Aegon Master Trust's Climate-Related Financial Disclosure 2023-24

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Glossary

Biodiversity: Diversity within species, between species and of ecosystems.

Carbon footprint: The amount of carbon dioxide (and greenhouse gas equivalent) released into the atmosphere as a result of the activities of a particular individual, organisation, or community. In the case of your pension, it is the level of collective greenhouse gas emissions generated by the companies in which the Scheme invests and measures how many tonnes of emissions are being financed per £1 million invested.

Carbon sequestration: A natural or artificial process by which carbon dioxide is removed from the atmosphere.

Climate Value-at-Risk (CVaR): CVaR is a forward-looking assessment of the potential financial impacts of climate risks and opportunities on our investment portfolios under different transition scenarios.

Default fund: A type of lifestyle fund that Members of a pension scheme are automatically invested in, if they don't choose to select their fund(s) when they join the scheme.

Engagement: Purposeful, targeted communication with an entity (for example, fund manager, company, government, industry body, regulator) on particular matters of concern. The goal is to encourage change at an investee company level, or the goal of addressing a market-wide or systemic risk such as climate change.

Environmental, social, and governance (ESG): Factors used to assess and measure how well companies are managing risks and opportunities related to environmental (for example, climate change, pollution), social (customers and employees), and governance (for example, management, reporting) issues. ESG factors can be used to help make decisions on investments (see below environmental, social and governance (ESG) screens and environmental, social and governance (ESG) tilts.

Environmental, social and governance (ESG) screens: ESG screens exclude investments based on set criteria such as exposure to weapons, tobacco, UN Global Compact violators, thermal coal, oil sands or gambling.

Environmental, social and governance (ESG) tilts: ESG tilts favour investments in companies with high ESG scores and reduce exposure to companies with low ESG scores. ESG tilts may reduce the carbon footprint of a portfolio by decreasing exposure to carbon-intensive companies and favouring carbon-efficient or low-carbon assets.

Expression of wish (EoW): The process by which we describe to key fund managers our voting preferences for relevant resolutions, including climate-related ones. The aim is for our fund managers to align with our positions and, consequently, we expect them to exercise their voting rights and responsibilities in line with our expressions of wish.

Fiduciary duty: How we take care of our Members' money by considering all long-term investment value drivers in the investment decision-making process, including environmental, social and governance (ESG) factors.

Greenhouse gases (GHG): Greenhouse gases (GHGs) are the gases in the atmosphere that have a greenhouse effect which raises the surface temperature of planets. Greenhouse gases emissions are measured in terms of emissions of CO_2 equivalent (CO_2e).

Just transition: 'Greening' the economy in a way that's as fair and inclusive as possible to everyone, creating decent work opportunities and leaving no one behind.

Liability risks: The risk that individuals or businesses seek compensation for losses suffered from the effects of physical or transition risks for which they hold organisations responsible. Liability risk is considered a subset of both transition risk and physical risk.

Low-carbon economy: A low-carbon economy is one that has low greenhouse gas emissions.

Net-zero portfolio: A portfolio that doesn't generate any GHG emissions, aligned with the goals of the Paris Agreement of keeping global temperatures to well below 2°C and preferably 1.5°C.

Paris Agreement: The Paris Agreement is a legally binding international treaty on climate change. Adopted by 196 countries at the UN Climate Change Conference (COP21) in Paris, France, on December 12, 2015, the agreement's overarching goal is to limit global warming to well below 2°C above pre-industrial levels and pursue efforts to limit it to 1.5°C.

Pathways: A set of emissions trajectories used to evaluate progress and the transition to the goal of global net-zero emissions.

Physical risks: The risks arising from changes in the weather system attributable to climate-change, for example temperature and precipitation changes, or frequency and severity of extreme weather events, which can lead to financial losses and damage to physical assets. Physical risks can be both acute (event driven) and chronic (long term) in nature.

Pooled fund: An investment fund holding the aggregate investments from many individual investors.

Popular arrangement: A popular arrangement means one in which £100 million or more of a scheme's assets are invested, or which accounts for 10% or more of the assets used to provide money purchase benefits. Our popular arrangement is Aegon BlackRock LifePath Flexi.

Real economy: The production and flow of goods and services in the economy from all non-financial firms.

Scope 1 and 2 GHG emissions: Scope 1 emissions are direct GHG emissions that arise from sources owned or controlled by the reporting entity. Scope 2 emissions are indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting entity.

Scope 3 GHG emissions: All other indirect GHG emissions, not included in Scope 1 or 2, that arise in the value chain of the reporting company. Scope 3 emissions are typically more material than Scope 1 and 2.

Sovereign debt: The amount of money that a country's government has borrowed to fund central government spending. Governments borrow by issuing bonds, bills, debt securities, or loans. Pension schemes buy and hold such investments.

Stewardship: The responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.

Taskforce on Climate-related Financial Disclosure (TCFD): The Task Force on Climate-related Financial Disclosures was established to develop recommended climate-related disclosures for companies and financial institutions. These guidelines help inform investors, shareholders, and the public about climate-related financial risks.

Transition risks: The risk arising from the changes required to support the transition to a sustainable, low-carbon economy, including those driven by policy and technology changes.

Voting season: Voting season refers to the period when companies hold their Annual General Meetings (AGMs), typically once a year. During this time, shareholders exercise their voting rights on critical matters, shaping the company's future.

Foreword

It is a pleasure to introduce the third Aegon Master Trust (the 'Scheme') climate-related financial disclosure, our Task Force on Climate-Related Financial Disclosures (TCFD) report, covering the period 1 April 2023 – 31 March 2024 (the 'Scheme year'). This TCFD report outlines the progress the Trustees of the Scheme (referred to as the 'Trustees', 'Trustee Board', 'we' or 'us' within this report), are making towards better climate management and our net-zero targets. The Scheme continues to align with international scientific consensus by aiming to reduce greenhouse gas (GHG) emissions for our main default arrangement, Aegon BlackRock LifePath Flexi, by 50% by 2030 against a 2019 baseline, and to reach net-zero emissions by 2050. We, the Trustees, want to help Members make informed decisions about their pension investments and ensure that the Scheme default arrangement which most Members are invested in is aligning to net zero.

This TCFD report gives our Members more information on how we manage their investments in the context of climate change. Whilst we place a major emphasis on managing climate-related risks, we are also seeking out opportunities for our Members to benefit from the transition to a low-carbon economy. For us it is a time of reflection on what we have achieved in the Scheme year, from reducing the Scheme's main default arrangement scope 1 and 2 carbon footprint by -40% compared with a 2020 baseline to implementing our new 'expression of wish' process for the 2023 voting season. In addition, I am proud that we have rolled out our Scheme's new self-select fund range following the thorough review undertaken during the last Scheme year. The Scheme now provides more investment options to Members of the Scheme (referred to as 'Members' within this report) who wish to have more of a focus on sustainability or environmental, social and governance (ESG) factors.

We have made encouraging progress against our interim decarbonisation target. However, the Scheme meeting its targets is ultimately dependent on national and global policy. As an asset owner managing a highly diversified and long-term portfolio, we believe it is in our Members' interests that the wider economy, and not only our portfolio, decarbonises. Consequently, we work collaboratively with the industry to ensure progress is made in that direction and we recognise that even though developed countries are decarbonising their economy year on year, this is not sufficient to reach their net zero commitments. The last United Nations Climate Change Conference (COP28) concluded with more concrete pledges such as the oil and gas decarbonisation charter[1] signed by 50 of the world's top fossil fuel producers and a pledge by 133 countries to triple the world's renewable energy generation capacity to at least 11,000 gigawatts by 2030[2]. While necessary, these commitments will likely not be enough to keep global temperature rise below 1.5°C. This year's COP29 in Baku may be our last chance to stay on track with the 2015 Paris Agreement.

Despite an uncertain political backdrop on climate, we have nevertheless seen significant developments on standardising climate and other related disclosures for better decision-making, spearheaded by the International Sustainability Standards Board. In particular, we welcomed the release of the new Taskforce on Nature-Related Financial Disclosures' (TNFD) framework, which encourages businesses to establish science-based nature targets and integrate nature risk considerations in their sustainability strategy. We have initiated an evaluation of the Scheme's overall impacts and dependencies on biodiversity and elevated this topic as one of our key engagement themes. I hope this report gives a good sense of our decarbonisation progress so far and related emerging topics we are considering, such as biodiversity.

Ian Pittaway, Chairman of the Aegon Master Trust Board

[1] COP28 OG Decarbonization Charter (Nov 2023), accessed June 2024
[2] COP28: Global Renewables and Energy Efficiency Pledge (Nov 2023), accessed June 2024

Executive summary

This TCFD report explains how we addressed climate-related risks and opportunities during the Scheme year. It is based on the requirements in the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 and the related DWP Guidance on Governance and Reporting of Climate Change Risk ('Statutory Guidance') [3].

Climate change represents an existential threat[4] and has already been disrupting financial markets[5] and traditional systems of governance, with real-life impacts for our Members[6]. 2023 was the first year on record when every day was at least 1°C warmer than the 1850-1900 pre-industrial record. Almost half the days were 1.5°C hotter and, for the first time, two days were more than 2°C hotter[7].

The Scheme offers a range of funds to help Members save for retirement, which are suitable for those of different ages, different risk attitudes and different retirement benefit plans. As the Trustees, we consider it our fiduciary duty to embed climate stewardship in the investments we make available to our Members. In doing so, we aim to be able to proactively address climate-related financial risks, as well as contribute to the transition to a low-carbon economy and net-zero world.

In order to limit global warming to 1.5°C by the end of the century, as outlined in the Paris Agreement, economies must reach net zero CO2 emissions by 2050[8]. For a pension scheme, this will require the decarbonisation of investment portfolios over this time horizon or sooner, which has previously informed our decision to set a 2050 net-zero target for our main default arrangement. Looking after the future financial wellbeing of our Members also means protecting the world they will live in when they access their pension savings. Pension asset owners are uniquely placed to support a systemic climate transition in the real economy, by addressing climate issues with fund managers and prioritising net zero goals. The existing integration of ESG factors into the Scheme's investments provides a foundation for structuring additional climate resilience into our portfolio. We are now in the process of building our Scheme's governance, investment strategy and management systems around climate risk and opportunities.

We have begun this journey by committing our main Scheme default arrangement, Aegon BlackRock LifePath Flexi, to net-zero greenhouse gas emissions by 2050 and to halve its carbon footprint by 2030, against 2019 levels. Our climate-related disclosure report provides an overview of the governance, strategy, risk management, metrics and targets employed to inform and continue to develop the Scheme's response to climate change. We are encouraged by the progress we have made during the Scheme year, publishing our first Responsible Investment Policy, setting the Scheme's main arrangement on good track to reach its interim 2030 carbon footprint reduction target, implementing our new 'expression of wish' process and rolling out our new self-select fund range. The main climate-related achievements for the Scheme year are listed below.

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3 Department for Work and Pensions (October 2022), Statutory guidance: Governance and reporting of climate change risk: guidance for trustees of occupational schemes
4 António Guterres, Secretary-General of the United Nations speaking at the Austrian World Summit (May 2018), Climate change: An 'existential threat' to humanity, UN chief warns global summit | | UN News
5 European Central Bank, Occasional Paper Series: Climate change and monetary policy in the euro arena (September 2021) pp 29-31, Climate change and monetary policy in the euro area
6 Department for Environment, Food and Rural Affairs (January 2022), UK Climate Change Risk Assessment
7 Copernicus Climate Change Service (January 2024), Global Climate Highlights 2023
8 Intergovernmental Panel on Climate Change (2023), Synthesis Report of the Sixth Assessment Report

Governance

- We published the Scheme's Responsible Investment Policy, explaining our approach and net-zero commitment to Members.
- We set a formal climate objective to assess our investment adviser against.

Strategy

- We rolled out the new range of self-select funds with ESG considerations for Members to choose from.
- We implemented a new 'expression of wish' process for the 2023 voting season where we shared our voting preferences on covering material climate-related resolutions with our key fund managers.
- We refined our climate scenario analysis by splitting out asset classes and adding sovereign debt.
- We made nature one of our key engagement themes, following an initial risk analysis of our Scheme.

Risk management

- We assessed all our fund managers' climate credentials and their year-on-year progress, which helped us prioritise our engagement with key fund managers.
- We updated our Scheme's Risk Register to split out greenwashing risks between communications and fund manager governance risks.

Metrics and targets

- We reported a -40% decrease in carbon footprint for scope 1 and 2 of our default arrangement between 2020 and 2023 for listed equity and corporate fixed income, demonstrating significant progress towards our medium-term target of halving its footprint by 2030.
- We implemented advanced analysis to identify drivers behind our decarbonisation, helping us contextualise our progress, in light of the limited real life decarbonisation of many high emitting sectors, and inform our future strategy.
- We were able to report on carbon intensity of sovereign bonds, following our contribution to developing industry guidance and methodology.

Introduction

The Scheme and climate change

The Scheme is an open defined contribution pension scheme with more than 180,000 Members and £4.8bn in assets under management as of 31 March 2024. This TCFD report marks the third year in which the Scheme has been disclosing its action and approach to assessing and managing the risks and opportunities associated with climate change. As a pension scheme, the Scheme invests over the long-term for its Members' and is thus exposed to systemic risks such as climate change.

We believe the full scale of financial risks from climate change will manifest in the long-term, but the repercussions on how climate investments are assessed and managed are already underway. We, the Trustees, and the wider financial services industry have a critical role to play in helping deliver the targets set out under the Paris Agreement. We can do so by:

- identifying and mitigating climate risks within the Scheme's investment portfolio,
- capitalising on financial opportunities that the transition to a lower carbon economy brings, and
- giving more choice to Members who wish to be invested in climate-thematic funds.

This is essential to support an 'orderly' and 'just transition' to a low-carbon economy, with the least negative financial impacts for Members. We seek to drive proactive engagement on key climate topics, directly with our fund managers through fund manager oversight and their own active engagement with the companies in which they invest and through collaborative industry and policy engagement, with Aegon UK representing us, the Trustees. The data analysis we provide in this report gives Members an overview of how we assess climate risks. This guides our climate strategy, which is focused on the achievement of our net-zero target for our Members' benefit.

