Sentry

Task Force on Climate-Related Financial Disclosures Report

January 1, 2021 – December 31, 2021

Sentry®

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Introduction

Sentry Insurance Group takes a long-term perspective when making decisions, focusing on growing the value of our organization while managing risk to best service our customers and associates. We strongly believe in the benefits of diversification in our varied underwriting and investment portfolios as we strive to provide a variety of products and services to individuals and businesses. This diversification, when paired with our risk management philosophy and strong capital position, helps prepare Sentry to endure both short- and long-term risks.

The global climate change has presented and will continue to present significant risks and opportunities to the global economy, insurance companies included. We understand the need to assess these risks and identify the opportunities that climate change will have on our business strategy and operations in both the short- and long terms.

Below, Sentry submits our NAIC Climate Risk Disclosure Survey in alignment with the reporting framework set by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) for the calendar year 2021.

Governance

The NAIC Risk Disclosure Survey notes a request we disclose our organization's governance and oversight over climate risk management at the board of director and senior management levels.

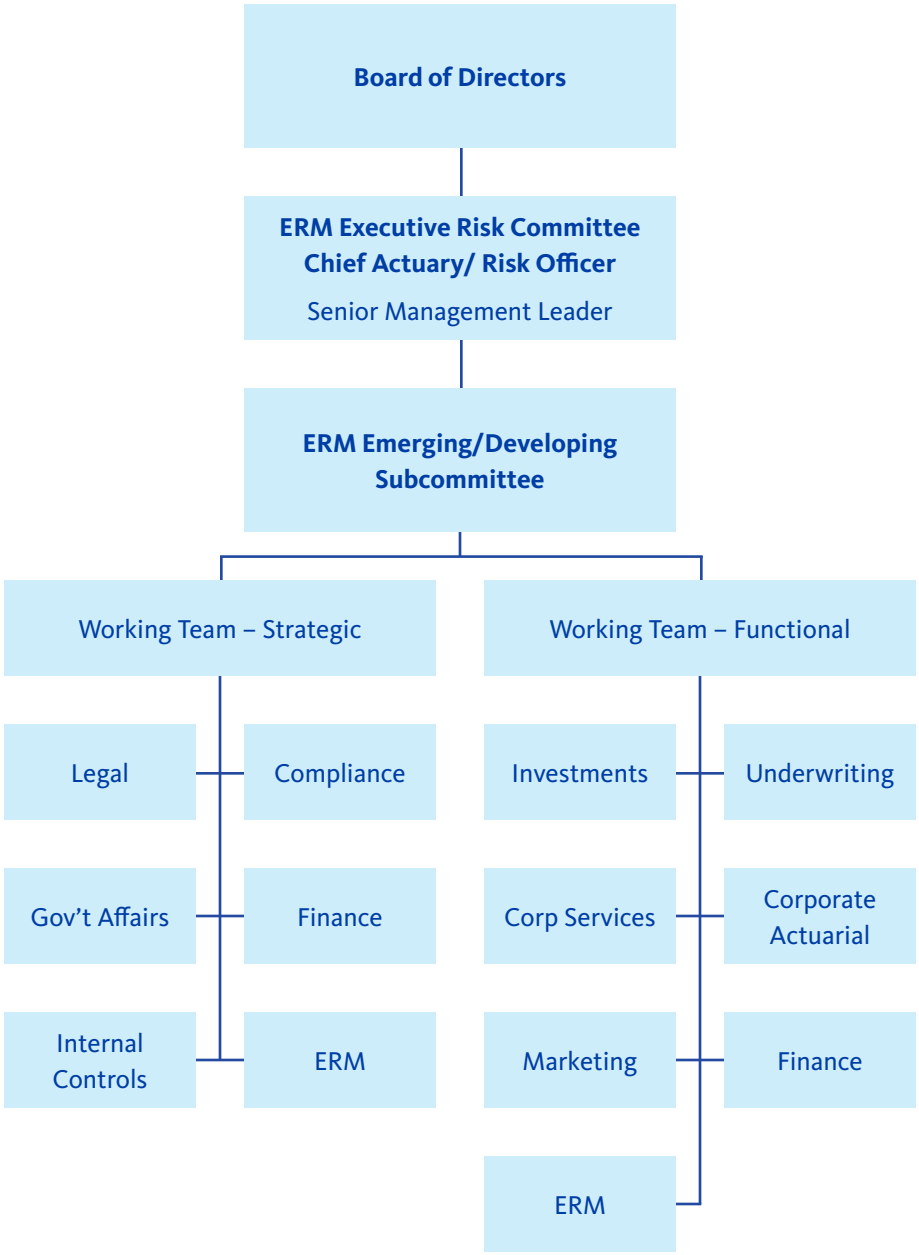
Enterprise risk management
Sentry has implemented risk management practices as a core element of our corporate strategic framework. In analyzing our largest risks, Sentry's enterprise risk management (ERM) program takes a broad view of risk and its effect on the company. This program is designed to create a culture with open dialogue about risk across departments and business units to improve decision-making at all levels of the organization, minimize risk exposure, and achieve our mission and strategic objectives. Climate risk management has been explicitly factored into this program and has been identified as a key risk element within our enterprise risk taxonomy.

