

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.



5/5

Sage ESG Leaf Score



Neutral Outlook



NASDAQ: CSCO

Market Cap: \$168 B

Bond Rating: A1/AA1

Cisco Systems, Inc.

Cisco Systems, Inc. was founded in 1984 in the pursuit of connecting people, after two Stanford faculty members developed a way to enable communication over different networks between two buildings on campus — thus creating the router. One of the world's largest technology companies by brand value (\$26B), Cisco designs and manufactures internet and communications related technology worldwide, including infrastructure platforms, networking service technologies, collaboration products, network security, and system management products. Today, more than 80% of the world's web traffic travels across Cisco connections.



Environmental

Cisco excels in greenhouse gas (GHG) emissions management. The company has implemented science-based emissions targets for three types of emissions. Cisco aims to reduce Scope 1 (direct emissions from owned or controlled sources) and Scope 2 (indirect emissions from the generation of purchased energy) GHG emissions worldwide by 60% by FY 2022. Cisco's U.S. facilities are 100% powered by renewable electricity, and overall, 85% of Cisco's global electricity is purchased from renewable sources. Having already met its 2020 supply chain GHG goal, Cisco has set a new goal to reduce supply chain-related Scope 3 emissions by 30% by FY 2030. Scope 3 emissions are all emissions that occur indirectly in the value chain caused by a company's products, such as the lifetime emissions from powering a Cisco router. Most of Cisco's products expend 95% of their energy in the use phase (included in Scope 3 emission calculations) so inclusion of Scope 3 is fundamental for an accurate representation of Cisco's GHG impact.

Cisco utilizes Life Cycle Assessments guided by the ISO 14040 standard to determine the carbon footprint of its products. The company sets targets for the reduction of use of virgin plastics and foam and prioritizes increasing product packaging efficiency and circular design. The increased consumption of electronics has led to large quantities of electronic waste, causing adverse ecological effects on air, water, and soil pollution due to hazardous materials used in production. Cisco offers free pickup services to customers so they can return equipment to be recycled, refurbished, and reused. Equipment is disassembled and processed to retrieve materials for reuse, lengthening the life cycle of Cisco's products. Additionally, Cisco enables remote collaboration and virtual work environments through its WebEx technology, which further reduces carbon emissions.



Social

Cisco regularly ranks as one of the world's best places to work, and its Corporate Social Responsibility (CSR) report offers an in-depth look at a multitude of company policies designed to create a supportive culture. Through a framework called "Conscious Culture," Cisco focuses on practicing inclusivity to positively impact people, society, and the planet. The company's CEO has prioritized destigmatizing mental health, and Cisco requires North American employees to take time off at the end of December for a company-wide

10-day shutdown. Every employee at Cisco gets their birthday off. Many of Cisco's policies are designed to support its female employees. Cisco conducts regular analysis of pay parity based on gender (and inclusive of ethnicity in the U.S.) to ensure people are paid equitably for similar work in the same location. The company has also banned salary history questions during its hiring process and instead bases salaries on market data, candidate experience, and location. Cisco employees receive paid time off to care for a newborn or adopted child, which is based on the role they will play as caregiver rather than on gender. Primary caregivers are granted 13 weeks, while supporting caregivers are given four weeks off. However, parental leave policies that institute a primary/secondary caregiver system have come under scrutiny for potentially discriminating against fathers. Paid parental leave regardless of gender is considered best practice. Cisco employees can take three days off to welcome a new grandchild. In 2019, Cisco introduced a reimbursement benefit for up to \$50,000 for family planning (harvesting and storing of eggs, sperm, or embryos), in addition to the coverage included in medical plans. Cisco offers U.S. employees adoption and surrogacy reimbursement for up to \$20,000 dollars and is the first company to offer U.S. employees access to preventative free elective testing to identify changes in genes associated with breast and ovarian cancers. While there is no blueprint for creating a culture that effectively supports women in the workforce, Cisco's policies go above and beyond the industry norm.

Cisco began tracking the diversity of its workforce in 1988 and has since been committed to full-spectrum diversity and an inclusive culture. Cisco's CSR provides a comprehensive 'workforce snapshot' that offers transparent data inclusive of gender and ethnicity, categorized by region and type of employee (technical workforce, nontechnical, executive leadership, and board of directors). About 46% of executive leadership is made up of women, and 62% of Cisco's executive leadership is considered diverse in terms of gender and/or ethnicity. However, Cisco could improve both gender and ethnicity diversity in its board. Representation for Black and Hispanic/Latino employees have increased every year since 2016, and are up to 3.8% and 5.6%, respectively. Despite improvement, Cisco recognizes its Black and Hispanic/Latino employee populations are underrepresented, and the company is using technology to track hiring practices to continue progress.

Despite being considered a leader in its diversity and inclusion practices, Cisco has been involved in controversy. In March 2020, Cisco agreed to

pay \$4.75 million to settle a claim from the U.S. Department of Labor that the company participated in gender and racial pay discrimination in 2011, when it was found that the Cisco paid white and male employees more than their female, Black, and Latino counterparts. In June, California’s Department of Fair Employment and Housing filed a lawsuit against Cisco for caste discrimination in California — the first time in U.S. history that caste is the cause of a discrimination case. Discrimination based on caste is against the law in India, but there are no related policies in the U.S. Cisco is accused of failing to take corrective action after multiple investigations into the alleged discrimination, and according to news outlets, Cisco plans to “vigorously defend itself.” In 2019, 37% of Cisco’s workforce identified as being of Asian ethnicity, and the company is a top recipient of H-1B work visas. Regardless of Cisco’s otherwise thorough, transparent, and best-in-class approach to diversity and inclusion, these lawsuits highlight the complexities companies face when navigating diversity, and the pervasive issues in corporate America that require further progress — even top diversity performers have work left to do.

