2H 26 Sector Sustainability Report

Sage evaluates the 11 GICS Sectors for financially material sustainability factors.



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Introduction

At Sage, we assess 1,500 corporate issuers quarterly using our Sage Leaf Score® Methodology. This custom framework includes quantitative and qualitative analysis of industry-specific risks, third-party data, and a company's individual sustainability practices. Through this assessment, Sage generates a Leaf Score for each company, representing its preparedness and performance across a range of sustainability indicators. Sage uses these scores to choose best-in-class issuers for inclusion in Sage portfolios.

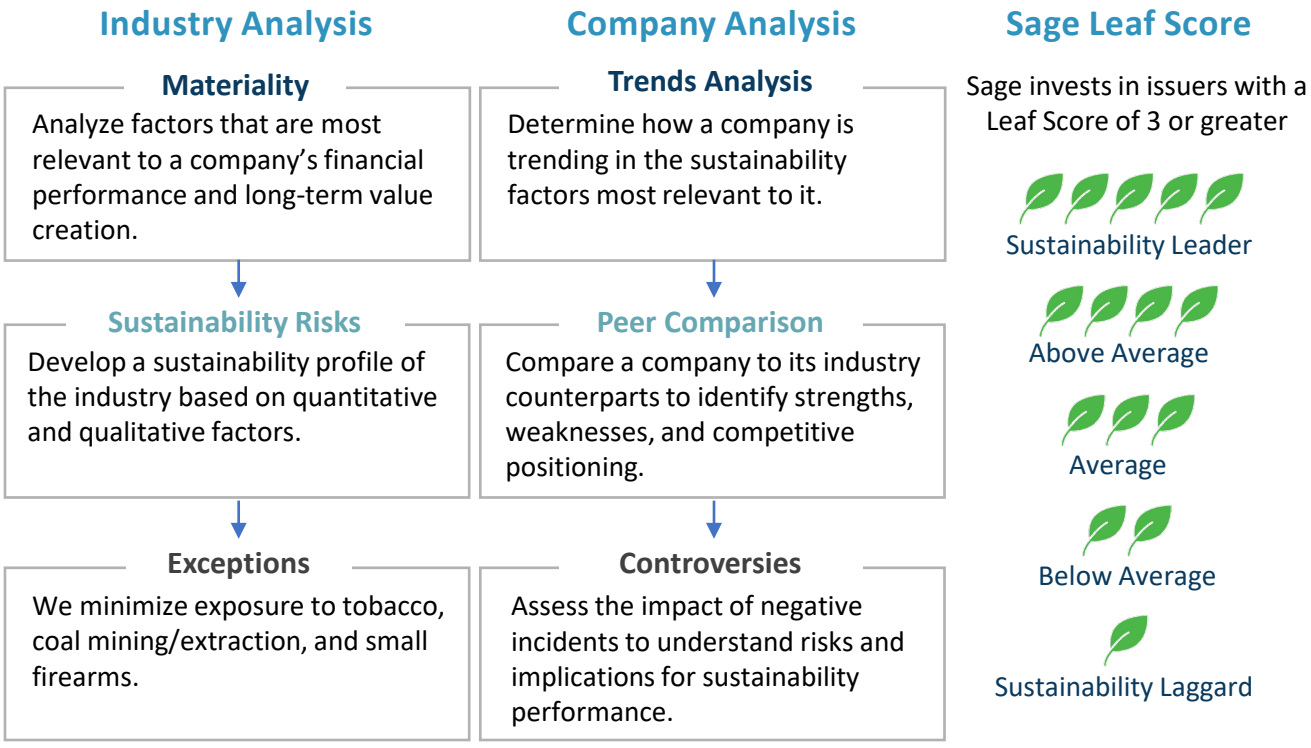
In this report, we provide Leaf Scores for each of the 11 sectors in the Global Industry Classification Standard (GICS). We highlight each sector's most relevant financially material factors, as well as the industries within each sector that we consider to be sustainability leaders or laggards. We also provide a distribution of Leaf Scores for each sector to illustrate that, while a sector may not appear investable because its average Leaf Score does not meet our strict criteria for portfolio inclusion, there are best-in-class companies within each sector. Lastly, Sage provides links to case studies on companies we consider to be sustainability leaders to demonstrate our analysis of financially material sustainability factors and how we weigh these when considering an issuer for inclusion in our Responsible Investing portfolios.

