



MARSH & McLENNAN
ADVANTAGE



GENERAL PARTNER ESG CONSIDERATIONS

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Alex Bernhardt, Director, Marsh & McLennan Advantage

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OUTLINE

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What Sustainable Investment?

01

Asset Owner Perspective 

A

Asset Allocation


B

Manager Selection


02

General Partner Portfolio Perspective (Top Down)

A

Risk Management 

B

Scenario Analysis 

03

Individual Asset Perspective (Bottom Up)

A

Valuation Analysis 

B

Human Resources 

00

WHAT IS SUSTAINABLE INVESTMENT?

SPECTRUM OF SUSTAINABLE INVESTMENT APPROACHES

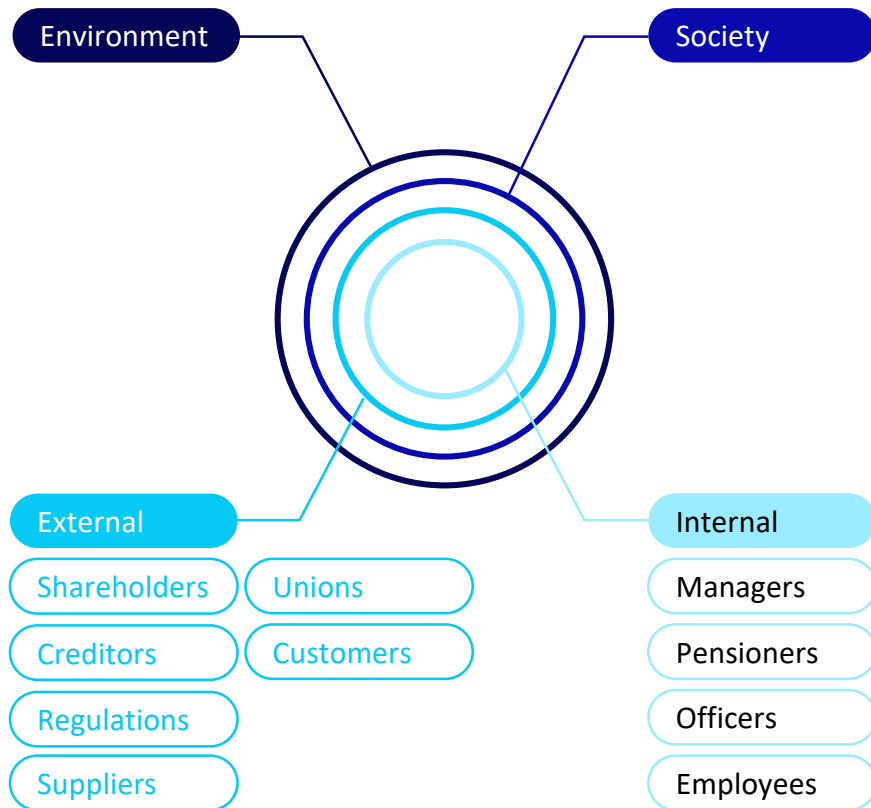


Approaches to Sustainable Investment	Socially Responsible Investment (SRI)	Environment, Social and Governance (ESG)	Impact
Primary Objective	Values Alignment	Value Generation	Social/Environmental Impact + Market Rate Returns
Methods	Screening		
	ESG Integration		
	Thematic investment		
	Stewardship		
Direction of Travel			

