ESG Perspectives
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The Sage ESG 50: An Annual Ranking of the Best ESG U.S. Corporate Bond Issuers

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Much has changed since last year's ranking of the top ESG-rated U.S. corporate debt issuers. Due to the onslaught of the Covid-19 pandemic and the rising concern among investors about its long-term financial implications for their investments, we have witnessed a significant shift in sentiment in favor of sustainable and impact-sensitive investing across all major asset classes. This has also engendered a rising demand for research and data to help investors ascertain and ultimately score the strength, breadth, and depth of the environmental, social, and governance (ESG)-related policies and actions taken by the organizations in which they invest.

Both Moody's and S&P Global have provided clear guidance on the importance of ESG factor assessment within their respective credit assessment processes and, especially in the last 12 months, a chorus of investors has risen to join them. This has driven inflows to ESG strategies to new heights despite regulatory headwinds, such as the Department of Labor changes to ERISA guidance, presumably intended to curb adoption in retirement plans.

Like the major credit rating agencies, we have recognized that ESG considerations are increasingly important measures for assessing company valuations, risk management, and regulatory compliance. Moreover, in our view, the quality and consistent execution of a company's ESG risk management policies supports and often leads to better credit rating assessments, lower borrowing costs, and greater financial stability. Indeed, an ESG-focused management is, in many respects, a positive indicator for fixed income investors that are avid for improving long-term credit fundamentals.

It's also important to note that since our last annual ranking, the U.S. corporate bond market has expanded significantly. The actions by the Federal Reserve in easing monetary policy and recommencing significant asset purchases has catapulted the U.S. corporate bond market to over $10.5 trillion in size, well above the $9.5 trillion cumulative balance reached in the spring of 2019. This was achieved through an 8% growth in the investment grade debt sector to $7.2 trillion and a 14% expansion in the speculative grade market to $3 trillion. It is also worth noting that approximately 85% of the new issue volume during this period was for debt rated in the "BBB" category, which now represents 57% of the outstanding U. S. investment grade bond universe.

Size & Scope of the U.S. Corporate Bond Market

Market	Total Debt Outstanding	Non-Financial Sector	Financial Sector	# Issues	# Issuers
Investment Grade	$7,200 Bill	$5,003 Bill	$2,198 Bill	6,624	782
High Yield	$2,991 Bill	$2,732 Bill	$260 Bill	2,139	886
Total	**$10,191 Bill**	**$7,735 Bill**	**$2,458 Bill**	**8,763**	**1,668**

Avg. $ size $6.1B per issuer
Avg. $ size $89.2m per issue

Source: S&P Global

Also buried within this expansion is the fact that thus far in 2020, companies, financial institutions, governments, and municipalities have raised more than $215 billion in green bonds. This amount is not far behind the $270 billion raised in 2019 and is reportedly 15 times greater than what was raised in 2013. Moreover, Bloomberg reports that the amount of debt identified as "green" now exceeds the trillion-dollar mark.

While the U.S. corporate bond market has realized a substantial expansion, both in size and scope, the range of premier ESG-rated entities, while growing, remains somewhat concentrated by sector and issuer. In this report we offer our assessment of the Top 50 ESG-rated U.S. corporate bond issuers for 2020.

Assessment Process

We reviewed ESG data gathered from several providers and used Sage's internal sustainability scoring framework, the Sage ESG Leaf Score (1-to-5 leaves, where 5 leaves represent ESG leaders), to rank approximately 1,000 individually rated issuers in the U.S. corporate bond universe. Our assessment focused on the review of a variety of financially material ESG data and key industry risk metrics to evaluate the relative strength of an organization's intentional and inherent sustainability.

