

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.

Environmental



Social



Governance



Risk



Controversy



Peer Rating



Delta Air Lines, Inc.

NYSE: DAL

Market Cap: \$35.9B

Bond Rating: Baa3/BBB-

59

Overall ESG Score



Sage Leaf Score



2/5



25.9

Medium Risk



69th

Percentile

Delta has evolved considerably from its founding in 1925 as an aerial crop-dusting company out of Macon, Georgia. Today, it is the world's largest airline in terms of market capitalization (\$36 billion), flying nearly 200 million passengers annually to 325 locations worldwide. With 915 aircrafts and nearly 90,000 employees, the Atlanta-based company is a lead member of the Sky Team Alliance, a partnership of 20 airlines worldwide.

63

Average Performer



Creating and managing a strong culture of safety is critical to an airline, as one mistake could cost hundreds of lives. Delta was one of the first airlines to implement the Federal Aviation Administration (FAA)-required enterprise-wide Safety Management System, and it currently oversees one of the industry's most robust plans. A key aspect of the system is the enhanced flight safety operations, which are intended to limit accidents. It is important to note that Delta has not had any aviation casualties since 1996 (though Comair, a subsidiary, did have a fatal accident in 2006). Well-governed companies have independent boards of directors, and much of the work done by Delta's board is through its committees. We value the transparency of reporting from Delta's Audit Committee and Executive Remuneration, as well as their independence from management. Delta also excels in sustainability reporting, disclosing annually recommended standards from both the Sustainable Accounting Standards Board (SASB) and the Global Reporting Initiative (GRI).

64

Average Performer



Employees in the aviation industry are more vulnerable to health and injury risks than the average worker, as both ground and in-air operations can be hazardous. Delta's focus on safety has added positive benefits for its employees' well-being, with the Total Recordable Injury Rate (TRIR) for the past five years being well below the Bureau of Labor Statistics' reported industry average. Customer welfare and satisfaction are also vital to an airline's success. Delta's "All Hazards" approach, which analyzes every risk factor that impacts customers, has paid off; in 2019, it was rated the top national airline in Embry Riddle's 2019 Airline Quality Ranking Report. Recently, Delta announced a 4% pay raise for their ground and flight attendant scale employees, showing a further commitment to employee well-being.

52

Average Performer



We believe that Delta's environmental performance has room for improvement. The company's long-term goal to reduce net carbon dioxide emissions to 50% of its 2005 levels is commendable. Delta is also an industry leader in passenger load factor (how full the plane is) at 85.5%, helping minimize the environmental impact per traveler. However, even with a comprehensive aircraft procurement plan, Delta continues to have one of the oldest fleets in the United States, with the average aircraft age hovering around 15 years. This is important to note because a strong correlation exists between newer aircraft and fuel economy, as newer aircraft are more aerodynamic and have more efficient engines. Furthermore, Delta could do much more to address the development of advanced aviation biofuels, as we believe conducting relatively small \$2 million feasibility studies (Delta's collaboration with Northwest Advanced Bio-Fuels to create wood residue-based fuel) will not be enough to move the needle on reducing greenhouse gas (GHG) emissions.



Delta was fortunate enough to avoid all of the negative fallout from the Boeing 737 Max grounding, as all of Delta's planned aircraft purchases are from Airbus. Therefore, executives do not have to make the difficult decisions of when to bring that aircraft back online and how to deal with concerned employees and customers. Southwest, American, and United have all struggled in various ways since the March 2019 Max grounding, and so we expect Delta to have an advantage over its peers and be one of the top ranked airlines for 2020. One area we would like to see a greater sense of urgency from Delta (and the rest of the aviation industry) is in reducing their contributions to global warming. Incremental changes are not enough for an industry that has a relatively small group of customers who contribute a disproportionate amount to the world's GHG emissions as compared to other forms of transportation. We would like to see a greater push in areas such as algae-based fuel that could be a game changer in lessening environmental impact. Until there are major GHG reductions, we see the entire aviation industry as having a high environmental risk.

Disclosures

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