Our assessment of financially material sustainability factors and the resulting Leaf Scores have become an important evaluation tool for our clients. On all Responsible Investing client statements, Sage provides Leaf Scores for each holding and for the overall portfolio, so that investors are aware of how sustainable their portfolios are and how they change over time. We have found this to be a pivotal component of our investor engagement on important sustainability risks and opportunities that affect our clients' portfolios.

Sage Leaf Score® Methodology

One of the primary challenges in sustainability analysis is the potential disconnect between a company's sustainability efforts and the intrinsic risks posed by the industry in which it operates. While a company may outperform its peers, the inherent risks associated with its industry can limit how effectively those risks can be managed.

The Sage Leaf Score addresses this issue by combining a macro-level industry risk analysis with company-specific sustainability assessment. The Sage Leaf Score employs a 1-to-5 scale, where 5 leaves represent sustainability leaders. This system enables investors to, for example, compare a company in the energy sector with one in the technology sector, while recognizing that all 5-leaf companies are leaders based on their management practices and exposure to industry-specific risks.

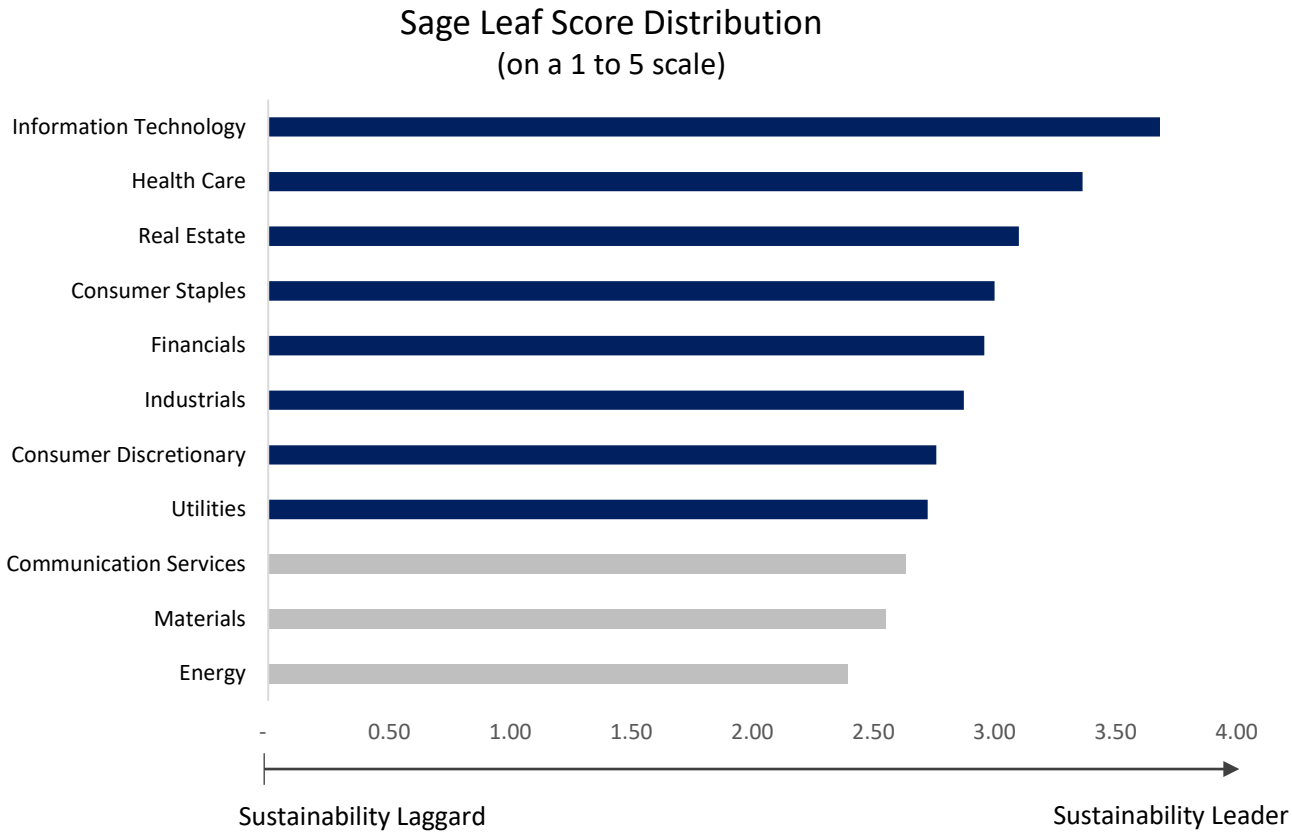


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2H26 Sector Highlights

The top three sectors with the highest Leaf Scores are Information Technology, Health Care, and Real Estate. These sectors include large industries in which companies' average Leaf Scores are in the 3-Leaf range. On the other hand, the three sectors with the lowest Leaf Scores are Energy, Materials, and Communication Services. These sectors include large industries in which companies' average Leaf Score is closer to 2. Sage seeks to invest in companies with a Leaf Score of 3 or higher (on a 1 to 5 scale). During the most recent Leaf Score update, 3 issuers were upgraded and 1 was downgraded. The sector where companies received the most upgrades was Materials.

Sectors with the Highest and Lowest Average Leaf Scores	
Information Technology (3.7)	Energy (2.4)
Health Care (3.4)	Materials (2.6)
Real Estate (3.1)	Communication Services (2.6)



