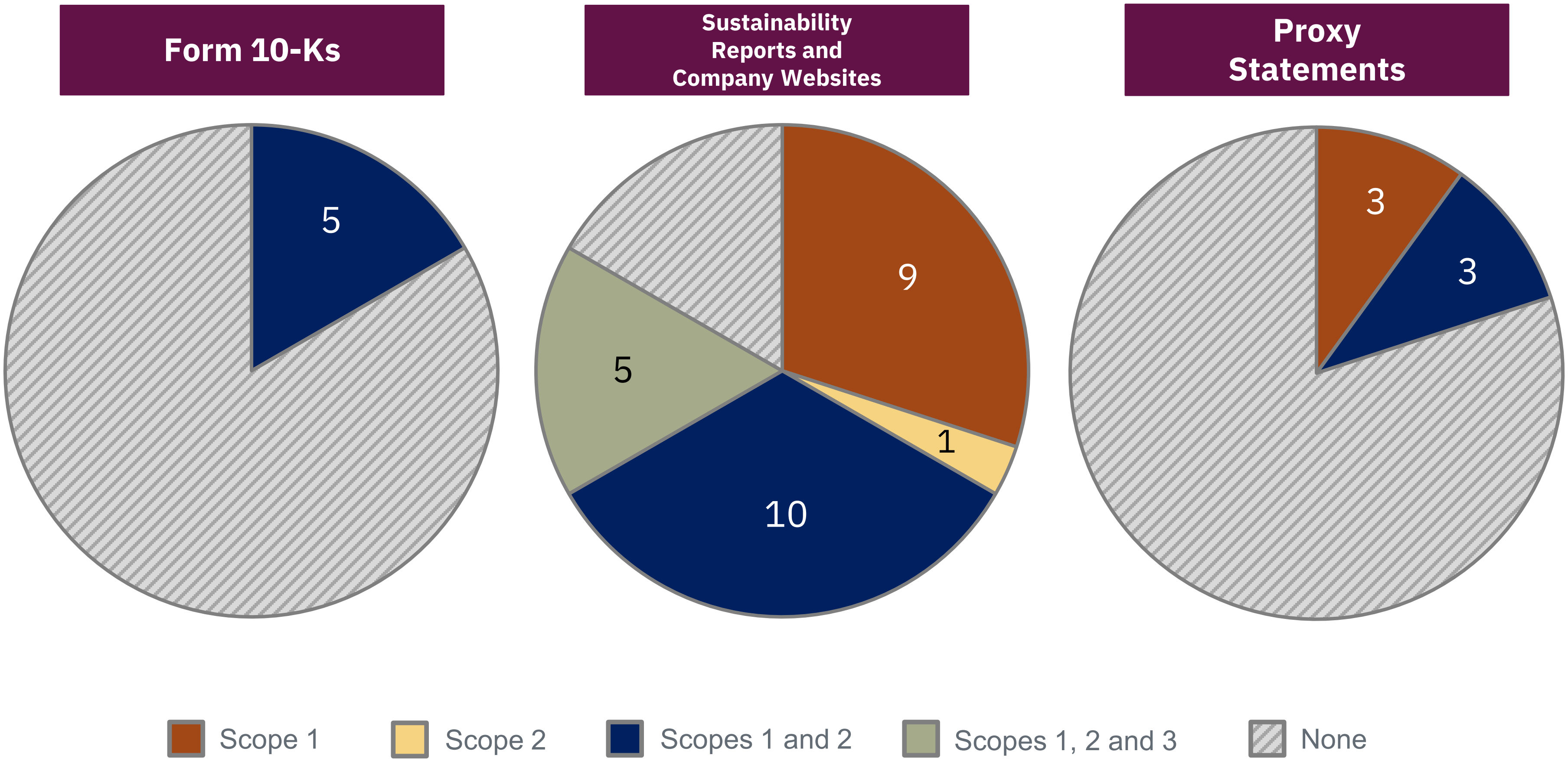
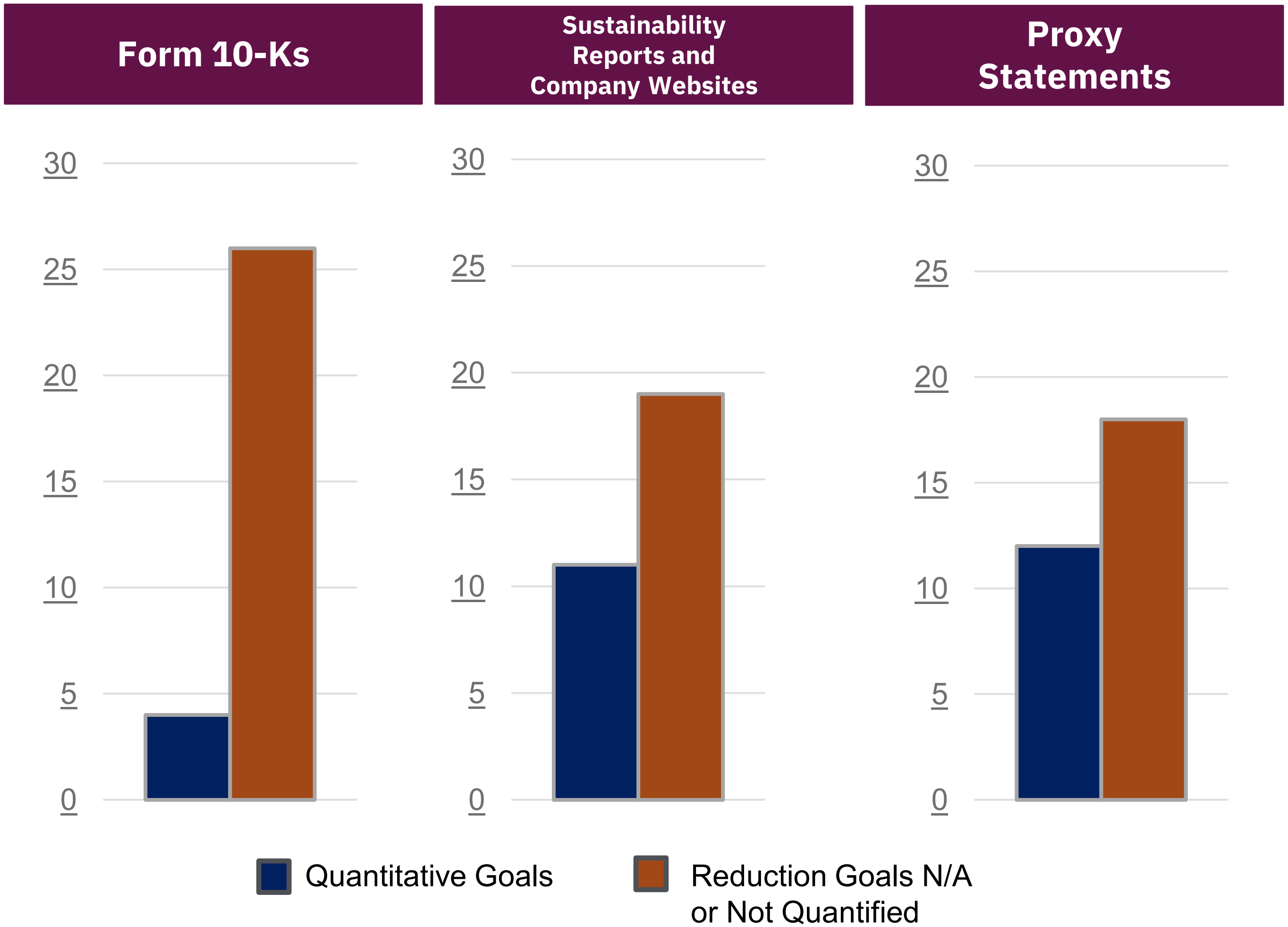
GHG Emissions Data and Disclosure Sources

