

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 Sage ESG Leaf Score 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.



4/5

Sage ESG Leaf Score



Neutral Outlook

EVERSOURCE

NYSE: ES

Market Cap: \$30 B

Bond Rating: Baa1/A-

Eversource Energy

Eversource is a multi-utility company with four million electricity, natural gas, and water customers throughout Massachusetts, Connecticut, and New Hampshire. The utility acquired Aquarion Water Company in 2017 and sold all its thermal assets (including its fossil-fired electricity generation facilities) in 2018. Eversource is nationally recognized as a leader in energy efficiency and continues to make substantial investments in grid modernization and integration of renewables.



Environmental

Eversource has set an aggressive target to be carbon neutral by 2030, which the company plans to achieve by expanding its renewable energy portfolio while minimizing the use of conventional energy sources. Eversource has partnered with Ørsted, a global leader in wind energy based in Denmark, to develop 4,000 megawatts (MW) of wind turbines off the New England coast. Because offshore wind is usually associated with increased transmission costs, it will be important to monitor any customer rate increases. Presently, Eversource owns and operates 70 MW of solar generation and is expanding its natural gas assets. The energy industry is the second-most water-intensive sector (behind agriculture), but natural gas is less water- and carbon-intensive than other fossil fuels. The intermittent nature of renewables such as wind and solar often requires utilities to supplement their energy mix with fossil fuels; however, Eversource's sizable investments in battery storage projects, which increase renewables' hosting capacities, will hopefully alleviate that issue. The company also recently issued its inaugural green bonds, two \$400 million offerings through its subsidiary NSTAR, which will help further its low-carbon energy initiatives. We hope that future issuances follow a framework such as the Green Bond Principles and are subject to a second-party opinion, as both these steps support investor confidence by offering better transparency and ensuring the "greenness" of the bond and its proceeds. Another area in which Eversource is a leader is service reliability and resilience. Consistent and reliable service is financially material for both the environment and customer relations, and Eversource has been proactive in replacing old infrastructure to prevent hazardous leaks and service disruptions.

offers past-due balance forgiveness and rate discounts for low-income customers, and its COVID-19 assistance program offers customers free home insulation upgrades. It is important to note that the company operates in states that engage in revenue decoupling efforts, which is a regulatory mechanism that causes a company's profits to be disconnected from total sales. Decoupling encourages utilities to help their customers reduce usage and increase efficiency, as revenue is no longer tied to total sales. However, as utilities need to pay for maintenance costs and grid modernization, they usually are forced to increase rates (or fixed-monthly fees) to offset the decrease in total sales. As the COVID-19 pandemic has caused a precipitous drop in commercial electricity usage, residential customers will likely pick up the cost. And it will disproportionately affect the poor, who tend to live in poorly insulated homes and already struggle to pay their bills. While Eversource's freedom of association policy is lacking, it has not resulted in any controversies or discouraged employees from unionizing. In 2018, 50% of Eversource employees were members of various trade unions and were covered by eight collective bargaining agreements. There is room for improvement, however, as is evident in Eversource's CEO to median employee compensation ratio, 115:1, which is essentially double the utilities industry average of 58.5:1.



Governance

With a historically male-dominated workforce that is nearing retirement, the utilities industry has been presented a unique opportunity to recruit talent in a more sustainable way. Eversource has demonstrated its commitment to diversity and inclusion by making executive compensation contingent upon achieving the company goal of having women and people of color comprise 40% of total leadership promotions and new hires. Additionally, Eversource has executive-level oversight of its ESG initiatives, many of which are also linked to executive remuneration. Because utilities provide critical infrastructure, they have close ties with regulatory bodies and government officials who have the authority to award subsidies and service rights; therefore, this industry is at heightened risk of exploiting those relationships for financial gain. Eversource manages these risks well with ongoing business ethics training, adequate corporate compliance/whistleblower hotlines, and thorough disclosure of its lobbying and political activities. Eversource also shows leadership in its 24/7 emergency response program, which guarantees timely



Social

Lack of community outreach during the planning stages of major infrastructure projects can fuel public opposition, potentially leading to construction roadblocks and even closures. Eversource is an outperformer in the stakeholder governance arena, and we commend its commitment to maintaining an open dialogue with local communities and regulatory bodies. In addition to providing customers with hundreds of millions of dollars in energy savings each year, Eversource is a leader in the industry for its financial assistance programs. These initiatives include Winter Protection Plans and Medical Protection Plans, which protect customers from potentially detrimental service disconnections. The company also

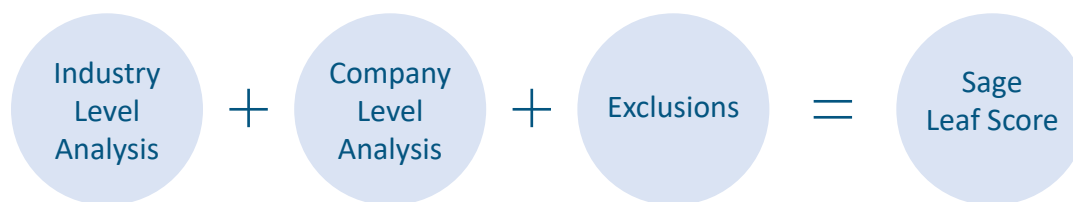
responses to chemical spills from company equipment, and by issuing a moratorium on service shutoffs unless required as a safety measure. The company maintains a database of pre-identified critical facilities, such as hospitals and nursing homes – especially relevant in the current pandemic environment – to ensure these facilities have reliable service.

Risk & Outlook

Eversource is a strong ESG leader. As the utilities sector enters a major transition phase due to rapidly evolving renewable technologies and regulatory changes, we value the company’s investments in system adaptability, which will become increasingly vital as climate change presents more severe and frequent weather events. The utilities sector is responsible for a quarter of global greenhouse gas emissions, so it will be important for the industry to mitigate its environmental impact while remaining cognizant of customer pricing. Eversource has proven its dedication to customers in a time of unprecedented adversity, and we see it as a clear industry leader. Because utility companies are exposed to relatively high ESG risk, we give Eversource a leaf score of four, with a neutral outlook.

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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