

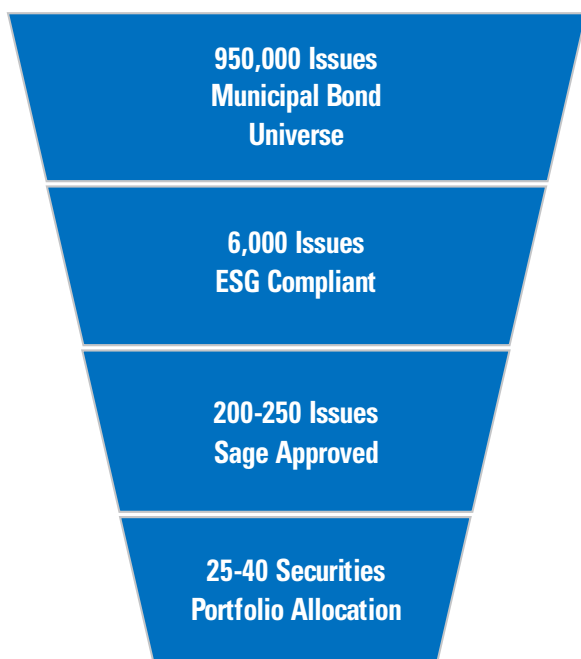
Organizing the ESG Factor Framework: The How and Why

For those looking to allocate investment dollars into a market sector with an environmental, social or governance focus, there is no better place to start than municipal bonds. After all, municipalities have been issuing social impact bonds for decades to support essential community services, such as public schools, hospitals, affordable housing and infrastructure projects. Over the last five years or so there has been an increase in projects focused on having a greater environmental impact, specifically in mass transit, clean energy, pollution reduction, and resource preservation, to name a few.

What hasn't been available until recently is the ability to target municipal bonds that may offer the greatest impact on the communities they serve. It is only through the use of new tools and analytics that a municipal investor can now optimize their investment in a true, ESG-focused municipal portfolio.

To be clear, there are still no well recognized data providers that routinely evaluate municipal issues strictly on an ESG basis. With over 72,000 unique issuers and 950,000 municipal bond issues, an issue-by-issue ESG evaluation is near-impossible. To tackle this challenge, Sage partnered with Sustainalytics, a respected global sustainable data research firm, to craft a robust framework that allows for the evaluation and scoring of municipal debt through the important lens of ESG. Through this process, Sage has created a reliable system to evaluate individual municipal issuers and their various public securities to create a robust investment universe that offers superior ESG related evaluations.

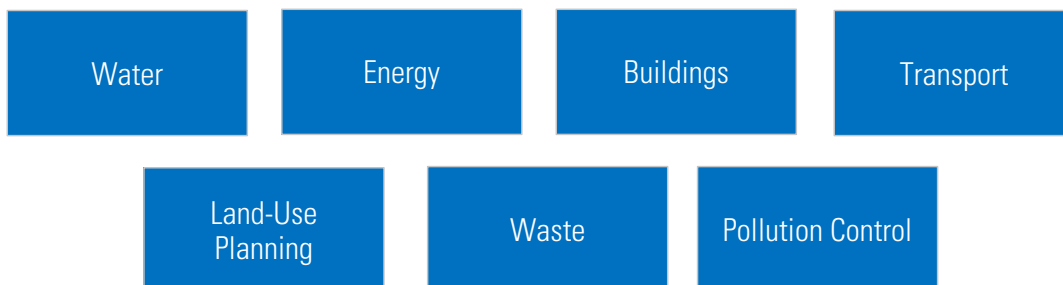
Sage's ESG Tax-Exempt Framework comprises three parts; Environmental, Social and Governance.



Environmental Factors

Our evaluation process is structured and based upon the Green Bond Principles of 2016. The environmental framework uses the offering statement to determine the use of proceeds and environmental impact of projects. If the project falls within one of the Project Categories identified below, and is viewed to be a High to Medium impact project it is then chosen for further evaluation, while Low impact projects are excluded from our investable universe.

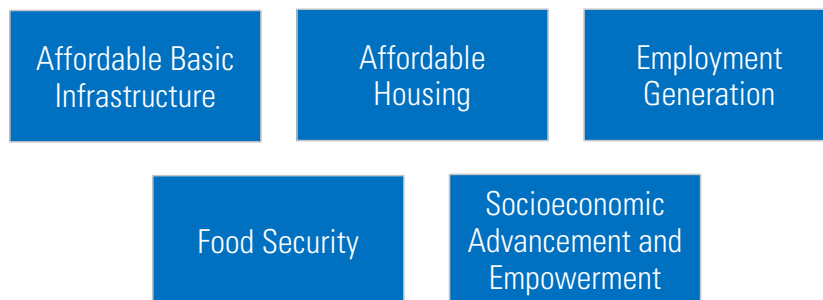
Examples of High to Medium intensity impact projects include clean energy projects (wind/solar), clean mass transit projects (electric rail, public transit), or water conservation projects.



The High to Medium impact projects are then reviewed further to determine whether they undergo ongoing third party verification, at the request of the issuer. This process can verify that the project is adhering to a set of environmental principles (LEED silver/gold, Climate Bond Initiative, Green Bond Principles) and that proceeds are being used as intended.

