



For customers

# Task Force on Climate-Related Financial Disclosures

(TCFD) entity report 2024



# Contents

You can find the climate-related financial disclosures for our funds in our [TCFD product level report](#).

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We're always here to help if you need some additional support from us.

The value of investments can fall as well as rise and isn't guaranteed. You may get back less than you invest.

# Glossary of terms:

**We'll use everyday words where we can, but here are some key technical words and phrases which might be helpful when reading this report.**

We also have a [responsible investment jargon buster](#) on our website.

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

**Business operations:** The day-to-day activities and processes that a company undertakes to produce goods or provide services.

**Carbon price:** The cost of pollution from carbon dioxide (CO<sub>2</sub>) implemented either through a carbon tax or an emission trading scheme. By putting a price on carbon, the aim is to encourage companies to reduce their carbon emissions, pollute less and use cleaner energy.

**Carbon sequestration:** A natural or artificial process by which CO<sub>2</sub> is removed from the atmosphere.

**Climate Value-at-Risk (CVaR):** A forward-looking assessment of the potential financial effects of climate risks and opportunities on our investment funds 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 scheme. Lifestyle funds are designed for savers who don't make active fund choices throughout their working life.

**Divesting:** The process of removing an investment usually for ethical, financial or political reasons. This is often seen as a last resort when other options such as engagement or stewardship have failed.

**Double Materiality Assessment (DMA):** When we consider the effect of climate change on our investments, we follow the concept of double materiality. This considers both the biggest financial impacts climate change has on our investments, as well as 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 or regulator) on matters of concern aiming to encourage change, or address a market-wide or systemic risk such as climate change.

**Environmental, Social, and Governance (ESG):** How companies choose to respond to ESG issues (such as climate change, diversity and inclusion, and human rights) could influence investment returns and the ability of your pension to provide a reliable income for you in retirement.

- **Environmental** – looks at how companies manage environmental risks (such as climate change, and waste and pollution) and 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 which ensure long term success. This covers factors such as risk management, board structure and remuneration.

**ESG screens:** These exclude investments based on set criteria such as exposure to weapons, tobacco, United Nations (UN) Global Compact violators, thermal coal, oil sands or gambling.

**ESG tilts:** These favour investments in companies with high ESG scores and reduce exposure to companies with low ESG scores. ESG tilts may reduce the carbon footprint of a portfolio by decreasing exposure to carbon-intensive companies and favouring carbon-efficient or low-carbon assets.

**Expression of wish (EoW):** This is how we tell our key fund managers about our voting preferences for resolutions, including climate-related ones. The aim is for our fund managers to align with our voting positions, and we expect them to use their voting rights and responsibilities in line with our expression of wish.

**Greenhouse gases (GHG):** Gases such as CO<sub>2</sub> and methane cause the greenhouse effect which is contributing to global warming and climate change.

**Gross domestic product (GDP):** GDP is a key economic indicator that measures the total value of all goods and services produced within a country and is used to measure the country's economic performance. It's often used for comparison between different countries.

**Gross Domestic Product at Purchasing Power Parity (GDP-PPP):** This is an economic metric that adjusts the GDP of a country to reflect the relative cost of living and inflation rates of different countries. This adjustment allows for a more accurate comparison of economic productivity and living standards between countries. This metric is used to help calculate the sovereign carbon intensity of a country (see sovereign debt).

**Location-based:** A method for calculating emissions using the average emissions intensity of the electricity grid in the area where energy is consumed. It reflects the regional grid mix, regardless of specific energy contracts or renewable purchases.

**Low-carbon economy:** A low-carbon economy is one that has low GHG 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.

**Net zero:** Net zero is the point where we balance the amount of GHG emissions being produced with the amount that can be used and stored by nature. One of the main ways to do this will be to reduce the amount of GHG emissions produced.

**Operational footprint:** The total environmental impact of a company's operations. This includes the consumption of resources such as energy and water, the generation of

waste, and GHG emissions. It encompasses all activities within the company's operational boundaries that contribute to its overall environmental impact.

**Paris Agreement/Paris-aligned:** The Paris Agreement is an international treaty on climate change agreed at the UN Climate Change Conference (COP21) in 2015. The Agreement set long-term goals to reduce GHG emissions and the limit global temperature rise to 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 above pre-industrial levels.

**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 caused by climate change, for example temperature and rainfall changes, or 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.

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

**Private market investments:** These are investments that aren't publicly listed or traded. They can be highly 'illiquid' which means they may take a long time to buy and sell. This may also reduce the value of private market investments.

**Responsible investment:** The consideration of ESG factors when making investment decisions. This helps minimise associated investment risks, while also identifying opportunities to help grow your savings over the long-term, although there's no guarantee.

**Scope 1 and 2 GHG emissions:** Scope 1 emissions are direct GHG emissions that come 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 are caused by the activities 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 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. This could include companies extracting coal, gas and oil.

**Stewardship:** 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. They 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 UK our purpose is to help people live their best lives. We do this by acting as responsible and professional stewards of our customers' savings and actively trade with over 3,500 adviser firms and over 8,500 employers looking after 3.5 million customers.**

During 2024, we were accepted as a signatory to the Financial Reporting Council's UK Stewardship Code for the second time, after a successful first application in 2023. Progress was made on our climate targets, including launching our strategy for investing in private markets and climate solutions in support of our Mansion House Compact commitments. As part of the 2024 review of our workplace default funds we announced a new private markets allocation to our biggest default fund, the Universal Balanced Collection (UBC).

We've also taken steps to address our operational footprint, and we're pleased to report on how we've improved our climate impact as a business.

As a long-term savings provider, we take responsible investing seriously. We know that investments are where our carbon footprint is most material for us. We offer a range of funds on our platforms that take Environmental, Social and Governance (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.

We deliver on our purpose by ensuring that we invest in companies that manage social and environmental risks and impacts well, by supporting efforts to build a fairer, more sustainable and more resilient society, and by remaining focused on delivering long-term value to our customers. We invest intentionally and carefully, we manage risks - including ESG-related risks - over the range of time frames that are relevant to our customers, and we embed long-term thinking in our investment strategy, practices and processes.

Our fiduciary duty ensures we act in our customer's best interests, and this includes managing the risks associated with climate change. Companies that are well governed and take a proactive approach to sustainability are less at risk of negative corporate events and are more likely to represent better investments. Our climate-related disclosures in this report, based on the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, show how we're identifying and measuring the risks of climate change.

Collaboration and transparency are key to ensuring the pace of climate action matches the level needed 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're taking the right steps to address climate risk for our customers, and evolve our approach over time.

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 fairer and more sustainable world, as long as we all rise to the challenge.



A handwritten signature in black ink that reads "Mike". The signature is stylized and cursive.

**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 the investment-focused information references to Aegon UK are to SE plc. SE plc is within the remit of the Aegon UK Group Board. The business operations information shown in this report is presented at Aegon UK level.**

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



A handwritten signature in black ink that reads "Jim Ewing". The signature is written in a cursive style.

**Jim Ewing**  
Chief Financial Officer, Aegon UK

# Executive Summary

**In this report we set out the main climate-related risks our investments and business operations are exposed to and how we're managing these for our customers. Climate-related risks can be 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.**

We've continued to work on improving our reporting and have added more detail relating to our business operations in this 2024 TCFD report. We've put this information under two headings, **Investments** and **Business operations**, to clearly show our actions in each area. Here's an overview of our main activities.

## Strategy

### Investments

- We're making good progress on the implementation of our Climate Roadmap and expect to report on our achievements in 2025. We developed a climate solutions framework to identify, assess and report on our commitment to invest £500 million in credible climate solutions by 2026. We also collaborated with MSCI in developing net-zero alignment metrics.
- We started making changes to our biggest default fund, the Universal Balanced Collection (UBC), by adding a broader range of asset classes such as private market investments. This creates further opportunities for investing in climate solutions and supporting our emissions and net-zero targets. There are more updates planned, and we expect these investments to gradually increase over the next three years.
- We played a key role in influencing BlackRock's Decarbonisation Stewardship Guidelines and expanded our 'expression of wish' process to cover 100 companies for the 2024 voting season. We shared our voting preferences with our key fund managers, covering important engagement themes, including climate-related resolutions.



- We were named a leader on climate policy influence by InfluenceMap for our stewardship process, including fund manager monitoring and direct policy lobbying<sup>1</sup>. InfluenceMap maintain a database on global climate policy lobbying which is a useful investor tool for assessing and engaging with companies.

### **Business operations**

- We focused on including climate-related risks and opportunities in our operational decision making. We reduced emissions through energy efficiency measures, renewable energy adoption and investing in climate resilient infrastructure.
- We committed to transitioning our operations to net zero by 2050. We've set a target to reduce our scope 1 and 2 emissions by 60% by the end of 2025, against a 2019 baseline.

### **Risk Management**

- We continued to embed climate risk into our Enterprise Risk Management (ERM) framework, including the consideration of 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 expectation setting.

### **Metrics and Targets**

#### **Investments**

- For corporate fixed income (loans issued to companies) and listed equity (company shares) held across our range of investment funds, our scope 1 and 2 carbon footprint (tCO<sub>2</sub>e/£m) decreased by 13% between December 2023 and December 2024. We also saw a reduction in our scope 3 carbon footprint by 11% over this same period.
- We were able to measure and include emissions data for our sovereign debt (bonds issued by governments to borrow from investors) exposure from 2023. Our scope 1 production sovereign debt intensity metric decreased by 14% between December 2023 and 2024.

- We've set specific emissions, investments, engagement and tracking targets for our default funds and reported on these as part of our ongoing Climate Roadmap commitment. Between June 2020 and June 2024, we reduced our scope 1 and 2 carbon footprint by 40% 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.
- You can find the climate-related financial disclosures for our funds in our **TCFD product level report**.

### **Business operations**

- We set clear metrics and targets to effectively manage and track our progress. We measured our scope 1 and scope 2 greenhouse gas (GHG) emissions against our target of achieving net-zero emissions by 2050, and our interim goal of reducing emissions by 77% by 2029.
- We monitored energy consumption, water usage, and waste management, to make sure our performance in this area supports our sustainability goals.
- We've shown our commitment and progress to stakeholders in our regular reporting and transparent disclosure of these metrics.

<sup>1</sup> InfluenceMap, **Institutional Asset Owners Found to be Underutilizing Stewardship and Advocacy Opportunities on Climate Policy**, [influencemap.org](https://influencemap.org), December 2024

# Map of content to TCFD Framework

TCFD pillars	TCFD recommended disclosures	Disclosure in this report
<b>Governance</b> Disclose the organisation’s governance around climate-related risks and opportunities	a. Describe the board’s oversight of climate-related risks and opportunities.	<a href="#"><u>See Governance section 1</u></a>
	b. Describe management’s role in assessing and managing climate-related risks and opportunities.	<a href="#"><u>See Governance section 2</u></a>
<b>Strategy</b> Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning where such information is material.	a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	<a href="#"><u>See Strategy section 2.1-2.3</u></a>
	b. Describe the impact of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning.	<a href="#"><u>See Strategy section 2.4</u></a>
	c. Describe the resilience of the organisation’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	<a href="#"><u>See Strategy sections 3-5</u></a>
<b>Risk management</b> Disclose how the organisation identifies, assesses, and manages climate-related risks.	a. Describe the organisation’s processes for identifying and assessing climate-related risks.	<a href="#"><u>See Risk Management section 1</u></a>
	b. Describe the organisation’s processes for managing climate-related risks.	<a href="#"><u>See Risk Management section 3</u></a>
	c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation’s overall risk management.	<a href="#"><u>See Risk Management section 2</u></a>
<b>Metrics and targets</b> Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	<a href="#"><u>See Metrics and targets section 2</u></a>
	b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	<a href="#"><u>See Metrics and targets section 2</u></a>
	c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	<a href="#"><u>See Metrics and targets section 3</u></a>



# Governance

In this section we set out:

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

## 1. Board and committee 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 and stewardship commitments. This includes our 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 Aegon 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 CO<sub>2</sub> 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 are 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 11**.