Description of the Scheme's investment arrangements

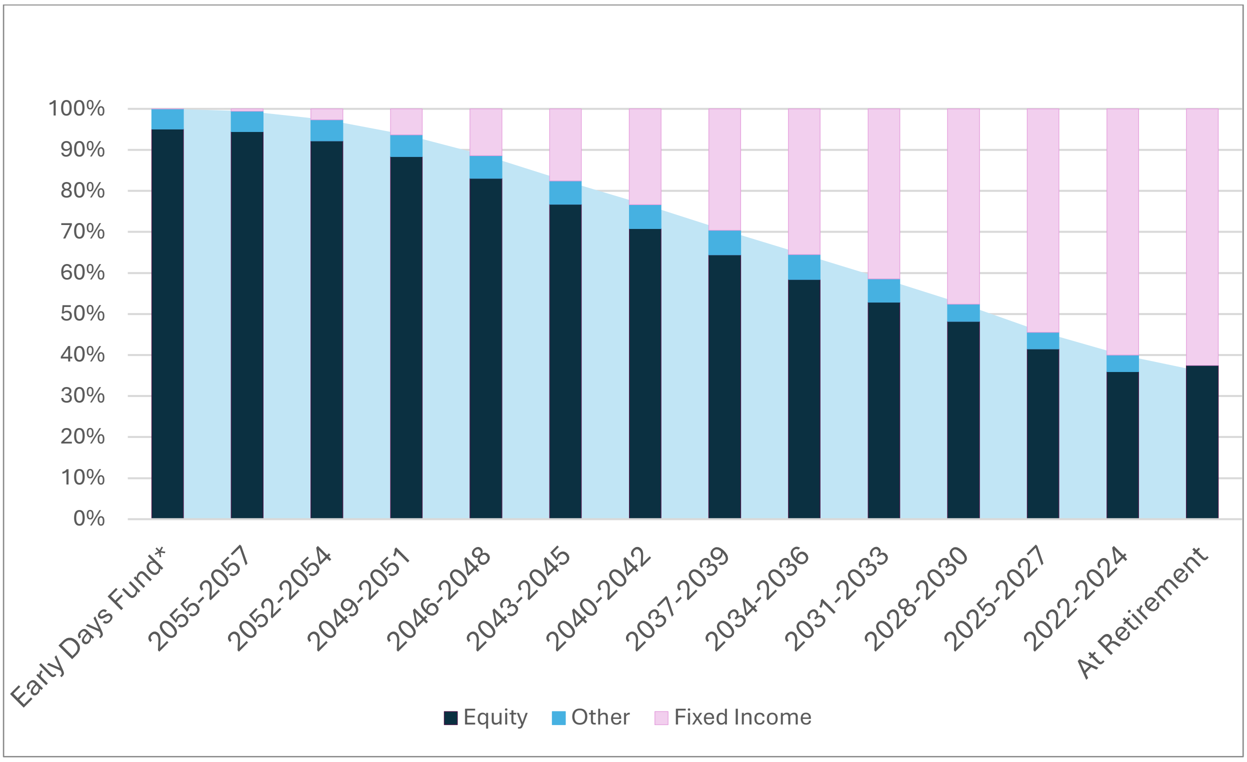
The Scheme's investment portfolio comprises standard default arrangements and bespoke options (known as Bespoke Notional Sections), as well as a range of 'self-select' funds (the 'AMT Fund Range'). We provide default investment funds for Members who do not wish to select where to invest their pension savings. The self-select fund range is available to Members who wish to make an investment choice. In line with the DWP Statutory Guidance, we have provided scenario analysis and metrics for each 'popular arrangement' offered by the Scheme. The Scheme has one popular arrangement only: Aegon BlackRock LifePath Flexi.

The main Scheme default arrangement: Aegon BlackRock LifePath Flexi

Approximately 82.6% of all Members within the Scheme are invested in this default arrangement, representing 86.8% of the Scheme's assets as of 31 March 2024. The asset allocation of our main default arrangement varies depending on how far away a Member is from retirement. Earlier on in a Member's working life, the fund's strategy is weighted towards riskier assets with higher growth potential, such as equities (stocks and shares). Leading up to the target retirement date, the fund's strategy moves to a more cautious asset mix, which is expected to be more stable for generating income from the Member's pension when they retire. This process is termed 'lifestyling' and is demonstrated in Figure 1.

Figure 1: Aegon BlackRock LifePath Flexi asset allocation of funds over a Member's working life. Fund years represent the fund a Member will currently be invested in, reflective of the year in which a Member is expected to retire.

**Early Days fund asset allocation remains the same for all Members retiring after 2057.*



Source: Aegon UK

Alternative Scheme default arrangements

9.9% of Members in the Scheme are invested in alternative Scheme default arrangements, representing 4.7% of the Scheme's assets[9]:

- **Aegon BlackRock LifePath Retirement**: Designed for Members planning to buy an annuity at their target retirement date
- **Aegon BlackRock LifePath Capital**: Designed for Members planning to take their savings as a one-off cash lump sum
- **Aegon BlackRock Cash**: In which Members may be temporarily invested should another fund be closed / suspended due to new monies and withdrawals.

The Scheme's alternative default arrangements have different climate risk factors in their underlying fund structures. The underlying fund manager, BlackRock, has an extensive stewardship team and adopts a consistent and robust approach to engagement across their investments.

[9] Figure based on Aegon UK asset allocation data as of 31 March 2024.

The AMT Fund Range

Around 6.7% of Scheme Members are invested in the AMT Fund Range, our new range of self-select funds, representing 7.5% of the Scheme's assets[10]. The Scheme offers twenty-five self-select funds, outlined below, in addition to the three Aegon BlackRock LifePath default arrangements (and any bespoke self-select and default funds):

- **Funds with a specific focus on sustainability:** This means that a climate objective is built into their investment objective or investment process:
  - Aegon Global Climate Focus Equity
  - Aegon Global Sustainable Equity
  - Aegon Global Sustainable Multi-Asset Growth
  - Aegon Global Sustainable Multi-Asset Balanced
  - Aegon Global Sustainable Government Bond
  - Aegon Global Short Term Sustainable Bond

- **Funds which integrate ESG exclusions:** This means that in line with certain thresholds, they will not invest in certain companies, based on ESG concerns. For example, some funds listed below exclude investment in companies based on revenues generated through thermal coal and oil sands:
  - Aegon Developed Markets Equity Tracker
  - Aegon Developed Markets ex-UK Equity Tracker
  - Aegon Emerging Markets Equity Tracker
  - Aegon Global Islamic Equity Tracker
  - Aegon Global Listed Infrastructure
  - Aegon Global Small Cap Equity Tracker
  - Aegon UK Equity Tracker
  - Aegon US Equity Tracker
  - Aegon Europe ex-UK Equity Tracker
  - Aegon Japan Equity Tracker
  - Aegon Pacific ex-Japan Equity Tracker
  - Aegon Retirement Income Multi-Asset
  - Aegon UK Corporate Bond Tracker
  - Aegon Cash

- **Funds which integrate ESG considerations within their overall investment process:**
  - Aegon Global Absolute Return Bond
  - Aegon Global Strategic Bond
  - Aegon UK Property

- **Funds that fall into asset classes in which few solutions integrate ESG considerations within their investment process:**
  - Aegon UK Government Bond Tracker
  - Aegon UK Index-Linked Government Bond Tracker

The roll out of the AMT Fund Range was finalised in October 2023. For more information on the Scheme's self-select fund range review held in 2022/23 and details of the Scheme's previous self-select fund range, known as the Core Fund Range, please refer to last Scheme year's TCFD report.

[10] Figure based on Aegon UK asset allocation data as of 31 March 2024.

Bespoke Notional Sections

Around 0.8% of Scheme Members are invested in bespoke funds, known as Bespoke Notional Sections, representing 1% of the Scheme's assets[11]. We offer 'bespoke' fund ranges in cases where employers wish to make a different range of self-select investment funds and/or a different default arrangement available to their employees. In these cases, the employers seek appropriate investment advice to create a 'bespoke' fund range. As of March 2024, three employers had opted to offer bespoke funds to their Members.

[11] Figure based on Aegon UK asset allocation data as of 31 March 2024.

Governance

In this section, we set out:

- how we maintain ongoing oversight of climate-related risks and opportunities which are relevant to the Scheme, as per our governance structure
- our responsible investment beliefs and how they were reviewed during the Scheme year
- responsibilities for the management of climate change in day-to-day activities, including the role of service providers advising and/or assisting us.

Trustee Board oversight and efforts to improve our climate understanding and knowledge

As the Trustees of the Scheme, we understand that we have ultimate responsibility for ensuring effective governance and management of climate-related risks and opportunities. This is particularly important given that the Scheme assets are managed by third-party fund managers with their own proprietary approaches and strategies, including climate-risk management. Effective oversight, dialogue, and monitoring of those fund managers is therefore a key tool for our climate-risk management approach.

The Scheme Investment Sub-Committee, including two out of four Trustees, provides expert oversight of investment topics that are essential to the successful management of the Scheme. This includes the Scheme's approach to responsible investment. We believe the sub-committee structure maximises the effectiveness of the Trustee Board's time, whilst ensuring the amount of governance and oversight necessary to manage climate-related risks. The Investment Sub-Committee meets at least quarterly. The investment adviser, Isio, attends all meetings. Since its establishment, the Investment Sub-Committee has regularly considered responsible investment and climate-related agenda items. Table 1 below lists key topics that were discussed by the Investment Sub-Committee during the Scheme year. Significant time was spent on responsible investment topics, in particular climate-related issues, and we expect they will require growing time and resources in the future. We aim to keep up to date with the latest developments in climate analysis. This Scheme year in particular, we have embraced more sophisticated analytical tools to improve our assessment of the Scheme's climate performance. The time spent by the Trustees learning about the latest climate tools and how these apply to the Scheme helps the Trustees steer the Scheme towards its climate commitment, challenge the Schemes' service providers and ultimately protect the Scheme's Members.

Following a meeting of the Investment Sub-Committee, its Chair updates the Trustee Board (at the next Board meeting) on the matters that were considered. This update may be verbal or in writing, on matters discussed, recommendations and key actions agreed, including those relating to climate change.

Table 1: Notable responsible investment agenda items discussed at Scheme Investment Sub-Committee meetings during the Scheme year

Date	**Agenda topic(s) related to climate change risks and opportunities**
May 2023	AMT TCFD Report – TCFD Metrics (Aegon UK) AMT TCFD Report – Data Coverage Update (Aegon UK) AMT TCFD Report – Climate Scenarios (Aegon UK) Presentation of the approach to Expressions of Wish (Aegon UK)
August 2023	Update on Climate Roadmap (Aegon UK) Update on AMT TCFD Report (Aegon UK) AMT Responsible Investment Policy (Aegon UK) AMT Review of greenwashing risk (Aegon UK)
November 2023	Annual update – Stewardship summary (BlackRock) Annual update – ESG integration summary (BlackRock) Approach to formal ESG quarterly reporting to AUK (Blackrock) Assessment of BlackRock's tailored voting policies and split voting proposition (Isio)
February 2024	LifePath ESG reporting (BlackRock) AMT Fund Range implementation wrap-up (Aegon UK) Impact of SDR (Aegon UK) Review of AMT's RI policy updates (Aegon UK) Investment consultant ESG objectives (Isio)

Source: Aegon UK using data from MSCI as at 31 December 2023

In addition to the Investment Sub-Committee items above, the Trustee Board regularly allocates time for climate-related teach-in sessions. These help us maintain appropriate climate oversight, following fast-paced regulatory and market developments.

In November 2023, we received one session focused on TCFD reporting, biodiversity and stewardship. Aegon UK provided an assessment of the annual TCFD reporting cycle, including a reflection on peer review and insight into next year's improvements. Aegon UK also developed its approach to biodiversity and how this could be applied to the Scheme, assessing its impacts and dependencies on biodiversity. We also discussed the latest update from Aegon UK on Stewardship, including its recent status as FRC Stewardship Code signatory, and reflections on the first outcome from its 'expression of wish' procedure. The Aegon UK secretarial / executive admin team, who support us, also attended this session.

Investment beliefs and responsible investment beliefs

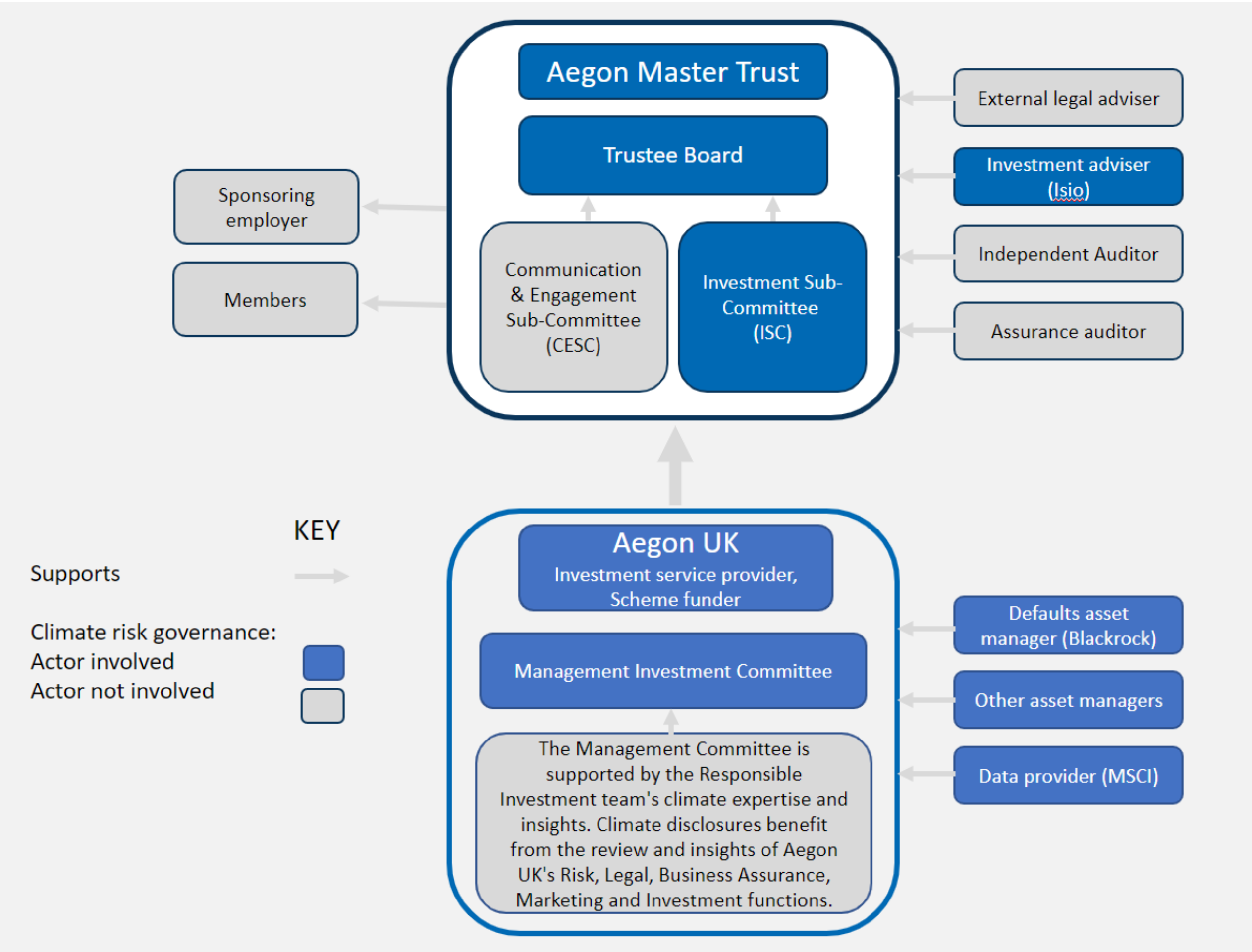
Investment beliefs are guiding principles which inform the investment strategy, the design of the Scheme's default arrangements and the number and type of other investment options we make available to Members. We have re-evaluated our investment beliefs in the Scheme year, as part of a review of our Statement of Investment Principles. We now explicitly mention our responsible investment beliefs in our investment beliefs: "As long-term investors, the Trustees believe the fund range should, where possible, align with the Trustees' responsible investment beliefs". For our full investment beliefs, please refer to Section 3 of the Scheme's annual Chair Statement.

