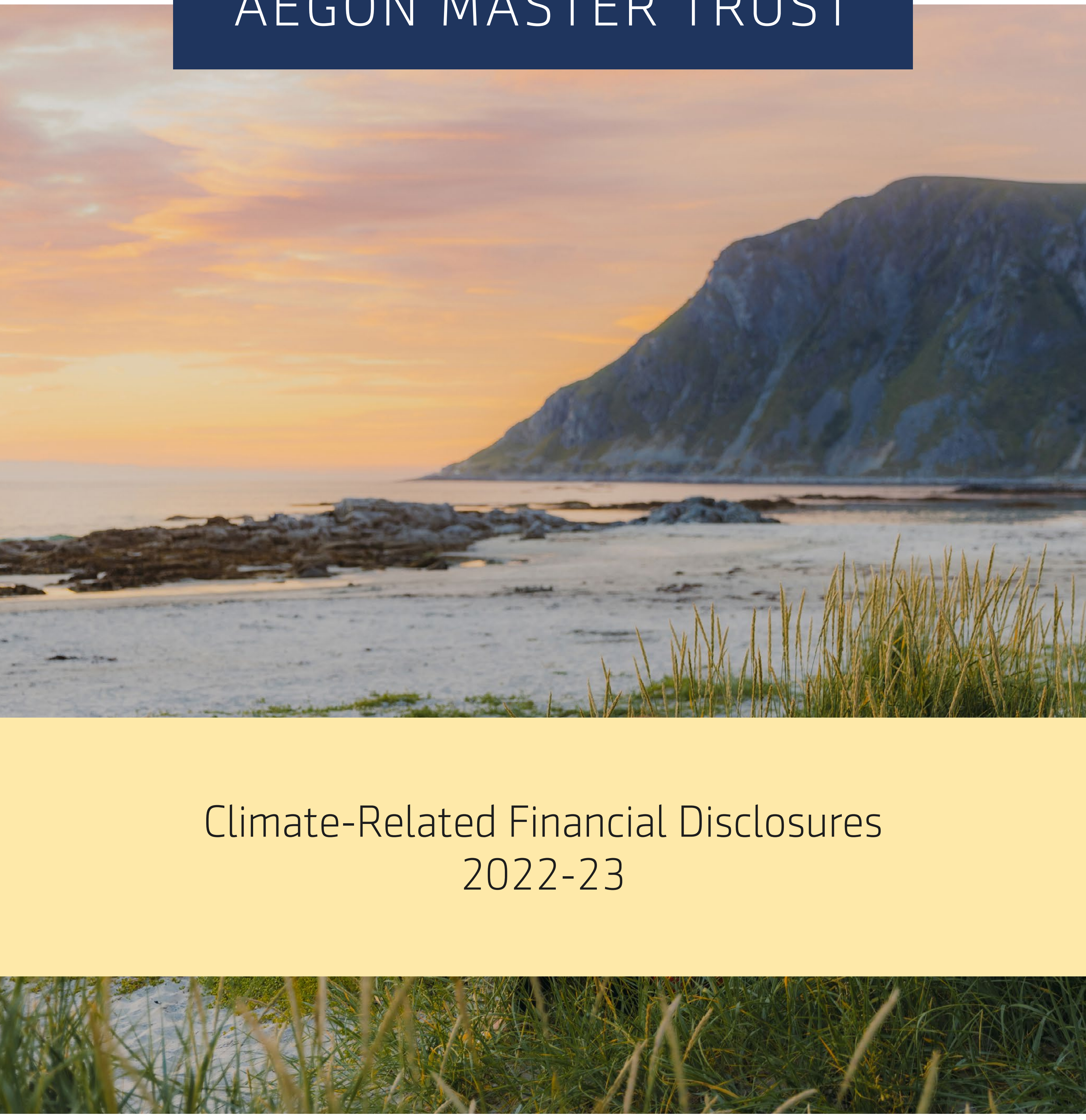
AEGON MASTER TRUST



Climate-Related Financial Disclosures
2022-23

Glossary

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

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

Climate Value-at-Risk: CVaR is a forward-looking and return-based valuation assessment, used to measure the potential financial impacts of climate risks and opportunities on our portfolio under different transition scenarios.

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

Engagement: Purposeful, targeted communication with an entity (e.g. company, government, industry body, regulator) on particular matters of concern with the goal of encouraging change at an individual issuer and/or the goal of addressing a market-wide or systemic risk such as climate change. Regular communication to gain information as part of ongoing research should not be counted as engagement.

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

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

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

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.

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

Pathways: A set of emissions and technology-reduction trajectories that can be used to evaluate progress and targets of investments against the goal of global net-zero emissions.

Physical risks: Financial losses resulting from more frequent or severe weather events that damage physical assets like infrastructure, buildings and supply chains.

Pooled fund: Funds in a portfolio from many individual investors that are aggregated for the purposes of investment.

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

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

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

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

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

Transition risks: Political, legal, technological, market-related and reputational risks coming from the low-carbon transition.

Foreward from Ian Pittaway, Chairman of the Aegon Master Trust Board

It is a pleasure to introduce the second Aegon Master Trust (the 'Scheme') climate-related financial disclosure, our Task Force on Climate-Related Financial Disclosures report, covering the period 1 April 2022 – 31 March 2023 (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. For us it is a time of reflection on what we have achieved in the Scheme Year, from updating our responsible investment beliefs on climate, to engaging with our asset managers on our net-zero expectations and influencing our main asset manager into adopting their decarbonisation target. In addition, I am proud that we have undertaken a thorough review of our Scheme self-select fund range. This will provide more investment options to members of the Scheme (referred to as 'Members' within this report) who wish to have more of a focus on sustainability or environmental, social and governance (ESG) factors.

Whilst we have made significant progress on identification and management of climate risks and opportunities in the last year, international policy has reminded us that climate change is already here with widespread repercussions for economies and the world at large. The United Nations Climate Change Conference (COP27) held in Sharm el-Sheikh in 2022 concluded with a historic decision to establish and operationalise a loss and damage fund to provide financial assistance to countries most affected by climate change. This acknowledges a long-time request from developing countries. The decision is a step towards climate justice but United Nations Secretary-General António Guterres reiterated that more needs to be done to drastically reduce emissions now by saying that "the world still needs a giant leap on climate ambition". Following COP27, the United Nations Biodiversity Conference (COP15), held in Montreal, ended with a landmark agreement to protect 30% of the world's land and ocean by 2030. We welcomed the attention brought to that issue, as we consider biodiversity as a key topic under our climate change engagement theme.

The Scheme is seeking to align with the international scientific consensus by aiming to reduce greenhouse gas emissions for our largest default arrangement, Aegon BlackRock LifePath Flexi, by 50% by 2030 against a 2019 baseline, and for it 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.

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. We also welcome further regulatory scrutiny to ensure net-zero alignment and better climate-related disclosures from master trusts. I hope this report gives a good sense of where the Scheme is on its decarbonisation journey.

