



For customers

Task Force on Climate-Related Financial Disclosures

(TCFD) entity report

2023





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Aegon UK Task Force on Climate-Related Financial Disclosures (TCFD) entity report

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Glossary of terms

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

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 default fund (or default investment strategy) is a type of lifestyle fund that members of a workplace pension scheme are automatically invested in if they don't select a fund when joining the workplace scheme. Lifestyle funds are designed for savers who don't make active fund choices throughout their working life.

Double materiality: When we consider the impact of climate change on our investments, we follow the concept of double materiality. This considers both the biggest impacts climate change has on our investments and the significant impact our investments have on nature, climate and society.

Engagement: Purposeful, targeted communication with an entity (for example, fund manager, company, government, industry body, regulator) on 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): ESG stands for environmental, social and governance. How companies choose to respond to ESG issues, such as climate change, diversity & inclusion and human rights, could ultimately influence investment returns and the ability of your pension to provide a reliable income for you in retirement.

- **Environmental** – looks at how companies manage risks, such as climate change and waste & pollution, or take opportunities, such as the move to renewable energy.
- **Social** – relates to a company's effect on individuals and society and covers factors such as human rights and labour standards, diversity, equity and inclusion or workplace safety.
- **Governance** – good governance ensures a company's management team and its board look beyond short-term financial interests alone to make decisions based on a high ethical standard, covering factors such as board structure and remuneration.

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: The process by which we describe to key fund managers our voting preferences for key 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.

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

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.

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

Physical risks: The risk 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.

Scope 1 and 2 greenhouse-gas (GHG) emissions: Scope 1 emissions are direct GHG emissions that arise from sources owned or controlled by a reporting company. Scope 2 emissions are indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by a reporting company.

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.

Stranded assets: Investments in companies that become economically or operationally unviable as economies transition to net-zero and lose value resulting in lower returns to investors.

Stewardship: Stewardship is a powerful tool that fund managers can use to influence corporate behaviour, engaging with the companies they invest in to make your money talk on your behalf. Fund managers can vote on the re-election of board directors, and challenge companies on weak employment practices or poor environmental records.

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.



Foreword

At Aegon, we believe that sustainability is key to creating a fair and healthy society and getting the best long-term results for our customers – enabling them to live their best lives.

In 2023, we continued to make progress with our net-zero commitments and our broader sustainability plans. We were delighted to become a first-time signatory of the UK Stewardship Code – a set of 12 principles that sets high standards of responsible investment on behalf of UK savers and pensioners.

I am proud that we have committed to net-zero GHG emissions across our portfolio of default funds, and our [climate roadmap](#) shows our progress so far outlining our short-term targets and vision for 2050. We also took steps to improve our own climate impact by addressing our operational footprint. We are pleased to report progress in this Report.

As a long-term savings provider, we take responsible investing very seriously. We know that investments are where our carbon footprint is most material for us.

Our UK team are focused on providing pension, savings, and investment solutions for over 4 million customers throughout their lifetime. We do that by working with financial advisers and employers – we’re the UK’s largest investment platform and we provide workplace pension schemes to over 9,000 employers. We offer a range of funds on our platforms that take ESG considerations into account, giving customers the ability to focus on the issues that matter to them, whether it’s sustainability more broadly, or specific themes such as climate change.

Our fiduciary duty (our responsibility for taking care of our customers’ money) includes making sure that our customers’ assets are responsibly invested in the face of climate change. Our climate-related disclosures, based on the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, show how we’re identifying and responding to climate change. Over 2023, we evolved our understanding of climate risk within Aegon through enhanced analytical capabilities and data coverage, evolved our risk framework to reflect our approach to climate risk and introduced climate risk reporting for sovereign bonds.

Collaboration and transparency are key to ensuring the pace of climate action matches the level required to tackle the global problem of climate change. We work with a range of stakeholders, including our fund managers, data and service providers, and clients to ensure we are taking appropriate steps to address climate risk for our customers, and evolve our approach over time.

Another issue of growing concern to the investment community is the loss of biodiversity and other nature-related impacts, and their linkage to climate change. In 2023, Aegon UK signed the Finance for Biodiversity Pledge, and joined the Nature Action 100, a global initiative focused on driving greater corporate ambition and action to reverse the loss of nature and biodiversity.

I hope this report gives a good sense of where we are on our decarbonisation journey and where we hope to partner with others to make a difference. I am optimistic we can transition to a more sustainable and equitable world, as long as we all rise to the challenge.



Mike Holliday-Williams

Chief Executive Officer, Aegon UK

Compliance statement



This is Scottish Equitable plc's (SE plc) TCFD entity report. SE plc is part of the Aegon UK group and operates under the Aegon brand. Unless otherwise specified, in this report references to Aegon UK are to SE plc. SE plc is within the remit of the Aegon UK Group Board.

The disclosures in this TCFD entity report, including any third-party or group disclosures cross-referenced in it, comply with the requirements under the Financial Conduct Authority (FCA) ESG Sourcebook.

Jim Ewing
Chief Financial Officer, Aegon UK

Executive Summary

In this report we set out the main climate-related risks our investments are exposed to and how we’re managing these for our customers. Climate-related risks are financially significant, as our scenario analysis shows. We expect these risks to increase unless appropriate policy and private sector actions are taken. We’ll continue to review our climate strategy and associated activities every year. We also expect our climate engagement and advocacy work will increase over time.

Over 2023/2024, we reviewed our climate governance, developed our climate strategy, improved our climate risk management, and set new climate targets. Our main achievements are listed below.

Governance

- This year we reviewed both of our Board-level and management-level committees’ terms of references to strengthen oversight of climate disclosures, risk management and strategy.
- We set out day-to-day management responsibilities related to climate change. All our investment professionals have a sustainability-related performance objective, many of which directly support our net-zero transition plan.
- In 2023, we started reporting against our climate targets, taking progress to our Management Investment Committee (MIC) and Group Investment Committee (GIC). We also made quarterly updates to our Aegon Fund Governance Group (AFGG), as per our climate roadmap governance. Our climate roadmap development also went through an internal audit.

Strategy

- We’re committed to net-zero greenhouse gas (GHG) emissions by 2050 for our portfolio of workplace default funds. In 2023, we published our net-zero transition plan, our [climate roadmap](#). Our climate roadmap is an actionable transition plan with specific targets that we use to track our progress. The plan sets out our route to net-zero for all scopes of emissions and across all asset classes, but not cash.
- 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. We also set new fund manager voting guidelines, including specific expectations for climate.
- We developed a nature action plan, showing how we will continue to embed nature considerations across our investments. As part of this work, we made nature one of our key engagement themes, we assessed biodiversity risks across our investments, and we signed the [Finance for Biodiversity Pledge](#), to help protect and restore biodiversity.

Risk management

- We continued to embed climate risk into our Enterprise Risk Management (ERM) framework, including the introduction in 2023 of two climate focused scenarios in our Reverse Stress Tests.
- We assessed all our fund managers’ climate credentials as part of our yearly responsible investment monitoring and setting of expectations.

Metrics and targets

- For corporate fixed income (loans issued to companies) and listed equity (company shares) held in our insured estate portfolio, our scope 1 and 2 carbon footprint (tCO₂e/£m) decreased by 22% between December 2022 and 2023. We also saw a reduction in our scope 3 carbon footprint by 15% over this same period.
- For 2023, we were able to measure and include emissions data for our sovereign debt (bonds issued by governments to borrow from investors) exposure. We were able to calculate emissions on 97% of our sovereign debt as of 31 December 2023.
- We have set specific emissions, investments, engagement and tracking targets for our portfolio of workplace default funds and have reported against these as part of our ongoing climate roadmap governance. Between 2020 and 2023, we reduced our scope 1 and 2 carbon footprint by 28.6% for listed equity and corporate fixed income. Our medium-term target is to reduce our scope 1 and 2 carbon footprint by 50% by 2030 for these asset classes, against a 2020 baseline.



Governance

In this section we set out:

- How our Aegon UK Group Board (the Board) is responsible for the oversight of our climate risks and opportunities.
- How our committees are set up to respond to climate change challenges.
- How our management responsibilities related to climate change are embedded in our day-to-day activities.

1. Board oversight

In this section we explain how the Board monitors and oversees progress against our goals and targets for addressing climate-related issues. Our efforts to address climate change are supervised by the Board, which oversees our approach to sustainability, and in particular, our responsible investment (RI) and stewardship commitments. This includes Aegon UK’s net-zero commitments, our climate roadmap, and the long-term resilience of the business to climate change.

The Board is responsible for setting corporate strategy, with sustainability elements expressed in the UK through two of our strategic ambitions: being a trusted partner; and sustainable future.

The Board considers climate risks and opportunities when developing our yearly business plan. We use key performance indicators (KPIs) to assess performance against our strategic ambitions. For our sustainable future ambition, we have the following climate related KPIs:

- Reduction in scope 1 and 2 CO₂ operational emissions against a 2019 baseline.
- Assets under management (AUM) invested with a climate impact focus.
- Volunteer days.

We track progress on these KPIs on a scorecard which is regularly reviewed by the Board. We also monitor our climate roadmap progress every year and targets will be reviewed by the Board at least every two years.

We explain how and when the Board and/or Board committees (for example, audit, risk, or other committees) are informed about climate-related issues in the table on page 9.

The terms of reference for the Board, its committees, and the Executive Committee help specify accountability for climate disclosures, risk management and strategy.

We have included an overview of the terms of reference, and main climate-related governance activities for the Board and relevant committees in the table on page 9.

Committee (frequency)		How climate-related issues are considered
Board	Aegon UK Group Board (Quarterly)	Oversee Aegon UK's overall approach to sustainability and responsible investment, including a yearly review of progress in respect of the sustainable future ambition.
	Aegon UK Group Board Risk and Capital Committee (Quarterly)	Oversee alignment of responsible investment/ESG execution within Aegon UK's risk management framework.
	Audit Committee (Quarterly)	- Review and approve Aegon UK's sustainability-related financial disclosures, ensuring production is in line with relevant regulatory requirements. - In relation to review of statutory accounts, review the presentation of climate considerations in the Strategic Report, Directors Report and Financial Statements, and consider senior management's approach to identifying and responding to climate-related risks, and their presentation in the Strategic Report, Directors Report and Financial Statements.
	Aegon UK Group Investment Committee (Quarterly)	- Oversee the approach to responsible investment, including responsible investment and climate strategy implementation and stewardship activities. - Review and recommend to the Aegon UK Group and Aegon Ltd Boards strategies related to responsible investment, climate and stewardship, and review and recommend approval for the climate roadmap. - Recommend to the Aegon UK Group Board Risk and Capital Committee to approve policies related to responsible investment, including the responsible investment policy, which includes climate expectations.
	Remuneration Committee (Twice yearly)	Consider alignment of remuneration strategy with Aegon UK's approach to sustainability, including the responsible investment / ESG objectives.
	With-Profits Forum (Quarterly)	Approve the investment policies and strategy adopted in relation to Aegon UK with-profits funds, taking into account Aegon UK's approach to sustainability and stewardship and, in particular, Aegon UK's Responsible Investment policy.
Executive	Executive Committee (Regularly)	Manage Aegon UK's approach to sustainability and in particular its responsible investment activities, ongoing business activities and climate commitments.

Table 1: How climate-related issues are considered by the Board.



Aegon UK also benefits from being part of a global group which recognises the importance of sustainability, including climate change. Aegon Ltd set up the Global Sustainability Board (GSB) to increase governance and oversight of sustainability across relevant country units. The GSB is supported by Local Sustainability Boards (LSBs) across Aegon business units.

The responsibilities of the Aegon UK Sustainability Board include developing and proposing the sustainability strategy for Aegon UK and Aegon Ltd in light of UK market dynamics and risk factors; and developing and agreeing our overall UK sustainability roadmap to ensure the GSB sustainability agenda and priorities are translated into action in the UK. The Aegon UK Sustainability Board is chaired by our General Counsel and reports directly into the GSB.

* Covering the following companies: Aegon UK plc (“AUK plc”); Aegon UK Investment Holdings Limited (“AUKIHL”); Aegon Investments Limited (“AIL”); Cofunds Limited (“Cofunds”); Scottish Equitable plc (“SE”); and Scottish Equitable Holdings Limited (“SEHL”).

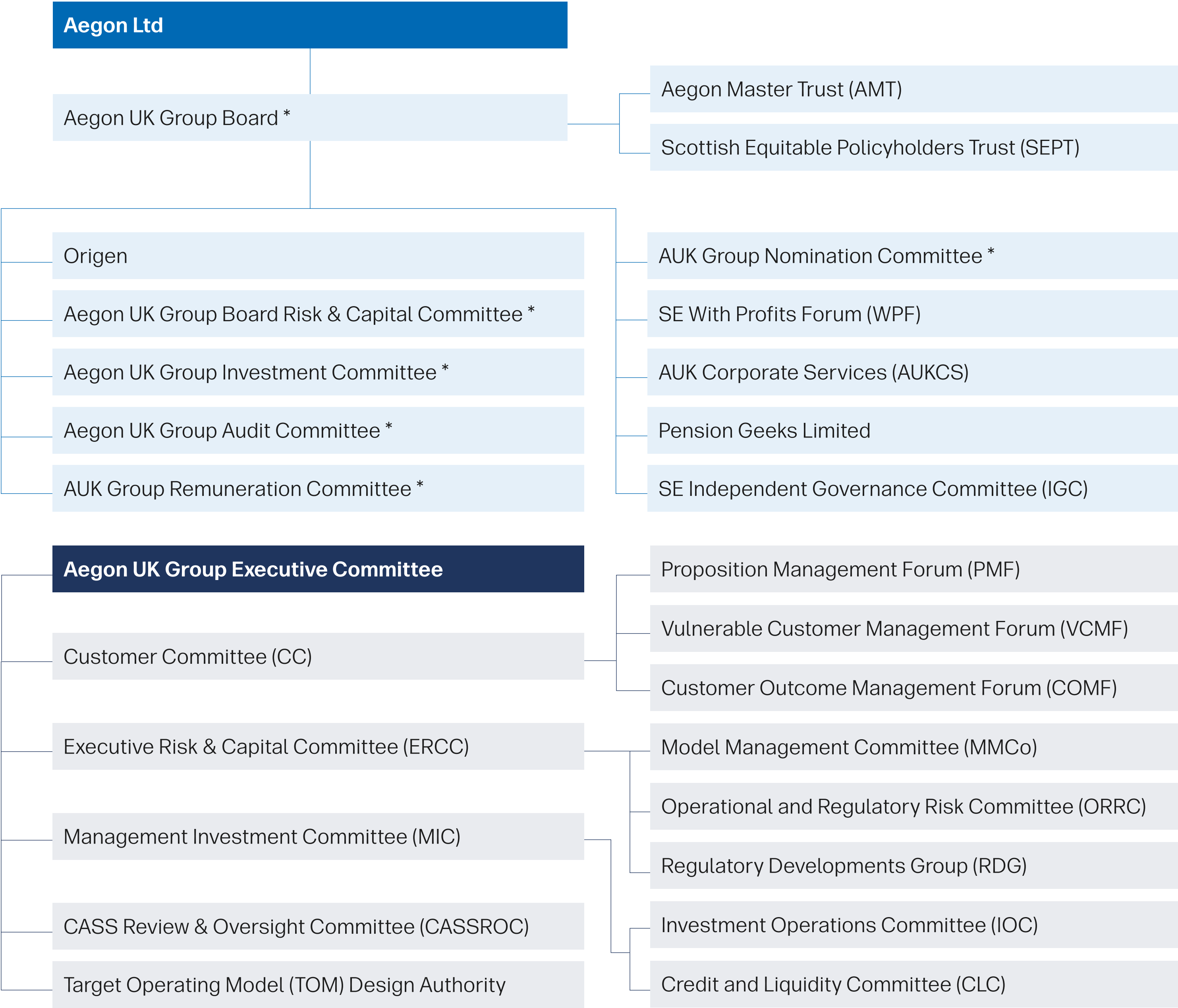


Figure 1: Aegon UK Group governance structure.

