



To: California Insurance Commissioner

Date: August 29, 2024

From: MFH Management

RE: NAIC Climate Risk Disclosure Survey

Governance

1. Disclose the insurer's governance around climate-related risks and opportunities. In disclosing the insurer's governance around climate-related risks and opportunities insurers should consider including the following:

- Identify and include any publicly stated goals on climate-related risks and opportunities.
 - M Financial Group does not currently have publicly stated goals on climate-related risks and opportunities. The company is in the process of conducting an analysis of climate-related risks.
- Describe where climate-related disclosure is handled within the insurer's structure, e.g., at a group level, entity level, or a combination. If handled at the group level, describe what activities are undertaken at the company level.
 - M Financial Group climate related disclosures, if any, would appear in its reinsurance company's statutory financial statements. To the extent that climate related risks and disclosures are material to the company, they are disclosed in the Management Discussion and Analysis section of those financial statements. The Corporate Controller handles all disclosures included in the company's financial statements with CFO oversight and signs off on the financial statements.

A. Describe the board and/or committee responsible for the oversight of climate-related risks and opportunities. In describing the position on the board and/or committee responsible for the oversight of managing the climate-related financial risks, insurers should consider including the following:

- Describe the position on the board and/or committee responsible for the oversight of managing the climate-related financial risks.
 - M Financial Group's Finance and Risk Committee is responsible for oversight of any identifiable climate-related risks. This is a Board level committee. The Chief Financial and Risk Officer serves as management representation on that Committee.

B. Describe management's role in assessing and managing climate-related risks and opportunities.

- Senior Management is in the process of identifying and assessing climate-related risks. Senior Management of M Financial Group takes an active role in assessing risks and opportunities. The internal audit team, which reports into the Audit Committee and has a dotted line to the Chief Financial Officer, distributes risk questionnaires annually to all employees. Those questionnaires are collected, assessed, and summarized for the benefit of understanding the company's spectrum of risks as well as top risks. Climate risk is one of the many risks identified within these questionnaires.

In addition, M Financial Group recently implemented a Three Lines of Defense (3LOD) risk management model, which is the industry standard according to the Institute of Internal Auditors. This 3LOD Model helps companies identify structures and processes that best assist the achievement of objectives while also facilitating strong governance and risk management. The 3LOD Model focuses on how risk management contributes to the enterprise achieving its objectives as well as creating and protecting value. In this 3LOD Model, management has responsibility for achieving objectives and managing its own localized risk, including any potential climate-related risk, as part of the first line of defense. The second line of defense consists of members of the management team who are part of assessing and managing risks; these areas include enterprise risk management, compliance, controllership, and technology.

As part of the 3LOD, the company has formed an Executive Risk Committee as well as an Operating Risk Committee, which is responsible for the execution of the company's enterprise risk management program as delineated by the Board Finance and Risk Committee and the Executive Risk Committee. Enterprise risk management includes the framework, significant policies, procedures, and practices employed to assess and manage both financial risks and non-financial risks. The Operating Risk Committee is comprised of various members of the first and second lines of defense, while the Executive Committee is comprised of members of the executive management team. These Committees meet on a regular basis to identify, assess, manage, and mitigate risks.

Strategy

2. Disclose the actual and potential impacts of climate-related risks and opportunities on the insurer's businesses, strategy, and financial planning where such information is material. In disclosing the actual and potential impacts of climate-related risks and opportunities on the insurer's businesses, strategy and financial planning, insurers should consider including the following:

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- Describe the steps the insurer has taken to engage key constituencies on the topic of climate risk and resiliency.
 - Describe the insurer's plan to assess, reduce, or mitigate its greenhouse gas emissions in its operations or organizations
- M Financial Group is in the process of identifying and assessing climate-related risks. The company has engaged with consultants and our internal and external auditors to begin discussions around climate-related risks and opportunities. The company does not have a specific plan to reduce or mitigate greenhouse gas emissions in its operations, but has implicitly addressed climate related risks in its office space footprint as well as in reviewing its investment manager.