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')[2].

Climate change represents an existential threat[3] and has already been disrupting financial markets[4] and traditional systems of governance, with real-life impacts for our Members[5]. 2022 was a record-breaking year in the UK weather-wise, with heat waves and prolonged drought[6]. The Scheme offers a range of funds to help Members save for retirement, which are suitable for those of different ages, different risk attitudes and different retirement benefit plans. As the Trustees, we consider it our fiduciary duty to embed climate stewardship in the investments we make available to our Members. In doing so, we aim to be able to proactively address climate-related financial risks, as well as contribute to the transition to a low-carbon economy and net-zero world.

In order to limit global warming to 1.5°C by the end of the century, as outlined in the Paris Agreement, economies must reach net zero CO2 emissions by 2050[7]. For a pension scheme, this will require the decarbonisation of investment portfolios over this time horizon or sooner, which has previously informed our decision to set a 2050 net-zero target for our main default arrangement. Looking after the future financial wellbeing of our Members also means protecting the world they will live in when they access their pension savings. Pension asset owners are uniquely placed to support a systemic climate transition in the real economy, by addressing climate issues with asset managers and prioritising net zero goals. The existing integration of ESG factors into the Scheme's investments provides a foundation for structuring additional climate resilience into our portfolio. We are now in the process of building our Scheme's governance, investment strategy and management systems around climate risk and opportunities.

We have begun this journey by committing our main Scheme default arrangement, Aegon BlackRock LifePath Flexi, to net- zero greenhouse gas emissions by 2050 and to halve its carbon footprint by 2030, against 2019 levels. Our climate-related disclosure report provides an overview of the governance, strategy, risk management, metrics and targets employed to inform and continue to develop the Scheme's response to climate change. We are encouraged by the progress we have made during the Scheme Year, introducing new responsible investment beliefs, setting new climate expectations for our asset managers and enhancing our voting and engagement approach. We are working towards our medium-term 2030 target: we are particularly proud of having successfully increased the alignment with BlackRock, by advocating for BlackRock to formalise its own emissions' reduction target for BlackRock LifePath. The main climate-related achievements for the Scheme Year are listed below.

2. Department for Work and Pensions, Statutory guidance: Governance and reporting of climate change risk: guidance for trustees of occupational schemes
3. 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
4. European Central Bank, Occasional Paper Series: Climate change and monetary policy in the euro arena (September 2021) pp 29-31, Climate change and monetary policy in the euro area
5. Department for Environment, Food and Rural Affairs (January 2022), UK Climate Change Risk Assessment
6. Met Office Press Office (February 2023), Working for climate resilience within the UK water sector
7. Intergovernmental Panel on Climate Change (2023), Synthesis Report of the Sixth Assessment Report

Governance

- We reviewed our ESG beliefs which we now call responsible investment beliefs. They now include specific references to the low-carbon transition, net zero and how we view key drivers of change, such as voting and engagement, and industry collaboration.
- We undertook training on climate-related risks and Scheme positioning, including benchmarking of our previous TCFD report, and risks and opportunities related to biodiversity and fossil fuels.

Strategy

- We updated our climate scenario analysis and mapping of climate risks and opportunities under different time horizons, aligned with the long-term nature of our Members' pension savings.
- We agreed a new voting and engagement approach with our asset managers. This highlights climate as a priority engagement theme, setting engagement principles for asset managers and outlining an 'expressions of wish' approach to voting.
- We increased the range of funds with ESG considerations available to our Members.

Risk management

- We evaluated all our asset managers' climate credentials and set out minimum climate expectations.
- We updated our Scheme's Risk Register to split out climate change and greenwashing risks and reviewed associated risk ratings.

Metrics and targets

- We worked with our main asset manager, BlackRock, to adopt a 50% carbon emissions' reduction target by 2029 for BlackRock LifePath against a 2019 baseline.[8]
- We reported on our investments' scope 3 emissions and a new portfolio alignment metric, implied temperature rise, in line with new regulatory requirements.

8. See case study in the metrics and targets section for details on this new BlackRock LifePath target.

Introduction

The Scheme and climate change

The Scheme is an open defined contribution pension scheme with more than 171,000 Members and £3.87bn in assets under management as of 31 March 2023. This TCFD report marks the second year in which the Scheme has been required to disclose 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 start today. 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 asset managers through asset manager oversight and their own active engagement with the companies in which they invest and through collaborative industry and policy engagement, with Aegon UK representing us, the Trustees. The data analysis we provide in this report gives Members an overview of how we assess climate risks. This guides our climate strategy, which is focused on the achievement of our net-zero target.

Description of the Scheme's investment arrangements

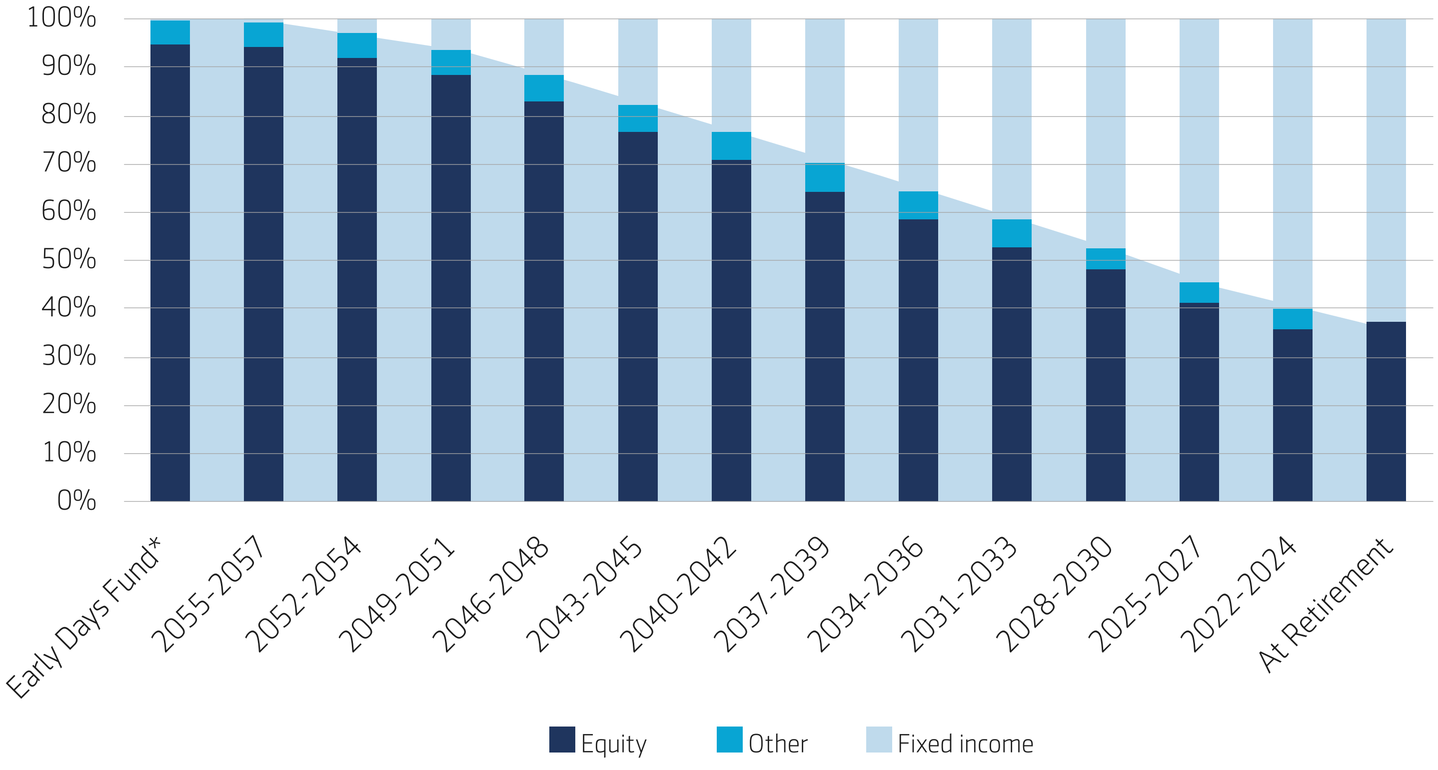
The Scheme's investment portfolio comprises standard default arrangements and bespoke options, as well as a range of 'self-select' funds (the 'Core Fund Range'). We provide default investment funds for Members who do not wish to select where to invest their pension savings. The self-select fund range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

