

Highlights & Holdings

Case Studies in ESG

Highlights & Holdings provides a thoughtful analysis for some of the holdings in Sage's Environmental, Social, and Governance (ESG) portfolios. We provide a comprehensive set of scores for each holding and an analysis from an E, S, and G perspective. Our goal for our ESG portfolios is to choose well-run companies (governance) that care about their employees and customers (social), and have policies in place to create a net positive effect on their environment. Sage's ESG holdings are all best-in-class companies that are leaders within their sectors.



3/5

Sage ESG Leaf Score

NYSE: CVS

Market Cap: \$80.3B

Bond Rating: Baa2/BBB

CVS Health Corporation

From its beginnings as a Massachusetts health and beauty store in the 1960s, CVS Health has grown into a national health care company ranking eighth on the 2019 Fortune 500 list. Among its holdings are CVS Pharmacy, one of the largest drug retailers in the United States with nearly 10,000 retail pharmacy locations, and CVS Caremark, a pharmacy benefits manager. In 2018 CVS acquired the nation's third-largest insurer, Aetna, for \$70 billion, giving CVS a foothold in the insurance industry.



Governance

Due to antitrust concerns, CVS' acquisition of Aetna took a relatively long time to complete; however, we are cautiously optimistic that the merger will further CVS' mission to increase access to affordable health services by allowing Aetna to provide treatment to customers through MinuteClinic. The merger presents risk for CVS, as the company will now be burdened with responsibility for issues triggered by Aetna's business, which include accusations of discriminatory insurance policies for HIV-positive patients and those needing intensive therapies for cancer, autism, and mental disorders. Consumers and lawmakers are increasingly concerned about rising prescription drug costs, and uncertainty over future legislation especially affects CVS as the company now has market share in three different components of the health care industry – as a drug retailer, a pharmacy benefits manager (Caremark), and an insurance provider (Aetna). Data privacy is especially financially material to CVS as a potential breach of the large amount of data the company collects could lead to lawsuits and client loss; however, we believe the company's privacy and security programs are best in class.



Social

CVS shows leadership in being the first and only national pharmacy to eliminate cigarette and tobacco products. The company participates in community outreach and has invested \$100 million into health and wellness programs aimed at helping people with chronic diseases. Most notably, CVS has worked to increase access to convenient and affordable health care through its MinuteClinic services, and more than 50% of the U.S. population now lives within 10 miles of a clinic.

As one of the largest pharmacy health care providers in the U.S., CVS is held to a higher social responsibility standard than many of its peers. The company has been named as a defendant in the National Prescription Opiate Multidistrict Litigation for failing to report suspiciously high opioid orders after CVS sold close to six billion opioid pills over a six-year period from 2006 to 2012, giving it a 7.7% market share in opioid distribution in the U.S. (CVS' pharmacy market share was 24% in 2019). The fight against opioid addiction is predicted to create a greater burden for insurance companies, which presents risks to CVS' recent expansion into the insurance market. Prior to acquiring Aetna, CVS had been working to combat risks caused by past transgressions. Since 2015 the company has substantially increased training for pharmacy teams, increased in-store medication disposal units, and facilitated a 38% decrease in opioid dispensing at its retail sites; however, the severe impact that opioids have had on society leads us to believe that CVS will continue to face legal, regulatory, and brand reputation risk in this area.



Environmental

CVS has a strong corporate sustainability report that is guided by both a materiality assessment in accordance with Global Reporting Initiative standards and the United Nations-supported Sustainable Development Goals (SDGs). The company offers transparent reporting on energy consumption and greenhouse gas emissions, and partners with the Science Based Target initiative (SBTi) to set sustainability goals aligned with current climate science. Not only has CVS set targets to reduce GHG emissions by 36% by 2030, the company has committed that 70% of its suppliers will set emissions reductions targets by 2023.



COVID-19 Response & Outlook

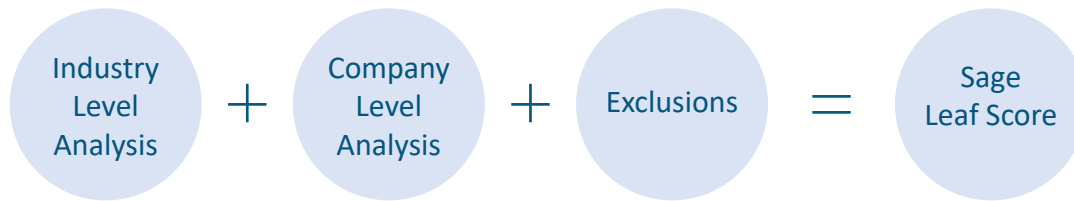
The COVID-19 pandemic has amplified issues central to sustainability and ESG disclosure, especially relating to how companies regard employee health and safety. Access to medication is essential, and CVS has been able to keep stores open while many businesses face indefinite closures. The retail industry is notorious for its low wages and lack of benefits, and prior to the pandemic CVS was named in several employee-led lawsuits dealing with these issues; some reached class-action status. In recent weeks, CVS has expanded sick leave for part-time employees and provided employees working at least 30 hours per week up to 25 days of child-care. CVS has also rolled out an Employee Relief Fund and offered bonuses for those working during the pandemic — although these only range from \$150 to \$500 total. We hope to see CVS and other retailers continue to improve their treatment of employees post-pandemic. Companies that do not will likely face reputational risk and harm to their brands.

In addition to announcing it will hire 50,000 new employees, CVS has begun rolling out COVID-19 drive-up testing centers in store parking lots. There are five locations so far. The company's partner, Aetna, was the first insurer to announce it would waive patient costs for diagnostic tests and hospital treatment of the virus. COVID-19 insurance claims will likely increase pressure on Aetna, but it is unknown to what extent.

In the short-term, we expect CVS' COVID-19 response will win the company brownie points from an ESG perspective. We remain skeptical of the company's intentionality, especially regarding its care for employees and policies pertaining to the sale of addictive medication. While CVS shows strength in its environmental management, a company of its size has the responsibility to be an industry leader in its social and governance policies, and so far, we believe that CVS has not yet reached that standard. Despite the company's shortcomings, we have a positive outlook for the health care industry and we see CVS as an above-average ESG performer.

Sage ESG Leaf Score Methodology

No two companies 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 industries. Although a company may be a leader among its peer group, the industry in which it operates may expose it to risks that cannot be mitigated through company management. By combining an ESG macro industry risk analysis with a company-level sustainability evaluation, the Sage Leaf Score bridges this gap, enabling investors to quickly assess companies across industries. Our Sage 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, and to understand that all 5-leaf companies are leaders based on their individual company management and the level of industry risk that they face.



[For more information on Sage's Leaf Score, click here.](#)

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Disclosures

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