Climate Report
March 2022

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Message from the CEO

I am proud to present the first climate-related disclosures report for MAS. This is a major milestone towards our purpose of inspiring a healthier Aotearoa New Zealand, and to care for the whenua on which we live, work and play.

Over the course of the past century, MAS has helped New Zealanders deal with pandemics, devastating natural disasters, wars, and economic downturns. This experience will prove invaluable as we confront climate change, which poses an existential threat to societies around the globe and will have an outsized impact on island nations like Aotearoa New Zealand.

As an insurer, we will be at the frontline in dealing with the effects of climate change. We insure numerous houses, businesses, cars, and contents that will be affected not only by floods, storms, and coastal erosion, but by threats such as wildfires as our summers get hotter and the land gets drier. However, we will also witness the harm caused by climate change in other less immediately obvious ways, for example through our life and disability policies, as people are harmed physically or mentally by the changing climate.

Climate change poses material risks to our mutual over the next 100 years, but the good news is that we have the ability to make active choices now that will help mitigate some of these harms in the future. This report looks at how we can navigate both the risks and opportunities that climate change will bring.

The investments we make for our Members (via the MAS KiwiSaver Scheme and MAS Retirement Savings Scheme) and using our own funds are guided by a responsible investing policy, which avoids harmful industries such as those associated with the exploration, extraction, refinement, and processing of fossil fuels. We have begun to rethink the way we conduct our day-to-day business to reduce our environmental footprint, by increasing the use of digital technologies to reduce our paper consumption, and by building partnerships with other like-minded organisations.

Through the MAS Foundation, we support community initiatives that help communities throughout Aotearoa New Zealand deal with existing health inequities, which will only worsen as climate change accelerates.

Every year, our people help with projects that are improving the environment in their own communities by using their paid Here For Good volunteering days.

But we want to do more, which is why we have prepared this report. It is intended to provide a snapshot of where we are at the moment, and where we see the opportunities to improve. This report will evolve as our thinking develops, and as our understanding of climate change itself advances.

Over the next few years, reports like this one will be mandated by legislation under the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 but we wanted to make a start now. Our view is the sooner we know where we stand, the sooner we can get to work.

Ngā mihi,

Martin Stokes
CEO

Climate Risk Roadmap

We have taken steps to adapt our strategy to be more resilient to both the physical impacts of climate change and the costs of transitioning to a low emissions economy. We are still in the early stages of this journey, and there is more work to be done to ensure we fully understand the likely impact of climate change on our business. The roadmap set out on the next page demonstrates the key steps we have taken and planned for the future. Preparation of our first complete climate-related disclosures report is expected to be required from 2023.

Climate Risk Roadmap

Changes in the climate change space		Our actions in response to climate risk
• Paris Agreement signed by 196 Parties, agreeing to limit global warming to 2°C. • Aotearoa New Zealand's Climate Change Response (Zero Carbon) Amendment Act 2019 legislated. • First national climate change risk assessment for Aotearoa New Zealand released by the Ministry for the Environment. • Mandatory climate-related financial disclosures regime announced.	**2015 - 2020**	• Introduced responsible investing policy and ESG exclusions, including divestment from companies with over 10% of revenue generated from fossil fuels. • Became a member of Responsible Investment Association Australasia (RIAA) and a Principles for Responsible Investment (PRI) Signatory. • Corporate head office moved to a 5 Green Star rated building. • Digital project to reduce paper and postage completed. • Developed risk-based pricing approach for properties exposed to climate-related risks.
• Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021. • IPCC Working Group I Sixth Assessment Report released. • UN Climate Change Conference (COP26) Glasgow Climate Pact.	**2021**	• Moved to sustainable print and merchandise suppliers. • Developed corporate social responsibility (CSR) strategy. • Vehicle decarbonisation project commenced. • Developed a snapshot of current governance and management processes and an initial view of climate risks.
• IPCC Working Group II and III contributions to Sixth Assessment Report published. • External Reporting Board (XRB) plans to issue first climate standard.	**2022**	• First climate disclosures report prepared. • MAS KiwiSaver Scheme and MAS Retirement Savings Scheme awarded 'Mindful' status by Mindful Money. • Best Ethical KiwiSaver Provider finalist in Mindful Money Ethical and Impact Investment Awards.
• Climate-related disclosures are mandatory for climate reporting entities such as large, listed companies, registered banks, large insurers and investment scheme managers.	**2023 onwards**	Planned: • Collaborate with other insurers and investment scheme managers to develop shared climate change scenarios. • Refine responsible investment strategy to consider climate change and decarbonisation more specifically. • Measure our carbon footprint and investigate carbon offsets and a net zero transition plan. • Enhance detailed modelling to quantify exposure of general insurance portfolio. • Review procurement process and policies for climate, sustainability, environment, and social considerations. • Prepare complete set of climate-related disclosures.

