

# Aegon Master Trust's Climate- Related Financial Disclosure Report 2024-25



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## Glossary

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

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

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

**Climate solutions:** We define climate solutions as investments with core activities directly and substantially contributing to climate change mitigation and/or adaptation. The climate solutions should be intentional and measurable.

**Climate Value-at-Risk (CVaR):** CVaR is 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:** When we consider the effect of climate change on our investments, we follow the concept of double materiality. This considers both the biggest impacts climate change has on our investments, 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, regulator) on particular matters of concern, aiming to encourage change, or address a market-wide or systemic risk such as climate change.

**Environmental, social, and governance (ESG):** ESG stands for environmental, social and governance factors. 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) or take opportunities (such as the move to renewable energy).
- Social – relates to a company's effect on individuals and society and covers factors such as human rights and labour standards, diversity, equity and inclusion or workplace safety.
- Governance – good governance ensures a company's management team, and its board look beyond short-term financial interests alone to make decisions which ensures 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, 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 expressions of wish.

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

**Greenhouse gases (GHG):** Greenhouse gases, such as carbon dioxide (CO<sub>2</sub>) and methane (CH<sub>4</sub>), cause the greenhouse effect which is contributing to global warming and climate change. Greenhouse gases emissions are measured in terms of emissions of CO<sub>2</sub> equivalent (CO<sub>2</sub>e).



**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 is 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).

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

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

**Low-carbon economy:** An economy where GHG emissions are low.

**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.

**Net-zero portfolio:** A portfolio with investments with aggregated net-zero GHG emissions, aligned with the goals of the Paris Agreement of keeping global temperatures to well below 2°C and preferably 1.5°C.

**Paris Agreement/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 risks 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.

**Popular arrangement:** A popular arrangement means one in which £100 million or more of a scheme's assets are invested, or which accounts for 10% or more of the assets used to provide money purchase benefits. Our main popular arrangement is Aegon BlackRock LifePath Flexi. We have two additional popular arrangements, Aegon BlackRock LifePath Capital and Aegon Developed Markets ex-UK equity.

**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. Lack of liquidity may also reduce the value of private market investments.

**Responsible investment:** Responsible investment is 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.

**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.

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

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

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



## Foreword

It is a pleasure to introduce the third Aegon Master Trust (the ‘Scheme’) climate-related financial disclosure, our Task Force on Climate-Related Financial Disclosures (TCFD) report, covering the period 1 April 2024 – 31 March 2025 (the ‘Scheme Year’). This TCFD report outlines the progress the Trustees of the Scheme (referred to as the ‘Trustees’, ‘Trustee Board’, ‘we’ or ‘us’ within this report), are making towards better climate management and our net-zero targets. The Scheme continues to align with international scientific consensus by aiming to reduce greenhouse gas (GHG) emissions for our main default arrangement, Aegon BlackRock LifePath Flexi, by 50% by 2030 against our 2020 baseline, and to reach net-zero emissions by 2050. We, the Trustees, want to help Members make informed decisions about their pension investments and ensure that the Scheme default arrangement which most Members are invested in, is aligning to net zero.

This TCFD report gives our Members more information on how we manage their investments in the context of climate change. Whilst we place a major emphasis on managing climate-related risks, we are also seeking out opportunities for our Members to benefit from the transition to a low-carbon economy. For us, it is a time of reflection on what we have achieved in the Scheme Year, from reducing the Scheme’s main default arrangement scope 1 and 2 carbon footprint by 50% compared with a 2020 baseline to extending our ‘expression of wish’ process for the 2024 voting season. In addition, I am proud that we have contributed to BlackRock adopting its Climate and Decarbonisation Stewardship Guidelines which will further align our stewardship objectives with our main fund managers.

We have made encouraging progress against our interim decarbonisation target. However, the Scheme meeting its target remains ultimately dependent on national and global policies. As an asset owner managing a highly diversified and long-term portfolio, we believe it is in our Members’ interests that the wider economy, and not only our portfolio, decarbonises. Consequently, we work collaboratively with the industry to ensure progress is made in that direction and we recognise that even though developed countries are decarbonising their economy year on year, this is not sufficient to reach their net-zero commitments. Following the 2024 United Nations Climate Change Conference (COP28) commitments<sup>1</sup> to transition away from fossil fuels, phase-down unabated coal power and triple renewable energy capacity by 2030, expectations were high for the last conference (COP29). The conference brought an alignment of parties on voluntary carbon markets, but fell short of expectations. While welcome, this alignment will not be enough to keep global temperature rise below 1.5°C. This year’s COP30 in Belem may be our last chance to stay on track with the 2015 Paris Agreement.

I hope this report gives a good sense of our decarbonisation progress so far and related emerging topics we are considering, such as biodiversity.

Ian Pittaway, Chairman of the Aegon Master Trust Board

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<sup>1</sup> [COP28: Global Renewables and Energy Efficiency Pledge](#) (Nov 2023), accessed June 2024



## Executive summary

This TCFD report explains how we addressed climate-related risks and opportunities during the Scheme Year. It is based on the requirements in the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 and the related DWP Guidance on Governance and Reporting of Climate Change Risk ('Statutory Guidance')<sup>2</sup>.

Climate change represents an existential threat<sup>3</sup> and has already been disrupting financial markets<sup>4</sup> and traditional systems of governance, with real-life impacts for our Members<sup>5</sup>. 2024 was the warmest year on record globally and the first year that was 'likely' more than 1.5°C above pre-industrial levels<sup>6</sup>, highlighting that the headroom to stay within the Paris Agreement 1.5°C guard rail is now wafer thin and should serve as a call to action.

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

To limit global warming to 1.5°C by the end of the century, as outlined in the Paris Agreement, economies must reach net-zero CO<sub>2</sub> emissions by 2050<sup>7</sup>. For a pension scheme, this will require the decarbonisation of investment portfolios over this time horizon or sooner, which has previously informed our decision to set a 2050 net-zero target for our main default arrangement. Looking after the future financial wellbeing of our Members also means protecting the world they will live in when they access their pension savings. Pension asset owners are uniquely placed to support a systemic climate transition in the economy, by addressing climate issues with fund managers and prioritising net-zero goals. The existing integration of ESG factors into the Scheme's investments provides a foundation for structuring additional climate resilience into our portfolio. We are continuing the process of integrating climate risk and opportunities into our Scheme's governance, investment strategy and management systems.

We monitor attentively how the scenario analysis projects our portfolio to behave under various climate scenarios. Scenarios projecting higher temperatures have the worst impact on the portfolio's expected return. We can identify the most at-risk sectors (Energy, Utilities, Materials and Industrials) and regions (Asia-Pacific, Emerging Markets) to help prioritise our stewardship approach. By drilling into the drivers of physical risks, we can identify how the Scheme is exposed and understand the necessary investment in adaptation and resilience strategies to mitigate financial impacts. Although these scenarios offer a wealth of learning opportunities for us, they are still in their infancy and will benefit from future geo-localisation capabilities and the development of future climate models.

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<sup>2</sup> Department for Work and Pensions (October 2022), [Statutory guidance: Governance and reporting of climate change risk: guidance for trustees of occupational schemes](#)

<sup>3</sup> António Guterres, Secretary-General of the United Nations speaking at the Austrian World Summit (May 2018), [Climate change: An 'existential threat' to humanity, UN chief warns global summit](#) | UN News

<sup>4</sup> European Central Bank, Occasional Paper Series: Climate change and monetary policy in the euro area (September 2021) pp 29-31, [Climate change and monetary policy in the euro area](#)

<sup>5</sup> Department for Environment, Food and Rural Affairs (January 2022), [UK Climate Change Risk Assessment](#)

<sup>6</sup> Met Office (January 2025), [2024: record-breaking watershed year for global climate](#)

<sup>7</sup> Intergovernmental Panel on Climate Change (2023), [Synthesis Report of the Sixth Assessment Report](#)



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

## **Governance**

- We reviewed the Lifepath default arrangement, including its climate objectives, as part of the investment advisor's triennial review

## **Strategy**

- We played a key role in influencing BlackRock's Climate and Decarbonisation Stewardship Guidelines and expanded our 'expression of wish' process to cover 100 companies for the 2024 voting season
- We agreed on a new strategy proposal to move our main default arrangement to stronger ESG indices, where possible
- We refined our climate scenario analysis by splitting out drivers of physical risks
- We formalised and published our responsible investment policy

## **Risk management**

- We assessed all our fund managers' climate credentials and their year-on-year progress, which helped us prioritise our engagement with key fund managers
- We have initiated reporting on a new forward-looking metric, the Scheme's Net Zero Alignment following the development work done in the Scheme Year with MSCI

## **Metrics and targets**

- We reported a 50% decrease in carbon footprint for scope 1 and 2 of our default arrangement between 2020 and 2024 for listed equity and corporate fixed income, demonstrating significant progress towards our medium-term target of halving its footprint by 2030
- We also report an increase in investments with approved Science Based Target Initiative (SBTi) targets and in investments aligned with climate opportunities

This TCFD report highlights the Trustees commitment to managing climate risks and opportunities for Members, acknowledging the fast-evolving nature of climate management and disclosures. Looking ahead, the Trustees will attentively review the effects of BlackRock's new decarbonisation stewardship policy on its alignment with the Trustees stewardship net-zero objectives, as well as the evolution of Aegon BlackRock Lifepath Flexi planned throughout the coming Scheme Year.



# Introduction

## The Scheme and climate change

The Scheme is an open defined contribution pension scheme with more than 190,000 Members and £5.25bn in assets under management as of 31 March 2025. This TCFD report marks the third year in which the Scheme has been disclosing its action and approach to assessing and managing the risks and opportunities associated with climate change. As a pension scheme, the Scheme invests over the long-term for its Members and is thus exposed to systemic risks such as climate change.

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

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

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

## Description of the Scheme's investment arrangements

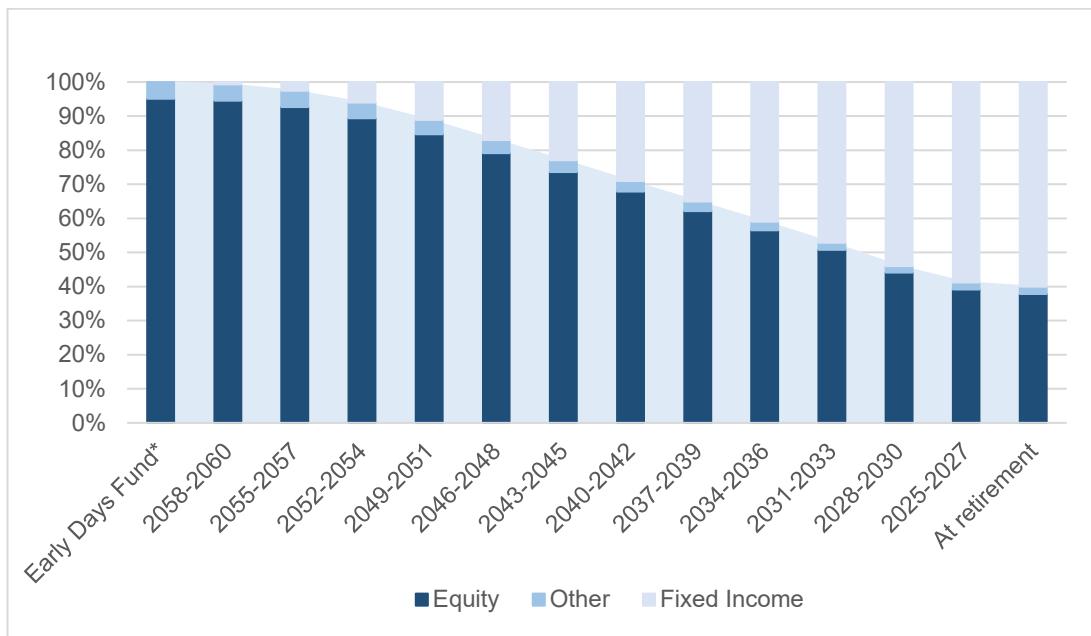
The Scheme's investment portfolio comprises standard default arrangements and bespoke options (known as Bespoke Notional Sections), as well as a range of 'self-select' funds (the 'AMT Fund Range'). We provide default investment funds for Members who do not wish to select where to invest their pension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

### *The main Scheme default arrangement: Aegon BlackRock LifePath Flexi*

Approximately 81.9% of all Members within the Scheme are invested in this default arrangement, representing 85.7% of the Scheme's assets as of 31 March 2025. The asset allocation of our main default arrangement varies depending on how many years a Member is from retirement. Members in the early years of their working life will invest in the Early days fund, which is weighted towards riskier assets with higher growth potential, such as equities (stocks and shares). Leading up to the target retirement date, the fund's strategy moves to a more cautious asset mix, which is expected to be more stable for generating income from the Member's pension when they retire. This process is termed 'lifestyling' and is demonstrated in Figure 1.



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



\*Early Days fund asset allocation remains the same for all Members retiring after 2058.

Source: Aegon UK

#### Alternative Scheme default arrangements

10.1% of Members in the Scheme are invested in alternative Scheme default arrangements, representing 5.3% of the Scheme's assets<sup>8</sup>:

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

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

#### The AMT Fund Range

Around 7.0% of Scheme Members are invested in the AMT Fund Range, our range of self-select funds, representing 7.8% of the Scheme's assets<sup>9</sup>. The Scheme offers twenty-five self-select funds, outlined below, in addition to the three Aegon BlackRock LifePath default arrangements (and any bespoke self-select and default funds):

- **Funds with a specific focus on sustainability:** This means that a sustainability objective is built into the fund's investment objective or investment process:

<sup>8</sup> Figure based on Aegon UK asset allocation data as of 31 March 2025.

<sup>9</sup> Figure based on Aegon UK asset allocation data as of 31 March 2025.



- Aegon Global Climate Focus Equity
- Aegon Global Sustainable Equity
- Aegon Global Sustainable Multi-Asset Growth
- Aegon Global Sustainable Multi-Asset Balanced
- Aegon Global Sustainable Government Bond
- Aegon Global Short Term Sustainable Bond

- **Funds which integrate ESG exclusions:** This means that, based on certain thresholds, the funds will not invest in certain companies, based on ESG concerns. For example, some funds listed below exclude investment in companies that generate a proportion of their revenue from thermal coal and oil sands:

- Aegon Cash
- Aegon Developed Markets Equity Tracker
- Aegon Developed Markets ex-UK Equity Tracker
- Aegon Emerging Markets Equity Tracker
- Aegon Europe ex-UK Equity Tracker
- Aegon Global Islamic Equity Tracker
- Aegon Global Listed Infrastructure
- Aegon Global Small Cap Equity Tracker
- Aegon Japan Equity Tracker
- Aegon Pacific ex-Japan Equity Tracker
- Aegon Retirement Income Multi-Asset
- Aegon UK Corporate Bond Tracker
- Aegon UK Equity Tracker
- Aegon US Equity Tracker

- **Funds which integrate ESG considerations within their overall investment process:**

- Aegon Global Absolute Return Bond
- Aegon Global Strategic Bond
- Aegon UK Property

- **Funds that fall into asset classes in which few solutions integrate ESG considerations within their investment process:**

- Aegon UK Government Bond Tracker
- Aegon UK Index-Linked Government Bond Tracker

### ***Bespoke Notional Sections***

Around 1.0% of Scheme Members are invested in bespoke funds, known as Bespoke Notional Sections, representing 1.2% of the Scheme's assets<sup>10</sup>. We offer 'bespoke' fund ranges in cases where employers wish to make a different range of self-select investment funds and/or a different default arrangement available to their employees. In these cases, the employers seek appropriate investment advice to create a 'bespoke' fund range. As of March 2025, three employers had opted to offer bespoke funds to their Members.

