

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: ABBV

Market Cap: \$119B

Bond Rating: Baa2/A-

AbbVie Inc.

Since its separation from Abbott Laboratories in 2013, AbbVie has flourished into a global company with a team of over 30,000 scientists, researchers, manufacturers, and regulatory experts, and it treats upwards of 30 million patients in 175 countries each year. The company's investment in research & development (R&D) has more than doubled since its inception in 2013 – totaling \$6.4 billion in 2019 – making it one of the most innovative among its peers. In recent weeks, AbbVie has proven its dedication to patients across the globe by joining the effort in combating the spread of COVID-19. AbbVie has given up patent rights for one of its HIV drugs, Kaletra, in order to ensure its supply as global authorities repurpose existing drugs to treat the virus. AbbVie is the first among its peers to take this drastic step, setting an example for other drugmakers as the COVID-19 pandemic advances.



Governance

Product quality and safety are of heightened importance in the pharmaceutical sector, yet management of product governance is weak across the industry; therefore, AbbVie and its peers must improve transparency on this issue. Unfortunately, it is common for pharmaceutical companies to employ anti-competitive practices to protect their market positions and defend against competition with generic and biosimilar products. AbbVie has faced increased scrutiny over its advertising of Humira, and was accused in a high-profile case of paying kickbacks to health care professionals and concealing reports of drug side effects. To fulfill its mission of serving patients first, AbbVie must commit to adhering to the appropriate regulatory standards for medical marketing in order to avoid future disputes. Big Pharma's involvement in politics is another highly contentious governance issue, as large-scale political donations and lobbying have the power to sway election outcomes and influence public policy. Until stronger legislation on campaign spending is enacted, influential companies like AbbVie must commit to improving disclosure on all political activities, as well as implement an ethical framework for such activities.



Social

Offering an array of therapeutic products is critical to the success of pharmaceutical companies. AbbVie has made substantial investments in R&D, which include pro-bono research and 40,000 hours spent annually conducting vital research on neglected tropical diseases. The company is also a leader in the industry for its policy on animal studies. AbbVie uses non-animal alternatives whenever possible and has detailed protocols on how to minimize physiological stress imposed on animal test subjects. Rapidly increasing drug prices are a major source of controversy in this industry, and AbbVie uses a variety of approaches to ensure patient access to life-saving medications. This includes a strategic long-term drug donation program that provides free medicine to tens of thousands of patients worldwide each year. Additionally, employee satisfaction seems to be high for AbbVie, as it has diversity programs/training, mentorship programs for women, on-site childcare facilities, and several other social programs.



Environmental

AbbVie remains committed to The United Nations Sustainable Development Goals, which guide its operations in all areas. Although the pharmaceutical industry does not generally produce significant environmental impacts, AbbVie's commitment to reducing its carbon emissions, waste production, and water intensity is commendable. The company is ranked No. 1 among its peers for emissions, effluents, and waste, which is indicative of its commitment to curbing antimicrobial resistance, a life-threatening phenomenon as declared by the World Health Organization. As natural disasters increase in frequency and magnitude due to climate change, AbbVie sets a good example by being among the first responders in places torn by natural disaster. The company's efforts to mitigate the effects of Hurricane Maria in Puerto Rico were a success, and it was able to maintain production at local plants and provide life-saving medicine to patients.

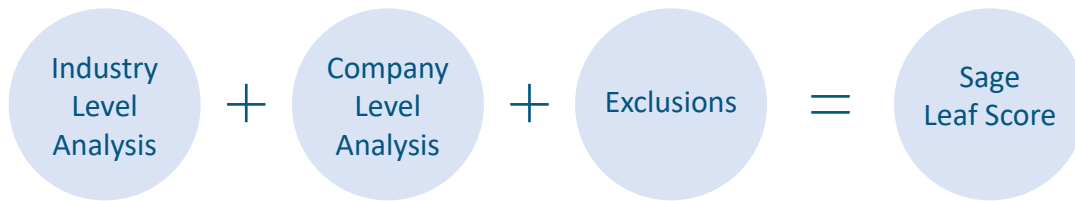


Risk Outlook

When we evaluate a company from an ESG perspective, an industry's unique risks must be considered. The pharmaceutical industry faces many ESG risks, including lack of affordable pricing, excessive lobbying, and animal testing. We have found that AbbVie has implemented policies and/or is actively trying to mitigate the risks around the most critical issues facing the pharmaceutical industry. We hold a cautiously optimistic outlook for the industry as a whole, based on collective efforts to develop COVID-19 treatments; however, issues such as drug pricing may eventually outshine these efforts, since legislation is being halted until after the November 2020 election. In an industry that is highly vulnerable to ESG risks, we believe AbbVie is a best-in-class leader, and therefore would garner a Sage ESG Leaf Score of 3.

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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