Climate Change and the Task Force on Climate-related Financial Disclosures

The Climate Challenge

Climate change has been recognised by governments and business leaders around the world as one of the most significant challenges of our time. Global temperature change has begun and is already having major consequences globally, with temperature extremes, droughts, fires, flooding, cyclones, and other significant climate events increasing. The future is uncertain, but it is becoming increasingly clear that climate change will impact all facets of our lives.

The Intergovernmental Panel on Climate Change (IPCC) released the first instalment of the Sixth Assessment Report (AR6) in August 2021, which stated that global warming of 2°C will be exceeded this century if high global emissions continue to occur[1]. In the second instalment, released in February 2022, the IPCC found that even if temperature rises are limited to 1.5°C, there will still be irreversible climate impacts and an increase in climate risks and hazards[2]. This means that there are still challenges ahead, regardless of the actions collectively taken from here.

To respond to the climate change challenge, world leaders came together in 2015 to adopt the Paris Agreement, to drive global decarbonisation and prevent warming from exceeding 2°C[3]. In order to keep our commitment to this target, the Government put in place legislation in the form of the Climate Change Response (Zero Carbon) Amendment Act 2019 to slow our emissions and begin to reduce them. This signals significant changes in the way our economy and communities will function and will bring both challenges and opportunities.

As a general insurer, life insurer and investment scheme manager, our operations and Members will be affected by climate change. What we do not know is the extent and breadth of these potential impacts, and the timeline of our response. As such, we are taking steps to improve our understanding of, and ability to act on, climate-related risks and opportunities.

[1] "Summary for Policy Makers", Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change, IPCC, 2021.

[2] "Summary for Policy Makers", Climate Change 2022: Impacts, Adaptation, and Vulnerability. Contribution of Working Group II to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change, IPCC, 2022.

[3] United Nations Framework Convention on Climate Change, "Paris Agreement", 12 December 2015, https://unfccc.int/sites/default/files/english_paris_agreement.pdf

Climate Change and the Task Force on Climate-related Financial Disclosures

The Task Force on Climate-related Financial Disclosures (TCFD) Framework

One of the first steps has been to develop our climate disclosures process, in line with the recommendations of the TCFD framework. The TCFD is a financial sector-led body established in 2015 with the aim of developing a voluntary climate-related disclosures framework[4]. The TCFD developed eleven recommendations for organisations to report on climate impacts transparently and consistently in four key areas: Governance, Strategy, Risk Management, and Metrics and Targets.

Global uptake of the TCFD recommendations has increased significantly in the last few years. In 2021, the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act was passed. The Act requires mandatory annual climate-related financial disclosures from banks, investment scheme managers and insurers. The Act is aligned to the TCFD framework.

Reporting entities will be required to quantify and disclose their financial exposures to both the physical and transition impacts of climate change:

- **Physical impacts:** risks and opportunities related to physical changes in global and local climate patterns, such as gradual temperature and sea level rise (chronic impacts) and the associated change in sporadic climate events such as floods and fires (acute impacts).
- **Transition impacts:** risks and opportunities related to the global and local transition to a low emissions economy, such as market and demand change, technological advancement, regulatory change, and stakeholder expectations.

Only one of MAS' subsidiary companies meets the current reporting threshold, but we have taken a group-wide approach to assessing and disclosing climate-related information. Without this organisation-wide approach, we risk being insufficiently prepared for climate impacts.

This report

Ensuring MAS moves early to show leadership, complies with upcoming legislation, and stays ahead of impacts to our mutual, MAS has adopted the TCFD recommendations and published its inaugural climate disclosures report. This report is the first of its kind for MAS and enables us to communicate our key climate impacts and mitigation actions to our Members and wider stakeholders. In its first iteration, our climate disclosures report provides a snapshot of our current climate risk management and governance practices, and our initial high-level assessment of potential climate impacts. It also lays out a roadmap for how we can enhance our understanding and be in a better position to take action.

