A First Half Review: Pandemic Lessons

by Bob Smith (July 2020)

The world has learned so many ESG-related lessons from the pandemic experience, which has become part of the daily public consciousness. For starters, companies have been increasingly forced to focus on the “S,” or social, concerns surrounding organizations, particularly in regard to human capital-related issues, such as labor practices, employee health and safety, as well as diversity and inclusion concerns. The pandemic has turned a spotlight on the need for companies to take a more active role in these hyper-sensitive times to communicate and work with all their stakeholders, both internal and external. Companies that demonstrated a proven commitment to people over profits through their social and governance standards have been recognized for stepping up to meet a variety of community health and safety needs.

One positive byproduct of the pandemic may be a renewable energy revolution. The transportation and energy sectors, both public and private, have been decimated by a severe reduction in world-wide energy consumption and may take years to recover, as remote work and virtual communication services have become productive, energy efficient alternatives. Aside from the clear lower carbon emission benefits that have accrued from this low energy consumption transition, the longer-term implications for the fossil fuel industry are not positive and may lead to a dramatic shift to renewable energy.

It is also worth noting how the crisis has served to help introduce new and helpful forms of public finance to help address some of the global social challenges aggravated by the spread of the virus. Social bonds are “use of proceeds” bonds that raise funds for new and existing projects that directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes. The social bond market is one avenue through which the public and private sectors can now access the critical capital required to meet healthcare needs, restore economic stability and preserve jobs. In the first half of this year global social bond issuance supply reached an impressive $38 billion compared with $16 billion for the full year 2019.

Additionally, we believe the pandemic has helped hasten equity investors’ interest in companies that have a sound record of practicing good governance with a demonstrated ability to better manage social issues. In this environment, these corporate attributes help make the case that sustainably managed companies are also better investment prospects. Sustainable investing flows have smashed records in 2020, gathering over $15 billion in the U.S. and $36 billion globally in just the first six months of the year, according to research provider ETF Flows. A further reflection of this interest is found in the introduction of no less than 23 new ESG-focused mutual funds or ETFs thus far in 2020.

After having seen how well ESG investment strategies have performed across all asset classes during these volatile times, we believe now is the time to adopt ESG investing. Ultimately, the acceleration of inflows into ESG investment funds was and continues to be due to three factors: first, the continued trend toward values-based investing, which has been spurred further by the Covid-19 and oil crises this year. Second, the breadth of investment options has reached critical mass – the average investor now can access a much wider and growing range of ESG-focused investment choices in the public funds market. Lastly, investors now have enough of a sample size to judge how ESG-oriented strategies perform in both euphoric bull markets and deep bear markets. The past three years in markets have alternated between a low volatility rally in 2017, a sharp drawdown in the fourth quarter of 2018, one of the best years for equity markets in 2019, and the fastest bear market in history in the first quarter of 2020 during the Covid-19 crisis. It truly has been an interesting “laboratory environment” for an investment strategy, and thus far ESG has shown robustness across all market environments.
Environmental, Social, and Governance (ESG)-oriented ETFs took off in 2005 with the launch of the iShares MSCI USA ESG Select ETF, with a little over $20 million in assets. It took 14 years for ESG ETF assets to reach $5 billion, and just 18 more months to get to $25 billion. What happened?

Sustainable investing has been around for decades but it was initially focused on pockets of the investment ecosystem, did not have widespread adoption, and was mainly focused on strategies that excluded areas of the markets that didn’t align with investors’ values. It was about five years ago that large institutional investors began to consider ESG, media coverage increased, and the growth of standardized ESG data contributed to the adoption of ESG into the investment mainstream. At that time, there were two main questions about ESG investing:

First, will all the buzz around ESG result in asset flows? Second, by adopting a sustainable investment strategy, does the investor forgo return relative to a conventional strategy?