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<sup>10</sup> Figure based on Aegon UK asset allocation data as of 31 March 2025.



## Governance

In this section, we set out:

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

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

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

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

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

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

Date	Agenda topic(s) related to climate change risks and opportunities
April 2024	AMT TCFD Report – TCFD update (Aegon UK) AMT TCFD Report – Emissions attribution analysis (Aegon UK) AMT Stewardship – Update on Expressions of Wish approach for 2024 (Aegon UK)



	Presentation of FMLC <sup>11</sup> 's paper on fiduciary duty and sustainability risks (Aegon UK) ESG in Investment Performance Dashboard (Aegon UK) LifePath ESG performance update (BlackRock)
August 2024	AMT TCFD Report – TCFD update (Aegon UK) AMT Stewardship – Conclusions on 2024 Expressions of Wish approach (Aegon UK) AMT Stewardship – Conclusions on 2024 Manager Monitoring (Aegon UK) AMT Stewardship – Presentation of BlackRock De-Carbonisation Policy Draft (Aegon UK)
October 2024	LifePath evolution proposal - changes to the ESG strategy (Aegon UK) AMT Triennial Review (Isio)
November 2024	LifePath evolution proposal - changes to the ESG strategy (Aegon UK) AMT ESG Funds dashboard - RAG ratings
February 2025	LifePath ESG reporting (BlackRock) Annual review of investment consultant ESG objectives (Isio)

Source: Aegon UK

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

During the Scheme Year, the Trustees, supported by Aegon UK, discussed the evolution of the Scheme's main default arrangement, Aegon BlackRock LifePath Flexi, and agreed to transform the fund by<sup>12</sup>:

- Evolving the structure. This will result in a change in the funds' names and objectives,
- Shortening the glidepath, to ensure that we are delivering the best possible outcomes for Members over the long-term. This will result in a change to asset allocation by proximity to retirement and glidepath length
- Replacing the underlying funds by BlackRock's ESG Insights funds: Where available, the evolved strategy will invest in BlackRock's ESG Insight funds. Following an extensive review of passive strategies with integrated ESG processes, we are confident that BlackRock's ESG Insights funds are the most suitable strategies for enhanced passive funds within our default estate. Furthermore, their embedded decarbonisation targets better align to Aegon and Aegon Master Trust climate objectives.

In October 2024, Isio shared the conclusion of the Scheme's Triennial Review, including its views on the existing state of the Scheme as well as Aegon UK proposed changes. Isio ranked positively the existing state of the Scheme and welcomed the introduction of further ESG features in the underlying funds. Isio's review also highlighted the benefits of illiquid assets on ESG investment. It welcomed the planned change in underlying funds but highlighted the need for consistency in approach to ESG between components of the funds. The review emphasised the ESG credentials of the Scheme's main fund manager, which the Trustees hope to address, at least partially, in the next Scheme Year when BlackRock new decarbonisation stewardship policy takes effect. Finally, the Trustees noted the year-on-year improvement of the Scheme's main fund manager in Aegon UK's annual responsible investment assessment of fund managers.

<sup>11</sup> The Financial Markets Law Committee (FMLC) is an independent body that works to identify and provide clarity on areas of legal uncertainty in financial markets. Its paper on fiduciary duty is available on [Paper-Pension-Fund-Trustees-and-Fiduciary-Duties-Decision-making-in-the-context-of-Sustainability-and-the-subject-of-Climate-Change-6-February-2024.pdf](https://www.pensionsfunds.org.uk/paper-pension-fund-trustees-and-fiduciary-duties-decision-making-in-the-context-of-sustainability-and-the-subject-of-climate-change-6-february-2024.pdf)

<sup>12</sup> For more detail on the planned change, please refer to the Scheme's annual Implementation Statement



In February 2025, the Trustees received one session focused on Illiquids (such as Private market investments). Aegon UK provided an overview of the technical aspects of these alternative asset classes including structuring, liquidity and Member benefits. The Trustees also discussed investment in infrastructure overall and how private market investments can sustain the energy transition.

## **Investment beliefs and responsible investment beliefs**

Investment beliefs are guiding principles which inform the investment strategy, the design of the Scheme's default arrangements and the number and type of other investment options we make available to Members. We have re-evaluated our investment beliefs in the Scheme Year, as part of a review of our Statement of Investment Principles, and introduced our Illiquids policy. For our full investment beliefs, please refer to [Section 3 of the Scheme's annual Chair Statement](#).

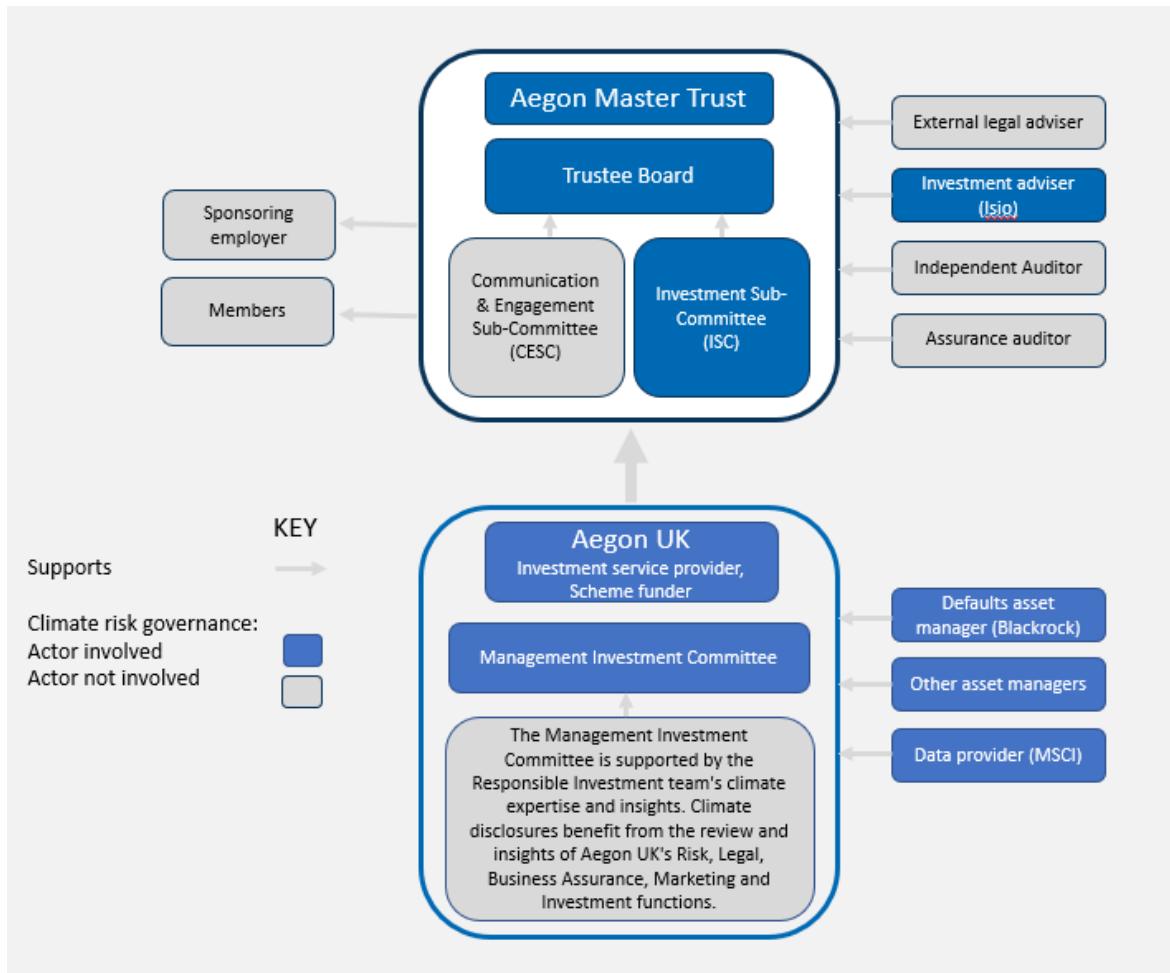
Our responsible investment beliefs provide further details on the minimum level of active ESG integration and engagement we expect from Aegon UK and our fund managers. They have guided the climate expectations we have set for our fund managers. Please refer to the Scheme's [governance section of our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

## **Roles and responsibilities of service providers**

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



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



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

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

<b>Category</b>	Investment service provider, also sometimes called Scheme funder, Aegon UK
<b>Description</b>	Aegon UK uses its intellectual property and market insights to make relevant suggestions in relation to our climate strategy, where appropriate. Aegon UK uses its dedicated responsible investment and oversight expertise to provide us with regulatory horizon scanning and dedicated training on climate-related risks and opportunities.



<b>Overall responsibilities</b>	<p>Aegon UK helps us set and implement an investment strategy which is aligned with the Scheme's goals, objectives, and beliefs, such as climate management, net-zero targets and related fund developments. Responsibilities include:</p> <ul style="list-style-type: none"> <li>monitoring the climate credentials of the Scheme's fund managers;</li> <li>engaging with and challenging the Scheme's fund managers and data provider, where appropriate, throughout the Scheme Year;</li> <li>undertaking industry advocacy efforts to support wider market decarbonisation, including on our behalf;</li> <li>providing data and insights to ensure climate-related disclosures are appropriate and aligned with any legislative changes;</li> <li>identifying, contributing to, and sharing net-zero industry best practice with the Trustees.</li> </ul> <p>We are supported by an executive team, in particular the Investment Proposition Managing Director who receives regular insights and thought leadership from the responsible investment function. Insights from the responsible investment team ensure that the executive team assisting us has a good understanding of climate change and its impacts.</p>
<b>Trustee oversight and governance</b>	<p>The implementation of the Scheme's net-zero targets is overseen by Aegon UK's Management Investment Committee. The Committee typically reviews items before they go to the Investment Sub-Committee. We leverage our investment adviser Isio to assess the credibility and progress of Aegon UK in helping us implement our climate strategy and day-to-day climate management. Indirectly, Aegon UK maintaining its Stewardship Code signatory status in 2024 confirms Aegon's robust oversight and the Trustees' confidence in their responsible investment practices.</p>

<b>Category</b>	Investment adviser, Isio
<b>Description</b>	Isio provides ideas and an independent review of suggested approaches and developments from the investment service provider, where required.
<b>Overall responsibilities</b>	Isio advises us on the Scheme's overall investment strategy, including our responsible investment strategy. Responsibilities include: <ul style="list-style-type: none"> <li>supporting the Trustees to embed material climate considerations in investment decisions and processes, in the interest of Members and aligned with the Scheme's Responsible Investment Policy.</li> <li>reviewing the appropriateness of the Scheme's investment strategy in relation to climate change, for example being involved in fund reviews and commenting on the Scheme's progress towards net-zero targets;</li> </ul>



	<ul style="list-style-type: none"> <li>providing us with advice and benchmarking our responsible investment strategy, including beliefs and climate-related disclosures;</li> <li>assessing the credibility and progress of Aegon UK in helping us implement our climate strategy and day-to-day climate management;</li> <li>supporting our independent oversight of the Scheme's fund managers; and</li> <li>informing us of regulatory and market developments which could impact the investment strategy and wider fund range, and how they could be addressed.</li> </ul>
<b>Trustee oversight and governance</b>	<p>In accordance with DWP regulations and Pension Regulator guidance, we have set strategic objectives for investment advisers; and review the provider's performance against those objectives at least every twelve months. The objectives must be reviewed and (if appropriate) revised at least every three years, and without delay following a significant change in investment policy.</p> <p>The Trustees assessed Isio's performance against its strategic objectives, including their objective to assist the Trustees in aligning the Scheme with its ESG objectives. Overall Isio scored well, and the assessment, which included Isio's self-assessment in February 2025, helped identify areas for additional focus. We have agreed strategic objectives with Isio for the year 2025.</p> <p>Isio's climate objective formalises the Trustees' oversight: Isio's climate competency is considered in relation to the positive and best practice indicators for investment consultants developed by the Investment Consultants Sustainability Working Group (ICSWG)<sup>13</sup>, including Isio's contribution to:</p> <ul style="list-style-type: none"> <li>- helping the Trustees implement their 2050 net-zero target and associated interim targets;</li> <li>- assisting the Trustees by sharing best practice and thought leadership on climate topics;</li> <li>- supporting the Trustees with effective investment provider and default fund manager engagement and collaboration, to ensure climate-related risks and opportunities are appropriately managed.</li> </ul>

<b>Category</b>	Various fund managers, with BlackRock being the fund manager for the Scheme's main default arrangement, Aegon BlackRock LifePath Flexi
<b>Description</b>	Fund managers are responsible for the day-to-day management of the Scheme's investments, including identification and management of climate risks and opportunities.