Our responsible investment beliefs provide further details on the minimum level of active ESG integration and engagement we expect from Aegon UK and our fund managers. They have guided the climate expectations we have set for our fund managers. Please refer to the Scheme's governance section of our website for more details on our responsible investment beliefs.

Roles and responsibilities of service providers

Service providers highlighted in this section assist us with undertaking governance activities with regard to managing climate-related risks and opportunities. Other service providers, including legal advisers, auditors, and the Scheme secretary, also undertake Scheme governance activities. However, these persons do not undertake activities relevant to assessing and managing climate-related risks and opportunities at the present time.

Figure 2: Governance structure for the Scheme, with Trustee oversight of climate change considerations



The investment service provider (Aegon UK), investment adviser (Isio), main fund manager (BlackRock) and climate data provider (MSCI) undertake, advise and assist with, respectively, governance activities in respect of identifying, managing and assessing climate-related risks and opportunities. Their roles and responsibilities are detailed in Table 2.

Table 2: Roles and responsibilities of service providers assisting and advising us. Items below should not be viewed as exhaustive but as an illustration of various roles and responsibilities we expect of their service providers, and how we ensure appropriate oversight of these.

Category	Investment service provider, also sometimes called Scheme funder, Aegon UK
Description	Aegon UK uses its intellectual property and market insights to make relevant suggestions in relation to our climate strategy, where appropriate. Aegon UK uses its dedicated responsible investment expertise to provide us with regulatory horizon scanning and dedicated training on climate-related risks and opportunities.
Overall responsibilities	Aegon UK helps us set and implement an investment strategy which is aligned with the Scheme's goals, objectives, and beliefs, such as climate management, net zero targets and related fund developments. Responsibilities include: • monitoring the climate credentials of the Scheme's fund managers; • engaging with and challenging the Scheme's fund managers and data provider, where appropriate, throughout the Scheme year; • undertaking industry advocacy efforts to support wider market decarbonisation, including on our behalf; • providing data and insights to ensure climate-related disclosures are appropriate and aligned with any legislative changes; • identifying, contributing to, and sharing net-zero industry best practice with the Trustees. We are supported by an executive team, in particular the Investment Proposition Managing Director who receives regular insights and thought leadership from the responsible investment function. Insights from the responsible investment team ensure that the executive team assisting us has a good understanding of climate change and its impacts.
Trustee oversight and governance	The implementation of the Scheme's net zero targets is overseen by Aegon UK's Management Investment Committee. The Committee typically reviews items before they go to the Investment Sub-Committee. We leverage our investment adviser Isio to assess the credibility and progress of Aegon UK in helping us implement our climate strategy and day-to-day climate management. Indirectly, Aegon UK becoming a Stewardship Code signatory in 2023 confirms our robust oversight and confidence in their responsible investment practices.

Category	Investment adviser, Isio
Description	Isio provides ideas and an independent review of suggested approaches and developments from the investment service provider, where required.
Overall responsibilities	Isio advises us on the Scheme's overall investment strategy, including our responsible investment strategy. Responsibilities include: • reviewing the appropriateness of the Scheme's investment strategy in relation to climate change, for example through feeding into fund reviews and commenting on the Scheme's progress towards net-zero targets; • providing us with advice and benchmarking our responsible investment strategy, including beliefs and climate-related disclosures; • assessing the credibility and progress of Aegon UK in helping us implement our climate strategy and day-to-day climate management; • supporting our independent oversight of the Scheme's fund managers; and • informing us of regulatory and market developments which could impact the investment strategy and wider fund range, and how they could be addressed. During the Scheme year, the Trustees have introduced a climate objective for Isio, which formalised their expectations and oversight. The climate objectives complement Isio's responsibilities and reads as follows: • supporting the Trustees embed material climate considerations in investment decisions and processes, in the interest of Members and aligned with the Scheme's Responsible Investment Policy.
Trustee oversight and governance	In accordance with DWP regulations and Pension Regulator guidance, we are required to set strategic objectives for investment advisers; and to review the provider's performance against those objectives at least every twelve months. The objectives must be reviewed and (if appropriate) revised at least every three years and without delay following a significant change in investment policy. The Trustees assessed Isio's performance against its strategic objectives, including their objective to assist the Trustees in aligning the Scheme with its ESG objectives. Overall Isio scored well. This assessment, which included Isio's self-assessment in February 2024, helped identify areas for additional focus. We have agreed strategic objectives with Isio for the year 2024. Isio's newly introduced climate objective will help formalise the Trustees' oversight: Isio's climate competency will be considered in relation to the positive and best practice indicators for investment consultants developed by the Investment Consultants Sustainability Working Group (ICSWG)[12], including Isio's contribution to: - helping the Trustees implement their 2050 net-zero target and associated interim targets; - assisting Trustees by sharing best practice and thought leadership on climate topics; - supporting Trustees with effective investment provider and default fund manager engagement and collaboration, to ensure climate-related risks and opportunities are appropriately managed.

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Category	Various fund managers, with BlackRock being the fund manager for the Scheme's main default arrangement, Aegon BlackRock LifePath Flexi
Description	Fund managers are responsible for the day-to-day management of the Scheme's investments, including identification and management of climate risks and opportunities.
Overall responsibilities	Taking BlackRock as an example, the BlackRock team regularly reviews its climate policies, processes, resources, and expertise to support climate integration and the ESG objectives of the Scheme. Responsibilities include: • contributing to the Scheme's climate strategy for investments and supporting the transition of assets to low carbon strategies where needed; • sharing risks and opportunities which relate to the Aegon BlackRock LifePath Flexi net-zero target; • exercising voting rights and engaging with companies on climate risks and opportunities; and • supporting climate data and information requests made under the regulatory regime.
Trustee oversight and governance	All fund managers must respond to an annual responsible investment due diligence questionnaire. This helps us ensure minimum climate requirements are met and helps inform topics for engagement throughout the Scheme year. We pay particular attention to BlackRock as the fund manager of our main default arrangement. They are invited to join Investment Sub-Committee meetings to present on specific climate topics and their decarbonisation progress. This forum provides the opportunity to the Trustees to assess gaps from fund managers against the Scheme's Responsible Investment Policy and opportunities to align further with the Trustees climate goals and public targets. Aegon UK also has regular meetings with and oversight of BlackRock, which supports the Scheme's strategy. In 2022, Isio carried out a review of LifePath, in which they assessed the performance of BlackRock on ESG and climate criteria. The next triennial review of Lifepath is scheduled for Q4 2024. We will not appoint fund managers who fail to integrate responsible investment principles into their overall decision-making processes. Those that we do appoint are required to report on their voting and engagement activities. For more information on how we monitor fund managers please see the strategy section of this report.

Category	Climate data provider, MSCI

Description	MSCI is a provider of climate data and analytics. They support the Scheme's data and information requests related to climate risks and opportunities, which informs our strategy development.
Overall responsibilities	MSCI provides the climate data and associated platform and customer service for Aegon UK to collect climate metrics and inform Scheme analysis, including for TCFD reports. This includes providing scenario analysis capabilities, estimating greenhouse gas emissions where reported data is not available, and developing methodologies for proprietary climate metrics, in line with market developments and regulatory guidance.
Trustee oversight and governance	Aegon UK exercises day-to-day oversight of MSCI through ad-hoc issue-specific meetings, technical bi-weekly meetings and quarterly oversight and relationship meetings. These are used to discuss availability of climate data, insights from climate reports and raise any issues. The performance of MSCI is continually evaluated, specifically the level of service provided, appropriateness of data and relationship as a key service provider. In addition, Aegon UK sets and tracks progress against specific annual engagement objectives for MSCI. Aegon UK's responsible investment team aggregates, complements, reviews, and analyses the information provided by MSCI before sharing it with us. Data published through TCFD reports is independently reviewed by Isio. MSCI communicates improvements in data coverage and updates to methodologies via Aegon UK through Investment Sub-Committee updates or board teach-ins.

A case study on how we have challenged service providers during the Scheme year can be found in the risk management section of this report.

Strategy

In this section we set out:

- our approach to climate-related risks under different time horizons, in relation to our investment strategy
- our chosen climate scenarios and associated analysis
- our climate strategy and how we are using our influence to decarbonise our main default arrangement, Aegon BlackRock LifePath Flexi.

Description and assessment of climate-related risks and opportunities

How we define climate-related risks

Material climate-related financial risks can affect the value of our Members' investments, directly impacting their financial wellbeing. To manage climate risks, we need to understand the range of climate impacts, how and when they may occur, and the likely consequences for our investment strategy. In assessing the potential impacts of climate risks on our Members' investments, we consider physical, transition and liability risks, which we define as follows:

- **Physical risks** – the risks arising from changes in the weather systems attributable to climate-change. For example, temperature and precipitation changes, or frequency and severity of extreme weather events. Physical risks can be both acute (event driven) and chronic (long-term) in nature.
- **Transition risks** – the risks arising from the changes required to support the transition to a sustainable, low-carbon economy, including those driven by policy and technology changes.
- **Liability risks** – the risks that individuals or businesses seek compensation for losses caused by the effects of physical or transition risks for which they hold organisations responsible. Liability risk is considered a subset of both transition risk and physical risk.

How we define time horizons

While exact outcomes are uncertain, there is a high degree of certainty that some combination of physical and transition risk factors will occur and are already occurring, as made clear in the Sixth Assessment Report of the Intergovernmental Panel on Climate Change[13]. Climate risks will impact both our Members' investments and the world they will live and retire in. The age distribution of Members invested in Aegon BlackRock LifePath Flexi ranges from those retiring in the Scheme year to those retiring beyond 2070. We thus recognise the need to consider both immediate and long-term investment horizons. Our three distinct time horizons reflect the long-term nature of our Members' investments. We currently consider these time horizons to be sufficiently long-term.

- **Short-term horizon** (less than 10 years): Within that period, most transition risk will be taken into account by financial markets while physical risks will increase.
- **Medium-term horizon** (between 10 and 25 years): We expect remaining transition risks, and emerging risks resulting from the increasing physical impacts under extreme warming scenarios, to manifest in 10 years or more.
- **Long-term horizon** (over 25 years): During this period there may be accrued risks resulting from the increasing physical impacts emerging under extreme warming scenarios risks.

[13] Intergovernmental Panel on Climate Change (2022), Impacts, Adaptation and Vulnerability

We assess all these time horizons in our evaluation of climate risks and opportunities, and consider:

- the type of assets our Members are invested in;
- how long assets will be invested for; and
- the time horizon over which climate change considerations will be relevant.
- our long-term investment strategy, including our climate targets until 2050.

Mapping of climate-related risks and opportunities

We have outlined in table 3 some of the specific climate-related risks and opportunities we believe could arise in each time horizon (short, medium, and long-term) that could have a material financial impact on the Scheme and our Members.

Table 3: Our revised short, medium and long-term time horizons and associated potential impacts, both risks and opportunities

Risks	**Potential impact(s)**	**Time horizons**		
		Short-term <10 years	**Mid-term 10-25 years**	**Long-term >25 Years**
Transition risks				
Wide-ranging transition risks (policy and legal risks)	Transition to a net-zero world will require significant policy intervention as governments seek to drive the necessary actions from companies and citizens. This includes measures such as carbon pricing and restrictions, or outright bans on polluting activities.	X	X	
Wide-ranging transition risks (technology risks)	Transition risks also encompass technological risk as the world shifts away from fossil fuels and carbon-intensive methods towards sustainable alternatives such as renewables and electric vehicles, causing potential 'stranding' of high-carbon assets.		X	X
Market risks	Risk that broader macro-economic impacts from climate change drive lower asset valuations, higher corporate and sovereign defaults, and increased volatility. Potential impacts on interest rates and inflation are unclear. Impacts vary under different climate scenarios, with transition effects stronger under 'orderly' and 'disorderly' scenarios, and physical effects stronger under a 'failed transition' scenario.	X	X	X
Reputational risks	Risk that the Scheme's management of physical and transitional risk factors is suboptimal or negatively perceived by our stakeholders, causing reputational damage.	X	X	

Physical risks				
Wide-ranging physical risks	Physical risks refer to the many different and interconnected impacts that come with a warmer world, including extreme weather and rising sea levels, which can damage assets and cause disruption to supply chains and company operations.	X	X	X
Direct risks to our Members				
Quality of life and morbidity	Risk of deterioration in quality of life preventing our Members from living their best lives e.g., impacts resulting from drought or wildfires affecting crops, food, and water security. Risk of higher levels of morbidity e.g., through deterioration in air quality in failed transition scenarios, or chronic changes in weather patterns such as prolonged heatwaves, or severe winters. These are primarily driven by physical risk.	X	X	X
Mortality	Risk of higher levels of mortality as a direct consequence of climate change / extreme weather events, or the indirect impact on individual wellbeing levels driven by worsening economic conditions. This is primarily driven by physical risk.		X	X
Opportunities				
Climate opportunities: Investee companies' transition	To thrive in the low-carbon world, companies will need to adapt and rethink their business models. Significant capital will be needed to fund corporate net-zero transition plans, with better expected long-term outcomes for companies that manage to change.	X	X	
Climate opportunities: new investment opportunities	We expect more capital will be allocated towards climate change mitigation and adaptation over the coming years. In addition, climate solutions' investments may help expand investments to non-traditional asset classes, such as real assets or private equity.	X	X	X
Climate opportunities: new products and services opportunities	Our Members will increasingly be concerned about climate change and if their investments contribute to climate change. This is an opportunity to support companies developing new products and services tailored to their customers concerns and helping to address the challenges of climate change.	X	X	
Resource efficiency opportunities	Opportunities arising from reduced operating costs of companies through efficiency gains and increased production capacity, as well as from transforming a linear economy to a circular economy.		X	

Impact of climate-related risks and opportunities for our strategy

Short-term, less than 10 years

In the next few years, the implementation of Aegon UK's net-zero transition plan, its climate roadmap, will help support the Scheme in moving towards its net-zero commitment by increasing the alignment of Aegon BlackRock LifePath funds[14]. The AMT Fund Range, rolled out during the Scheme year, will also offer more choices for Members to invest in a range of funds that integrate, as far as possible, environment, social and governance considerations.