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Sectors & Industries

Communication Services (82 companies)
Diversified Telecommunication (20)
Entertainment (12)
Interactive Media (11)
Media (32)
Wireless Telecommunication Services (7)

Consumer Discretionary (166 companies)
Auto Components (13)
Automobiles (12)
Broadline Retail (10)
Distributors (2)
Diversified Consumer Services (10)
Hotels, Restaurants & Leisure (53)
Household Durables (23)
Leisure Products (5)
Specialty Retail (25)
Textiles, Apparel & Luxury Goods (13)

Consumer Staples (78 companies)
Beverages (15)
Distribution & Retail (16)
Food Products (27)
Household Products (7)
Personal Care Products (6)
Tobacco (7)

Energy (119 companies)
Energy Equipment & Services (23)
Oil, Gas & Consumable Fuels (96)

Financials (281 companies)
Banks (78)
Capital Markets (46)
Consumer Finance (24)
Development Banks** (16)
Financial Services (44)
Insurance (68)
Mortgage REITs (5)

Health Care (99 companies)
Biotechnology (10)
Health Care Equipment & Supplies (21)
Health Care Providers & Services (32)
Life Sciences Tools & Services (8)
Pharmaceuticals (28)

Industrials (181 companies)
Aerospace & Defense (23)
Air Freight & Logistics (5)
Building Products (18)
Commercial Services & Supplies (25)
Construction & Engineering (12)
Electrical Equipment (13)
Ground Transportation (14)
Industrial Conglomerates (3)
Machinery (37)
Marine Transportation (1)
Passenger Airlines (9)
Professional Services (13)
Trading Companies & Distributors (8)

Information Technology (101)
Communications Equipment (7)
Electronic Equipment, Instruments & Components (16)
IT Services (14)
Semiconductors & Semiconductor Equipment (25)
Software (28)
Technology Hardware (11)

Materials (120 companies)
Chemicals (41)
Construction Materials (7)
Containers & Packaging (22)
Metals & Mining (44)
Paper & Forest (6)

Real Estate (79 companies)
Diversified REITs (15)
Health Care REITs (11)
Hotel & Resort REITs (6)
Industrial REITs (3)
Office REITs (6)
Real Estate Management & Development (7)
Residential REITs (8)
Retail REITs (8)
Specialized REITs (15)

Utilities (134 companies)
Electric Utilities (94)
Gas Utilities (14)
Independent Power (4)
Multi-Utilities (19)
Water Utilities (3)

*Not included in the above list are companies scored by Sage that are not assigned a GICS sector.