Climate risk management
In conjunction with inclusion of climate risk management within our ERM program, this year, Sentry Insurance has implemented a formal climate risk management governance structure which we have diagramed below. This structure is designed to govern climate risk management activities within individual business units across the enterprise.

Board of Directors
The ultimate oversight of all enterprise risks, including climate change, lies with our Board of Directors. Our Chief Actuary & Risk Officer is the responsible board member and senior management leader for overseeing and managing climate-related risks and opportunities for Sentry and its affiliated companies.

Executive Risk Committee
Our Executive Risk Committee (ERC), which includes our Chief Actuary & Risk Officer and other executive representations with oversight of all aspects of the organization, is our liaison between our Board of Directors and our individual business units. The ERC provides top down feedback on climate risk and opportunities, which is managed by the emerging/ developing subcommittee.

Climate working groups
Responsible for the direct oversight and management of climate-related risk and reporting to the emerging/ developing committee are the climate risk management strategic and functional working groups. The strategic working group is tasked with monitoring the regulatory landscape and best practices for climate risk management. This group is also tasked with recommending strategy to the emerging/developing subcommittee and coordinating internal governance for climate risk management. The functional working group is comprised of leadership from departments with material stake in climate risk management. They're tasked with leading their teams' efforts to effectively address climate risk and report outcomes to the emerging/developing risk committee.



Strategy

The NAIC Risk Disclosure Survey notes a request we disclose the impacts of climate-related risks and opportunities on our business and strategy.

Sentry understands the importance of considering climate change risk management as part of our broader risk management strategy and integrating climate-related factors into the core of our business practices. In collaboration with senior-level management, including those overseeing underwriting, actuary, product, investments, and more, we identified climate related risks and opportunities across our enterprise. We have considered these risks and opportunities in the short, medium, and long terms as shown below. These examples should not be construed as characterization regarding the materiality or financial impact of these opportunities or considered an exhaustive list of climate-related risks.

Timeframe	Climate change risks	Impact on Sentry's business risk
Short-term (1–5 years)	Increasing regulatory requirements in response to climate changing risks	Excessive regulation could force Sentry to provide coverage that falls outside our underwriting appetite. This also includes staying compliant with regulations
	Increasing frequency and severity of natural catastrophes and other weather-related events	The volatility of natural catastrophes includes an increase in pricing and reserving risk as well as a possible increase in catastrophe losses
Medium-term (5–10 years)	Systemic shifts in market dynamics such as changes in technological innovation, risk profiles, and regulation reforms	With a shift in the market comes the risk of Sentry not transitioning quickly enough to meet customer expectations and regulatory requirements. Sentry's market share, reputation, and more could be at risk
	Insurance products and exposures could change due to changing risk profiles	With changing climate risk, Sentry will need to continue to monitor its underwriting exposures and selection on an individual account basis as well as a product-mix basis
Long-term (10+ years)	Government policies could enforce limitations and restrictions on insuring and investing in carbon-intensive sectors	These limitations and restrictions could restrict opportunity to generate revenue from specific business sectors
	Increasing frequency and severity of natural catastrophes and other weather-related events	The uncertain long-term trends in weather events can cause an increase in pricing and reserve risk on Sentry business. This will cause a need to review our underwriting exposure and selection processes to ensure our target markets remain viable