Core Elements of the TCFD Recommendations[5]

Governance
The organisation's governance around climate-related risks and opportunities.

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

Risk Management
The process used by the organisation to identify, assess, and manage climate-related risks.

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

[4] TCFD https://www.tcfdhub.org/faq/
[5] Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures, TCFD, 2017.

Governance

The TCFD recommends that organisations describe the Board's oversight of climate-related risks and opportunities, and the role of management in assessing and managing climate-related risks and opportunities.

MAS's purpose is to inspire a healthier Aotearoa New Zealand, and we recognise the impact climate change is likely to have on the health and wellbeing of our Members, employees and communities. Considering how climate change may impact our stakeholders is a key focus of the MAS Board and Executive team.

The MAS Group is made up of three wholly owned subsidiaries and the MAS Foundation. Several channels are utilised to ensure the Board and Executive team have appropriate oversight of risks across the organisation and that climate-related issues are an ongoing consideration. The Board is updated on climate impacts through our six-monthly Risk Report. The Investment Committee, Audit and Risk Committee and Executive team are provided with regulatory scans which include climate-related issues, and climate risks are regularly discussed in Board reports.

Roles and Responsibilities

Key roles and responsibilities include:

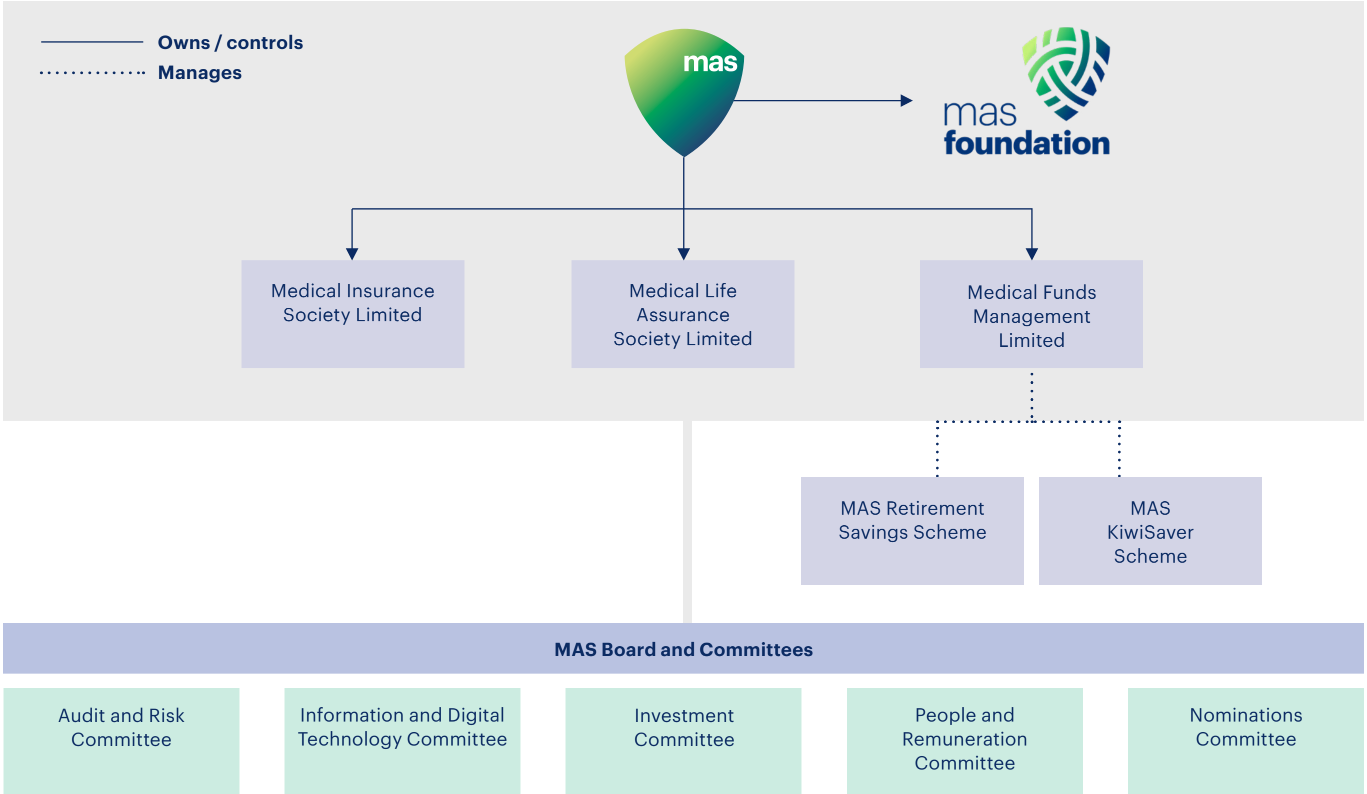
- The Chief Executive Officer (CEO) has overall responsibility for managing climate risks and opportunities.
- The Chief Finance and Risk Officer (CFRO) is responsible for climate-related disclosures reporting, social and sustainable procurement policies, and enterprise risk reporting.
- The Chief General Insurance Officer (CGIO) and Chief Life Insurance Officer (CLIO) are responsible for insurance pricing incentives, risk-based pricing, and claims administration.
- The Head of Investment Funds & Business Development is responsible for the responsible investment policy, which includes climate-related considerations.