**Not a GICS sector.

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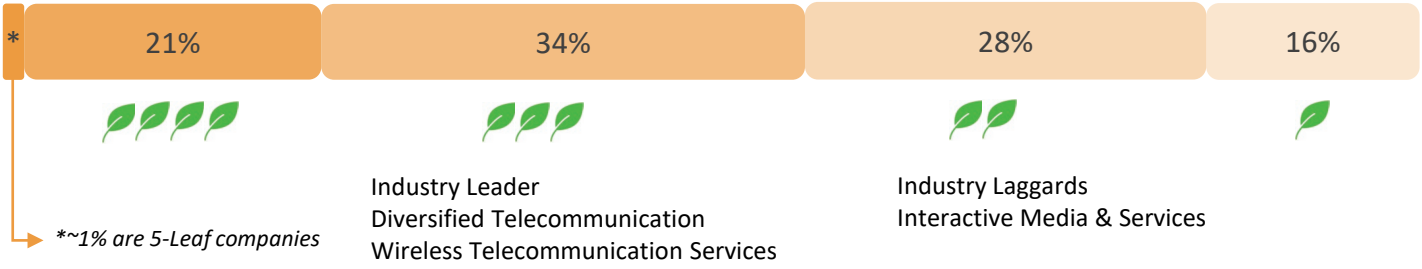
Communication Services

The Communication Services sector has medium-level sustainability risk. The largest challenges faced by the sector are transparency and governance issues. While the Communication Services sector has an average Leaf Score of 3, our score distribution illustrates that about 56% of the 82 names we score in this sector are investable (a score of 3 Leaves and above is considered investable, on a 1 to 5 scale).

Industries (82 companies)

Diversified Telecommunication (20)
Media (32)
Interactive Media & Services (11)
Entertainment (12)
Wireless Telecommunication Services (7)

Sage Leaf Score® Distribution (percentage of companies scored)



Financially Material Sustainability Risks

Energy management
Product end of life management

Customer privacy
Data security
Employment recruitment, inclusion, and performance

Competitive behavior
Managing systemic risks from technology disruptions

The above are the primary financial risks facing the Communication Services sector. Financial materiality varies by industry in each sector. For example, a key financially material factor for Diversified Telecommunication is data privacy; whereas the Entertainment industry faces financial risks around responsibility for recipients and access to media.

Consumer Discretionary

The Consumer Discretionary sector is a diverse group of industries ranging from Automobiles to Leisure Products; therefore, it is important to score companies based on their industry rather than sector. Overall, the sector has an average Leaf Score of 3, and 63% of the 166 names we score in this sector are investable (a score of 3 Leaves and above is considered investable, on a 1 to 5 scale).

Industries (166 companies)

Automobile Components (13)
Automobiles (12)
Broadline Retail (10)
Distributors (2)
Diversified Consumer Services (10)
Hotels, Restaurants & Leisure (53)
Household Durables (23)
Leisure Products (5)
Specialty Retail (25)
Textiles, Apparel & Luxury Goods (13)

Sage Leaf Score® Distribution (percentage of companies scored)



Financially Material Sustainability Risks

Energy management
Water and waste management
Waste & hazardous materials management
GHG Emissions

Product design & lifecycle management
Competitive behavior practices

Customer privacy
Data security
Product quality & safety
Employee engagement
Diversity, equity & inclusion
Labor practices
Supply chain management
Materials sourcing and efficiency

The above are the primary financial risks facing the Consumer Discretionary sector. Financial materiality varies by industry in each sector. For example, a primary financially material sustainability risk facing the Hotels, Restaurants & Leisure industry is the social and ethical impacts of tourism; whereas the Automobiles industry must manage its vehicle fleet fuel consumption as a core sustainability risk.

Consumer Staples

The Consumer Staples sector is comprised of basic industries of essential goods. Most of the sector has medium sustainability risk except for Tobacco, which we consider high risk. The sector has an average Leaf Score of 3, and 67% of the 78 names we score in this sector are investable (a score of 3 Leaves and above is considered investable, on a 1 to 5 scale).