Financially Material ESG Factors

Environmental	Social	Governance
GHG Emissions	Supply Chain Management	Anti-Bribery & Corruption Policy
Hazardous Waste Management	Community Involvement Programs	ESG Performance Targets
Water Management	Employee Training	Board Diversity
Renewable Energy Programs	Long Term Incident Rate Trend	Board Independence
Carbon Intensity Trends	Discrimination Policy	Remuneration Policies
Recycled Material Use	Health & Safety Management	Political Involvement Policies

Industry Risk
Critical Incident Risk
Detrimental Environmental Impact Risk
Low Carbon Economy Transition Risk
Social Adversity Risk
Decreased Investor Demand Risk
Unmanageable Industry Risk
Climate Change Risk

Through our comprehensive screening and scoring process, we identified the 50 leading ESG-rated companies and organizations in the U.S. corporate bond market. According to our analysis, these 50 entities collectively represented $759 billion in debt outstanding by the end of the third quarter of 2020. This group's total outstanding U.S. debt issuance represented 7% of the total debt outstanding in the market and roughly 10% of the total investment grade debt outstanding in the U.S. corporate bond market today.

Facts and Observations

A review of the Top 50 reveals a variety of facts and relationships. First, the International Development Banks and European Development Institutions lead the list in terms of their relative ESG and credit quality rankings (5 of the first 10). They also represent a very large share of the corporate debt outstanding among the Top 50 ESG organizations, with a 97% share of the debt represented by the first 10 and 42% of the debt represented by the Top 50 ESG corporate bond market issuers.

It was also notable that two companies with speculative grade credit ratings made the Top 50 list due to their strong ESG assessments, indicating that credit rating status, while generally correlated with strong ESG risk management evaluations, is not necessarily always true. In fact, we believe their strong ESG risk management assessments may ultimately become core drivers behind the recovery of their former investment grade status in the future.

Rating Comparisons

Average Ratings of	Credit Ratings		ESG Ratings		
The Sage ESG 50	Moody's	S&P	MSCI	Sustainalytics	Sage Leaf
Top 10 Companies	Aa3	AA-	AA	8.0	5
Bottom 10 Companies	A3	A-	AA	24.0	5
Total Universe	A2	A	AA	15.5	5

The Sage ESG Top 50 U.S. Corporate Debt Issuers (as of June 2020)