The Board of Directors of Aegon Ltd has ultimate oversight over climate-related risks and opportunities. Through its Nomination and Governance Committee, the Board of Directors of Aegon Ltd is advised and kept appraised of business and regulatory developments regarding sustainability, including climate change. An update is provided at least once per year on Aegon’s sustainability approach, which includes climate change as a priority theme.

The CEO of Aegon Ltd, supported by the Executive Committee of Aegon Ltd, is responsible for annually approving the double materiality assessment process, including related climate considerations, and setting Aegon’s broader sustainability strategy via Aegon’s sustainability approach. The CEO of Aegon Ltd and Executive Committee of Aegon Ltd receive at least an annual update on progress made against the approach and the climate ambitions included therein. They are also responsible for approving any additional climate ambitions and targets that are set at the group level.

The Global Sustainability Board (GSB) advises the Executive Committee on Aegon’s strategic sustainability approach, including climate change as a priority theme, and meets quarterly.

The GSB is supported by the Corporate Sustainability Team. The GSB is a senior management committee, established in December 2021 to enhance the overall governance and oversight of Aegon’s company-wide approach to sustainability. It monitors progress made on climate targets and ambitions on a quarterly basis and, if insufficient progress is made, the GSB can escalate this to the Executive Committee of Aegon Ltd. The GSB is chaired by the CEO of the Americas and consists of senior-level representatives from across the company, including five members of the Executive Committee of Aegon Ltd.

The GSB is supported by local sustainability boards across Aegon’s business units. From a risk perspective, the Group Risk & Capital Committee (GRCC) oversees Financial Risk Management’s climate scenarios that analyse the potential impacts of climate change on Aegon’s financial accounts. The Non-Financial Risk Committee (NFRC) oversees Risk Governance’s annual climate risk assessment that identifies possible physical and transition risks that could impact Aegon.

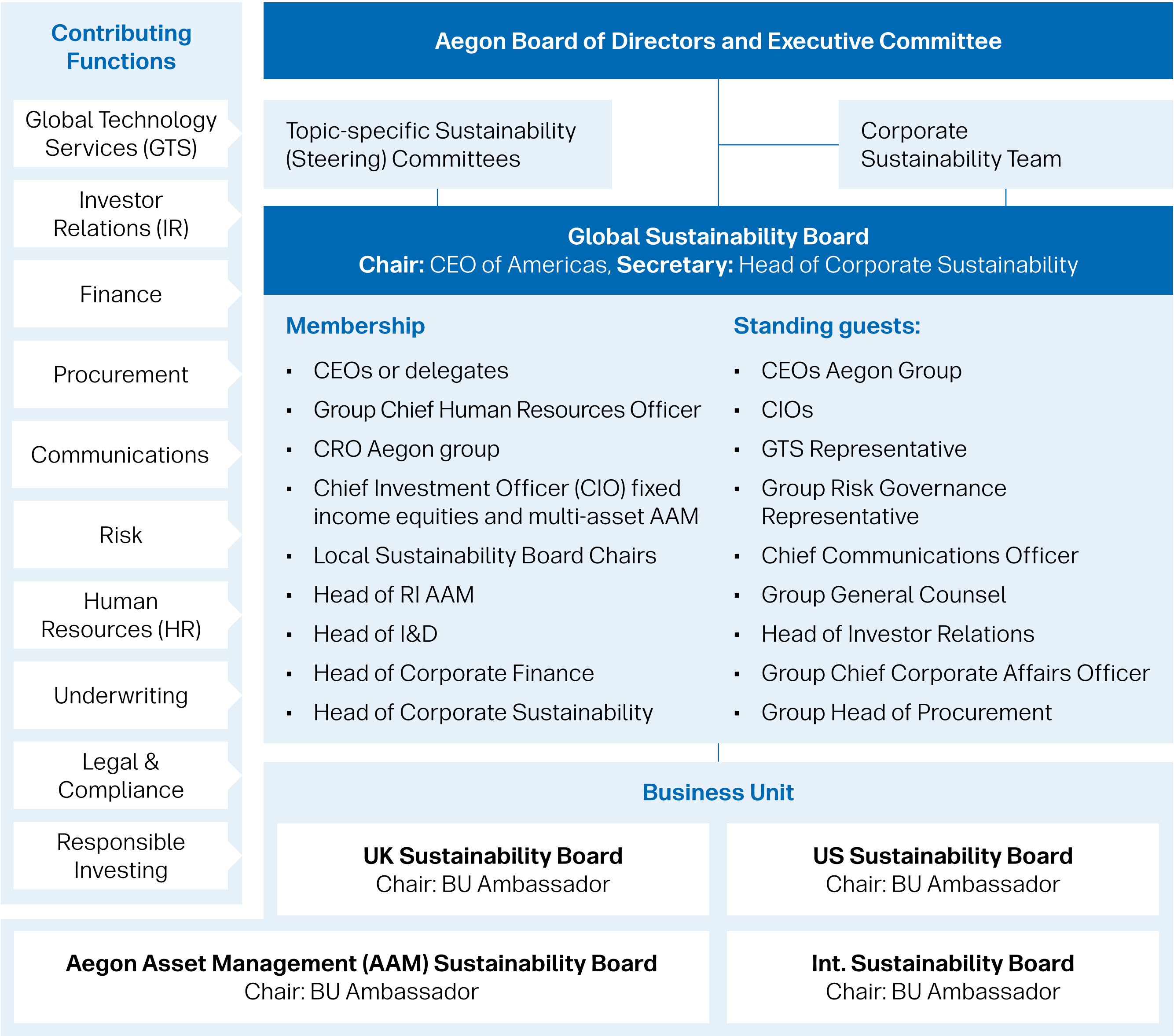


Figure 2: Aegon sustainability governance structure.

2. Management’s role

In this section we explain how Aegon UK has assigned climate-related responsibilities to management-level positions/committees; whether such management positions/committees report to the Board or a committee of the Board; and whether those responsibilities include assessing and/or managing climate-related issues. Management responsibilities relating to climate change across Aegon UK are clearly defined, and form part of our day-to-day activities.

Sustainability Board

Aegon UK set up the Sustainability Board as the key management committee responsible for driving forward the sustainability agenda across Aegon UK. The Committee chair, the General Counsel, is Executive advocate for the sustainable future ambition of the Aegon UK strategy. The Aegon UK Sustainability Board is responsible for ensuring a regular update on those activities is provided to the Board, either as a stand-alone item or as part of the Executive Management Report.

Management Investment Committee (MIC)

The MIC is responsible for reviewing our approach to responsible investment strategy, policies, and reporting. The MIC is chaired by Aegon UK’s Chief Finance Officer. Its outputs include reports for the Aegon UK Group Investment Committee.

Aegon UK Chief Actuary

The Aegon UK Chief Actuary is the designated senior management function with responsibility for identifying and managing financial risk from climate change, in line with the Prudential Regulation Authority’s expectations. The Chief Actuary sits on the Aegon UK Executive Risk and Capital Committee.

Head of Property Services

The Head of Property Services has management responsibility for implementing responsible business practices across the Aegon UK business, as set out in the internal Aegon UK Environmental Policy, and the Aegon UK Sustainability Report.

Responsible Investment Team

Aegon UK has a dedicated Responsible Investment (RI) team comprising seven people, which includes: Climate Lead, Stewardship Lead and four analysts, making sure we progress on our journey towards net-zero and deepen our in-house climate expertise. This team’s responsibilities include generating climate insights and analysis, monitoring climate data and running scenario analysis across our investment portfolio. It does this through our third-party climate data vendor, MSCI. Our climate team and Managing Director of Investment Proposition have regular calls with MSCI and discuss data gaps and development areas, such as limitations of climate scenarios.

Aegon UK’s [climate roadmap](#) was approved by the Board in March 2023 and published in May 2023. We completed our first year of governance and reporting on progress for our climate roadmap during 2023. Our governance is a quarterly Aegon Fund Governance Group (AFGG) review, with at least a yearly update to the MIC and GIC, and full Board review. In January 2024, Christina McComb was appointed as a non-executive Director, bringing responsible investment experience.

During 2023, Aegon UK was accepted as a signatory to the Financial Reporting Council’s UK Stewardship Code. Being accepted to join the UK Stewardship Code is a significant achievement. The UK Stewardship Code is a set of voluntary principles that aim to improve the quality of stewardship practices by asset owners, fund managers, and service providers. To become a signatory, organisations must clearly show that they have exercised effective stewardship over the previous 12 months through good governance and active engagement which has helped to generate long-term positive impacts for the economy, the environment and/or society. You can view a summary of this information in our [2023 Stewardship Report](#).

We performed a benchmarking exercise and presented the results to the MIC for noting in October 2023 following a request from the GIC and the Group Audit Committee (GAC). The exercise compared Aegon UK’s 2022 TCFD disclosures to those of our peers, highlighting key areas of difference for consideration for 2023 reporting. The TCFD reports of five peers were reviewed. Overall, the review indicated we are largely aligned with our peers.

During 2023, we commissioned an interview-based Board effectiveness review which was conducted by board review specialists, Independent Audit, in which governance of sustainability and ESG issues was a new and important feature.

The findings were reported to the Board in June 2023, concluding there is ‘good coverage of ESG and sustainability matters’ within our governance framework.

Responsible investment is regularly considered at an executive and at a Board level. The monthly executive MIC regularly considers responsible investment as part of its discussions. Responsible investment is also a standing agenda item for the Aegon UK (AUK) quarterly GIC and is Chaired by David Dalton-Brown, one of our independent non-executive Directors.

The terms of reference of the AFGG were expanded during 2023 to cover responsible investment. The following items are now included:

- Oversee implementation of Responsible Investment, Stewardship policy and Climate Roadmap.
- Monitor Aegon’s responsible investment targets including Climate Roadmap progress.

The Responsible Investment team provide quarterly updates on both to the AFGG, which makes sure there is robust challenge on progress and direction as part of the ongoing governance and oversight of AUK’s Responsible Investment philosophy and delivery, ahead of Board updates and approvals.

The Board has a training plan in place as part of its corporate governance framework. This helps to make sure that each year the Directors receive regular training from subject matter experts on a wide range of topics. In 2023 this included training on responsible investment, which incorporated the Climate Roadmap, Responsible Investment and Stewardship Report and Climate related Financial Disclosures.

Various climate risk and sustainability teach-in days have been held, including Continuous Professional Development (CPD) training, across all levels of the business, including Board level.

These have included the following:

- The AUK Group Board received a responsible investment teach-in session in advance of the approval of the Climate Roadmap and Responsible Investment Stewardship Report at the Board meeting in March 2023.
- In June 2023, the Aegon UK Group Audit Committee received a teach-in on climate disclosures, TCFD data and data provider oversight, presented by the Responsible Investment team and MSCI.
- In September 2023, the Board received a teach-in on ‘Sustainable Future’ covering responsible investment and climate strategy, presented by the Responsible Investment team.
- During 2023, 27 employees achieved accreditation by the Carbon Literacy Trust following a series of external training workshops.

All employees in the Aegon UK Investment Proposition Team have a responsible investment related performance objective, some of which directly support our net-zero transition plan. These are reviewed every year and directly form part of performance reviews which are linked to individual bonuses.



Strategy

In this section we set out:

- Our role and responsibility in the context of climate change.
- Our approach to climate-related risks and opportunities.
- How we apply climate scenario analysis on our investment estate.
- How we’re decarbonising our operations and supply chains.
- How we plan to decarbonise our default investment strategies.
- How we integrate climate considerations into our products and engagement.

1. Our role and responsibility in the context of climate change

In this section we describe our plans for supporting the transition to a low-carbon economy. This includes GHG emissions targets and specific activities intended to reduce GHG emissions in our operations and value chain.

Our purpose is helping people live their best lives. We have an active role to play in reducing our GHG emissions and supporting the transition to a low-carbon world through our investments, operations, supply chain and community impact, so that people can enjoy a healthy planet and environment.

Our assets are primarily invested in the UK (over 38%)¹ and the USA (over 33%)¹, as of 31 December 2023². The UK has made a commitment to cut GHG emissions to net-zero by 2050³, as has the USA⁴. As a responsible pension provider, we’ve committed to net-zero by 2050 across our portfolio of workplace default funds, operations, and general account.

You can find more information about our climate targets in the ‘Metrics and targets’ section of this report.

As a UK financial institution with long-term investments, we provide retirement, investment and workplace savings solutions to over 4 million customers and are, therefore, exposed to systemic risks such as climate change. One of our four overarching responsible investment beliefs is that ‘climate change presents significant risks, as well as opportunities, to invest in the transition to a low-carbon and climate-resilient future’⁵. We know that using our investment footprint and scale is the most impactful way we can support the transition to a fairer and more sustainable world.

This is why our strategy focuses on our investments, where our carbon footprint is greatest, and our influence matters the most.