<sup>13</sup> [ICSWG consultant climate competency framework](#)



<b>Overall responsibilities</b>	<p>Taking BlackRock as an example, the BlackRock team regularly reviews its climate policies, processes, resources, and expertise to support climate integration and the ESG objectives of the Scheme. Responsibilities include:</p> <ul style="list-style-type: none"> <li>• contributing to the Scheme's climate strategy for investments and supporting the transition of assets to low carbon strategies where needed;</li> <li>• sharing risks and opportunities which relate to the Aegon BlackRock LifePath Flexi net-zero target;</li> <li>• exercising voting rights and engaging with companies on climate risks and opportunities; and</li> <li>• supporting climate data and information requests made under the regulatory regime.</li> </ul>
<b>Trustee oversight and governance</b>	<p>All fund managers must respond to an annual responsible investment due diligence questionnaire. This helps us ensure minimum climate requirements are met and helps inform topics for engagement throughout the Scheme Year. We pay particular attention to BlackRock as the fund manager of our main default arrangement. They are invited to join Investment Sub-Committee meetings to present on specific climate topics and their decarbonisation progress. This forum provides the opportunity for the Trustees to assess gaps in fund manager's investment process against the Scheme's Responsible Investment Policy, and identify opportunities to align further with the Trustees climate goals and public targets.</p> <p>Aegon UK also has regular meetings with and oversight of BlackRock, which supports the Scheme's strategy. In Q4 2024, Isio carried out the triennial review of both the current and envisioned Scheme default investment strategy, in which they assessed the performance of BlackRock on ESG and climate criteria. Isio identified scope to improve the ESG position further.</p> <p>We will not appoint fund managers who fail to integrate responsible investment principles into their overall decision-making processes. Those that we do appoint are required to report on their voting and engagement activities. For more information on how we monitor fund managers please see the strategy section of this report.</p>

<b>Category</b>	Climate data provider, MSCI
<b>Description</b>	MSCI is a provider of climate data and analytics. They support the Scheme's data and information requests related to climate risks and opportunities, which informs our strategy development.
<b>Overall responsibilities</b>	MSCI provides the climate data and associated platform and customer service to enable Aegon UK to collect climate metrics which inform Scheme analysis, including for TCFD reports. This includes providing scenario analysis capabilities, estimating greenhouse gas emissions where reported data is not available, and



	developing methodologies for proprietary climate metrics, in line with market developments and regulatory guidance.
<b>Trustee oversight and governance</b>	<p>Aegon UK exercises day-to-day oversight of MSCI through ad-hoc issue-specific meetings, monthly technical meetings and quarterly oversight and relationship meetings. These are used to discuss availability of climate data, insights from climate reports and raise any issues. The performance of MSCI is continually evaluated, specifically the level of service provided, appropriateness of data and relationship as a key service provider. In addition, Aegon UK sets and tracks progress against specific annual engagement objectives for MSCI.</p> <p>Aegon UK's responsible investment team aggregates, complements, reviews, and analyses the information provided by MSCI before sharing it with us. Data published through TCFD reports is independently reviewed by Isio. MSCI communicates improvements in data coverage and updates to methodologies via Aegon UK through Investment Sub-Committee updates or board teach-ins. Aegon UK also contributes to the development and testing of new metrics when the opportunity arises).</p>



## Strategy

In this section we set out:

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

## Description and assessment of climate-related risks and opportunities

### *How we define climate-related risks*

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

- **Physical risks** – the risks 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 risks** – the risks arising from the changes required to support the transition to a sustainable, low-carbon economy, including those driven by policy and technology changes.
- **Liability risks** – the risks that individuals or businesses seek compensation for losses 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.

The Scheme invests indirectly using funds from third-party fund managers and delegates 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 the Scheme's Responsible investment policy, which is reviewed every year.

### *How we define time horizons*

We consider relevant short, medium, and long-term time horizons. We also consider the useful life of our assets/infrastructure and that climate-related issues often appear over the medium and longer-term. Climate risks will impact both our Members' investments and the world they will 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<sup>14</sup>. Our Members have their own pathway to retirement: some will retire in the Scheme Year while others are expecting to retire beyond 2070. We thus recognise the need to consider both immediate and long-term investment horizons. Our three distinct time horizons reflect the long-term nature of our Members' investments. We currently consider these time horizons to be sufficiently long-term.

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<sup>14</sup> Intergovernmental Panel on Climate Change (2022), Impacts, Adaptation and Vulnerability



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

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

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

#### *Mapping of climate-related risks and opportunities*

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

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

Risks	Potential impact(s)	Time horizons		
		Short-term <10 years	Mid-term 10-25 years	Long-term >25 Years
<b>Transition risks</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



Reputational risks	Failure to act decisively on climate issues could harm the Scheme's reputation and relationships with our key stakeholders, impacting the Scheme viability.	X	X	X
<b>Physical risks</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
<b>Direct risks to our Members</b>				
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>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 market investments.	X	X	X
Climate opportunities: new products and services opportunities	Our Members will increasingly be concerned about climate change and if their investments contribute to climate change. This is an opportunity to support companies developing new products and services tailored to their customers concerns and helping to address the challenges of climate change.	X	X	
Resource efficiency opportunities	Opportunities arising from reduced operating costs of companies through efficiency gains and increased production capacity, as well as from transforming a linear economy to a circular economy.		X	



## Impact of climate-related risks and opportunities for our strategy

### *Short-term, less than 10 years*

The risk from transitional factors is arguably more material in the short to medium-term, with climate reporting and disclosure requirements expected to increase over the coming decade, regardless of short-term political turnarounds and hesitations. We're addressing this by investing in climate data and modelling (such as the inclusion of additional asset classes in CVaR models), as well as building our responsible investment expertise. As climate events unfold worldwide, we are expecting to see increasing interests in precisely assessing physical impacts of climate change and expect their financial impacts to continually be re-evaluated.

In the next few years, the implementation of Aegon UK's net-zero transition plan, its [climate roadmap](#), will help support the Scheme in moving towards its net-zero commitment by increasing the alignment of Aegon BlackRock LifePath funds<sup>15</sup> with the Trustees objectives. We see future evolutions of the investment strategy of the Scheme's main default arrangement, as discussed during the Scheme Year, as a natural step in that direction.

Our updated [responsible investment policy](#) details our minimum responsible investment requirements and stewardship approaches, which support our 2030 decarbonisation target and frame our engagement with our fund managers and the wider market. Climate is already one of our key engagement themes. It drives how we approach fund manager selection, appointment and monitoring, and our fund manager's voting and engagement activities, to ultimately manage short-term risks.

In the Scheme Year, the Trustees have worked closely with BlackRock to further align the LifePath strategy with the Trustees' views on climate voting and engagement. Following this collaboration Blackrock have developed a new decarbonisation stewardship policy, which is anticipated to better align Blackrock's voting and engagement with the Trustees views. We will measure the effect of this policy on improved stewardship alignment from next Scheme Year's voting season. Over the next few years, we want to see more evidence of outcomes from their climate engagement. We expect fund managers to follow and contribute to industry best practice so we can continue to work together to minimise climate risks. Effective engagement with our fund managers will be necessary to achieve our 2030 decarbonisation targets. The Trustees will continue to voice our concern on climate to the Scheme's fund managers and to develop our 'expression of wish' approach.

Finally, different sustainability disclosures, as required by regulations, may influence how climate risks are managed at Scheme level. We expect that data coverage will improve over this period, driven by increased regulatory scrutiny and market transparency. We anticipate a shift in focus to the verification of companies' emissions reporting and the development of more precise models to estimate emissions, in particular scope 3 emissions where reporting is currently inconsistent. We also 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.

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<sup>15</sup> Aegon UK's net-zero commitment covers all of its default funds, which includes Aegon BlackRock LifePath.



### *Medium-term, 10 to 25 years*

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

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

As the market becomes better at pricing in climate risks, we also anticipate more assets will be invested with better consideration to climate factors, moving beyond ESG screens (e.g. exclusions) and tilts to other ways of integrating climate risks and opportunities into decision-making. Linked to this, we expect more investments in 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.

Finally, over that period, illiquid assets may provide more significant sustainability outcomes, as well as long-term growth potential. We believe investing in private markets has the potential to help deliver improved returns, including through climate solutions which can also support climate goals, although in the short to medium-term investing in climate solutions may increase portfolio emissions. We believe that an investment in a well-diversified private markets portfolio has the potential to improve customer outcomes, through better risk-adjusted returns and increased investment diversification.

### *Long-term, over 25 years*

Members may be increasingly affected by climate impacts in their daily life and their investments. As long-term investors with long-term liabilities, our focus is delivering sustainable long-term value for our Members. This means managing investment risks and returns effectively, which includes considered and active integration of ESG factors across the Scheme. This will help to address climate change and to 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 have fully priced in transition risks if the world is to meet the goals of the Paris Agreement to stay well below 2°C above pre-industrial levels. However, under a 'failed transition' scenario, we expect markets will price in the more severe physical impacts that could come from inaction.

We are conscious of the size and scale of the challenges that we are all collectively dealing with, and the complexity of understanding different climate change scenarios. We know that a great deal of additional



insight, learning and integration lies ahead. 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 considered in the next section. We use Climate Value-at-Risk (CVaR) to measure the potential impacts of different climate scenarios on our investments.

## Climate scenario analysis

We use climate scenario analysis to understand potential financial consequences of climate risks on our Members' investments under a set of possible 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), corporate fixed income (loans issued to companies) and sovereign debts. 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 economy. We use a climate scenario analysis tool developed by MSCI to understand the potential financial consequences of climate risks on our main default arrangement.

### *Choice and description of our climate scenarios*

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

- A '1.5°C orderly transition to net zero by 2050' scenario
- A '2°C disorderly transition to net zero by 2050' scenario
- 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 have selected, as summarised in table 4 below. We expect to develop CvaR analysis in the future.

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

Scenario	1.5°C orderly transition	2°C disorderly transition	4°C failed transition scenario
<b>Integrated Assessment Model (see model descriptions on next page.)</b>	REMIND <sup>16</sup> NGFS <sup>17</sup> 1.5°C.	REMIND NGFS 2°C.	4°C IPCC SSP3-7.0 aggressive physical scenario and 3°C REMIND NGFS transition scenario.

<sup>16</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.

<sup>17</sup> NGFS: Network of Central Banks and Supervisors for Greening the Financial System



<b>Key impact/risks</b>	Transition impact of policy measures and technology drivers.	Transition impact of policy measures and technology drivers.	Severe physical impacts with limited transition impact.
<b>Summary of assumptions</b>	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— both gradual physical changes, as well as more frequent and severe extreme weather events.  Policy measures failing to materialise into an effective transition  Limited increase in carbon price by 2050.
<b>Outcomes</b>	Locked-in physical impacts of 1.5°C. (i.e. already in motion)	Locked-in physical impacts of 2°C. (i.e. already in motion)	Assumes temperature rise of 4°C by 2100. Physical impacts difficult to avoid with continued high emissions.

Source: Aegon UK using data from MSCI.

Climate scientists currently predict that climate change is likely to lead to a world temperature rise of 2.7°C by 2100<sup>18</sup>. Such projections are significantly higher than the ambition set by the Paris Agreement, which aims to limit a global surface temperature rise to well below 2°C above pre-industrial levels by the end of the century and to pursue efforts to limit the temperature rise to 1.5°C. Consequently, we believe our selection of scenarios reflects a realistic range of projections for our Members.

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. 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 component 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

<sup>18</sup> The CAT Thermometer, climateactiontracker.org, published November 2024, accessed February 2025



The last component of climate scenario analysis, the technology opportunity, considers the opportunities arising from the changes required to meet the transition to a low carbon economy.

#### Methodology to aggregate CVaR risk

Our data provider, MSCI, has calculated the financial implications of physical risk, transition risk and technology opportunity over a horizon of 15 years on a large universe of companies under a set of different scenarios. Since the cost and opportunity associated with climate change extend way beyond that time horizon, MSCI has modelled how these financial implications would evolve over a 50-year horizon. CVaR allows us to quantify today how a Member's portfolio is likely to be impacted under the different scenarios' physical risk, transition risk and technology opportunity. The climate scenarios selected are applicable to the most frequent asset classes that the Scheme invests in, namely equity, corporate fixed income and sovereign bonds.

#### *Assumptions made in relation to climate scenarios*

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

We assumed an average physical risk for the 1.5°C REMIND NGFS 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 is no 4°C scenario for REMIND NGFS), combined with a 4°C Intergovernmental Panel on Climate Change (IPCC) SSP3-7.0 aggressive physical scenario. Transition risks are likely to be less relevant compared to 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. Where they differ is in how fast the transition happens, how quickly carbon sequestration is implemented, and the year emissions peak and reach net zero. We also assumed physical risk would be in line with average scenarios under a 1.5°C orderly transition scenario and in line with aggressive scenarios under a 2°C disorderly scenario<sup>19</sup>. 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 progress further limited. Carbon sequestration uptake is low and late, and emissions never reach net zero. More details on the key assumptions used in relation to our chosen scenarios can be found in Appendix 3.

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 the Scheme's assets, the Trustees are conscious that the financial impacts may be far worse under all scenarios. No investment decision is made solely based on climate scenario analysis.

We combine the impacts of the transition and physical climate risks, plus opportunities, to produce a combined Climate Value-at-Risk (CVaR) measure, based on the three transition scenarios discussed above.

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<sup>19</sup> To reflect the variety of these different possible outcomes our climate data provider gives us two values out of the full distribution: the 50th quantile representing the mean outcome (average outcome) and the 95th quantile representing the high-end risk. These are respectively defined as average and aggressive scenario options.



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

Our investment service provider, Aegon UK, ran and analysed our scenarios, assisted by MSCI.

The characteristics of investments made in the Scheme's main default arrangement reported in the Metrics section have a substantial impact on the outcome of our climate scenario analysis. Due to the large difference in output between different type of assets, we have broken down CVaR per asset class.

Table 55: Scenario analysis output for Aegon BlackRock LifePath Flexi, as of December 2024

Aggregated Climate VaR	Orderly transition (1.5°C)	Disorderly transition (2.0°C)	Failed transition (4°C)	Data coverage
<b>Aegon BlackRock LifePath Flexi</b>	<b>-7.1%</b>	<b>-9.2%</b>	<b>-13.6%</b>	<b>92.5%</b>
Equity and corporate fixed income	-8.8%	-10.0%	-17.5%	94.7%
Sovereign bonds	-1.5%	-1.3%	-0.0%	96.4%

Source: Aegon UK using data from MSCI as of 31 December 2024

Under the three scenarios discussed, expected returns are lower than the 'climate-uninformed' baseline<sup>20</sup> because of the negative climate risk effects over time. In short, scenarios projecting higher temperature have the worst impact on the portfolio's expected return. For equity and corporate fixed income:

- In an orderly transition scenario, the transition risks translate into medium impact on expected returns, while physical risks are less impactful.
- Under a disorderly transition scenario, the negative effects of regulations on expected returns are lifted and partially offset by high physical risks.
- Under a failed transition scenario, the transition risks are minimal but physical risks drive expected returns much lower.

For sovereign bonds, we observe marginally lower expected returns, which are driven by transition risks. Under a failed transition scenario, we observe practically no impact on expected returns from transition risks. We note physical risks are mostly ignored from this model, which is a limitation.

Overall, the data suggests that significant changes in policy, investment and behaviour will be necessary to change global warming trajectory to a Paris-aligned outcome. However, if the transition materialises, significant changes in financial markets over the coming decades are likely, which in turn could have a material impact on the Scheme's investments.

From table 5, we note a reduction in the aggregated CVaR values compared with last year, which we attribute to the March 2024 model upgrade that resulted in a reduction of climate risks estimations for some companies<sup>21</sup>. By grouping Aegon Blackrock LifePath Flexi investments by economic sector (using MSCI GICS sector classification) and regions, we are able to identify more specifically which regions, and

<sup>20</sup> The Climate VaR measure is relative to a baseline scenario which is 'climate-uninformed', i.e. one where existing policies and past physical impacts are assumed to have been priced in by markets, but no future transition policies or physical risks are accounted for.