Sage 50	Country	Industry Sector	Moody's Credit Rating	S&P Credit Rating	MSCI ESG Rating	Sustainalytics Risk Score	Sage Leaf Score	Debt Weight
Council of Europe Development Bank	FR	Financials	Aa1	AAA	--	5.4	5	0.6%
European Investment Bank	LU	Financials	Aaa	AAA	--	5.5	5	11.0%
KfW Group	DE	Financials	Aaa	AAA	--	5.8	5	11.0%
RELX Capital	GB	Industrials	Baa1	BBB+	AAA	7.7	5	0.4%
Inter-American Development Bank	US	Financials	Aaa	AAA	--	8.2	5	8.2%
CBRE Group	US	Real Estate	Baa1	BBB+	AA	8.7	5	0.2%
Asian Development Bank	PH	Financials	Aaa	AAA	--	8.8	5	8.7%
Rabobank Nederland	NL	Financials	Aa3	A+	--	9.4	5	2.5%
Keysight Technologies	US	Information Technology	Baa2	BBB	AA	9.8	5	0.3%
Kilroy Realty	US	Real Estate	Baa2	BBB	--	11.1	5	0.4%
Munich Reinsurance Company	DE	Financials	Aa3	AA-	AA	--	5	0.1%
International Finance Corporation	US	Financials	Aaa	AAA	--	11.5	5	1.4%
HP	US	Information Technology	Baa2	BBB	AA	11.9	5	0.8%
Best Buy	US	Consumer Discretionary	Baa1	BBB	AAA	12.0	5	0.2%
Cisco Systems	US	Information Technology	A1	AA-	AA	12.8	5	1.6%
NVIDIA Corporation	US	Information Technology	A2	A-	AAA	12.9	5	0.9%
W.W. Grainger	US	Industrials	A3	A+	AA	13.0	5	0.4%
Adobe	US	Information Technology	A2	A	AA	13.3	5	0.6%
Nokia	FI	Information Technology	Ba2	BB+	AA	13.3	5	0.2%
WPP Finance	GB	Communication Services	Baa2	BBB	AA	14.1	5	0.2%
AXA	FR	Financials	A2	A	AAA	14.2	5	0.3%
Host Hotels & Resorts	US	Consumer Discretionary	Baa3	BBB-	A	14.4	5	0.4%
Trane Technologies	IE	Industrials	Baa2	BBB	AAA	14.6	5	0.7%
Microsoft Corporation	US	Information Technology	Aaa	AAA	AAA	14.9	5	8.6%
VMWare	US	Information Technology	Baa2	BBB-	AA	14.9	5	0.7%
Waste Management	US	Industrials	Baa1	A-	BBB	15.1	5	0.8%
Cigna Corporation	US	Health Care	Baa2	A-	AA	15.1	5	4.1%
Ball Corporation	US	Materials	Ba1	BB+	A	15.4	5	0.7%
CNH Industrial	GB	Industrials	Baa3	BBB	AAA	15.6	5	0.5%
Diageo Capital	GB	Consumer Discretionary	A3	--	AAA	15.6	5	1.5%
Intel Corporation	US	Information Technology	A1	A+	A	15.8	5	4.9%
Xylem	US	Industrials	Baa2	BBB	AAA	16.4	5	0.4%
Canadian National Railway	CA	Industrials	A2	A	--	17.3	5	0.9%
Texas Instruments	US	Information Technology	A1	A+	AA	17.5	5	1.0%
Legrand	FR	Industrials	--	A-	AA	17.7	5	0.1%
Vodafone Group	GB	Communication Services	Baa2	BBB	AA	17.7	5	3.3%
Cummins	US	Industrials	A2	A+	AA	17.8	5	0.4%
ABB	CH	Industrials	A3	A	AA	17.9	5	0.5%
Verizon	US	Communication Services	Baa1	BBB+	BBB	18.1	5	8.2%
Aegon	NL	Financials	A3	A-	AA	19.4	5	0.1%
Swiss Re Group	CH	Financials	--	A	AAA	20.6	5	0.1%
PepsiCo	US	Consumer Staples	A1	A+	AA	21.6	5	4.6%
Campbell Soup Company	US	Consumer Staples	Baa2	BBB-	AA	22.0	5	0.7%
Colgate-Palmolive Company	US	Consumer Staples	Aa3	AA-	AA	22.1	5	0.6%
Kimberly-Clark	US	Consumer Staples	A2	A	AA	22.2	5	1.0%
Unilever	GB	Consumer Staples	A1	A+	A	23.5	5	1.5%
General Mills	US	Consumer Staples	Baa2	BBB	AA	23.6	5	1.3%
Procter & Gamble Company	US	Consumer Staples	Aa3	AA-	AA	24.7	5	2.1%
Kellogg Company	US	Consumer Staples	Baa2	BBB	AAA	25.6	5	0.7%
Veolia	FR	Utilities	Baa1	BBB	A	30.6	5	0.1%
			A2	**A**	**AA**	**15.5**	**5**	**100%**

The average credit rating of the Top 50 ESG universe was A2/A. The group had somewhat of a barbell distribution in their credit ratings, with the first 10 issuers averaging a strong Aa3/AA- quality level, while the last 10 issuers averaged a lower grade A3/A- average credit quality. The drift toward lower credit quality ratings that has been evident in the broad market over the last several years has also been reflected, albeit perhaps to a lesser degree, within our Top 50 universe.

What was common to all the issuers within the Top 50 universe was their high ESG risk management assessments. Across the board, these organizations received very high marks for their ESG risk management policies, transparency, intentionality, and leadership. Under Sage's proprietary ESG Leaf Score system each of the organizations in the universe was accorded our Top Five Leaf Score for their superior ESG practices and achievements. It was also interesting to find that MSCI and Sustainalytics, two respected ESG research and data providers, largely agreed with our assessments for the majority of the Top 50 universe by rating them highly in regard to their ESG risk management abilities.