Our climate strategy is guided by the following three principles, as outlined in our [climate roadmap](#) which was published in summer 2023.

1. Climate-change mitigation and adaptation is complex: we measure GHG emissions but don’t solely focus on emissions to assess and manage climate risks and opportunities.
2. When we evaluate the impact of climate change on our investments, we follow the concept of double materiality. This considers both the biggest impacts climate change has on investments and the significant impact our investments have on nature, climate and society.
3. We seek ‘real’ economy outcomes rather than divesting our investments away from climate-change risks and issues. We make long-term decisions, focusing on real-world changes and engagement.

We’re 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 way we allocate money.
- Secondly, through how we engage with our customers, our fund managers, climate data providers, relevant industry groups and policy forums.

1 Source: Aegon
2 Source: Aegon UK/MSCI
3 [UK becomes first major economy to pass net-zero emissions law](#) – GOV.UK ([www.gov.uk](#)), published 27 June 2019, accessed February 2024.

4 [The Long-Term Strategy of the United States, Pathways to Net-zero Greenhouse Gas Emissions by 2050 \(whitehouse.gov\)](#), published November 2021, accessed February 2024.
5 [Aegon UK Responsible Investment Framework, 2023 \(www.aegon.co.uk\)](#) published June 2024, accessed June 2024

2. Our approach to climate-related risks and opportunities

Material climate-related financial risks and opportunities can affect the valuation of the investments we manage, directly impacting the financial wellbeing of our customers. To manage climate risks and opportunities carefully, we need to understand the range of climate impacts, how and when they may occur, and the likely consequences on our investment strategies.

2.1 How we define climate risks

When we look at the potential impacts of climate risks, we consider physical, transition and liability risks, which we define below:

- **Physical risk** – the risk coming from changes in the weather system linked to climate change, for example temperature and precipitation changes. Also, the 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.
- **Transition risk** – 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.
- **Liability risk** – 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.

2.2 Time horizons we consider

We consider relevant short, medium, and long-term time horizons, considering the useful life of our assets/infrastructure and that climate-related issues often appear over the medium and longer-term.

We believe climate risks will impact both our customers’ investments and the world they’ll live and retire in.

While exact outcomes are uncertain, there is a high degree of certainty that some combination of physical and transition risk factors will happen and are already happening, as made clear in the Sixth Assessment Report⁶ of the Intergovernmental Panel on Climate Change (IPCC). We look at climate risks under three time horizons:

- **Short-term horizon (less than 10 years)** – risks arising over the next 10 years, and which impact our business plans. Within that period, most transition risk will be considered by financial markets while physical risks will increase.
- **Medium-term horizon (between 10 and 25 years)** – remaining transition risks and emerging risks resulting from the increasing physical impacts under extreme warming scenarios, which we expect to manifest in 10 years or more.
- **Long-term horizon (over 25 years)** – risk built up over time resulting from the increasing physical impacts emerging under extreme warming scenarios risks.

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

- The type of assets our customers are invested in.
- How long assets will be invested for until our customers retire.
- The time horizon over which climate change considerations will be relevant.
- Our long-term business strategy, including our climate roadmap targets until 2050.



⁶ IPCC, 2023: Sections. In: Climate Change 2023: Synthesis Report. Contribution of Working Groups I, II and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change. [Core Writing Team, H. Lee, and J. Romero (eds.)]. IPCC, Geneva, Switzerland, pp. 35-115, doi: 10.59327/IPCC/AR6-9789291691647 accessed February 2024

2.3 Mapping of climate-related risks and opportunities

We’ve outlined 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 Aegon UK:

Risk/Opportunity	Potential impact	Time horizon		
		Short term <10 years	Medium term 10-25 years	Long term >25 years
Transition Risk				
Wide-ranging transition risks (policy)	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)	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, potentially leading to high-carbon assets becoming stranded ('stranded assets').		X	X
Market risks	Risk that broader macro-economic impacts from climate change drive lower asset valuations, higher corporate and sovereign debt 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

Risk/Opportunity	Potential impact	Time horizon		
		Short term <10 years	Medium term 10-25 years	Long term >25 years
Physical risk				
Wide-ranging physical risks	Physical risks are the many different and interconnected impacts that come with a warmer world. These include extreme weather and rising sea levels, which can damage assets and cause disruption to supply chains and company operations.	X	X	X
Quality of life and morbidity	Risk of deterioration in quality of life that prevents our customers from living their best lives. For example, from the impacts resulting from drought or wildfires affecting crops, food and water security. Risk of higher levels of morbidity, for example, through deterioration in air quality in failed transition scenarios, or chronic changes in weather patterns such as prolonged heatwaves, or severe winters. This is 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
Risk to Aegon UK business model				
Legal, regulatory, conduct and compliance	Risk that regulatory change drives additional cost into our business or changes to our business model. Regulatory change includes improved climate-disclosures reporting and regulation of fund labelling. This is predominantly a transition risk.	X	X	
Liability risk	Risk that individuals or businesses seek compensation for losses suffered from the effects of physical or transition risks for which they hold us responsible.	X	X	X

Risk/Opportunity	Potential impact	Time horizon		
		Short term<10 years	Medium term10-25 years	Long term>25 years
Counterparty risk	Risk of increased defaults from our counterparties. Risk that reinsurer capacity reduces, or cost of reinsurance increases. This is driven by both physical and transition risk factors.		X	X
Expense risk	Risk of higher operational expenses. For example, greater supply chain costs, or higher regulatory compliance or legal costs. Additional investment in facilities to adapt to climate change, or adaptations in our operating model etc. This is driven by both physical and transition risk factors.	X	X	X
Customer behaviour	Risk of lower customer retention rates, or lower contribution levels driven by lower levels of financial wellbeing. The risk that our response to climate change is viewed as inadequate or lagging peers. This risk is predominantly due to transition risks, but the impact of physical risks is likely to grow over time.	X	X	X
Operational risk	Risk that disruptions in our supply chain affects processing or our business systems. This is driven by both physical and transition risk factors.	X	X	X
Reputational risk	Risk that our management of physical and transitional risk factors is poor or negatively perceived by our stakeholders, causing reputational damage.	X	X	
Products and services risks	Costs to transition our products and services to lower emitting investment products.	X	X	

Risk/Opportunity	Potential impact	Time horizon		
		Short term <10 years	Medium term 10-25 years	Long term >25 years
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 customers will increasingly be concerned about climate change and the impact on their investments. 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	Reduced operating costs for companies through efficiency gains and increased production capacity.		X	

Table 2: How climate-related risks and opportunities could have an impact on Aegon.

Table 2 above is based on Aegon Group’s business environment scan (BES). The BES captures new and emerging risks and is complemented with climate-related opportunities and wide-ranging physical and transition risks.

The BES aims to identify risks and opportunities which could have a significant impact on Aegon’s financial strength, competitive position, or reputation. It also acts as a check that the risk universe we use to assess Aegon’s risks continues to be appropriate. It also provides information that helps us shape our strategy in the future. Climate change and loss of biodiversity are explicitly covered under the BES process.

2.4 Impact on our business, strategy, and financial planning process

In this section we describe how we use climate-related issues to help our business, strategy and financial planning process for our investment estate, the time horizon(s) used, and how these risks and opportunities are prioritised.

Our investments extend over decades, which aligns with the long-term time horizon. Many of our customers are still building up their pension and may be exposed to the impacts of climate change for decades to come, both in their daily life and through their pension. As a result, our strategy focuses on taking appropriate short-term actions to help protect our customers’ long-term returns, given the risks and opportunities climate change brings.

We have started our decarbonisation journey by committing and making progress towards net-zero by 2050 in our operations, general account, and our portfolio of default funds⁷. However, our business strategy needs to be flexible and responsive to uncertain and large-scale changes climate change may bring.

While there are risks associated with climate change, there are also opportunities that may arise from the transition process. We believe firms who respond effectively to policy change, technological developments, and recognise the change in consumer behaviours, and expectations that will inevitably result, will be well placed to benefit from these opportunities. We also believe the net-zero transition is likely to support companies providing climate solutions, directly helping adapt to or mitigate climate change.

Short-term impacts

Our [climate roadmap](#) is our public transition plan to net-zero, setting out our vision for decarbonising all our default funds and outlining the steps we’re already taking. In the coming years, the implementation of our climate roadmap seeks to increase the alignment of our default funds with net-zero, as recommended by science and industry best practice.

We review our responsible investment policy every year and attest to Aegon Ltd to ensure we are managing climate risks in line with our customers’ expectations. Our policies are designed to support our climate roadmap short-term decarbonisation targets and help to ensure we maintain good governance practices around our fund managers’ climate practices. Insights from annual responsible investment manager monitoring also helps us focus our engagement activities and objectives so we can review how we manage climate risks in the short-term.

The direct physical risk to our UK business operations from climate change isn’t considered significant in the short term, thanks to our geographical location, the resilience of our office buildings to likely weather-related impacts and tried and tested hybrid working models.

We have eight lease interests within the AUK Operational property portfolio.

In terms of future climate change, our properties would be vulnerable to rising temperatures, flooding, and gale force storms. The highest risk would be temperature change, which given our current plant capabilities would only become an issue when average temperatures exceed 28°C. Given the current rise in temperature it is not envisaged this will become a problem in the short term and would only ever present an issue during the mid-summer period.

The next highest risk would be localised flooding, however none of our properties are within designated flood areas as determined by Department for Environment Food & Rural Affairs (DEFRA). With regards to gales/storms, the current designs for our properties are of a standard that can withstand periods of severe gales/storms with the potential for minor damage. All of our properties are insured by our Landlords against severe weather incidents with the exception of Lochside Crescent which is insured by AUK and this coverage is reviewed on a 12-month basis.

Therefore, the risk to our operating expenses is relatively limited.

The risk from transitional factors is arguably more material, with climate reporting and disclosure requirements rapidly increasing. We’re addressing this by investing in climate data and modelling, as well as building our in-house responsible investment expertise.

Different sustainability disclosures, as required by regulations, may influence how climate risks are managed at fund level. We expect that the recently announced Financial Conduct Authority (FCA) Sustainability Disclosure Regulations (SDR) investment labels will provide more consistency on fund labelling across the market in the short-term. They will also support customers in understanding the climate credentials of products they are invested in.

We understand that the regulations may be extended to pension products over time. In addition, we see a trend towards voluntary nature disclosures, in line with the Taskforce on Nature-related Financial Disclosures (TNFD) framework, which supports existing climate disclosures. We are building our own approach to nature, directly supporting our net-zero targets.

7 For more information see Section 5 (Strategy), Decarbonising our default investment strategies

Medium-term impacts

We expect our customers and external stakeholders will ask for more detail on how we’re aligning our portfolio to net zero. For example, asking for emissions performance attribution analysis or information on sectoral decarbonisation pathways.

To help us answer those questions we’ll continue to develop our climate data analysis, informed by the latest science, and continue to monitor and hold our fund managers accountable on climate risk. Engagement with our fund managers will be key to meeting our medium-term decarbonisation targets for our portfolio of default funds.

As outlined in our [2023 Stewardship policy](#) update, we’ll expect all our fund managers to show more sophisticated qualitative (research based) and quantitative (numbers based) analysis to support the management of climate-related risks and opportunities. We expect to see this analysis flow through into their investment strategies and be reflected in their company engagements and wider contribution to collective industry advocacy (see points 6.1 and 6.2 in this section).

As the market becomes better at pricing climate risks, we also anticipate more assets will be invested with consideration to climate factors, such as screens (for example exclusions), tilts and other ways of integrating climate risks and opportunities into decision-making. Linked to this, we expect more investment in green labelled bonds or climate solutions. Climate solutions are goods, services or activities that enable or contribute to a reduction in emissions or help mitigate or adapt to climate change.

We believe investing in private markets has the potential to help deliver climate solutions, which can help us achieve our climate roadmap goals, although in the short to medium-term investing in this asset class may increase our portfolio emissions.

Long-term impacts

Customers may be increasingly affected by climate impacts, through their investments and in their daily life. As a result, we expect fund managers will grow their efforts on how they adapt to climate change and how they mitigate any risks.

By this point in time, we may expect that markets will be fully pricing in transition risks if the world meets the goals of the Paris Agreement to stay well below 2°C. Under ‘failed transition’ scenarios, we expect markets will price more severe physical impacts coming from inaction over the preceding years.

We’re conscious of the size and scale of the challenges that we’re 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 looked at in section 3.3.



3. How we apply climate scenario analysis on our investment estate

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. 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 investment estate.

3.1 Choice and description of our climate scenarios

We selected three scenarios to assess our exposure to climate risks:

- A ‘1.5°C orderly transition to net-zero by 2050’,
- A ‘2°C disorderly transition to net-zero by 2050’,
- And a ‘4°C failed transition’ scenario.

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 a Climate Value-at-Risk (CVaR) measurement for each of the three transition scenarios we have selected, as summarised in table 3 shown opposite. Climate scenario analysis offers us the opportunity to explore the potential impacts on our investments under a set of possible scenarios.

1.5°C orderly transition	2°C disorderly transition	4°C failed transition scenario
Integrated Assessment Model: REMIND NGFS 1.5°C, see model descriptions on page 24.	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.	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.
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.

Table 3: Three transition scenarios from MSCI to capture possible temperature paths
Source: Aegon UK using data from MSCI.

Climate scientists currently anticipate that climate change could lead to a world temperature rise of 2.7°C by 2100⁸, based on current policies and action. These projections are significantly higher than the ambition set by the Paris Agreement⁹, which aims to limit 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, our disorderly scenario assumes a 2°C increase in temperatures, whilst our failed transition scenario assumes a 4°C increase.

Overleaf we summarise the types of risks associated with climate change that are considered in scenario analysis.

8 [The CAT Thermometer \(https://climateactiontracker.org/\)](https://climateactiontracker.org/) published December 2023, accessed February 2024

9 [The Paris Agreement UNFCCC](#) accessed February 2024

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Physical risk

One component of climate scenario analysis is physical risk. Our data provider, MSCI (see ‘Case study: Our engagement and collaboration with MSCI’), has established a measure of physical risk to assess the possible effect of different physical risk ‘hazards’ on companies.

Physical risk hazards include and consider different global warming-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 that depend on infrastructure connections in their supply chains (for example, bridges, tunnels, road and rail links) are those that are most at risk under this measure.

This is because these facilities or infrastructure links may experience more physical damage from extreme weather patterns linked to climate change, which may increase in frequency or severity over time.

