

# 2020

## Responsible Investment Policy



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# FROM THE PRESIDENT'S DESK



**Bob Smith**  
President & CIO



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*Sage Advisory Services is committed to and deeply invested in the successful integration and implementation of responsible investment principles throughout the firm in a manner that is consistent with our fiduciary duties to our clients.*

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At Sage Advisory Services, we believe environmental, social and governance (ESG) considerations are an important driver of long-term investment returns from both an opportunity and risk mitigation perspective. These considerations are integrated across our core business and built into the policies and principles that guide our investment process on behalf of our clients.

We view the active and ongoing evaluation of material ESG criteria to be an integral part of our firmwide investment decision-making efforts and fundamental to identifying high-quality companies with attractive sustainability attributes. Through this fully integrated bottom-up assessment process, we seek to invest in companies that offer above-average and/or improving ESG profiles. We utilize multiple sources of independent ESG research, ratings and data to help our portfolio managers and investment teams better assess risks and opportunities across companies, industries and within client portfolios. We also support these efforts by producing original ESG research and proprietary ratings, conducting ESG portfolio reviews with our investment teams, and engaging with companies on ESG issues as required for the benefit of our clients.

Sage Advisory Services is committed to and deeply invested in the successful integration and implementation of responsible investment principles throughout the firm in a manner that is consistent with our fiduciary duties to our clients. We support the Principles of Responsible Investment and fully recognize the importance of considering ESG criteria within our overall investment process. We believe that investing in companies that are focused on managing ESG-related operating factors will serve to reduce investor risk and support the organizations' long-term performance and financial health.

We believe that profit means more than maximizing earnings in the last period. Shareholders and boards look to sustainable profitability, stability, and a host of other measures to evaluate profitability. Social responsibility is very much part of that broader definition. Good labor practices generate better productivity and employee loyalty. Community involvement strengthens the image and brand. Responsible environmental policies are in part driven by popular opinion and regulation and mitigate potential financial risks.

Just as good corporate citizens emphasize ESG factors because they have a duty to society, we consider ESG factors in our investments because we have a duty to our investors to choose the best companies that we believe will outperform over the long-term. Every portfolio is designed and managed to achieve the most optimal "double bottom line" of strong competitive returns and positive sustainable outcomes possible without sacrificing investment liquidity, marketability and quality in any market environment.

A handwritten signature in black ink, appearing to read "Robert G. Smith".

Robert G. Smith

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# OUR APPROACH TO ESG INVESTING

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*We believe sustainable companies start with good governance.*

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## SAGE ESG GOVERNANCE

The firm's Investment Committee is chiefly responsible for the oversight, implementation and monitoring of all ESG investment activities. This effort is supported by our internal ESG research and risk analysis team, which works in conjunction with our portfolio managers to construct and maintain appropriate ESG optimized investment portfolios.



### INVESTMENT COMMITTEE

- Firmwide oversight of all ESG investment strategies and new initiatives
- The ongoing creation and firmwide application of investment strategy and tactical asset allocation positioning
- The monitoring and evaluation of new and evolving industry practices to enhance the firm's ESG-related investment risk assessment
- The oversight and monitoring of ongoing ESG integration efforts and client ESG performance reporting



### RESEARCH AND RISK ANALYSIS TEAM

- The review, critical evaluation and selection of all ESG data vendors
- The oversight, monitoring and reporting of all corporate and organizational engagement activities
- The maintenance and monitoring of ESG reporting across the firm's ESG investment strategies
- The research, monitoring and reporting of emerging material or escalating ESG issues within the firm's approved investment universe and client portfolios
- Regularly review the firm's ESG and corporate sustainability practices

# OUR APPROACH TO ESG INVESTING

## ESG INTEGRATION

Most often, company-level ESG characteristics and risk characteristics remain the same across both equity and fixed income asset classes. However, when analyzing fixed income securities, additional care must be taken to understand the long-term sustainability and intentionality of the issuer of the security. As fixed income managers, we are focused on the long-term outcomes of all issuers that we invest in, and due to the greater time horizon, we try to understand the long-term implications of ESG risks and opportunities present in every fixed income investment.

Within our corporate fixed income analysis, we utilize our leaf score process that analyzes industry risk and financial materiality before diving deeper into company-specific analysis. We view financial materiality and ESG risk to be the two driving factors in determining that issuers are investment worthy.

Within our municipal fixed income analysis, Sage uses a proprietary municipal ESG framework to evaluate and score municipal projects for both the scope of the project as well as the expected impact. Municipal project categories are broken down by environmental project: water, energy, buildings, transport, social projects, affordable basic infrastructure, affordable housing, employment generation, food security, and governance projects that are considered general obligation projects. Sage only elects those issues that meet either high or medium impact intensities within their respective framework and that are low in ESG controversies.