ESG Optimization and Debt Weighted Market Realities

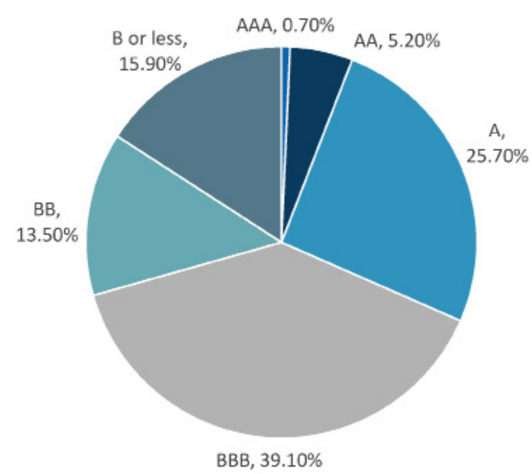
Unlike in the equity markets, the limited amount and availability of ESG-qualified investment grade corporate debt can place a significant constraint on the portfolio construction process and is an important risk factor to consider when building a well-diversified and sustainably optimized fixed income portfolio. These concerns are well illustrated in the tables below.

Rating Comparisons Debt vs. Non-Debt Weighted

MSCI	# Companies	Debt Weighted	Non-Debt Weighted
AAA	11	14.1%	22.0%
AA	23	24.6%	46.0%
A	5	7.6%	10.0%
BBB	2	9.0%	4.0%
S&P	**# Companies**	**Debt Weighted**	**Non-Debt Weighted**
AAA	7	49.5%	14.0%
AA	4	4.3%	8.0%
A	18	24.6%	36.0%
BBB	18	19.3%	36.0%
BB	2	0.9%	4.0%
Moody's	**# Companies**	**Debt Weighted**	**Non-Debt Weighted**
Aaa	6	48.9%	12.0%
Aa	5	5.9%	10.0%
A	15	20.1%	30.0%
Baa	20	24.1%	40.0%
Ba	2	0.9%	4.0%