The main Scheme default arrangement: Aegon BlackRock LifePath Flexi

Approximately 82% of all Members within the Scheme are invested in this default arrangement, representing 86% of the Scheme's assets as of 31 March 2023. The asset allocation of our main default arrangement varies depending on how far away a particular Member is from retirement. Earlier on in a Member's working life, the fund's strategy is weighted towards riskier assets like equities (stocks and shares). Leading up to the target retirement date, the fund's strategy moves to a more cautious asset mix, which is expected to be more stable for generating income from the Member's pension when they retire. This process is termed 'lifestyling', and is demonstrated in Figure 1.

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

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



Alternative Scheme default arrangements

8% of Members in the Scheme are invested in alternative Scheme default arrangements, representing 4% of the Scheme's assets[9]:

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

The alternative default arrangements have different climate risk factors in their underlying fund structures. However, the underlying asset manager, BlackRock, has an extensive stewardship team and adopts a consistent and robust approach to engagement across their investment estate.

Self-select fund range

The Core Fund Range

During the Scheme Year, Members had the possibility to select funds within our range of seventeen self-select funds, our 'Core Fund Range'. Around 7% of Scheme Members were invested in the Core Fund Range, representing 8% of the Scheme's assets[10].

Our Core Fund Range consisted of the below funds, in addition to the three default options:

- Aegon BlackRock 30/70 Currency Hedged Global Equity Index
- Aegon BlackRock Corporate Bond
- Aegon BlackRock Diversified Growth
- Aegon BlackRock Emerging Markets Equity Index
- Aegon BlackRock Market Advantage
- Aegon BlackRock Over 15 Years Gilt Index
- Aegon BlackRock Over 5 Years Index-Linked Gilt Index
- Aegon BlackRock Cash
- Aegon BlackRock Pre-Retirement
- Aegon BlackRock UK Equity Index
- Aegon BlackRock World (ex-UK) Equity Index
- Aegon HSBC Islamic Global Equity Index
- Aegon LGIM Ethical Global Equity Index
- Aegon Property
- Baillie Gifford Positive Change
- HSBC Developed World Sustainable Equity Index
- Ninety One Global Multi-Asset Sustainable Growth Fund

9. Figure based on Aegon UK asset allocation data as of 31 March 2023.
10. Figure based on Aegon UK asset allocation data as of 31 March 2023.

The Trustees have reviewed the range of self-select funds available and agreed on making a new range of self-select funds available to Members during the next Scheme Year.

The AMT Fund Range

During the Scheme Year, we undertook a review of the Core Fund Range, as detailed in the strategy section of this report. The selection of self-select funds available to Members has been updated and the new range (known as the 'AMT Fund Range') will be released to Members during the 2023-24 Scheme Year. The Scheme will then offer 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 built into their objective or investment process:

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

Funds which integrate ESG exclusions: This means that in line with certain thresholds, they will not invest in certain companies, based on ESG concerns. For example, some funds listed below exclude investment in companies based on revenues generated through thermal coal and oil sands.

- Aegon 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

For more information on the Scheme's self-select fund range review, please refer to the strategy section of this report.

Bespoke fund range

Around 3% of Scheme Members were invested in bespoke funds, representing 2% of the Scheme's assets . 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 2023, ten employers had opted to offer bespoke funds to their Members

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 this 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

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 asset managers with their own proprietary approaches and strategies, including climate-risk management. Effective oversight, dialogue, and monitoring of those asset managers is therefore a key tool for our climate-risk management approach.

The Scheme Investment Sub-Committee, including two out of four Trustees, provides expert oversight of investment topics that are essential to the successful management of the Scheme. This includes the Scheme's approach to responsible investment. We believe the sub-committee structure maximises the effectiveness of the Trustee Board's time, whilst ensuring the amount of governance and oversight necessary to manage climate-related risks. The Investment Sub-Committee meets quarterly. The investment adviser, Isio, attends all quarterly 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, and we expect they will require growing time and resources in the future. Following a meeting of the Investment Sub-Committee, its Chair updates the Trustee Board (at the next Board meeting) on the matters that were considered. This update may be verbal or in writing, on matters discussed, recommendations and key actions agreed, including those relating to climate change.

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

Date	Agenda topic(s) related to climate change risks and opportunities
May 2022	BlackRock LifePath climate objective – Update (Aegon UK) Review of Scheme fund range – Part 1 (Aegon UK)
June 2022	Review of Scheme fund range – Part 2 (Aegon UK) TCFD report review and discussion (Aegon UK)
July 2022	Review of Scheme fund range – Part 3 (Aegon UK) TCFD report approval (Aegon UK)
August 2022	Review of Scheme fund range – Part 4 (Aegon UK) Asset managers' responsible investment annual monitoring results (Aegon UK) Investment performance report - BlackRock ESG integration (Aegon UK) BlackRock LifePath climate objectives changes (Aegon UK)
October 2022	Review of Scheme fund range – Part 5 (Aegon UK)
November 2022	BlackRock's annual update – Stewardship summary (BlackRock) Discussion and approval of climate voting & engagement approach (Aegon UK) Capital Market Authority objectives review (Isio)
March 2023	Review of net-zero transition plan for Aegon's defaults, the climate roadmap (Aegon UK) Discussion of 2022-23 climate-related data and disclosures (Aegon UK) ESG (responsible investment) beliefs review (Isio)

Improving our climate understanding and knowledge

The Investment Sub-Committee dedicated significant time and resources across the Scheme Year to reviewing the Core Fund Range, which included significant input on climate risk. In addition to the Investment Sub-Committee items above, the Trustee Board regularly allocates time for climate-related teach-in sessions. These help us maintain appropriate climate oversight, following fast-paced regulatory and market developments. This year we received two sessions focused on best practice in relation to climate disclosures, net-zero transition plans and climate voting and engagement.