Adopted in the prior Scheme year, our minimum responsible investment requirements and stewardship approaches support our 2030 decarbonisation target and frame our engagement with our fund managers and the wider market. Climate is already one of our key engagement themes. It drives how we approach fund manager selection, appointment and monitoring, and our fund manager's voting and engagement activities, to ultimately manage short-term risks. Over the next decade, we want to see more evidence of outcomes from their climate engagement. We expect fund managers to follow and contribute to industry best practice so we can continue to work together to minimise climate risks. Effective engagement with our fund managers will be necessary to achieve our 2030 decarbonisation targets. Finally, we expect to more extensively voice our concern on climate to our fund managers through expanding our 'expression of wish' approach.

In addition, we see a trend towards voluntary nature disclosures, in line with the Taskforce on Nature-related Financial Disclosures (TNFD) framework, which aligns with existing climate disclosures. We are building our understanding and portfolio assessment of nature risks which will support our net-zero targets in the short-term.

Finally, we expect that data coverage will improve over this period, driven by increased regulatory scrutiny and market transparency. We anticipate a shift in focus to the verification of companies' emissions reporting and the development of more precise models to estimate emissions, in particular scope 3 emissions where reporting is currently inconsistent. Towards the end of the period, we also anticipate there may be stricter regulations on climate reporting.

Medium-term, 10 to 25 years

We expect our Members and external stakeholders will ask for more detail on how we are aligning the Scheme to net-zero. For example, they may ask for emissions performance attribution analysis or information on sectoral decarbonisation pathways.

To help us answer those questions we will continue to develop our climate data analysis, informed by the latest science. We will continue to monitor and hold our fund managers accountable on climate risks, as we assess their medium-term progress against our net-zero target. We expect increasing climate risks will drive our fund managers to develop more sophisticated qualitative (research based) and quantitative (numbers based) analysis, including robust decarbonisation pathway analysis to support funds transition to net zero. We expect to see this analysis flow through into their investment strategies and to be reflected in their company engagements and wider contribution to collective industry advocacy. Better climate disclosures will help us refine our investment strategy and net-zero targets.

[14] Aegon UK's net-zero commitment covers all of its default funds, which includes Aegon BlackRock LifePath.

As the market becomes better at pricing in climate risks, we also anticipate more assets will be invested with better consideration to climate factors, moving beyond ESG screens (e.g. exclusions) and tilts to other ways of integrating climate risks and opportunities into decision-making. Linked to this, we expect more investments in climate solutions. We define climate solutions as investments with core activities directly and substantially contributing to climate change mitigation and/or adaption. Finally, over that period, illiquid assets may provide more significant sustainability outcomes, as well as long-term growth potential. We believe investing in private markets has the potential to help deliver climate solutions, which can also support climate goals, although in the short to medium-term investing in climate solutions may increase portfolio emissions.

Long-term, over 25 years

Members may be increasingly affected by climate impacts, through their investments and in their daily life. As a result, we expect our fund managers will grow their efforts to adapt to climate change and how they mitigate risks in their products. By this point in time, we may expect that markets will be fully pricing in transition risks and will start to price in locked-in physical impacts, if the world meets the goals of the Paris Agreement to stay within 1.5°C of pre-industrial temperatures this century. Under a failed transition scenario (which is explained in the climate scenario analysis below), we expect markets will price in more severe physical impacts, exacerbated by inaction over the preceding years.

We are conscious of the size and scale of the challenges that we are all collectively dealing with and the complexity of understanding different climate change scenarios. We know that a great deal of additional insight, learning and integration lies ahead. Therefore, we can expect significant changes in our funds' asset allocation compared with today, as well as significant opportunities to invest in the low-carbon transition.

The impact of climate-related issues on the financial performance of our investment estate is considered in the next section. We use Climate Value-at-Risk (CVaR) to measure the potential impacts of different climate scenarios on our investments.

Climate scenario analysis

Climate scenario analysis is a tool to understand potential financial consequences of climate risks under a range of different scenarios. Climate scenarios are hypothetical, as opposed to forecasts or predictions, but rather illustrate a set of possible future states of the world. They capture a range of possible outcomes related to climate policy, technological developments, and speed of the transition to a low-carbon world.

We use climate scenario analysis to understand potential financial consequences of climate risks on our Members' investments in default portfolios under a set of possible scenarios.

Choice and description of our climate scenarios

We selected three scenarios to assess our exposure to climate risks. This climate-related scenario analysis assessed the potential impacts on our Members' investments in the Aegon BlackRock LifePath Flexi default portfolio, the Scheme's only popular arrangement. Climate scenario analysis combines data on climate risks and opportunities categorised as physical or transition (policy and technological risks). These risks and opportunities are then translated into an aggregated CVaR metric for each of the three transition scenarios we have selected. The three scenarios and their different trajectories are presented below:

Table 4: Three transition scenarios from MSCI to capture possible temperature paths

1.5°C orderly transition	2°C disorderly transition	4°C failed transition scenario
Integrated Assessment Model: REMIND[15] NGFS[16] 1.5°C, see model descriptions on next page.	Integrated Assessment Model: REMIND NGFS 2°C.	Integrated Assessment Model: 3°C REMIND NGFS transition scenario and 4°C IPCC SSP3-7.0 aggressive physical scenario.
Transition impact due to policy measures and technology drivers.	Transition impact due to policy measures and technology drivers.	Some transition impact – existing policy regimes are continued with the same level of ambition until 2030, when slow decarbonisation occurs.
Transition is assumed to occur as smoothly as possible. Carbon capture and storage are developed. Steep increase in carbon price by 2030.	Transition to low carbon technologies results in sentiment shock and stranded assets. No increase in carbon price until 2030, steep increase between 2030 and 2050.	Severe physical impacts over time – both gradual physical changes, as well as more frequent and severe extreme weather events. Limited increase in carbon price by 2050.
Locked-in physical impacts of 1.5°C.	Locked-in physical impacts of 2°C.	Assumes temperature rise of 4°C by 2100.

Source: Aegon UK using data from MSCI.

Climate scientists currently anticipate that climate change is likely to lead to a world temperature rise of 2.7°C by 2100[17]. Such projections are significantly higher than the ambition set by the Paris Agreement, which aims at limiting global surface temperature rise to well below 2°C above pre-industrial levels by the end of the century and to pursue efforts to limit the temperature rise to 1.5°C. Consequently, we kept last year's scenarios, which reflect a realistic range of projections for our Members.

Climate scenario analysis is composed of three elements:

- The first component of climate scenario analysis is physical risk. Our data provider, MSCI *[see case study: Engagement and collaboration with MSCI]*, has established a measure of **physical risk** to quantify the effect of different physical risk 'hazards' on companies. Physical risk hazards include and consider different climate change-induced weather patterns like flooding, wildfires, droughts, and their effects on the facilities that a company directly owns, like offices or factories. Companies with facilities in climate sensitive regions or long-lived fixed assets are those that are most at risk, due to greater exposure to extreme weather patterns which may increase in frequency or severity over time.

[15] REMIND (Regional Model of Investment and Development) was developed by the Potsdam Institute for Climate Impact Research to analyse the future implications of interactions between energy, land-use, economy and climate systems. REMIND uses a general equilibrium model with perfect foresight, meaning the model can anticipate changes happening over the modelling time horizon, to simulate the interactions between the various systems inside a closed economy.
[16] NGFS: Network of Central Banks and Supervisors for Greening the Financial System
[17] Climate Action Tracker (December 2023), The CAT Thermometer

- The second component of climate scenario analysis is **transition risk**. Our data provider, MSCI, has established a measure of **transition risk**, which estimates the likely trajectory of human economic activity over a 50-year horizon and quantify how a Member's portfolio is likely to be impacted. Transition risk estimates the influence of existing and future climate policy as well as whether / how countries implement their decarbonisation plans. Transition risks can be further measured in terms of when and how policy changes are delivered. An orderly transition assumes that policy makers will introduce policy changes gradually, giving companies time to adapt their business models. A disorderly transition assumes a sudden change in legislation dictated by an urgent need to change corporate practices.
- The last component of climate scenario analysis, the **technology opportunity**, considers the opportunities arising from the changes required to meet the transition to a low carbon economy.

Our data provider, MSCI, has calculated the financial implications of physical risk, transition risk and technology opportunity over a horizon of 15 years on a large universe of companies under a set of different scenarios. Since the cost and opportunity associated with climate change extend way beyond that time horizon, MSCI has modelled how these financial implications would evolve over a 50-year horizon. CVaR allows us to quantify today how a Member's portfolio is likely to be impacted under the different scenarios' physical risk, transition risk and technology opportunity.

The climate scenarios selected are applicable to the most frequent asset classes that the Scheme invests in, namely equity and corporate fixed income. In the Scheme year, Aegon UK has worked with MSCI to expand the scope of assets to include sovereign bonds, which significantly increased our data coverage. These scenarios adapted for sovereign bonds focus on transition risks and incorporate to some extent some impact of chronic physical risks, but not acute physical risks.

Assumptions made in relation to climate scenarios

We based our orderly and disorderly transition scenarios on Network of Central Banks and Supervisors for Greening the Financial System (NGFS) REMIND scenarios. NGFS partnered with an expert group of scientists and economists to design these scenarios, and they are commonly used to help understand how climate change could impact investment returns. The most recent scenarios are available to us through our data provider MSCI. We note that there are other scenarios available. Limitations of climate scenarios are discussed later in this section.

We assumed an average physical risk for the 1.5°C NGFS REMIND orderly transition scenario, and an aggressive physical risk under the 2°C partially disorderly transition scenario. Our failed transition scenario is based on 3°C REMIND NGFS transition scenario, due to the unavailability of 4°C scenario for REMIND NGFS combined with a 4°C Intergovernmental Panel on Climate Change (IPCC) SSP3-7.0 aggressive physical scenario. Transition risks are less relevant compared to the significance of physical risks in a 4°C world.

Data inputs into the 1.5°C and 2°C scenarios are similar in terms of population, Gross Domestic Product (GDP) growth and electricity generation fuel mix in 2050. Where they differ is how fast the transition happens, how quickly carbon sequestration is implemented, and the year emissions peak and reach net-zero. We also assumed physical risk would be in line with average scenarios under a 1.5°C transition scenario and in line with aggressive scenarios under a 2°C scenario[18]. The hothouse 4°C scenario is like the other two scenarios only in terms of population and GDP growth. This scenario is characterised by a slow and limited decarbonisation of its electricity generation mix in 2030 with progress further limited. Carbon sequestration uptake is low and late, and emissions never reach net-zero. More details on the key assumptions used in relation to our chosen scenarios can be found in the Appendix.

Our climate scenario analysis relies on large sets of assumptions at the core of the economic and climate models used. Whilst these offer an indication of the potential financial impacts on the Scheme's assets, the Trustees are conscious that the financial impacts may be far worse under all scenarios. No investment decision is made solely based on climate scenario analysis.

Climate Value-at-Risk results and resilience of the Scheme's investment strategy

Our investment service provider, Aegon UK, ran and analysed our scenarios, assisted by MSCI. This was done by combining the impacts of the transition and physical climate risks to produce an aggregated climate VaR measure, based on the three transition scenarios discussed above. In addition to last year's scenario, Aegon UK has included MSCI adaptation of the scenarios to sovereign bonds, thus significantly increasing the data coverage and usefulness of this exercise compared to last year. Due to the large difference in output between different type of assets, we have broken down CVaR per asset class.

Table 5: Scenario analysis output for Aegon BlackRock LifePath Flexi, as of December 2023

Choice of three scenarios		Aggregated Climate Value at risk	Data coverage
Orderly transition (1.5°C)		**-8.9%**	**93.3%**
	Equity and corporate fixed income	*-10.0%*	*92.9%*
	Sovereign bonds	*-2.8%*	*95.0%*
Disorderly transition (2.0°C)		**-11.9%**	**93.3%**
	Equity and corporate fixed income	*-14.1%*	*92.9%*
	Sovereign bonds	*-1.9%*	*95.0%*
Failed transition, a hot-house world (4°C)		**-15.9%**	**93.3%**
	Equity and corporate fixed income	*-19.4%*	*92.9%*
	Sovereign bonds	*-0.2%*	*95.0%*

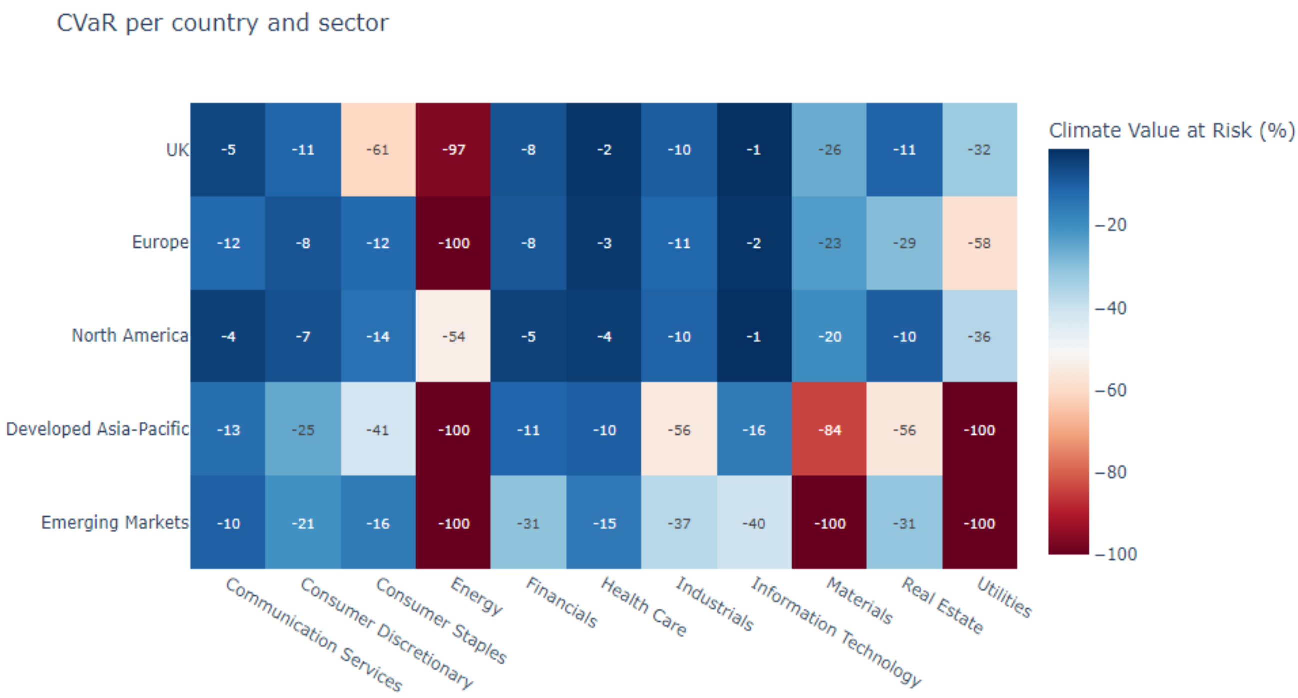
Source: Aegon UK using data from MSCI as at 31 December 2023

[18] To reflect the variety of these different possible outcomes our climate data provider gives us two values out of the full distribution: the 50th quantile representing the mean outcome (average outcome) and the 95th quantile representing the high-end risk. These are respectively defined as average and aggressive scenario options.