Transition risk

Another component of climate scenario analysis is transition risk. Our data provider, MSCI, has also developed a measure of transition risk, which tries to estimate the likely path of human economic activity over a 50-year time horizon and measure how our investment portfolio is likely to be impacted.

Transition risks will be influenced by existing and future climate policies as well as whether and how countries implement their decarbonisation plans. Transition risks can be measured in terms of when and how policy changes are delivered.

An orderly transition assumes that policy makers introduce 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 business practices and social behaviour.

Technology opportunity

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.

3.2 Assumptions made in relation to climate scenarios

We based our orderly and disorderly transition scenarios on the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) REMIND scenarios¹⁰. 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.

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 likely to be less relevant compared with 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. The 4°C failed transition 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 further progress limited. Carbon sequestration uptake is low and late, and emissions never reach net zero.

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 our investment portfolio, the financial impacts may be far worse under all scenarios. No investment decision is made solely based on climate scenario analysis. We combine the impacts of the transition and physical climate risks to produce a combined Climate Value-at-Risk (CVaR) measure, based on the three transition scenarios discussed above.

3.3 Climate Value-at-Risk (CVaR) results and resilience of our investment portfolio

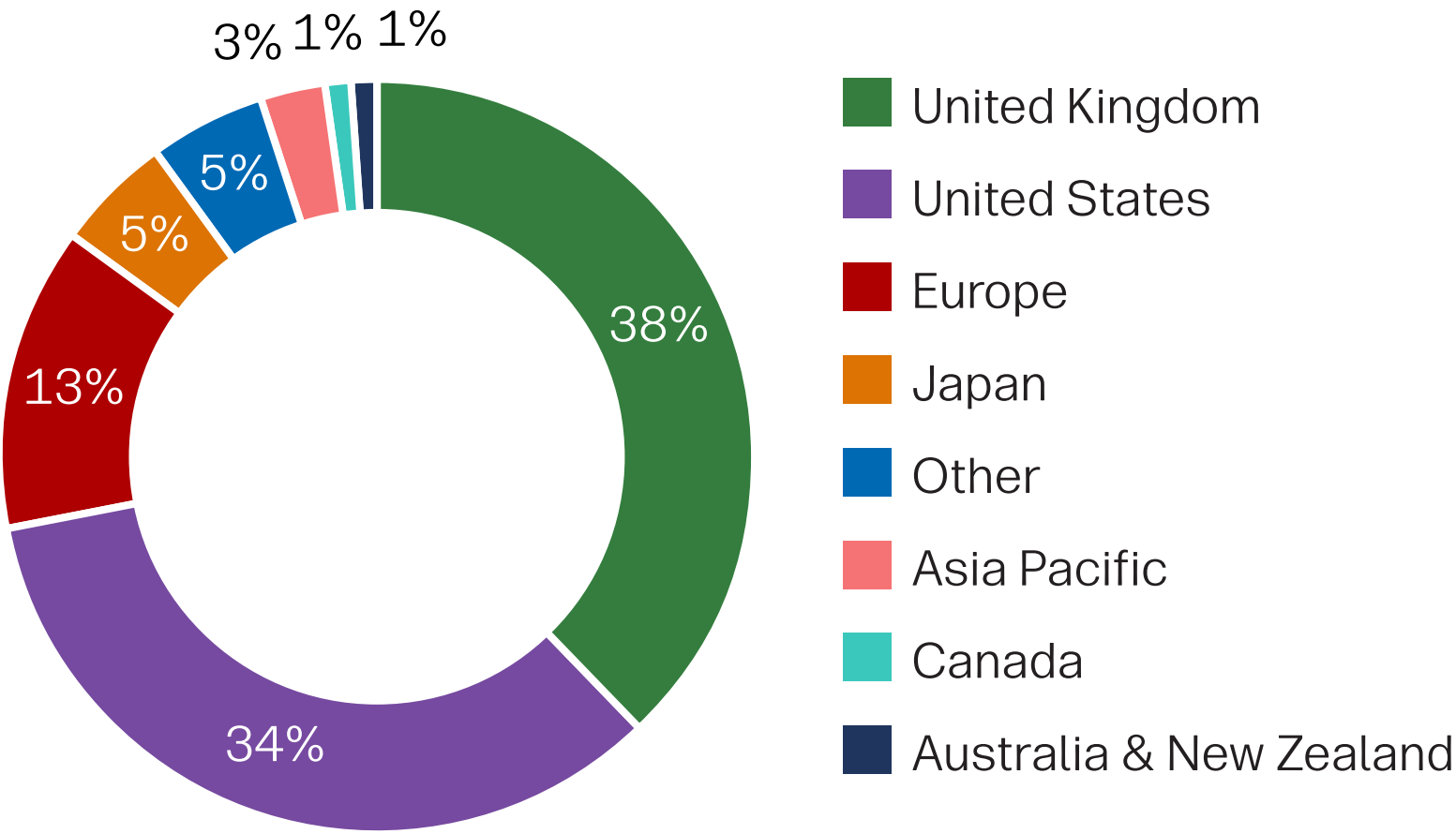
The characteristics of our investments have a substantial impact on the outcome of our climate scenario analysis. Our investments are strongly tilted towards listed equity (over 66%), sovereign debt (14%) and corporate fixed income (8%). Our investments are primarily invested in the UK (over 38%), the USA (over 34%) and Europe excluding the UK (13%) as of 31 December 2023.

Under the three scenarios discussed, our investment portfolio is materially exposed to physical and/or transition risks. The climate scenario analysis suggests that for all three, expected returns would be lower compared with those expected from a ‘climate-uninformed’ baseline¹¹, due to the negative impact of climate risk over time. The data suggests that significant changes in policy, investment and behaviour will be necessary to change global warming trajectory to a Paris-aligned outcome.

11 The CVaR 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.

Investment breakdown

Region and country breakdown



Asset class breakdown

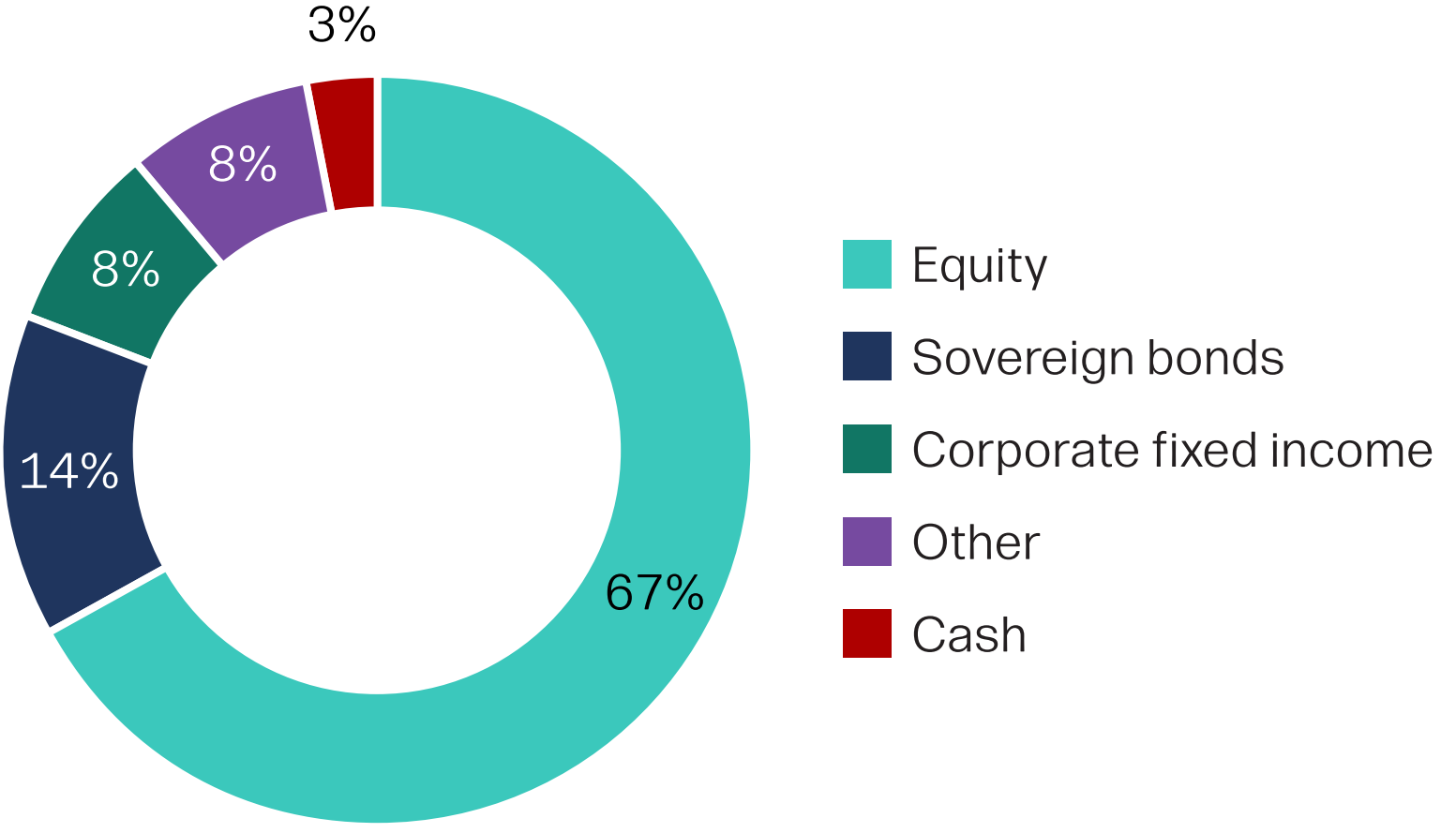


Figure 3: Aegon UK asset allocation – asset class and regional breakdown. Source: Aegon UK 31 December 2023 (percentages rounded to nearest whole number)

10 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.

Table 4 below shows the expected returns for each scenario as outlined in table 3 (‘Three transition scenarios from MSCI to capture possible temperature paths’), along with the percentage of assets covered in the scenario analysis. In the orderly and disorderly transition, most risk comes from policy changes and technology drivers. For the failed transition, these risks are less important, with physical risk being the most important factor. These results are based on current models and portfolio holdings as at 31 December 2023.

Choice of three scenarios	Aggregated Climate VaR	Data coverage (estimated & reported)
Orderly transition (1.5°C)	-13%	68%
Disorderly transition (2.0°C)	-16%	68%
Failed transition, a hot-house world (4°C)	-19%	68%

Table 4: CVaR for three transition scenarios. Source: Aegon UK using data from MSCI as at 31 December 2023.

Whether or not 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 our investment portfolio.

Limitations of data and methods

We identified a set of factors limiting the reach of our scenario analysis:

- 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 scenario analysis methodology assumes our investment portfolio will maintain a consistent asset class and sector composition. We recognise this as a limitation as future asset allocation of the funds may differ from the current asset allocation.
- The scenario analysis is not fixed and is expected to 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.

We also consider the potential impact of climate change on Aegon UK’s own financial performance and consider climate scenario analysis as part of our risk and solvency assessments (see 'Risk management' section).





4. How we're decarbonising our operations and supply chains

In this section we describe how Aegon UK operations and supply chain strategies might change to address potential climate-related risks and opportunities. This includes how climate-related risks and opportunities have influenced our decision-making and processes.

Although our climate impact is concentrated in our investments, we also lead by example through tackling the environmental impact of our own operations and supply chains, where we have a net-zero commitment and associated targets.

It's essential we play our part in supporting an orderly transition to a low-carbon economy. Our short-term operational strategy focuses on improving energy efficiency and waste management, introducing new working practices, and encouraging our suppliers to adopt best practices. We also aim to improve data quality to help us understand and reduce our impacts. We expect to see most reductions in our emissions in the medium term, partly driven by a reduction in our scope 3 business travel and supplies emissions. In the long term, we expect to achieve net-zero emissions across our entire value chain through continuous investments in energy efficiency and embedding net-zero considerations in our operational suppliers' selection and review process.

We recognise the impact our supply chain has on the environment and our communities, which is why we've committed to several global initiatives to support responsible procurement:

- We encourage our main suppliers to sign up to EcoVadis – a global company that independently assesses a business's corporate social responsibility (CSR) credentials. From 2022 onwards, we strengthened our supply chain responsibility by including EcoVadis scores in our quarterly suppliers' oversight report.
- Our tier-one suppliers agree to meeting our Vendor Code of Conduct every year, which includes a section on climate change and biodiversity. Tier-one suppliers are defined as high spend or critical to our business.
- ESG factors are included in our procurement due diligence.

5. How we plan to decarbonise our default investment strategies

In this section we describe how our default investment strategies might change to address potential climate-related risks and opportunities. A default fund (or default investment strategy) is a type of lifestyle fund that members of a pension scheme are automatically invested in if they don't select a fund when joining the scheme. Lifestyle funds are designed for savers who don't make active fund choices throughout their working life.

We recognise that climate change brings risks and opportunities for our investment portfolio, and in 2023 published our [climate roadmap](#), which is our plan to transition to a net-zero economy. Our climate roadmap is aimed at decarbonising our current investments and capitalising on climate-related investment opportunities.

We expect new developments to encompass other related environmental factors, including nature, deforestation, and climate justice. We know we need to continue to develop our expertise and collaborate with our data provider MSCI.

Case study: Our engagement and collaboration with MSCI

Context

In 2023, we continued to engage with our ESG data provider MSCI to improve the decision-usefulness of the data we have access to, in partnership with our clients and fund managers. Beyond our own portfolio analysis, we see engagement with data providers as a key part of our role to support market-wide decarbonisation as an asset owner.

Approach

Our climate team and Director of Investment Proposition regularly challenge MSCI on their offering through bi-weekly issue calls and bi-monthly relationship calls. We fed into MSCI's consultation on its implied temperature rise metric and asked MSCI to present their model to our Group Audit Committee who also gave comments. In July 2023, MSCI announced the timeline for the roll-out and update of the implied temperature risk model.

We also held a dedicated biodiversity session with MSCI to better understand the availability of data and how we can integrate it within our investment portfolio and will continue to work on this during 2024. We highlighted and discussed data gaps with MSCI on new data sets released in late 2022, including, during 2023, the non-alignment with the Taskforce on Nature-related Financial Disclosures (TNFD). MSCI are continuing to enhance their data coverage.