Fund Flows – The Hype is Real
The inflow of funds into ESG ETFs, primarily in equities, has picked up steam in the past 12 months to an AUM base of $29.3 billion as of June 30, 2020. Just to put that into perspective, it took ESG ETFs a little under two years to go from zero to $1 billion in assets, 12 more years to reach $5 billion in assets, and then just 18 months to reach a $25 billion AUM mark!

The recent wave of asset flows has been concentrated in equities, which account for the bulk of the ETF equity flows thus far in 2020. While ESG Equity ETFs represent 0.8% of total equity ETF assets, they have accounted for over 30% of all equity ETF flows thus far in 2020!

The ESG fixed income space tells a different story. In 2020, fixed income ESG ETF inflows have remained modest. We believe that the slower adoption of fixed income relative to equity ETFs is to be expected as the ETF market in fixed income is smaller in terms of assets and the number of ETFs. However, as ESG investing continues to pick up steam as we have seen in equities, we believe that most asset classes and fund types should benefit from this trend.

ESG Performance – Through Thick and Thin
Investors now have enough of a sample size to judge how ESG-oriented strategies perform in both euphoric bull markets and deep bear markets. The past three years in markets have alternated between a low volatility rally in 2017, a sharp drawdown in the fourth quarter of 2018, one of the best years for equity markets in 2019, and the fastest bear market in history in the first quarter of 2020. It truly has been an interesting “laboratory environment” for an investment strategy, and ESG thus far has shown robustness across different market environments.

In observing the recent performance of ESG strategies, investors are recognizing the advantages of a company with superior sustainability characteristics. A company that implements material ESG principles is often associated with properties of a “high-quality” company as defined in quantitative investing parlance: profitability, low volatility, and stable earnings. These properties of companies are rewarded by markets over time, especially during late-cycle environments and recessionary time periods.

A Sign of Things to Come
In his bestselling book The Tipping Point, author Malcolm Gladwell defines a tipping point of a social trend as “that magic moment when an idea, trend, or social behavior crosses a threshold, tips, and spreads like wildfire.”

The discussion, anticipation, and importance of ESG over the past five years has seen a follow through in asset flows, and like many of the examples in Gladwell’s book, once a concept crosses the “threshold,” change happens rapidly, not gradually.

Sage is fully committed to the growth of ESG. We provide investors with ESG ETF models, an ESG corporate bond ETF (GUDB), and ESG fixed income strategies. As ESG remains a small fraction of the ETF and separate account markets, we see the most potential for growth in two main areas. First, ESG fixed income strategies, which are picking up flows but not to the scale of equity strategies, could see the same growth trajectory as equity ETF assets as fixed income funds continue to build a track record. Additionally, there is room for growth for ESG ETFs within the defined contribution space, where there is a dearth of ESG options in most 401(k) plans. With the millennial generation now becoming the largest investment cohort, the 401(k) choice architecture should evolve with the demographics and include more ESG strategies.

To listen to our podcast episode “A Perfect Storm for ESG Investing,” click here.
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. 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 a 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 badge from MSCI that compares ESG fund quality scores with other ETFs in the same peer group.³,4 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.

** GUDB is 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.

To listen to our podcast about GUDB, click here. ²
Although government debt represents approximately 41% of the $255 trillion global bond market, Environmental, Social, and Governance (ESG) analysis is often not applied with the same vigor as it is in the corporate space. Sovereign debt, which is issued by central governments, is particularly vulnerable to a lack of adequate ESG assessment. It is often passed off as a risk-free asset meant for capital preservation and stability, especially in the case of developed countries’ debt issuance, but events of the past two decades have showcased the need to rethink this notion. Greece struggled mightily after the 2008 financial crisis, requiring bailouts from the International Monetary Fund, European Central Bank, and the Eurogroup, and lenders still took a huge hit on defaulted loans. And possibly even worse, Argentina (on the cusp of being classified as a developed country) has been engulfed in a debt crisis for the past 20 years, and creditors continue to get punished for holding its debt, with no real viable solutions moving forward.