- In September 2022, Aegon UK provided an overview of the responsible investment landscape and an update on climate risks and opportunities. We were able to review Member engagement and discuss Aegon UK's approach to climate stewardship. We also discussed the development of Aegon UK's net-zero transition plan, its climate roadmap, as it relates to the Scheme's LifePath funds.
- In February 2023, our investment adviser, Isio provided a review and benchmarking of our 2021-22 TCFD report. At the same time, Aegon UK shared the latest developments around their climate change strategy and approach to responsible investment engagement themes. This included biodiversity related risks and its approach to using expressions of wish to communicate its voting preference to asset managers.

The Aegon UK secretarial / executive admin team, who support us, also attended these sessions.

Responsible investment beliefs review

Investment beliefs are guiding principles which inform the investment strategy, design of the Scheme's default arrangements; and the number and type of other investment options we make available to Members. We re-evaluate our beliefs as part of a review of our Statement of Investment Principles, which must take place at least every three years and without delay following any significant change in investment policy.

This year we have reflected on and updated our ESG beliefs, which are now referred to as "responsible investment beliefs". Our enhanced beliefs provide further detail on the minimum level of active ESG integration and engagement we expect from Aegon UK and our asset managers. They have guided the climate expectations we have set for our asset managers. These expectations are described in the strategy section of this report. Our new responsible investment beliefs are as follows:

Risk management

1. We believe that active consideration of ESG issues will lead to improved outcomes for Members and better management of risk.

2. We believe that a broad approach to ESG integration is important, considering all three components of ESG investing. Climate change, in particular, presents significant risks, as well as opportunities to invest in the transition to a low-carbon and climate-resilient future.

Investment approach

3. ESG issues which are considered to be financially material should be integrated into the overall management of the standard default options.

4. The standard self-select fund range should include specialist funds which invest in line with sustainable and / or responsible investment themes, taking into account Member preferences where relevant.

5. We will only select asset managers that integrate ESG issues within their overall decision making. A key aspect is to ensure that each asset manager has committed to net zero by 2050 or has a definitive plan for setting a net-zero target.

Reporting and monitoring

6. We will regularly monitor key ESG metrics within the Scheme's investment portfolio, to understand the impact of their investments and to assess progress over time.

Voting and engagement

7. We recognise that active engagement with investee companies, including thoughtful voting, is key to driving change. We will therefore monitor the asset managers' voting and stewardship engagement activity to assess improvements over time.

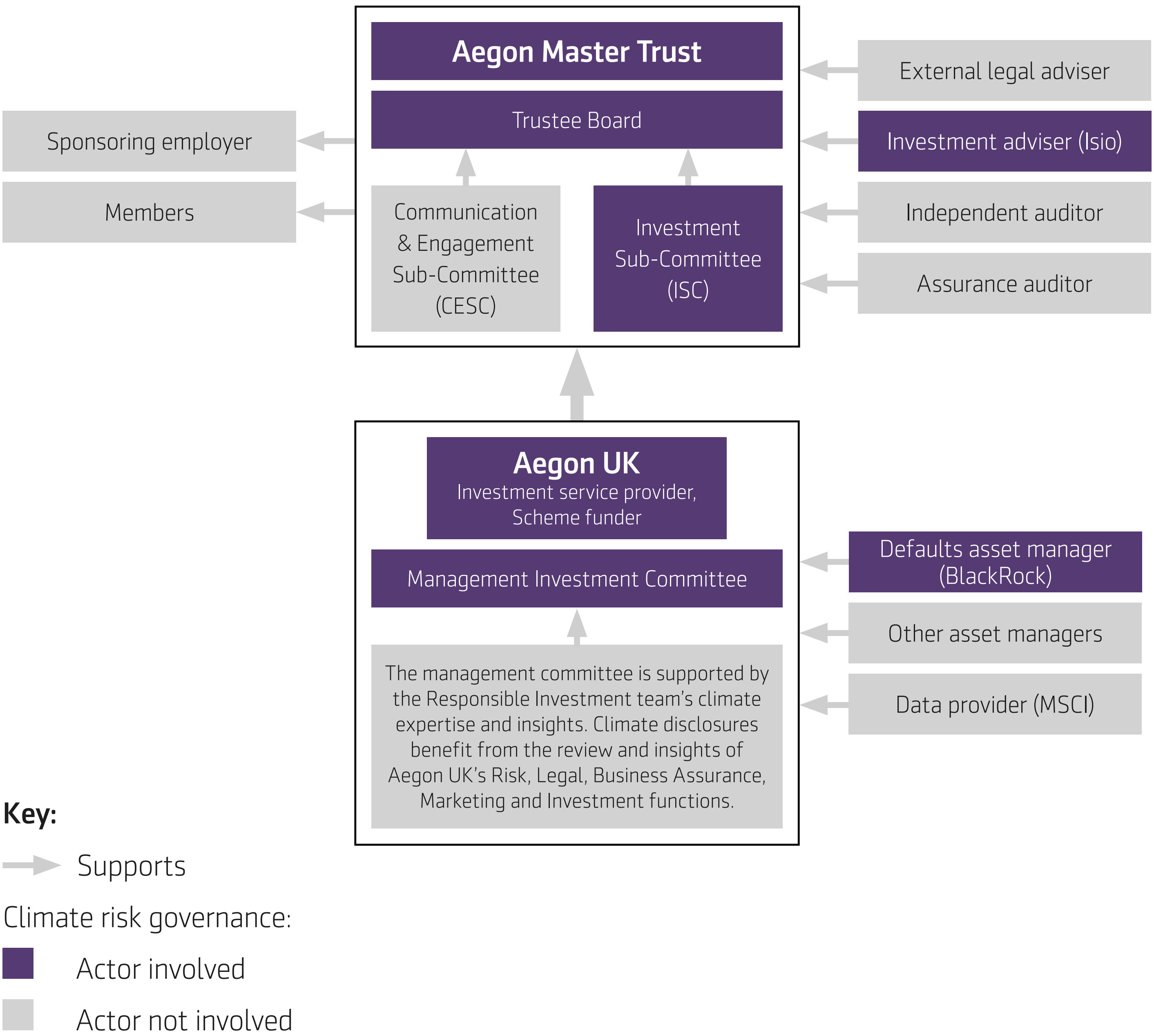
Collaboration

8. We expect asset managers to engage actively with other market participants to raise ESG investment standards and facilitate best practices. We also expect their chosen asset managers to be signatories to the United Nations Principles for Responsible Investment (UN PRI) and the UK Stewardship Code as minimum, and that they are be able to demonstrate ongoing progress in raising ESG standards.

