

# 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



### Prudential Financial Inc.

NYSE: PRU

Market Cap: \$36.2B

Bond Rating: A/A3

75

Overall ESG Score



Sage Leaf Score



2/5



16.9

Low Risk



90<sup>th</sup>

Percentile

70

Average Performer



69

Average Performer



89

Leader



Prudential Financial is one of the largest U.S.-based insurers, offering insurance and investment services to millions of people and institutions worldwide with a focus on life and health insurance and retirement products. Prudential has shown its commitment to ESG principals in its policies and pledges to diversity and environmental impact initiatives, while ensuring its ability to meet its obligations to clients into the future. By actively reporting on new initiatives in inclusion and incorporation of ESG identifiers, Prudential illustrates its value to the industry and investors.

Prudential's corporate governance reflects the intention to enact a growing number of ESG policies globally. Areas of strength include several of its businesses' commitment to the United Nations-supported Principles for Responsible Investment (PRI), protections for whistleblowers, and a strong bribery and corruption policy. By keeping a steady hand on the amount of risk taken with the investments backing its obligations, Prudential prevents the kind of losses that endangered other insurers during the financial crisis. This is most reflected in its A-level ratings provided across ratings organizations. Management structure and disclosure is also a point of strength for Prudential. Average board director tenure is under seven years, with five replacements from 2014 to 2018, reflecting the board's above-average independence. The level of pay disclosures for the CEO and other executives has been lauded as above the industry average, allowing for critical evaluation in comparison to peers.

Prudential recognizes the importance of a diverse workforce, with 25%-40% of its leadership roles filled by women. The company also provides multiple programs for education and internal advancement to all employees, and it recently increased paid leave to care for a new child to 10 weeks. Half of Prudential's business and half of its employees are located outside of the U.S., providing an array of viewpoints and opportunities to attract diverse talent. Prudential has launched an affordable housing and emerging location real estate fund, aimed at underserved populations, and it rolled out an innovative after-tax, payroll-deduction feature that aids in retirement savings while keeping emergency funds accessible. Its strong supply-chain standards seek to protect non-employees who provide services to the company.

Prudential has a team that's been formally pursuing impact investing for 40 years, including distributed solar in Africa and a waste-to-energy plant in New Jersey, as part of a standalone portfolio, in addition to consulting on the investments of the rest of the firm. Its joint venture Pramerica SGR, which pursues sustainable and responsible investments (SRI), manages more than 1 billion euros dedicated to SRI, in addition to launching strategies based on reducing CO2 and water use. The company wins high marks for environmental disclosure, as well as its strong policy commitments, including its greenhouse gas reduction program, which has expanded since 2016 to include the company's global operations. While 5% of Prudential's primary energy use comes from renewable sources, it has \$4.2 billion in renewable energy investments, as well as LEED certification on more than 30 million square feet of managed U.S. real estate and 43 million square feet LEED certified globally.

Cybersecurity breaches at insurance companies can be especially impactful due to the large amount of information collected to inform the underwriting process. As a result, a major breach could cause lasting reputational damage, in addition to litigation and regulatory costs. Product responsibility encompasses the structure, appropriateness, and marketing of insurance and retirement products to clients. Like many of its peers, Prudential has paid fines and settlements after complaints regarding denied policy payouts. Prudential's extensive real estate investments expose it to possible climate change impacts. As a health insurer, significant governmental change to the industry could affect its operations and profits if enacted. Prudential has systems in place to manage cybersecurity risks, including an officer to monitor its group-wide security and privacy policies and both internal and external testing of its defenses. It extensively measures and reports on its greenhouse gas emissions worldwide, including creating targets in 2019. Climate change risk and opportunity is included in Prudential's risk framework, as directed by senior management. Providing training to all employees on ethics policies and deploying a global vendor-managed system for reporting concerns and violations in many languages reduces governance risks. Prudential has positioned itself as a leader by formalizing and disclosing its policies for dealing with these risk factors and placing these responsibilities with senior management. Sage expects Prudential to remain an important holding in our ESG portfolios.

#### Disclosures

Sage Advisory Services, Ltd. Co. is a registered investment adviser that provides investment management services for a variety of institutions and high net worth individuals. The information included in this report constitute Sage's opinions as of the date of this report and are subject to change without notice due to various factors, such as market conditions. This report is for informational purposes only and is not intended as investment advice or an offer or solicitation with respect to the purchase or sale of any security, strategy or investment product. Investors should make their own decisions on investment strategies based on their specific investment objectives and financial circumstances. All investments contain risk and may lose value. Past performance is not a guarantee of future results. Sustainable investing limits the types and number of investment opportunities available, this may result in the Fund investing in securities or industry sectors that underperform the market as a whole or underperform other strategies screened for sustainable investing standards. No part of this Material may be produced in any form, or referred to in any other publication, without our express written permission. For additional information on Sage and its investment management services, please view our web site at [www.sageadvisory.com](http://www.sageadvisory.com), or refer to our Form ADV, which is available upon request by calling 512.327.5530.