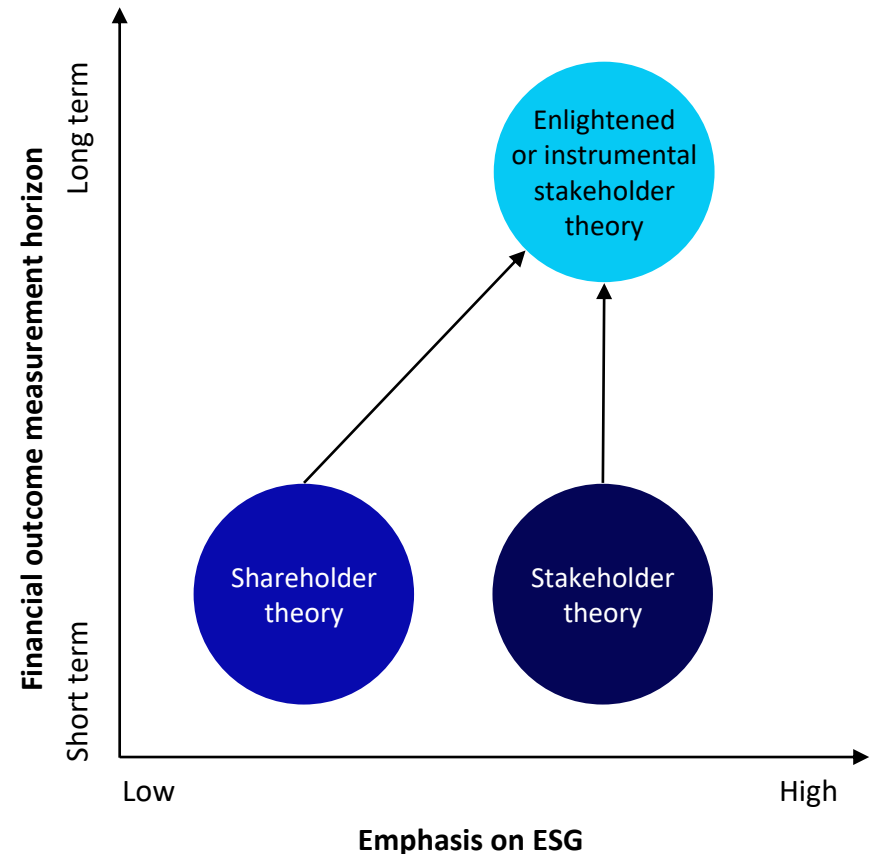
SUSTAINABILITY REQUIRES ADOPTION OF A STAKEHOLDER PERSPECTIVE

This is not necessarily opposed to shareholder wealth maximization

A stakeholder model of the corporation takes a more pluralistic view on the impacts of company actions



Aligning shareholder and stakeholder views requires long-termism and ESG measurement along the way



Source: [Mercer](#)

SUSTAINABILITY MOTIVATIONS

By key stakeholder group



01

Investors

1. [Over 90% of studies](#) on the connection between ESG factors and company financial performance show a non-negative correlation
2. Top 20% highest performers on material sustainability issues [outperform bottom 20% by as much as 5%](#) over a 20 year period

02

Regulators

3. Over [1800 climate-related laws](#) and policies are already in place globally
4. Over [500 sustainable finance policy instruments](#) are in place in the largest 50 global economies with 97% having been adopted since 2000.

03

Customers

5. Increased [reputation](#) translating into up to 11% higher market cap
6. 76% of consumers would [refuse to purchase a product](#) if a company supported an issue contrary to their beliefs
7. 66% of consumers globally (and 73% of millennials) are [willing to pay more](#) for sustainable brands

04

Employees

8. [55% higher employee morale](#)
9. Up to [50% reduction in turnover](#), [saving 90-200%](#) of retained employee's salary
10. [16% higher productivity](#), with measurable impact on shareholder value
11. D&I in particular is also known to drive innovation, making organizations [45% more likely to grow market share](#), and 70% likelier to capture new markets.

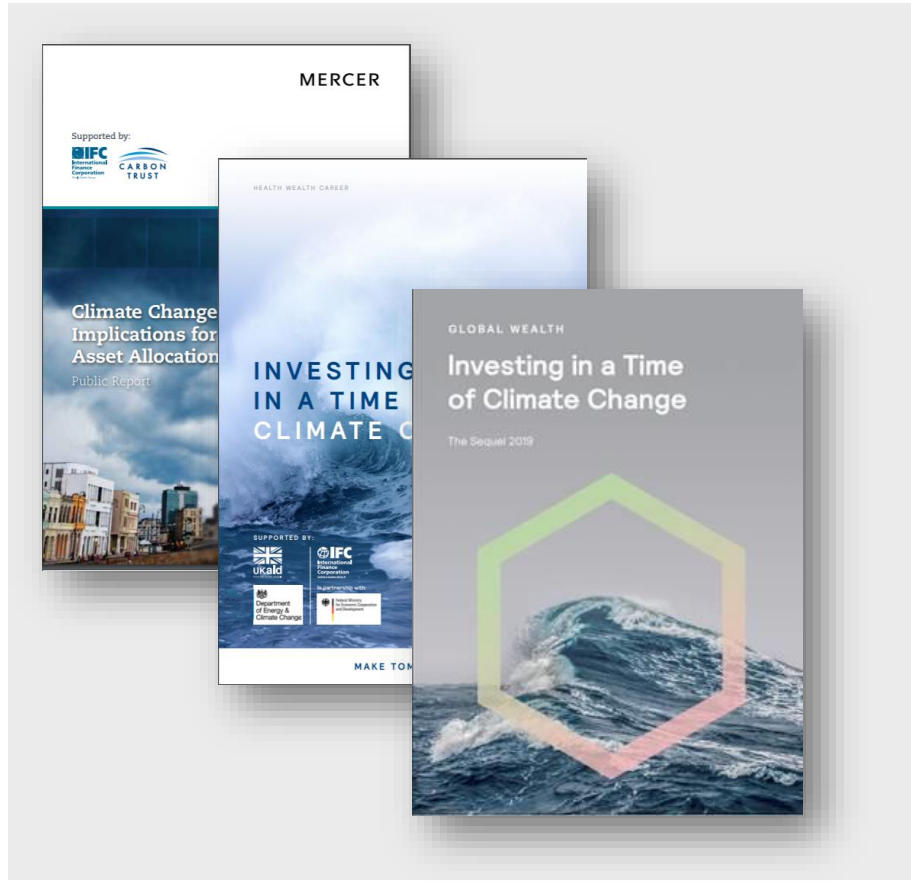
01

ASSET OWNER PERSPECTIVE

A ASSET ALLOCATION DECISIONS ARE INCREASINGLY INFLUENCED BY ESG CONSIDERATIONS

Many ESG issues are systemic and have total portfolio impacts (e.g. climate)