The Board has overall accountability for climate-related risks and opportunities, while Board Committees have specific climate-related responsibilities:

- The Investment Committee is responsible for monitoring climate change risk for investment management and reviewing responsible investment policies.
- The Audit and Risk Committee is responsible for monitoring and oversight of the risk management framework and must consider climate change when undertaking its functions.

During 2021, workshops were held with senior management and other key stakeholders across our general insurance, life insurance, investments, and corporate teams. These workshops were designed to assess climate-related risks and opportunities and identify next steps we can take as an organisation to manage our climate related risks and support our Members, with the output used in developing this report.

Ownership and Operational Control



Strategy

The TCFD recommends that organisations describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term, the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning, and the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

We have identified the seven focus areas below which address climate, social and sustainability outcomes. These focus areas were approved by the Executive team and Board during 2021 and will be looked at together as we work to embed our purpose throughout the organisation. Our focus areas also support actions towards United Nations Sustainable Development Goals (UN SDGs) Three, Ten, Eleven, Twelve, and Thirteen. This report is our first step towards climate-related reporting and relates to SDG Thirteen: Climate Action.

For the purposes of climate impact assessments, we have defined short, medium and long-term timeframes as follows:

- Short term: 5-10 years
- Medium term: 10-15 years
- Long term: 15+ years

We have conducted a qualitative climate impact assessment to determine the range of possible risks in the short and medium term and reaching into our long-term time horizons. The assessment was conducted to be broadly in line with a 2°C scenario. The climate-related risks and opportunities identified through this assessment are detailed in the tables below.

The next step is to investigate the impacts further through quantitative scenario analysis to understand the financial impacts. As part of our membership of the Insurance Council of New Zealand (ICNZ) Climate Change Standing Committee, we will participate in the Shared Climate Scenarios Initiative where ICNZ Members will develop a set of shared climate change scenarios. The collaborative approach has the potential to significantly accelerate the general insurance sector's adaptation and resilience to climate change impacts.

Focus Area	Description	UN SDGs
1. Climate-related Reporting	Ensuring we move early to show leadership within climate-related reporting and monitoring compliance changes	
2. Social Procurement	Values-aligned, supplier diversity, social and environmental outcomes	
3. Pricing Incentives	Incentivising social and sustainability behaviours through pricing	
4. Claims Administration	Using preferred suppliers and solutions and environmentally friendly materials	
5. Ethical Investing	Sustainable fund manager choices and deliberately investing in impact sectors	
6. Sustainable Wealth	Providing more socially responsible choices to Members	
7. Employee Wellbeing	Leading from the front by enabling wellbeing for our employees through pay equity, working arrangements, sustainable decision-making agency, and mental health support	

Transition Impacts of Climate Change

Policy and Legal Risks	Market Risks	Technology Risks	Reputation Risks

We are influenced by global trends related to economic and demographic change, regulation, and technology, so our strategy must remain adaptable and dynamic. Climate change will drive and shape these trends in different directions.