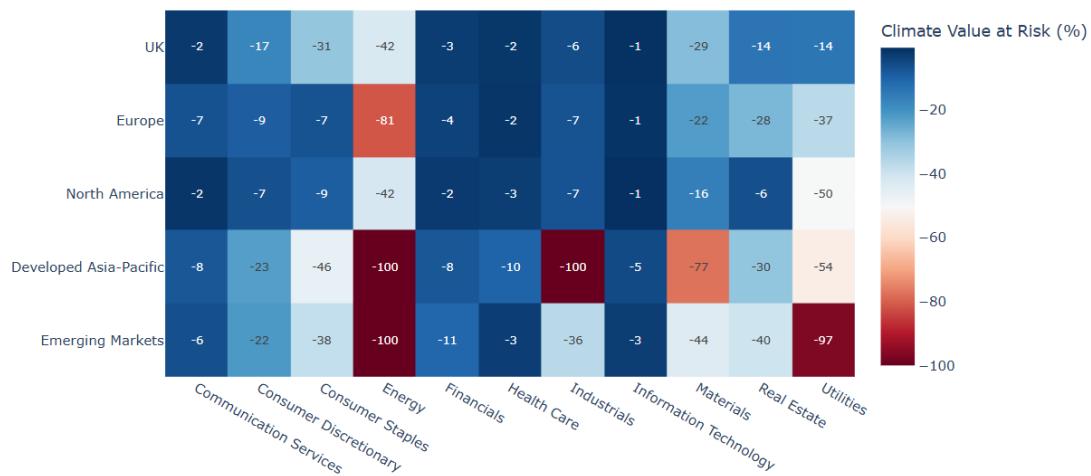
<sup>21</sup> MSCI [model note](#) details the update from NGFS Phase 3 to Phase 4, available on MSCI website



which economic sectors are driving the funds' CVaR. Figure 3 summarises these impacts under the disorderly transition (2.0°C) scenario:

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

CVaR per country and sector

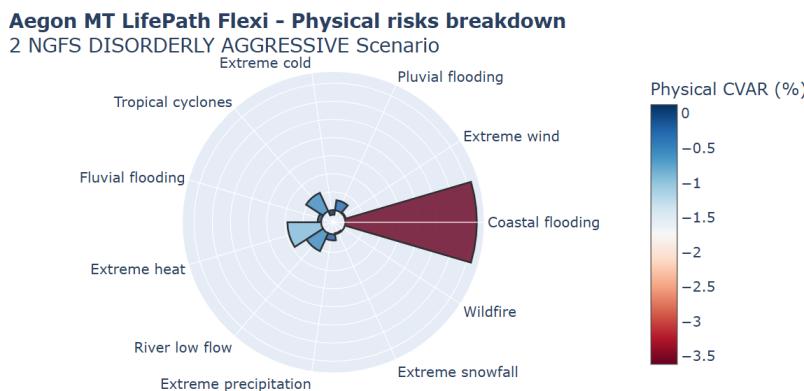


Source: Aegon UK using data from MSCI as of 31 December 2024

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

We explored the breakdown of physical risks to understand which were more relevant to the Scheme main default arrangement. We observe that under a 2.0°C NGFS aggressive scenario, coastal flooding is by far the strongest contribution to physical risks, followed by extreme heat.

Figure 4: Breakdown of physical risks for Aegon Blackrock Lifepath Flexi under a disorderly transition (2.0°C) scenario



Source: Aegon UK using data from MSCI as of 31 December 2024

Members at different stages of their journey will naturally be exposed differently to climate risks. Table 6 details the output of our three scenarios for three Members at different stages in their journey.



Table 66: Scenario analysis output for Aegon BlackRock LifePath Flexi sample vintage, as of December 2024

Aggregated Climate VaR	Orderly transition (1.5°C)	Disorderly transition (2.0°C)	Failed transition (4°C)
<b>Member at early days of career (Aegon BlackRock LifePath Flexi Early Days fund)</b>	<b>-9.4%</b>	<b>-10.5%</b>	<b>-18.2%</b>
<b>Member 15 years to retirement (Aegon BlackRock LifePath Flexi 2037-39 fund)</b>	<b>-7.1%</b>	<b>-9.1%</b>	<b>-13.5%</b>
<b>Member at retirement (Aegon BlackRock LifePath Flexi Retirement fund)</b>	<b>-4.1%</b>	<b>-7.3%</b>	<b>-7.2%</b>

Source: Aegon UK using data from MSCI as of 31 December 2024

The further away from retirement a Member is, the higher the allocation to Equity and the higher the exposure to physical risks. The closer to retirement a Member is, the higher the exposure to Sovereign bonds which, under our current model, are not impacted by Physical risks and marginally impacted by transition risks.

#### *Data and methodological limitations*

We 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 climate scenario modelling and data coverage across all asset classes in future years. In particular, we expect further scrutiny on physical risks over transition risks due to the political context and for models to better incorporate physical risks projections in light of the multiplication of climate events. The use of geolocation to map companies' real assets will greatly improve the accuracy of companies' physical risks exposure.
- 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. Climate scenarios also ignore the compound effects of physical risks, which happen during simultaneous occurrences of multiple risks such as a draught coupled with wildfires.
- Similarly, the climate scenarios do not account for feedback loops between the financial sector and the real economy, such as the impact of green bonds on the cost of capital of carbon intensive sectors.
- The current methodology does not consider the impact of different risks across different time horizons. Since our Members are at different stages in their journey, they will be impacted differently across their own time horizons. As such, the Trustees are attentive to the development of NGFS's short term scenario, and to the need for a longer term horizon in light of the change of Trustees' decumulation duties raised in the draft Pension Schemes Bill.
- The scenario analysis methodology assumes the Scheme maintains a consistent asset class and sector composition. We recognise this as a limitation, as future asset allocation of the funds may diverge from the current asset allocation.



- The scenario analysis of the Scheme is not fixed. It will change as climate science evolves, the market responds to climate change, and our own internal capabilities improve. For example, we expect to be able to run more granular CVaR for additional asset classes in future years. We also expect that risk of and impact from major events to be re-evaluated in models, such as wildfires following the recent examples in Los Angeles, California<sup>22</sup>. A direct consequence to expect is the un-insurability of many assets, with insurance premium becoming prohibitive. For example, assets in regions exposed to high coastal flooding risk due to rising sea-level are expected to be hit dramatically but the insurance premium against these risks will be prohibitive.
- The approach to climate scenarios methodology would benefit from the better integration of findings from economists and climate scientists. As noted by the Institute and Faculty of Actuaries<sup>23</sup> in June 2023, many climate-scenario models significantly underestimate climate risks. Carbon Tracker Initiative<sup>24</sup> also pointed out the disconnect between what scientists expect from climate change and what pension funds are reporting and are prepared for. This is a concern for us the Trustees and we would welcome the further development of climate scenarios analysis, including worst case scenarios and geolocation-assisted models.
- The addition of sovereign debt to the analysis introduced last year significantly diluted the Scheme's CVaR from equity and corporate fixed income, giving a seemingly improved total picture of the impact of climate change on our Members' investments. Additionally, the scenarios adapted for sovereign debt focus on transition risks and incorporate some impact of chronic physical risks, but not acute physical risks.

## Our climate strategy

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

### *Capital allocation aligned with our net-zero targets*

- **We planned the future of our main default arrangement, so it delivers the most effective climate credentials to our Members.**

How and where we choose to invest can both mitigate climate-related risks in our portfolios – by excluding or tilting away from certain companies or sectors and favouring others – and accelerate carbon intensity reductions. As of March 2025, 92.7% of Aegon BlackRock Lifepath Flexi Early days funds are incorporating ESG screens /or tilts. The Trustees believe the time was right to go beyond an ESG screens and tilts approach, and worked with Aegon UK and our main fund manager in exploring the future of the Scheme main default arrangement. Throughout the year, we have met multiple times to discuss what good looks like for our Members. Details of the future evolution of the Scheme's main default arrangement can be

<sup>22</sup> [California wildfire: Thousands flee as strong winds fuel flames - BBC News](#)

<sup>23</sup> Institute and Faculty of Actuaries and the University of Exeter, June 2023, [Emperors New Climate Scenarios](#)

<sup>24</sup> Carbon Tracker Initiative, July 2023, [Loading the Dice Against Pensions](#)



found in the Implementation Statement, published in parallel to this report. A high-level summary of changes is available on the Governance section of this report.

- **We enhanced oversight of ESG assessments at fund level**

Following a request from the Trustees to add responsible investment to the Investment Performance Fund Dashboard, Aegon UK developed a proprietary fund-level ESG red, amber, green (RAG) rating. The fund-level ESG RAG builds on existing AMT oversight tools, such as the Climate Risk Dashboard published annually in the AMT's TCFD report.

The ESG RAG rating was developed by leveraging the ESG data expertise within Aegon UK. The methodology considers different factors, peer groups, and fund comparisons. The factors used were chosen because they are established risk metrics, such as Climate Value-at-Risk, that align with the Master Trust's responsible investment beliefs, in particular around the financial materiality of ESG issues and climate as a key source of risk. Combining metrics provides a more reliable and holistic fund rating model and allows Trustees to demonstrate oversight without solely relying on third-party methodologies. Where a fund is not assessed 'green', a brief narrative of the drivers behind the rating is given, allowing Trustees to understand contributing factors.

Going forward the ESG RAG rating will be provided alongside traditional fund performance information, to help improve the Trustees' understanding of the ESG profiles of the funds. The rating can be used to support engagement with fund managers or to identify funds where the Trustees may wish to carry out further qualitative assessments. The rating can be evolved over time in line with market developments.

#### *Voting and engagement with fund managers*

During the Scheme Year we reviewed and improved how we convey our stewardship expectations to fund managers by expanding our 'expression of wish' process and we engaged with fund managers on better alignment of their approach to stewardship with our net-zero targets.

- **We published the Scheme's Responsible Investment Policy detailing our approach to voting**

The [Scheme's Responsible Investment Policy](#) was updated in Q1 2024 and made publicly available in Q4 2024. It details to Members how the Trustees manage investments in a responsible manner on their behalf. It covers:

- The Trustees' responsible investment beliefs
- Selection, appointment and monitoring of fund managers, and our responsible investment minimum requirements
- The Trustees' engagement themes and expectations of fund managers, including expressions of wish and voting guidelines
- The Scheme's net-zero targets and progress

- **We extended our 'expression of wish' process for the 2024 voting season where we shared our voting preferences covering key climate-related resolutions with our primary fund managers.**

The Trustees expressed their voting preferences on the most significant votes through their 'expression of wish' (EoW) approach and engaged with key managers ahead of the votes to share their views and encourage manager support for the Trustees' voting preferences. Our extended priority list targeted 100 companies in our top 500 largest holdings within our main default arrangement. The companies selected



were of high materiality and had poor performance in relation to our engagement themes, using data metrics including CA100+'s [Net Zero benchmark](#), [LobbyMap](#) and the [World Benchmarking Alliance](#). The Trustees monitored managers' alignment with their preferences after the company annual general meeting (AGM) and engaged or escalated with fund managers when divergence was noted. We see this an effective way of monitoring consistent and effective voting behaviour by managers, by either benefiting from their engagement processes when the managers align with our voting preferences, or by encouraging alignment otherwise. Our EoW is underpinned by robust governance and has proven to work, as evidenced by Blackrock's adoption of its new decarbonisation stewardship policy.

Table 7 below provides details of the Trustees' significant votes within the Scheme Year. The Trustees have selected their most significant votes taking into account significant holdings within the Scheme and alignment with Trustees' engagement priorities. Most significant votes selected by the Trustees focussed on climate, reflective of the Scheme's climate ambition and net-zero commitment.



Table 7: Scheme's 2024-2025 most significant voting resolutions

Company	Vote type	Resolution	Trustee priority engagement theme	Approx size of company within the Scheme	Trustee EoW	Outcome of vote (shareholder proposal)
<b>American multinational investment bank</b>	Shareholder proposal	Disclosing material risks associated with animal welfare	Nature	0.11%	Against	8% support
	Director re-elections	Voting on director elections due to climate concerns	Climate		For	N/A
<b>Global shipping and logistics company</b>	Shareholder proposal	Reporting risks from voluntary carbon-reduction commitments (Anti-ESG)	Climate	1.34%	Against	8% support
<b>British multinational bank</b>	Director re-elections	Voting on director elections due to climate concerns	Climate	0.05%	For	N/A
<b>American multinational Bank</b>	Director re-elections	Voting on director elections due to climate concerns	Climate	0.17%	For	N/A
	Shareholder proposal	Reporting humanitarian risks due to climate change policies (Anti-ESG)	Climate		Against	1% support
<b>British multinational oil &amp; gas company</b>	Director re-elections	Voting on director elections due to climate concerns	Climate	0.27%	Against	N/A
	Say on climate	Approve the Energy Transition Strategy	Climate		Against	78% support
	Shareholder proposal	Scope 3 GHG emissions reduction targets	Climate		For	18% support
<b>French multinational energy company</b>	Say on climate	Approve the Sustainability & Climate Progress Report 2024	Climate	0.15%	Against	75% support
<b>American multinational technology company</b>	Shareholder proposal	Report on packaging materials and plastic	Nature	1.34%	For	28% support
	Shareholder proposal	Additional reporting on stakeholder social impacts	Climate		For	23% support
	Shareholder proposal	Alternative emissions reporting (Anti-ESG)	Climate		Against	4% support
<b>Swiss multinational commodity trading &amp; mining company</b>	Say on Climate	Approve the climate action transition plan	Climate	0.002%	Against	83% support
	Director re-elections	Voting on director elections due to climate concerns	Climate		Against	N/A

Source: Aegon UK

BlackRock as the Scheme's default fund manager and two other Scheme fund managers were assessed by the Trustees to consider their level of voting alignment. The Trustees found that HSBC and Aegon Asset Management remained strongly aligned in all instances where the managers held the relevant company, similar to our 2023 EoW (respectively 90% and 100% alignment with the Trustees' preferences). The Trustees found our other key manager, BlackRock, had made some improvements on votes relating to climate, where alignment increased to 30% in 2024 compared to 0% in the previous year. The Trustees were also pleased to see 100% alignment by all three of our key managers in relation to anti-ESG shareholder resolutions, demonstrating the thoughtfulness of their approach and not applying blanket approaches to voting on shareholder proposals.



Overall, alignment from one of our key managers could be improved, as illustrated below, and we will continue engaging with this manager and challenging them on the areas of divergence, including on our engagement themes beyond climate. The Trustees will continue to build on their 'expression of wish' and annual manager monitoring process in the next Scheme Year, to maximise their influence on their fund managers.

- **We engaged with the Scheme's main default arrangement fund manager to increase alignment of their stewardship activity with our net-zero targets, leading to the adoption of a new decarbonisation stewardship policy**

The Trustees have further worked closely with BlackRock to further align the LifePath strategy with the Trustees' views on climate voting and engagement. Following this collaboration, BlackRock has adopted its new Climate and Decarbonisation Stewardship Guidelines. This new decarbonisation stewardship policy is anticipated to better align BlackRock's voting and engagement with the Trustees' views. It will see BlackRock engage with companies to encourage them to align with a transition to a low-carbon economy that would aim to limit average global temperature rise to 1.5°C above pre-industrial levels. The creation of these guidelines is a direct result of the Trustees' engagement with BlackRock, as they were among a select few invited to contribute to their formulation. Several of our feedback points from the 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 low carbon economy; and considerations on climate policy alignment. The Trustees will be attentive to measure the effect of the new decarbonisation stewardship policy on improved stewardship alignment from next year's voting season.