## REPORTING & THE SAGE ESG LEAF SCORE

No two sectors or industries are alike. This is exceptionally apparent from an ESG perspective, where the challenge lies not only in assessing the differences between companies, but also in the differences across sectors and industries. Although a company may be a leader among its peer group, the sector and industry in which it operates may expose it to risks that cannot be mitigated through company management. By combining ESG macro industry risk analysis with a company-level sustainability evaluation, Sage bridges this gap with the proprietary Sage ESG Leaf Score. Our Sage ESG Leaf Score, which is based on a 1 to 5 scale (with 5 leaves representing ESG leaders), makes it easy for investors to compare a company in, for example, the energy industry to a company in the technology industry. The Score also

makes it easy to understand that all 5-leaf companies are leaders based on their individual company management and the level of industry and sector risk that they face.

Client reporting is an extremely important aspect of Sage's core beliefs. Transparency is key to all of Sage's operations and that includes reporting on both financial and non-financial performance of client portfolios. For this reason, Sage provides the Sage ESG Leaf Score on all client reports regardless of ESG dedication. Additionally, Sage subjects ESG portfolios to a semi-annual third-party audit by Sustainalytics to ensure compliance with the high expectation of ESG standards, because we believe it's important for ESG managers to be held accountable.

## EXCLUSIONS

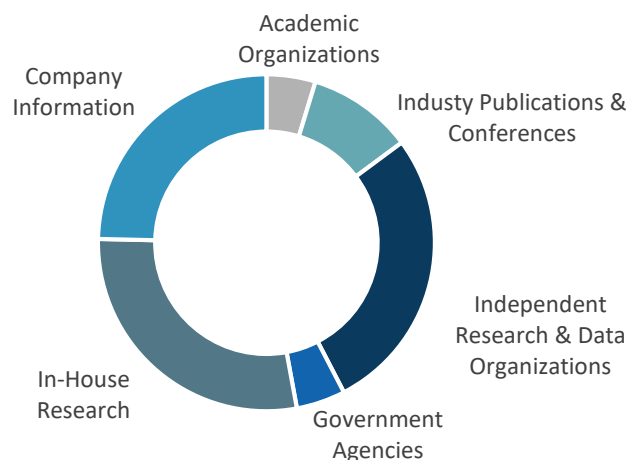


At Sage, we can create bespoke portfolios that are aligned with our clients' values. Through our investment management process, we can exclude any industry or type of company that our clients prefer to avoid. In general, we practice avoidance of all tobacco companies, coal mining and extraction companies, and small arms manufacturers across all our ESG portfolios.

## ACTIVE OWNERSHIP

Active ownership and engagement are important parts of the puzzle in terms of monitoring and fostering positive changes in the companies in which we invest. At Sage, we engage with companies on a case-by-case basis, typically where we see an area of concern or need for clarification from management. In addition, we engage with ETF providers to assess their stewardship responsibilities in terms of proxy voting and engagement with their portfolio companies.

### Sources for Sage ESG Research & Analysis



# OUR APPROACH TO ESG INVESTING

## ESG FACTORS

At Sage, we analyze environmental, social, and governance data points for every investment we make. Through our analysis, we determine the E, S, and G factors that are financially material to an industry, and thus are material to the issuers within that industry. We also determine the level of risks that are present for each industry and thoroughly examine them to help guide our investment decisions. We view governance to be the most important factor regardless of industry, and we believe that a company with superior governance practices is likely to be a stronger and more sustainable company over the long-term. Investing with these ESG factors in mind allows us to better and more thoroughly understand the issuers that we are investing in and increases our ability to comprehend risks that may be inherent to an industry or are issuer specific. With this increased understanding, we can better mitigate risks in a client's portfolio.



- greenhouse gas (GHG) emissions
- hazardous waste management
- water management
- renewable energy programs
- carbon intensity trends
- recycled materials



- supply chain management
- community involvement programs
- employee training
- long-term incident rate trend
- discrimination policies
- health & safety management



- anti-bribery & corruption policy
- ESG performance targets
- board diversity
- board independence
- remuneration policies
- political involvement policies

*\*These data points are examples and not a complete list.*

### Climate Change

At Sage, we believe that climate change is a very real and serious risk to our society. For this reason, we monitor climate risk through our industry and sector analysis within our Sage ESG Leaf Score process. Where possible, we avoid the most carbon-intensive industries and sectors and the companies within those industries. We conduct emissions budget and environmental alignment scenarios that compare current and future portfolio greenhouse gas emissions and carbon budgets. Our analysis includes scenarios in which the planet warms 2, 4, and 6 degrees Celsius until the year 2050. In addition, we monitor climate risk data via sources such as Notre Dame GAIN Index to monitor climate change risks within our corporate and municipal portfolios. We are also supporters of the Task Force on Climate-related Financial Disclosures (TCFD) and have signed on to Climate Action 100+.

## ESG COLLABORATION

Sage believes that collaboration through industry affiliations and engagement platforms is an integral part of the ESG investing process. We have several industry affiliations, including UNPRI, Climate Action 100, USSIF, TCFD, the Sustainability Accounting Standards Board, and The Green Bond Principles. These affiliations allow us to collaborate with likeminded investors and utilize the power of numbers to successfully engage with and effect change in companies.



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