We've also included an overview of the terms of reference, and main climate-related governance activities for the Board and relevant committees in the tables on **pages 12 and 13**.

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

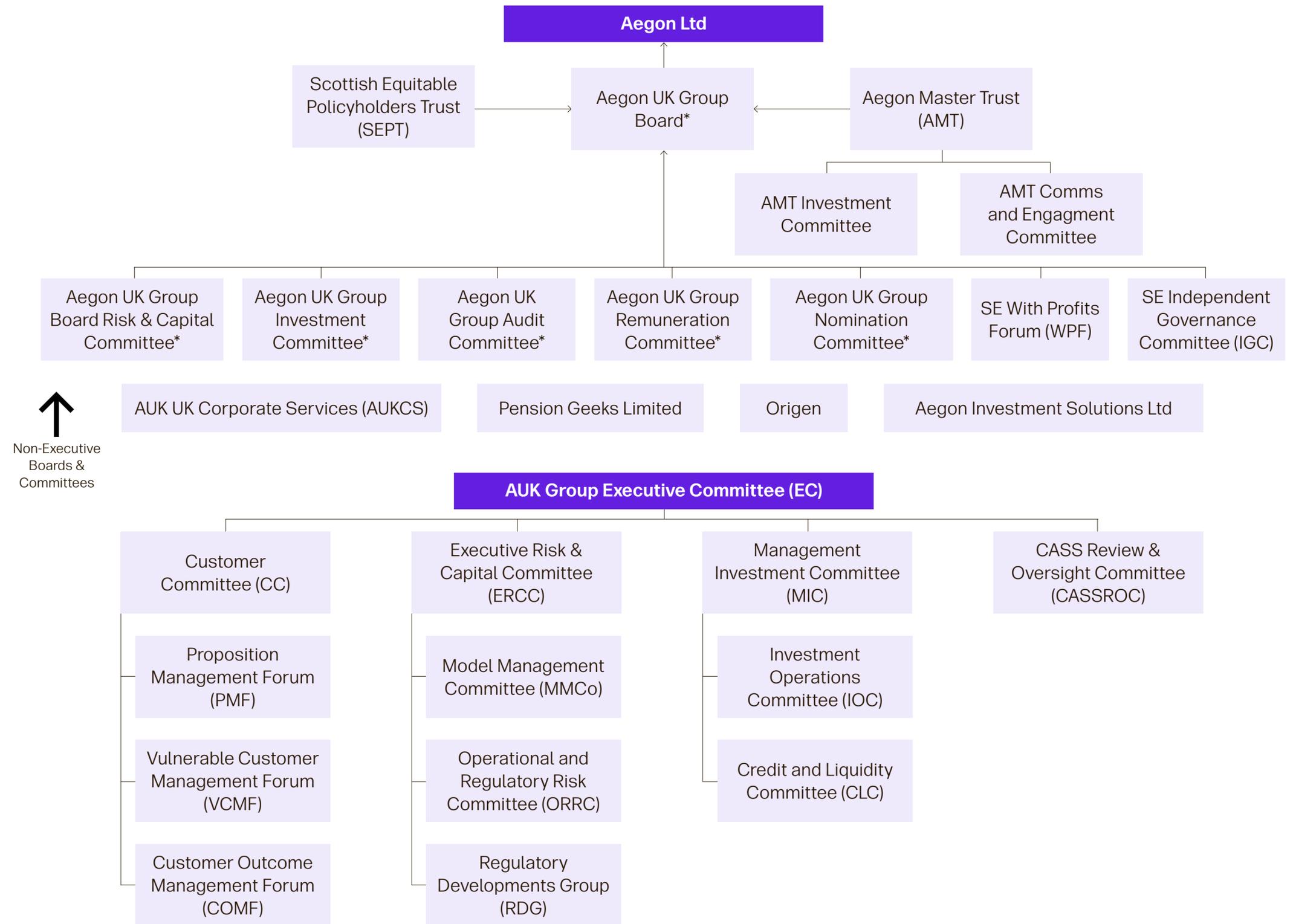
<b>Committee (frequency)</b>		<b>How climate-related issues are considered</b>
Board	Aegon UK Group Board (Quarterly)	Oversee our overall approach to sustainability and responsible investment, including a yearly review of progress in respect of the sustainable future ambition.
	Aegon UK Group Board Risk and Capital Committee (Quarterly)	Oversee alignment of responsible investment and Environmental, Social and Governance (ESG) execution within our risk management framework, including understanding how ESG risks are being continuously identified, and which ESG risks are material.
	Audit Committee (Quarterly)	Review and approve our sustainability-related financial disclosures, ensuring production is in line with relevant regulatory requirements.  For statutory accounts, this includes reviewing the presentation of climate considerations in the Strategic Report, Directors Report and Financial Statements, and considering 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 our approach to sustainability, including the responsible investment/ESG objectives.
	With-Profits Forum (Quarterly)	Approve the investment policies and strategy adopted in relation to with-profits funds, considering our approach to sustainability and stewardship and, in particular, our Responsible investment policy.
Executive	Executive Committee (Regularly)	Manage our approach to sustainability, and particularly its responsible investment activities, ongoing business activities and climate commitments.

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

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 chair is a member of the Executive. At 31 December 2024, the Chief Internal Auditor held this role and reported 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”).



↑  
Non-Executive  
Boards &  
Committees

Figure 1: Aegon UK Group governance structure.

Aegon Ltd's Board of Directors has ultimate oversight over sustainability. Through its Nomination and Governance Committee, the Board of Directors is advised and kept informed of business and regulatory developments involving sustainability.

Advice on Aegon Ltd's sustainability approach is provided by the Global Sustainability Board (GSB), which is supported by the Corporate Sustainability team. The GSB is a senior management committee established in December 2021, to improve overall governance and oversight of Aegon Ltd's company-wide approach to sustainability. The GSB meets quarterly and advises the Executive Committee on Aegon's strategic sustainability approach. It's chaired by the CEO of the Americas and consists of senior-level representatives from across Aegon Ltd, including five members of Aegon Ltd's Executive Committee. The GSB's core function is to steer and strengthen the sustainability approach across Aegon Ltd's business units, and it's supported by the local sustainability boards. Key actions include defining and tracking sustainability focused commitments, key performance indicators (KPIs) and targets. Aegon Ltd's approach to sustainability is informed by our double materiality assessment (DMA). The DMA is endorsed by the GSB and approved by Aegon Ltd's CEO with support of Aegon Ltd's Executive Committee. Aegon Ltd's Executive Committee is the owner of the material topics as defined under European Sustainability Reporting Standards, including the associated impacts, risks and opportunities, and has oversight of how these are managed through relevant policies, targets and actions.



Figure 2: Aegon sustainability governance structure.

## 2. Management's role

In this section we explain how we've assigned climate-related responsibilities to management-level positions and committees; whether such management positions or 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

We set up the Sustainability Board as the management committee responsible for the oversight of the sustainability agenda across Aegon UK. The committee chair, the Chief Internal Auditor, is executive advocate for the sustainable future strategic ambition. The Sustainability Board is responsible for providing a regular update on those activities to the Board, either as a stand-alone item or as part of the Executive Management Report.

### Management Investment Committee (MIC)

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

### Aegon UK Chief Actuary

The 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 our business, as set out in the internal Environmental Policy and the internal Sustainability Report. This includes meeting internationally recognised standards, such as ISO 50001 for energy management and ISO 14001 for environmental management, ensuring that our operations meet high standards of sustainability and efficiency.

### Responsible Investment Team

Our Responsible Investment (RI) team is part of our Investment Proposition team, ensuring that sustainability is embedded into all investment processes and decision-making. In late 2024, the RI team was integrated into the Investment Oversight team, with our Stewardship Lead and Climate and RI Lead reporting directly to the Head of Investment Oversight. Our RI team makes sure we progress on our journey towards net zero and expand our in-house climate expertise. The 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.

Our Climate Roadmap was approved by the Board in March 2023 and published in May 2023. We continue to report progress internally and plan to review our Climate Roadmap in 2025.

In 2024, we were accepted as a signatory to the Financial Reporting Council's UK Stewardship Code for the second time, after a successful first application in 2023. Being accepted to join the UK Stewardship Code is a significant achievement and shows our commitment to being a responsible business. The UK Stewardship Code is a set of voluntary principles that aim to improve the quality of stewardship practices by asset owners, managers and service providers. To become a signatory, organisations must clearly prove they've used effective stewardship over the previous 12 months through good governance and active engagement helping to generate long-term positive impacts for the economy, environment, and/or society.

This is summarised in our 2024 Responsible Investment and Stewardship Report available to advisers and employers.

Responsible investment is considered at executive and board level. Responsible investment is also a standing agenda item for the Aegon UK Group Investment Committee, which meets on a quarterly basis and is chaired by one of our independent non-executive directors who then provides an update to the Board. The Aegon UK Group Audit Committee received a Teach-In on the TCFD Report in May 2025, which was open to all Board members and the Responsible Investment and Stewardship Report was approved by the Board at its meeting in March 2025.

The RI team provide quarterly updates to the Aegon Fund Governance Group (AFGG), which makes sure there is robust challenge on progress and direction as part of the ongoing governance and oversight of our responsible investment philosophy and delivery, ahead of Board updates and approvals. Relevant updates from the AFGG are included in an Investment Proposition paper which is reported to the MIC.

The terms of reference of the AFGG include:

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

During the year, climate risk and sustainability matters were presented to the Board and the Audit Committee, including the following:

- In June 2024, the RI team presented an update to the Audit Committee on the responsible investment executive target; Climate Roadmap; TCFD reporting; and additional fund-level metrics.
- In September 2024, the Board received an update on our sustainable future ambition from the Investment Proposition team. This focused on our climate change action plans for Aegon UK policyholder investments and covered our progress against the Climate Roadmap and the 2023 Aegon UK Sustainability Roadmap. This is used to track our progress against the Aegon Group Global Sustainability Board Roadmap which is overseen by the Global Sustainability Board.





# Strategy

In this section we set out:

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

## 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. We have an active role to play in reducing our greenhouse gas (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 purpose is helping people live their best lives.

In 2019, the UK made a commitment to cut GHG emissions to net zero by 2050 becoming the first major economy to introduce laws to end its contribution to global warming.<sup>2</sup> As a responsible pension provider, we've committed to net zero by 2050 across our portfolio of workplace default funds, business operations, and general account. You can find more information about our climate targets in the 'Metrics and targets' section of this report on [page 45](#).

### Our investments

Our climate strategy focuses on the impact of our investments (where our GHG emissions are most material and have the greatest impact), but we also consider GHG emissions targets and specific activities intended to reduce GHG emissions in our business operations and value chain.

As a UK financial institution with long-term investments, we provide retirement, investment and workplace savings solutions to over 3.5 million customers and are exposed to systemic risks such as climate change. Our insured assets are primarily invested in the UK (38%), USA (35%), and Europe (12%) as of 31 December 2024 (Source: Aegon UK).

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'.<sup>3</sup> 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 climate strategy is focused on our investments, where our carbon footprint is greatest and our influence matters the most.

Our climate strategy for our portfolio of default funds is guided by three principles, as outlined in our [Climate Roadmap](#).

1. Climate-change mitigation and adaptation is complex: for our investments 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 financial impacts climate change has on investments and the significant impact our investments have on nature, climate, and society.

<sup>2</sup> [UK becomes first major economy to pass net zero emissions law](#), gov.uk, June 2019

<sup>3</sup> [Aegon UK Responsible investment policy](#)

3. We seek outcomes in the 'real' economy 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:

- How we allocate money
- How we engage with our customers, our fund managers, climate data providers, relevant industry groups and policy forums.

## 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. These climate impacts can present a threat to our investment strategies, but also opportunities to invest in new product and services.