Quantifying these enables ESG-informed asset allocation decisions by asset owners



Mercer's climate scenario analysis tool has been applied to \$trillions of asset owner assets globally

B MANAGER ESG RATINGS



Idea generation

- ESG factors integrated into active fund positions as a source of value added.
- Identification of material ESG factors - skill of team members, data sourcing



Implementation

- Engagement and proxy voting activities (if applicable).
- Investment horizon align with ability to effectively implement ESG views?



Portfolio construction

Efforts to integrate ESG driven views into the portfolio's construction.



Business management

Firm-level support for ESG integration, engagement activities and transparency.

ACTIVE

ESG1

Leading approach to integration, where ESG is **embedded in investment philosophy**; strong on stewardship which is a core part of process

ESG2

Consistent and repeatable process to ESG integration (**focus on risk management**); well-developed evidence of stewardship.

ESG3

Well-developed G integration; less consistency in E&S; stewardship process is ad hoc, but indications of progress.

ESG4

Little or no integration of ESG factors or stewardship into core processes and no indication of future change.

ESG ratings are undertaken by Mercer's global manager research team. They are on a scale from 1 (highest) to 4 (lowest) and assess how well managers integrate ESG factors into investment processes.

B DIVERSITY AND CULTURE IN MANAGER ANALYSIS



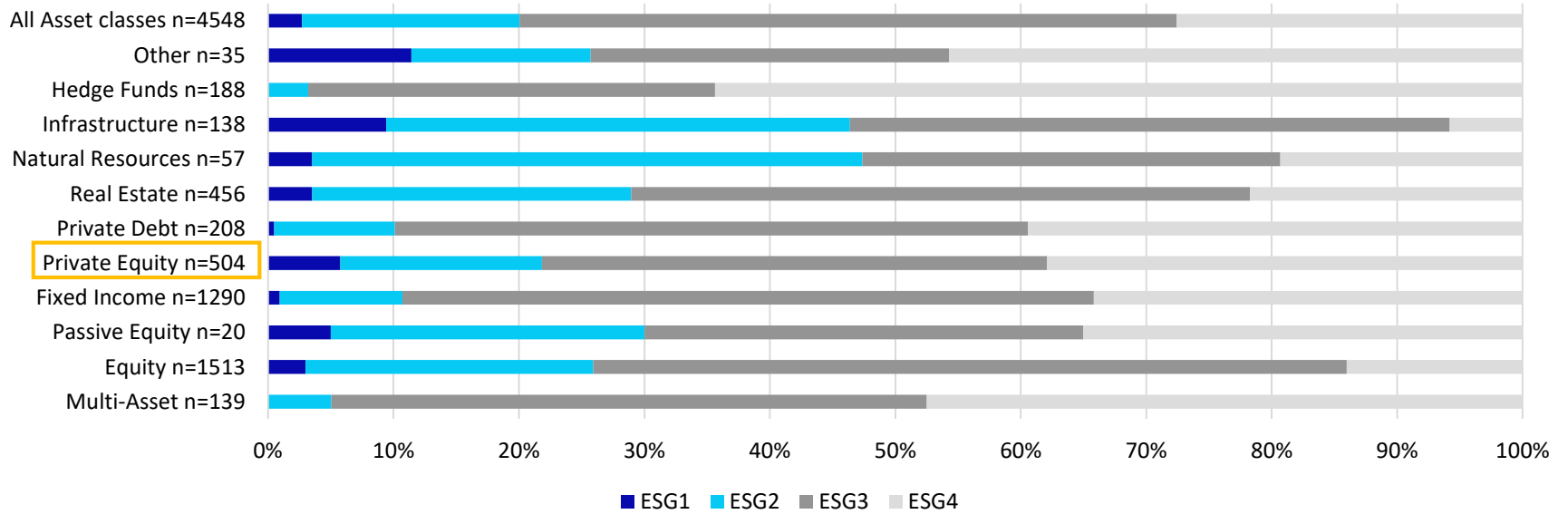
Collectively, diverse teams often have a better, and broader, understanding of the marketplace, and the combination of different cognitive styles is more likely to produce innovative and creative solutions — particularly to complex problems, such as those found in financial markets. Diverse teams are also better able to probe and challenge each other's ideas, providing the checks and balances needed to ensure robust solutions and guard against the behavioral biases we see in the investment industry.