Following various criticisms raised over 2023 on the shortcomings of climate scenarios in general, we took time to consider these with MSCI. We're clear that there needs to be better communication and understanding of the assumptions that are included in climate change models and that climate value at risk should not be considered in isolation. Following our engagement, MSCI indicated that next generation models will likely include macro-economic factors and supply chain/second order risks.

We'll continue to work with MSCI and help provide comments and feedback on the development of such models. We expect sovereign debt emissions data to be available in 2024 and are currently in the process of integrating scenario analysis for sovereign debt.

Outcome and next steps

We have received positive feedback from MSCI themselves who now come to us proactively for product development input. We'll continue to monitor the data quality and services of our data provider and seek opportunities to influence availability of critical data across the pension sector. In addition, we'll continue to leverage MSCI's products to gain greater insight into our portfolio and its exposure to responsible investment risk factors and to aid investment decisions.

5.1 Launching our climate roadmap

Our net-zero transition plan, our [climate roadmap](#), was reviewed and approved by our Board in March 2023. We published it in summer 2023, showing our vision for transitioning to net-zero, starting with our portfolio of default funds. This is where we have most management control and where we’ve set our public net-zero commitment, representing £38 billion of assets as of June 2023.

Our three-pillar strategy, supported by nine key actions, has been led by extensive industry guidance, market best practice, competitor research and customer insights. Last year we reported internally on all our pillars (shown below) and actions, as per our yearly climate roadmap governance, and went through an internal audit. We have already made significant progress on our targets (see the ‘Metrics and targets’ section).

 Align with science and industry best practice.	 Increase responsible investments in the context of climate change.	 Engage for long-term value and systemic change.
Aligning the default portfolio with the Paris agreement to reach net-zero emissions by 2050.	Increasing responsible investments to support climate change mitigation/adaptation and the low-carbon transition.	Aligning the default portfolio with the Paris agreement to reach net-zero emissions by 2050.
1. Setting short and medium-term targets 2. Using pathways for decarbonisation 3. Reviewing strategic asset allocation	4. Increasing investments in assets aligning to net-zero 5. Increasing investments in climate solutions	6. Partnering with asset managers and data providers to decarbonise our portfolio 7. Supporting climate policy regulation 8. Collaborating with industry groups to collectively reach net-zero 9. Engaging with customers and advocating for their financial wellbeing

Figure 4: Aegon UK’s three pillar climate strategy and nine-point transition plan



5.2 Engaging with our customers on climate

We continue to engage with our customers as part of our climate roadmap strategy, gathering their views and using these to inform our approach. We published a customer-friendly summary of our roadmap as well as videos introducing it on our customer [Responsible Investment hub](#).

Last year we added wording related to net zero on some key fund factsheets for our default funds and to customer default fund videos to-be-released in 2024. We survey customers every year on responsible investment topics and the results continue to show climate issues are a key concern for our customers. In a customer panel survey from July 2023, 78% of customers indicated that they were concerned about climate change but 91% say that the financial sector is not doing enough to stop global warming.

A further 60% of customers indicated they view impacts on the environment, including climate change, to be important considerations when investing in a company. Over half of customers surveyed were interested in investing sustainably because of the broader positive impact on the environment and society. This is consistent with customer views from 2022 and aligned with our climate strategy and net-zero commitment.

5.3 Sharing our climate strategy and experience of mandatory disclosures to drive industry change

Following the publication of our climate roadmap last year, we presented our three-pillar climate strategy and actions to the Institutional Investors Group on Climate Change (IIGCC) membership in a net-zero surgery and to the IIGCC Annual General Meeting.

We believe that by sharing how we have used industry guidance to develop our own transition plans we can help inspire ambitious market-wide decarbonisation. We have also presented our climate roadmap to corporate financial advisers as part of a session to share climate accounting best practice, which was also an opportunity for us to get feedback on our strategy from the market.

We also took part in an MSCI panel to share best practice on mandatory climate disclosures, leveraging a TCFD benchmarking exercise we carried out (see the ‘Governance’ section). We are keen to use our experience to promote best practice with other asset owners and fund managers, helping them set their own net-zero plans and learn from yearly disclosures.



6. How we integrate climate considerations into our products and engagement

We are mainly an indirect investor, which means that we build most of our investment solutions using funds from third-party fund managers. These are often in pooled investment vehicles where we are one of many investors. In this section, we describe how climate-related risks and opportunities have influenced our product and engagement strategies. We have three key levers that we use to implement our strategy:

- Fund manager monitoring and engagement.
- Capital allocation.
- Industry and policy advocacy.

6.1 Fund manager monitoring and engagement

6.1.1 Selection, monitoring, and engagement

Working with our third-party fund managers is key to the delivery of our climate strategy, especially as a significant part of our assets are invested in pooled funds that they directly manage. We need our fund managers to do their job well and responsibly, both in terms of investment returns and risk management, and how they align with our responsible investment goals and net-zero targets.

Climate is one of the key responsible investment topics we assess when we select, monitor and engage with our fund managers, as set out in [our responsible investment policy](#), which is reviewed every year. All new fund managers must meet our responsible investment minimum expectations, and we score our existing fund managers on climate every year, through our fund manager monitoring responsible investment questionnaire. This helps ensure they agree to our policies, and helps to monitor progress and the setting of engagement objectives.

Case study: Fund manager monitoring and climate

Last year we set climate engagement objectives with all our default fund managers, based on responses from our fund manager monitoring process, and linked to our climate roadmap expectations. All objectives are tracked against milestones, as recommended in the [IIGCC Net-zero Stewardship](#) Toolkit.

Our 2023 fund manager monitoring results revealed that there are still opportunities for managers to be more focused and transparent in relation to their integration of climate risks into their engagement practices. Currently, 74% of our fund managers sufficiently reference climate-related considerations in their voting and engagement policies, and 46% of fund managers are able to explain how they follow or leverage the IIGCC Net-zero Stewardship Toolkit, which we view to be industry best practice.

We believe that fund managers should encourage investee companies to not only measure but reduce their emissions. About three quarters of our fund managers surveyed state that they currently engage with companies on 1.5°C / under 2°C aligned transition plans. This was a large improvement from last year, which only had one quarter of fund managers were engaging with companies on 1.5°C / under 2°C aligned transition plans.

Our [stewardship policy](#) is an extension of our minimum requirements as set out in our [responsible investment policy](#). The policy was updated in 2023 and sets out our expectations of our fund managers in terms of engagement and voting practices. The updated policy now has ‘nature, including biodiversity and deforestation’ as a standalone theme, and it expresses more detailed expectations of managers about nature-related considerations. Previously, nature had been included under our climate theme.

There are four priority engagement themes included in the policy. These are:

- Climate;
- Nature;
- Human rights; and
- Diversity, equity, and inclusion.

As part of the update, the climate expectations were improved to include detailed expectations of our fund managers, covering their investment beliefs, interim targets and sectoral decarbonisation pathways, and support for climate solutions.

Case study: Developing our focus on nature

Biodiversity loss and environmental degradation has significant impacts on natural capital and ecosystem services, which supports our societies and economies. Biodiversity risk is still difficult to measure and could have unprecedented effects on the economy as a whole and thereby our customers' investment outcomes. For example, it could increase physical risk from interconnected systems such as natural disasters, increasing the risk climate change poses to financial investments. Therefore, the potential impact of biodiversity risk on our customers' investments cannot be understated. We want to ensure that we're adequately equipped to address biodiversity risk. Our annual customer survey found that nearly half of our customers view impacts on nature, including biodiversity, to be important considerations when investing in a company.

In 2023, we carried out sectorial and issue-level analysis across our entire investment estate and default funds' portfolio. For example, leveraging high-risk subsectors defined by Nature Action 100, we found that over 18% of our insured fund estate is made up of sectors at risk of adversely impacting nature and biodiversity.

We were also able to identify companies in our portfolio relevant to the four major commodities behind deforestation: palm oil, soybeans, beef, and timber. We used these findings to develop areas of focus for fund managers this year for further engagement. Themes such as biodiversity and nature are too broad, so specific areas of focus are required for effective engagement.

In order to monitor these areas of focus, our 2023 manager monitoring exercise included a question on biodiversity which allowed us to identify fund manager best practice, track and engage managers that seem to be lagging behind, as part of our annual engagement plans.

Finally, following our analysis of the biodiversity and nature risks that our investments stand to face, we've developed a nature action plan, showing how we're embedding nature across our responsible investment activities, from the products and solutions we offer, to engagement activities. The plan was reviewed by our Management and Group Investment Committees.

We have developed a nature action plan based on our analysis of the biodiversity and nature risks our investments are likely to face. We have also outlined how we plan to embed nature across our responsible investment activities, from the products and solutions we offer, to our engagement activities. We plan to publish our nature action plan in 2024.



6.1.2 Expression of wish and voting guidelines

For the 2023 voting season we implemented our ‘expression of wish’ process across our top fund managers, by size. ‘Expression of wish’ is where we describe our voting preferences that cover key climate-related resolutions to key fund managers. This was a significant step in our stewardship approach. The aim is for our fund managers to align with our positions and, consequently, we ask them to consider exercising their voting rights and responsibilities in line with our preferences on key resolutions.

Climate was a significant factor when identifying resolutions to ask our fund managers to vote for. The ‘Say on Climate’ initiative calls on companies to provide disclosures on emissions every year, to present a detailed climate action transition plan, and put forward annual general meeting (AGM) resolutions seeking shareholder approval of the climate action transition plan. Across our top 3 managers, there were over 200 instances of voting on management proposed ‘Say on Climate’ resolutions at 33 AGM in 2023.

In 2023, we developed a new set of Voting Guidelines to communicate our high-level expectations of companies and voting considerations. They focus on our updated engagement themes, including climate change. Our guidelines were informed by and benchmarked against the policies of what we believe are most progressive asset owners and fund managers, as well as relevant industry guidance such as the IIGCC Stewardship Toolkit.

We expect fund managers to engage with investee companies, to discuss their net-zero commitments, targets and associated transition plans to reduce greenhouse gas emissions. We expect these discussions to include climate reporting, and for our fund managers to encourage investee companies to make clear and informative climate disclosures.

We expect investee companies’ transition plans to be aligned with a well below 2°C future, preferably 1.5°C. The management of the social risks that may arise from the transition to a low carbon economy should be outlined in the plan.

We also expect the companies that we invest in to have a transition plan for achieving net-zero by 2050, or earlier. Where a company is not aligned with our guidelines, we support our managers voting against the investee company board on climate resolutions. We believe this is consistent with our support of Climate Action 100+, our membership in IIGCC and Net-zero Asset Owner Alliance (NZAOA).

The Guidelines build on our existing manager monitoring processes with proposed voting preferences set to be implemented on two levels: across the portfolio and for significant votes. We believe introducing these Guidelines will positively influence the development of our ‘expression of wish’ for voting across our key stewardship themes, including climate change and nature.

We appointed a proxy advisor to assess alignment of key fund managers’ voting practices against our Guidelines. A proxy advisor provides independent company research and data, as well as recommendations, on management and shareholder proposals that are voted on at company meetings, such as an AGM. Our proxy advisor’s analysis highlighted some misalignment between our top 3 fund managers on ‘Say on Climate’, resolutions and our guidelines. In addition, it was found that none of the fund managers disclosed evaluation criteria within their voting policies. We will work with our fund managers to address these gaps.

6.2 Capital allocation

In this section we describe how we factor climate-related risks and opportunities into relevant investment strategies using capital allocation. Capital allocation is the way we allocate our customers’ money to funds that include ESG and/or climate considerations in their investment process, as well as how we may divest from certain investments.

6.2.1 Climate screens and tilts

We already integrate climate considerations into the investment approach of our funds through ESG screens and asset tilts, paying particular attention to climate factors and associated carbon emissions. For example, the passive equity components of our default funds that have transitioned to track screened and ESG-optimised indices may apply exclusions such as thermal coal and oil sands.

As of 31 December 2023, over £23 billion of assets in our portfolio of default funds were managed with screens and/or optimised ESG factors in our climate roadmap, we’ve set a target for 70% of our default funds, measured by assets under management value, to be screened and/or optimised for ESG factors by 2026. By the end of 2023 we had made significant progress to achieving this target, with 57% of our default funds screened and optimised for ESG factors.

Case study: Climate integration in practice – fund reviews

In 2023, we embarked on a review of one of our biggest default funds to enhance outcomes for workplace customers. The purpose of the review is to strengthen the default fund's investment proposition in line with the evolution of our thinking, market practices and feedback by our key stakeholders (for example, firms who advise employers on workplace pensions).

Specific drivers as part of this work include the shift of focus away from cost minimisation to value for money, the introduction of a broader range of asset classes such as illiquid investments (see 'Case Study: Becoming a founding signatory to the Mansion House Compact Agreement' on page 34), and further opportunities for responsible investment integration such as exploring climate solutions.

Consequently, we reached out to various fund managers and other key stakeholders throughout 2023 to understand the range of solutions available, the role they may play in the future of Defined Contribution (DC) pensions, including from a responsible investment perspective and the implications for our default estate.

We sought proposals for an investment solution, providing access to a broad range of asset classes, including but not limited to illiquid asset classes that have not been easily available to DC pensions, whilst embedding responsible investment considerations.

Throughout this review process, we focused on three responsible investment areas to provide the best outcome for members whilst following our responsible investment beliefs – ESG integration, alignment with our climate roadmap targets and additional stewardship considerations such as voting and engagement.

We screened potential solutions and fund managers on our minimum responsible investment requirements and assessed their solutions against defined criteria specific to the relevant asset classes, where the responsible investment credentials of the solution fed into the overall scoring for the proposed solution. In-depth due diligence meetings with our shortlist fund managers included a focus on responsible investment, covering alignment with our climate roadmap as well as climate solutions investing and any other key responsible investment questions that emerged in the process. Our responsible investment team had dedicated due diligence meetings when it was felt there were areas to discuss further, for example how engagement outcomes would link to capital allocation or how nature considerations would feature in ESG integration.

In 2023 we also implemented changes to the investment mandates of three other default funds.

We proposed to implement several exclusions into the mandates of each of the funds, which represent the baseline of exclusions that already apply across several other of our default funds:

- Thermal coal (>5% revenue from extraction or >5% from power generation).
- Oil sands (5% revenue from extraction).
- United Nations Global Compact (UNGC) violators (companies that violate any of the 10 principles of the compact).
- Controversial weapons (zero tolerance > 0% revenue).

By implementing these changes, we're excluding companies we expect to underperform over the long term as the global economy transitions to net zero. Eliminating UNGC violators helps improve downside performance risks by reducing exposure to companies with reputational concerns.