We also need to understand the potential influence on our business operations. Climate scenarios are used to stress test operations and evaluate potential vulnerabilities as outlined in the 'Risk management'

section of this report. Mitigation measures, such as enhancing infrastructure resilience, adopting energy-efficient technologies, and developing response plans for climate-related disruptions, are incorporated into our broader risk mitigation 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 rainfall 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.

As we're mainly an indirect investor, we build most of our investment solutions using funds from third-party fund managers and delegate the management of climate-related risks to them. Climate is one of the key responsible investment topics we assess when we select, monitor, and engage with our fund managers. This is set out in our **Responsible investment policy**, which is reviewed every year.

As a business, we look to address climate-related risks so that we can maintain our operational resilience while supporting our broader climate and net-zero goals.

### 2.2 Time horizons we consider

We consider relevant short, medium, and long-term time horizons. We also consider the useful life of our assets and 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 Report** 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, we expect most transition risk to 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.

We've also looked at how our business operations could be impacted by climate change across these time horizons.



## 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 across both our investments and our business operations:

Risk/ Opportunity	Potential impact	Time horizon		
		Short term <10 years	Medium term 10-25 years	Long term >25 years
<b>Transition risk</b>				
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.	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
Reputation	Failure to act decisively on climate issues could harm our reputation and relationships with key stakeholders, impacting business viability.	X	X	X

Risk/ Opportunity	Potential impact	Time horizon		
		Short term <10 years	Medium term 10-25 years	Long term >25 years
<b>Physical risk</b>				
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
<b>Risk to Aegon UK business model</b>				
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 term 10-25 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
<b>Opportunities</b>				
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	
Investing in energy-efficient technologies and sustainable infrastructure	Can reduce operating costs and align us with the low-carbon transition.		X	
Leveraging renewable energy sources and improving resource efficiency	Can reduce vulnerability to resource scarcity and volatile energy markets caused by physical climate impacts.	X	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 our financial strength, competitive position, reputation or risk profile. It's also used to check that the risk universe we use to assess Aegon's risks continues to be appropriate, to assess how

ready we are to respond to emerging risks and to provide input and awareness on topics to help us develop our strategy. 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 investments, the time horizon(s) used, and how these risks and opportunities are prioritised.

As a large, long-term savings provider, we believe that using our investment footprint and scale is the most impactful way we can support the transition to a fairer and more sustainable world and secure good outcomes for customers. While accepting some of the exposure to climate risk attached to our investments is beyond our control, there's a lot we can do to manage it, such as applying internal frameworks to reduce and manage the climate risk exposure of our investments. We can also use our position as a large asset owner to engage with companies and shape public policy, ensure we fulfil our fiduciary duty to our customers and deliver our purpose of helping people live their best lives.

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 the financial impact on their pension savings. 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've started our decarbonisation journey by committing and making progress towards net zero by 2050 in our default funds<sup>4</sup>, our general account and our business operations. However, our business strategy needs to be flexible and responsive to the uncertain and large-scale impacts climate change may bring.

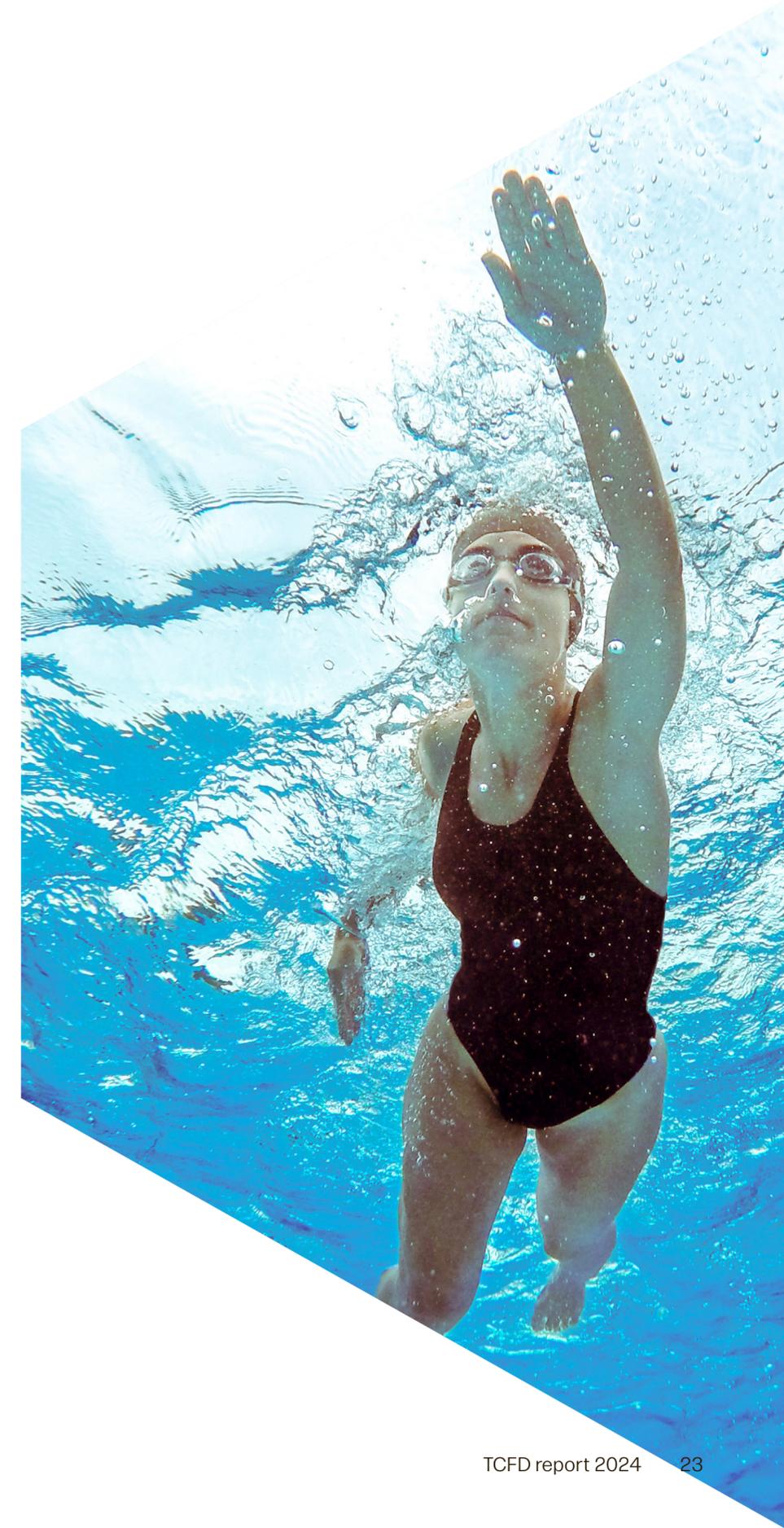
While there are risks associated with climate change, there may also be investment opportunities that come from the transition process. We believe firms that respond effectively to policy change and technological developments and recognise the change in consumer behaviours and expectations will be well 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

#### Investments

Our Climate Roadmap is our public transition plan to net zero, setting out our vision for decarbonising our workplace default funds and outlining the steps we're already taking. Through the implementation of our Climate Roadmap, we're seeking to increase the alignment of our default funds with net zero over the coming years, as recommended by science and industry best practice.

<sup>4</sup> For more information see Section 5 (Strategy) Decarbonising our default investment strategies



We review our Responsible investment policy every year and attest to Aegon Ltd to ensure we're managing climate risks in line with our customers' expectations. Our policies are designed to support our Climate Roadmap short-term decarbonisation targets and make sure we maintain good governance practices around our fund managers' climate practices. Insights from our yearly responsible investment fund manager monitoring also helps us to focus our engagement activities and objectives, allowing us to review how we manage climate risks in the short-term.

The risk from transitional factors is arguably more material in the short to medium-term, with climate reporting and disclosure requirements rapidly increasing. We've addressed 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 Financial Conduct Authority (FCA) Sustainability Disclosure Regulations (SDR) investment labels will provide more consistency on fund labelling across the market in the short-term. The labels 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're developing our own approach to nature, directly supporting our net-zero targets.

We estimate that in the short term, we can access climate change opportunities in our current investment

channels, and we'll aim to increase our exposure to these opportunities over the coming years. We're preparing for the future by looking to invest more fully in climate opportunities through private markets, to unleash more benefits in the medium-term.

### **Business operations**

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 four lease interests within our operational property portfolio which would be vulnerable to rising temperatures, flooding, and gale force storms. The highest risk would be temperature change which, based on our current plant capabilities, would become an issue once average temperatures exceed 28°C (35°C in our Edinburgh office as a new cooling system was installed in 2024). Given the current rise in temperature, it isn't predicted this will be a problem in the short term and would only 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). The current designs for our properties are of a standard that can withstand periods of severe gales and storms with the potential for minor damage. All our properties are insured by our landlords against severe weather incidents except for Lochside Crescent in Edinburgh which is insured by Aegon UK and reviewed on a 12-month basis. The short-term risk to our operating expenses is relatively limited.

While the short-term physical risks to our UK operations are limited, there are also opportunities to improve resilience and operational efficiency in the short-term. For example, investing in smart building technologies and energy-efficient systems can reduce operational costs and carbon emissions, while also improving comfort during warmer periods. In addition, our hybrid working model allows us to flexibly manage occupancy and energy use in response to extreme weather events. These proactive measures not only reduce risk but also mean we could benefit from new sustainability incentives and evolving regulatory standards.

### **Medium-term impacts**

#### **Investments**

We expect our customers and external stakeholders will ask for more detail on how we're aligning our investments 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 default funds.

As the market becomes better at pricing climate risks, we also anticipate more assets will be invested with consideration to climate factors, such as Environmental, Social and Governance (ESG) screens (for example exclusions), ESG 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've developed a climate solutions framework to identify, assess and report on our commitment to invest £500 million in climate solutions by 2026.

We believe investing in private markets has the potential to help deliver climate solutions and help us achieve our Climate Roadmap goals, although in the short to medium-term investing in this asset class may increase our portfolio emissions, because new infrastructure projects with expected climate benefits (such as wind farms or rail infrastructure) often require a large carbon emission budget in the construction phase.

In late 2024, we announced our intention to commit a cornerstone investment to the British Growth Partnership, a fund which will be launched by the British Business Bank in 2025 to invest in high quality, UK growth companies seeking investment to scale their operations. This partnership may also provide an opportunity to invest in breakthrough technology companies which could play a pivotal role in fostering economic growth, job creation and prosperity throughout the UK, while delivering long-term environmental and social outcomes.

We believe that investment in venture capital as part of a well-diversified private markets portfolio has the potential to improve customer outcomes, through better risk-adjusted returns and increased investment diversification, although there's no guarantee.

### **Business operations**

The physical risks to our operations include rising temperatures as our properties could face increased cooling demands, especially during peak summer months.

This could lead to higher energy costs and potential strain on our cooling systems.

An increase in the frequency and/or intensity of rainfall could lead to flooding, and we may need to invest in flood defences. More frequent and severe storms could cause physical damage to our buildings and infrastructure, leading to higher maintenance and repair costs.

There are opportunities to future-proof our operations by investing in sustainable technologies. Upgrading to high efficiency cooling systems and integrating further renewable energy sources to help offset rising energy demands and reduce long-term costs.

### **Long-term impacts**

#### **Investments**

Customers may be increasingly affected by climate impacts in their daily lives and their investments. As long-term investors with long-term liabilities, our focus is delivering sustainable long-term value for our customers. This means managing investment risks and returns effectively, which includes considered and active integration of ESG factors across our investments. This will help to address climate change and transition our default fund portfolio to net zero by 2050.

Our fund managers act as the primary safeguard in managing all investment related risks and opportunities, including those related to climate change. As such, fund manager selection and monitoring are an integral part of our stewardship toolkit. We expect fund managers will increasingly focus on how they adapt to climate change and how they mitigate any risks.

In the long-term, we expect markets will be fully pricing in transition risks if the world manages to meet the goals of the Paris Agreement to stay well below 2°C above

pre-industrial levels. However, under 'failed transition' scenarios, we expect markets will price in the more severe physical impacts that could come from inaction.