Fosters better understanding of the marketplace	Sparks innovative and creative solutions	Makes conflict less of a surprise	Strengthens ability to challenge ideas	Helps avoid groupthink
People <ul style="list-style-type: none"> • Gender • Age • Prior experience • Nationality/language/ethnicity • Education/training/qualifications 		Corporate <ul style="list-style-type: none"> • Diversity and inclusion policies • Diversity and inclusion targets and initiatives • Compensation and promotion • Unconscious bias training • Recruitment practices • Agile working? • Returner programs? • Industry initiatives? • Diversity and inclusion certification 		

B ESG RATINGS BY ASSET CLASS

Distribution of 4,500+ Mercer ESG ratings



Over **4,500** strategies rated currently – ratings began in **2008**



Approximately **20%** achieve an **ESG1 or ESG2** rating



ESG ratings for passive equity introduced in **2014**

Source: Mercer. Notes: ESGp ratings for passive equity are applied at manager level and are not included in the total strategy count. ESG ratings on sub-advised strategies are also excluded from the total to avoid double counting. All "Other" includes strategies that aren't classified under the main categories and represent <1% of ratings. Analysis as at June 2020

02

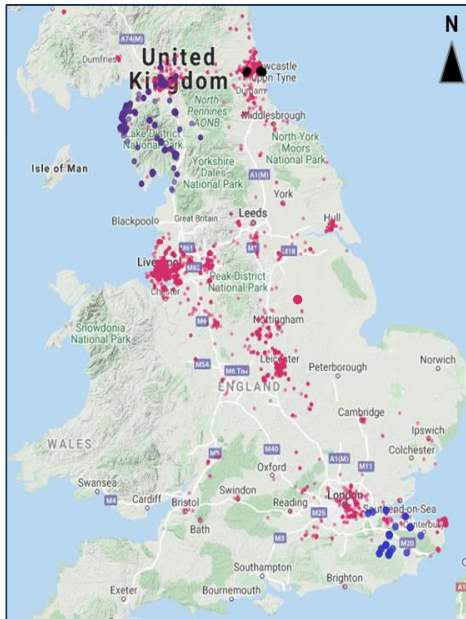
PORTFOLIO PERSPECTIVE

A RISK MANAGEMENT

Illustrative example of a portfolio physical climate risk assessment

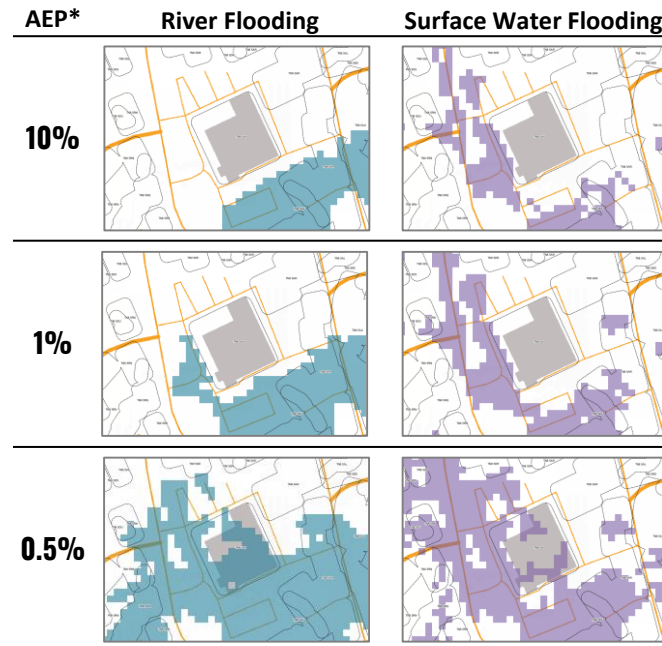
Climate-adjusted flood modelling across portfolio

Portfolio Mapping



● Portfolio 1 ● Portfolio 2 ● Portfolio 3 ● Portfolio 4

Climate-adjusted flood modelling (2020, 2050 and 2080)



*AEP – Annual Exceedance Probability

Climate- and resilience- adjusted damage ratio calculation

Property Parameters		
Valuation	Market	USD 1,000,000
	Reinstatement	USD 750,000

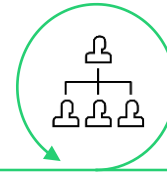
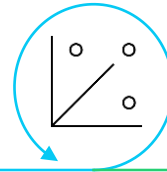
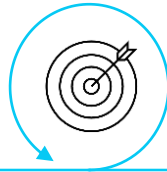
Peril Parameters (illustrative of 0.5% AEP)		
2020 Scenario	Max Depth	0.3m
	Area Impacted	34%
2080 Scenario	Depth	0.62m
	Area Impacted	59%