Industries (78 companies)

Beverages (15)
Consumer Staples Distribution & Retail (16)
Food Products (27)
Household Products (7)
Personal Care Products (6)
Tobacco (7)

Sage Leaf Score® Distribution (percentage of companies scored)



Financially Material Sustainability Risks

Energy management
Water and wastewater management
GHG emissions

Product design & lifecycle management
Competitive behavior practices

Data security
Labor practices
Employee engagement
Diversity, equity & inclusion
Customer welfare
Selling practices & product labeling
Supply chain management
Materials sourcing & efficiency
Product quality & safety

The above are the primary financial risks facing the Consumer Staples sector. Financial materiality varies by industry in each sector. For example, the Beverages and Tobacco industries face financial sustainability risks if they do not responsibly market their products. In terms of manufacturing, the Beverages industry is more at risk financially if it does not manage water and wastewater; whereas the Tobacco industry must participate in better sustainability management by preventing deforestation.

Energy

The Energy sector displays a high level of sustainability risk. Both industries in this sector are considered high transition risk due to the heavy reliance on fossil fuel exploration, production, transportation, and refining. The Energy sector has an average Leaf Score of 3, and 52% of the 119 names we score in this sector are investable (a score of 3 Leaves and above is considered investable, on a 1 to 5 scale).

Industries (119 companies)

Energy Equipment & Services (23)

Oil, Gas & Consumable Fuels (96)

Sage Leaf Score® Distribution (percentage of companies scored)



Financially Material Sustainability Risks

GHG emissions
Air quality
Water & wastewater management
Ecological impacts

Human rights & community relations
Employee health & safety

Business model resilience
Product design & lifecycle management
Business ethics
Competitive behavior
Legal & regulatory management
Critical incident risk management

The above are the primary financial risks facing the Energy sector. Financial materiality varies by industry in each sector; however, many of the financially material sustainability risks for Energy fall into the environmental and governance categories.

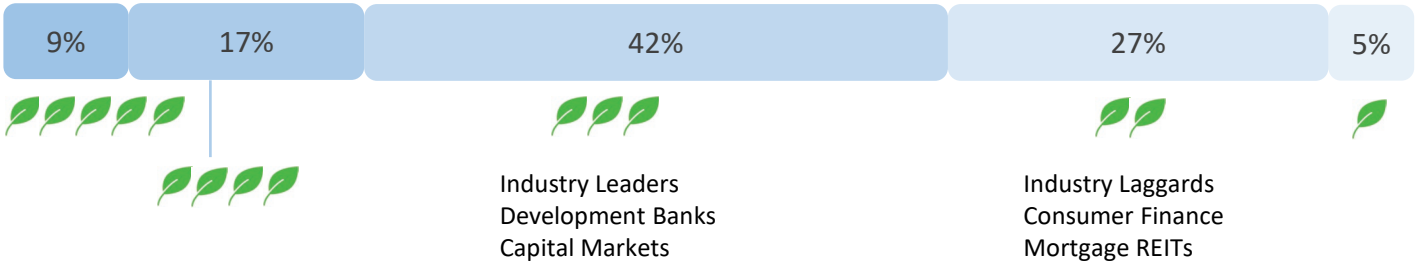
Financials

The Financials sector is a diverse sector with industries ranging from Banks to Insurance. Although there may be materiality factors that are common to most industries, many are different. The sector has an average Leaf Score of 3, and 68% of the 281 names we score in this sector are investable (a score of 3 Leaves and above is considered investable, on a 1 to 5 scale). Starting the first half of 2023, we included Development Banks as a separate industry. Although the issuers in this industry do not have an official GICS categorization, this group of companies is an important part of the Financials sector.

Industries (281 companies)

Banks (78)
Capital Markets (46)
Consumer Finance (24)
Development Banks (16)
Financial Services (44)
Insurance (68)
Mortgage REITs (5)

Sage Leaf Score® Distribution (percentage of companies scored)



Financially Material Sustainability Risks

Physical impacts of climate change
Environmental impacts of lending

Customer privacy
Data security
Access & affordability
Employee engagement
Diversity, equity & inclusion
Selling practices & product labeling

Product design & lifecycle management
Business ethics
Systemic risk management

The above are the primary financial risks facing the Financials sector. Financial materiality varies by industry in each sector. For example, the higher-risk industries in this sector participate in consumer lending and therefore, key financially material sustainability risks are customer and product responsibility, customer privacy, and data security.

Health Care

The Health Care sector has an average Leaf Score of 3, and 87% of the 99 names we score in this sector are investable (a score of 3 Leaves and above is considered investable, on a 1 to 5 scale). Although the sector certainly has some high-risk areas, in general it is considered to have medium sustainability risk.