Incorporating ESG considerations into these funds for the first time is a significant step in our journey towards making our default funds net zero, with these funds representing a further £3.7 billion of default assets.

We'll continue pursuing our commitment to achieving net-zero across all our default funds by 2050, looking to add similar exclusions to other default funds as well as reviewing our baseline exclusions and enhancing them where we believe it's in the interests of our customers.

6.2.2 Net-zero alignment

Last year we explored a process to track the percentage of our investments that are invested in assets which are aligned or are aligning to achieve net-zero GHG emissions (see ‘Metrics and targets’ section), as it is not a standard industry metric. We used our work and insight to influence our data provider MSCI (see ‘Case study: Our engagement and collaboration with MSCI’) to develop their own tool which could benefit the whole market. We now look forward to MSCI launching a net-zero alignment tool some time in 2024.

We expect to increase our default funds’ net-zero alignment primarily by reviewing our strategic asset allocation, incorporating fund-level objectives, and by engaging further with our fund managers to help influence investee companies to transition to net-zero, rather than divesting.

6.2.3 Climate solutions

Achieving global net-zero emissions by 2050 requires investments that directly support the transition to a low carbon economy. We’re doing our part to support the low carbon transition by meeting a £500 million target for climate-solutions investments by 2026. Climate solutions are defined as investments that directly and substantially contribute to climate change mitigation or adaptation.

Aligned to this, we became a founding signatory of the [Mansion House Compact](#). We will report on our allocation to climate solutions as part of our climate roadmap reporting every two years.

Case study: Becoming a founding signatory to the Mansion House Compact Agreement

We’re committed to ensuring our customers can access and share in the growth of innovative companies we invest in so that we can deliver the superior long-term outcomes that will help our customers to live their best lives. Currently, just 0.5% of UK pension assets are invested in unlisted UK equities¹².

This could not only compromise the capital available to innovative companies but deprive UK savers of the potential for higher returns associated with these companies.

Securing a retirement income that ensures a comfortable standard of living throughout retirement is a concern for UK savers, as highlighted in a 2022 industry survey of defined contribution (DC) pension scheme members where only 14%¹³ expressed feeling confident that they were on track for an adequate retirement income. Against this backdrop, in 2023 we became a founding signatory to the [Mansion House Compact Agreement](#), a voluntary initiative between the largest nine DC pension firms in the UK to allocate at least 5% of DC default funds to global unlisted equities by 2030. Over time, this could effectively translate into £50 billion investment in UK growth companies which we believe will play a pivotal role in fostering economic growth, job creation and prosperity throughout the UK.

We will use our scale and expertise to develop responsible investment solutions – an essential part of our toolkit for sustainable investment outcomes – including in the unlisted equities space. In doing so, we will seek to improve the retirement outcomes of the millions of members in the DC pension schemes we support. We also expect the Compact to create opportunities that will help deliver the £500 million AUM target that we have set for investments in climate solutions within our default funds by 2026 as we make progress on our climate roadmap towards net-zero.

12, 13 [Mansion House Compact \(The Global City | How the UK can work for you\)](#)
Published 2023, accessed February 2024

6.3 Industry and policy advocacy

Industry advocacy is one of our key levers to drive change across the market and fulfil our net-zero goals. We advocate for change in three main ways:

- Supporting industry guidance.
- Driving collective engagement.
- Taking part in industry consultations.

We engage with at least two net-zero-relevant industry groups or policy forums every year, to encourage market-wide decarbonisation and raise standards across the industry. We take part in collaborative engagement activities where there are clear objectives, roles, and outcomes, and where we believe we can have the most impact and help drive positive change. In 2023, our policy and climate industry advocacy work included the following:

6.3.1. We 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 14% of our investment estate is invested in sovereign debt, 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.

6.3.2. We co-led a paper under Net-zero Asset Owners Alliance (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.

6.3.3. We signed the [Finance for Biodiversity Pledge](#), in line with our new priority engagement theme on biodiversity and nature. Joining the pledge helps show our commitment to protecting and restoring nature. Through the pledge, we commit to assessing our investments' impacts, collaborating, and sharing knowledge, setting, and reporting on targets.

6.3.4. We took part in the Transition Plan Taskforce asset owner working group. The Taskforce was launched by HM Treasury to develop a gold standard for private sector transition plans. This is very relevant to our strategy as we already have a transition plan, our [climate roadmap](#), which we are regularly reviewing considering best practice. In the working group we were able to share the experience we gained through publishing and starting to implement our plan. We contributed to drafting an asset owner specific sector guidance, which was released for consultation in November 2023.

Our 2023 Stewardship report lists our climate engagement and provides additional case studies illustrating our engagement on net-zero and climate change with policy makers, fund managers and industry groups.





Risk management

In this section we set out:

- How we identify and assess climate-related risks.
- How we integrate climate-related risks into our risk management framework.
- How we try to manage and mitigate climate-related risks.

1. Identification and assessment of climate-related risks

In this section we describe our risk management processes for identifying and assessing climate-related risks. This involves a mixture of quantitative (numbers based) and qualitative (research based) analysis. To try and assess the potential risks from climate change to Aegon UK, we consider all risks resulting from physical, transition and liability drivers, as outlined in the strategy section.

We use our existing risk management policies and procedures to try and assess the potential size and range of climate-related risks. We do this using our Enterprise Risk Management (ERM) framework. This framework supports how we manage risks within our business both now and in the future. It also sets out how we identify, assess, monitor, and manage any risks our customers and business operations could be exposed to.

We also try to monitor longer-term risks using an emerging risk process. We do this to try and identify any early triggers which would allow us to actively manage them. Our Aegon Group BES sets out how we do this, and you can read more about this in the 'Strategy' section of this report. Although we actively manage climate-related risks, we also consider climate-related risk within our emerging risks process.

We use internal expertise from our Risk and Investment functions for our wider risk identification and assessment process. We also use specialist external input where needed. We look at existing and emerging regulatory requirements relating to climate change, through the analysis of information available in relation to the political and regulatory outlook. When initiatives are identified these are rated for potential impacts and tracked through a cycle of engagement and planning to implementation. Regulatory initiatives related to climate change follow this same path.

2. Integration of climate risk into the risk management framework

In this section we describe how we integrate Aegon UK’s processes for identifying, assessing, and managing climate-related risks into our overall risk management framework. This includes how significant we feel climate-related risks are in relation to other risks.

We aim to manage risks within our business using our ERM framework. This framework includes processes to help us identify risks across various categories. Using this framework, we expect any climate change related risks will be identified using existing categories rather than specific climate related ones. These include Investment and Counterparty Risk, Mismatch Risk, Operational and Conduct Risk and Underwriting Risk (further information is provided in Figure 5: Aegon risk universe from the ERM framework).

If we identify any new risks, we use the ERM framework to apply a consistent approach to assess the impact. This includes things like how material our exposure is and how severe it is including financial, customer, reputational and operational impacts.

We then use existing risk categories to assess the impact on our products and services but overlay this with any specific climate related considerations. For example, any climate related transition risks of any new regulation would be identified under our Investment and Operational Risk categories.

We believe the impacts of climate change will be far-reaching and will have different effects across different parts of our risk universe. We expect some elements will appear quickly while others may happen more slowly. For example, stock markets may react quickly to an event driven by physical or government policy changes that promote the transition to a low carbon economy.

For some parts of our business, we can only assess risks by looking at the impact over the longer-term. This long-term approach is particularly relevant to market risks impacting our investment portfolios.

Investment and Counterparty Risk ▪ Fixed income ▪ Default/migration ▪ Spread ▪ Equity ▪ Alternative investment ▪ Counterparty ▪ Equity volatility	Mismatch Risk ▪ Interest rate ▪ Interest rate volatility ▪ Currency ▪ Liquidity
Operational and Conduct Risk ▪ Business ▪ Legal, regulatory, conduct and compliance ▪ Tax ▪ Financial crime ▪ Processing ▪ Information technology and business disruption ▪ People ▪ Facilities	Underwriting Risk ▪ Mortality/longevity ▪ Morbidity ▪ Persistency ▪ Property and casualty ▪ Expense

Figure 5: Aegon risk universe from the ERM framework.

Other key elements within our ERM framework include:

- **Risk appetite and risk tolerance:** Risk appetite describes how we think about, measure, manage and monitor risk. Risk tolerance expresses risk appetite in qualitative and quantitative form. These guide how we respond to all risks, including climate risks that are outlined in the 'Strategy' section. We review our risk appetite and tolerances every year. Although we don't consider climate risk as a standalone risk, due to its importance to us, we include a tolerance for sustainability which looks at the amount of assets under management which are responsibly invested, and our carbon emissions as an organisation.
- **Risk policies:** We have a suite of risk policies that support how we manage risk, including more granular controls around different aspects of operational risk. We specifically address climate change considerations in our responsible investment (RI) and stewardship policies. We set minimum expectations of our fund managers about climate within our RI policy (as described in our public Responsible Investment Framework). This policy is aligned with the ERM framework and will be looked at in the 'Management and mitigation of climate risks' section.

Any risks we identify across our business, including climate-related factors, are formally reported, and monitored through our Board governance structure, ensuring appropriate visibility and escalation where needed. This includes but is not limited to risk appetite monitoring, risk policy compliance, risk event reporting and compliance reporting. We then document and perform any mitigating actions as appropriate.

We produce an Own Risk and Solvency Assessment (ORSA) report every year. This is a regulatory requirement for companies supervised by the Prudential Regulation Authority (PRA). This report supports Board level considerations on our ability to follow our strategy safely and keep an appropriate level of customer protection. It does this by providing a full view of:

- The key risks to Aegon UK now and under the proposed business strategy.
- How these risks are being managed.
- The solvency assessment of AUK.

We drive our customer protection by testing our capital position under various scenarios and using this analysis to ensure the business is sustainable under these stresses. We also use this analysis to assess how suitable our existing triggers are and the availability of management actions to allow us to recover from these stresses.

As part of these scenarios:

- We use inputs from the Ortec Climate MAPS financial models to assess the potential impact of climate risk scenarios on the solvency of the business. These scenarios include the potential impact of an amended version of the Ortec Climate MAPS Paris Disorderly scenario which assumes a delayed but successful transition to a low carbon economy, limiting global warming to 1.6°C by the end of the century.
- We develop Reverse Stress Tests, where we look at scenarios that could break the current business model, with the aim of identifying actions to improve the management of these risks. In 2023 we introduced two scenarios to consider the impact on Aegon UK of climate 'tipping points' (for example, leading to large and often irreversible changes in the climate system) and the potential for political 'backlash' against the net-zero agenda.

The ORSA also considers the run-off plan which ensures customers assets are protected in the event the business needs to be run off. The run-off plan includes a scenario to test the ability to safely run-off the business under a severe climate stress. This scenario represented a 'Failed Transition' pathway, where the world fails to meet the Paris Agreement goals and global warming reaches 4.3°C above pre-industrial levels by 2100. The ORSA was presented to and approved by the Board Risk and Capital Committee in March 2024.



3. Management and mitigation of climate risks

In this section we describe how we manage climate-related risks, such as how we make decisions to mitigate, transfer, accept or control these risks.

In addition to the application of the ERM framework referred to previously, as an asset owner we also monitor our fund managers on a regular basis in relation to our strategy on climate-related risks and opportunities. As we invest indirectly, we collaborate with our fund managers to ensure that companies held by our funds we invest in are:

- Encouraged to employ better practices relating to climate risk.
- Providing better climate data information that in turn will help us assess climate-related risks within our investments.

We send a responsible investment questionnaire to all our fund managers every year, focusing heavily on climate change. This allows us to score and assess progress (see 'Case study: Fund manager monitoring and climate' in the Strategy section).

We operate a tiering system where our most significant fund managers, for example those managing assets in our portfolio of default funds where net-zero targets apply, are asked to provide additional climate-related risks and opportunities information. We have set specific climate engagement objectives for key fund managers and ask them to engage with companies on their net-zero commitments, and associated transition plans to reduce greenhouse-gas emissions.

We use the responses from our annual fund managers' responsible investment questionnaire, combined with market best practice and industry guidance, to inform topics for engagement throughout the year. Our monitoring and oversight help us challenge our fund managers where necessary, helping to drive progress in meeting our climate roadmap targets.

When selecting a new fund manager, they must be a signatory to both the United Nations Principles for Responsible Investment and UK Stewardship Code and have published a report aligned to the TCFD recommended disclosures.

We review our responsible investment policy every year and we expect our fund managers to support our ambitions and net-zero commitment across our default funds.

Finally, we also engage with industry groups to help with our risk horizon scanning and to inform our climate risk management approach.

To help manage climate risk and meet our net-zero commitment for our workplace default funds, we benefit from the expertise of a dedicated Responsible Investment team, which we expanded over the last year. The team plays an active part in monitoring the climate risks associated with our investments and has been instrumental in the publication of our stewardship report and climate roadmap.





Metrics and targets

In this section we set out:

- The importance of climate monitoring for better management.
- The metrics we've chosen to track and monitor.
- The progress we've made against our targets.
- Data limitations.

1. The importance of climate monitoring for better management

Monitoring key climate metrics lets us track and manage the impacts of climate change on our investment estate and operations. It also provides our external stakeholders with information to help them understand our climate-related risks and opportunities and how we're responding to them.

2. The metrics we've chosen to track and monitor

2.1 Description of metrics

The metrics we're reporting cover the insured fund assets of Aegon UK. This includes insurance-based investment products, such as those held within personal pension schemes, workplace default pensions, stakeholder pension schemes and self-invested personal pensions schemes (SIPPs). Climate data and reporting of emissions information, such as Carbon Footprint (see description on page 41), is more established for listed equity and corporate fixed income. These are also our most material asset classes, representing over two thirds of our investment estate.

However, for 2023, we were also able to report on emissions associated with our sovereign debt which represents 14% of our assets, taking assets we can report emissions on to 87%. We will continue to follow market developments on data availability for additional asset classes, such as property and private market assets. We'll continue to engage with our data providers and fund managers to increase data coverage and availability for future reporting (see 'Case study: Our engagement and collaboration with MSCI').

In table 5 ('Climate metrics') on page 43, we set out the metrics used by Aegon UK to assess climate-related risks and opportunities aligned with our strategy. In line with the recommendations of the TCFD, we include scope 1, scope 2 and, scope 3 GHG emissions, and are now able to report across two years (2022 and 2023).