Average Damage Ratio (ADR) Parameters		
2020 Scenario	Underlying ADR	0.0015
	Resilience Adj.	n/a
	Net ADR	0.0015
2080 Scenario	Underlying ADR	0.0098
	Resilience Adj.	-15%
	Net ADR	0.00833

A RISK MANAGEMENT

Integration of ESG into ERM processes

-We use our integrated Sustainability – ERM approach to execute projects



Active stakeholder engagement

Actively support the stakeholder engagement process to identify **material aspects and define performance indicators**

Integrated ERM framework

Define an ERM framework that captures ESG risk assessment and fosters **collaboration** among **business, sustainability, RM and quality assurance**

ESG Risk assessment

Identify and evaluate **ESG risks** in the context of **SDGs both in the short term and in the medium long term** to define action plans improving the company's resilience

Materiality matrix

Actively contribute to the materiality matrix definition through **understanding business & risk priorities**

Reporting and communication

Actively support the **communication** of the sustainability strategy and actions to ensure also transparency vs all the stakeholders

STEP 1

Relevant ESG Factors to Be Addressed

STEP 2

Ongoing Prioritization of ESG Factors

STEP 3

Internal/ External Communication

B WHAT ARE CLIMATE-RELATED RISKS?

Differences across scenarios



“Green” scenario “Grey” scenario

Scenario	Rapid Transition	Two-degree	Business-as-intended	Business-as-usual
Policy action	Very strong	Strong	Substantial	Limited
Change in temperature vs. pre-industrial era (2100)	1.5°C	2°C	3°C	4°C
% fossil fuel in energy mix (2050)	<40%	<50%	75%	80%

More Transition Risk

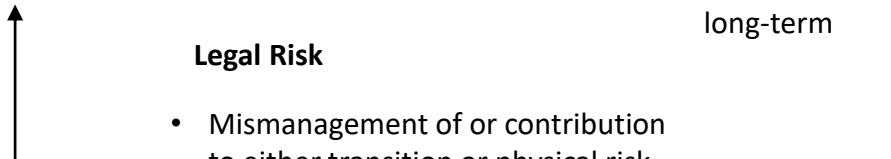
- Controlled yet aggressive change
- Major short term impact but reduced long-term impact
- Lowest long-term economic damage

More Physical Climate Risk

- Accelerating changes in acute and chronic weather patterns
- Impacts continue to increase over time
- Economic damages increase long-term

Legal Risk

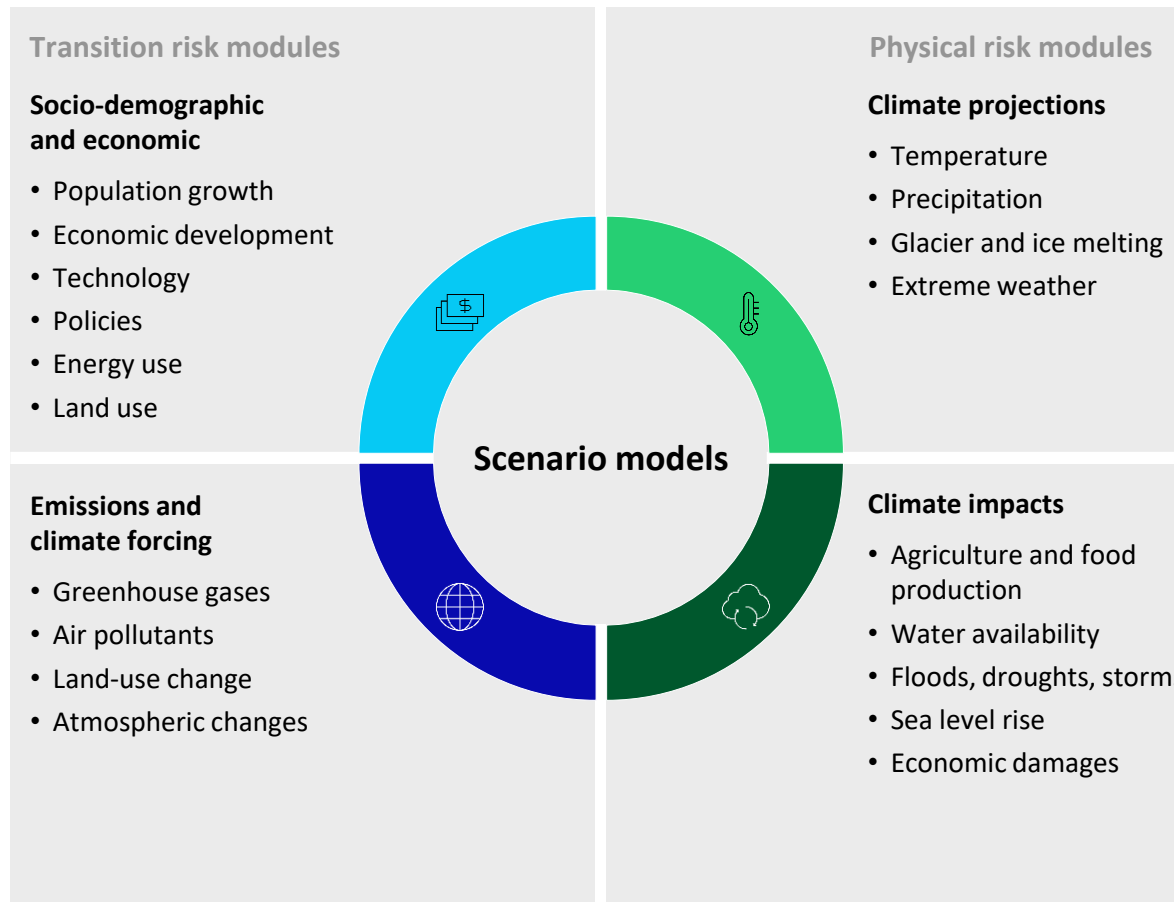
- Mismanagement of or contribution to either transition or physical risk can result in legal liability