Physical Climate Change Impacts

Sea Level Rise and Coastal Inundation	Fires	Temperature Increases and Heatwaves	Flooding	Storms and Cyclones	Erosion and Landslides	Spread of Pests and Diseases

Climate change will cause changing weather patterns that will likely result in physical impacts to MAS. Physical risks can be event-driven such as increased frequency or severity of extreme weather events, or longer-term shifts in climate patterns such as gradual temperature increases and rising sea levels. We are already experiencing impacts from weather events, such as increased insurance claims from floods. Climate change will increase the frequency of weather events, and the severity of their consequences. High-risk areas may see insurance become significantly less affordable, or insurers may no longer make cover available. Risk-based pricing at a property-by-property level is likely to become more sophisticated, as insurers send signals to customers regarding the risks to their properties.

Strategy

Transition Impacts of Climate Change - Climate-Related Risks and Opportunities

	Climate Litigation	Investment Performance	Policy and Regulation
Implications for MAS, Risk Treatment and Next Steps	Climate-related litigation is expected to increase as climate impacts increase. Litigation risk could arise because of actions that cause climate harm, inadequate disclosures of climate risks, greenwashing or adaptation failures, or failure to factor climate risks into decision making. Investment decisions are also being increasingly scrutinised. Our Legal team monitors and assesses any potential litigation risks. We are publishing our climate-related reporting to transparently communicate our climate risks and ensure these are adequately considered when we make decisions.	Economic, social, and technological trends affect the performance of investments and drive strategic decisions. Managing climate risks across our investment portfolios will become increasingly important in managing risk and recognising opportunities. We work with our external investment managers to ensure opportunities and risks are sufficiently considered. We have a responsible investment policy which limits our exposure to fossil fuels and reduces risk from carbon-exposed sectors. We will refine our responsible investment strategy to consider climate change and decarbonisation more specifically.	Currently, we are subject to few regulatory obligations related to climate change, aside from upcoming climate reporting obligations. New requirements may arise from policy efforts to limit emissions or deter climate-unfriendly activities, such as a higher carbon price or mandated investment exclusions, as seen with default KiwiSaver schemes. These may lead to higher operating costs. We conduct ongoing regulatory scanning for new policies and regulations. We are on track to meet our regulatory obligations around preparing climate-related reports. We will continue to improve our processes for responding to new or expected policy and regulation changes.
	Procurement	**Stakeholder Expectations**	
	Key suppliers such as our network of repairers will face climate-related risks. Supplier costs may increase due to increased carbon pricing, regulatory and compliance costs or supply chain disruptions as decarbonisation impacts different parts of the economy. We will review our procurement processes and policies for climate, sustainability, environmental, and social considerations. We will continue to improve our understanding of the areas of our supply chain which are heavily exposed to physical or transition climate risks.	Our stakeholders include Members, employees, regulators, suppliers, and communities. Stakeholders are increasingly expecting organisations to understand both the impact their activities have on the climate, and the impact climate risks have on their activities and to take action accordingly – or risk reputation and brand damage. We consider our stakeholders when making climate-related decisions and determining key areas for further work. We will engage with our stakeholders around our climate response. We will measure our carbon footprint in order to better understand the impact we are having on the climate.	