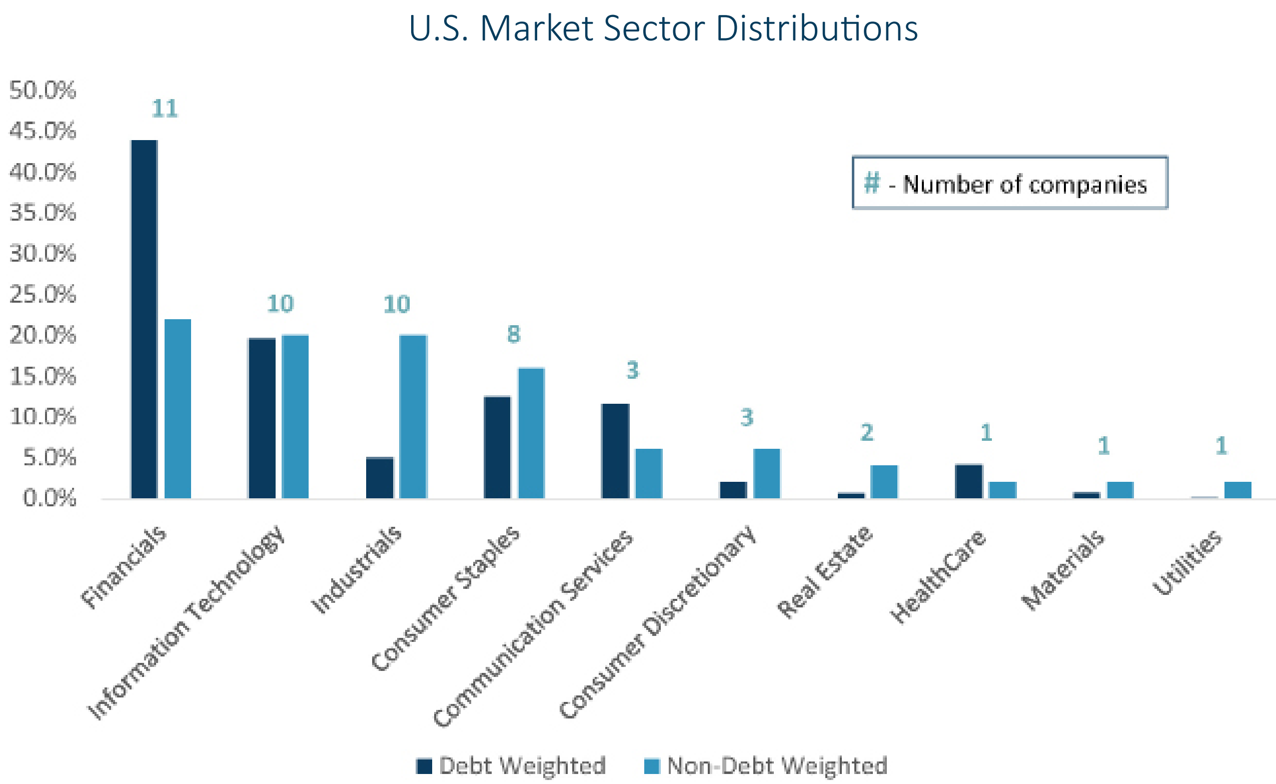
A review of the rating distributions on a debt vs. non-debt weighted basis clearly indicates that the International and European Development organizations have a sizeable influence over the breadth of the credit rating distributions within the Top 50 universe. When viewed on a non-debt weighted basis, however, the universe was less skewed and reflected an average credit quality in the mid-A to high BBB credit quality range. This is important because this segment of the distribution contains roughly 70% to 72% of the individual companies represented in the universe. The distribution of the high ESG-rated companies also compares well to the corporate bond market more broadly because, as shown in the chart below, the credit quality distributions are skewed more toward the lower-quality tranches of the credit quality spectrum.

U.S. Corporate Debt Market Quality Distributions



Source: S&P Global Ratings: Credit Trends: Global Corporate Debt Market: State of Play In 2020; June 25, 2020

Lastly, our market sector distribution analysis revealed that most of the organizations within the ESG Top 50 universe were concentrated in five market sectors: financial services, information technology, industrials, consumer staples, and consumer discretionary. This picture of the sector distributions is a bit different when adjusted for debt outstanding, as shown in the following table. Here again, on a non-debt weighted basis, the financial services sector weighting is materially reduced, and the breadth of the universe appears a bit more distributed across all the sector categories. Importantly, this analysis also illustrates one of the key challenges that investors may often face when seeking to build a sector-diversified, ESG-optimized fixed income portfolio. As a result of these realities, we find that ESG fixed income portfolios tend to be overweighted toward these more dominant sectors of the market.



Final Thoughts

The U.S. corporate debt issuers featured within this year's ESG Top 50 universe are generally regarded by many in the ESG research community as sustainability leaders within their respective industries. Our Sage ESG Leaf Score assessments for each of the organizations were generally well aligned with the ratings of MSCI and Sustainalytics.

We continue to believe that organizations can be differentiated based upon how they manage their respective environmental and social impact, as well as the strength of their governance activities. As a result, ESG score assessments may provide important information that can help investors compare companies across a range of material risk issues, which many today think of as important in developing a more complete understanding of the creditworthiness of a company or organization. We also recognize that while strong ESG risk management evaluations are important to the long-term financial strength of an organization, they do not necessarily guarantee superior credit ratings or market assessments.

However, what they do provide to us, and hopefully to fixed income investors in general, is confidence in the commitment of these companies to sustainability leadership practices that will help to mitigate future investment risk over the long term.