Climate data is supplied by MSCI for funds where data is obtainable and where emissions data is available for companies. In some cases, company emissions data may be estimated. 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.

GHG emissions are calculated in line with the GHG Protocol, with emissions categories for corporate fixed income and equity split into three distinct ‘scopes’, as defined by the GHG Protocol Corporate Standard¹⁴.

- **Scope 1 corporate fixed income and equity emissions** are direct GHG emissions that occur from sources owned or controlled by the reporting company, for example company facilities.
- **Scope 2 corporate fixed income and equity emissions** are indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company.
- **Scope 3 corporate fixed income and equity 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.

For scope 1 and 2 corporate fixed income and equity, most data is based on verified and reported emissions. However, scope 3 corporate fixed income and equity emissions are based on estimated data as provided by MSCI. Scope 3 emissions are typically much greater than scope 1 and scope 2 emissions. We expect that more reported scope 3 emissions data will become available as company reporting and associated data availability improves in the coming years.

Scope 3 estimated emissions are based on MSCI’s proprietary estimation model, which 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 operations¹⁵.

For sovereign debt, GHG emissions are also split into three distinct groups, as defined by the Partnership for Carbon Accounting Financials (PCAF), and referenced by the IIGCC in its Sovereign Bonds and Country Pathways discussion paper¹⁶.

- **Scope 1 sovereign emissions** are production emissions including exports. This covers domestic GHG emissions from sources located within a country’s territory.
- **Scope 2 sovereign emission** covers emissions from imported electricity, heat, steam, and cooling (energy sector).
- **Scope 3 sovereign emissions** are those from non-energy imports but arise from activities taking place within a country.

2.2 Climate metrics for Aegon UK

In the table on page 43 (‘Climate metrics’), we set out the climate metrics that we’re reporting on. We recommend considering metrics together rather than drawing conclusions from a single metric, which is unlikely to provide a comprehensive picture. These are:

Absolute emissions metric:

- **Total GHG emissions:** This metric captures the absolute carbon emissions of corporate fixed income and equity assets across our investment estate. We report GHG in tonnes of carbon dioxide equivalent (tCO₂e).

Emissions intensity metrics:

- **Carbon footprint (corporate fixed income and equity):** This metric measures the emissions of a portfolio, or the amount of emissions financed for every £1 million invested. Emissions are shared out across all outstanding shares and bonds (referred to as % enterprise value including cash, or EVIC), meaning that we allocate ‘ownership’ of GHG emissions across the total capital structure of the issuing company (equity and debt), as recommended by the industry standard developed by the PCAF. This metric is expressed as tCO₂e/£M invested using EVIC.

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

15 A Major Step Forward for Scope 3 Carbon Emissions (www.msci.com), published October 2020, accessed February 2024

16 <https://www.iigcc.org/resources/sovereign-bonds-and-country-pathways-discussion-paper> (<https://www.iigcc.org/>), published April 2024, accessed May 2024

- **Weighted average carbon intensity (WACI) (corporate fixed income and equity):** This metric measures a portfolio's exposure to carbon-intensive companies by revenue, expressed in tonnes CO₂e/£m revenue. Emissions are allocated based on portfolio weights (the current value of the investment relative to the current portfolio value).

Sovereign debt carbon intensity:

This metric 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 power parity (PPP), as recommend by the PCAF. Gross domestic product (GDP) is a key economic indicator that measures the total value of all goods and services produced within a country.

Purchasing power parity (PPP) allows for the comparison of the purchasing power of various world currencies to one another, and when applied to GDP it allows for a more accurate comparison of economic productivity and standard of living between countries. The emissions for sovereign debt are expressed in tonnes CO₂e/£m GDP-PPP. We report this metric on a pound sterling basis (£), rather than international US dollars basis, as outlined by PCAF, to align with currency we report for other asset classes. We have used the USD/GBP exchange rate as of 31 December 2023 to calculate the metric in pounds sterling.

- **Portfolio alignment metric:** Implied Temperature Rise (ITR):

This is a forward looking metric and gives an indication of how much the global temperature would increase if the global economy had the same carbon output as our investment estate¹⁷.

We're including this metric to show the extent to which our investment estate and portfolio of default funds are aligned to a well below 2°C scenario.

- **Data quality:** This metric shows the percentage value of scope 1 and 2 emissions that are reported, estimated or unavailable. Included in this metric is the coverage for sovereign debt scope 1 emissions. An explanation of the different scopes for corporate fixed income, equity and sovereign debt is provided on page 41.

Metrics are calculated for our insured investment estate every year. The table on page 43 ('Climate metrics'), shows the metrics across our insured investment estate for 2022 and 2023.



¹⁷ [Implied Temperature Risk Methodology \(www.msci.com\)](https://www.msci.com). Methodology published September 2021, accessed February 2024

During 2023, our assets under management increased from £80 billion to just over £88 billion. This increase reflects a net increase in new money from customers, and a positive investment return across the investment portfolio.

Climate metrics			Aegon UK, as of 31 December 2022	Aegon UK, as of 31 December 2023
Assets under management			£80bn	£88bn
Absolute emissions metrics for corporate fixed income and equity				
GHG emissions	Scope 1 and 2 tonnes CO ₂ e		6,058,596	5,699,876
	Scope 3 tonnes CO ₂ e		45,432,586	45,843,913
Total GHG emissions	Total (scope 1, 2 and 3) tonnes CO ₂ e		51,491,182	51,543,789
Emissions intensity metrics for corporate fixed income and equity				
Carbon footprint	Scope 1 and 2 tonnes CO ₂ e /£M EVIC		67.8	52.9
	Scope 3 tonnes CO ₂ e /£M EVIC		522.9	443.5
Weighted average carbon intensity	Scope 1 and 2 tonnes CO ₂ e/£M revenue		144.2	117.2
	Scope 3 tonnes CO ₂ e /£M revenue		984.5	933.2
Portfolio alignment metric				
Implied temperature rise in degree Celsius			2.5°C	2.2°C
Data quality metric				
Data quality (% total portfolio)	Scope 1 and 2 emissions: Covered (%)	Estimated (%)	10%	8%
		Reported (%)	63%	79%
	Scope 1 and 2 emissions: Not covered (%)	No coverage (%)	27%	13%
Sovereign debt				
Sovereign debt carbon intensity	tonnes CO ₂ e /£M GDP-PPP		n/a	193.2
Sovereign debt data quality (% of sovereign AUM)	Scope 1 production emissions - reported		n/a	97%
	Scope 1 production emission - no coverage		n/a	3%

Table 5: Aegon UK climate metrics.
Source: Aegon UK/MSCI.



Corporate Fixed Income and Listed Equity emissions

Across our investment portfolio, absolute emissions for our corporate fixed income and listed equity investments have decreased by 6% for scope 1 and 2 since 2022 and increased by 1% for scope 3. In total, our total absolute emissions have remained stable.

Our carbon footprint (tCO₂e/£M invested using EVIC) from our corporate fixed income and listed equity investments has decreased by 22% from 2022, which was our first year for publicly reporting emissions data on our total investments. We have also seen a reduction in our scope 3 carbon footprint (tCO₂e/£M invested using EVIC) by 15% over the same period.

The reduction in our carbon footprint for scope 1 and scope 2 emissions since 2022 can primarily be explained by two factors. There has been an increase in the EVIC value (see description of carbon footprint metric above) of our investments, which means our emissions are shared out across, or divided by, a higher invested value, partly driven by higher market valuations. In addition, our portfolio has increased allocation to companies that are reporting lower emissions, for example by increasing our investment in funds with ESG screens and tilts. Both these factors have been the main drivers in reducing our carbon footprint. We also see a reduction due to divestment in some companies, and a marginal decrease in absolute GHG emissions.

Similar factors drove our reduction in carbon footprint for scope 3 but here the increase in EVIC value and the increase in allocation to companies with lower emissions is partially offset by an increase in companies' scope 3 emissions. The weighted average carbon intensity (tCO₂e/£M revenue) of our corporate fixed income and listed equity investments (scope 1 and 2), which is less sensitive to change in company valuations, has decreased by almost 19% for scope 1 and 2, and decreased by 5% for scope 3.

Our portfolio alignment metric is represented by an implied temperature rise metric, which is calculated by MSCI, as outlined above. The metric suggests that our corporate fixed income and listed equity investment portfolio would be aligned to a 2.2°C temperature increase. This is marginally lower than the 2.5°C reported last year, but still above the Paris Agreement aim to keep any increase in the global average temperature to well below 2°C, above pre-industrial levels, and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels. This is expected for a diversified portfolio, reflecting the fact that financial markets are not currently aligned to the Paris Agreement.

We worked with our data vendor and our fund managers during 2023 to increase our emissions data coverage, and we were also able to source data and report on sovereign debt. This means that the percentage of scope 1 and 2 emissions reported has now increased to 79%, from 63% in 2022. Estimated scope 1 and 2 emissions has decreased from 10% to 8%. The percentage of Scope 1 and 2 emissions not available is at 13%, compared to 27% in 2022. Looking at our sovereign debt separately, we have been able to report on 97% of our sovereign debt assets. We will continue to work with our data vendors and fund managers to increase data coverage.

There are challenges with the quality, quantity and timing of data provided by investee companies. There are also other factors that will influence the reported metrics and data, such as market volatility, fluctuations of exchange rates and changes in activity of companies we indirectly invest in. We expect reported carbon emissions and emission intensity metrics to fluctuate over time, but over the longer term we expect to see a downward trend as we transition to net zero across our investment portfolio and see real world reduction in carbon emissions.

Sovereign debt emissions

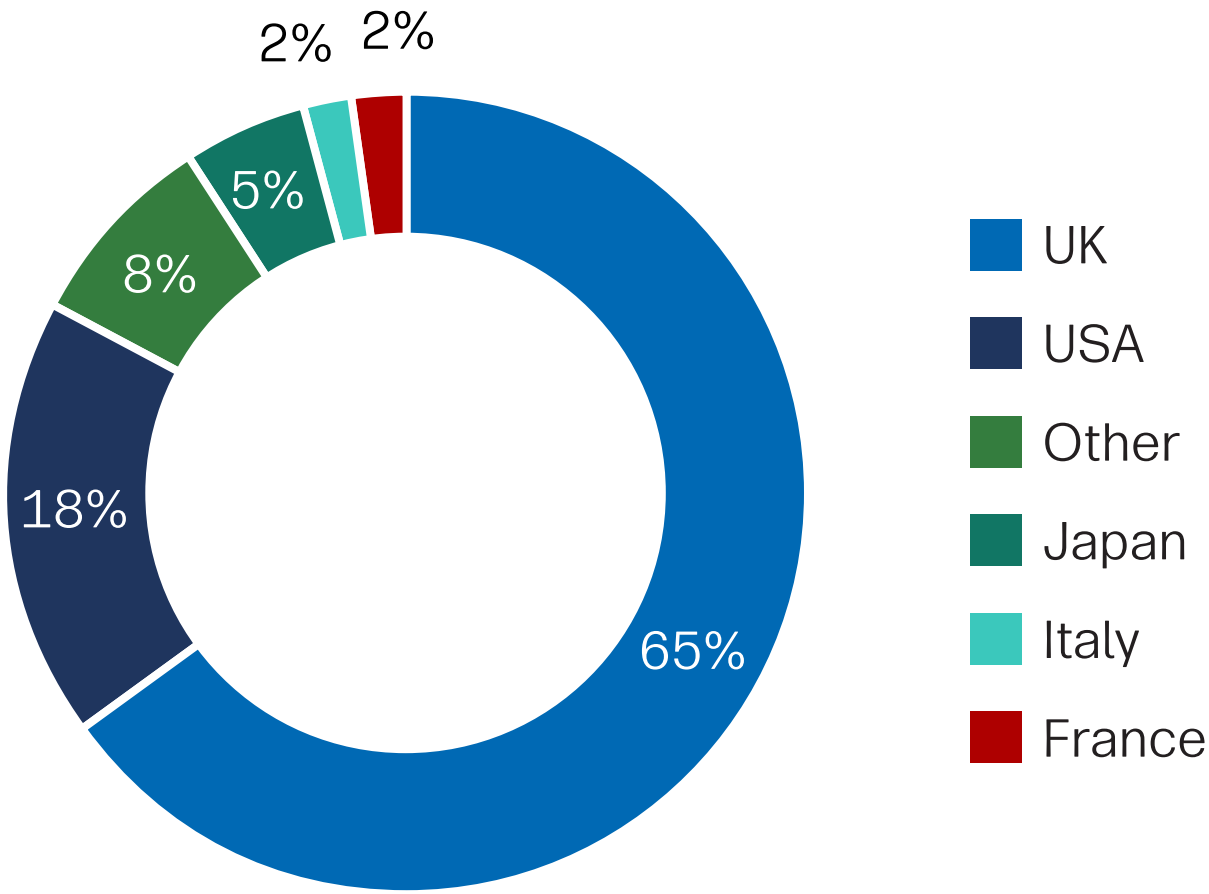
We’re reporting emissions across our sovereign debt assets for the first time, reporting a carbon intensity metric. Sovereign debt accounts for approximately £12bn, or 14%, of our insured investment portfolio. As it’s the first time carbon accounting for this asset class has been available to us, following industry developments, we’re not commenting on how emissions across this asset class have changed. We have followed guidance from the PCAF and have used the emissions methodology recommended for deriving carbon intensity for sovereigns. We have reported this metric on a pound sterling (£) basis, as explained earlier.

We have obtained GHG production emission data from PRIMAP-hist¹⁸, with GDP-PPP information from The World Bank¹⁹.

Our sovereign emissions intensity calculation for this year excludes both sub-sovereign and supranational debt. The current methodology and/or data does not yet cover sub-sovereign and supranational debt.

Our sovereign emissions intensity for 2023 was 193 tCO₂e/£m GDP-PPP, with 97% of our sovereign debt covered in this calculation. Our absolute sovereign emission as of 31 December 2023 were 2.3 million tCO₂e. Most of our sovereign debt exposure is across developed countries, with 88% of our sovereign debt invested in three countries: the UK 65%, USA 18%, and Japan 5%. The chart opposite provides further information.

Sovereign Debt exposure



Source: Aegon UK 31 December 2023

3. The progress we’ve made against our targets

In this section we describe our key performance indicators (KPIs) that we use to track our performance against the targets we have set in our [climate roadmap](#). We’ve committed to a net-zero by 2050 target across our default funds, general account, and operations. Setting specific targets helps us manage climate-related risks and opportunities, as well as informing decisions we make to better position our customers’ investments in the low-carbon transition.