Social Factors

Our Social frameworks look at the use of the bond proceeds and the intensity of the impact the funding is intended to have on the local community. When we identify a viable potential issue, the security offering statement is then reviewed further to determine exactly what the issuer is using the proceeds to finance. Projects are evaluated to determine if they fall under one of the approved project categories (e.g. public elementary/middle/secondary school, access to clean drinking water and affordable housing) and are tiered based on their expected societal impact. Projects that have a High to Medium impact will be evaluated for the potential intensity of this impact while Low impact projects are excluded.



The second step in our Social framework evaluation is to consider the underlying community being served by the project, with an eye towards proceeds being used to target disadvantaged individuals and communities. Demographic and economic data is compared to national average thresholds to determine the impact of the intensity of the project.

An example of this would entail the evaluation of a municipal issue for the construction of a public elementary school. If the percentage of school-age children living in poverty within that school district is greater than the national average, then the societal benefit of the project is determined to have a greater intensity of impact on the underlying community.

Governance Factors

Our Governance framework evaluates general obligation issues by looking at the fiscal health and underlying demographic and economic makeup of the issuing city or county. When making this evaluation, Sage incorporates a critical analysis of the issues related to public pension obligations. We examine the plan's current funded status, annual required contribution rate, and the discount rate of the city or counties pension plan and compare them to generally-accepted thresholds. If the current funded status is at or above the threshold, their annual required contribution is at or above the threshold, and the discount rate is at or below the required threshold, the issue will be further evaluated. If the issue fails any of those three metrics, it will be excluded from Sage's investment universe.

For cities and counties that pass the first part of the framework evaluation, their underlying communities are further evaluated based upon poverty rates and median household income of their respective constituencies. If the poverty rate is greater, and median household income is lower, than the national average, the municipal issue will be included in the investable universe. All five metrics must be met for a municipal issue to pass through the governance framework.

Municipal security issues that undergo this rigorous and comprehensive framework assessment process are then scored on a scale of 0 – 100, depending on the impact level of the project and the intensity of that impact. This fully evaluated and scored universe of municipal issues enables Sage to construct more factor diversified ESG focused portfolios. Our security selection process is constrained and may only include municipal issues that have a minimum score of 50, with Medium to High impact based on Environmental, Social, or Governance factors.

ESG Portfolio Characteristics

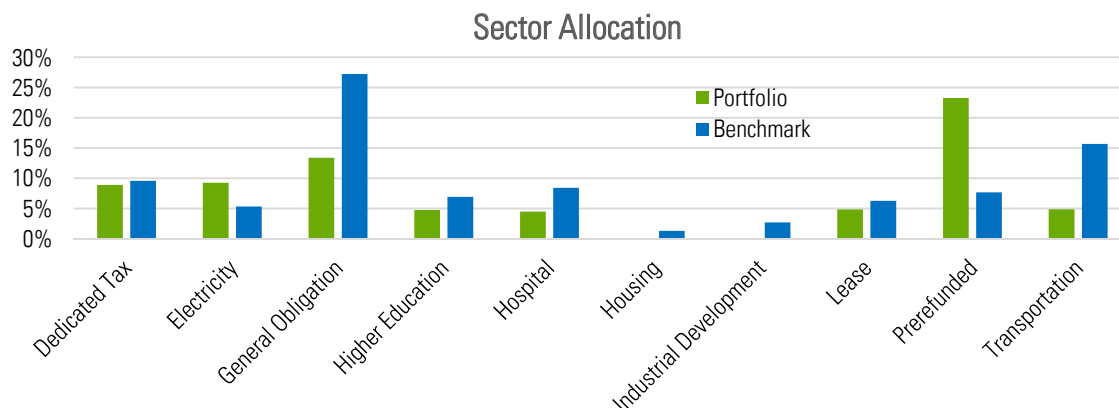
Like the Sage Core Tax-Exempt investment strategy, our Tax-Exempt ESG Investment strategy incorporates our top-down approach to the key portfolio risk decisions including duration, yield curve positioning, and sector allocation. The investment selection and portfolio construction process is devoted to providing a diversified ESG fixed income mandate with highly liquid cash bonds. This strategy is reflective of Sage’s core macro investment themes and capable of providing superior investment results relative to our conventional non-ESG sensitive market benchmarks. The tax-exempt investment strategy’s recent portfolio characteristics and ESG scoring assessment are featured in the following tables.

A brief assessment of the statistics below reveals that our ESG focused portfolio offers risk characteristics similar to the Barclays Broad Municipal Bond Market Index with regard to duration, yield, average credit quality, and sector allocation. It also identifies the current relative environmental, social, and governance factor scores that comprise the overall combined portfolio ESG score.

Tax Exempt ESG	% Market Value	# Of Issues	ESG Score
Environmental	42%	9	79
Social	43%	10	86
Governance	43%	10	86
Total	100%	23	77

Characteristics	Sage Tax-Exempt Fixed Income ESG Strategy	Barclays Municipal Bond Index
Effective Maturity	10.98	12.87
Duration	5.87	6.45
Yield to Maturity	2.32%	2.44%
Average Quality	Aa2	Aa2

Many investors have traditionally approached the municipal market with the intent of having a positive societal impact. However, because of issuer information gaps and the inability to measure consistent impact analysis across an ever growing array of issuers, the attainment of this intent has been less assured. Through the creation and use of Sage’s comprehensive framework for relevant ESG factor analysis, investors now have the ability to not only generate competitive financial results, but increase the positive impact on the communities and environment being served by these municipal issues.



Investing in the municipal market with intent of having a positive societal impact has been around for decades. With new tools, investors now have the ability to not only generate competitive financial results, but increase the positive impact on the communities and environment being served by these municipal issues.

Disclosures

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