The key take-away from this analysis is that across all the scenarios considered, expected returns are lower than the 'climate-uninformed' baseline[19] due to negative climate risk impact over time. In short, scenarios projecting higher temperature have the worst impact on the portfolio's expected return. Indeed, the data suggests that significant changes in policy, investment and behaviour will be necessary to change global warming trajectory to a Paris-aligned outcome. Whether we experience an orderly, disorderly, or failed transition, there are likely to be significant changes in financial markets over the coming decades, which in turn could have a material impact on the Scheme's investment portfolios.

From Table 5, we note a reduction in the aggregated CVaR values compared with last year, which we attribute more to a change in asset valuation than a reduction in underlying climate risk. By grouping down Aegon Blackrock LifePath Flexi investments by economic sector (using MSCI GICS sector classification) and regions, we are able to identify more specifically which regions and which economic sectors are driving the funds' climate value at risk. Figure 3 summarises these impacts under the disorderly transition (2.0°C) scenario:

Figure 3: Climate VaR per GICS sector and region for Aegon Blackrock Lifepath Flexi under a disorderly transition (2.0°C) scenario



Source: Aegon UK using data from MSCI as at 31 December 2023

Regardless of the region, the Energy, Utilities and Materials sectors offer the higher risks, while the Emerging Markets and developed Asia-Pacific zone seems more exposed than others.

[19] The Climate VaR measure is relative to a baseline scenario which is 'climate-uninformed', i.e. one where existing policies and past physical impacts are assumed to have been priced in by markets, but no future transition policies or physical risks are accounted for.

Data and methodological limitations

We identified a set of factors limiting the reach of this exercise:

- With the inclusion of sovereign debt, we increased data coverage from 68.5% to 89.8% this year. Nevertheless, limited data coverage and developing methodologies still affect how useful the CVaR metric is at the present time. We expect to see further developments in climate scenario modelling and data coverage across all asset classes in future years.
- The addition of sovereign bonds to the analysis significantly diluted the Scheme's CVaR from equity and corporate fixed income, giving a seemingly improved total picture of the impact of climate change on our Members' investments.
- The climate scenarios methodology does not capture the risk linked to systemic breakdown of supply chains. While it considers a company's own operations, many industries are organised in clusters with subcontractors and are dependent on timely externalised supply chains.
- The scenario analysis methodology assumes the funds will keep a consistent asset class and sector composition. We recognise this as a limitation, as future asset allocation of the funds may diverge from the current asset allocation.
- The scenario analysis of the Scheme is not fixed. It will change as climate science evolves, the market responds to climate change, and our own internal capabilities improve. For example, we expect to be able to run more granular CVaR for additional asset classes in future years.
- The approach to climate scenarios methodology would benefit from better integrating findings from economists and climate scientists. As noted by the Institute and Faculty of Actuaries[20] in June 2023, many climate-scenario models significantly underestimate climate risks. Carbon Tracker Initiative[21] also pointed out the disconnect between what scientists expect from global warming and what pension funds are reporting and prepared for. This is a concern for us the Trustees and we would welcome the further development of enhanced climate scenarios and tail-risk analysis.

Our climate strategy

We recognise that climate change poses risk and opportunities to the Scheme. As part of our fiduciary duty, we incorporate these considerations into all areas of our strategy. We are an indirect investor and rely on third-party fund managers to identify and influence the companies we invest in. We can drive positive change in two main ways, firstly through the investments we choose to allocate capital to and secondly through how we, directly or via our Scheme service provider, engage with our fund managers, climate data providers, relevant industry groups and policy forums.

[20] Institute and Faculty of Actuaries and the University of Exeter, June 2023, Emperors New Climate Scenarios
[21] Carbon Tracker Initiative, July 2023, Loading the Dice Against Pensions

Capital allocation aligned with our net-zero targets

- **We maintained our allocation to ESG screened or tilted funds and rolled out our new AMT Fund Range, offering a wider range of self-select funds with climate credentials to our Members.**

How and where we choose to invest can both mitigate climate-related risks in our portfolios – by excluding or tilting away from certain companies or sectors and favouring others – and accelerate carbon intensity reductions. As of March 2024, 92% of Aegon BlackRock Lifepath Flexi Early days funds are already incorporating ESG screens /or tilts. This Scheme year, we also provided more investment choices for our Members through our new AMT Fund Range.

Throughout the 2022-23 Scheme year, we had performed a strategic review of the **self-select funds available to Members**, with the assistance of our investment adviser, Isio. This review focused on expanding the range of self-select funds available to Members, in line with our commitment to include specialist funds which invest according to sustainable and/or responsible investment themes. This redesign provides Scheme Members with access to more investment choice and further integrates ESG considerations into the Scheme’s investment offering. The AMT Fund Range was made available to Members during the Scheme year. Altogether, the AMT Fund Range now offers twenty-five self-select options on top of the three Aegon BlackRock LifePath default options, as outlined in the introduction.

Voting and engagement with fund managers

During the Scheme year we reviewed and improved how we convey our stewardship expectations with fund managers by rolling out our new ‘expression of wish process and we engaged with fund managers on better alignment with our net-zero targets.

- **We engaged with our fund managers to increase alignment with our net-zero targets**

During the Scheme year, we leveraged Aegon UK's net-zero transition plan, its climate roadmap, to bring to life our objective for Aegon BlackRock LifePath Flexi to reach net-zero emissions by 2050 and to halve its carbon footprint by 2030.

Our annual fund manager monitoring highlighted an increase in our assessment of the Scheme's fund managers compared with last Scheme year, Nevertheless, climate scored the lowest out of all categories assessed, which also reflected on our more in-depth questions included in this year assessment (such as around fossil fuel exposure, biodiversity, just transition and net zero voting and engagement practices).

We're making good progress on engagement with fund managers:

- Following the annual update Blackrock provided to the Trustees in Nov 2023, the Trustees felt there remained some gaps from Blackrock against the Scheme's Responsible Investment Policy and opportunities to align further with the Trustees' climate goals and public targets. The Trustees directly requested Blackrock to provide comprehensive reporting and progress against net zero targets and support effective stewardship through better alignment with voting through the 'expression of wish' approach. The Trustees welcomed the addition of sovereign emission and corporate scope 3 in Blackrock's reporting to the Trustees. The Trustees and Aegon continue to monitor and tracking progress from Blackrock on these short-term deliverables.

- **We implemented a new 'expression of wish' process for the 2023 voting season where we shared our voting preferences covering key climate-related resolutions with our key fund managers.**

The Trustees expressed their voting preferences on most significant votes through their 'expression of wish' approach and engaged with key managers ahead of the votes to share their views and encourage manager support for the Trustees' voting preferences. The Trustees monitored managers' alignment with their preferences after the company annual general meeting (AGM) and engaged or escalated with fund managers where they noted divergence.

Table 6 below provides details of the Trustees' significant votes within the Scheme year. The trustees have selected their most significant votes taking into account significant holdings within the Scheme and alignment with Trustees' engagement priorities. Most significant votes selected by the Trustees focussed on climate, reflective of the Scheme's climate ambition and net zero commitment. They were also high-profile votes, as featured under ShareAction's resolutions to watch in 2023.

During the Scheme year, we introduced our new 'expression of wish' approach, which consists of non-binding requests for our fund managers to vote in a certain way on most significant votes, to support coherence of our stewardship impact. We engaged with our key fund managers prior to the company annual general meeting (AGM) to share our voting preference and encourage their support for our voting preferences.

Table 6: Scheme's 2023-2024 most significant voting resolutions

Company	Resolution	Trustee priority engagement theme	Approx size of company within the Scheme	Trustee EoW	Trustee EoW rationale	Outcome of vote
Glencore	Thermal coal production alignment with emissions reductions commitments	Climate	0.16%	For	We observed a lack of clarity on how Glencore will manage decline of fossil fuel portfolio, per their public commitments	29.22% support
Shell	Report on GHG emissions targets	Climate	0.48%	For	We note the company's current scope 3 intensity target covering Scope 3 for 2030 is not yet Paris-aligned (Scope 3 emissions accounts for over 90% Shell's Scope 1,2 & 3 emissions)	(20.2% support)
An oil and gas company	Adopt GHG reduction targets	Climate	0.23%	For	The company's existing aims covering Scope 3 do not equate to Paris-aligned targets for all BP's Scope 3 emissions by 2030	16.75% support
United Parcel Service	Set science-based targets	Climate	0.07%	For	We believe it is important that carbon-intensive companies, such as the transportation sector, commit to science-based emissions reduction targets evaluated by a reputable organisation and/or against a reputable framework	20.4% support
An American multinational investment bank	Limit high carbon financing	Climate	0.06%	For	Banks both have a huge role to play in climate change, with some already adopting policies phasing out financing of new oil and gas fields and coal mines	10% support
An American Insurance company	Adopt underwriting policy in line with IEA Net Zero Scenario	Climate	0.03%	For	We believe the company should demonstrate more meaningful progress on its plan and measurement in respect of Scope 3 emissions	28.93% support

Source: Aegon UK

BlackRock as the Scheme's default fund manager and two other Scheme fund managers were assessed by the Trustees to consider their level of voting alignment. The Trustees found that HSBC and Aegon Asset Management voted in line with the Trustees' preferences, in all instances where the manager held the relevant company. BlackRock's voting behaviour diverged from the Trustees' 'expression of wish' on company shareholder resolutions, however for one company they took alternative action and leveraged a management resolution (i.e. 'Say on Climate') to seek more ambitious climate progress from a company. In this instance, the Trustees were satisfied with this alternative method of escalation.

The Trustees engaged with BlackRock to understand other areas of discrepancies between the manager's voting behaviour and the Trustees' vote preferences. Key topics of discussion included the impact of the quality and prescriptiveness of the shareholder resolutions on BlackRock's support for these, the concern about negative financial impacts to companies and shareholders from the resolutions, as well as understanding and challenging the level of progress by companies on the relevant topics.

The Trustees concluded overall, there is further scope for asset managers to support clearer disclosures and accountability by companies to ensure long-term financial interests of Scheme members. BlackRock are in the process of developing a new decarbonisation stewardship policy, which Aegon UK is contributing to and has the potential to further align BlackRock's voting with the Trustees' expectations. The Trustees will also continue to build on their 'expression of wish' and annual manager monitoring process in the next Scheme year, to maximise their influence on their asset managers.

- **We ran an initial nature risk portfolio analysis and adopted nature as one of our key engagement themes**

During the Scheme year, we carried out sectoral and issue-level analysis across the Scheme. For example, leveraging high-risk subsectors defined by Nature Action 100, we found that over 14% of the Scheme is made up of sectors at risk of adversely impacting nature and biodiversity. We were also able to identify companies in the Scheme relevant to the four major commodities behind deforestation: palm oil, soybeans, beef and timber. Based on this analysis, we elevated nature as one of our key engagement themes and sought to expand our knowledge, taking action to develop our engagement with fund managers on this topic.

Our latest iteration of our fund manager monitoring exercise included a question on biodiversity which allowed us to identify fund manager best practice and engage where relevant.

We expect to make further progress on our nature analysis next year, collaborating with industry groups and data providers, and further engaging with our fund managers to drive change.

Risk management

In this section we:

- explain our processes for identifying and assessing climate-related risks relevant to the Scheme
- describe how climate risks are managed through our responsible investment and stewardship activities, in particular our fund managers' annual responsible investment oversight process
- illustrate how we are evolving our Risk Register and Climate Risk Dashboard to better identify and manage key areas of climate risks.

Identification, assessment and management of climate risks

We, the Trustees, are committed to giving climate risks due consideration, in order to protect and grow returns for our Members. We firmly believe a forward-looking approach is required to capitalise on the opportunities the climate transition brings. Beyond climate change risks, we recognise that better climate risk management is about being good stewards of our Members' assets, which ultimately may bring positive benefits to society. As outlined in the governance section of this TCFD report, we keep up to date with the latest climate change concepts and emerging climate risk topics through responsible investment teach-ins. We recognise the four principles of interconnections, temporal orientation, proportionality and consistency when considering integration of climate-related risks, as highlighted in DWP Statutory Guidance.

Climate risks and opportunities can be identified and assessed at any point during the annual business planning cycle. They are also formally integrated into our overall risk management framework, our Scheme Risk Register, so we are able to make informed management decisions. We also benefit from the risk management processes and expertise of the Aegon UK and Aegon Group. These include:

- Aegon UK's Risk team maintains an enterprise risk management (ERM) framework, which includes processes to identify risks, assess their impacts and then set appropriate risk appetite, tolerance and policies. The framework is aligned with our views on climate risks and we are able to make use of results of these exercises, as well as in the in-house knowledge of experts within the Aegon UK Risk team.

- Aegon Group's business environment scan, which captures new and emerging risks which could have a significant impact on the group's financial strength, competitive position or reputation. It functions as a check on the ongoing appropriateness of Aegon's risk universe and can be leveraged by the Scheme to provide input for ongoing strategy development. Climate change and loss of biodiversity are explicitly covered under the business environment scan process.

We manage climate-related risks through our responsible investment and stewardship activities. Fund manager monitoring, oversight and engagement is a key part of how we manage climate risks. Every year, we send a responsible investment questionnaire to all fund managers. Their answers help us monitor and assess their climate credentials, including how they are managing climate risks. Regular discussions with our fund managers ensure we stay up-to-date and aligned with their approach to climate related risks. At minimum, fund managers must comply with our climate requirements and voting and engagement expectations. For more information on how climate-related risks are integrated into our capital allocation, stewardship and engagement activities, please refer to the strategy section.

Our Scheme Risk Register

The Aegon UK Risk team reviews the risk ratings on the Scheme Risk Register so the Trustees can take appropriate actions if a specific risk is not on target. Each quarter Aegon UK produces a heat map of any risk(s) that are not on target, with associated commentary for the Trustee Board. As part of this process, we split out the greenwashing risk into two categories of risk to differentiate marketing and communication risk from fund manager governance risk and assessed these in this Scheme year:

1. **Climate change risk**: the risk that climate risk is not accurately reported or managed with effective actions in order to avoid greenwashing across the Scheme.
2. **Greenwashing risk (marketing and communication)**: the risk that the Scheme's marketing makes sustainability related claims that are misleading, not reasonable and substantiated through underlying practices
3. **Greenwashing risk (fund manager governance)**: the risk that we select funds which include sustainability claims that cannot be substantiated.