B CLIMATE SCENARIO MODELING (1/2)

Using climate-economy or integrated assessment models (IAMs)

Representative scenario-based model structure



Common scenario outputs usually at sector and/or region level

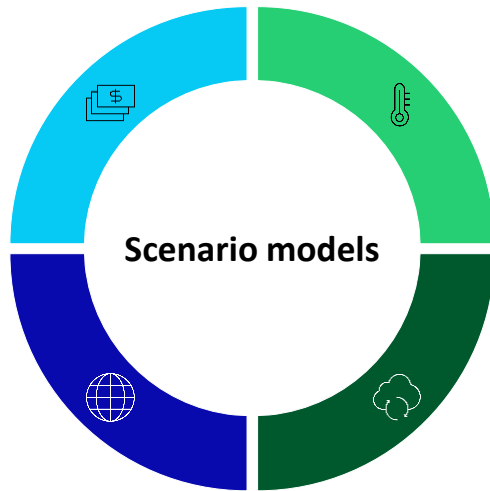
- Energy demand
 - Energy prices
 - Land use
 - Emissions
 - Investments
 - Carbon price
 - Market damages
 - Non-market damages
 - Acute risks
 - Chronic risks
 - GDP
 - GVA
 - Interest rates
 - Inflation
- Transition**
 Physical
 Both

Source: Potsdam Institute for Climate Impact Research (PIK); Marsh & McLennan

B CLIMATE SCENARIO MODELING (2/2)

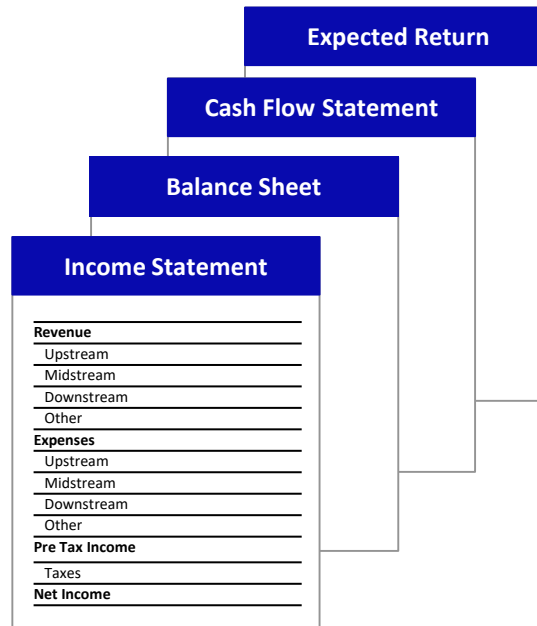
Application of Scenario Model outputs

Climate risk scenarios



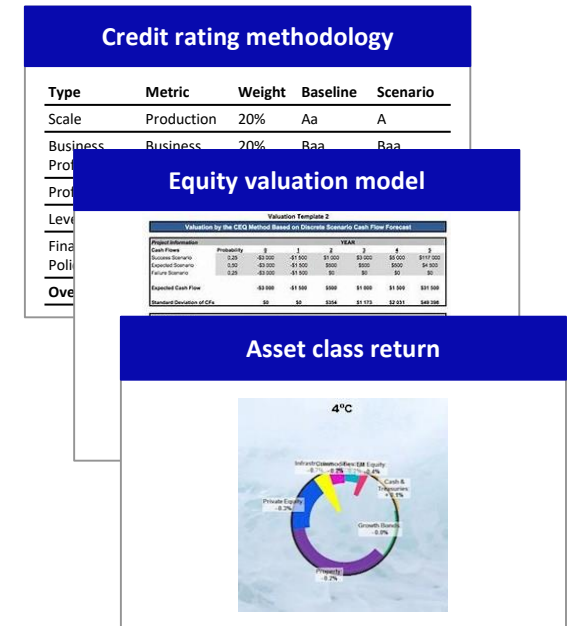
Creates linkage between scenarios and key variables