Roles and responsibilities of service providers

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

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



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

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

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

Category	Investment adviser, Isio
Description	Isio provides ideas and an independent review of suggested approaches and developments from the investment service provider, where required.
Overall responsibilities	Isio advises us on the Scheme's overall investment strategy, including our responsible investment strategy. Responsibilities include: • reviewing the appropriateness of the Scheme's investment strategy in relation to climate change, for example through feeding into fund reviews and commenting on the Scheme's progress towards net-zero targets; • providing us with advice and benchmarking our responsible investment strategy, including beliefs and climate-related disclosures; • assessing the credibility and progress of Aegon UK in helping us implement our climate strategy and day-to-day climate management; • supporting our independent oversight of the Scheme's asset managers; and • informing us of regulatory and market developments which could impact the investment strategy and wider fund range, and how they could be addressed.
Trustee oversight and governance	In accordance with DWP regulations and Pension Regulator guidance, we are required to set strategic objectives for investment advisers; and to review the provider's performance against those objectives at least every twelve months. The objectives must be reviewed and (if appropriate) revised at least every three years and without delay following a significant change in investment policy. We assessed Isio's performance for 2022 against its strategic objectives, including their objective to assist us in aligning the Scheme with its ESG objectives. Overall Isio scored well. The assessment helped us identify areas for additional focus. For example, the continued alignment between the Scheme and BlackRock's climate targets. We have agreed strategic objectives with Isio for the year 2023.

Category	Various asset managers, with BlackRock being the asset manager for the Scheme's main default arrangement, Aegon BlackRock LifePath Flexi
Description	Asset managers are responsible for the day-to-day management of the Scheme's investments, including identification and management of climate risks and opportunities.
Overall responsibilities	Taking BlackRock as an example, the BlackRock team regularly reviews its climate policies, processes, resources, and expertise to support climate integration and the ESG objectives of the Scheme. Responsibilities include: • contributing to the Scheme's climate strategy for investments and supporting the transition of assets to low carbon strategies where needed; • sharing risks and opportunities which relate to the Aegon BlackRock LifePath Flexi net-zero target; • exercising voting rights and engaging with companies on climate risks and opportunities; and • supporting climate data and information requests made under the regulatory regime.
Trustee oversight and governance	All asset 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 year. We pay particular attention to BlackRock as the asset 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. Aegon UK also has regular meetings with and oversight of BlackRock, which supports the Scheme's strategy. In the previous Scheme Year, Isio carried out a review of LifePath, in which they assessed the performance of BlackRock on ESG and climate criteria. Considering the extensive review performed last year, we have not repeated this exercise this year. We will not appoint asset 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 asset managers see strategy section.

Category	Climate data provider, MSCI
Description	MSCI is a provider of climate data and analytics. They support the Scheme's data and information requests related to climate risks and opportunities, which informs our strategy development.
Overall responsibilities	MSCI provides the climate data and associated platform and customer service for Aegon UK to collect climate metrics and inform Scheme analysis, including for TCFD reports. This includes providing scenario analysis capabilities, estimating greenhouse gas emissions where reported data is not available, and developing methodologies for proprietary climate metrics, in line with market developments and regulatory guidance.
Trustee oversight and governance	Aegon UK exercises day-to-day oversight of MSCI through weekly meetings and monthly 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. 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 communicate improvements in data quality and updates to methodologies via Aegon UK through Investment Sub-Committee updates or board teach-ins.

Two case studies on how we have challenged service providers during the Scheme Year can be found in the risk management section (climate data provider) and metrics and targets section (asset manager).

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 default investment arrangement, Aegon BlackRock LifePath Flexi.

Description and assessment of climate-related risks and opportunities

How we define climate-related risks

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

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

How we define time horizons

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

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

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

- the type of assets our Members are invested in;
- how long assets will be invested for; and
- the time horizon over which climate change considerations will be relevant.

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

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

Risks	Potential impacts	Time horizons Short term <10 years	 Mid term >10-25 years	 Long term >25 years
Direct risks to our members				
Quality of life and morbidity	Risk of deterioration in quality of life preventing our Members from living their best lives e.g., impacts resulting from drought or wildfires affecting crops, food, and water security. Risk of higher levels of morbidity e.g., through deterioration in air quality in failed transition scenarios, or chronic changes in weather patterns such as prolonged heatwaves, or severe winters. These are primarily driven by physical risk.	x	x	x
Mortality	Risk of higher levels of mortality as a direct consequence of climate change / extreme weather events, or the indirect impact on individual wellbeing levels driven by worsening economic conditions. This is primarily driven by physical risk.		x	x
Opportunities				
Climate opportunities: Investee companies' transition	To thrive in the low-carbon world, companies will need to adapt and rethink their business models. Significant capital will be needed to fund corporate net-zero transition plans, with better expected long-term outcomes for companies that manage to change.	x	x	
Climate opportunities: new investment opportunities	We expect more capital will be allocated towards climate change mitigation and adaptation over the coming years. In addition, climate solutions' investments may help expand investments to non-traditional asset classes, such as real assets or private equity.	x	x	x
Climate opportunities: new products and services opportunities	Our Members will increasingly be concerned about climate change and the impact on their investments. This is an opportunity to support companies developing new products and services tailored to their customers concerns and helping to address the challenges of climate change.	x	x	
Resource efficiency opportunities	Opportunities arising from reduced operating costs of companies through efficiency gains and increased production capacity, as well as from transforming a linear economy to a circular economy.		x	

Impact of climate-related risks and opportunities for our strategy

Short-term, less than 10 years

In the next few years, the implementation of Aegon UK's net-zero transition plan, its climate roadmap, will increase the alignment of Aegon BlackRock LifePath funds with the Scheme's net-zero commitment[12]. The AMT Fund Range will also offer more choices for Members to invest in the transition to a low-carbon economy.

Our new minimum responsible investment requirements and stewardship approach will support getting to our 2030 decarbonisation target and frame our engagement with our asset managers and the wider market. Climate is already one of our key engagement themes. It drives how we approach asset manager selection, appointment and monitoring, and our asset manager's voting and engagement activities, to ultimately manage short-term risks. We are already asking our asset managers how they quantify physical and transition climate risks for assets, and how they use these to inform their corporate engagement strategy. Over the next decade, we want to see more evidence of outcomes from their climate engagement. We expect asset managers to follow and contribute to industry best practice so we can continue to work together to minimise climate risks. Engagement with our asset managers will be key to meeting our 2030 decarbonisation targets.

Finally, we expect that data quality will improve over this period, driven by increased regulatory scrutiny. We anticipate a shift in focus to the verification of company emissions reporting and regulation of climate data provision towards the end of the period.

Medium-term, 10 to 25 years

We will continue to monitor and challenge our asset managers, as we assess their medium-term progress against our net-zero target. We expect all our asset manager partners will demonstrate sophisticated qualitative and quantitative analysis to support climate-related risk management, including robust decarbonisation pathway analysis. We expect asset managers will support the decarbonisation of markets and reflect this in their investment strategy, monitoring and engagement frameworks and approach to industry advocacy. Better climate disclosures will help us refine our investment strategy and net-zero targets.