GHG emissions disclosures can be found in sustainability reports and on company websites, in Form 10-Ks and in Proxy Statements



GHG Reduction Targets

Specific GHG emissions reduction targets and general commitments can be found in sustainability reports, Form 10-Ks and in Proxy Statements



- Producers are more likely to specify reduction targets (based on prior emissions levels) in sustainability reports or proxy statements.
- Most producers make general GHG reduction statements in Form 10-Ks.
- Examples of emissions reduction goals include:
  - Reduce each of Scope 1 and 2 GHG emissions intensity by X%;
  - Eliminate routine flaring;
  - Reduce flaring intensity by X%; and
  - Reduce methane intensity by X%.

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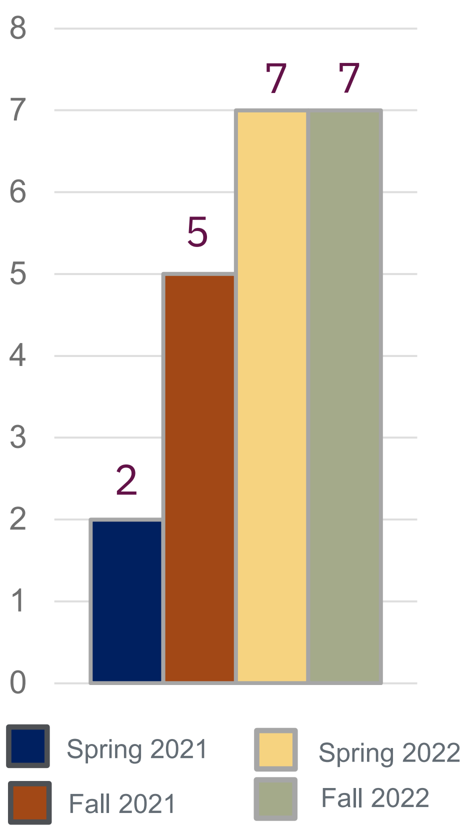
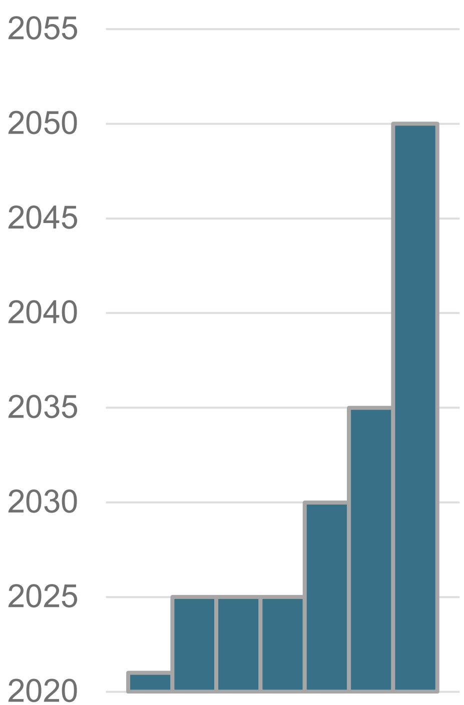
No New “Net Zero” Commitments

Sample producers with “Net Zero” targets



“Net Zero” targets range from the present to 2050



Fall 2022: Seven producers have disclosed “Net Zero” targets.

- The race to announce “Net Zero” commitments has slowed, possibly as a result of the increased regulatory scrutiny.
- Nearly half of the producers with “Net Zero” GHG emissions goals are targeting both Scope 1 and Scope 2 GHG emissions, while the remainder are targeting only Scope 1 GHG emissions.
- Producers generally accomplish these goals through:
  - Technological improvements;
  - Operational efficiencies; and
  - Purchase of carbon offsets.