Climate change risk is rated as yellow for the Scheme. This is because of the significant impact of unmitigated climate change on the global economy and associated impact on the Scheme's investments.

Both **marketing & communication greenwashing risks** and **fund manager governance greenwashing risks** were rated as green, following the approval of the Scheme's Responsible Investment Policy. These risks are managed on a day-to-day basis through our investment service provider Aegon UK's Responsible Investment Policy and strategy, its associated monitoring of practices, its responsible investment team expertise and its marketing compliance processes. We also manage this risk through our continued training and education.

Our Climate Risk Dashboard

Isio and Aegon UK provide advice and support to the Scheme's Investment Sub-Committee on maintaining and upgrading the Scheme's Risk Register. Other updates to the Climate Risk Dashboard during the Scheme year include:

- Adding a carbon intensity metric tailored to sovereign bonds and a corresponding coverage measure; and
- Splitting greenwashing risks into two new risks ratings.

The metrics in the Climate Risk Dashboard represent the whole Scheme portfolio (Aegon BlackRock LifePath default arrangements, AMT Fund Range and bespoke section), as described in the introduction. Definitions of the metrics used are provided in the metrics and targets section of this document. We recommend considering metrics together rather than drawing conclusions from a single metric, which is unlikely to provide a comprehensive picture[22].

Table 7: The 2023-24 Climate Risk Dashboard represents the whole of the Scheme portfolio and is used to identify and better manage key areas of climate risks.

Scheme's Climate Risk Dashboard		2022	2023
Absolute emissions metrics			
Absolute emissions	Scope 1 & 2 tonnes CO_2e	237,680	253,946
	Scope 3 tonnes CO_2e	1,538,494	1,634,222
Carbon intensity metrics			
Carbon footprint	Scope 1 & 2 tonnes CO_2e /£M EVIC	58.5	45.4
	Scope 3 tonnes CO_2e /£M EVIC	411.3	325.2
Weighted average carbon intensity (WACI)	Scope 1 & 2 tonnes CO_2e / £M sales	141.6	109.8
	Scope 3 tonnes CO_2e / £M sales	960.8	829.7
Sovereign debt carbon intensity	tonnes CO_2e /£M GDP-PPP	n/a	236.8
Portfolio alignment metrics			
Implied temperature rise (degree Celsius °C)		2.6°C	2.2°C
Additional climate metrics			
Data quality (% total portfolio)	Scope 1 & 2 Emissions – Estimated	13%	11%
	Scope 1 & 2 Emissions – Reported	59%	66%
	Scope 1 & 2 Emissions – Not covered	27%	23%
	including: sovereign debt coverage	*0%*	*16%*

[22] Climate data is supplied by MSCI and reported for funds where data is available. Climate metric information is derived from and based on reported, verified or estimated emission data, and other data, at the reporting date. Climate data, metrics and methodologies continue to evolve and we expect that reporting frameworks will, in time, become standardised. As a result, reported information may be-restated in the future as more and better climate data becomes available, in line with market best practice and regulations.

Other climate metrics			
% of investments with approved Science Based Target initiative (SBTi) targets (1.5°C aligned net zero targets)		21.4%	26.3%
% of investments aligned with climate opportunities[23]		5.2%	8.5%
Investment value-at-risk: (MSCI 2°C NGFS REMIND Disorderly Scenario)	Physical risks	-6.7%	-7.0%
	Transition risks	-12.7%	-5.5%
	Transition opportunities	+0.7%	+0.5%
	Aggregate Climate risks	-18.7%	-12.1%
Risk self-assessment			
Climate change risk self-assessment		Yellow rating	Yellow rating
Greenwashing risk self-assessment		Yellow rating	Green rating
Greenwashing risk self-assessment			Green rating
Targets monitored			
Commitment #1	Net zero GHG emissions across Aegon BlackRock LifePath Flexi by 2050		
Ambition #1	Halving emissions across Aegon BlackRock LifePath Flexi by 2030		

Source: Aegon UK using data from MSCI as at 31 December 2023

We note that climate data trends may change as disclosure and data coverage improve. This is particularly true this Scheme year: the absolute emissions and carbon intensity metrics have increased, which may be explained by our improved data coverage and additional inflows into the Scheme. Scope 3 emissions are estimated by our data provider, and we expect to be able to report on data coverage of scope 3 emissions in future Scheme years. The increase in data availability and data coverage explains the large increase in the proportion of investments with approved Science Based Targets initiative[24] targets and the proportion of investments aligned with climate opportunities.

Case study: Engagement and collaboration with MSCI

We are in regular dialogue with our climate data provider MSCI, via Aegon UK, with the aim of improving the data we have access to. Beyond benefits to the Scheme analysis, we believe communication with our data providers is a key part of Aegon UK, our service provider to support market-wide decarbonisation, as an asset owner. During the Scheme year, we fed in on proposed improvements to the implied temperature rise (ITR) model; an updated model was then released in July 2023. We will continue to push for further improvements. Specifically, we requested clarity on the data quality criteria and the checks and testing around scope 3 emissions, which serve as an input into ITR model.

Separately, Aegon UK took time to consider and discuss external criticism and challenges on the shortcomings of climate scenarios with MSCI. We are clear that there needs to be better communication and understanding of the assumptions that are included in climate scenario models. Following our engagement, MSCI indicated that the next generation of scenario models will likely include macro-economic factors and supply chain risks (i.e. going beyond a company's own operation and considering the effect of climate on its suppliers and the suppliers of its suppliers). We

[23] We define climate opportunities as companies identified as "solution" under MSCI's Low Carbon Transition Category metric.

[24] The Science Based Targets initiative was established in 2015 to help companies to set emission reduction targets in line with climate science and Paris Agreement goals.

will continue to work with MSCI and provide comments and feedback to help the development of such models.

Overall Aegon UK has received positive feedback from MSCI who now come to them proactively for product development input. We will continue to monitor the data quality and services of our data provider and seek opportunities to influence the availability of critical data across the pension sector. We will also continue to use MSCI's products to gain greater insight into our portfolio and its exposure to responsible investment risk factors to help in making investment decisions.

Metrics and targets

In this section we set out:

- climate metrics for the Scheme's main default arrangement, including for Members at different stages of their retirement journey
- progress against the emission targets we have set for the Scheme's main default arrangement
- our progress on improving data coverage and priorities going forward

Description of metrics

The climate metrics and targets in this section apply to the popular arrangement offered by the Scheme, as specified by the DWP Statutory Guidance. For the Scheme this is the Aegon BlackRock LifePath Flexi default arrangement. We believe that climate metrics are a valuable tool to assess climate-related governance, strategy and risk management across the Scheme and to hold us, as Trustees, accountable to the targets we have set on behalf of our Members.

In the table 8 below we set out the metrics used to assess climate-related risks and opportunities aligned with our strategy without the Scheme's popular arrangement. Climate data is supplied by MSCI and reported for funds where data is available and calculated as of 31st December 2023. Climate metric information is derived from and based on reported, verified or estimated emission data, and other data, at the reporting date. Climate data, metrics and methodologies continue to evolve and we expect that reporting frameworks will, in time, become standardised. As a result, reported information may be-restated in the future as more and better climate data becomes available, in line with market best practice and regulations.

Greenhouse gas (GHG) emissions are calculated in line with the GHG Protocol, with emissions categories split into three distinct 'scopes', as defined by the GHG Protocol Corporate Standard[25].

- **Scope 1** emissions are direct GHG emissions that occur from sources owned or controlled by the reporting company, for example company facilities.
- **Scope 2** emissions are indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company.
- **Scope 3** emissions include all other indirect GHG emissions, not included in scope 2, that occur in the value chain of the reporting company, such as business travel, employee commuting and use of sold products.

[25] PCAF (2020). The Global GHG Accounting and Reporting Standard for the Financial Industry (https://ghgprotocol.org/) First edition, published 2020, accessed February 2024

Our reported climate metrics use carbon dioxide equivalents (CO_2e) as a unit of measurement, which standardises the climate effects of various greenhouse gases[26]. The emissions metrics used are apportioned to Enterprise Value Including Cash (EVIC) expressed in British pounds, meaning that we allocate 'ownership' of GHG emissions across the total capital structure of the issuing company (equity and debt).

Scope 1 and 2 emissions are either reported or estimated by our data provider, MSCI, as detailed in table 10. Scope 3 are solely estimated emissions, based on MSCI's proprietary estimation model. This model covers over 8,800 companies, across all Global Industry Classification Standard (GICS) sectors and includes 15 scope 3 categories relating to different parts of the corporate value chain, such as business travel, the use of sold products or waste generated in operations[27].

Climate data and reporting of emissions information, such as carbon footprint (see description below), is more established for listed equity and corporate fixed income. These are also our most material asset classes, representing over two thirds of the Scheme's asset under management. However, for this Scheme year, we were also able to report on emissions associated with sovereign debt, expressed by the sovereign debt carbon intensity. This metric, specific to sovereign debts, follows the PCAF methodology to allocate country emissions to sovereign debt instruments. The case study on the following page details how the Trustees contributed to guidance on sovereign debt instruments via the IIGCC working group that Aegon UK co-chaired.

Table 8: Description of the climate metrics used for our default arrangement Aegon BlackRock LifePath Flexi

DWP metric category	Climate metrics	Description	Asset classes covered	Emission scopes
Absolute emissions	Total carbon emissions (tonnes CO_2e)	Measures the carbon emissions for which an investor is responsible by their total overall financing. Emissions are apportioned across all outstanding shares and bonds (% Enterprise value including cash).	Listed equity, real estate investment trusts and corporate fixed income	Scope 1, 2 and 3
Emissions intensity	Carbon footprint (tonnes CO_2e / £M invested)	Measures the carbon emissions, for which an investor is responsible, per million of British pounds invested, by their total overall financing. Emissions are apportioned across all outstanding shares and bonds (% enterprise value including cash).	Listed equity, real estate investment trusts and corporate fixed income	Scope 1, 2 and 3
Emissions intensity	Sovereign debt carbon intensity (tonnes CO_2e /£M GDP-PPP)	Measures the scope 1 production emissions of our sovereign debt investments, relative to the amount invested. The emissions for each country are apportioned using gross domestic product (GDP), adjusted for purchasing	Sovereign debt	Scope 1

[26] Department for Work and Pensions (June 2022), Statutory guidance: Governance and reporting of climate change risk: guidance for trustees of occupational schemes
[27] A Major Step Forward for Scope 3 Carbon Emissions (www.msci.com), published October 2020, accessed February 2024

		power parity (PPP), as recommend by the Partnership for Carbon Accounting Financials (PCAF).		
Additional metric	Data coverage (%)	*Emissions – Estimated (%):* emissions estimated by MSCI using sector analysis. *Emissions – Reported (%):* emissions reported directly by companies and collected by MSCI. *Emissions – Not covered (%):* no scope 1 or 2 emissions data reported/estimated. *Sovereign debt coverage:* proportion of the portfolio invested in sovereign debt with sovereign debt carbon intensity.	All asset classes. Data coverage gaps may result from lack of available data for a particular asset class e.g. sovereign debt or holdings not publishing their emissions' data. Specific data coverage metric applies to sovereign debts	Scope 1 and 2
Portfolio alignment metric	Implied temperature rise	The implied temperature rise, expressed in degrees Celsius (°C), estimates the global implied temperature rise (in the year 2100 or later) if the whole economy had the same carbon budget over-/undershoot level as the fund or portfolio in question.	Listed equity and corporate fixed income (representing over 70% of assets for the default arrangement, see Table 13)	

Case study: Leveraging on Aegon UK industry advocacy

Institutional Investor Group on Climate Change's (IIGCC) Sovereign Bonds & Country Pathways working group:

Aegon UK co-chaired the IIGCC's Sovereign Bonds & Country Pathways working group. This group was set-up to help integrate sovereign debt into net-zero investment strategies. Currently there is no commonly accepted methodology to report on sovereign emissions, this is key if we want to reach net zero across all asset classes. About 16% of the Scheme (and 17% of its main default) is invested in sovereign debts, as of 31 December 2023. The working group is expected to publish a paper during 2024 that provides guidance on sovereign data and methodology for carbon reporting, target-setting guidance, as well as considerations around collective engagement for sovereign debt.

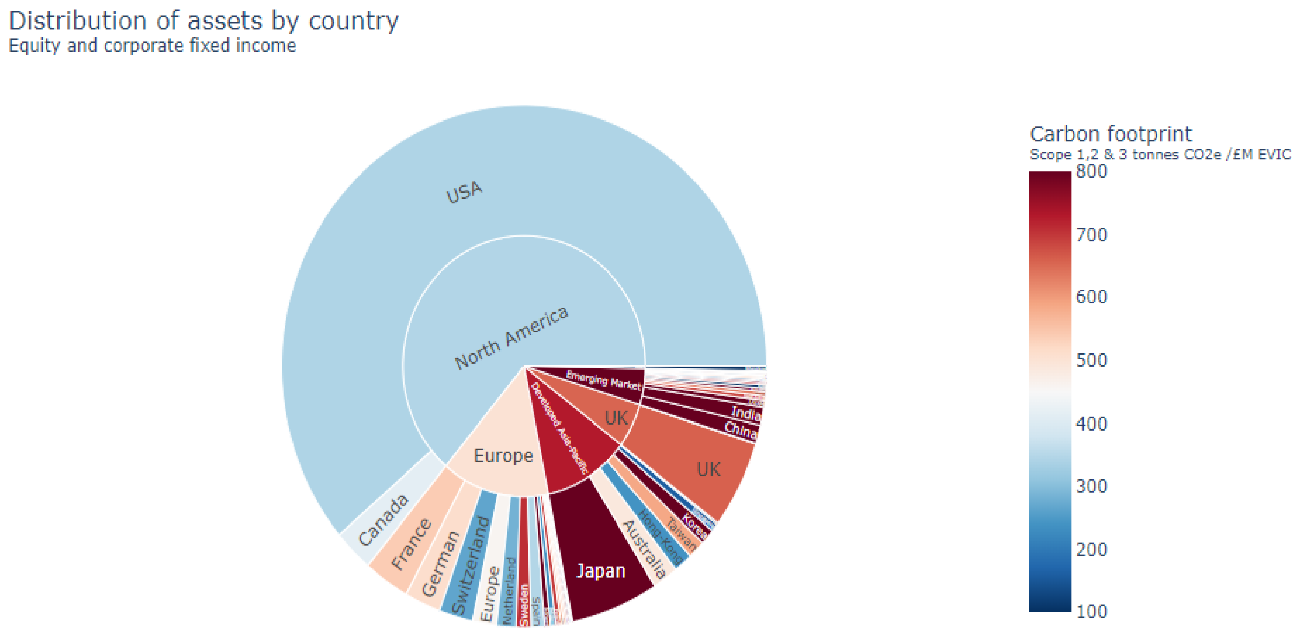
Net Zero Asset Owner Alliance (NZAOA) paper on expectations of asset managers

Aegon UK co-led a paper under NZAOA on engagement expectations of asset owners for their fund managers. The paper, entitled Elevating Asset Manager Net-Zero Engagement Strategies, outlines expectations on governance and integration, climate engagement strategy, climate engagement practices, and transparency and accountability. This is an important and pivotal initiative as we believe it is critical that asset owners' long-term interests and aims are represented by their fund managers. For this to happen, fund managers must adopt and align with asset owners' engagement expectations. This will include applying transparent, and outcomes-oriented climate engagement strategies, which recognises that climate change poses systemic risks to asset owner portfolio returns.