- **We improved how we monitor our fund manager's climate policy engagement**

We expect our fund managers to demonstrate practices in line with the IIGCC's Net Zero Stewardship toolkit, which includes climate lobbying criteria, and encourage companies to align lobbying with the [Global Standard on Responsible Corporate Climate Lobbying](#) and the goals of the Paris Agreement. We believe that a voting policy is a transparent mechanism for managers to signal expectations of companies on key environmental and social issues, and should document when they would voice concerns when not enough progress is being made.

In 2024, we sharpened our annual due diligence fund manager questionnaire on climate policy lobbying to reflect this belief. We were pleased to see some of our feedback points from our previous year of monitoring have been incorporated by managers into their practices. In particular, we have witnessed progress on climate, such as providing a clearer framework which publicly discloses a manager's evaluation criteria for climate voting decisions and more focus on holding directors accountable regarding the climate transition. However, we found that there is more to be done on specific developing aspects of responsible investment, including how climate engagement outcomes are tracked, compared to evolving best practices, and support for the effectiveness of public policy engagement (directly and indirectly) with a particular focus on climate. We are already engaging with our managers on these points.

We have also considered the climate policy lobbying performance of portfolio companies as part of our 2024 EoW voting. We are pleased to see some of our key fund managers aligned with our preference to support transparent reporting of alignment on climate-related lobbying activities, and the goals of the Paris Agreement. We continue to engage with managers who voted differently to our EoW relating to climate policy lobbying.

Aegon UK has been recognised as a leader on engaging with fund managers on corporate climate lobbying stewardship practices, as per recent [InfluenceMap](#) assessment.



## *Engagement with other partners*

- **We influenced our main data providers on introducing a net-zero alignment tracking tool**

We are in regular dialogue with our climate data provider MSCI, via Aegon UK, with the aim of improving the data we have access to. Beyond the benefits to the Scheme analysis, we believe communication with our data provider is required to support market-wide decarbonisation. During the Scheme Year, Aegon UK successfully influenced MSCI on introducing a net-zero alignment tracking tool, in line with IIGCC's Net Zero Investment Framework. MSCI took some of Aegon UK's advice to develop its net-zero alignment as a key forward-looking tool to help financial institutions assess their future decarbonisation trajectory. Aegon UK 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, the Trustees, to better monitor the Scheme's decarbonisation trajectories, and will complement our emissions' tracking, which is inherently backwards looking.

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

- **Industry collaboration on climate, and independent acknowledgment of our achievement as well (e.g., InfluenceMap)**

The Trustees recognise the importance of addressing systemic risks such as climate change through effective engagement with the financial industry. We believe we have a responsibility to work together with other asset owners and share perspectives on climate-related issues and solutions to drive real-world change.

Over the past few years, we have been actively involved in several collaborative projects aimed at generating ideas and optimizing asset owner collaboration with fund managers on climate and net-zero engagement. On behalf of the Trustees, Aegon UK, has been active members of the NZAOA engagement track, co-leading discussions and shaping public letters to fund manager CEOs, calling for more outcomes-based engagement, sector/value chain engagement, ambitious climate voting policies, and alignment of climate lobbying activities.

As a member of the Asset Owner Council (AOC) steering committee, Aegon UK has contributed to shaping the meeting agenda and developing stewardship expectations for fund managers. We advocated for a stronger focus on climate policy engagement alignment, participation in collaborative initiatives, sector-based engagement, and systematic approaches to voting and escalation, with a focus on director accountability.

Since 2023, Aegon UK has co-chaired the IIGCC Sovereign Bonds and Country Pathways working group, exploring data, tools, and methodologies for assessing net-zero alignment at the sovereign level. This initiative was important as a significant portion of our investment estate is in harder-to-decarbonize sovereign debt investments. We actively contributed to the development of a discussion paper published in 2024, providing guidance for investors to increase the adoption of sovereign bonds into net-zero strategies.



## Risk management

In this section we:

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

### Identification, assessment and management of climate risks

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

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

- Aegon UK's Risk team maintains an Enterprise Risk Management (ERM) framework, which includes processes to identify risks, assess their impacts and then set appropriate risk appetite, tolerance and policies. The framework is aligned with our views on climate risks, and we are able to make use of results of these exercises, as well as in the in-house knowledge of experts within the Aegon UK Risk team.
- Aegon Group's business environment scan, which captures new and emerging risks which could have a significant impact on the group's financial strength, competitive position or reputation. It functions as a check on the ongoing appropriateness of Aegon's risk universe and can be leveraged by the Scheme to provide input for ongoing strategy development. Climate change and loss of biodiversity are explicitly covered under the business environment scan process.

For more information on Aegon UK risk management framework, please refer to Aegon UK's TCFD report.

We manage climate-related risks through our responsible investment and stewardship activities. Fund manager monitoring, oversight and engagement is a key part of how we manage climate risks. Every year, we send a responsible investment questionnaire to all fund managers. Their answers help us monitor and assess their climate credentials, including how they are managing climate risks. Regular discussions with our fund managers ensure we stay up-to-date and aligned with their approach to climate related risks. At minimum, fund managers must comply with our [climate requirements and voting and engagement](#)



[expectations](#) detailed in our Responsible Investment policy.

## Our Scheme Risk Register

The Aegon UK Risk team reviews the risk ratings on the Scheme Risk Register so the Trustees can take appropriate actions if a specific risk is not on target. Each quarter Aegon UK produces a heat map of any risk(s) that are not on target, with associated commentary for the Trustee Board. The risk identified are:

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

There were no changes to the risk ratings during the Scheme Year. Climate change risk is rated as yellow for the Scheme. This is because of the significant impact of unmitigated climate change on the global economy and associated impact on the Scheme's investments. Both marketing & communication greenwashing risks and fund manager governance greenwashing risks are rated as green for the Scheme. These risks are managed on a day-to-day basis through our investment service provider Aegon UK's Responsible Investment Policy and strategy, its associated monitoring of practices, its responsible investment expertise and its marketing compliance processes. We also manage this risk through our continued training and education.

## Our Climate Risk Dashboard

Isio and Aegon UK provide advice and support to the Scheme's Investment Sub-Committee on maintaining and upgrading the Scheme's Risk Register. Other updates to the Climate Risk Dashboard during the Scheme Year include the addition of a first insight into our new Net Zero Alignment metrics, in line with IIGCC's Net Zero Investment Framework.

The metrics in the Climate Risk Dashboard (table 8) represent the whole Scheme portfolio (Aegon BlackRock LifePath default arrangements, AMT Fund Range and bespoke section), as described in the introduction. Definitions of the metrics used are provided in the metrics and targets section of this document. We recommend considering metrics together rather than drawing conclusions from a single metric, which is unlikely to provide a comprehensive picture<sup>25</sup>.



Table 8: The Scheme Climate Risk Dashboard

Scheme's Climate Risk Dashboard		2022	2023	2024
<b>Absolute emissions metrics</b>				
Absolute emissions	Scope 1 & 2 tonnes CO <sub>2</sub> e	237,680	253,946	247,250
	Scope 3 tonnes CO <sub>2</sub> e	1,538,494	1,634,222	1,781,429
<b>Carbon intensity metrics</b>				
Carbon footprint	Scope 1 & 2 tonnes CO <sub>2</sub> e /£M EVIC	58.5	45.4	37.6
	Scope 3 tonnes CO <sub>2</sub> e /£M EVIC	411.3	325.2	292.3
Weighted average carbon intensity (WACI)	Scope 1 & 2 tonnes CO <sub>2</sub> e / £M sales	n/a	109.8	96.3
	Scope 3 tonnes CO <sub>2</sub> e / £M sales	n/a	829.7	711.7
Sovereign debt carbon intensity	tonnes CO <sub>2</sub> e /£m GDP-PPP	n/a	225.5	177.9
<b>Portfolio alignment metrics</b>				
Implied Temperature Rise Degree Celsius		2.6°C	2.2°C	2.3°C
<b>Additional climate metrics</b>				
Data coverage (% total portfolio)	Scope 1 & 2 Emissions – Estimated (%)	13%	11%	10%
	Scope 1 & 2 Emissions – Reported (%)	59%	66%	68%
	Scope 1 & 2 Emissions – Not covered (%)	27%	23%	23%
	<i>including: sovereign debt coverage</i>	n/a	16%	20%
<b>Other climate metrics</b>				
Net Zero Alignment		n/a	n/a	13.1%
% of investments with approved Sciente Based Target initiative (SBTi) targets (1.5°C aligned net-zero targets)		21.4%	26.3%	27.0%
% of investments aligned with climate opportunities		5.2%	8.5%	9.5%
Investment value-at-risk: (MSCI 2°C NGFS REMIND Disorderly Scenario)	Physical risks	-6.7%	-7%	-5.8%
	Transition risks	-12.7%	-5.2%	-3.3%
	Transition opportunities	0.7%	0.4%	0.2%
	Aggregate Climate risks	-18.7%	-11.7%	-9.2%
<b>Risk self-assessment</b>				
Climate change risk self-assessment		Yellow rating	Yellow rating	Yellow rating
Greenwashing risk self-assessment (marketing and communication)		Yellow rating	Green rating	Green rating
Greenwashing risk self-assessment (fund manager governance)			Green rating	Green rating
<b>Targets monitored</b>				
Commitment #1	Net-zero GHG emissions across Aegon BlackRock LifePath Flexi by 2050			
Ambition #1	Halving emissions across Aegon BlackRock LifePath Flexi by 2030			



Source: Aegon UK using data from MSCI as of 31 December 2024

We note that climate data trends may change as disclosure and data coverage improve. This is still true this Scheme Year. While the Scheme's absolute scope 1 and 2 emissions have dropped compared with last Scheme Year, our scope 3 emissions are still increasing, but to a less extent than our asset under management. Consequently, both the Scheme's scope 1 and 2 and Scope 3 carbon footprint continue to reduce following favourable market moves. We note an increase in Implied Temperature Rise metrics at the Scheme level, which we attribute to rounding effects and market moves rather than a deterioration in the performance of our portfolio companies. We welcome the continuous increase in our exposure to investments with SBTi targets, highlighting that investee companies are adopting net-zero transition plans, and the increase of investments aligned with climate opportunities. We note the decrease in CVaR compared with last year for all scenarios including the one displayed on this Climate Road Dashboard, in particular its physical CVaR component, which we attribute to the model upgrade mentioned earlier in the climate scenario analysis section of this report.

We expand further our analysis on the evolution of metrics for the main default arrangement in the next section.



## Metrics and targets

In this section we set out:

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

### Description of metrics

Monitoring key climate metrics lets us track and manage the impacts of climate change on the Scheme's assets. 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.

The climate metrics and targets in this section apply to the main popular arrangement offered by the Scheme, as specified by the DWP Statutory Guidance. For the Scheme, this is the Aegon BlackRock LifePath Flexi default arrangement. The climate metrics are made available in the appendix for the Scheme's two other popular arrangements, Aegon BlackRock LifePath Capital and Aegon Developed Markets ex-UK equity. We believe that climate metrics are a valuable tool to assess climate-related governance, strategy and risk management across the Scheme and to hold us, as Trustees, accountable to the targets we have set on behalf of our Members.

In table 9 below, 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 three years. This year, we added a new measure of net-zero alignment to the metrics tracked.

Climate data is supplied by MSCI for funds where data is obtainable and where emissions data is available for companies. Reported emission data are subject to lag due to many factors including delays in reporting cycles and our data provider updates us regularly on their progress in completing its full year update cycle. In some cases, company emissions data may be estimated. Climate data, metrics and methodologies continue to evolve, and we expect that reporting frameworks will, in time, become standardised. As a result, reported information may be restated in the future as more and better climate data becomes available, in line with market best practice and regulations. Unless stated otherwise, data are reported as of December 2024, which is the most accurate date available in the Scheme Year considering the lag in receiving fund composition.

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<sup>26</sup>.

- **Scope 1 equity and corporate fixed income emissions** are direct GHG emissions that occur from sources owned or controlled by the reporting company, for example company facilities.

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<sup>26</sup> [PCAF \(2020\). The Global GHG Accounting and Reporting Standard for the Financial Industry \(https://ghgprotocol.org/\)](https://ghgprotocol.org/) First edition, published 2020, accessed February 2024



- **Scope 2 equity and corporate fixed income emissions** are indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company.
- **Scope 3 equity and corporate fixed income 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.

Our reported climate metrics use carbon dioxide equivalents (CO<sub>2</sub>e) as a unit of measurement, which standardises the climate effects of various greenhouse gases<sup>27</sup>. The emissions metrics used are apportioned to Enterprise Value Including Cash (EVIC) expressed in British pounds, meaning that we allocate 'ownership' of GHG emissions across the total capital structure of the issuing company (equity and debt).

Climate data and reporting of emissions information, such as carbon footprint (see description below), is more established for listed equity and corporate fixed income. These are also our most material asset classes, representing over two thirds of the Scheme's asset under management.

For scope 1 and 2 corporate fixed income and equity, most data are based on estimated and reported emissions. However, scope 3 corporate fixed income and equity emissions are mostly estimated by our data provider, MSCI, using its proprietary estimation model, which covers over 8,800 companies, across all Global Industry Classification Standard (GICS) sectors. The estimation model 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>28</sup>.

- We also report on emissions associated with sovereign debt, expressed by the sovereign debt carbon intensity. For sovereign debt, GHG emissions are also split into three distinct groups, as defined by the PCAF and referenced by the IIGCC in its Sovereign Bonds and Country Pathways discussion paper<sup>29</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.