Other Findings from Corporate Sustainability Reports and Company Websites

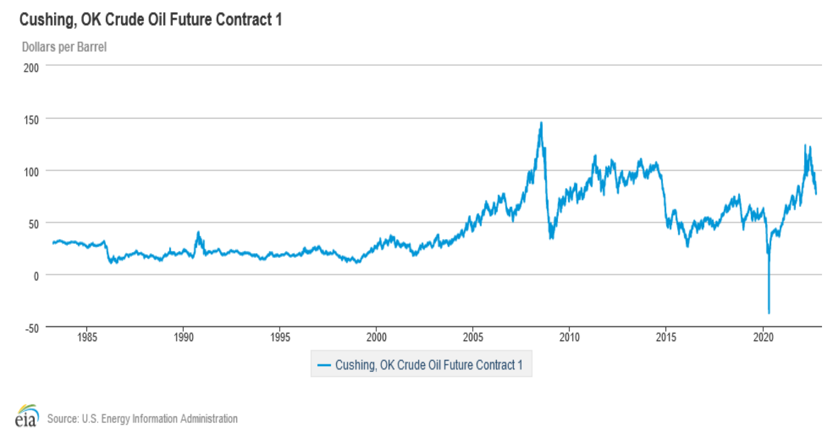
- 83% of sample producers provided GHG emissions data on websites or in corporate sustainability reports with half of those disclosing producers providing aggregate GHG emissions data and the other half breaking down disclosures by constituent emissions.
- Certifying gas is gaining traction in the oil and gas industry but only about 20% of sample producers have disclosed third-party certification of at least a portion of such producer's gas.
- Approximately 33% of sample producers use renewable energy in field operations (e.g., solar panels) or GHG emissions reduction technology (e.g., carbon capture and sequestration).
- Most sample producers (75%) disclose water usage data (e.g., recycling and water intensity), but only 6% have specified water reduction targets.
- Corporate sustainability reports contain considerable ESG data, but these reports can be outdated. Only 57% of the sample producers published reports since 2021, and 27% have not published any corporate sustainability report.

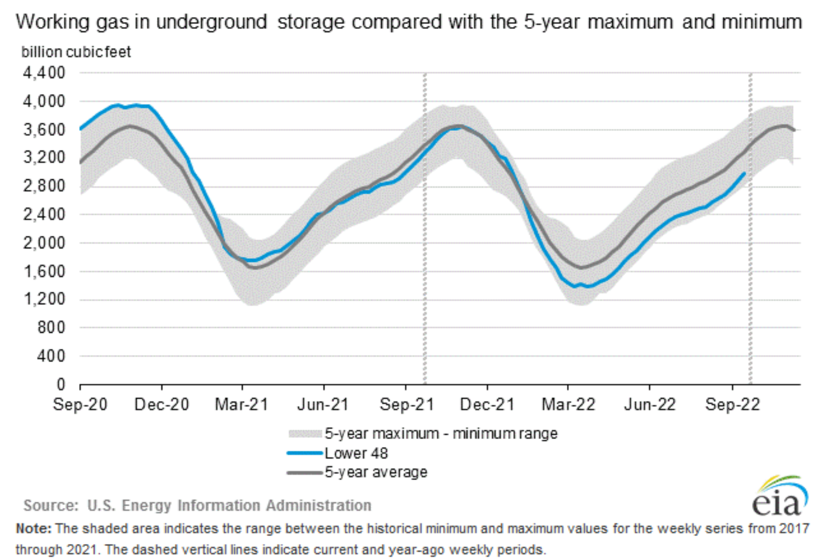
ESG and Access to Capital

Institutional Investors Continue to Hold Oil and Gas Equities

- The aggregate ownership of the top 10 institutional holders of sample producers stands at $76.3 billion – a 7.5% increase from March 31, 2022.
  - Growth has slowed vis-à-vis the 112% increase (to $71 billion) between August 2021 and March 2022.
- The slowdown in oil and gas investments may reflect the view that oil and gas prices have temporarily peaked.
  - However, continued supply and demand pressure should provide price support in addition to:
    - Russia/Ukraine; and
    - Winter Inventory Build & LNG Exports.

Source: Bloomberg Data as of 8/19/22; EIA 10/3/22





Institutional Investors Delivering Returns While Simultaneously Promoting ESG Goals

- Funds with an ESG focus continue to invest in E&P companies as the oil and gas sector has generally outperformed other sectors over the first half of 2022.
- Expanded climate change and ESG disclosures have made oil and gas equities more “investable” for institutional investors.