Research has shown that people with sponsors are 23% more likely to advance in their careers than those without — but women and minorities often are significantly less likely to have a mentor or sponsor. Cisco is combating this with programs designed to mentor, retain, educate, and support diverse employees, and it has proved successful; participants are more often twice as likely to get promoted than nonparticipants. Despite shortcomings, overall, Cisco excels at promoting diversity and inclusion within the company.

Cisco directly employs 75,000 people in 97 countries and has around 224,000 workers in its global supply chain. Cisco’s manufacturing operations are entirely outsourced to China, Malaysia, and Thailand, putting the company at a greater risk of potential human rights violations and making supply chain risk management especially material to the company. Through the Responsible Business Alliance, Cisco’s suppliers are required to regularly conduct self-assessment questionnaires and third-party audits to ensure they are compliant with the Supplier Ethics Policy. Cisco’s CSR report covers what the company does if violations involving working hours/days of rest, wages and benefits, and freely chosen employment are found. Cisco’s updated 2019 risk assessment methodology now accounts for the presence of vulnerable workers, such as foreign migrant workers, young workers, and student workers. Cisco is a member of the Electronic Industry Citizenship Coalition, which covers freedom of association and collective bargaining for employees; however, some countries in which Cisco operates (China) have severe limitations that exist with regard to labor unions, so not all workers in the supply chain are protected.

Electronic products contain 3TG minerals (tantalum, tin, tungsten, gold, and increasingly cobalt). Although Cisco does not directly procure minerals from mines or smelters, the company prides itself on regularly conducting due diligence on the minerals in its supply chains to ensure that their mining does not benefit groups that commit human rights violations. In the past, certifying the origins of minerals has been difficult due to a lack of data. Cisco is combating this issue by using blockchain technology to track minerals from mines to downstream sale.

Cyber security is a top ESG concern in the technology industry, and Cisco’s own company materiality assessment concluded that data security and privacy is the issue most important to business and stakeholders. Cisco provides privacy and data protection services to help companies manage information, and Cisco’s entire services business is ISO 27001 certified to keep consumer data secure. When it comes to data that Cisco collects, the company maintains a transparent inventory and data map to identify data collected from customers, how it is used, and who has access to it. Additionally, while advanced network technologies offer many benefits, they can also be used negatively to surveil or censor individuals. Cisco advocates for laws that respect privacy as a fundamental human right.

Governance

Cisco releases Corporate Social Responsibility reports annually. Reports include a full materiality assessment conducted every two years, with an internal material refresh on off years. Cisco’s report features a thorough assessment of corporate responsibility topics — the 2019 report is 230 pages — and its related United Nation-supported Sustainable Development Goals and is guided by the Global Reporting Initiative (GRI) Standards. The company has a Corporate Affairs team designated to manage stakeholder engagement and corporate responsibility. To reinforce the importance of Cisco’s CSR policies, one hour of new employee orientation is dedicated to information about the CSR program.

Cisco Systems’ Sustainable Development Goal (SDG) Alignment



Gender Equality

Cisco is focused on promoting diversity, inclusion, and equal opportunity at all levels of the organization inclusive of gender, race, and ethnicity. The company prioritizes fair and equitable pay.



Industry, Innovation, and Infrastructure

Cisco data security and privacy are best in class. The company focuses on transparent and safe network security as it relates to person privacy, as well as mitigating online threats like cybercrime and economic espionage.



Responsible Consumption and Production

Cisco’s supply chain management policies commit to ensuring ethical, fair, and responsible sourcing and supplier conduct including fair working conditions, fair wages, human rights, and ethical sourcing of raw materials. Cisco reduces material use and waste from its products and packaging and facilitates land-fill avoidance through product end-of-life programs.

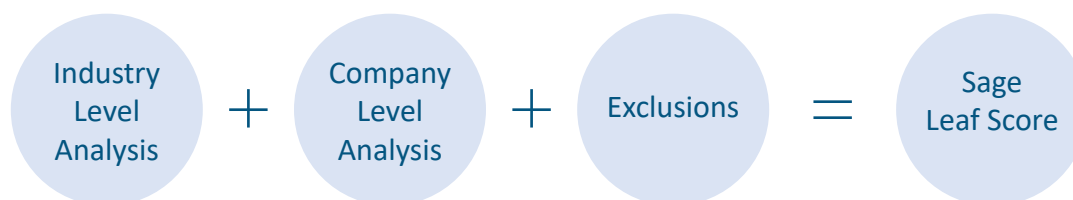
Cisco’s code of conduct is considered best-in-class, and covers topics such as antitrust, conflicts of interest, insider trading, and corruption in detail, and third-party due diligence has been implemented to ensure compliance with the code. Cisco has implemented anonymous and confidential reporting channels to protect whistleblowers. Although the chair of the board is not independent, Cisco has fully independent board committees in charge of auditing, remuneration, and director nomination. Cisco does not make corporate contributions to candidates for federal elected office, political parties, or election committees in the U.S., and discloses any local contributions on a quarterly basis, which Sage finds best practice.

Risk & Outlook

From lowering greenhouse gas emissions to excellent supply chain management, Cisco is an industry leader in ESG; however, it is clear the company’s best strengths lie in the social category. The range of social topics discussed in Cisco’s CSR report and its related policies show that the company is well-intentioned when it comes to creating an inclusive culture that supports all employees. Even so, issues surrounding diversity are nuanced and complex, and companies that are praised as leaders in inclusivity are still vulnerable to challenges. Overall, Cisco’s above-average transparency and commitment to corporate social responsibility earns the company a 5/5 Sage ESG Leaf Score.

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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