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. We expect significant changes in our funds' asset allocation in future, as well as significant new 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.

### **Business operations**

The frequency and severity of extreme weather events, such as heatwaves, storms, and floods are expected to increase in the longer term, posing significant risks to physical infrastructure and operational continuity.

Long-term changes in climate patterns, such as prolonged periods of high temperatures, could affect the structural integrity of our buildings and might require major upgrades or replacements of our heating, ventilation and air conditioning (HVAC) systems.

As climate risks become more pronounced, we expect our business costs will increase as insurance premiums for properties and business operations are likely to rise.

In the long term, adapting to climate change presents opportunities to reimagine and future-proof our operational footprint. Strategic investment in climate-resilient infrastructure, such as advanced HVAC systems, and on-site renewable energy generation, can

significantly reduce long-term operational costs and carbon emissions. Embracing circular economy principles in property development and maintenance could also increase resource efficiency and reduce waste.

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

It's important that we monitor climate change risks and opportunities to protect the value of our investments and optimise performance while we strive to reach our goals.

We use climate scenario analysis to understand potential financial consequences of climate risks under a range of different scenarios. The output of this analysis is called Climate Value-at-Risk (CVaR). The climate scenarios selected apply to the most common asset classes that we invest in, namely equity (company shares) and corporate fixed income (loans issued to companies). In 2024, we worked with MSCI to expand the scope of assets to include sovereign debt, which has significantly increased our data coverage. For sovereign debt, the focus is primarily on transition risks resulting from government policy changes. Some impacts of chronic (long term) physical risks are also considered, but acute (event driven) physical risks are not included.

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 a climate scenario analysis tool developed by MSCI to understand the potential financial consequences of climate risks on our investments.

This analysis is separate and different to the scenario analysis applied to our business model and operations, as outlined in section 6.

### 3.1 Choice and description of our climate scenarios used to analyse our insured investments

We selected three scenarios to assess our exposure to investment 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 CVaR measurement for each of the three transition scenarios we've selected, as summarised in table 3 shown below. Climate scenario analysis offers us the opportunity to explore the potential impacts on our investments under a set of possible scenarios. We expect to develop this analysis in the future.

Scenario	1.5°C orderly transition	2°C disorderly transition	4°C failed transition scenario
Model (see model descriptions on next page)	Integrated Assessment Model: REMIND NGFS 1.5°C.	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.
Key impact/risks	Transition impact of policy measures and technology drivers.	Transition impact of 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.
Summary of assumptions	Transition is assumed to occur as smoothly as possible. Carbon capture and storage are developed. There is increasing energy efficiency.  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.
Outcomes	Locked-in physical impacts of 1.5°C. (in other words, already in motion)	Locked-in physical impacts of 2°C. (in other words, already in motion)	Assumes temperature rise of 4°C by 2100. Physical impacts difficult to avoid with continued high emissions.

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

Climate scientists currently predict that climate change could lead to a global temperature rise of 2.7°C by 2100<sup>5</sup>, based on current policies and action. These projections are significantly higher than the ambition set by the Paris Agreement<sup>6</sup>, 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 above pre-industrial levels. Consequently, our disorderly scenario assumes a 2°C increase in temperatures, while our failed transition scenario assumes a 4°C increase.

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

### **Physical risk**

One part of climate scenario analysis is physical risk. 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.

<sup>5</sup> **The CAT Thermometer**, climateactiontracker.org, November 2024

<sup>6</sup> United Nations Framework Convention on Climate Change, **The Paris Agreement**, unfccc.int

Our data provider, MSCI, uses a measure of physical risk to assess the possible effect of different physical risk 'hazards' on companies.

### **Transition risk**

Another part of climate scenario analysis is transition risk.

Transition risks will be influenced by existing and future climate policies as well as if 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.

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 investments are likely to be affected.

### **Technology opportunity**

The last part 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 scenarios.<sup>7</sup> NGFS partnered with an expert group of scientists and economists to design these scenarios, and they're commonly used to help understand how climate change could affect investment returns. Our data provider, MSCI, provides us with the most recent scenarios. 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, because there's no 4°C scenario for REMIND NGFS. The impact from a 3°C or 4°C transition scenario is broadly similar. We've combined a 3°C REMIND NGFS transition scenario 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.

The 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. However, they differ in 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 expected to be 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. While these offer an indication of the potential financial impacts on our investments, 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, plus opportunities, to produce a combined CVaR measure, based on the three transition scenarios discussed above. This is an isolated risk measure and does not include other economic risks and opportunities.

<sup>7</sup> 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.

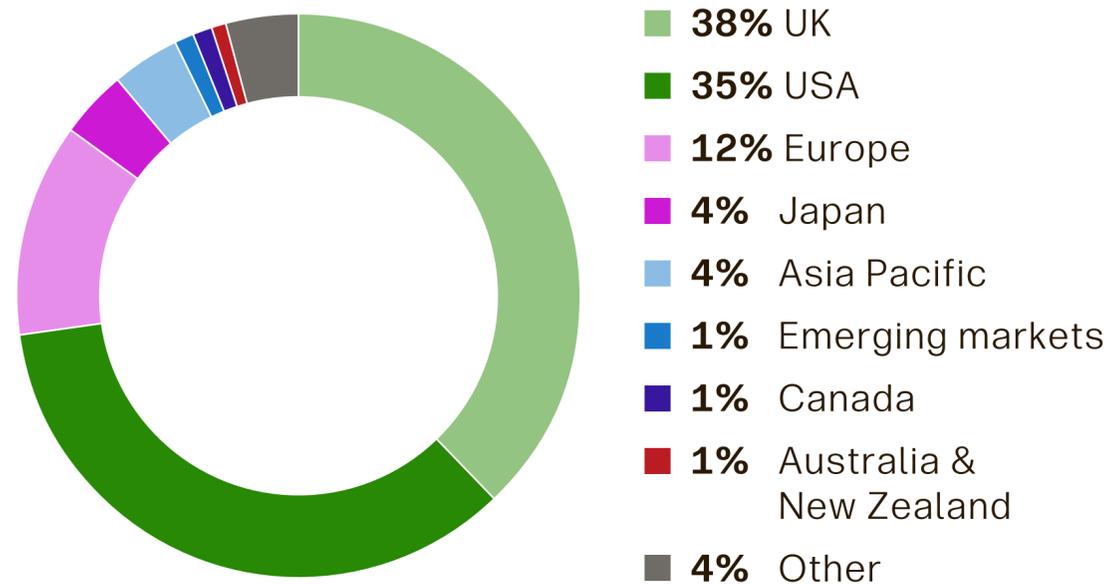


### 3.3 Climate Value-at-Risk results and resilience of our investment portfolio

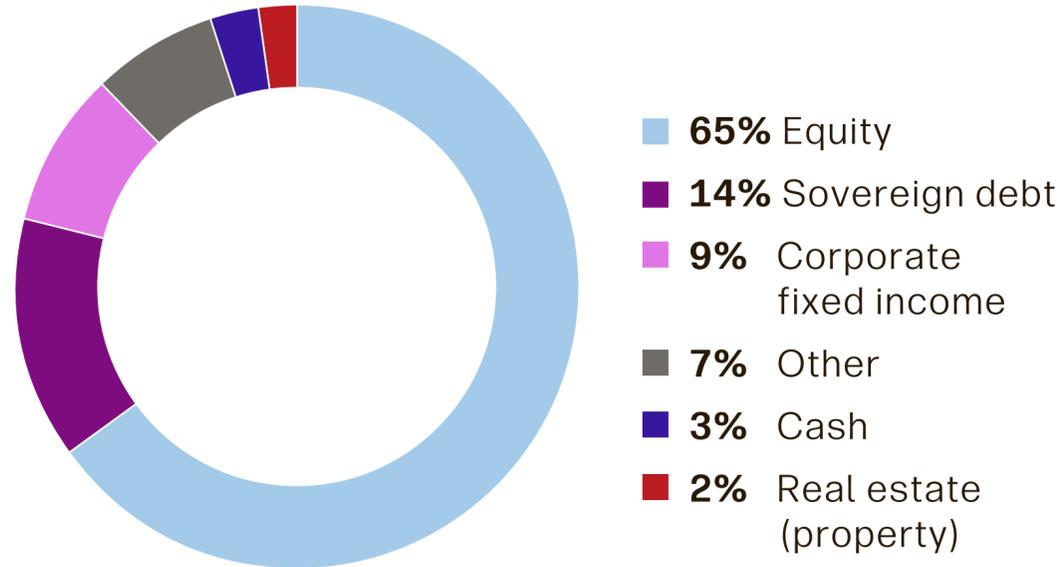
The characteristics of our investments have a substantial impact on the outcome of our climate scenario analysis. Our investments are strongly tilted towards listed equity (over 65%), sovereign debt (14%) and corporate fixed income (9%). Our investments are primarily invested in the UK (38%), the USA (over 35%) and Europe excluding the UK (12%), as of 31 December 2024.

#### Investment breakdown

##### Region and country breakdown



##### Asset class breakdown



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 scenarios, expected returns due to the impact of climate change would be lower compared with those expected from a 'climate-uninformed' baseline,<sup>8</sup> because of the negative effects of climate risk over time. The data suggests that significant changes in policy, investment and behaviour will be necessary to change the global warming trajectory to a Paris-aligned outcome.

Figure 3: Investment breakdown - regional and asset class breakdown. Source: Aegon UK 31 December 2024 (percentages rounded to nearest whole number)

<sup>8</sup> 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.

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. This year, we've extended our CVaR analysis to include sovereign debt. This resulted in an overall increase in data coverage. Sovereign debt carries less climate risk than equity instruments in the models we use and this means we've reported a lower aggregate CVaR under all three scenarios due to the dilution from sovereign debt. These results are based on current models and portfolio holdings.

Choice of three scenarios	Aggregated CVaR	Data coverage (estimated and reported)
Orderly transition (1.5°C)	-10%	82%
Disorderly transition (2.0°C)	-9%	82%
Failed transition, a hot-house world (4°C)	-17%	82%

Table 4: Climate Value-at-Risk for three transition scenarios. Source: Aegon UK 31 December 2024 using data from MSCI.

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 investments.

## Limitations of data and methods

We've identified 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 geospatial mapping of corporate assets and data coverage across all asset classes in future years.
- The scenario analysis methodology assumes our investments 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 climate scenarios methodology does not capture the risk linked to systemic breakdown of supply chains. While it considers a company's own operations, many industries are organised in clusters with subcontractors and are dependent on external supply chains.
- The scenario analysis isn't fixed and is expected to change as climate science evolves, the market responds to climate change, and the capabilities of our data provider improve. For example, we expect that risk of and impact from major wildfires to be re-evaluated in models, after the devastating 2024 wildfires in California, USA.<sup>9</sup>
- The approach to climate scenarios methodology would benefit from better integrating findings from economists and climate scientists. As noted by the Institute and Faculty of Actuaries<sup>10</sup> in June 2023, many climate-scenario models significantly underestimate climate risks. Carbon Tracker Initiative<sup>11</sup> also pointed out the disconnect between what scientists expect from global warming and what pension funds are reporting and prepared for. We would welcome the further development of climate scenarios including worst case scenarios.

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).

9 BBC News, [California wildfire forces thousands to evacuate](https://www.bbc.com/news/health-67444444), bbc.co.uk, November 2024

10 Institute and Faculty of Actuaries and the University of Exeter, [Emperors New Climate Scenarios](https://www.actuaries.org.uk/news/2023/07/emperors-new-climate-scenarios), actuaries.org.uk, July 2023

11 Carbon Tracker Initiative, [Loading the Dice Against Pensions](https://www.carbontracker.org/news/2023/07/loading-the-dice-against-pensions), carbontracker.org, July 2023

#### 4. 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, as outlined in our Climate Roadmap, which is our plan to support transition to a net-zero economy. Our Climate Roadmap is aimed at decarbonising our current investments and capitalising on climate-related investment opportunities. We aim to update our Climate Roadmap in 2025. We expect new developments to encompass other related environmental factors, including nature, deforestation and climate justice. You can read more about our Climate Roadmap in section 4.1.