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<sup>27</sup> Department for Work and Pensions (June 2022), [Statutory guidance: Governance and reporting of climate change risk: guidance for trustees of occupational schemes](#)

<sup>28</sup> [A Major Step Forward for Scope 3 Carbon Emissions \(www.msci.com\)](#), published October 2020, accessed February 2024

<sup>29</sup> <https://www.iigcc.org/resources/sovereign-bonds-and-country-pathways-discussion-paper>  
(<https://www.iigcc.org/>), published April 2024, accessed May 2024



Table 9: Description of the climate metrics used for our default arrangement Aegon BlackRock LifePath Flexi

DWP metric category	Climate metrics	Description	Asset classes covered	Emission scopes
Absolute emissions	Total carbon emissions (tonnes CO <sub>2</sub> e)	Measures the carbon emissions for which an investor is responsible by their total overall financing. Emissions are apportioned across all outstanding shares and bonds (% Enterprise value including cash).	Listed equity, real estate investment trusts and corporate fixed income	Scope 1, 2 and 3
Emissions intensity	Carbon footprint (tonnes CO <sub>2</sub> e / £M invested)	Measures the carbon emissions, for which an investor is responsible, per million of British pounds invested, by their total overall financing. Emissions are apportioned across all outstanding shares and bonds (% enterprise value including cash).	Listed equity, real estate investment trusts and corporate fixed income	Scope 1, 2 and 3
Emissions intensity	Sovereign debt carbon intensity (tonnes CO <sub>2</sub> e /£M GDP-PPP)	Measures the scope 1 production emissions of our sovereign debt investments, relative to the amount invested. The emissions for each country are apportioned using gross domestic product (GDP), adjusted for purchasing power parity (PPP), as recommended by the Partnership for Carbon Accounting Financials (PCAF).	Sovereign debt	Scope 1
Additional metric	Data coverage (%)	<p><i>Emissions – Estimated (%)</i>: emissions estimated by MSCI using sector analysis.</p> <p><i>Emissions – Reported (%)</i>: emissions reported directly by companies and collected by MSCI.</p> <p><i>Emissions – Not covered (%)</i>: no scope 1 or 2 emissions data reported/estimated.</p> <p><i>Sovereign debt coverage</i>: proportion of the portfolio invested in sovereign debt with sovereign debt carbon intensity.</p>	All asset classes. Data coverage gaps may result from lack of available data for a particular asset class e.g. sovereign debt or holdings not publishing their emissions' data. Specific data coverage metric applies to sovereign debts	Scope 1 and 2



Portfolio alignment metric	Implied temperature rise	The implied temperature rise, expressed in degrees Celsius (°C), estimates the global implied temperature rise (in the year 2100 or later) if the whole economy had the same carbon budget over-/undershoot level as the fund or portfolio in question.	Listed equity and corporate fixed income (representing over 70% of assets for the default arrangement, see table 12)	
Other climate metric	Net Zero Alignment	This net zero alignment metric <sup>30</sup> is a forward-looking metrics which categorises company's alignment to net-zero based on their stated ambition, targets, emissions performance, disclosure, decarbonisation plans and capital allocation alignment. There are 5 NZIF alignment categories: Achieving Net Zero; Aligned; Aligning; Committed; and Not Aligning.	Listed equity, real estate investment trusts and corporate fixed income	
Other climate metrics	Exposure to SBTi target	The exposure to SBTi target measures the proportion of our investment with companies that have 1.5°C aligned net-zero targets approved by the Science Based Target initiative.	Listed equity, real estate investment trusts and corporate fixed income	
Other climate metrics	Climate opportunities	This metrics tracks the companies identified as "climate solutions" under MSCI "Low Carbon Transition Categories".	Listed equity, real estate investment trusts and corporate fixed income	

## Reported metrics for Aegon BlackRock LifePath Flexi

The Scheme's main default, Aegon Blackrock Lifepath Flexi, is strongly tilted towards listed equity (around 67%), sovereign debt (22%), corporate fixed income (7%) and real estate (4%). Geographically, the Scheme's main default arrangement is primarily invested in the US (over 55%), the UK (over 15%) and Europe excluding the UK (over 12%), as of 31 December 2024. These splits are not applicable to individual Members: exact exposures will vary for each Member depending on the number of years to retirement.

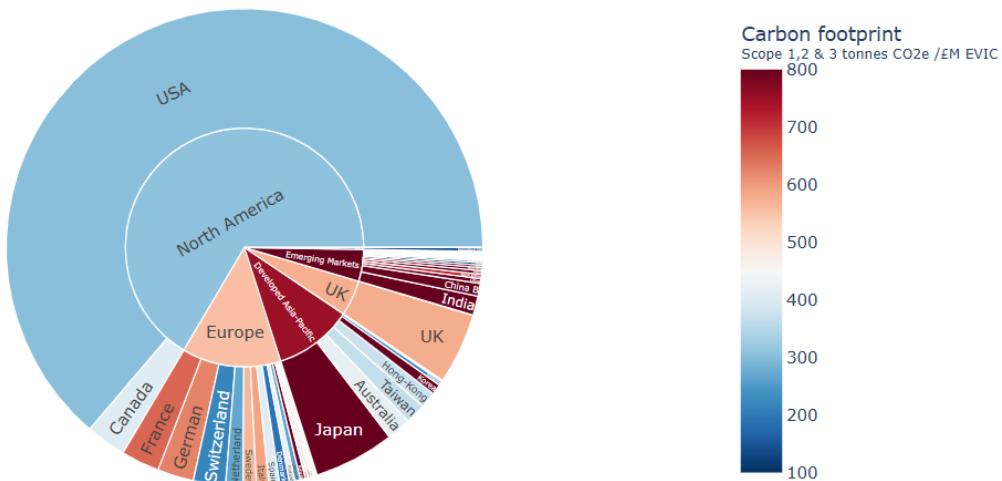
<sup>30</sup> The metrics was developed by MSCI and is based on the Paris Aligned Investment Initiative (PAII)'s Net Zero Investment Framework (NZIF).



Figure 5: Distribution of equity and corporate fixed income assets by country for Aegon Blackrock Lifepath Flexi and corresponding carbon footprint

#### Distribution of assets by country

Equity and corporate fixed income

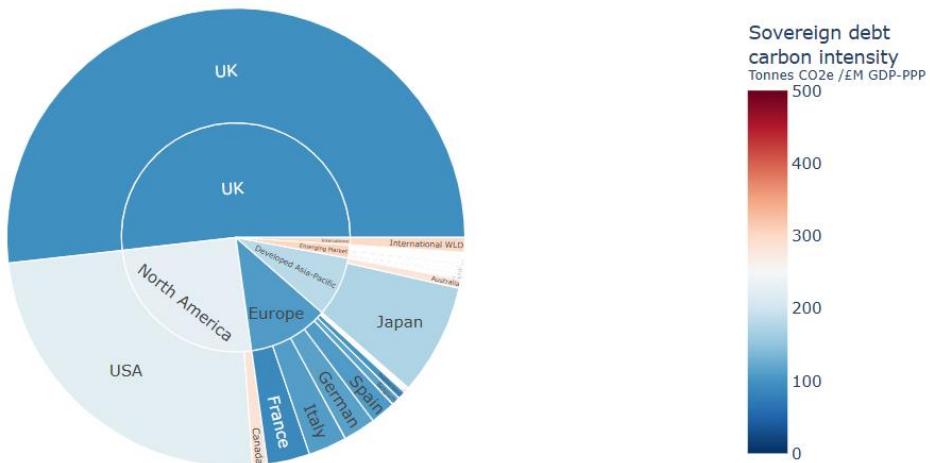


Source: Aegon UK using data from MSCI as of 31 December 2024

Figure 6: Distribution of sovereign debt investments by country for Aegon Blackrock Lifepath Flexi and corresponding sovereign debt carbon intensity.

#### Distribution of assets by country

Sovereign debts



Source: Aegon UK using data from MSCI as of 31 December 2024



Table 10 below summarises the climate metrics for the Scheme's main default arrangement.

Table 10: Climate metrics for Aegon BlackRock LifePath Flexi

Climate metrics		2022/23	2023/24	2024/25
<b>Absolute emissions metrics</b>				
Absolute emissions	Scope 1 & 2 tonnes CO <sub>2</sub> e	198,536	219,829	211,556
	Scope 3 tonnes CO <sub>2</sub> e	1,284,179	1,398,748	1,504,932
<b>Carbon intensity metrics</b>				
Carbon footprint	Scope 1 & 2 tonnes CO <sub>2</sub> e /£M EVIC	56.2	44.9	37.4
	Scope 3 tonnes CO <sub>2</sub> e /£M EVIC	393.5	318.5	287.3
Sovereign debt carbon intensity	tonnes CO <sub>2</sub> e /£M GDP-PPP	n/a	239.1	180.9
<b>Portfolio alignment metrics</b>				
Implied temperature rise (degree Celsius °C)		2.6°C	2.2°C	2.3°C
Net Zero Alignment		n/a	n/a	12.7%
<b>Additional climate metrics</b>				
Data coverage (% total portfolio)	Scope 1 & 2 Emissions – Estimated (%)	14%	11%	10%
	Scope 1 & 2 Emissions – Reported (%)	60%	66%	68%
	Scope 1 & 2 Emissions – Not covered (%)	27%	23%	22%
	including: sovereign debt coverage	n/a	17%	21%

Source: Aegon UK using data from MSCI as of 31 December 2024

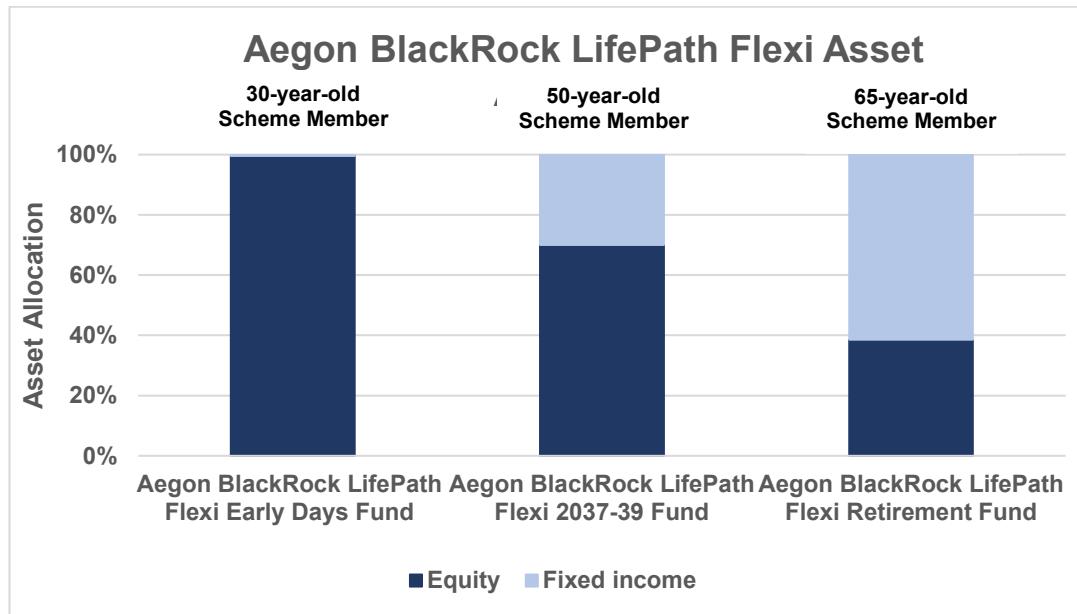
While the above data is helpful to understand the climate profile of the whole of Aegon BlackRock LifePath Flexi and to track progress against our net-zero target, the default arrangement is composed of funds that de-risk as a Member approaches retirement. The stage at which a Member is at in their journey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

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

As a result, climate data will also vary depending on the asset allocation of a portfolio. For example, more ESG screens and/or tilts in growth stages of portfolios with higher allocation to equities is likely to result in a less carbon intensive profile. Similarly, a higher allocation to fixed income during the de-risking /pre-retirement phase is typically associated with a less carbon intensive profile than an early-days Member, who will be more heavily invested in equities. One reason for this may be due to the higher proportion of assets, such as sovereign debt, with no associated carbon footprint. Consequently, we have also mapped the different carbon-intensity profiles of three Members aged 30, 50 and 65 in figure 7 below. This is to demonstrate how carbon footprint metrics vary across different Members depending on the different risk profiles and asset classes they are invested in.



Figure 7: Asset allocation for the individual portfolios of three different Scheme Members invested in the Aegon BlackRock LifePath Flexi default.



Source: Aegon UK using data from MSCI as of 31 December 2024

Table 7: Climate data reflecting the individual portfolios of three different Scheme Members invested in the Aegon BlackRock LifePath Flexi default, including associated emissions' metrics

Aegon BlackRock LifePath Flexi Early Days Fund	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
Scope 1 and 2 emissions coverage	98.0%	99.0%	99.0%	99.0%	98.4%	99.2%
Financed carbon footprint Scope 1 and 2 tonnes CO <sub>2</sub> e/ £M invested EVIC	n/a	76.0	62.0	59.0	48.9	38.7
Financed carbon footprint Scope 3 tonnes CO <sub>2</sub> e/ £M invested EVIC	n/a	n/a	n/a	404.0	333.5	293.6
Sales carbon emissions intensity (Scope 1 and 2 CO <sub>2</sub> e/ £M sales)	208.0	188.0	166.0	139.0	115.2	100.6
Sales carbon emissions intensity (Scope 3 CO <sub>2</sub> e/ £M sales)	n/a	n/a	n/a	945.0	794.8	703.2
Sovereign debt carbon intensity (tonnes CO <sub>2</sub> e /£M GDP-PPP)	n/a	n/a	n/a	n/a	342.3	196.6
Aegon BlackRock LifePath Flexi 2037-39 Fund	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
Scope 1 and 2 emissions coverage	67%	68%	67%	75%	78.9%	77.9%
Financed carbon footprint Scope 1 and 2 tonnes CO <sub>2</sub> e/ £M invested EVIC	n/a	74	58	56	44.7	37.9
Financed carbon footprint Scope 3 tonnes CO <sub>2</sub> e/ £M invested EVIC	n/a	n/a	n/a	389	315.4	288.2
Sales carbon emissions intensity (Scope 1 and 2 CO <sub>2</sub> e/ £M sales)	226	192	166	138	109.8	96.5
Sales carbon emissions intensity (Scope 3 CO <sub>2</sub> e/ £M sales)	n/a	n/a	n/a	937	826.0	705.5
Sovereign debt carbon intensity (tonnes CO <sub>2</sub> e /£M GDP-PPP)	n/a	n/a	n/a	n/a	187.8	181.9
Aegon BlackRock LifePath Flexi Retirement Fund	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
Scope 1 and 2 emissions coverage	43%	47%	48%	48%	45.7%	44.5%



Financed carbon footprint Scope 1 and 2 tonnes CO <sub>2</sub> e/ £M invested EVIC	n/a	72	57	53	39.6	33.3
Financed carbon footprint Scope 3 tonnes CO <sub>2</sub> e/ £M invested EVIC	n/a	n/a	n/a	375	318.4	293.9
Sales carbon emissions intensity (Scope 1 and 2 CO <sub>2</sub> e/ £M sales)	242	198	178	141	95.5	84.4
Sales carbon emissions intensity (Scope 3 CO <sub>2</sub> e/ £M sales)	n/a	n/a	n/a	976	876.7	718.9
Sovereign debt carbon intensity (tonnes CO <sub>2</sub> e /£M GDP-PPP)	n/a	n/a	n/a	n/a	183.0	167.6

Source: Aegon UK using data from MSCI as of 31 December 2024

## Analysis and limitations of climate metrics

We have reflected on 2024 metrics versus 2023 for Aegon BlackRock LifePath Flexi.

### Absolute emissions and data coverage

We note that total absolute emissions have increased while carbon footprint has decreased compared to last year. This increase in total absolute emissions can be explained in part by an increase in the size of the Scheme. While the Trustees welcome the reduction in Scope 1& 2 emissions, they encourage corporates to also address their scope 3 emissions.

Table 12 illustrates the data coverage split by asset classes for our portfolio and the efforts from Aegon UK, in collaboration with our data provider and fund managers, to continuously improve data coverage of the Scheme.