Traditional credit analysis incorporates many ESG issues, but oftentimes the outlooks and ratings adjustments from credit rating agencies come too late with a reactive rather than proactive stance. In Greece’s case, Fitch was the first to signal distress, downgrading the credit rating from A- to BBB+ in December 2009. Looking back at history, Greece’s struggles could be clearly seen since joining the European Union in 2001, and even that initial downgrade in 2009 did not fully indicate the proper investment risk moving forward. Had a more robust sovereign ESG analysis existed, investors could have been properly warned of the future risk. As 30-year sovereign debt issuance is common worldwide, with some governments still floating the idea of 50- and even 100-year debt, the notion of focusing on countries’ sustainability is imperative, especially considering how the global landscape seems to remain forever turbulent. At Sage, we feel the need to fully integrate current and emerging ESG issues into the traditional sovereign credit analysis, and therefore we are excited to introduce our ESG Sovereign Credit Analysis and Scoring Framework.

In evaluating countries from an ESG perspective, determining the factors that are financially material sometimes proves difficult. A robust conceptual framework for ESG sovereign assessment does not exist like it does in the corporate space (e.g. SASB and GRI), but fortunately there are a plethora of resources from many worldwide entities to assist in the analysis process. We leverage many of these resources to aid our analysis of sovereign risk factors from three key lenses:

1. **Intentionality (Positive):** A well-intentioned country will be more adept at managing ESG risks (e.g. a country enacts certain laws or regulations to showcase its long-term view on an issue and how to address it).

2. **Resiliency (Positive):** A country that is flexible and adaptable will succeed at dealing with ESG risks (e.g. a well-educated labor force that emphasizes innovation will be better suited to solve the challenges associated with the effects of climate change).

3. **ESG Risk Exposure (Negative):** Each country is unique and there are many factors to consider when assessing ESG risks (e.g. a country with a primarily coastal population is more vulnerable to rising sea levels than a landlocked country).

By looking at ESG risk factors through these three lenses, we are better able to discern countries that are ESG risk management leaders relative to their peers.

To read more about Sage’s Sovereign Scoring Framework, [click here](#).
ESG Case Study — CVS Health Corporation

by Sara Rodriguez (April 2020)

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 childcare. 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 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.

Read more ESG case studies here.
The Future of Sustainable Fixed Income Investing

by Doug Benning (June 2020)

As ESG strategies prove their mettle in the current market environment, investors are turning to bonds that fund sustainable solutions. These “impact bonds” include green bonds, social bonds, and sustainability bonds. They allow investors to have a positive impact by providing organizations with capital that is proceeds-driven. Impact bond AUM is on the rise and is likely to continue growing as these bonds become increasingly transparent in how their proceeds are used for sustainable projects.

- Green Bonds focus on addressing environmental challenges, such as CO2 emissions and deforestation.
- Social Bonds seek to address societal issues, such as gender inequality and access to medical care.
- Sustainability Bonds simultaneously address both social and environmental issues.

Green bonds make up the largest segment of impact bond issuance. Financial market data provider Refinitiv reports that green bonds’ share of the global bond market tripled from 0.6% in 2015 to 2.2% in 2019. Total issuance reached $255 billion in 2019, and it was expected to continue to grow in 2020.

How do we hold impact bond issuers accountable?
The key to holding impact bond issuers accountable is verifiability. Is the bond issuer basing its use of funds on a public framework, offering independent assurance, and will investors be updated on the progress in deploying the proceeds? The International Capital Market Association (ICMA) and the Climate Bond Initiative (CBI) are organizations that can certify and/or review impact bonds. The ICMA administers the Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines, which are commonly used in frameworks. The CBI is a non-profit aimed at mobilizing the bond market toward fighting climate change by defining and identifying bonds that promote a low carbon economy.

How do we ensure proceeds are properly allocated?
A common critique of the green bond designation is that some issuers may label a bond “green” but not actually use the proceeds for such purposes, a process known as “greenwashing.” One check on this behavior is the hiring of second-party, or external, verification providers to ensure that an issuer meets its stated obligations under the offering documents and articulates them in a sufficiently binding and explicit manner. Not all green bonds are created equal. By subjecting their offerings to independent evaluation, issuers can provide investors with more confidence that they are getting what they paid for.