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

For 2024, we identified seven potential development areas on which to engage with MSCI. Three of these engagement objectives were successful during the year, with MSCI implementing measures to address our concerns.

- We successfully influenced MSCI on the introduction of a net-zero alignment tracking tool. MSCI took some of our advice on how to leverage best practice net-zero alignment as a key forward-looking metric to help financial institutions assess their future decarbonisation trajectory. We provided feedback to MSCI on how their initial methodology could be made more robust and were pleased to be consulted on their second version.

The net-zero alignment tracking tool will help us better model our funds' decarbonisation trajectories, and will complement our emissions' tracking, which is inherently backwards looking.

- We highlighted and discussed data gaps on new biodiversity data sets, in particular against the recommended Taskforce on Nature-Related Financial Disclosures (TNFD) metrics. In 2024, we were pleased to see MSCI release a further biodiversity package addressing some of our feedback.
- We challenged MSCI on how they could show continued leadership to support market transparency, in relation to their contribution to the development of a voluntary Code of Conduct for ESG Ratings and Data Product

Providers. In July 2024, they published a statement explaining how they're applying the Code<sup>12</sup>. We then met with their Head of Government and Regulatory Affairs to further discuss how they're planning for upcoming regulation in various jurisdictions.

We expect that climate data, metrics and methodologies will continue to evolve. We'll continue to monitor the data quality and services of MSCI as part of our supplier oversight and collaborate with them to meet our evolving needs and help develop solutions that benefit the wider financial community.



<sup>12</sup> MSCI ESG Research's Statement of Application of the UK Code of Conduct for ESG Ratings, msci.com, July 2024



## 4.1 Our Climate Roadmap

Our net-zero transition plan, our **Climate Roadmap**, sets out our vision for transitioning to net zero, starting with our default funds. This is where we have most management control and where we've set our public net-zero commitment. Aegon designed default pension funds represent £44 billion of assets as of June 2024.

Our three-pillar strategy, supported by nine key actions, has been led by industry guidance, market best practice, competitor research and customer insights. During 2024, we've continued to monitor and report to our committees on progress against our agreed actions and targets (see the 'Metrics and targets' section).



### Align with science and industry best practice

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



### Increase responsible investments in the context of climate change

Increasing responsible investments to support climate change mitigation/adaptation and the low-carbon transition.

4. Increasing investments in assets aligning to net zero
5. Increasing investments in climate solutions



### Engage for long-term value and systemic change

Engaging with asset managers and the wider market to increase concrete climate ambition and action.

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.

## 4.2 Engaging with our customers on climate

We continue to engage with our customers as part of our Climate Roadmap, gathering their views and using these to inform our approach. We've published a customer-friendly summary of our roadmap as well as an introduction video on our customer **Responsible investing hub**.

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 2024, 78% of customers indicated they were concerned about climate change but 40% say that the financial sector is either not doing enough or not doing anything to stop climate change. Only 4% of customers think the financial sector is doing all it can, while a further 26% think the financial sector is taking steps to address climate change, but more can be done. These figures indicate that the financial sector needs to do more to explain the steps that are being taken to address climate change.

Over half (52%) 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 2023 and aligns with our climate strategy and net-zero commitment.

The customer survey insights show that our current responsible investment approach is the correct one to deliver outcomes that our customers are interested in. The results from the survey indicate that our customers are interested in sustainable opportunities within private market investments.

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

Our Climate Roadmap was featured as an example of best practice with the launch of the Institutional Investors Group on Climate Change (IIGCC)<sup>13</sup> **Net Zero Investment Framework 2.0** this year, to support others in setting their own strategy and targets<sup>14</sup>.

We'll continue to use our scale and expertise to support the transition to a low-carbon world and collaborate with industry stakeholders.

## 5. How we integrate climate considerations into our products and engagement

We're 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're 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.

## 5.1 Fund manager monitoring and engagement

### 5.1.1 Selection, monitoring, and engagement

#### Selection

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. This means our fund managers act as primary safeguard in the management of all investment related risks and opportunities, including those related to sustainability and climate change. Therefore, 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. This is set out in our Responsible investment policy, which lists climate change as one of the key topics.

All new fund managers must meet our responsible investment minimum expectations, and we score our existing and most material fund managers on climate every year, through our fund manager monitoring responsible investment questionnaire. This helps make sure they agree to our policies, our monitoring progress and to setting engagement objectives. By doing this, we can reduce our exposure to risk, increase alignment between our fund managers and our fiduciary duty to our customers, and deliver our purpose of helping people live their best lives.

<sup>13</sup> The Institutional Investors Group on Climate Change (IIGCC) is an investor collaboration network on climate change and the voice of investors taking action for a prosperous, low-carbon future. Aegon UK is a member of the IIGCC.

<sup>14</sup> IIGCC, **Implementation guidance for objectives and targets - Case studies**, iigc.org



### **Monitoring against our Responsible investment and Stewardship policies**

In 2024, we reviewed the scope of our monitoring to focus our resources most effectively, while maintaining a tiered approach. We primarily focus on our top three fund managers who manage the largest part (over two thirds) of our assets under management (AUM).

Our Responsible investment policy outlines how we practice responsible investment as an asset owner through the selection, appointment and monitoring of our asset managers. It also sets our minimum expectations of fund managers across responsible investment governance, voting and engagement, climate change, industry advocacy, diversity and inclusion, and corporate net-zero commitment. The policy is reviewed every year and in 2024 we evolved our climate minimum requirements for fund managers.

We updated our policy to allow fund managers to demonstrate their net-zero approach by providing net

zero-aligned funds and linking climate research and engagement to their investment process. This change acknowledges that a corporate commitment alone is less meaningful than how fund managers actually integrate climate factors into their investment process, which has a greater impact on our investments and associated GHG emissions. We've published a customer version of our **Responsible investment policy**.

Our Stewardship policy is an extension of the minimum requirements set out in our Responsible investment policy. Our Stewardship policy is available to advisers and employers and was last updated in 2023. It sets out expectations for our fund managers in terms of engagement and voting practices. The policy includes 'nature, including biodiversity and deforestation' as a standalone theme, and expresses detailed expectations of managers about nature-related considerations. There were no material changes to our Stewardship policy in 2024 and it'll be reviewed again in 2025.

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

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

The climate expectations for our fund managers cover their investment beliefs, interim targets and sectoral decarbonisation pathways, and support for climate solutions.

Our Stewardship policy also expects fund managers to be signatories or members of key industry groups, for example:

- the Principles for Responsible Investment (PRI)
- Nature Action 100, the IIGCC, Climate Action 100+
- Net Zero Asset Managers and UK Stewardship Code

We expect our fund managers to participate actively in the spirit of the principles of those initiatives and we monitor their involvement as part of our fund manager monitoring process.

We were pleased to see from our 2024 responsible investment fund manager monitoring exercise that 90% of our fund managers could give examples of active climate collaboration, and 58% of fund managers disclosed where they're taking a lead role in collaborative climate engagements. It was also noted that 58% of our fund managers are actively involved with collaborative nature engagements.

## Engagement

As an asset owner, our ability to drive real-world change lies in our engagement with our fund managers and the wider market. Engagement is an important activity, and we engage regularly with our key fund managers, discussing improvements to their responsible investment practices and ensuring they make progress on these improvements in line with our expectations and specific objectives.

For example, over the last few years we've been proactively engaging with BlackRock (one of the key fund managers for our default funds) as our fund manager monitoring identified opportunities for better alignment with our Responsible investment and Stewardship policies.

We've held engagement meetings with BlackRock's senior management throughout 2024, including their Global Head of Investment Stewardship and Head of Stewardship in the Americas to provide feedback

on areas of their stewardship. Key focus areas have included improved climate reporting on our portfolios, increased transparency and further alignment with our 'expression of wish' (EoW) voting (particularly on climate), which covers policy lobbying, engagement and tracking progress on company engagement outcomes.

We're pleased with BlackRock's progress in 2024, including the publication of their Climate and Decarbonisation Stewardship Guidelines<sup>15</sup>, which will see them engaging with companies to align with a transition to a low-carbon economy that would limit average global temperature rise to 1.5°C above pre-industrial levels. We were one of a handful of asset owners, and a small number of clients globally, invited to feed into the development of this new policy. Several feedback points from our ongoing engagement have been incorporated, for example voting against directors when companies are not executing on commitments to align with low-carbon transition, prioritising sectors critical to a low-carbon economy, and considering climate policy alignment.

BlackRock has also responded positively to our requests for more transparent engagement outcome reporting that covers specific climate related topics, such as scope 3 disclosures and policy lobbying. They've confirmed their engagement reporting is in the process of being improved.

We welcomed BlackRock's continued participation, through its international arm, of Climate Action 100+ (the world's largest climate investor collaborative engagement initiative), which we also support.

As part of our fund manager monitoring, we also identified that the voting policy of another fund manager lacked detail across our engagement themes, particularly on climate themes, such as evaluation criteria on assessing company climate transition plans and emission targets, climate shareholder resolutions, and voting against management on climate-related concerns.

After advising the fund manager of this, we were pleased that they released a revised voting policy in 2024 with more transparent considerations against our priority themes, and further clarity of voting action they would take where they have concerns on a company's net-zero transition plans.

### 5.1.2 Expression of wish and voting guidelines

In 2024, we expanded our EoW process, which we'd introduced for the first time in the 2023 voting season for our top fund managers. The process now covers 100 priority companies, increased from less than 10 in 2023. For 2024, we targeted our biggest 500 holdings within our default funds and those we believed to be most exposed to material ESG risks relevant to our engagement themes, including climate.

'Expression of wish' is where we describe our voting preferences that cover key climate-related resolutions to key fund managers. This is an important part of our stewardship approach. The aim is for our fund managers to align with our positions, so we ask them to consider using their voting rights and responsibilities in line with our preferences on key resolutions.

<sup>15</sup> BlackRock, [Climate and Decarbonization Stewardship Guidelines](https://www.blackrock.com/uk/asset-management/our-approach/our-approach-to-climate-action), blackrock.com, July 2024

Climate was a significant factor when choosing which resolutions we'd 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 AGM resolutions seeking shareholder approval of the climate action transition plan. We reported on how our key fund managers voted on climate-related issues in our Responsible Investment and Stewardship Report under Principle 12.

We expect fund managers to engage with investee companies and to discuss their net-zero commitments, targets and associated transition plans to reduce GHG 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 isn't 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+ and our membership in the IIGCC and Net-Zero Asset Owner Alliance (NZAOA).

For example, in 2024 we used our EoW process to ask one of our fund managers to vote against director re-elections at one company because of our concerns

on the company's climate progress. We see this as an effective way of monitoring consistent and effective voting behaviour by fund managers while also benefiting from their engagement processes.

## **5.2 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, this includes how we consider ESG and/or climate considerations in the investment process, as well as how we may divest from certain investments.

### **5.2.1 Climate screens and tilts**

As of 31 December 2024, over £26.9 billion of assets in our portfolio of default funds were managed with ESG screens and/or optimised ESG factors. We've set a target in our Climate Roadmap for 70% of our default funds to be screened and/or optimised for ESG factors by 2026 (measured by the value of AUM). By the end of 2024 we'd made significant progress to achieving this target, with 59% of our default funds screened and optimised for ESG factors.

In 2024, we made further progress to integrate ESG factors across our investments, with a focus on our workplace default funds, as shown by the increase of around £3.4 billion of assets in strategies screened and tilted for ESG factors. We also began implementing changes to the Universal Balanced Collection (UBC) fund, our biggest default fund, to include private markets (see 'climate solutions' section on the next page).

All passive equity assets in the fund will be managed by BlackRock who'll use their new Climate and Decarbonisation Stewardship Guidelines when voting on company resolutions. We assisted with developing these guidelines which help to enhance our climate impact (see section 5.1).