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

Table 8: Data coverage per asset classes for Aegon BlackRock LifePath Flexi

Asset classes	Data coverage measurement:	Aegon BlackRock LifePath Flexi	
		% coverage	% AUM
Equity	Scope 1 and 2 emissions covered in %	99.7%	66.8%
Sovereign debt	Sovereign debt carbon intensity	99.8%	21.7%
Corporate fixed income	Scope 1 and 2 emissions covered in %	99.0%	6.9%
Others (Funds, asset-backed securities)	Scope 1 and 2 emissions covered in %	6.2%	0.0%
Cash and equivalent	Scope 1 and 2 emissions covered in %	0.0%	0.5%



Real estate	Scope 1 and 2 emissions covered in %	99.9%	4.1%
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Source: Aegon UK using data from MSCI as of 31 December 2024

### *Interpretation of the carbon emission attribution analysis*

We observe a significant drop in carbon footprint, across scope 1 and 2 and scope 3 between 2023 and 2024 Scheme Years despite the increase in scope 3 absolute emissions. This drop can be attributable to several factors using the emissions' attribution analysis methodology issued by the Net Zero Asset Owner Alliance to analyse the drivers of the change observed year on year. This analysis highlights that the most significant contributors to the reduction in the Scheme's Scope 1 and 2 carbon footprint over the last Scheme Year were:

- overall favourable market movements, which translated into higher enterprise value including cash values,
- passive changes in relative allocation to companies due to market movements and index rebalancing, resulting in increased or decreased relative investments in particular companies compared with last year,
- reduction in companies reported and estimated scope 1 and 2 emissions.

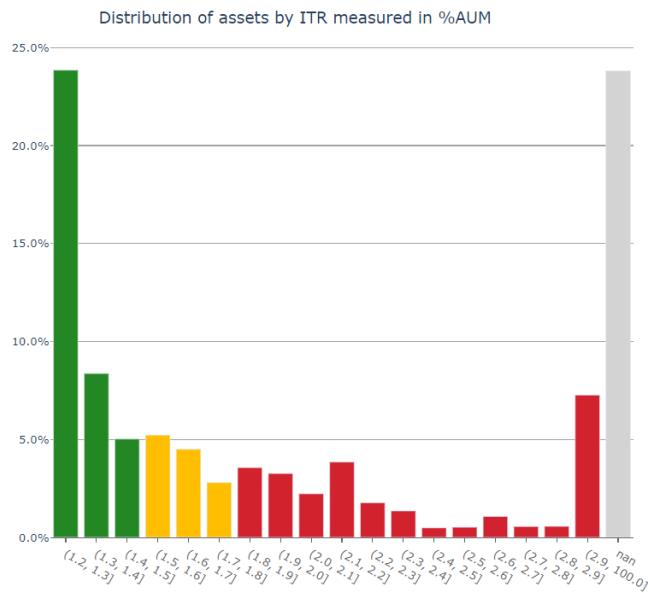
We interpret the effects of changes in allocation on the carbon footprint as a result of the tilts and screens implemented at building block level, as well as increased valuation of companies in the Energy and Material sectors, following favourable market movements. Our emission attribution analysis highlights that, during the Scheme Year, the actual carbon emissions of the assets held have had a positive effect on the Scheme's overall carbon footprint. This implies that overall, companies we are invested in did reduce their own emissions. While true for scope 1 and 2 carbon footprint, we observe the opposite effect on Scope 3, highlighting that companies may have prioritised the reduction of direct emissions over their scope 3 emissions.

### *Additional analysis*

We note that the Scheme's main default arrangement is exposed to a diverse range of assets, some of which are aligned to a world below 1.5°C (as measured by MSCI implied temperature rise metric), but significant part of the fund's assets are pointing towards a 2°C or above trajectory. Figure 8 summarises the breakdown of assets by buckets of implied temperature rise scores. The Scheme's slight increase in ITR against last year's value is attributable to market movements rather than a change in the composition of assets held or of the assets' improved alignment with a world below 1.5°C.



Figure 8: Distribution of assets by implied temperature rise (ITR) measured in %AUM for Aegon Blackrock Lifepath Flexi



Source: Aegon UK using data from MSCI as of 31 December 2024

This Scheme Year we introduced a forward-looking metrics assessing companies' alignment with net-zero objectives. Several criteria are used to estimate how companies are aligned to net zero, from companies' stated ambitions, targets and emissions performance, to disclosure, decarbonisation plans and capital allocation alignment. Using these elements as input, companies are assessed in five alignment categories, as per Figure 9:

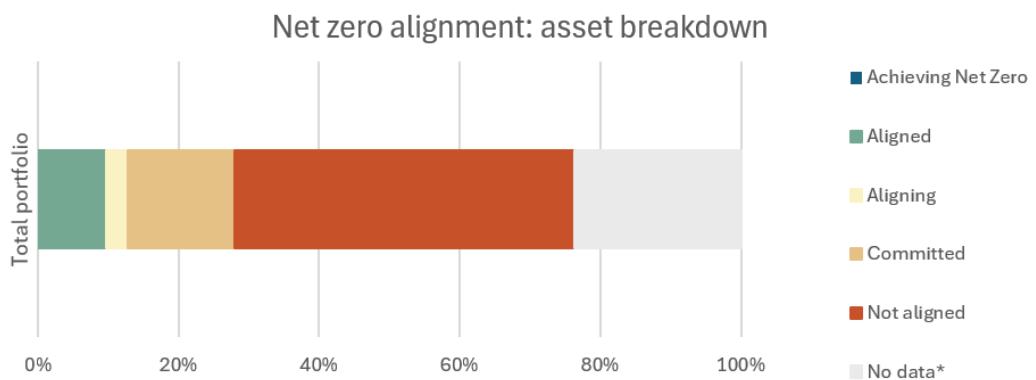


Figure 9: Net-zero alignment of Aegon Blackrock Lifepath Flexi by AUM

### Reflections on limitations

Finally, we remain mindful of key limitations to current data, as per the below:



- We are reporting data for sovereign debt following the industry guidance on sovereign debt issued by the Partnership for Carbon Accounting Financials (PCAF)<sup>31</sup>. However, we note the metric differs from other asset class which limits its comparability.
- We do not have access to an in-depth view of the Scheme's investments prior to 2022. For prior years, we rely on data estimated by Aegon UK and converted from USD into GBP.
- The quality of reported or estimated emissions data may vary:
  - MSCI do not verify emissions data, and their estimated emissions are based on companies within a sector that self-reports. Consequently, there may be some inaccuracies in the reported emissions data used to calculate the above metrics. There is currently no industry-wide company emissions auditing and common standard.
  - We acknowledge that widespread scope 3 emission reporting will take time. While the disclosure of scope 3 emission data is improving, there remains some concerns, including that companies in the same sector may report on different scope 3 factors making comparison across different companies challenging. In addition, a company may change what scope 3 emissions it chooses to include in their reported emissions from one year to another. We are exploring the development of MSCI's new scope 3 combined methodology to leverage the best of both reporting schemes and estimation models and improve confidence in our scope 3 reporting.
- We understand there are limitations regarding the calculation of implied temperature rise, in particular the definition of each companies' respective carbon budget. We welcome the future extension of this forward-looking metrics to sovereign debts.
- Our Net Zero Alignment metrics would be more exhaustive if it covered sovereign bonds, an evolution suggested to our data provider.

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

We recognise there is more to do to enhance our reporting capabilities. We will therefore continue to challenge Aegon UK and our data provider on the above, as well as contribute where possible to developing industry methodologies. We welcomed the year-on-year improvement in our analytical capabilities, in particular the granular view of the physical risk for our climate scenario analysis and the addition of a new net-zero alignment metric. This level of insight allows us to assess our progress with more confidence as we set our future strategy and better identify where improvements on climate are needed. Regardless, greater transparency and consistency of emissions reporting would benefit comparability and progress across the industry<sup>32</sup>.

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<sup>31</sup> Partnership for Carbon Accounting Financials (December 2022), [The Global GHG Accounting and Reporting Standard for the Financial Industry](#)

<sup>32</sup> Defined Contribution Investment Forum, [The First Wave](#)



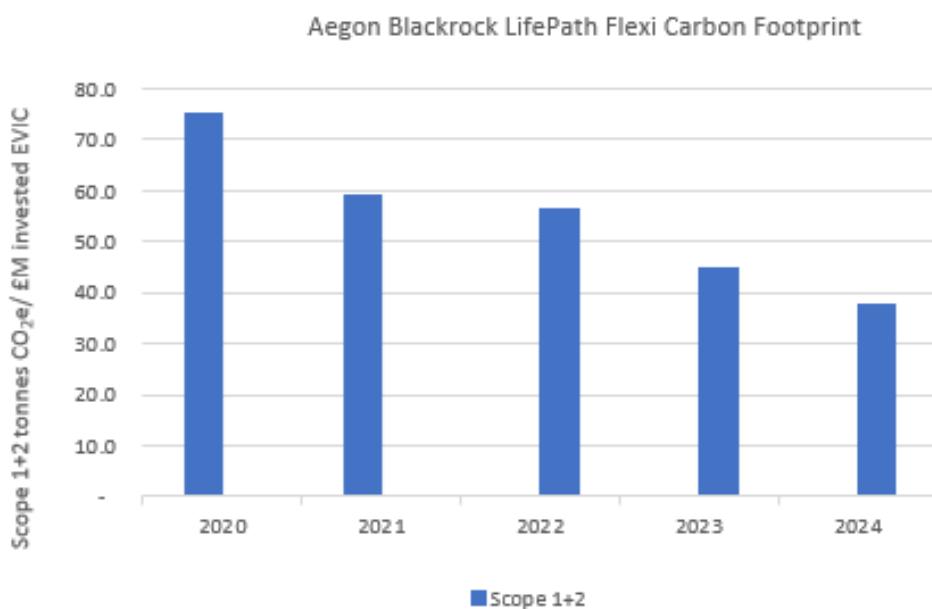
## Progress against our net-zero targets

We have committed our main default arrangement to have net-zero greenhouse gas emissions by 2050. Furthermore, our medium-term net-zero target is to halve the carbon footprint of this fund by 2030 against our baseline, measured in tonnes of CO<sub>2</sub> equivalent per millions of pounds invested using EVIC.

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

The progress being made in relation to Aegon BlackRock LifePath Flexi 2050 net-zero target is shown in figure 10 below, as of 31 December 2024. We estimate that the fund has reduced its carbon footprint by 50% between 2020 and 2024<sup>33</sup>. We are thus projecting to meet our target to halve the fund's scope 1 and 2 footprint by 2030. Our emissions attribution analysis indicates that the reduction comes mainly from allocation changes (72.5% of our default arrangement, Aegon BlackRock LifePath Flexi has ESG screens and/or tilts, as of December 2024) and market movements, with increases in asset valuations for some sectors since 2020. This analysis is crucial in helping us better identify the impacts and limits of our investment decisions. It also highlights how our stewardship and policy advocacy will be key to achieve our overall net-zero target.

Figure 10: Estimated evolution of Aegon BlackRock LifePath Flexi since 2020



Source: Aegon UK using data from MSCI as of 31 December 2024

<sup>33</sup> Scope 1 and 2 emissions for listed equities and corporate fixed income only, as per the scope of our current target



We use a 2020 baseline calculated by Aegon UK. We recomputed the data for 2021 to align with the methodology used to calculate the 2020 baseline, hence the difference with data reported in our previous TCFD reports.

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

We observe variability in Aegon BlackRock LifePath Flexi's scope 3 carbon footprint, which we tentatively estimate has reduced by 28% over the 2020-2024 period whilst coverage has marginally increased from 77.4% to 77.7%. In the coming Scheme Year, we are looking to reinforce our baseline methodology and confidence in estimated scope 3 emissions.

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

## Looking ahead

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

We will continue to:

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

While we are on track to meet our 2030 targets, we believe these are still valid due to the variability of the metrics used, and the major contribution of EVIC to the reduction in carbon footprint. We will discuss complementing or evolving these targets in the coming Scheme Year and leverage on Aegon UK's own climate roadmap revision.

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

- Accrued alignment between our stewardship objectives and our main fund manager, embodied by Blackrock's Climate and Decarbonisation Stewardship Guidelines which will be implemented for the first year in 2025,
- Continuing to upskill ourselves on emerging areas related to climate change, such as links to biodiversity loss, so we can improve how these are addressed in our investment strategy,
- Engaging and challenging our fund managers on how they can further support the decarbonisation of the Scheme's default arrangement,



- Evolving the Scheme and the main default arrangements to further support our decarbonisation target.

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



## Appendix 1: Climate metrics for Aegon BlackRock LifePath Capital

Table 13: Climate metrics for Aegon BlackRock LifePath Capital

Climate metrics		2024/25
<b>Absolute emissions metrics</b>		
Absolute emissions	Scope 1 & 2 tonnes CO <sub>2</sub> e	7,608
	Scope 3 tonnes CO <sub>2</sub> e	53,554
<b>Carbon intensity metrics</b>		
Carbon footprint	Scope 1 & 2 tonnes CO <sub>2</sub> e /£M EVIC	37.6
	Scope 3 tonnes CO <sub>2</sub> e /£M EVIC	287.8
Sovereign debt carbon intensity	tonnes CO <sub>2</sub> e /£M GDP-PPP	180.9
<b>Portfolio alignment metrics</b>		
Implied temperature rise (degree Celsius °C)		2.3°C
Net Zero Alignment		11.3%
<b>Additional climate metrics</b>		
Data coverage (% total portfolio)	Scope 1 & 2 Emissions – Estimated (%)	8.6%
	Scope 1 & 2 Emissions – Reported (%)	58%
	Scope 1 & 2 Emissions – Not covered (%)	33.4%
	<i>including: sovereign debt coverage</i>	14.3%

Source: Aegon UK using data from MSCI as of 31 December 2024

## Appendix 2: Scenario analysis for Aegon BlackRock LifePath Capital

Table 149: Scenario analysis output for Aegon BlackRock LifePath Capital, as of December 2024

Aggregated Climate VaR	Orderly transition (1.5°C)	Disorderly transition (2.0°C)	Failed transition (4°C)
<b>Aegon BlackRock LifePath Capital</b>	<b>-7.5%</b>	<b>-9.4%</b>	<b>-14.4%</b>
Equity and corporate fixed income	-8.8%	-10.0%	-17.6%
Sovereign bonds	-1.6%	-1.3%	-0.0%

Source: Aegon UK using data from MSCI as of 31 December 2024



Under the three scenarios discussed, expected returns are lower than the 'climate-uninformed' baseline<sup>34</sup> because of the negative climate risk effects over time. In short, scenarios projecting higher temperature have the worst impact on the portfolio's expected return. For equity and corporate fixed income:

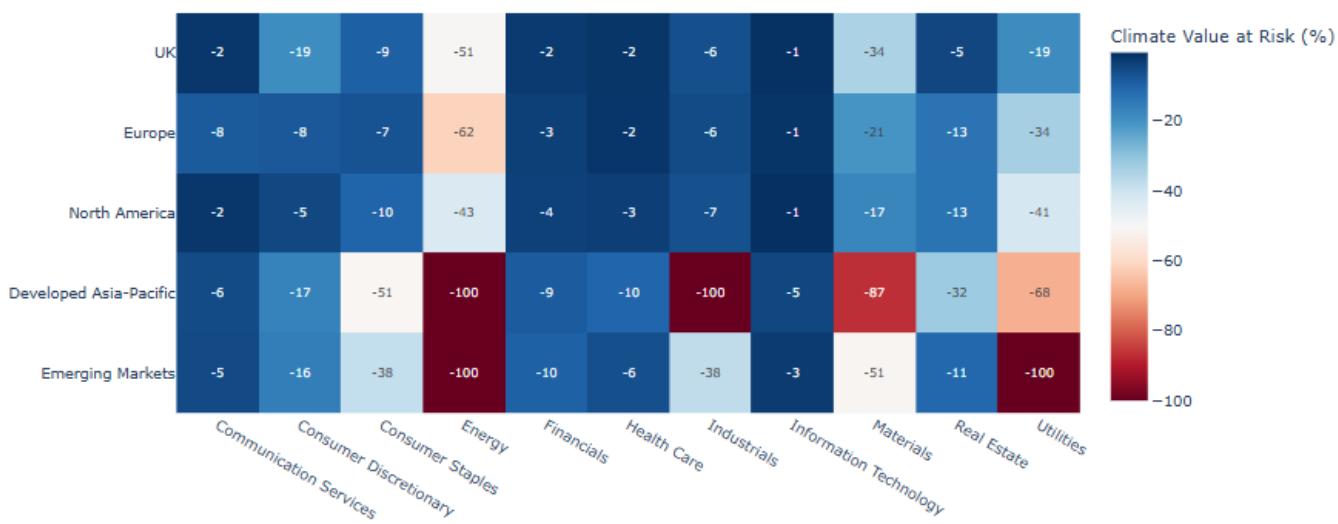
- In an orderly transition scenario, the transition risks translate into medium impact on expected returns, while physical risks are less impactful.
- Under a disorderly transition scenario, the negative effects of regulations on expected returns are lifted and partially offset by high physical risks.
- Under a failed transition scenario, the transition risks are minimal but physical risks drive expected returns much lower.