Opportunities for underwriting and products

Climate change presents possible opportunities for Sentry in our business operations. Below we describe potential opportunities in the short, medium, and long term.

Short-term
As an insurer of the manufacturing industry, Sentry is positioned to benefit from the expanded production of the components that support the ongoing development of the green economy. This will give Sentry an opportunity to earn more revenue as our customers will be able to grow their business as well as give new opportunities for new businesses to enter the insurance market.

Our customers continue to express interest in a paperless environment. This gives Sentry an opportunity to continue to focus on green initiatives and meet customers' demands by also lowering our carbon footprint and reducing our long-term expenditures.

As Sentry continues to develop its capabilities regarding advanced data analytics, we see an opportunity to reap immediate benefits from the ability to conduct catastrophe modeling internally without relying on modeling services from third parties. This gives us the capability to fine-tune the output of our models to be more reflective of our specific portfolio when assessing our underwriting practices and determining appropriate pricing. This provides Sentry with a competitive advantage in the marketplace and allows us to stay ahead of changing weather patterns and expected losses.

Medium-term
The continued push for a green economy and the creation of additional renewal energy provides new opportunities for Sentry. This push could provide the potential for new construction materials, sustainable materials, and alternative energy. With these new products, this gives the opportunity for Sentry to grow in our target markets.

Long-term
Accurate catastrophe modeling is a critical element to effective underwriting and pricing, and climate change can significantly skew results when not adequately considered. Conversely, proactively and accurately accounting for climate change can shape underwriting strategies and lead to a long-term competitive advantage. Sentry sees catastrophe modeling as an opportunity to develop a core competency which will allow us to make superior business decisions and is investing in these capabilities accordingly. We have embarked on a mission to bring catastrophe modeling capabilities in-house. By doing so, this will allow us to fine-tune the output of our models to be more reflective of our specific portfolio. This in house modeling will be a key endeavor to continue to monitor our climate risks in the long term.

Risks and opportunity for investments

As part of a mutual insurance organization, Sentry's investment managers are required to be cognizant of fiduciary duties to achieve the best risk adjusted returns they can for our clients and policyholders. This obligation includes holistically assessing investment opportunities and risks, including those related to climate change. To that end, climate-based risks are inherently considered within Sentry's investment strategy, and environmental factors are reviewed as part of the investment analysis process across all portfolios and asset classes.

When practical, Sentry always prefers to invest in companies and management teams that are good stewards of our environment and have records of adherence to environmental laws and regulations. Climate change and the transition of the world economy from a fossil fuel-based economy to a renewable energy economy presents increased risks for investors to consider. These risks are both immediate and long-term. A primary concern is a situation where "stranded asset risk" can emerge causing established investments to lose substantial value due to climate-change-driven changes.

Climate change risks are systemic and impact virtually all industries to some degree. A specific area of focus is rising sea levels from a warming planet which pose a risk to coastal businesses and municipalities located near waterways. Sentry incorporates sea level models from sources such as the National Oceanic and Atmospheric Administration to gage such risks and to minimize stranded assets. For example, in its municipal bond portfolio, Sentry will incorporate an analysis of rising sea levels and focus on shorter maturities of bonds in geographic areas prone to such risks. Wildfires and drought can impact many businesses including those located in "at risk" geographic areas and businesses in the food, beverage, utility, paper, forest products, and agricultural industries. To protect our portfolios from drought risk, Sentry will mainly invest in entities with diversified geographic locations and supplies.