Industries (99 companies)

Biotechnology (10)
Health Care Equipment & Supplies (21)
Pharmaceuticals (28)
Health Care Providers & Services (32)
Life Sciences Tools & Services (8)

Sage Leaf Score® Distribution (percentage of companies scored)



Financially Material Sustainability Risks

GHG emissions
Energy management
Waste & hazardous materials management
Physical impacts of climate change

Product design & lifecycle management
Business ethics

Data security
Access & affordability
Product quality & safety
Customer welfare
Selling practices & product labeling
Employee health & safety
Employee engagement
Diversity, equity & inclusion
Supply chain management
Human rights & community relations

The above are the primary financial risks facing the Health Care sector. Financial materiality varies by industry in each sector. For example, a key financially material sustainability risk faced by the Pharmaceuticals industry is lobbying and ethical marketing; whereas the Life Sciences Tools & Services industry must manage quality and patient safety as a primary sustainability risk.

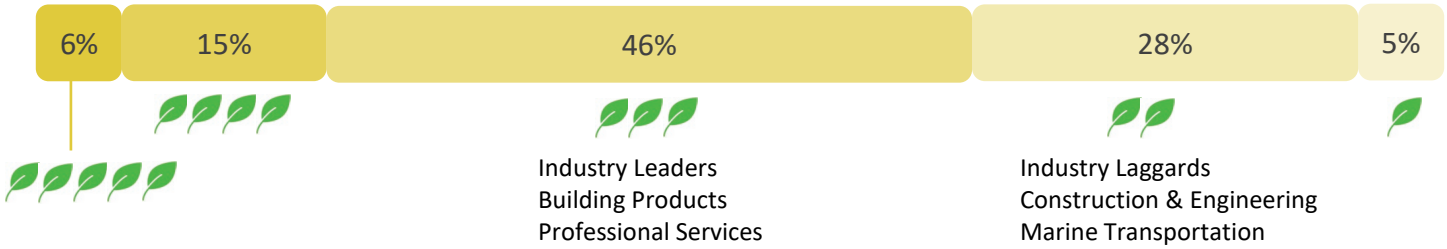
Industrials

The Industrials sector is large and broad and has various levels of sustainability risk, with some high-risk areas and some medium risk areas. The sector has an average Leaf Score of 3, and 67% of the 181 names we score in this sector are investable (a score of 3 Leaves and above is considered investable, on a 1 to 5 scale).

Industries (181 companies)

Aerospace & Defense (23)
Electrical Equipment (13)
Machinery (37)
Professional Services (13)
Trading Companies & Distributors (8)
Air Freight & Logistics (5)
Ground Transportation (14)
Marine Transportation (1)
Construction & Engineering (12)
Building Products (18)
Industrial Conglomerates (3)
Passenger Airlines (9)
Commercial Services & Supplies (25)

Sage Leaf Score® Distribution (percentage of companies scored)



Financially Material Sustainability Risks

GHG emissions
Energy management
Waste and wastewater management
Air quality
Ecological impacts

Business model resilience
Business ethics
Competitive behavior
Critical incident risk management
Product design & lifecycle management

Employee health and safety
Data security
Product quality and safety
Materials sourcing & efficiency

The above are the primary financial risks facing the Industrials sector. Financial materiality varies by industry in each sector. For example, a primary financially material sustainability risk for the Marine industry is the management of ecological impacts; whereas the Road and Rail industry must manage its transport safety as a primary sustainability risk.