Default funds

Our portfolio of default funds represents about £38 billion of assets as of 30 June 2023 and is where we have most management control in our investment estate. You can find our full approach and activities for decarbonising our default funds in our [climate roadmap](#), which is our transition plan to net-zero.

18 Gütschow, J.; Pflüger, M.; Busch, D. (2023): The PRIMAP-hist national historical emissions time series v2.5.1 (1750-2022). [zenodo.doi:10.5281/zenodo.10705513](#) zenodo, published February 2024, accessed March 2024

19 <https://data.worldbank.org/indicator/NY.GDP.MKTP.PP.CD> The World Bank, accessed March 2024



Aegon UK’s climate-related KPIs

Table 6 (‘Aegon UK’s climate-related KPIs’) below, outlines our climate roadmap Key Performance Indicators (KPIs). Our short-term and medium-term carbon emission targets apply to emissions from listed equities and corporate fixed income only, measured using carbon footprint across our full range of default funds. Emission targets don’t apply to individual funds.

Emissions KPIs	Engagement KPIs	Investment KPIs	Tracking KPIs
Short-term targets i. 14% reductions in scope 1 and 2 over 2023-26 ii. 14% reductions in scope 1 and 2 over 2027-30 Medium-term targets iii. 50% reductions in scope 1and 2 by 2030 Long-term targets iv. Net-zero GHG emissions in scope 1, 2 and 3 for all asset classes by 2050	i. Engage via our fund managers with companies representing at least 70% of our financed emissions (scope 1, 2 and 3) through direct or collective engagement by 2025 ii. Engage to support market-wide decarbonisation in two or more net-zero-relevant industry groups/policy forums a year	i. £500 million invested in climate solutions by 2026 ii. 70% of our default funds’ assets under management screened and/or optimised for ESG factor by 2026	i. Significant % increase in assets under management in net-zero aligned or aligning assets, so that 100% of assets are net-zero or aligned to net-zero by 2040 ii. Progress from engagement with fund managers based on climate outcomes and expectations

Table 6: Aegon UK’s climate-related KPIs.
Source: Aegon

Our target setting and methodologies are guided by the Paris Aligned Investment Initiative Net-zero Investment Framework 1.0²⁰. We monitor our targets every year and review them at least every two years. Our targets can change as new data and information become available. Short and medium-term emissions targets use a 2020 baseline and cover listed equity and corporate fixed income, which represents 82% of our portfolio of default funds by assets under management value, as of 30 June 2023.

We’ve also set KPIs to measure our progress. We aim for a significant percentage increase in assets under management in net-zero aligned or aligning assets, so that 100% of assets are net-zero or aligned to net-zero by 2040. We’ll also have a KPI to track progress of engagement with fund managers based on climate outcomes and expectations, aligned to our emissions targets.

We report KPIs against our targets for our portfolio of default funds to relevant internal committees every year. Between June 2020 and June 2023, we reduced our scope 1 and 2 carbon footprint by 28.6% for our listed equity and corporate fixed income assets across our portfolio of default funds.

This puts us on our way towards our portfolio of medium-term target of halving our carbon footprint for listed equity and corporate fixed income assets by 2030. Whilst our carbon footprint has reduced, there is an increase in absolute emissions over this period, as reported by companies we invest in.

We also increased our engagement with companies representing 58% of our financed emissions (carbon footprint for scope 1, 2 and 3) in 2022 to 79% in 2023. This increase reflects our growing stewardship activities and data analysis abilities.

²⁰ [Net-zero Investment Framework 1.5°C Implementation Guide](#), IIGCC (www.iigcc.org), published April 2021, accessed February 2024



Last year we relied on our support of Climate Action 100+, an industry initiative that drives collective engagement with high-emitting companies. Since then, we have expressed our wishes on key climate resolutions for a select number of high-emitting companies in our default funds (including Shell and Glencore), engaging with our fund managers on these (see ‘Case study: Engagement with high emitting companies using our expression of wish approach’). We have signed letters going to additional high-emitting companies as part of the IIGCC Net-zero Engagement Initiative.

Finally, we have also asked our default fund managers to share the list of companies they invest in on our customers’ behalf and engage with on climate considerations. We will continue to challenge our fund managers where we think their climate engagement is not ambitious enough or outcome focused.

In the table ‘Climate metrics for Workplace default funds’ on page 48, we show the metrics we track across our Workplace default funds for 2022 and 2023. This information is provided for comparison with our insured estate. Please note, that the reporting dates are different. The information below is provided as of 30 June, whereas our insured estate report is provided for 31 December.

Between June 2022 and June 2023, our default fund’s assets under management value increased from £31 billion to £38 billion. This increase reflects a net increase in new money from customers, and a positive investment return across the investment portfolio.

Similar to our insured estate, the reduction in our carbon footprint for scope 1 and scope 2 emissions since 2022 can primarily be explained by an increase in the EVIC value and an increased allocation to companies that report lower emissions. Both these factors balance out the increase in the absolute scope 1 and 2 emissions.

Our scope 3 carbon footprint emission has increased during this period and can be explained by an increase in actual scope 3 GHG emissions, along with more scope 3 emissions data being available to us. Both these factors are partly balanced out by an increase in EVIC value and an increased allocation to companies with lower emissions.

Climate metrics for Workplace default funds			Workplace default Funds as of 30 June 2022	Workplace default Funds as of 30 June 2023
Assets under management			£31bn	£38bn
Absolute emissions metrics				
GHG emissions	Scope 1 and 2 tonnes CO ₂ e		2,337,359	2,927,933
	Scope 3 tonnes CO ₂ e		15,805,462	23,392,378
Total GHG emissions	Total (scope 1, 2 and 3) tonnes CO ₂ e		18,142,821	26,320,311
Emissions intensity metrics				
Carbon footprint	Scope 1 and 2 tonnes CO ₂ e /£M EVIC		61.9	56
	Scope 3 tonnes CO ₂ e /£M EVIC		458.0	478.6
Weighted average carbon intensity	Scope 1, and 2 tonnes CO ₂ e/£M revenue		158.3	129.0
	Scope 3 tonnes CO ₂ e /£M revenue		922.4	988.7
Portfolio alignment metric				
Implied temperature rise in degree Celsius			2.5°C	2.3°C
Data quality metric				
Data quality (% total portfolio)	Scope 1 and 2 emissions: Covered (%)	Estimated (%)	9%	8%
		Reported (%)	72%	73%
	Scope 1 and 2 emissions: Not covered (%)	No coverage (%)	19%	19%

Table 7: Climate metrics for Workplace default funds.
Source: Aegon UK/MSCI

Case study: Engagement with high emitting companies using our expression of wish approach

Shell:

Shell is a British multinational oil and gas company. Aegon noted that the company’s current intensity target covering scope 3 for 2030 is not yet Paris-aligned. We see this as an issue as scope 3 emissions in the oil and gas sector usually account for more than 80% of a company’s emissions. In this case, Shell’s scope 3 emissions account for over 90% of their total emissions (including scope 1, 2 and 3 emissions).

We requested our managers to support a shareholder resolution at Shell regarding reporting of emission reduction targets in line with the Paris Climate agreement through our expression of wish. We supported the overall aim of this proposal as we believe Shell’s climate progress is inadequate.

We were pleased to see the way in which one of our managers held Shell to account and that they aligned with our expression of wish to vote in favour of the resolution.

We were also pleased to see the manager voting against the ‘Say on Climate’ proposal to additionally indicate their concerns on Shell’s climate progress. We’ll continue to push Shell and other companies to make the necessary Paris-aligned emissions reduction targets.

Glencore:

Glencore is a Swiss multinational commodity trading and mining company. Aegon has the overall goal of improving climate progress and transparency in the companies we invest in, to ensure long-term value creation for our customers. In the case of Glencore, we wanted to encourage further transparency on the company’s approach to managed phase-outs and/ or divestment for high emitting assets incompatible with a 1.5°C pathway (in particular, thermal coal and oil sands), in line with our stewardship framework as there was a lack of clarity in the company’s plans on how its thermal coal production aligns with emissions reduction commitments.

We engaged with managers on this matter through our expression of wish by requesting our managers support a shareholder resolution at Glencore to disclose how thermal coal production aligns with emissions reductions commitments.

Whilst the shareholder resolution was rejected, a substantial number of votes were in favour. In line with Provision 4 of Glencore’s UK Corporate Governance Code (Code), as more than 20% of votes were cast against the Glencore Board’s recommendation for this and one other climate related resolution, Glencore consulted with shareholders on both matters and has continued dialogue through extensive engagement with investors on climate-related matters.

We were pleased to see our manager using their voice to encourage further progress by the company and we’ll continue engaging to ensure measurable and timely positive outcomes from companies on climate engagement.



4. Data limitations

We have established systems and processes to gather climate data and relevant insights to help guide our climate strategy. We get climate metrics and scenario analysis for our funds from data providers but remain mindful of key limitations to current data. These limitations are set out below:

- Climate data and reporting of financed emissions is more established for listed equity and corporate fixed income, but we are now reporting data for sovereign debt following the industry guidance issued by the PCAF. However, we note the metric differs from other asset classes which limits how easy it is to make comparisons. The emissions for each country are allocated using gross domestic product (GDP) and adjusted for purchasing power parity (PPP), as recommended by the PCAF. Gross domestic product (GDP) is a key economic indicator that measures the total value of all goods and services produced within a country. Purchasing power parity (PPP) allows for the comparison of the purchasing power of various world currencies to one another, and when applied to GDP it allows for a more accurate comparison of economic productivity and standard of living between countries. The GDP-PPP data is only published in US dollars (USD) and we have converted to pounds sterling (GBP) using the USD/GBP spot rate.
- As an indirect investor, we're unable to obtain data for all our investments because data has not been shared with our data provider, or the data for the asset class we hold is limited or data is not available (for example, sub-sovereign debt and property). We have not used any proxy data in place of unavailable data as we believe this could lead to misleading metrics. With the inclusion of sovereign debt, our data coverage has increased from 73% as of 31 December 2022 to 87% as of 31 December 2023.

- Whether reported or estimated, the quality of emission data available is inconsistent:
 - MSCI do not verify emissions data, and their estimated emissions are based on companies within a sector that self-reports. As a result, there may be some inaccuracies in the reported emissions data used to calculate metrics, due to a lack of industry-wide company emissions auditing and regulation.
 - We acknowledge that reliable scope 3 emission reporting will not be widespread in the near future. While the disclosure of scope 3 emission data is improving, there are differences in what similar sector companies report on, what a single company chooses to include in their reported emissions from one year to another and how complete the scope 3 emissions are. We're 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.
 - Limitations specific to scenario analysis are addressed in the 'Strategy' section of this report.

In summary, we recognise that the methods used to measure carbon emissions in investments and associated climate-disclosure requirements will evolve. We expect that the data we report may change in the next few years, in line with regulations and market best practice.

We'll continue to work with our fund managers and data providers to help improve the data we have access to, ultimately driving our climate insights and decision-making (see 'Case study: Our engagement and collaboration with MSCI').



Other notable targets

Operations

We’ve firmly established sustainable business practices into our operations. This includes embedding the management of our goals and targets into our ISO 14001 management systems.

During 2023 we implemented ISO 50001 Energy Management. Energy and carbon are reported per location, business unit, country and globally.

Aegon Group has committed to transitioning our operations to net-zero by 2050 and halving emissions from our direct operations by 2030. Globally, we’ve set a target to reduce our scope 1 and 2 emissions by 25% by end of 2025, against a 2019 baseline, and are on course to exceed this target. During 2023 we also started to track scope 3 travel. We measure these figures on a quarterly basis and report them every year.

General account

Our general account covers the assets that Aegon UK as a company invests in on behalf of its shareholders. General account assets are recognised on Aegon’s balance sheet. In 2021, Aegon Ltd signed up to the Net-zero Asset Owners Alliance, with a [commitment](#) to reduce the weighted-average carbon intensity of corporate bonds and listed equity held in the general account by 25%, by the end of 2025, relative to 2019 levels. Directly owned assets in Aegon UK are small relative to the rest of Aegon Group and are forecast to decrease over time. In 2023, all new bond investments in the Aegon UK general account were completed in-line with our ESG criteria.

Remuneration

Our reward and incentivisation structures are designed with sustainability in mind. Currently, our bonus-plan funding has a 40% weighting on non-financial business performance indicators. This includes a 10% weighting on our sustainable future, which is made up of 5% on reduction in operational carbon emissions and 5% on assets invested using ESG factors (screens and/or tilts).

For 2024, plans are underway to continue the linking of ESG metrics with both company and individual performance measures, which directly affect variable pay outcomes.

You can find further information in our TCFD product level report.





This is our second year reporting climate metrics across our insured investment estate and the first we have been able to compare climate metrics year-on-year. However, comparing two years of data is limited in providing meaningful insights and the addition of future years will help track trends.

Where we have four years of emissions data for our portfolio of default funds and have set a net-zero commitment as part of our climate roadmap, we're able to track significant decreases in emissions for our scope 1 and 2 carbon footprint. We're encouraged by our progress so far and will continue to implement our climate roadmap, as well as regularly report on progress and review our targets.

We will continue to monitor the data quality and services of our data provider and look for opportunities to influence the availability of critical data across the pension sector. We expect climate data coverage to increase over time, especially as more companies report scope 3 emission data. Expanding data availability beyond traditional asset classes will also help with more comprehensive decision-making as we move towards our net-zero targets.

We predict a greater focus on nature related risks and

opportunities. Whilst not specific to climate reporting, biodiversity and nature are linked and essential to achieving net-zero targets. Rising temperatures, changing rainfall patterns, extreme weather events, and ocean acidification are putting pressure on species already threatened by other human activities. Climate change impacts on nature are expected to increase. However, flourishing ecosystems have the capacity to help reduce the impacts of climate change.

In 2024, we'll monitor our fund managers' voting activity against our new voting guidelines on a priority list of 100 companies, and we'll also select our most significant votes from this list, with a focus on climate. We will share our expression of wish voting preferences on such votes with our key managers, increasing the number of wishes we issue compared with last year. We will also continue to actively monitor our managers voting practices on the companies and issues within our 2023 expression of wish resolution list, against our new voting guidelines and using support from our proxy advisor. We will continue to embed climate and other systemic risks into our investment strategy and explore how we can integrate climate risks more thoroughly into our overall strategic asset allocation process.

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