The transition from a fossil fuel-based economy to an economy powered by renewable energy poses unique issues and risks. In Sentry's opinion, and according to expert analysis, the transition will take time and will create both opportunities and risks. The first step in Sentry's approach has been to consider a variety of studies from experts such as the World Energy Council of the United Nations, the Energy Information Administration, McKinsey & Company, and British Petroleum. In general, these studies expect fossil fuels to continue to play a prominent role in total energy usage (electricity generation and transportation power) until at least 2050. Given current technology and regulations, renewable energy will likely produce less than 40% of total energy needs in the year 2050.

As a result, Sentry monitors its credit risk to all energy sectors – especially bonds with maturities past 2040. For instance, we expect natural gas (a relatively lower greenhouse gas producing fuel) will continue to grow in use as coal and oil (higher greenhouse gas producing fuels) to decline in electric generation use, so we consider this assumption within our investment analyses and strategy. However, we also recognize that technological advances and governmental regulation can greatly alter this timeline, so these trends must be constantly monitored.

Furthermore, the transition to renewable energy will produce investment opportunities in renewable energy projects, natural gas, technology, and production of commodities such as copper and other metals and minerals. Sentry monitors these opportunities and invests when and if it believes competitive returns can be achieved.

Resilience of Sentry's strategy against climate change
Sentry recognizes that climate change has the potential and likelihood to effect significant change in macro and microeconomic environments and the insurance market alike. However, we feel we stand ready to endure the impacts of climate change. As one of the country's largest mutual insurers, we have the ability and obligation to make strategic decisions that are in the best interest of our policyholders on a long-term basis while simultaneously maintaining a capital position that enables us to endure short-term volatility. Furthermore, Sentry's emphasis on writing casualty insurance as opposed to property insurance and the practice of limiting our exposure to weather-related losses helps to protect us from resulting capital erosion. On the contrary, as an insurer of manufacturers, Sentry is well positioned to be able to benefit from the development of new types of manufacturing that supports the green economy.

Risk management

The NAIC Risk Disclosure Survey notes a request we disclose how the organization identifies, assesses, and manages climate-related risks.

Enterprise risk management (ERM)
Sentry identifies, assesses, and manages climate-related risk as part of its broader ERM program. With top-down support from the Board and ERC, leaders from impacted business functions including Underwriting, Products, and Investments are considered risk owners. They are tasked with implicitly considering climate risks as they conduct their day-to-day operations as well as their strategic planning. The Climate Risk Management Strategic and Functional working groups oversee individual risk owners' efforts to manage climate risk. As a risk element on our enterprise risk taxonomy, Climate Risk management activities are ultimately summarized and communicated upward to the ERC and Board by the Chief Actuary & Risk Officer via the ERM Emerging/ Developing Subcommittee.

Climate risk management
Climate risks are managed both explicitly and implicitly as part of leaders' day-to-day efforts to make wise management decisions. Although Sentry writes proportionately less property coverage than many insurance companies, we are nonetheless exposed to weather-related physical risks and thus actively consider the impact of climate change on our underwriting performance. Increase in the frequency and severity of extreme weather-related events has direct implications for Sentry. Therefore, we are continuously evaluating our underwriting practices and standards in order to manage this risk to the best of our ability.

A cornerstone of our efforts to manage physical risks from climate is to continuously monitor our exposure to weather related perils. By bringing catastrophe modeling capabilities in house to Sentry, we are improving our capabilities to model our exposure in a manner that more accurately reflects our underwriting portfolio and on a more frequent basis. This is essential to ensure accurate pricing of risks and to help measure financial impacts from catastrophe losses based on the latest climate-change-driven trends.

An example of an application of our catastrophe modeling capabilities is how we model and forecast our exposure to hurricane risk. We have implemented coastal guidelines based on the outcomes of our catastrophe modeling, adjust pricing to reflect the anticipated exposure to loss, and restrict our underwriting guidelines in certain regions when necessary when the risk becomes excessive. Similar processes are in place for convective storms, wildfires, floods, and other forms of extreme weather events. Accurate pricing and conservative underwriting help to ensure that Sentry will keep pace with increasing frequency and severity trends and maintain an adequate financial condition to fulfil our promise to our customers to pay claims when needed. As climate change continues to re-shape weather patterns, we will strive to continuously improve our modeling capabilities and underwriting practices. With up-to-date and effective tools and guidelines, this will allow us to underwrite these risks in a manner necessary to achieve an appropriate risk return.