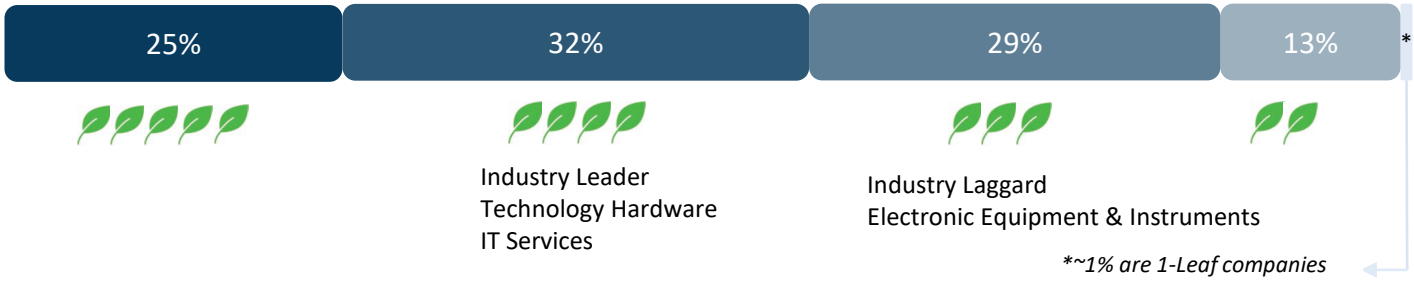
Information Technology

Information Technology has the highest Leaf Score of all GICS sectors (a 4-Leaf average) and a relatively low level of sustainability risk. The high Leaf Scores in this sector can be partially attributed to high levels of transparency and a peer group focus on social and environmental concerns. Of the 101 names we score in this sector, 86% are investable (a score of 3 Leaves and above is considered investable, on a 1 to 5 scale).

Industries (101 companies)

Communications Equipment (7)
Electronic Equipment & Instruments (16)
IT Services (14)
Software (28)
Technology Hardware (11)
Semiconductors & Semiconductor Equipment (25)

Sage Leaf Score ® Distribution (percentage of companies scored)



Financially Material Sustainability Risks

GHG emissions
Energy management
Water/wastewater management
Waste/hazardous materials management

Competitive behavior
Systemic risk management
Product design & lifecycle management

Customer privacy
Data security
Labor practices
Employee health & safety
Employee engagement
Diversity, equity & inclusion
Supply chain management
Materials sourcing & efficiency

The above are the primary financial risks facing the Information Technology sector. Financial materiality varies by industry in each sector. For example, a key financially material factor for Software companies is data security; whereas a Semiconductors & Semiconductor Equipment company would face financial risk if it did not responsibly source its raw materials.

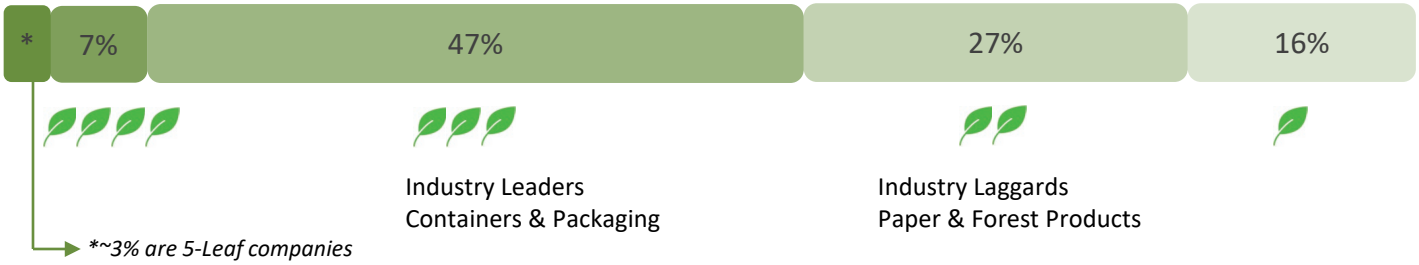
Materials

The Materials sector has several high sustainability risk industries that rely on natural resources, some of which are carbon intensive and have the possibility of creating large-scale pollution. While the sector has an average Leaf Score of 3, 57% of the 120 names we score in this sector are investable (a score of 3 Leaves and above is considered investable, on a 1 to 5 scale).

Industries (120 companies)

Chemicals (41)
Construction Materials (7)
Containers & Packaging (22)
Metals & Mining (44)
Paper & Forest (6)

Sage Leaf Score® Distribution (percentage of companies scored)



Financially Material Sustainability Risks

GHG emissions
Air quality
Energy management
Water & wastewater management
Waste & hazardous materials management
Ecological impacts

Product design & lifecycle management
Business ethics
Legal and regulatory management
Critical incident risk management
Competitive behavior

Labor practices
Employee health & safety
Human rights/community relations

Product quality & safety
Supply chain management

The above are the primary financial risks facing the Materials sector. Financial materiality varies by industry in each sector. For example, both the Containers & Packaging and Construction Materials industries have financially material environmental risks, but they are different; conserving resources during production and packaging life cycles are financially material for the Containers & Packaging industry, while Construction Materials must balance the environmental impacts of raw material extraction.