The top 10 institutional holders of the 30 sample producers that we analyzed have an aggregate of $76.3 billion invested in the equity of the group, more than double from the last period. This includes:

Institution	Peers owned	Current Value ($B)
The Vanguard Group, Inc.	30	$22.5
BlackRock Institutional Trust Company, N.A.	30	$14.6
Fidelity Management & Research Company LLC	30	$10.7
State Street Global Advisors (US)	30	$10.5
Capital World Investors	10	$4.3
Dimensional Fund Advisors, L.P.	29	$3.8
Geode Capital Management, L.L.C.	30	$3.6
Wellington Management Company	19	$3.2
D. E. Shaw & Co., L.P.	23	$1.7
Two Sigma Investments, LP	27	$1.4

Source: Bloomberg Data as of 8/19/22

Russell 1000 Index Rebalancing Effects on Institutional Positions in Oil and Gas Equities

- Following the rebalancing of the Russell 1000 in the Summer of 2022, 6 of the 21 stocks moving into the Russell 1000 were from the energy sector:
  - Antero Resources;
  - Chesapeake Energy;
  - Ovintiv;
  - PDC Energy;
  - Range Resources; and
  - Southwestern Energy.
- However, the rebalancing generally resulted in a lower ownership percentage on a per company basis for the largest index funds limiting their influence.
- During Q2 of 2022, Blackrock's aggregate ownership of the 30 sample producers decreased by 3%, while the aggregate value of their holdings decreased by 8% ($4 billion).

Tale of the Tape – Top 2022 Share Price Percentage Change and ESG Quartile Ranking

Strong correlation between share price change and ESG ranking remains elusive.

ESG Ranking	Company	2022 YTD%
3rd Quartile	Producer 1	251.33%
1st Quartile	Producer 2	242.63%
1st Quartile	Producer 3	191.74%
4th Quartile	Producer 4	177.50%
2nd Quartile	Producer 5	169.41%
4th Quartile	Producer 6	162.54%
2nd Quartile	Producer 7	162.29%
1st Quartile	Producer 8	155.93%
4th Quartile	Producer 9	130.45%
3rd Quartile	Producer 10	129.37%
4th Quartile	Producer 11	122.52%
4th Quartile	Producer 12	119.05%
3rd Quartile	Producer 13	106.11%
2nd Quartile	Producer 14	95.42%

Quartile Groupings by Weighted ESG Criteria.
Share Price Source: *Bloomberg Data as of 8/19/22*

ESG Remains a Cost (Access) of Capital Issue for Public and Private Operators

- Energy equities are increasing disclosures and providing more details about operations.
- Investors are employing more uniform ESG valuation metrics.
- Money is likely to continue flowing into companies with more comprehensive ESG disclosures over the medium-term.
- Executive compensation is increasingly tied to ESG principles.
- Geopolitics is a tailwind for the energy sector, keeping ESG-conscious investors engaged.

Differing Institutional Strategies Related to Oil and Gas Equities and ESG

Kimmeridge Advocates for Net Zero

- Encourages E&P companies to make 2030 “Net Zero” commitments, increase transparency and align ESG commitments with accountability and long-term incentives.
- Relatively few E&P companies have announced “Net Zero” commitments with numerous companies pushing the goals beyond 2030.

Strive Asset Management Encourages Focus on Production, not ESG

- Delivering a new "post-ESG" stockholder mandate to E&P companies to focus on profitability regardless of environmental, political or social goals.
- Encourages companies to increase oil and gas production and to focus on generating profits over political agendas.
- Believes that the U.S. energy sector remains significantly undervalued with potential share price appreciation of 2-3x over the next 12-24 months.

Source: Kimmeridge Energy White Paper: Why Net Zero Should Be the Standard for the E&P Sector published on July 14, 2022

Source: Strive Asset Management Presentation: EnerCom Denver 2022

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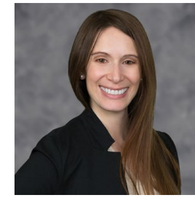

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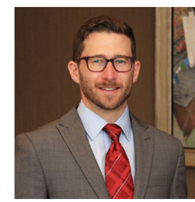

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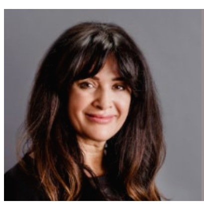

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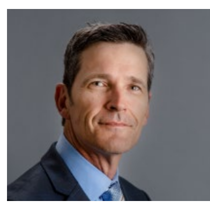

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