Once changes to the UBC are completed in 2025, we anticipate that we'll have moved over £30 billion of default assets into funds that consider ESG factors.

We'll continue pursuing our commitment to achieving net zero across all our default funds by 2050, reviewing our baseline ESG exclusions and enhancing them where we believe it's in the interests of our customers. We'll continue to engage with fund managers to encourage ESG best practice, particularly for private markets where practices are fast evolving.

### 5.2.2 Climate solutions

Achieving global net-zero emissions by 2050 requires investments that directly support the transition to a low carbon economy. We primarily see private markets as a natural asset class for climate solutions but acknowledge that climate solutions can also come from other asset classes.

Given the lack of industry consensus on what constitutes climate solution investments, we developed a climate solutions framework to identify, assess and report against our commitment to invest £500 million in credible climate solutions by 2026. We developed our framework to align with IIGCC<sup>16</sup> and NZAOA's<sup>17</sup> definitions.

We consider climate solutions to be investment opportunities in companies or projects where the main activities directly and significantly help either:

- to reduce GHG emissions that cause climate change (called 'climate change mitigation'), or
- to deal with and adjust to the impacts of climate change that are already happening (called 'climate change adaptation').

Our approach on climate solutions was featured in the Corporate Adviser Guide to Private Markets in defined contribution (DC) Pensions, where we examined their role in private markets<sup>18</sup>.

After reviewing our UBC fund, we began making changes in 2024 which included introducing a broader range of asset classes, such as private markets, and creating further opportunities to integrate climate solutions. As a founding signatory of the Mansion House Compact, this evolution aligns with our aim to invest at least 5% of our DC default fund assets in unlisted equities by 2030, helping to deliver better long-term outcomes for our pension scheme customers.

We expect the changes to UBC will be completed over the next few years and will provide over 700,000 customers with access to a wider range of responsible investments, in areas that have historically been more difficult for workplace savers to access.

We're also using the UBC transformation as a blueprint to consider how we could potentially add private markets investments into our other key default funds.

### 5.2.3 Net-zero alignment

Last year, we explored a process to track the percentage of our investments in assets aligned, or in the process of aligning, to achieve net-zero GHG emissions (see 'Metrics and targets' section), as it's not a standard industry metric. We used our work and insight to influence our data provider MSCI to develop their own tool which could benefit the whole market.

We expect to increase our default funds' net-zero alignment primarily by reviewing our strategic asset allocation, incorporating fund-level objectives, and engaging further with our fund managers to help influence investee companies to transition to net zero, rather than divesting. As noted earlier, the evolution of UBC aims to provide increased alignment with our emissions and net-zero target and provides access to climate solutions, such as investments in renewable energy, infrastructure or forestry (assessed through our climate solutions framework).

### 5.3 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

<sup>16</sup> IIGCC, [Investing in climate solutions: listed equity and corporate fixed income](https://www.iigcc.org), iigcc.org, November 2023

<sup>17</sup> NZAOA, [United Nations Environment Programme \(2024\): UN-convened Net-Zero Asset Owner Alliance: Target-Setting Protocol—Fourth edition](https://www.unepfi.org), unepfi.org, April 2024

<sup>18</sup> Corporate Adviser, [CA Guide to private markets in DC pensions](https://www.blackrock.com), November 2024



We engage with at least two relevant net zero 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 2024, our policy and climate industry advocacy work included the following:

- We provided our public support for the Finance for Biodiversity Pledge and to the TNFD Forum, giving a public signal of our commitment to biodiversity which we'll use to inform and shape our objectives and targets in the years to come.
- We continued to work with the NZAOA group on its manager engagement track initiative. This group aims to share best practice, develop guidance and position papers, and collaborate on asset-manager engagement on net-zero policies.
- We continued working with the IIGCC - Sovereigns Working Group. This group considered data and methodologies to better integrate sovereign bonds in net-zero strategies.
- We continued to work with the IIGCC - Transition Finance Working Group. This group shares thinking on climate solutions, and we contributed to the development of the IIGCC's Transition finance position paper, which outlines the distinctions and criteria of investments which could credibly be understood as 'transition finance'.

- We continued to work with the IIGCC and its Policy Advisory Group (PAG). This group advocates for UK and other global policy frameworks that promote systems change and drive a whole-of-economy transition to net zero.
- We support the work of Climate Action 100+. This group aims to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

Our 2024 Responsible Investment and 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.

In 2025, we'll continue to engage and collaborate with key industry stakeholders to help drive policy frameworks that support the global economy's transition to net zero, and we view market engagement as an important lever to make this happen. In addition, we'll continue to develop our approach to improve outcomes for customers through long-term, sustainable value to help them live their best lives.

## 6. How we're decarbonising our business operations and supply chains

In this section we describe how our 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 in 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 by introducing new working practices and encouraging our suppliers to adopt best practices. We also aim to improve data quality through automation and real-time monitoring to help us better understand and reduce our environmental 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 supplier 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 process for selecting and reviewing suppliers.

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.
- We include ESG factors in our procurement due diligence.
- We've received completed ESG questionnaires from 80% of our in-scope suppliers and have used responses to rank them. Suppliers in scope include all tier-one suppliers; the main facilities outsourcing partners; and (any remaining) highest spend suppliers. We intend to continue discussing how we can help the lower scoring suppliers improve with a particular focus on their GHG emissions (which some of them don't currently calculate).





# Risk management

In this section we set out:

1. How we identify and assess climate-related risks.
2. How we integrate climate-related risks into our risk management framework.
3. How we 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 of this report.

We use our existing risk management policies and procedures to 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.

When identifying risks, including climate-related risks, we use expertise from our various business functions, including our Risk function and specialist investment teams. 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 climate-related impacts and tracked through a cycle of engagement and planning to implementation. Regulatory initiatives related to climate change follow this same path.

We also monitor longer-term risks using an emerging risk process. We do this to identify any early triggers which would help us to actively manage those risks. Our Aegon Group business environment scan (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.

When assessing the risks identified, we use a matrix within the ERM framework to consider the likelihood of the risk occurring and a variety of potential impacts that could occur including customers impacted, financial loss, regulatory compliance and reputational impact. The use of this assessment matrix enables a comparable assessment of the different risks identified.

## 2. Integration of climate risk into the risk management framework

In this section we describe how we integrate 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 risk universe categories. Using this framework, we expect any climate-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). For example, 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 risk universe categories. We expect some elements will appear quickly while others may happen more slowly. For example, stock markets may react quickly to physical risk events or government policy changes that promote the transition to a low carbon economy.

If we identify any new risks under these categories, we use the ERM framework to apply a consistent approach to assess the likelihood and impact of the risk, using the matrix referred to in the previous section. This assessment would consider our products, services and operations and include any specific climate related considerations. 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
- Inflation

### 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 of this report. We review our risk appetite and tolerances every year. We don't consider climate risk as a standalone risk, but because of its importance to us, we include a tolerance for sustainability risk which looks at the amount of responsibly invested assets under management (AUM), and our carbon emissions as an organisation.
- **Risk policies:** We have a suite of risk policies that support how we manage risk, including more detailed controls around different aspects of operational risk. We specifically address climate change considerations in our Responsible investment and Stewardship policies. We set minimum expectations about climate for our fund managers in our Responsible investment policy. This policy is aligned with the ERM framework and is addressed 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 isn't 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 while maintaining an appropriate level of customer protection. It does this by providing a full view of:

- The key risks to Aegon UK both now and in the future
- How these risks are being managed
- The solvency assessment of Aegon UK

The ORSA was presented to and approved by the Board in March 2025.

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. For example, we monitor spend relative to budgets and, if a stress scenario resulted in higher costs than expected, management actions would focus on cost management and reducing discretionary spend.

As part of these scenarios:

- We use inputs from the Ortec Finance Climate MAPS models to assess the potential impact of climate risk scenarios on the solvency of the business. These scenarios include the impact of the Ortec Finance Climate MAPS Net Zero Financial Crisis scenario which assumes a disorderly but successful transition to a low carbon economy, limiting global warming to 1.5°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 2024, we included a scenario which considered the physical impact on our data storage and connected operations under an extreme warming scenario. This scenario links directly to supporting our strategy to become the UK's leading digital savings and retirement platform.
- Climate scenarios are also used to stress test operations and evaluate potential vulnerabilities. Mitigation measures (such as enhancing infrastructure resilience, adopting energy-efficient technologies, and developing response plans for climate-related disruptions), are incorporated into our broader risk mitigation strategies, this ensures that climate risks are proactively managed within the overall risk framework, supporting business continuity and alignment with sustainability objectives.

We maintain a run-off plan for the business, designed to ensure customer assets are protected in the event the business needs to be run off. The run-off plan includes a scenario to test our ability to safely run-off the business under a severe climate stress. This scenario represents a 'high warming' pathway, where there is no meaningful global transition to a lower carbon economy, the Paris Agreement goals are not met, and global warming reaches 4.2°C above pre-industrial level by 2100.

### 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.

As we described earlier in this section, we use our existing risk management policies and procedures as part of our ERM framework to assess the potential size and range of climate-related risks. We also consider the actions we take to mitigate and control these risks, with reporting and monitoring through our Board governance structure.

A key factor in mitigating the potential impacts of financial risk from climate change will be the quality of the overall business response, ensuring that our proposition continues to develop to meet the needs and expectations of our customers, and that our climate disclosures are effective in demonstrating our responsible business practices to all stakeholders. Other key activities mitigating the risks from climate change are:

- Continuing to develop our understanding of how climate change could affect the business through climate scenario analysis.
- Ensuring climate-related disclosures are comprehensive, appropriate and continue to meet the needs of all stakeholders.
- Maintaining our status as a signatory of the Stewardship Code.
- Monitoring the status of key competitors' funds and their wider net-zero transition plans.
- Monitoring the feedback from lost new business opportunities to understand if our position on climate risks is a contributing factor.
- Proactively reviewing our fund ranges, particularly the default funds and own investment mandates, to identify any opportunities to improve our transition progress.

- Continuing to invest in our operations and facilities to ensure that they remain resilient to climate risk, and that our carbon footprint is minimised.

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.

To help us with external manager monitoring on responsible investment, including the management of climate risk, and meeting our net-zero commitment for our workplace default funds to achieve net zero by 2050, we're supported by our Responsible Investment (RI) team (see [page 14](#)).

As part of our fund manager monitoring process, our fund managers are required to provide us with specific information and updates on their stewardship and responsible investment policies, with a focus on climate change issues and themes. Our analysis of their responses allows us to score and assess progress on how well our managers are meeting our expectations.

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've 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 (GHG) emissions.

We use the responses from our yearly fund managers' responsible investment questionnaire, combined with market best practice and industry guidance, to inform engagement topics 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. We increased our fund manager engagement, including through the UK Asset Owner Council (AOC) and Net-Zero Asset Owner Alliance (NZAOA), and observed a 20% improvement in our average responsible investment fund manager monitoring scores over the last two years. We were named a leader by InfluenceMap on climate policy influence for our fund manager responsible investment monitoring<sup>19</sup>.

When selecting a new fund manager, they must be a signatory to both the United Nations Principles for Responsible Investment (UNPRI) 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.

<sup>19</sup> InfluenceMap, **Institutional Asset Owners Found to be Underutilizing Stewardship and Advocacy Opportunities on Climate Policy**, [influencemap.org](https://www.influencemap.org/), December 2024





# Metrics and targets

In this section we set out:

1. The importance of climate monitoring for better management.
2. The metrics we've chosen to track and monitor.
3. The progress we've made against our targets.
4. 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 to track our investment portfolios

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 47](#)), is more established for listed equity (company shares, including real estate investments trusts) and corporate fixed income (loans issued to companies). These are also our most material asset classes, representing 75% of our investment estate and the emissions from both asset classes are added and reported together.