In addition, as the market becomes better at pricing in climate risks, we anticipate more assets will be invested with better consideration to climate factors, moving beyond screens (e.g. exclusions) to better integration of climate factors. We also expect there will be more and more opportunities to invest in climate solutions, directly adapting to and mitigating climate change. This is in recognition that illiquid assets may provide more significant sustainability outcomes, as well as attractive, long-term investment returns.

Long-term, over 25 years

Members may be increasingly affected by climate impacts, through their investments and in their daily life. As a result, we expect our asset managers will scale their efforts to address climate change adaptation and mitigation. By this point in time, we may expect that markets will be fully pricing in transition risks and will start to price in locked-in physical impacts, if the world meets the goals of the Paris Agreement to stay within 1.5°C of pre-industrial temperatures this century.

Under a failed transition scenario (which is explained in the climate scenario analysis below), we expect markets will price in more severe physical impacts, exacerbated by inaction over the preceding years. We are conscious of the size and scale of the challenges that we are all collectively dealing with, the complexity of understanding different climate change scenarios and that a great deal of additional insight, learning and integration lies ahead. We can therefore expect significant changes in our funds' asset allocation compared to today, as well as significant opportunities to invest in the transition to a low-carbon economy.

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

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

Scenario analysis combines data on climate risks and opportunities categorised as physical or transition (policy and technological risks). These risks and opportunities are then translated into an aggregated CVaR metric for each of the three transition scenarios. Climate scenario analysis offers the opportunity to explore the potential impacts on our Members' investments in default portfolios under a set of possible scenarios. These scenarios do not correspond to projections but rather illustrate a set of future possible state of the worlds.

Choice and description of scenarios

This climate-related scenario analysis assessed the potential impacts on our Members' investments in the Aegon BlackRock LifePath Flexi default portfolio, the Scheme's only popular arrangement, under three scenarios. The different trajectories of the three scenarios are presented below:

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

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

Climate scientists currently anticipate that climate change is likely to lead to a world temperature rise of 2.7°C by 2100[13]. Such projections are significantly higher than the ambition set by the Paris Agreement, which aims at limiting global surface temperature rise to well below 2°C above pre-industrial levels by the end of the century and to pursue efforts to limit the temperature rise to 1.5°C. Consequently, this year we increased our disorderly scenario to 2°C and failed transition scenario to 4°C, reflecting a more realistic range of projections for our Members. We also updated our scenarios to reflect releases from our data provider, see case study in the risk section.

The first component of climate scenario analysis is physical risk. Our data provider, MSCI, has established a measure of **physical risk** to quantify the effect of different physical risk 'hazards' on companies. This refers to 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 long-lived fixed assets are those that are most at risk under this metric, due to greater exposure to extreme weather patterns which may increase in frequency or severity over time.

The second component of climate scenario analysis is transition risk. Our data provider, MSCI, has established a measure of **transition risk**, which attempts to estimate the likely trajectory of human economic activity over a 50-year horizon and quantify how a Member's portfolio is likely to be impacted. Transition risks will be influenced by existing and future climate policy as well as whether / how countries implement their decarbonisation plans. Transition risks can be further assessed in terms of when and how policy changes are delivered. An orderly transition will assume that policy makers will introduce policy changes gradually, giving corporates time to adapt their business models. Whilst a disorderly transition will assume a sudden change in legislation dictated by an urgent need to change corporate practices.

Finally, 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.

13. Climate Action Tracker (November 2022), The CAT Thermometer

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[14] scenarios. These are commonly accepted by the scientific community and the most recent scenarios available to us via our data provider MSCI. We note that there are other scenarios available. For example, REMIND NGFS project lower use of carbon sequestration, and higher uptake of electrification in the transport sector compared to other scenarios.

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

The 1.5°C and 2°C scenarios are similar in terms of population, GDP growth and electricity generation fuel mix in 2050. Where they differ is how fast the transition happens (expressed in terms of energy mix in 2030), carbon sequestration uptake, and the year emissions peak and reach net-zero. We also assumed physical risk would be in line with average scenarios under a 1.5°C transition scenario and in line with aggressive scenarios under a 2°C scenario[15]. The hothouse 4°C scenario is similar to the other two scenarios in terms of population and GDP growth only. It is characterised by a slow and limited decarbonisation of its electricity generation mix in 2030 with limited progress further into 2050. Carbon sequestration uptake is low and late, and emissions never reach net-zero. More details on the key assumptions used in relation to our chosen scenarios can be found in the Appendix.

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

14. 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.

15. 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. This was done by combining the impacts of the transition and physical climate risks to produce an aggregated climate VaR measure, based on the three transition scenarios discussed above.

Table 5: Scenario analysis output for Aegon BlackRock LifePath Flexi, as of December 2022

Choice of three scenarios	Aggregated Climate VaR	Data coverage (estimated & reported)
Orderly transition (1.5°C)	-10.8%	68.5%
Disorderly transition (1.5°C)	-18.5%	68.5%
Failed transition, a hot-house world (4°C)	-30.2%	68.5%

As a reminder, we had generated scenario analysis using different assumptions and scenarios last year and reported the below impacts.

Table 6: Scenario analysis output for Aegon BlackRock LifePath Flexi, as per our 2021-2022 climate disclosures

Choice of three scenarios	Aggregated Climate VaR	Data coverage (estimated & reported)
Orderly transition (1.5°C)	-14.3%	46%
Disorderly transition (1.5°C)	-33.9%	46%
Failed transition, a hot-house world (3°C)	-11.4%	46%

The exercise identified how, under three scenarios, Aegon BlackRock LifePath Flexi assets are materially exposed to physical and/or transition risks. The key take-away from this analysis is that across all the scenarios considered, expected returns are lower than the 'climate-uninformed' baseline[16] due to negative climate risk impact over time. Indeed, the data suggests that significant changes in policy, investment and behaviour will be necessary to change global warming trajectory to a Paris-aligned outcome. Whether we experience an orderly, disorderly or failed transition, there are likely to be significant changes in financial markets over the coming decades, which in turn could have a material impact on the Scheme's investment portfolios.

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

Data and methodological limitations

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

- Whilst we increased data coverage from 46% to 68.5% this year, 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.
- Our climate scenario analysis focused on listed equity and corporate fixed income. At the time of the analysis data on sovereign debt was not available from our data provider.
- The scenario analysis methodology assumes the funds will keep a consistent asset class and sector composition. We recognise this as a limitation, as future asset allocation of the funds may diverge from the current asset allocation.
- The scenario analysis of the Scheme is not fixed. It will change as climate science evolves, the market responds to climate change, and our own internal capabilities improve. For example, we expect to be able to run more granular CVaR for additional asset classes in future years.