Strategy

Physical Climate Change Impacts - Climate-Related Risks and Opportunities

	Disruption and Harm to our Members	**Increase in General Insurance Claims**	**Access to Reinsurance**
Implications for MAS, Risk Treatment and Next Steps	Increasingly frequent and severe climate-related events may cause disruption or harm to Members, both physically and mentally. Our underwriting teams will consider the implications of climate-related events on insurance products, including pricing and suitability for Members. We will continue to consider Member affordability and consider how we work with Members to improve climate resilience and adaptation.	Extreme weather events are becoming more frequent and will increase our claims costs. We have been developing a risk-based pricing approach to reflect the risks of a property more accurately in our premiums. We will continue to refine our risk appetite and approach to risk-based pricing. We will work with other insurers as part of the ICNZ project to develop shared climate scenarios and consider the results for our business and Members.	Reinsurers may re-evaluate their risk tolerances and place more weight on the climate change and environmental, social and governance (ESG) credentials of insurers. Access to reinsurance may be affected if global climate impacts increase significantly, which could impact our pricing if risks and losses are shared. We consider climate risk as part of our annual reinsurance programme. We will work to understand the expectations of our reinsurers regarding ESG and climate change risk management and consider our own expectations for reinsurance partners.
	Capital and Profit Volatility	**Impacts to Employees and Facilities**	**Investments**
	Increasing climate-related claims may negatively impact capital and increase volatility in profits year on year. Volatility in claims experience and the impact on profit and capital is an ongoing consideration. We will consider the impact of climate change in annual budget processes, capital management planning and other planning activities.	Physical damage may occur to our offices or surrounding areas, and climate impacts may affect our employees, leading to business disruptions. We ensure there are adequate support structures in place for employees. We will continue working to understand the vulnerability of our facilities, the needs of our teams and ensure appropriate structures are in place to support them during and after climate-related events.	Managing climate risks across our investment portfolios will become increasingly important in managing risk and recognising opportunities. We work with our external investment managers to ensure opportunities and risks are sufficiently considered. We will refine our responsible investment strategy to consider climate change and decarbonisation more specifically.

Risk Management

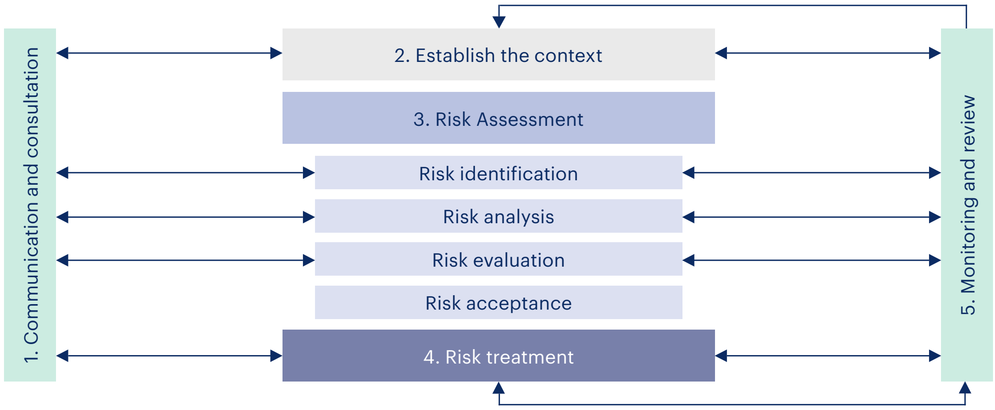
The TCFD recommends that organisations describe their processes for identifying, assessing, and managing climate-related risks, and how these processes are integrated into overall risk management.

The risks associated with climate change are considered as part of our overall risk assessment process. This process involves determining the significance, likelihood and consequence of risks and prioritising them to make decisions about materiality and risk mitigation. A risk report is prepared every six months to advise the Board of any changes to risk ratings or the emergence of new risks.

When identifying and assessing climate-related risks, we consider the following factors:

- The likelihood and potential consequence of the risk
- The size and scope of the risk and potential impacts across MAS and our Membership
- The health, safety, and wellbeing impacts
- Reputational impacts on MAS and our Members
- Financial impacts
- Existing and upcoming regulatory requirements
- Guidance and knowledge held internally and arising from external market sources.

Climate risk is included as a specific element of the risk management programmes for our investment scheme management, general insurance, and life insurance businesses.



Risk Management

To contribute towards the evolving knowledge pool around climate risk in the financial services sector and wider community, we are a member of key industry groups:

- Insurance Council of New Zealand (ICNZ) Climate Change Standing Committee
- Financial Services Council (FSC) Climate and ESG Committee
- Principles for Responsible Investment (PRI)
- Sustainable Business Network.

The MAS KiwiSaver Scheme and MAS Retirement Savings Scheme have been certified by the Responsible Investment Association Australasia (RIAA) according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See www.responsiblereturns.co.nz for details[6].

Signatory of:

PRI Principles for Responsible Investment

CERTIFIED BY RIAA

[6] The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold a Financial Advice Provider licence.