M Financial Group is opening a new Dallas office, its second corporate location, in October 2024. The building, called The Quad, was chosen due to its location but also because it is a Gold certified LEED building. The property management company is making decisions that take into consideration emissions and environmental impacts of the building and its footprint. This includes proper disposal of construction materials, automatic switches and outlets, and low VOC paints. The building itself recycles water and utilizes low-flow fixtures. Many of the materials used in the building are low emission. The design of the building and its features ensuring adequate natural light are a factor contributing to its gold status. The HVAC systems are state of the art, with high SEER ratings, optimized controls, and zoning systems.

M Financial Plaza, the company's headquarters located in Portland, OR, is also LEED Gold certified. The certification was achieved due to several sustainable features, including:

Energy Efficiency: The building uses a chilled air HVAC system, daylight harvesting, and building-integrated photovoltaic panels that generate on-site electricity. These features help reduce energy consumption by 30% compared to standard benchmarks.

Sustainable Design: The Plaza incorporates sustainable building materials and practices, including optimized glazing to enhance energy and cost efficiencies.

Shared EcoDistrict Systems: The Brewery Blocks development, including M Financial Plaza, benefits from shared sustainable systems like a district-wide chilled water system, which is more efficient than individual systems for each building.

M Financial Group conducted an RFP for a new investment advisor/manager in the fourth quarter of 2023 and engaged Western Asset Management in 1Q24. With the onboarding of our new advisor this year, the company plans to review our investment holdings in our two main investment portfolios for opportunities to incorporate ESG standards into our portfolios. Within

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our holding company investment portfolio, management has full discretion and control over a portion of the investments. The company is currently engaged in conversations with its partner carriers and reinsurers to determine what factors they incorporate in eliminating or mitigating investments held on M Life's behalf that are contributing to climate change.

In addition, M Financial Group uses Morningstar Sustainalytics and MCSI FactSet to provide sustainability scores for its four managed funds that are a part of its product suite.

A. Describe the climate-related risks and opportunities the insurer has identified over the short, medium, and long term. In describing the climate-related risks and opportunities the insurer has identified over the short, medium, and longer term, insurers should consider including the following:

- Define short, medium, and long-term, if different than 1-5years as short term, 5-10 years as medium term, and 10-30years as long term.
- The future of climate-related risks and opportunities is filled with uncertainty. As such, M Financial Group's initial focus will be on the short-term climate related risks which will be more readily identifiable.

B. Describe the impact of climate-related risks and opportunities on the insurer's business, strategy, and financial planning. In describing the impact of climate-related risks and opportunities on the insurer's business, strategy, and financial planning, insurers should consider including the following:

- Discuss if and how the insurer provides products or services to support the transition to a low carbon economy or helps customers adapt to climate-related risk.
- Discuss if and how the insurer makes investments to support the transition to a low carbon economy.
- With the onboarding of our new advisor this year, the company plans to review its investment holdings in our two main investment portfolios for opportunities to incorporate ESG standards into our portfolios. Within our holding company investment portfolio, management has full discretion and control over a portion of the investments. The company's reinsurance business is modified coinsurance; as such, the ceding insurer manages the investment portfolios that are part of the company's reinsurance business subject to investment strategies established at the time of the reinsurance transactions. The company is currently engaged in conversations with its partner carriers and reinsurers to determine what factors they incorporate in eliminating or mitigating investments held on M Life's behalf that are contributing to climate change.

In addition, the company's Portland and Dallas offices are LEED certified and take into consideration emissions and environmental impacts of the building footprints.

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M Financial Group distribution network of over 500 advisors provides life insurance products to high-net worth individuals and businesses, some of which support the transition to a low carbon economy. The company is in the process of assessing how to gather the information related to the low carbon economy transition to assess its impact.

C. Describe the resilience of the insurer's strategy, taking into consideration different climate-related scenarios, including a 2 degree Celsius or lower scenario.

- M Financial Group has not yet assessed the impact of different climate related scenarios. As part of the risk identification process, climate risk is not currently viewed as a top ten risk, so the focus of scenario testing is on non-climate-related risks.

Risk Management

3. Disclose how the insurer identifies, assesses, and manages climate-related risks. In disclosing how the insurer identifies, assesses, and manages climate-related risks, insurers should consider including the following:

- Describe how the insurer considers the impact of climate related risks on its underwriting portfolio, and how the company is managing its underwriting exposure with respect to physical, transition and liability risk
 - Describe any steps the insurer has taken to encourage policyholders to manage their potential physical and transition climate related risks, if applicable
 - Describe how the insurer has considered the impact of climate-related risks on its investment portfolio, including what investment classes have been considered
- M Financial Group is a life insurance distribution company with a reinsurance business and does not have any direct policyholders. Therefore, there are no property-related risks to be underwritten and no customer interaction with respect to their potential physical and transition climate related risks.

