ESG Investing: The Little Engine That Could
by Emma Smith

ESG began as a niche type of investing and has since captivated investors across the globe. Incorporating environmental, social, and governance factors has certainly been touted as a way to potentially mitigate previously overlooked financial risks while aligning with investors' personal values. One of the biggest challenges for ESG investing has been, and still is, the question of returns. Did ESG investing really deliver the same, if not better, returns as traditional investing? Did ESG investing really cover losses on the downside? These questions were answered with a resounding "yes" in the first quarter of 2020. [1]

The Covid-19 pandemic sent shock waves through markets in the first quarter, with fixed income markets becoming extremely volatile and highly illiquid by mid-March. Ten-year Treasury yields declined from 1.9% to 0.54%, and investment grade corporate spreads started the quarter at a low of 94 bps, peaked at 375 bps, and finished the quarter at 272 bps. While the Bloomberg Barclays Aggregate Index returned 3.1% for the quarter, the dispersion of returns was wide in fixed income markets. Long-duration Treasury returns were over 20% and spread sectors underperformed the Bloomberg Barclays Aggregate Index, with the Bloomberg Barclays U.S. Credit index returning -3.1%. High-yield and non-core fixed income experienced deeper drawdowns, with the Bloomberg Barclays High Yield Index returns at -12.7% and emerging market bond return, as represented by the Deutsche Bank DBIQ EM Liquid Balanced Index, returning -16.7%.

How have ESG strategies fared so far this year? As it turns out, very well. ESG strategies have largely outperformed non-ESG conventional counterparts and benchmarks, providing solid evidence that choosing companies with strong ESG characteristics can reduce risk and potentially hedge against negative returns in a portfolio. [1] GUDB, the Sage ESG Intermediate Credit ETF, outperformed its benchmarks, the SAGE ESG Intermediate Credit ETF Index and the Bloomberg Barclays Intermediate Credit Index through 4/30/2020. [2,5]

In our view, the fund's outperformance was largely attributed to its higher credit quality allocation and ESG characteristics. During a time with intense credit spread widening and extreme volatility this proved to be a winning strategy for GUDB. Additionally, where GUDB did have an allocation to lower-rated BBB credits, the issuers were identified by our Sage ESG Research Team and provided the necessary boost to performance without the addition of unnecessary risk.

In addition to the credit rating selection and ESG issuer selection, we believe GUDB was also well positioned from a sector allocation perspective. GUDB was overweight to sectors that proved to be strong performers in the face of a global pandemic, including health care and information technology; while being underweight underperforming sectors, such as REITs. It was both this allocation and credit selection that allowed GUDB to outperform conventional competitors as well as its benchmark during this volatile beginning of the year.2

Sage intentionally chose credits for GUDB by utilizing the proprietary Sage ESG Leaf Score system. This framework enables the Sage ESG Research Team to identify, score, and invest in organizations that are focused on consciously building sustainable business models through better ESG risk management. Our team identifies the ESG topics that are financially material to every industry and organization. From this identification and further analysis, the Sage ESG Research Team designates a Leaf Score for each issuer in the aggregate bond universe. The Sage ESG Leaf Score is based on a 1 to 5 scale, with 5 leaves representing ESG leaders, and 1 leaf representing ESG laggards. It is from this rating scale that credit issuers are ranked against peers and selected for inclusion within the portfolio.

As further evidence of this ESG selection, GUDB has been ranked by both Sustainalytics and MSCI, the two premier ESG rating agencies in the space. GUDB earned the top 20% peer rank medal from MSCI that compares ESG fund quality scores with other ETFs in the same peer group.[3,4] GUDB is also in the ESG top 6% of all Fixed Income ETFs in the Morningstar database. The ranking, based on Sustainalytics' ESG risk rating, provided GUDB a Morningstar historical sustainability score in the top 6% of funds in the U.S. Fixed Income Category out of 671 total funds, as of 2/29/2020.

*GUBD is rated in the top 3% of its peer group of Lipper USD Corporate bond funds out of 236 funds as of 3/31/2020, based on the value weighted average of the holdings in the fund as measured by their MSCI ESG rating score.