Contents

Metrics and Targets

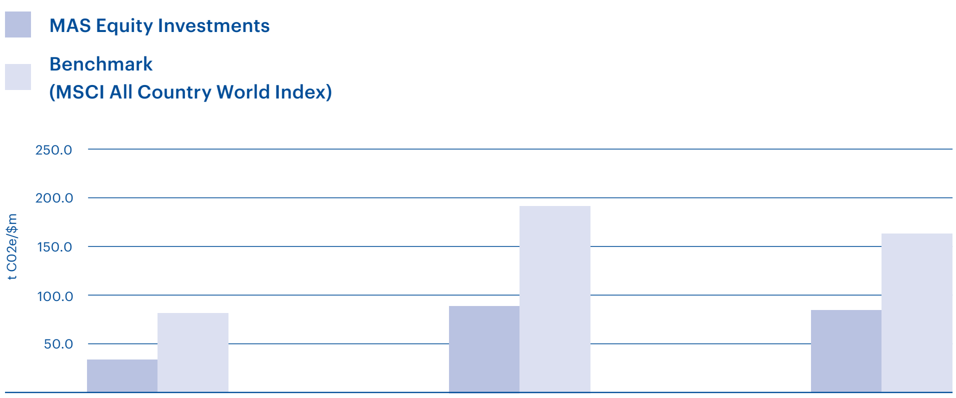
The TCFD recommends that organisations disclose the metrics used to assess climate-related risks and opportunities in line with its strategy and risk management process, disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, the targets used to manage climate-related risks and opportunities and the performance against targets.

Carbon Emissions

56% ↓	Lower carbon footprint for the MAS KiwiSaver Scheme and the MAS Retirement Savings Scheme compared to the global market average*
80% ↑	More invested into clean technology solutions by the MAS KiwiSaver Scheme and the MAS Retirement Savings Scheme compared to the global market average**

The carbon footprint of the equities we invest in (both our own investments and Member investments) is shown in the graph, with considerably lower carbon exposure than a benchmark portfolio (MSCI All Country World Index).

MAS Equity Investments vs. Benchmark at 31 March 2022



Carbon Emissions

Carbon emissions (t CO2e/$M invested): tonnes of Scope 1 and Scope 2 carbon emissions per million dollars invested.

Carbon Intensity

Carbon intensity (t CO2e/$M sales): tonnes of Scope 1 and Scope 2 carbon emissions per million dollars of sales.

Weighted Average Carbon Intensity

Weighted average carbon intensity (t CO2e/$M sales): carbon intensity of each portfolio company multiplied by its weight in the portfolio.

We do not currently measure the carbon footprint of our operations. We have committed to measuring this and investigating reduction targets, carbon credit offsets and a net zero transition plan.

Medical Funds Management Limited is the issuer and manager of the MAS KiwiSaver Scheme and the MAS Retirement Savings Scheme. The PDS for each Scheme is available at mas.co.nz.

*Compares the carbon footprint of equities in the MAS KiwiSaver Scheme and the MAS Retirement Savings Scheme to the MSCI All Country World Index which has a carbon footprint of 82 tonnes of CO2e/US$ million invested as at 31/03/2022. A NZ$/US$ exchange rate of 0.70 was used for this calculation.

**According to MSCI, clean technology solutions are defined as companies that derive >20% of revenue from clean technology solutions including alternative energy, energy efficiency, green building, pollution prevention, or sustainable water. Equities within the MAS KiwiSaver Scheme and the MAS Retirement Savings Scheme are compared to the MSCI All Country World Index as at 31/03/2022.

Metrics and Targets

Responsible Investing

Members' investments in the MAS KiwiSaver Scheme and MAS Retirement Savings Scheme are invested in accordance with our Responsible Investment (RI) Policy. This policy also applies to the funds we invest for the future of the mutual, and to pay life and general insurance claims.

Our RI policy is built around one key principle: investing responsibly adds value and supports a sustainable and healthy future. We seek to achieve this by:

- Limiting our exposure to fossil fuels, weapons, and tobacco industries
- Assessing the ESG practices of companies before investing in them
- Taking active ownership as a shareholder by voting at company meetings through an ESG lens.

Fossil Fuels (thermal coal, liquid fuel, and natural gas):

Our investment portfolios exclude any company that derives 10% or more of its revenue from:

- The exploration, extraction, refining or processing of fossil fuels
- Engaging in all three fields of petroleum production: extraction (upstream), transportation (midstream), and refining and marketing (downstream)
- The supply of equipment and services to oil and gas exploration
- Fossil fuel-based power generation.