We believe climate risk education and integration into investment decisions are critical to overcome data and methodological limitations. This is why we ask our asset managers about their climate risks analytical capabilities and require that they are able to quantify physical and transition risks for assets and assess progress against decarbonisation pathways, to inform their corporate and industry engagement strategy.

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 asset 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 asset managers, climate data providers, relevant industry groups and policy forums.

Capital allocation aligned with our net-zero targets

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. This year we set out plans to increase alignment with our net-zero targets and provide more choice for our Members.

1. We aligned strategies with our asset manager and investment provider on the implementation of our net-zero targets.

Firstly, to bring to life our objective for Aegon BlackRock LifePath Flexi to reach net-zero emissions by 2050 and to halve its carbon footprint by 2030, we supported Aegon UK's net-zero transition plan, its climate roadmap. The roadmap applies to all Aegon UK default funds, including LifePath. It outlines a three-pillar strategy to reaching net-zero and several key targets, including short-term decarbonisation targets. The implementation of the climate roadmap will support our Scheme by aligning with our medium and long-term decarbonisation targets. It should also encourage wider engagement for market-wide decarbonisation.

Secondly, we asked BlackRock to consider a carbon emissions' reduction target for Aegon BlackRock LifePath default arrangements. Following discussions throughout the year, we were pleased to see BlackRock adopt their own climate target, which is more fully explained in a case study in the metrics and targets section. In addition to BlackRock LifePath having its own decarbonisation target, we also welcomed the speed at which ESG factors are becoming integrated into BlackRock LifePath, with BlackRock LifePath reaching 80% of assets under management screened and/or optimised for ESG factors as of March 2023.

2. We reviewed the Core Fund Range, making a wider range of self-select funds with climate credentials available to our Members.

Throughout the year, we performed a strategic review of the Core Fund Range, with the assistance of our investment adviser, Isio. This review focused on expanding the range of self-select funds available to Members, in line with our commitment to include specialist funds which invest according to sustainable and/or responsible investment themes. This redesign provides Scheme Members with access to more investment choices and further integrates ESG considerations into the Scheme's investment offering. The AMT Fund Range will be made available to Members during the 2023-24 Scheme Year. We retained nine funds, added sixteen new funds and dropped four. Following customer testing, the fund names have also been updated to better reflect their investment strategy, be more easily understood and add coherence to the range. Altogether, the AMT Fund Range will then offer twenty-five self-select options on top of the three Aegon BlackRock LifePath default options, as outlined in the introduction.

Voting and engagement with asset managers

This year we reviewed and improved the way we engage with asset managers and the industry to better reflect our climate commitments.

1. We assessed and reviewed the climate credentials of all our asset managers and agreed new minimum climate requirements.

In the Scheme Year, we received the first results from the asset manager responsible investment due diligence questionnaire from Aegon UK. We were able to benchmark our asset managers against best practice, identify those who did well and those less so, which then informed our engagement with asset managers throughout the year. In addition, we adopted asset manager minimum expectations related to responsible investment governance, voting and engagement, industry advocacy, climate change, diversity and inclusion, and climate change. Our responsible investment scoring and minimum expectations are used for asset manager selection, appointment, and monitoring. Progress on climate credentials will continue to be assessed annually and we will review our minimum expectations in line with market developments, industry best practice and regulatory changes.

Table 7: Scheme asset manager expectations across fives areas of responsible investing, including climate change

Responsible investment category	Minimum expectations
1. Responsible investment governance	Ensuring robust and adequately resourced governance is in place
2. Voting and engagement	Driving active engagement and voting, informed by material sustainability issues
3. Climate change	Supporting our climate ambition and net-zero commitment
4. Industry advocacy	Using their voice to drive systemic sustainable changes in the economy
5. Diversity and inclusion	Improving representation for better decision making

2. We built our stewardship capabilities by (i) defining climate as a key engagement theme, (ii) agreeing engagement principles and (iii) setting out our approach to expression of wish for key resolutions, including those on climate.

As per the Financial Reporting Council, stewardship is "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society". This year we adopted three engagement themes. Having climate change as a standalone theme reflects the growing concerns of our customers and our dedicated focus on net zero.

Table 8: Our engagement themes

Climate change
Including net zero and biodiversity

Diversity and inclusion
Including board diversity

Human rights
Including modern slavery

To help support our stewardship activities, we established expectations for asset managers on their corporate engagement. For climate change, we expect our asset managers to:

- Quantify physical and transition climate risks for assets and assess progress against decarbonisation pathways, to inform their engagement strategy.
- Provide their approach to managed phase-outs and/or divestment for high-emitting assets incompatible with a 1.5°C pathway (in particular thermal coal and oil sands).
- Demonstrate practices in line with the **Net Zero Stewardship toolkit** as developed by the Institutional Investors Group on Climate Change (IIGCC), for listed equity and corporate fixed income.
- Engage with companies on the transparency of their climate disclosures, net-zero commitment(s), and associated transition plans to reduce greenhouse-gas emissions, aligned with a well below 2°C scenario, preferably 1.5°C.
- Engage with companies on how they identify, assess, and manage nature-related risks and opportunities in the context of climate change.

Having clear principles and guidelines for our engagement with asset managers helps us drive effective and collaborative climate engagement. As a result, we also expect asset managers to:

- Define SMART (specific, measurable, achievable, realistic and time-bound) engagement objectives where appropriate.
- Provide case studies and metrics on engagement outcomes, instead of just engagement activities.
- Demonstrate a robust escalation strategy, which employs a range of escalation tools (e.g. voting against the board, filing a shareholder proposal, etc.) and in which divestment (i.e. selling the investment) is a last resort (not a first response).

In a similar fashion, we prioritise engagement over divestment to drive real-world decarbonisation. Aegon UK will report to us at least annually on progress and outcomes from asset manager engagement, as per the expectations above.

Finally, we set out our approach on voting and expressing our wishes to asset managers. Shareholder votes on climate resolutions[17], at the companies our funds invest in, are cast by the asset managers we have appointed. Through expressions of wish, we are able to set non-binding requests for key asset managers in our pooled funds to vote a certain way on "most significant" climate votes. For example, votes concerning our largest Scheme holdings and/or those with the potential to substantially impact financial and/or climate outcomes. We believe our main asset manager, BlackRock, in most part, is best placed to vote on our behalf to achieve continuity between engagement activity and voting. Aegon UK will implement this new approach at the upcoming AGM season. We will have oversight and input into the process and any expressions of wish put forward by Aegon UK.

3. We increased and formalised our industry advocacy efforts to collectively address the systemic risks brought by climate change.

In line with our new industry advocacy expectations, we expect asset managers to use their voice to drive systematic sustainable change in the economy. In addition, we expect asset managers to support and/or demonstrate transparent cross-industry collaboration. We encourage asset managers to consider investor engagement and sector and value-chain engagement, as well as lobbying/policy engagement. We agreed for Aegon UK to represent us, the Trustees, in their industry engagement activities, for mutually beneficial climate advocacy work. By leveraging Aegon UK's expertise and contribution in this area, we can further collaborate on net-zero targets and contribute to increased climate ambition and climate action in the market. For a list of all industry and policy activities Aegon UK has carried out in 2022, please refer to the Responsible Investment and Stewardship report, 'Our collaborative engagement contributions' section.