The company is in the process of identifying and assessing climate-related risks. Senior management of M Financial Group takes an active role in assessing risks and opportunities through its 3LOD Model and its internal audit team.

With the onboarding of our new advisor this year, the company plans to review its investment holdings in our two main investment portfolios for opportunities to incorporate ESG standards into our portfolios.

A. Describe the insurers' processes for identifying and assessing climate-related risks. In describing the insurers' processes for identifying and assessing climate-related risks, insurers should consider including the following:

- Discuss whether the process includes an assessment of financial implications and how frequently the process is completed
- M Financial Group is just developing its stress testing on the top ten risks that have already been identified. The Chief Risk Officer, through the 3LOD model, is responsible for the process of identifying all risks, including climate risks. Currently, climate-related risk is not a top 10 risk for the company.

B. Describe the insurer's processes for managing climate-related risks.

- M Financial Group is in the process of identifying and assessing climate-related risks. Currently, the company does not have any material climate-related risks to manage. The company tracks the carbon footprint of its employees, particularly travel.

C. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the insurer's overall risk management. In describing how processes for identifying, assessing, and managing climate-related risks are integrated into the insurer's overall risk management, insurers should consider including the following:

- Discuss whether climate-related risks are addressed through the insurer's general enterprise-risk management process or a separate process and how frequently the process is completed.
 - Discuss the climate scenarios utilized by the insurer to analyze its underwriting risks, including which risk factors the scenarios consider, what types of scenarios are used, and what timeframes are considered.
 - Discuss the climate scenarios utilized by the insurer to analyze risks on its investments, including which risk factors are utilized, what types of scenarios are used, and what timeframes are considered.
- Metrics and Targets

- M Financial Group recently implemented a 3LOD Model which facilitates strong governance and risk management. In this 3LOD Model, management has responsibility for achieving objectives and managing risk, including any potential climate-related risks, as part of the first line of defense. The second line of defense also consists of members of the management team who are part of assessing and managing risks and these areas include enterprise risk management, compliance, controllership, and technology.

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As part of the 3LOD, the company has implemented an Operational Risk Committee and Executive Risk Committee comprised of various members of the first and second lines of defense. These Committees meet on a monthly and quarterly basis, respectively, to identify, assess, manage and mitigate risks. Risk questionnaires are sent to all employees on an annual basis to help identify and assess risks.

As previously mentioned, M Financial Group is just starting stress testing on the risks that we know about and is in the process of identifying and assessing climate-related risks. M Financial Group has not yet assessed the impact of different climate related scenarios.

4. Disclose the metrics and targets used to assess and manage relevant collateralized risks and opportunities where such information is material. In disclosing the metrics and targets used to assess and manage relevant collateralized risks and opportunities where such information is material, insurers should consider including the following:

- Discuss how the insurer uses catastrophe modeling to manage the climate related risks to your business. Please specify for which climate-related risks the insurer uses catastrophe models to assess, if any.
- M Financial Group is a life insurance distribution company and does not do catastrophe modeling. In its reinsurance business, the company looks at and considers concentration of risk in its underwriting process to limit overall risk and also has a retention limit of \$1M per life to limit concentration risk.

A. Disclose the metrics used by the insurer to assess climate-related risks and opportunities in line with its strategy and risk management process. In disclosing the metrics used by the insurer to assess climate-related risks and opportunities in line with its strategy and risk management process, insurers should consider including the following:

- In describing the metrics used by the insurer to assess and monitor climate risks, consider the amount of exposure to business lines, sectors, and geographies vulnerable to climate-related physical risks [answer in absolute amounts and percentages if possible], alignment with climate scenarios, [1 in 100 years probable maximum loss, Climate VaR, carbon intensity], and the amount of financed or underwritten carbon emissions)

B. Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

C. Describe the targets used by the insurer to manage climate-related risks and opportunities and performance against targets.

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- M Financial Group is in the process of identifying and assessing climate-related risks, so metrics have not been developed yet.