What is next for impact bonds?
The growth in impact bonds witnessed over the past several years has created opportunities for investors to tap into a new market segment, which is expected to continue growing even as the dynamics change due to events such as the current pandemic. Impact bonds seek to address several issues that the world is facing today, such as climate change. Approached with care and due diligence, impact bond investments are one way to ensure an investor’s potential impact and competitive market returns.

Get the full report here.
As climate-related events have increased in frequency and magnitude, they have moved to the forefront of ESG investors’ minds. How well companies and municipalities prepare for the risks of climate change is not simply an “E” issue, but “S” and “G” issues as well. Extreme heat has implications for food production, clean air and drinking water, transportation, and overall human health. At Sage, we have written extensively and firsthand about melting ice in the arctic, caused by increasing global temperatures, and its effects on wildlife and food production. We have also written about natural disasters, such as wildfires in California that last year burned over a quarter of a million acres of land and has created crises for multiple industries, including residential housing and insurance. The current pandemic may ultimately be blamed in part on the vulnerability of densely populated areas and the merging of ecosystems that were never meant to blend.

Until recently, credit rating agencies did not explicitly factor climate change risks into their ratings process; but that is starting to change. For example, last year Moody’s acquired a major stake in Four Twenty Seven, a company that analyzes the risks to corporations and governments from climate change events. Both analysts and investors are driving the need for more information about the risks of climate change and their effects on the financial stability of institutional borrowers worldwide.

In this report, we determine if a correlation between climate risk and preparedness exists within municipal credit ratings. We utilized data from Notre Dame Global Adaptation Initiative (ND-GAIN) from October 2018. The data provides metrics for various climate risk categories, including drought, heat, cold, floods, and sea level rise. Each of these categories has various metrics that are used to calculate a single score for the category. These scores are then used to create two scores for each municipality: overall risk and overall readiness for climate change. We took these scores and compared them to the composite credit rating of each municipality.

The data showed a trend that municipalities with higher credit ratings have on average a higher difference between readiness and risk. The AAA-rated bonds had the largest positive difference between the two measures, showing that on average they are more than prepared (ready) for their level of risk. The value of this calculation declined as credit quality diminished. For the A credit rating, the value of this calculation became negative, meaning that on average the municipalities had higher levels of risk for their levels of readiness. This trend continued to become more severe at the lowest analyzed credit rating of BBB. Overall, this trend was in line with our expectations.

We believe the data reveals investing opportunities among the lower-rated municipalities that correctly identify their expected future climate risk and prepare for that risk at an adequate level; however, it would be an oversimplification to say that is the case for every municipality. Not every A-rated security is a good investment opportunity as compared to all other higher-rated credits. Pinpointing the reason why necessitates a deeper dive into why discrepancies exist among higher-rated credits. Identifying municipalities’ population densities and geographic locations could help create a clearer picture of where the opportunities lie and will be the focus of our next piece.

To see a breakdown of risk/readiness correlation by credit rating, click here.
At Sage, we view the active and ongoing evaluation of material ESG criteria to be an integral part of our firm-wide investment decision-making efforts and fundamental to identifying high-quality companies with attractive sustainability attributes. Through this fully integrated bottom-up assessment process, we seek to invest in companies that offer aboveaverage and/or improving ESG profiles. We utilize multiple sources of independent ESG research, ratings and data to help our portfolio managers and investment teams better assess risks and opportunities across companies, industries and within client portfolios. We also support these efforts by producing original ESG research and proprietary ratings, conducting ESG portfolio reviews with our investment teams, and engaging with companies on ESG issues as required for the benefit of our clients. For more on our Responsible Investment Policy, click here.
Disclosures for “ESG Investing: The Little Engine That Could”

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.

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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.

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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 MSCI ESG Fund Ratings Executive Summary Methodology
5 Daily Fund Performance

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