



Our approach to ESG (Environmental, Social and Governance)

At Liberty Mutual, our purpose is to help people embrace today and confidently pursue tomorrow. As one of the largest global property and casualty insurers, we operate according to high standards of governance and behavior. Since we were established in 1912, we have been motivated by our conviction that insurance is a force for social good. Guided by our Identity and Values, we strive to make a difference as we tackle the world's most pressing environmental, social and economic challenges. Liberty Specialty Markets' (LSM) vision is to act as a responsible business and a high performing financial services company.

Our purpose extends to all our stakeholders – customers, employees, investors, regulators and the communities where we work and live. To fulfill this purpose, we rely on a thoughtful and thorough approach to managing Environmental, Social and Governance (ESG) issues. ESG is integral to our company's purpose and we strive to foster a sustainability mindset across our global enterprise.

Responsible underwriting

We strive to partner with and support customers that are also committed to advancing ESG practices. We are bringing ESG considerations into our risk selection, applying a consistent framework to assess material ESG factors within our underwriting process. This approach is a natural evolution of our core underwriting philosophy and it will continue to evolve and be informed by reliable data, technological and regulatory changes, and market forces.

We recognize that companies are at varying points in their sustainability journeys. Our goal is to support them along that journey with products, services, and innovative solutions. As an insurance company, we have a broad view of our customers and seek to understand and mitigate their inherent and emerging risks. We will accelerate ESG progress by raising awareness and applying our renowned risk control services and risk engineering capabilities to those risks.

As we integrate ESG considerations into underwriting, we are focused on material factors for each industry, considering a customer's overall approach to sustainability along with key environmental, human and social, and business practices most relevant to that company. We are taking a values-driven, journey-based, and customer-focused approach.

Because climate change is one of the most pressing sustainability issues we face, we first focused on the energy industry (and are scaling a similar methodology and framework across other industries). We understand the critical role that energy has in human well-being and recognize the role that the insurance industry plays in supporting a transition to a lower-emissions economy.

We look to partner with companies developing credible transition plans backed by science. We also seek out companies that are investing in clean technology and renewable energy to reduce emissions and those who are adopting leading environmental policies, procedures, and practice to minimize environmental impact. This supplements our coal position, established in 2019, of phasing out coverage for companies where more than 25% of their exposure arises from the extraction and/or production of energy from thermal coal by 2023.

We believe this evolution in our approach better supports a journey-based transition and allows us to partner with customers taking meaningful steps towards sustainability.

Responsible investing

We believe that ESG factors should inform investment decision-making and that the identification, understanding and management of material ESG factors can enhance our ability to meet our long-term investment objectives. As such, in 2020, Liberty Mutual Investments (LMI) our in-house investment manager, developed an ESG Framework to drive the overall integration of material ESG factors into our investment process for all assets and partnerships where Liberty Mutual Investments is deploying capital.

To further demonstrate our commitment to responsible investing, in December 2020, LMI became a signatory of the United Nations-supported Principles for Responsible Investment (PRI). In addition:

- We do not make new investments in companies that generate more than 25% of their revenues from thermal coal mining or utility companies that generate more than 25% of their electricity from thermal coal, and we will phase out investments in existing risks that exceed this threshold by 2023.
- Across Liberty Mutual Group, LMI has increased its investments in Alternate Energy from US\$295M in 2018 to US\$861M in 2020, and reduced its investments in Traditional Energy by 50% since 2014.

Corporate Governance

Using our Values as a north star, our Boards of Directors, management and employees share a commitment to operating a strong, ethical and responsible business. This is essential to upholding the trust and confidence of our policyholders and stakeholders, and to promoting LSM's and Liberty Mutual's long-term success. We provide a fair and transparent service to our customers and policyholders.

Grounded in our Value of Acting Responsibly, we believe in doing business with integrity. Our Code of Conduct guides our employees' ethical behavior, ensuring we do what's right. Other policies that guide our conduct include: anti-corruption; anti-money laundering; competition; privacy; tax and conflict of interest.

Risk management

We are committed to responsible and accountable internal risk management in alignment with our ESG priorities to inform business decision-making. In particular, we use climate change risk management tools to identify, monitor and report different types of risk; internal groups and forums actively monitor and discuss ESG risks and topics to ensure a holistic approach to the management of these risks; climate change and ESG risk responsibilities are embedded within our risk management governance.

Diversity, equity and inclusion

At Liberty Specialty Markets, we're committed to creating an environment where all employees can bring their full selves to work and feel they belong as well as ensure all employees have equitable opportunities for success.

Responsible procurement and supplier diversity

We are committed to fostering procurement relationships that extend the positive impact of our business and manage potential risks. We have a Supplier Code of Conduct which reinforces our Values and our expectations of our suppliers. We are committed to embedding ESG principles into our procurement processes, introducing a framework for tracking compliance and practices of the key suppliers as well as capturing environmental and social outcomes achieved through our work with suppliers. The Supplier Code covers topics including business integrity and compliance, human rights, diversity and inclusion, environmental practices, health and safety, data management and privacy and conflicts of interest.

Climate change and environmental impact

We are focused on creating and implementing a climate change approach that thoughtfully addresses both the risks and opportunities presented by climate change, while supporting our customers, investors and employees in their efforts to advance and adapt to a low-carbon future. While working toward a low-carbon economy through our underwriting and investments, we are also reducing our own operational impacts. We continue to evaluate strategies to lower emissions across our operations.

Communities

We apply our resources and expertise to address broader societal challenges, and we contribute positively to the communities in which our people live and work and for those in need around the world. Please refer to our sustainability and corporate giving reports for more details.

For more information about how Liberty Specialty Markets lives its values and demonstrates its commitment to Environmental, Social and Governance issues, please refer to LSM's website:

www.libertyspecialtymarkets.com/gb-en/about-us/responsible-business

and the Liberty Mutual Group Annual ESG Review here:

www.libertymutualgroup.com/documents/lm-esg-report-2020-final.pdf