Reported metrics for Aegon BlackRock LifePath Flexi

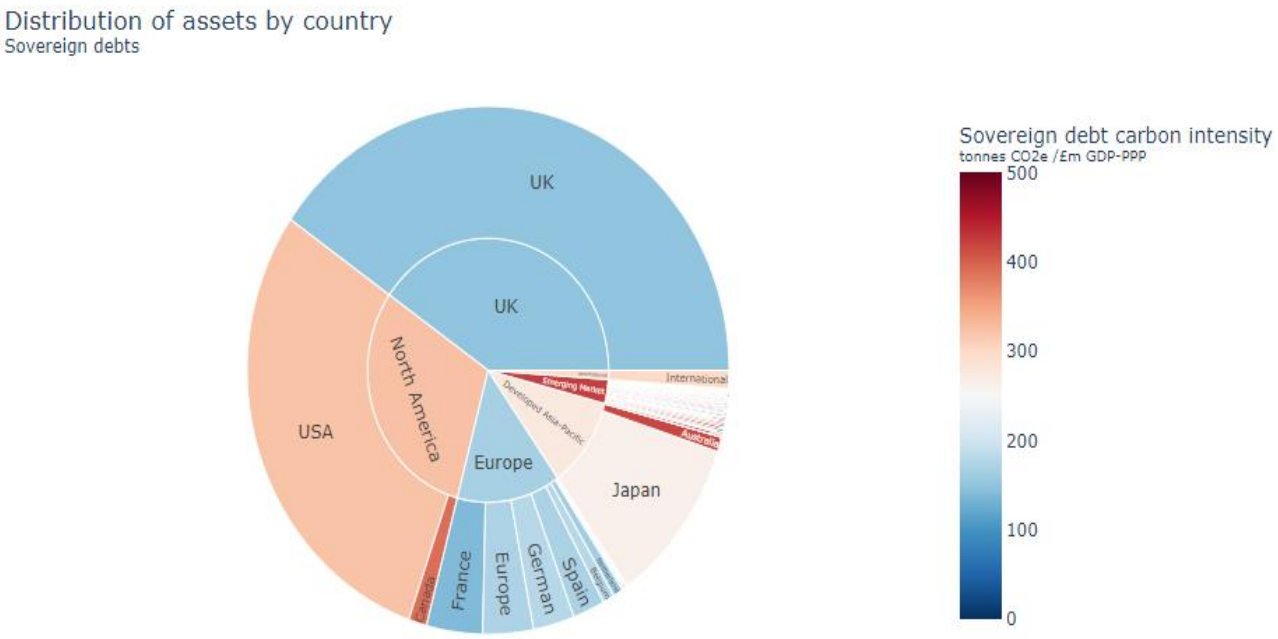
The Scheme's main default, Aegon Blackrock Lifepath Flexi, is strongly tilted towards listed equity (around 70%), sovereign debt (19%) and corporate fixed income (7%). Geographically, the Scheme's main default arrangement is primarily invested in the US (over 50%), the UK (over 17%) and Europe excluding the UK (13%), as of 31 December 2023. These splits are not applicable to individual Members: exact exposures will vary for each Member depending on their years to retirement.

Figure 4: Distribution of assets (equity and corporate fixed income) by country for Aegon Blackrock Lifepath Flexi and corresponding carbon footprint



Source: Aegon UK using data from MSCI as at 31 December 2023

Figure 5: Distribution of assets (sovereign debts) by country for Aegon Blackrock Lifepath Flexi and corresponding sovereign debt carbon intensity.



Source: Aegon UK using data from MSCI as at 31 December 2023

Table 9 below summarises the climate metrics for the Scheme's main default arrangement.

Table 9: Climate metrics for Aegon BlackRock LifePath Flexi

Climate metrics **Absolute emissions metrics**		**2022/23**	**2023/24**
Absolute emissions	Scope 1 & 2 tonnes CO_2e	198,536	219,829
	Scope 3 tonnes CO_2e	1,284,179	1,398,748
Carbon intensity metrics			
Carbon footprint	Scope 1 & 2 tonnes CO_2e /£M EVIC	56.2	44.9
	Scope 3 tonnes CO_2e /£M EVIC	393.5	318.5
Sovereign debt carbon intensity	tonnes CO_2e /£M GDP-PPP	n/a	239.1
Portfolio alignment metrics			
Implied temperature rise (degree Celsius °C)		2.6°C	2.2°C
Additional climate metrics			
Data quality (% total portfolio)	Scope 1 & 2 Emissions – Estimated (%)	14%	11%
	Scope 1 & 2 Emissions – Reported (%)	60%	66%
	Scope 1 & 2 Emissions – Not covered (%)	27%	23%
	including: sovereign debt coverage	*n/a*	*17%*

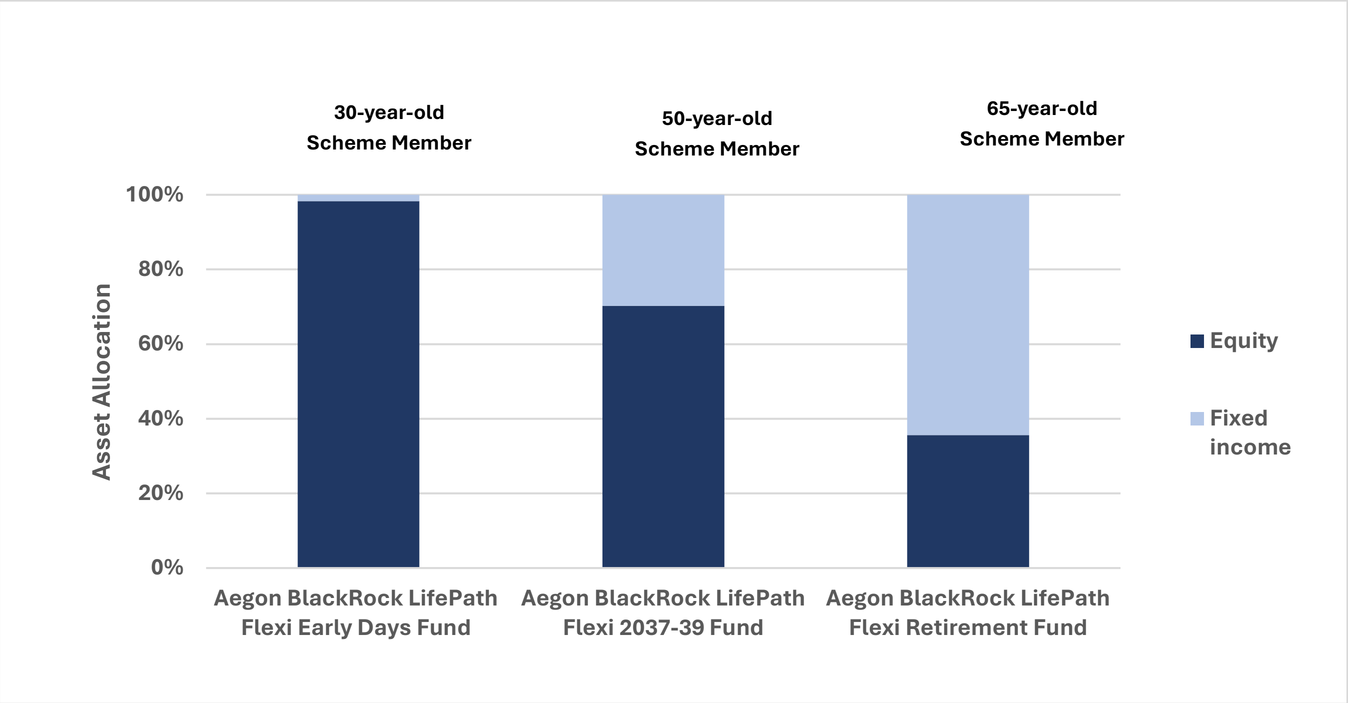
Source: Aegon UK using data from MSCI as at 31 December 2023

While the above data is helpful to understand the climate profile of the whole of Aegon BlackRock LifePath Flexi and to track progress against our net-zero target, the default arrangement is composed of funds that de-risk as a Member approaches retirement. The stage at which a Member is at in their journey towards retirement will affect the asset allocation of their individual portfolio. For example:

- A Member invested in the Aegon BlackRock LifePath Early Days fund will be invested in a portfolio of equity and equity-like instruments.
- A Member invested in the Aegon BlackRock LifePath At Retirement fund will be invested in predominantly fixed-income and similar instruments with a smaller equity component.

As a result, climate data will also vary depending on the asset allocation of a portfolio. For example, more ESG screens and/or tilts in growth stages of portfolios with higher allocation to equities is likely to result in a less carbon intensive profile. Similarly, a higher allocation to fixed income during the de-risking phase pre-retirement is typically associated with a less carbon intensive profile than an early-days Member, who will be more heavily invested in equities. One reason for this may be due to the higher proportion of assets, such as sovereign debt, with no associated carbon footprint. Consequently, we have also mapped the different carbon-intensity profiles of three Members aged 30, 50 and 65 in Figure 6 below. This is to demonstrate how carbon footprint metrics vary across different Members depending on the different risk profiles and asset classes they are invested in.

Figure 6: Asset allocation for the individual portfolios of three different Scheme Members invested in the Aegon BlackRock LifePath Flexi default.



Source: Aegon UK using data from MSCI as at 31 December 2023

Table 10: Climate data reflecting the individual portfolios of three different Scheme Members invested in the Aegon BlackRock LifePath Flexi default, including associated emissions' metrics

Aegon BlackRock LifePath Flexi Early Days Fund	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Scope 1 and 2 emissions coverage	98.0%	99.0%	99.0%	99.0%	98.4%
Financed carbon footprint Scope 1 and 2 tonnes CO_2e/ £M invested EVIC	n/a	76.0	62.0	59.0	48.9
Financed carbon footprint Scope 3 tonnes CO_2e/ £M invested EVIC	n/a	n/a	n/a	404.0	333.5
Sales carbon emissions intensity (Scope 1 and 2 CO_2e/ £M sales)	208.0	188.0	166.0	139.0	115.2
Sales carbon emissions intensity (Scope 3 CO_2e/ £M sales)	n/a	n/a	n/a	945.0	794.8
Sovereign debt carbon intensity (tonnes CO_2e /£M GDP-PPP)	n/a	n/a	n/a	n/a	342.3
Aegon BlackRock LifePath Flexi 2037-39 Fund	**Dec-19**	**Dec-20**	**Dec-21**	**Dec-22**	**Dec-23**
Scope 1 and 2 emissions coverage	67%	68%	67%	75%	78.9%
Financed carbon footprint Scope 1 and 2 tonnes CO_2e/ £M invested EVIC	n/a	74	58	56	44.7
Financed carbon footprint Scope 3 tonnes CO_2e/ £M invested EVIC	n/a	n/a	n/a	389	315.4
Sales carbon emissions intensity (Scope 1 and 2 CO_2e/ £M sales)	226	192	166	138	109.8
Sales carbon emissions intensity (Scope 3 CO_2e/ £M sales)	n/a	n/a	n/a	937	826.0
Sovereign debt carbon intensity (tonnes CO_2e /£M GDP-PPP)	n/a	n/a	n/a	n/a	187.8
Aegon BlackRock LifePath Flexi Retirement Fund	**Dec-19**	**Dec-20**	**Dec-21**	**Dec-22**	**Dec-23**
Scope 1 and 2 emissions coverage	43%	47%	48%	48%	45.7%
Financed carbon footprint Scope 1 and 2 tonnes CO_2e/ £M invested EVIC	n/a	72	57	53	39.6
Financed carbon footprint Scope 3 tonnes CO_2e/ £M invested EVIC	n/a	n/a	n/a	375	318.4
Sales carbon emissions intensity (Scope 1 and 2 CO_2e/ £M sales)	242	198	178	141	95.5
Sales carbon emissions intensity (Scope 3 CO_2e/ £M sales)	n/a	n/a	n/a	976	876.7
Sovereign debt carbon intensity (tonnes CO_2e /£M GDP-PPP)	n/a	n/a	n/a	n/a	183.0

Source: Aegon UK using data from MSCI as at 31 December 2023

Analysis and limitations of climate metrics

We have reflected on 2023 metrics versus 2022 for Aegon BlackRock LifePath Flexi. Firstly, we note that absolute emissions have increased while carbon footprint has decreased compared to last year. The increase in absolute emissions can be explained in part by an increase in the size of the Scheme and by higher data coverage (up by 3.6% coverage), a positive development to ensure we make decisions with more complete climate information. Table 13 illustrates the data coverage split by asset classes for our portfolio and the efforts from Aegon UK, in collaboration with our data provider and fund managers, to continuously improve data coverage of the Scheme.

- Our data coverage is excellent for equity, corporate fixed income and real estate investment trusts, representing the majority of assets our Members are invested in.
- We adopted the PCAF methodology to track and report on sovereign debt emissions, which Aegon UK has implemented and which we have included in our metrics.
- There is no methodology to measure emissions from cash and cash-equivalent.

Table 11 Data coverage per asset classes for Aegon BlackRock LifePath Flexi

Asset classes	Data coverage measurement:	% coverage for Aegon BlackRock LifePath Flexi	% AUM of Aegon BlackRock LifePath Flexi

Equity	Scope 1 and 2 emissions covered in %)	99.6%	70.0%
Sovereign debt	Sovereign debt carbon intensity	98.7%	17.0%
Corporate fixed income	Scope 1 and 2 emissions covered in %)	96.4%	7.4%
Others (Funds, asset-backed securities)	Scope 1 and 2 emissions covered in %)	0.0%	4.4%
Cash and equivalent	Scope 1 and 2 emissions covered in %)	0.0%	0.9%
Real estate	Scope 1 and 2 emissions covered in %)	100.0%	0.3%

Source: Aegon UK using data from MSCI as at 31 December 2023

Secondly, we note a significant drop in carbon footprint, across scope 1 and 2 and scope 3 between 2022 and 2023 Scheme years. This drop can be attributable to several factors using the emissions' attribution analysis methodology issued by the Net Zero Asset Owner Alliance to analyse the drivers of the change observed year on year.