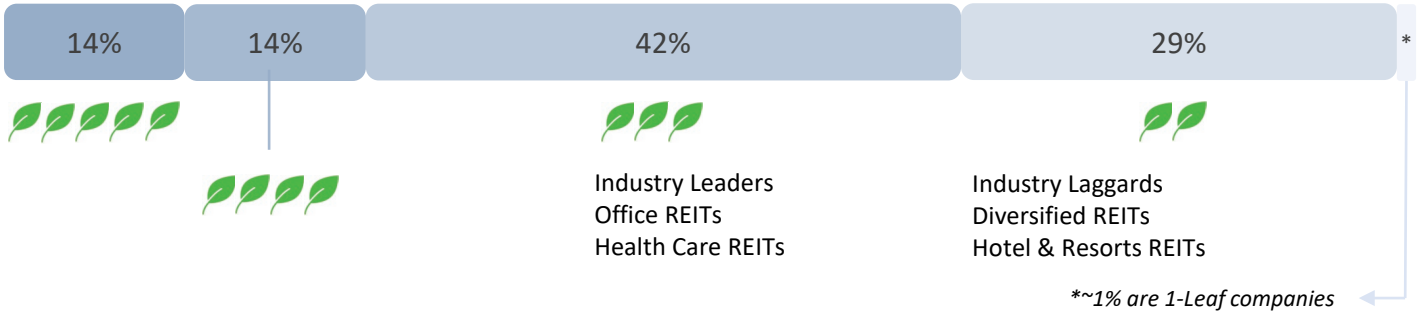
Real Estate

The Real Estate sector previously consisted of two industries: Equity REITs and Real Estate Management & Development. Although REITs are considered to have lower sustainability risk, there are various factors that can have serious implications for Real Estate, such as the physical impacts of climate change. The sector overall has an average Leaf Score of 3, and 70% of the 79 names we score in this sector are investable (a score of 3 Leaves and above is considered investable, on a 1 to 5 scale).

Industries (79 companies)

Diversified REITs (15)
Health Care REITs (11)
Hotel & Resort REITs (6)
Industrial REITs (3)
Office REITs (6)
Real Estate Management & Development (7)
Residential REITs (8)
Retail REITs (8)
Specialized REITs (15)

Sage Leaf Score® Distribution (percentage of companies scored)



Core Financially Material Sustainability Risks

Energy management
Water & waste management
Physical impacts of climate change

Worker safety
Health and well-being of occupants
Social aspects of site selection

Product design & life cycle management
Business ethics

The above are the primary financial risks facing the Real Estate sector. Financial materiality varies by industry in each sector. For example, various types of REITs face more financially material environmental risks; whereas Real Estate Management sustainability risks encompass more social factors.

Utilities

The Utilities sector has an average Leaf Score of 3, and 66% of the 134 names we score in this sector are investable (a score of 3 Leaves and above is considered investable, on a 1 to 5 scale). Water Utilities has helped to raise the sector's average Leaf Score as they tend to have lower risks than other utilities. Overall, this sector has high sustainability risk with concerns surrounding pollution and safety issues.

Industries (134 companies)

Electric Utilities (94)
Gas Utilities (14)
Independent Power (4)
Multi-Utilities (19)
Water Utilities (3)

Sage Leaf Score® Distribution (percentage of companies scored)



Financially Material Sustainability Risks

GHG emissions
Air quality
Energy management
Water & wastewater management
Waste & hazardous materials management
Physical impacts of climate change

Access & affordability
Product quality & safety
Employee health & safety
Materials sourcing & efficiency

Business model resilience
Critical incident risk management
Systemic risk management

The above are the primary financial risks facing the Utilities sector. Financial materiality varies by industry in each sector. For example, both the industry leader and laggard face financially material environmental risks, but the Water Utilities industry's risks encompass energy management and resource efficiency, while one of the Independent Power industry's primary environmental risks is the promotion of a sustainable energy system and resource efficiency.

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