Scenario-adjusted return expectations or financial statements



Projects scenario-adjusted financial statements for each company

Scenario-adjusted credit risk or equity value analysis



Estimates scenario-adjusted credit rating/probability of default, equity value or asset return

03

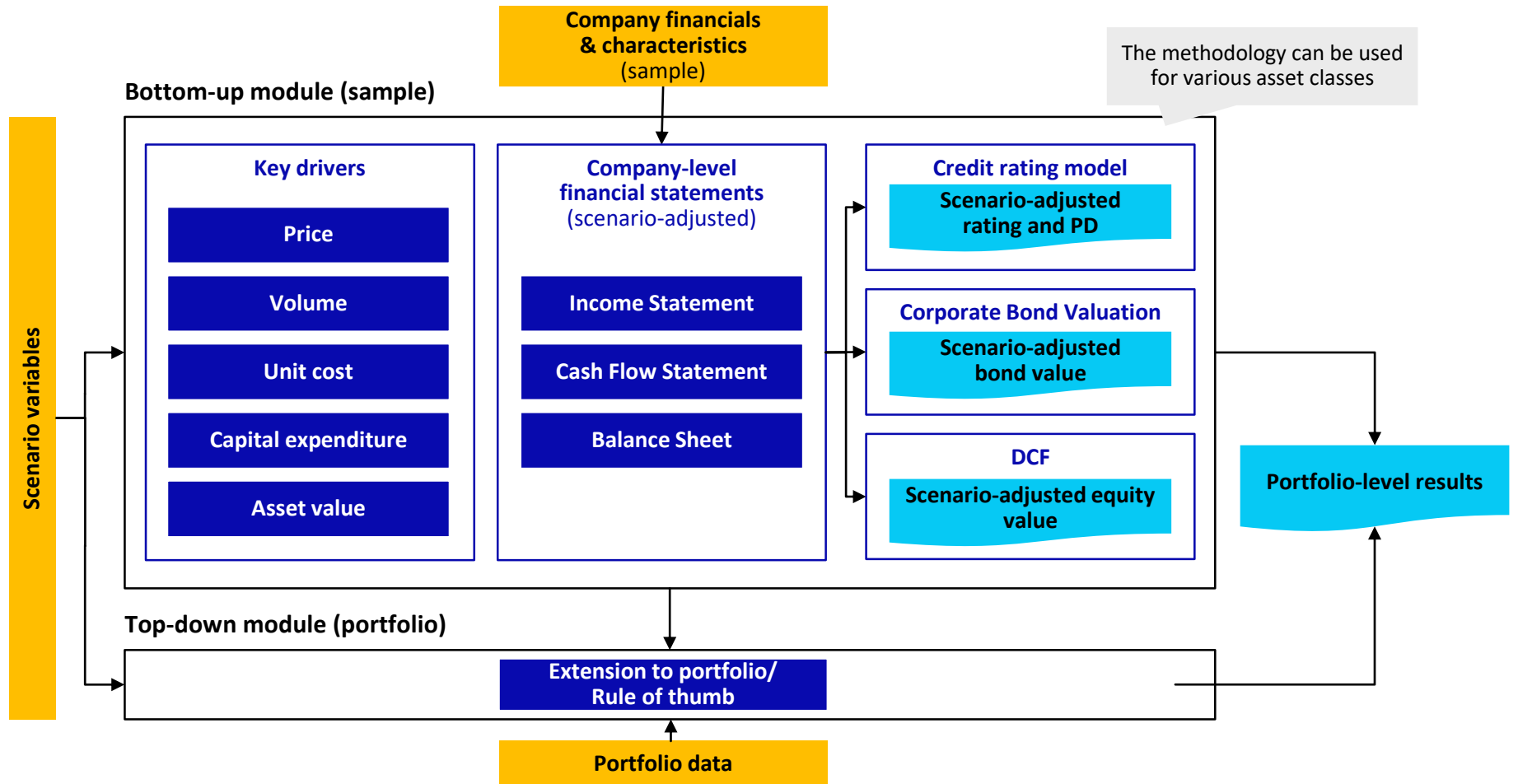
ASSET PERSPECTIVE

A ASSET VALUATION ANALYSIS