Interpretation of the carbon emission attribution analysis

Through the carbon emission attribution analysis of the fund, we found that the most significant contributors to the reduction in the Scheme's Scope 1 and 2 carbon footprint over the last Scheme year were:

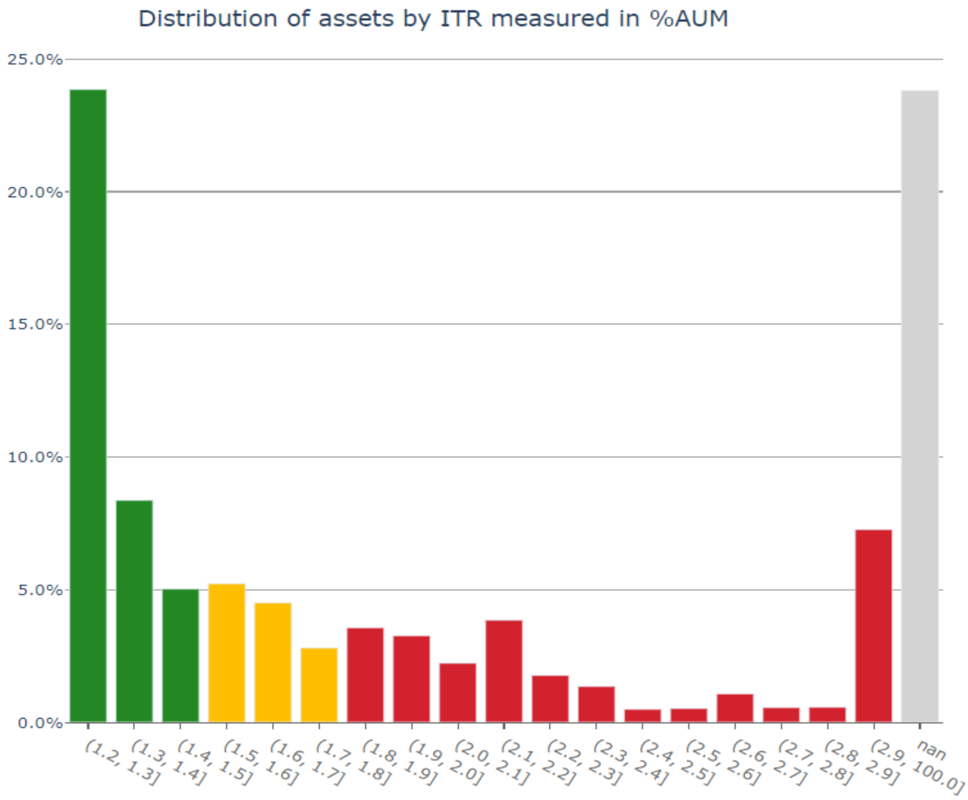
- overall upward market movements, which translated into higher enterprise value including cash values,
- passive changes in relative allocation to companies due to market movements and index rebalancing, resulting in increased or decreased relative investments in particular companies compared with last year,
- divestments, most notably from Russia-based Energy and Material sectors.

We interpret the effects of changes in allocation and divestment on the carbon footprint as a result of the tilts and screens implemented at building block level, as well as increased valuation of companies in the Energy and Material sectors, following favourable market movements. Our emission attribution analysis highlights that, during the Scheme year, the actual carbon emissions of the assets held have had an adverse effect on the Scheme's overall carbon footprint. This implies that overall, companies we are invested in did not reduce their own emissions, in particular companies in high-emitting sectors, and highlights the importance of engagement and stewardship activities to drive real-life decarbonisation.

Additional analysis

We note that the Scheme's main default is exposed to a diverse range of assets, some of which are aligned to a world below 1.5°C (as measured by MSCI implied temperature rise metric), but a large part is pointing towards a 2°C or above trajectory. Figure 7 summarises the breakdown of assets by buckets of implied temperature rise scores. The Scheme's drop in ITR against last year's value is more attributable to a change in MSCI's methodology (mentioned in the case study "Engagement and collaboration with MSCI" in the Risk section of this report) rather than a change in the composition of assets held or of the assets' improved alignment with a world below 1.5°C.

Figure 7: Distribution of assets by implied temperature rise (ITR) measured in %AUM for Aegon Blackrock Lifepath Flexi



Source: Aegon UK using data from MSCI as at 31 December 2023

Reflections on limitations

Finally, while having consistent data year on year is helpful to begin to understand the climate impact of the Scheme's main default arrangement, we remain mindful of key limitations to current data, as per the below:

- We are now reporting data for sovereign debt following the industry guidance on sovereign debt issued by the Partnership for Carbon Accounting Financials (PCAF)[28]. However, we note the metric differs from other asset class which limits its comparability.
- We do not have access to an in-depth view of the Scheme's investments prior to 2022. For prior years, we rely on data estimated by Aegon UK and converted from USD into GBP. We are hoping to build on this approach to construct a stable and consistent 2019 baseline.
- Whether reported or estimated, the quality of emission data may vary:
    - MSCI do not verify emissions data, and their estimated emissions are based on companies within a sector that self-reports. Consequently, there may be some inaccuracies in the reported emissions data used to calculate the above metrics.

[28] Partnership for Carbon Accounting Financials (December 2022), The Global GHG Accounting and Reporting Standard for the Financial Industry

There is currently no industry-wide company emissions auditing and common standard.

  - We acknowledge that widespread scope 3 emission reporting will take time. While the disclosure of scope 3 emission data is improving, there remains some concerns, including what different companies in a similar sector report on, what a single company chooses to include in their reported emissions from one year to another or how complete the scope 3 emissions are. We are exploring the development of MSCI's new scope 3 combined methodology to leverage the best of both reporting schemes and estimation models and improve confidence in our scope 3 reporting.

- We understand there are limitations regarding the calculation of implied temperature rise. In February 2023, our service provider, Aegon UK had fed into the MSCI implied temperature rise consultation to improve calculation methodology. Improvements, including aligning with a 1.5°C industry standard, were released during the Scheme year and are now reflected into this year's report. These improvements have translated into a reduction of the metrics computed. Despite these improvements, we still recommend considering implied temperature rise in conjunction with other metrics in this report.

Limitations specific to scenario analysis are addressed in the Strategy section of this report.

We recognise there is more to do to enhance our reporting capabilities. We will therefore continue to challenge Aegon UK and our data provider on the above, as well as contribute where possible to developing industry methodologies. We welcomed the year-on-year improvement in our analytical capabilities, in particular emissions' attribution analysis, sovereign emissions reporting and more granular climate scenario analysis per asset class and sectors. This level of insight allows us to assess our progress with more confidence as we set our future strategy and better identify where improvements on climate are needed. Regardless, greater transparency and consistency of emissions reporting would benefit comparability and progress across the industry[29].

Progress against our net-zero targets

We have committed our main default arrangement to have net-zero greenhouse gas emissions by 2050. Furthermore, our medium-term net-zero target is to halve the carbon footprint of this fund by 2030 against a 2019 baseline, measured in tonnes of CO_2 equivalent per millions of pounds invested using EVIC.

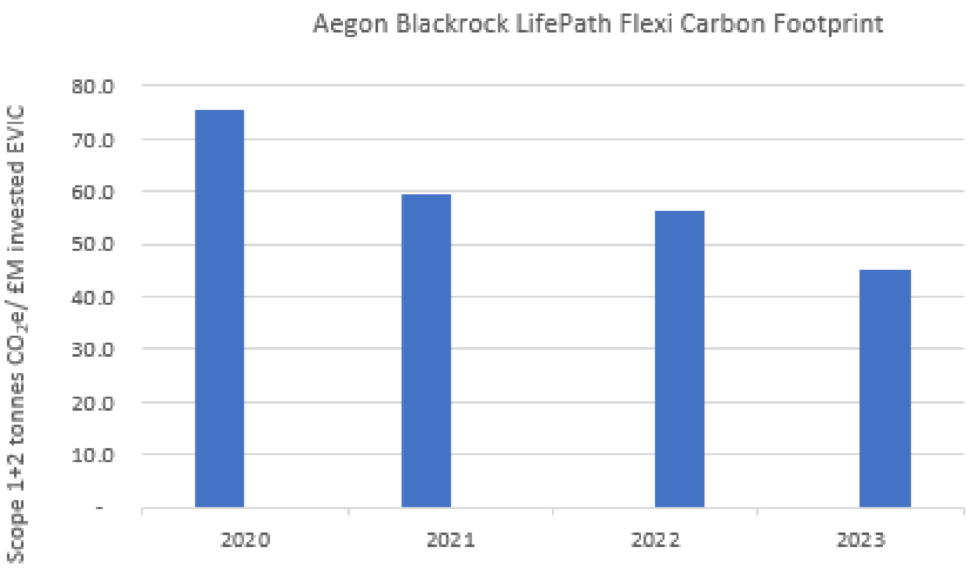
As the main default arrangement, Aegon BlackRock LifePath Flexi is where the majority of our Members are invested and where they expect us to have a robust approach to climate change management, on their behalf. Our net-zero targets are aligned with our fiduciary duty and responsible investment beliefs. Our targets apply to listed equity, corporate fixed income and real estate investment trusts for scope 1, 2 and 3 emissions. They do not apply to asset classes with no methodologies to account for emissions data when the targets were set (e.g. cash, sovereign debt at the time, commodities and alternative assets) but we expect that the scope of our target may widen to other areas of the Scheme over time.

The significant progress being made in relation to Aegon BlackRock LifePath Flexi 2050 net-zero target is shown in Figure 8 below, as at 31 December 2023. We estimate that the fund has reduced

[29] Defined Contribution Investment Forum, The First Wave

its carbon footprint by 40.4% between 2020 and 2023[30]. We are thus projected to meet our target to halve the fund's scope 1 and 2 footprint by 2030. Our new emissions attribution analysis indicates that the reduction comes from both allocation changes (72.5% of our default arrangement, Aegon BlackRock LifePath Flexi has ESG screens and/or tilts, as of December 2023) and market movements, with increases in asset valuations for some sectors since 2020. This analysis is crucial in helping us better identify the impacts and limits of our investment decisions. It also highlights how our stewardship and policy advocacy will be key to achieve our overall net-zero target.

Figure 8: Estimated evolution of Aegon Blackrock LifePath Flexi since 2020



Source: Aegon UK using data from MSCI as at 31 December 2023

We use a 2020 baseline calculated by Aegon UK as our data provider and fund manager are currently unable to provide a 2019 baseline. We recomputed the data for 2021 to align with the methodology used to calculate the 2020 baseline, hence the difference with data reported in our previous TCFD reports.

We note that BlackRock is also reporting to be on track to achieve its own decarbonisation target to halve carbon emissions intensity by sales across BlackRock Lifepath by 2029. We welcome this progress which directly supports our own targets.

We observe variability in Aegon BlackRock LifePath Flexi's scope 3 carbon footprint, which we tentatively estimate has reduced by 19% over the 2020-2023 period whilst coverage has

[30] Scope 1 and 2 emissions for listed equities and corporate fixed income only, as per the scope of our current target

increased from 73.3% to 77.4%. In the coming Scheme year, we are looking to reinforce our baseline methodology and confidence in estimated scope 3 emissions.

We do not expect the decarbonisation of Aegon BlackRock LifePath Flexi to be linear but instead expect year-on-year variations together with a general trajectory towards net-zero.

Looking ahead

We hope this report has provided insight into how we manage climate risks and opportunities for our Members. It is clear to us that climate management and associated disclosures are fast-evolving areas. Consequently, we will continue to review and assess our performance yearly, in line with new data, our Members' expectations, and market developments. We are pleased with Aegon BlackRock LifePath Flexi decarbonisation so far and we will continue to build on this progress to further drive improvements for Members.

We will continue to:

- Measure our decarbonisation progress and regularly review the strength of our net-zero targets, including by enhancing our 2020-2021 time series in next year's TCFD report to give better sense of progress against our net-zero target,
- Monitor our fund managers' approach to climate risks and implementation of robust climate management, in line with our requirements and expectations, and challenge them where necessary,
- Work in partnership with key service providers to improve the data we have access to for our climate-related decision making, such as by exploring the adoption of scope 3 combined methodology for scope 3 emissions.

In the short-term we anticipate further progress for our Members to come from:

- Adopting a set of new voting guidelines to better articulate and formalise our high-level expectations of companies and voting considerations, with a focus on our updated engagement themes,
- Extending our expressions of wish approach and reviewing the alignment of our fund managers with our expectations, in relation to most significant votes, for the 2024 annual general meeting season,
- Continuing to upskill ourselves on emerging areas related to climate change, such as links to biodiversity loss, so we can improve how these are addressed in our investment strategy,
- Engaging and challenging our fund managers on how they can further support the decarbonisation of the Scheme's default arrangement.

In our view, climate change is a systemic issue: it requires global collaboration to transition the economy to net zero. We thus welcome market developments driving additional climate transparency and accountability. As per our fiduciary duty and our responsible investment beliefs, we will continue to encourage market collaboration towards common goals benefitting our Members' investments and the world they live in.

Appendix

The table below outlines the assumptions underpinning our 1.5°C orderly scenario, 2°C disorderly and 4°C failed transition scenarios in the strategy section[31].

			1.5°C orderly scenario	2°C disorderly scenario	4°C failed transition scenario
World population					
	Peak year		2070	2070	2070
	in 2100 (million)		9019	9019	8990
GDP					
	Real GDP growth 2010-2100 (CAGR)		2%	2%	2.3%
Electricity generation by fuel source					
	2030 energy mix				
		% renewables	72%	41%	30%
		% nuclear	6%	6%	18%
		% gas	17%	26%	21%
		% coal	4%	28%	31%
	2050 energy mix				
		% renewables	94%	94%	50%
		% nuclear	3%	4%	15%
		% gas	3%	3%	15%
		% coal	0%	0%	20%
Carbon sequestration ($MtCO_2$/year)					
	Uptake (surpasses 5000 Mt/year)		2037	2050	2055
	Carbon sequestration peak (Mt/year)		8779	5926	12311
Low-carbon fuel sources in transport					
	2050 low carbon fuel sources (%)		26%	26%	4%

[31] MSCI ESG Research LLC (March 2022), Introduction to the Integrated Assessment Models and Shared Socioeconomic Pathways

		1.5°C orderly scenario	2°C disorderly scenario	4°C failed transition scenario
GHG emissions				
	Peak year	2020	2030	2020
	90% reduction achieved by	2045	2049	n/a
	Zero emissions achieved by	2055	2060	n/a
	Annual change - 2020-2030 (Compound Annual Growth Rate)	-7.1%	0.7%	-0.4%
	Annual change - 2020-2050 (Compound Annual Growth Rate)	-11.7%	-8.1%	-0.7%

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