As an added level of safety to protect Sentry and our customers from financial impacts resulting from unexpected catastrophic loss, Sentry maintains a stable panel of reinsurers to provide financial cover in situations where Sentry's tolerance for loss is exceeded. Although reinsurance costs
are subject to increase as industry-wide losses increase due to climate change, volatility caused by excessive losses is reduced, enabling Sentry to continue to operate in regions that might otherwise fall outside the bounds of our underwriting appetite.

Metrics and targets

The NAIC Risk Disclosure Survey notes a request we disclose metrics and targets used to assess and manage relevant risks and opportunities.

Sentry continually strives to make its business operations as efficient as possible. Doing so provides dual benefits; efficient operations lead to greater profitability while simultaneously reducing our impact on the environment. From energy use at our facilities to the fuel we consume as part of corporate travel, we have a vested interest in reducing both costs and emissions.

The table below shows the amount of primary energy resources Sentry has consumed over the last three years, including fuel consumed by corporate aircraft, fuel consumed by Sentry-owned vehicles, and electricity and natural gas consumed at Sentry-owned facilities. Note that business travel was significantly reduced in 2020, primarily due to the company wide shift to working from home due to the COVID pandemic.

	2019	2020	2021
Aviation Fuel	196,364 gallons	116,644 gallons	121,285 gallons
Gasoline	442,382 gallons	269,573 gallons	304,815 gallons
Natural Gas		684K Therms	648K Therms
Elecricity	20.5M KWH	15.3M KWH	16.2M KWH

Facilities

At Sentry's facilities, we have been continually monitoring and implementing practices that can reduce our energy use and resulting carbon footprint. Examples of recent energy saving actions include upgraded building automation systems including daylight harvesting and motion vacancy sensors used throughout our facilities, as well as an ongoing initiative to convert fluorescent lighting to LED lighting and upgrades to our electrical control system. Additionally, we have moved to a cloud-based data storing system as opposed to maintaining server banks on site which has led to a drastic reduction in energy use. We continue to investigate and consider further opportunities to make our facilities more efficient.

Corporate travel

Another primary focus for increasing efficiency and reducing our carbon footprint pertains to our corporate travel practices. Careful consideration is put towards the overall efficiency of our fleet. Prior to purchasing new vehicles, Sentry reviews and compares fuel efficiency and carbon emissions as part of the vehicle selection process. 83% of Sentry's fleet is comprised of four-cylinder vehicles, and our fleet averages 27 miles per gallon. Sentry's fleet also includes plug-in electric vehicles in service that qualify for California's "Clean Air Vehicle Decal" program.

Along with our fleet, we continue to monitor efficiency in our aviation-based corporate travel. Our aircraft are both leaders in efficiency within their respective size class, and we choose to use our smaller, more efficient aircraft whenever reasonable.

Changes in norms regarding corporate travel and associate commuting are also reducing carbon emissions. In many cases, meetings that historically had happened in-person and required travel by Sentry and/or our vendors are now held virtually, reducing travel-related fuel consumption.

Furthermore, Sentry has adopted a hybrid work model where associates are welcome to work remotely on Monday and Friday of each week, effectively reducing emissions due to commuting by 40%.

Conclusion

Sentry recognizes the developing nature of climate change, the risk it poses to our business operations, and the additional opportunities it may present in both the short and long terms. With consideration to all the factors that climate change presents, Sentry is committed to continuing to improve our risk management capabilities and will continue to monitor the risks associated with climate change through our ERM program and climate risk governance structure. Sentry's focus will always be in the best interest of our customers, and our company will continue to mature and evolve our climate change risk management strategy.