For sovereign bonds, we observe marginally lower expected returns, which are driven by transition risks. Under a failed transition scenario, we observe practically no impact on expected returns from transition risks. We note physical risks are mostly ignored from this model, which is a limitation.

Overall, the data suggests that significant changes in policy, investment and behaviour will be necessary to change global warming trajectory to a Paris-aligned outcome. However, if the transition materialises, significant changes in financial markets over the coming decades are likely, which in turn could have a material impact on this arrangement investments.

Figure 11: Climate VaR per GICS sector and region for Aegon Blackrock Lifepath Capital under a disorderly transition (2.0°C) scenario

CVaR per country and sector



Source: Aegon UK using data from MSCI as of 31 December 2024

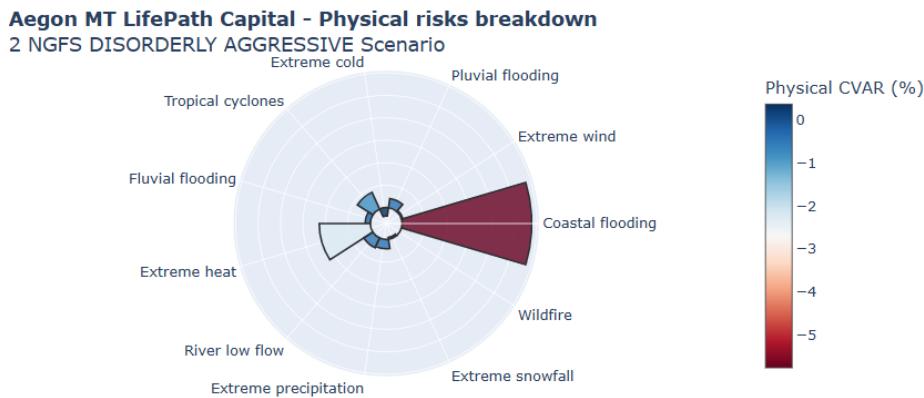
Regardless of the region, the Energy, Utilities and Materials sectors offer the higher risks, while the Emerging Markets and developed Asia-Pacific zone seems more exposed than other zones.

<sup>34</sup> The Climate VaR measure is relative to a baseline scenario which is 'climate-uninformed', i.e. one where existing policies and past physical impacts are assumed to have been priced in by markets, but no future transition policies or physical risks are accounted for.



We explored the breakdown of physical risks to understand which were more relevant to the Scheme main default arrangement. We observe that under a 2.0°C NGFS aggressive scenario, coastal flooding is by far the strongest contribution to physical risks, followed by extreme heat.

Figure 12: Breakdown of physical risks for Aegon BlackRock LifePath Capital under a disorderly transition (2.0°C) scenario



Source: Aegon UK using data from MSCI as of 31 December 2024

Members at different stages of their journey will naturally be exposed differently to climate risks. Table 15 details the output of our three scenarios for three Members are different stages in their journey.

Table 1510: Scenario analysis output for Aegon BlackRock LifePath Capital sample vintage, as of December 2024

Aggregated Climate VaR	Orderly transition (1.5°C)	Disorderly transition (2.0°C)	Failed transition (4°C)
<b>Member at early days of career (Aegon BlackRock LifePath Capital Early Days fund)</b>	<b>-9.4%</b>	<b>-10.5%</b>	<b>-18.2%</b>
<b>Member 15 years to retirement (Aegon BlackRock LifePath Capital 2037-39 fund)</b>	<b>-7.1%</b>	<b>-9.1%</b>	<b>-13.5%</b>
<b>Member at retirement (Aegon BlackRock LifePath Capital Retirement fund)</b>	<b>-4.1%</b>	<b>-7.3%</b>	<b>-7.2%</b>

Source: Aegon UK using data from MSCI as of 31 December 2024

The further away from retirement a Member is, the higher the allocation to Equity and the higher the exposure to physical risks. The closer to retirement a Member is, the higher the exposure to Sovereign bonds which, under our current model, are not impacted by Physical risks and marginally impacted by transition risks.



## Appendix 3: Climate metrics for Aegon Developed Markets ex-UK equity

Table 16: Climate metrics for Aegon Developed Markets ex-UK equity

Climate metrics		2024/25
<b>Absolute emissions metrics</b>		
Absolute emissions	Scope 1 & 2 tonnes CO <sub>2</sub> e	5,520
	Scope 3 tonnes CO <sub>2</sub> e	43,796
<b>Carbon intensity metrics</b>		
Carbon footprint	Scope 1 & 2 tonnes CO <sub>2</sub> e /£M EVIC	31.8
	Scope 3 tonnes CO <sub>2</sub> e /£M EVIC	273.4
Sovereign debt carbon intensity	tonnes CO <sub>2</sub> e /£M GDP-PPP	203.1
<b>Portfolio alignment metrics</b>		
Implied temperature rise (degree Celsius °C)		2.4°C
Net Zero Alignment		17.5%
<b>Additional climate metrics</b>		
Data coverage (% total portfolio)	Scope 1 & 2 Emissions – Estimated (%)	11.7%
	Scope 1 & 2 Emissions – Reported (%)	87.4%
	Scope 1 & 2 Emissions – Not covered (%)	0.9%
	<i>including: sovereign debt coverage</i>	0.0%

Source: Aegon UK using data from MSCI as of 31 December 2024

## Appendix 4: Scenario analysis for Aegon Developed Markets ex-UK equity

Table 1711: Scenario analysis output for Aegon Developed Markets ex-UK equity, as of December 2024

Aggregated Climate VaR	Orderly transition (1.5°C)	Disorderly transition (2.0°C)	Failed transition (4°C)
<b>Aegon Developed Markets ex-UK equity</b>	<b>-8.5%</b>	<b>-8.1%</b>	<b>-13.7%</b>
Equity and corporate fixed income	-8.5%	-8.1%	-13.7%
Sovereign bonds	n/a	n/a	n/a

Source: Aegon UK using data from MSCI as of 31 December 2024



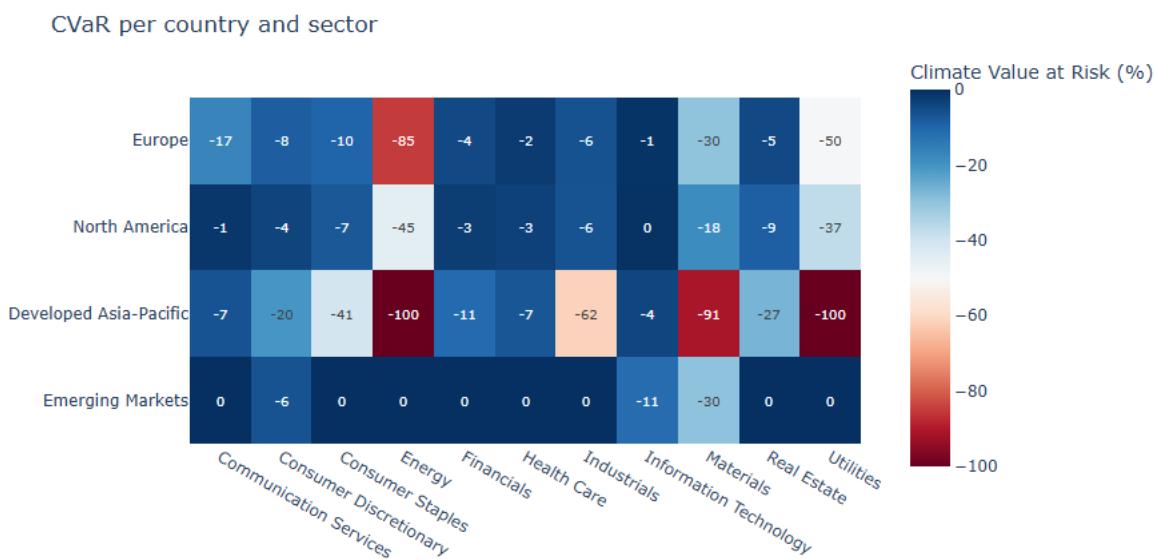
Under the three scenarios discussed, expected returns are lower than the 'climate-uninformed' baseline<sup>35</sup> because of the negative climate risk effects over time. In short, scenarios projecting higher temperature have the worst impact on the portfolio's expected return. For equity and corporate fixed income:

- In an orderly transition scenario, the transition risks translate into medium impact on expected returns, while physical risks are less impactful.
- Under a disorderly transition scenario, the negative effects of regulations on expected returns are lifted and partially offset by high physical risks.
- Under a failed transition scenario, the transition risks are minimal but physical risks drive expected returns much lower.

The portfolio has no exposure to sovereign bonds.

Overall, the data suggests that significant changes in policy, investment and behaviour will be necessary to change global warming trajectory to a Paris-aligned outcome. However, if the transition materialises, significant changes in financial markets over the coming decades are likely, which in turn could have a material impact on the Scheme's investments.

*Figure 12: Climate VaR per GICS sector and region for Aegon Blackrock Lifepath Capital under a disorderly transition (2.0°C) scenario*



Source: Aegon UK using data from MSCI as of 31 December 2024

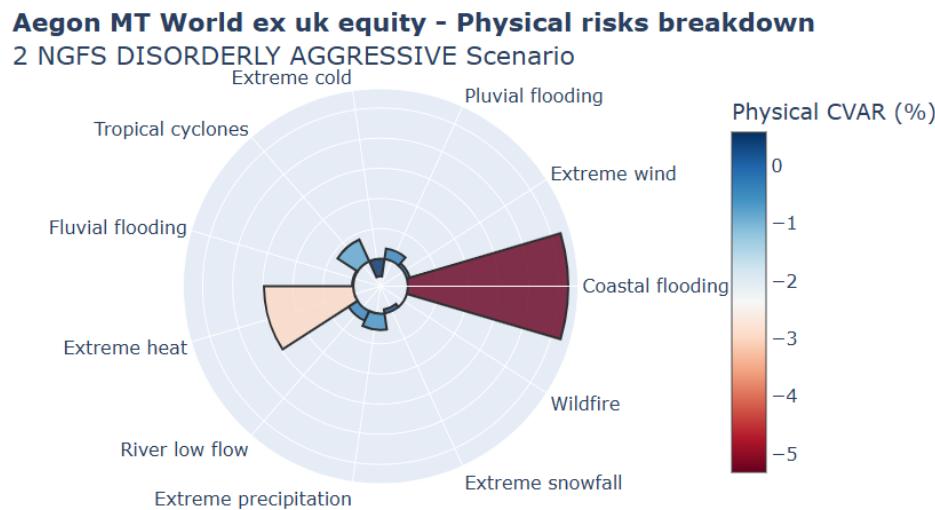
Regardless of the region, the Energy, Utilities and Materials sectors offer the higher risks, while the Emerging Markets and developed Asia-Pacific zone seems more exposed than other zones.

<sup>35</sup> The Climate VaR measure is relative to a baseline scenario which is 'climate-uninformed', i.e. one where existing policies and past physical impacts are assumed to have been priced in by markets, but no future transition policies or physical risks are accounted for.



We explored the breakdown of physical risks to understand which were more relevant to the Scheme main default arrangement. We observe that under a 2.0°C NGFS aggressive scenario, coastal flooding is by far the strongest contribution to physical risks, followed by extreme heat.

Figure 13: Breakdown of physical risks for Aegon Blackrock Lifepath Capital under a disorderly transition (2.0°C) scenario



Source: Aegon UK using data from MSCI as of 31 December 2024

Since this arrangement is not subject to lifestyling, Members at different stages of their journey will be exposed similarly to climate risks.



## Appendix 5: Assumptions underpinning our 1.5°C orderly scenario

The table below outlines the assumptions underpinning our 1.5°C orderly scenario, 2°C disorderly and 4°C failed transition scenarios in the strategy section<sup>36</sup>.

		1.5°C orderly scenario	2°C disorderly scenario	4°C failed transition scenario
World population	Peak year in 2100 (million)	2070 9019	2070 9019	2070 8990
GDP	Real GDP growth 2010-2100 (CAGR)		2%	2% 2.3%
Electricity generation by fuel source	2030 energy mix	% renewables % nuclear % gas % coal	72% 6% 17% 4%	41% 6% 26% 28% 30% 18% 21% 31%
	2050 energy mix	% renewables % nuclear % gas % coal	94% 3% 3% 0%	94% 4% 3% 0% 50% 15% 15% 20%
Carbon sequestration (MtCO <sub>2</sub> /year)	Uptake (surpasses 5000 Mt/year) Carbon sequestration peak (Mt/year)		2037 8779	2050 5926 2055 12311
Low-carbon fuel sources in transport	2050 low carbon fuel sources (%)		26%	26% 4%
GHG emissions	Peak year 90% reduction achieved by Zero emissions achieved by Annual change - 2020-2030 (Compound Annual Growth Rate) Annual change - 2020-2050 (Compound Annual Growth Rate)		2020 2045 2055 -7.1% -11.7%	2030 2049 2060 0.7% -8.1% 2020 n/a n/a -0.4% -0.7%

<sup>36</sup> MSCI ESG Research LLC (March 2022), Introduction to the Integrated Assessment Models and Shared Socioeconomic Pathways



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