Emissions reporting for sovereign debt is different to reporting on listed equity and corporate fixed income, and the Partnership for Carbon Accounting Financials (PCAF) has developed a specific methodology for measuring and reporting the emissions associated with sovereign debt (see [page 47](#)). Therefore, we report emissions associated with our sovereign debt separately.

We'll 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.

In table 5 ('Climate metrics') on [pages 48-49](#), we set out the metrics we use 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 greenhouse gas (GHG) emissions, and report across two years (2023 and 2024).

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, previously reported information may be restated as more and better climate data becomes available, in line with market best practice and regulations. The absolute emissions metrics and emissions intensity metrics for 2023 have been restated compared to the results reported in last year's TCFD report because more up-to-date information for the investment holdings of our funds became available, and because our data provider updates previously estimated emissions data for specific companies where they believe it's more appropriate.

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 Standard**.

- **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 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 operations.<sup>20</sup>

For sovereign debt, GHG emissions are also split into three distinct groups, as defined by the PCAF and referenced by the Institutional Investors Group on Climate Change (IIGCC) in its Sovereign Bonds and Country Pathways discussion paper.<sup>21</sup>

- **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.

<sup>20</sup> MSCI ESG Research, **A Major Step Forward for Scope 3 Carbon Emissions**, msci.com, October 2020

<sup>21</sup> IIGCC, **Sovereign Bonds and Country Pathways**, iigcc.org, April 2024

## 2.2 Climate metrics for the Aegon UK investment estate

In the table on [pages 48-49](#) ('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 (tCO<sub>2</sub>e).

### Listed equity and corporate fixed income emissions intensity metrics:

- **Carbon footprint** 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 tCO<sub>2</sub>e/£M invested using EVIC.
- **Weighted average carbon intensity (WACI):** This metric measures a portfolio's exposure to carbon-intensive companies by revenue, expressed in tonnes

CO<sub>2</sub>e/£m revenue. Emissions are allocated based on portfolio weights (the current value of the investment relative to the current portfolio value).

### 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 estate<sup>22</sup>. This metric is based on listed equity and corporate fixed income investments only.

We include this metric to show the extent to which our investment estate and portfolio of default funds (excluding sovereign debt, real estate and cash) are aligned to a well below 2°C scenario.

### Data quality metric:

- **Data quality (% total portfolio):** 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 46](#).

### Sovereign debt carbon intensity metric:

- **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

recommended by the PCAF. GDP is a key economic indicator that measures the total value of all goods and services produced within a country.

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 CO<sub>2</sub>e/£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 the currency we report for other asset classes. We've used the USD/GBP exchange rate as of 31 December 2024 to calculate the metric in pounds sterling.

### Sovereign debt data quality (% of sovereign AUM):

This metric shows the coverage for scope 1 sovereign debt emissions as a percentage of total sovereign debt investments.

### Reporting of climate metrics for our investments

Metrics are calculated for our insured investment estate every year. The table on [pages 48-49](#) ('Climate metrics'), shows the metrics across our insured investment estate for 2023 and 2024.

During 2024, our assets under management (AUM) increased from £88 billion to just over £98 billion. This increase reflects a net increase in new money from customers, and a positive investment return across the investment portfolio.

<sup>22</sup> MSCI, [Implied Temperature Risk Methodology](#), msci.com, published February 2024

Climate metrics for Aegon UK			December 2023 (restated) <sup>23</sup>	December 2024
Assets under management			£88bn	£98bn
<b>Absolute emissions metrics for corporate fixed income and equity</b>				
GHG emissions	Scope 1 and 2 tonnes CO <sub>2</sub> e		5,508,720	5,642,859
	Scope 3 tonnes CO <sub>2</sub> e		44,173,615	47,599,373
Total GHG emissions	Total (scope 1, 2 and 3) tonnes CO <sub>2</sub> e		49,682,335	53,242,232
<b>Emissions intensity metrics for corporate fixed income and equity</b>				
Carbon footprint	Scope 1 and 2 tonnes CO <sub>2</sub> e /£M EVIC		54.4	47.1
	Scope 3 tonnes CO <sub>2</sub> e /£M EVIC		454.0	404.9
Weighted average carbon intensity	Scope 1 and 2 tonnes CO <sub>2</sub> e/£M revenue		116.3	102.3
	Scope 3 tonnes CO <sub>2</sub> e /£M revenue		884.8	827.3
<b>Portfolio alignment metric</b>				
Implied temperature rise in degree Celsius			2.2°C	2.3°C
<b>Data quality metric</b>				
Data quality (% total portfolio)	Scope 1 and 2 emissions: Covered (%)	Estimated (%)	7.8%	6.8%
		Reported (%)	79.7%	81.2%
	Scope 1 and 2 emissions: Not covered (%)	No coverage (%)	12.5%	12.0%

23 2023 data presented is restated thanks to improvement of methodology and data availability

Climate metrics for Aegon UK		December 2023 (restated) <sup>23</sup>	December 2024
<b>Sovereign debt</b>			
Sovereign debt carbon intensity	Tonnes CO <sub>2</sub> e /£M GDP-PPP	193.2	165.3
Sovereign debt data quality (% of sovereign AUM)	Scope 1 production emissions - reported	96.5%	97.4%
	Scope 1 production emission - no coverage	3.5%	2.6%

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





## Corporate fixed income and listed equity emissions

### Absolute emissions:

Across our investments, absolute scope 1 and 2 emissions for our corporate fixed income and listed equity investments have increased by 2% over the latest year. Scope 3 emissions have increased by 8% over the latest year. This is in line with an increase of 11.5% (£10.2 billion) in AUM over the last year.

Scope 3 emissions are typically more material than scope 1 and 2 but reported data is often low because of the challenges companies have when collecting and tracking scope 3 emissions, and there are no standardised methodologies for measuring scope 3 emissions. This means that most scope 3 data is estimated by our data provider, MSCI, using in-house modelling and expertise. However, we expect reporting quality to increase over time and consequently we expect our scope 3 emissions reported data to rise as more companies report these emissions.

### Carbon footprint metrics:

Our scope 1 and 2 carbon footprint (tCO<sub>2</sub>e/£M invested using EVIC) from our corporate fixed income and listed equity investments has decreased by 13% over the last year.

Using the emissions' attribution analysis methodology issued by the Net-Zero Asset Owner Alliance (NZAOA), we identified that the most significant contributors to the reduction in scope 1 and 2 carbon footprint over the last year were as follows:

- our portfolio has increased its allocation to companies that are reporting lower emissions, for example by

increasing our investment in funds with ESG screens and tilts.

- 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.
- the companies we invest in have reduced scope 1 and 2 emissions.

We've also seen a reduction in our scope 3 carbon footprint (tCO<sub>2</sub>e/£M invested using EVIC) by 11% over the last year. Similar factors drove our reduction in carbon footprint for scope 3, but 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.

### Weighted Average Carbon Intensity:

The weighted average carbon intensity (tCO<sub>2</sub>e/£M revenue) of our corporate fixed income and listed equity investments (scope 1 and 2) has decreased by 12% over the latest year. The scope 3 weighted average carbon intensity for the same asset classes has reduced by 6% in the latest year.

### Implied Temperature Rise:

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 2.3°C temperature increase, which is marginally higher than 2.2°C reported

in 2023. These temperature increases are 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.

### Sovereign debt emissions

We report sovereign debt assets emissions separately which accounts for about £14 billion, or 14%, of our insured investment portfolio. We've followed guidance from the PCAF and have used the emissions methodology recommended for deriving carbon intensity for sovereigns. We've reported this metric on a pound sterling (£) basis, as explained earlier.

We've obtained GHG production emission data from PRIMAP-hist,<sup>24</sup> with GDP-PPP information from The World Bank.<sup>25</sup>

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.

This is the second year of reporting sovereign emissions. Our sovereign intensity for 2024 was 165 tCO<sub>2</sub>e/£m GDP-PPP, down from 193 tCO<sub>2</sub>e/£m GDP-PPP in 2023, with 97% of our sovereign debt covered in this calculation for both years. Our absolute sovereign emissions as of 31 December 2024 were 2.2 million tCO<sub>2</sub>e, down from

2.3 million tCO<sub>2</sub>e in 2023. Most of our sovereign debt exposure is across developed countries with 87% of our sovereign debt invested in three countries: the UK 64%, USA 18%, and Japan 4%. The chart below provides further information.

### Sovereign debt exposure

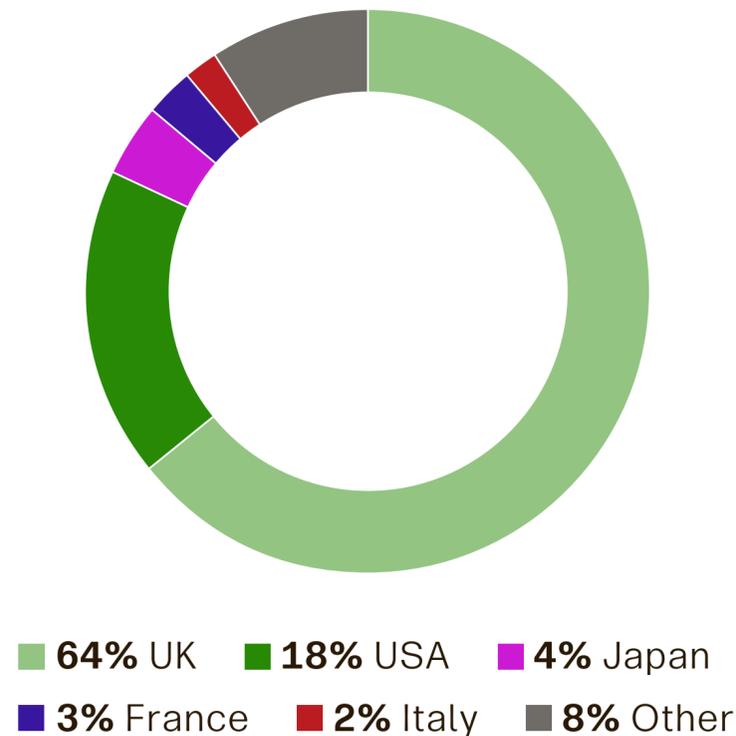


Figure 6 Sovereign debt exposure.

Source: Aegon UK 31 December 2024 (percentages rounded to nearest whole number)

### Data coverage

We worked with our data vendor and our fund managers during 2024 to increase our emissions data coverage. This means that the percentage of scope 1 and 2 emissions reported has marginally increased from 79.7% to 81.2% over 2024. Estimated scope 1 and 2 emissions has marginally decreased from just under 8% to just under 7%.

Looking at our sovereign debt separately, we've been able to report on just over 97% of our sovereign debt assets in 2024, which is slight improvement on last year (2023).

We'll 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.

<sup>24</sup> [The PRIMAP-hist national historical emissions time series \(1750-2023\) v2.6](https://zenodo.org), zenodo.org, September 2024

<sup>25</sup> The World Bank Open Data, [GDP-PPP data](https://data.worldbank.org), worldbank.org



## 2.3 Key climate metrics and targets for business operations

For our own operations, we report on key metrics such as:

- **Energy consumption:** tracking and reporting our energy usage to identify areas for improvement and measure the impact of our energy efficiency initiatives.
- **Carbon emissions:** monitoring our carbon footprint to ensure we're on track to meet our reduction targets and contribute to global climate goals.
- **Waste management:** measuring the amount of waste generated and the effectiveness of our recycling and waste reduction programs.
- **Water usage:** reporting on our water consumption to manage and reduce our impact on water resources.

We've set a target to reduce emissions from our offices (scopes 1 and 2) by 77% by 2029 against a 2019 baseline. In 2024, we achieved a 72% reduction (scopes 1 and 2 location-based).

An example of our targets for 2025 include:

- **Waste:** Increase reuse to a minimum of 3%, achieve a minimum recycling rate of 46%, zero waste to landfill, limit composting waste to 5%, restrict waste sent to anaerobic digestion to 15%, reduce waste sent for recovery to 30%, limit incineration to 1%, and achieve a minimum disposal accuracy of 75%. Anaerobic digestion is the process of bacteria breaking down organic matter without oxygen.
- **Utilities:** Make sure that the consumption of electricity, gas, and water does not go beyond the levels recorded in previous years. Specifically, electricity should not

exceed 2024 consumption, gas usage should not exceed the levels of 2019, and water consumption should remain below the levels of 2022.