Source: MSCI

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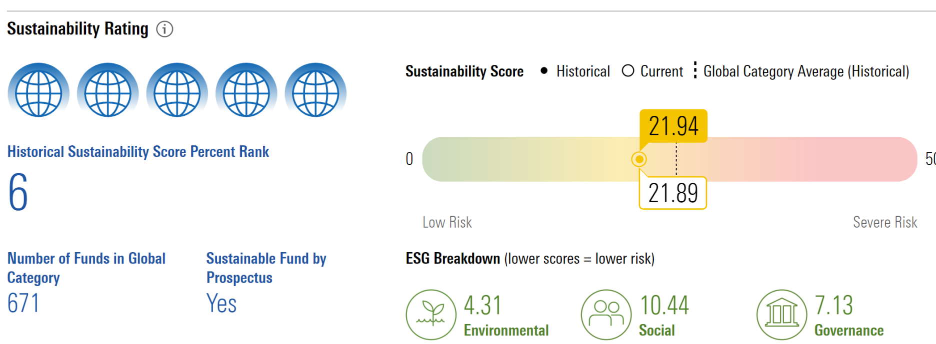

Source: Morningstar

The performance data quoted here represents past performance. Current performance may be lower or higher than the performance data quoted above. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that investor's shares, when redeemed, may be worth more or less than their original cost. For performance information current to the most recent month-end, please call toll-free 1-888-724-3911 or visit www.sageetfs.com. Total annual Fund operating expenses are 1.29%. Inception 10/31/2017.

Important Fund Information

Investors should carefully consider the investment objectives, risks, charges and expenses of the Sage ESG Intermediate Credit ETF. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling 888-724-3911. The prospectus should be read carefully before investing. The Fund is distributed by Northern Lights Distributors, LLC, Member FINRA/SIPC.

Sage Advisory Services LTD Co. and Northern Lights Distributors, LLC are not affiliated.

The Fund generally will invest at least 80% of its total assets in the component securities of the SAGE ESG Credit Index (the "Index"). The Index consists of corporate bonds selected from the Barclays Capital U.S. Intermediate Credit Bond Index that meet Environmental, Social and Governance (ESG) criteria. The ESG investment strategy limits the types and number of investment opportunities available and, as a result, the strategy may underperform other strategies that do not have an ESG focus.

Investing involves risk including possible loss of principal. No level of liquidity or diversification can ensure profits or guarantee against loss. There is no guarantee that the Fund will achieve its objectives.

Rankings are only one form of performance and should not be used as the sole factor in making an investment decision. For more information about the Fund, please call 888-724-3911 or visit www.sageetfs.com. **Investments cannot be made in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges. Past performance is no guarantee of future results.**

* The MSCI ESG Fund Quality Score measures the ability of underlying holdings to manage key medium-to long-term risks and opportunities arising from environmental, social, and governance factors. The Fund Percentile Rank measures how a fund's overall ESG Quality Score ranks relative to other funds in the same peer group.

Based on Morningstar U.S. Fixed Income Category. The Morningstar Sustainability Rating is a measure of how well the holdings in a portfolio are managing their environmental, social, and governance, or ESG, risks and opportunities relative to their Morningstar Category peers. The rating is a holdings-based calculation using company-level ESG analytics from Sustainalytics, a leading provider of ESG research. The rating ranges from "Low" to "High" on a 1-5 scale, represented by the number of "globes" the fund receives. The Morningstar Portfolio Sustainability Score is an asset-weighted average of Sustainalytics' company-level ESG Risk Score. The Sustainalytics' company-level ESG Risk Score measures the degree to which a company's economic value may be at risk driven by ESG factors. Like the ESG Risk Scores, the Portfolio Sustainability Score is rendered on a 0-100 scale, where lower scores are better, using an asset-weighted average of all covered securities. To receive a Portfolio Sustainability Score, at least 67% of a portfolio's assets under management (long positions only) must have a company ESG Risk Rating. The percentage of assets under management of the covered securities is rescaled to 100% before calculating the Portfolio Sustainability Score.

[1] https://www.morningstar.com/articles/976361/sustainable-funds-weather-the-first-quarter-better-than-conventional-funds

[2] **The Bloomberg Barclays Capital Intermediate Credit Maturity Bond Market Index** represents securities that are U.S. Agencies, U.S. investment grade corporates, foreign debentures and secured notes with maturities from one year up to, but not including, ten years.

[3] https://www.etf.com/GUDB#overview

[4] MSCIESG Fund Ratings Executive Summary Methodology
[5] Daily Fund Performance