Focus on transition risk assessment

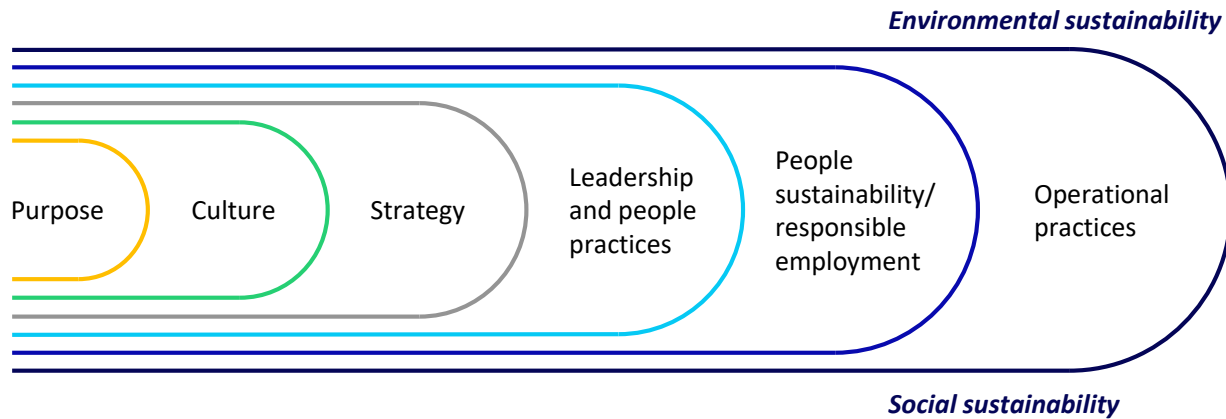
Methodology overview

Input Intermediary output Output

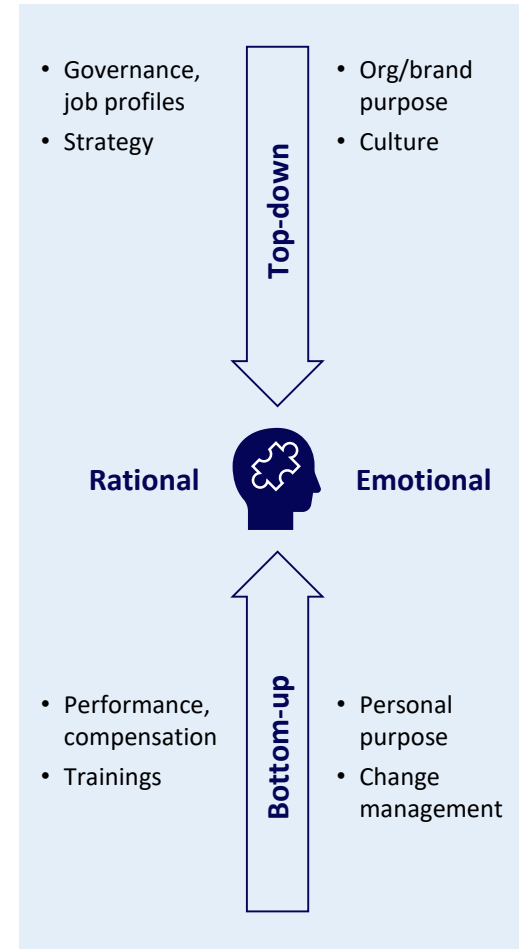
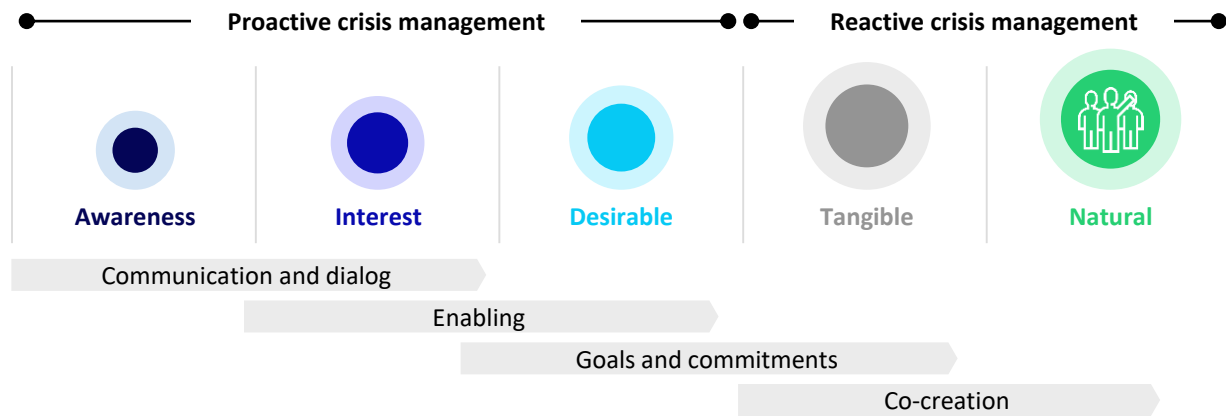


B HUMAN RESOURCES

Sustainability transformation framework



Employee-focused experience journey



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