- **Travel:** Don't exceed previous years' CO<sub>2</sub> emissions for short-haul flights and rail travel, improve company fleet fuel efficiency by 1% compared to previous year, and maintain the average vehicle age of the grey fleet (personal employee vehicles used for business purposes) at 5.86 years.
- **ISO Certifications:** Maintain ISO 14001 and ISO 50001 certifications with no major failures to meet the requirements during yearly assessments or recertification audits.

## 3. The progress we've made against our targets

In this section we describe our key performance indicators (KPIs) that we use to track performance against the targets we've set. 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 the decisions we make to better position our customers' investments in the low-carbon transition.

### Default funds

Our portfolio of default funds represents about £44 billion of assets as of 30 June 2024, 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.

## 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
<p><b>Short-term targets</b></p> <ul style="list-style-type: none"> <li>i. 14% reductions in scope 1 and 2 over 2023-26</li> <li>ii. 14% reductions in scope 1 and 2 over 2027-30</li> </ul> <p><b>Medium-term targets</b></p> <ul style="list-style-type: none"> <li>iii. 50% reductions in scope 1 and 2 by 2030</li> </ul> <p><b>Long-term targets</b></p> <ul style="list-style-type: none"> <li>iv. Net-zero GHG emissions in scope 1, 2 and 3 for all asset classes by 2050</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>ii. Engage to support market-wide decarbonisation in two or more net-zero relevant industry groups/ policy forums a year</li> </ul>	<ul style="list-style-type: none"> <li>i. £500 million invested in climate solutions by 2026</li> <li>ii. 70% of our default funds' AUM screened and/or optimised for ESG factors by 2026</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>ii. Progress from engagement with fund managers based on climate outcomes and expectations</li> </ul>

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 1.0.<sup>26</sup> 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 82.3% of our portfolio of default funds by AUM value, as of 30 June 2024.

As noted earlier, we've also set KPIs to measure our progress and we provide a summary of the progress on some of those here.

While our short and medium-term targets relate to scope 1 and 2 for corporate fixed income and listed equity, our 2050 net-zero commitment applies to scope 1, 2, 3 and all asset classes.

**Emission KPIs:** Between June 2020 (our base line year for measuring our decarbonisation journey) and June 2024, the carbon footprint of our default fund portfolio has reduced by 40% (scope 1 and 2 only for corporate fixed income and listed equity). This puts us on target to halve the emissions of the default fund portfolio by 2030, and we're in good position to exceed our 2026 emissions reduction target.

**Investment KPIs:** We aim for 70% of our default funds' assets under management to be screened and/or optimised for ESG factors by 2026. As of 31 December 2024, we'd achieved 59% and with planned investments, we're on track to reach this target by 2026.

**Engagement KPIs:** Our first target was to engage with companies representing 70% of our financed emissions (carbon footprint for scope 1, 2 and 3) by 2025. During 2024 we were able to engage with companies representing 77% of our financed emissions by leveraging on our expression of wish process (see [page 35](#)), fund manager engagement (see [page 35](#)) and collaboration activities (see [pages 37-38](#)). Following our work with MSCI, we'll be able to start reporting on our net zero alignment target from next year.

<sup>26</sup> IIGCC, [Net Zero Investment Framework 1.5oC Implementation Guide](#), parisalignedassetowners.org, April 2021

## Default fund portfolio during 2024

The table 'Climate metrics for workplace default funds' on [page 55](#), tracks relevant metrics for our workplace default funds for 2023 and 2024. This information is provided for comparison with our insured estate. Please note, that the reporting dates are different. We'll aim to align reporting dates in our 2025 TCFD report. The information below is provided for 30 June, whereas our insured estate report is provided for 31 December 2024. The absolute emissions metrics and emissions intensity metrics for 2023 have been restated compared to the results reported in last year's TCFD report because more up-to-date information for the investment holdings of our funds became available, and because our data provider updates previously estimated emissions data for specific companies where they believe it's more appropriate.

Between June 2023 and June 2024, the AUM value of our default fund portfolio increased from £38 billion to £44 billion.

Similar to our insured estate, the 9.3% reduction in our carbon footprint for scope 1 and scope 2 emissions over the latest year can primarily be explained by an increase in the EVIC value and an increased allocation to companies that report lower emissions. This is partially offset by higher absolute scope 1 and 2 emissions from the companies we invest in.

The scope 3 carbon footprint emission of our default fund has decreased between June 2023 and June 2024 by an estimated 15% and can be explained by an increased allocation to companies with lower emissions, and an increase in the EVIC value of companies held. We also see a reduction in the absolute scope 3 emissions of individual companies.



Climate metrics for workplace default funds			June 2023 (restated) <sup>27</sup>	June 2024
Assets under management			£38bn	£44bn
<b>Absolute emissions metrics</b>				
GHG emissions	Scope 1 and 2 tonnes CO <sub>2</sub> e		2,852,059	2,950,115
	Scope 3 tonnes CO <sub>2</sub> e		22,917,109	22,372,078
Total GHG emissions	Total (scope 1, 2 and 3) tonnes CO <sub>2</sub> e		25,769,168	25,322,193
<b>Emissions intensity metrics</b>				
Carbon footprint	Scope 1 and 2 tonnes CO <sub>2</sub> e /£M EVIC		57.6	52.3
	Scope 3 tonnes CO <sub>2</sub> e /£M EVIC		499.4	424.6
Weighted average carbon intensity	Scope 1, and 2 tonnes CO <sub>2</sub> e/£M revenue		128.2	108.9
	Scope 3 tonnes CO <sub>2</sub> e /£M revenue		977.9	805.7
<b>Portfolio alignment metric</b>				
Implied temperature rise in degree Celsius			2.3°C	2.3°C
<b>Data quality metric</b>				
Data quality (% total portfolio)	Scope 1 and 2 emissions: Covered (%)	Estimated (%)	7.8%	6.0%
		Reported (%)	71.8%	75.1%
	Scope 1 and 2 emissions: Not covered (%)	No coverage (%)	20.4%	18.9%

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

<sup>27</sup> June 2023 data presented is restated thanks to improvement of methodology and data availability



## Business operations

Over the past year, we've made good progress in achieving our climate-related targets:

- **GHG emissions:** We've reduced our scope 1 and scope 2 GHG emissions by 72% compared to our 2019 baseline. This progress is because of increased energy efficiency and the adoption of renewable energy sources.
- **Energy consumption:** Electricity consumption in our Edinburgh office reduced by 3.1% (from 8,036,500 kWh in 2023 to 7,788,400 kWh in 2024) and in our Witham office by 13.7% (from 837,664 kWh in 2023 to 722,880 kWh in 2024) due to the implementation of energy-saving measures and the transition to more efficient technologies.
- **Water usage:** Water usage in our Witham office reduced by 1.2% (from 2,337 m<sup>3</sup> in 2023 to 2,308 m<sup>3</sup> in 2024).
- **Waste management:** By addressing contamination issues and improving waste segregation, we increased our recycling rate to 69% compared to 59% in 2023. Waste for composting improved to 12%, up from 7% in 2023. We reduced our waste sent to anaerobic digestion from 22% in 2023 to 10% in 2024. Waste recovered for energy generation reduced from 37% in 2023 to 29% in 2024. Zero waste went to incineration in 2024.
- **ISO certifications:** All ISO certifications (9001, 14001, 45001, 5001) were retained with no major failures to meet the requirements raised during yearly assessment audits.

These achievements show our commitment to sustainability and our ability to meet our climate-related targets.

## 4. Data limitations

### Investments

We've set up 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 emissions is more established for listed equity and corporate fixed income, and we've set short and medium-term emission reduction targets for these asset classes. We also report emissions data for sovereign debt following the industry guidance issued by the PCAF. However, this metric differs from other asset classes as emissions reporting for sovereign debt is more complex because of the broader scope of activities financed by national governments and this limits how easy it is to make comparisons between listed equity and corporate fixed income.

For sovereign debt, emissions for each country are allocated using GDP and adjusted for PPP, as recommend by the PCAF. GDP is a key economic indicator that measures the total value of all goods and services produced within a country. 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've converted to pounds sterling (GBP) using the USD/GBP spot rate.

- We may have some gaps in our data because the asset manager has not shared fund data 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've not used any proxy data in place of unavailable data as we believe this could lead to misleading metrics.
- Whether reported or estimated, the quality of emission data available is inconsistent:
  - MSCI uses robust processes to make sure company-reported emissions data is reliable. When companies don't report their emissions, MSCI estimates them using data from similar companies in the same industry. However, because there's no standard auditing or regulation across industries, some inconsistencies may occur.
  - We know that reliable scope 3 emission reporting won't be available in the short-term. 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.
  - 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.

### **Business operations**

While we strive for accuracy and transparency in our reporting, we acknowledge certain data limitations:

- **Data availability:** In some cases, data collection is challenging because of the lack of standardised reporting mechanisms across our operations. This can result in incomplete or inconsistent data.
- **Estimation methods:** For certain metrics, such as scope 3 GHG emissions, we rely on estimation methods that may introduce uncertainties. We're continuously working to improve the accuracy of these estimates.
- **Temporal variability:** Climate-related data can be influenced by seasonal and yearly variations, which may affect the comparability of year-on-year data.
- **Technological constraints:** The availability and implementation of advanced monitoring technologies can vary across our operations, affecting the precision of our data.

We're committed to addressing these limitations by enhancing our data collection processes, investing in advanced monitoring technologies, and standardising reporting practices across our operations.



## Other notable targets

### 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 (NZAOA), 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 2024, all new bond investments in the Aegon UK general account were completed in line with our ESG criteria.

### Remuneration

Aligned with the Aegon UK Climate Roadmap, our reward structures are designed with sustainability in mind, incorporating ESG metrics in both company and individual performance measures.

The funding for the 2024 bonus plan included a 10% weighting on non-financial business performance indicators, with a 5% weighting specifically on our sustainable future. Individual objectives have at least 50% of their weighting placed on non-financial measures, which includes ESG metrics. The allocation of bonus awards is primarily based on individual employee performance against personal objectives, overlaid by company performance.

For 2025, we'll continue to link ESG metrics with individual performance objectives. The focus for the company non-financial indicator will be employee engagement, with a 10% weighting, which directly affects these different pay outcomes.



# Looking ahead

## Investments

We'll 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, taking into consideration the guidance on methodology offered by the Partnership for Carbon Accounting Financials (PCAF).

We predict a greater focus on nature related risks and opportunities. While 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.

We have a unique opportunity to influence through both our direct and collaborative engagements, given our scale as one of the largest asset owners in the UK.

In 2025, we'll continue our involvement in existing collaborative initiative activities such as the Net-Zero Asset Owners Alliance (NZAOA) engagement track, the Institutional Investors Group on Climate Change (IIGCC) initiatives and Asset Owner Council to make sure that we're fulfilling our goal to create positive long-term outcomes for customers and address any systemic risks that endanger this.

We're also looking out for further opportunities to engage collaboratively with other key stakeholders and influence our fund managers, particularly on climate policy engagement to ensure we continue momentum we've built up on this key focus area.

## Business operations

Looking ahead, we'll focus on enhancing operational efficiency by leveraging advanced data analytics and automation technologies to reduce energy consumption, minimise waste, and optimise resource use. Integrating climate data will enable better decision-making as we strive towards our net-zero targets.

We'll continue to invest in resilience projects to safeguard our operations against climate impacts, upgrade infrastructure, and develop contingency plans. By fostering a sustainable supply chain and investing in innovative technologies, we aim to achieve our climate goals and contribute to a greener economy. Specific, measurable targets will guide our progress, ensuring transparency and accountability in our journey towards sustainability.





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