Case study:

Collaborating with industry to develop a net-zero questionnaire and pilot it with our asset managers

In Q4 of 2022, Aegon UK joined an IIGCC working group of asset owners to support reporting and oversight between asset owners and managers on stewardship activities to achieve their net-zero ambitions. This builds on IIGCC's work on its Net Zero Stewardship Toolkit (April 2022) to support investors in meeting their portfolio-alignment goals. Aegon UK was an active participant, contributing to the development of the working group's proposed outputs, in particular the development of a net-zero stewardship questionnaire to support the selection, appointment and monitoring of external managers. Aegon UK engaged with key Scheme asset managers on our behalf to understand their application of IIGCC's net-zero stewardship toolkit and signposted the development of IIGCC's questionnaire to encourage manager adoption. Early this year, Scheme asset managers were invited to join a series of workshops, hosted by IIGCC during January and February 2023, to gather feedback from managers to feed into the development of the questionnaire prior to the launch of a public consultation. We will use the outputs from the questionnaire in our 2023 annual responsible investment questionnaire.

Risk management

In this section we will:

- 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 asset managers' annual responsible investment oversight process
- illustrate how our Risk Register and Climate Risk Dashboard help us 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 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.

- Aegon UK's Risk team maintains an enterprise risk management 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.

We manage climate-related risks through our responsible investment and stewardship activities. Asset 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 asset managers. Their answers help us monitor and assess their climate credentials, including how they are managing climate risks. Regular discussions with our asset managers ensure we stay up-to-date and aligned with their approach to climate related risks. At minimum, asset managers must comply with our **climate requirements** and **voting and engagement expectations**, for example having a net-zero target and being able to quantify physical and transitional risks. For more information on how climate-related risks are integrated into our capital allocation, stewardship and engagement activities, please refer to the strategy section.

Our Scheme Risk Register

In the 2021-22 Scheme Year, we added a standalone climate risk to the Scheme's Risk Register, in collaboration with our investment adviser Isio, and Aegon UK. The Aegon UK Risk team review the risk ratings on the Scheme Risk Register so Trustees can take appropriate actions if a specific risk is not on target. Each quarter Aegon UK produces a heat map of any risk(s) that are not on target, with associated commentary for the Trustee Board. As part of this process, we split out the climate change risk into two categories of risk and assessed these in this Scheme Year.

1. **Climate change risk:** the risk that climate risk is not accurately reported or managed with effective actions in order to avoid greenwashing across the Scheme.
2. **Greenwashing risk:** the risk that the Scheme makes sustainability-related claims that are misleading, not reasonable and unsubstantiated through underlying practices.

Climate change risk was rated as yellow. This is because TCFD reporting is in its infancy, limited details have been received from our main asset manager, BlackRock, on the implementation of the 2029 carbon emissions' reduction target across BlackRock LifePath, and the significant impact of unmitigated climate change on the global economy and associated impact on the Scheme's investments.

Greenwashing risk was rated as yellow. This is based on the speed at which the regulatory environment is changing and the absence of commonly accepted standards. This risk is managed through our investment service provider Aegon UK's **Responsible Investment framework**, its associated monitoring of practices, its responsible investment team expertise, its marketing compliance processes, as well as 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. The new climate change and greenwashing risk ratings have been added to our Climate Risk Dashboard below. Other updates to the Climate Risk Dashboard for this year include:

- adding scope 3 emissions which represent the most material sources of our emissions,
- reporting in British pounds to align with our UK Members and using enterprise value including cash (EVIC) as per industry guidance,[18]
- splitting our CVaR metric into physical risks, transition risks and transition opportunities to help assess overall climate risk.

The metrics in the Climate Risk Dashboard represent the whole Scheme portfolio (Aegon BlackRock LifePath default arrangements, Core Fund Range and bespoke options), as described in the introduction. Definitions of metrics are provided in the metrics and targets section of this document.

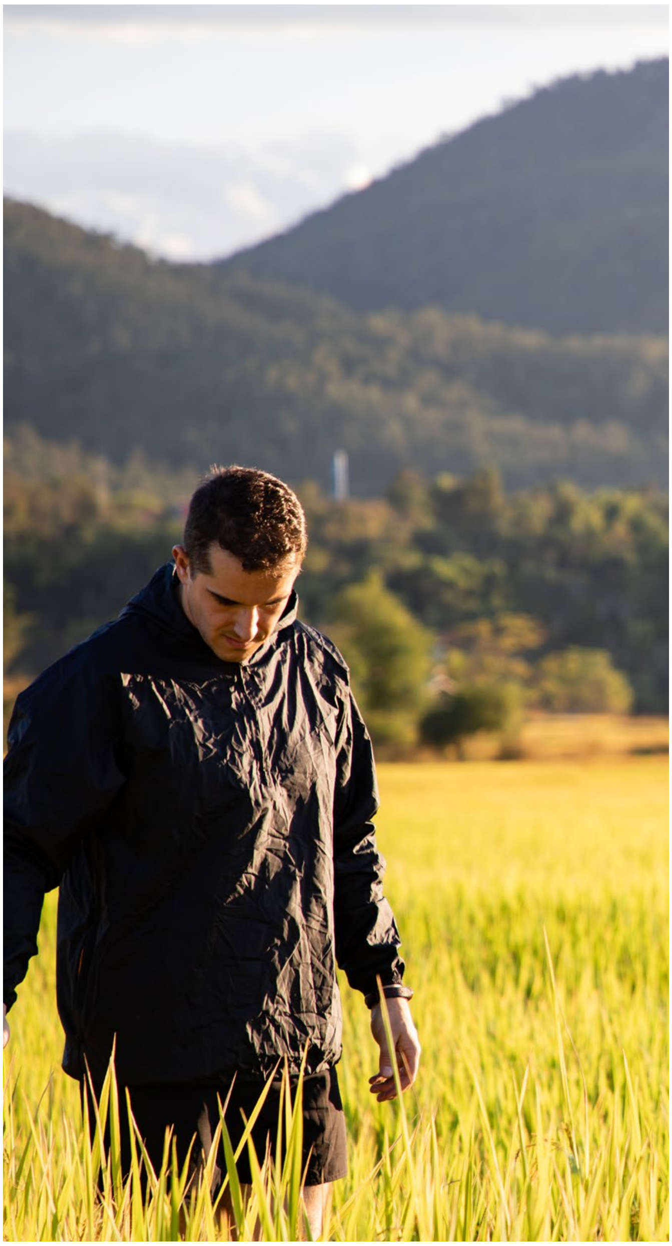
18. Partnership for Carbon Accounting Financials, (December 2022), The global GHG accounting and reporting standard

Table 9: The 2022-23 Climate Risk Dashboard represents the whole of the Scheme portfolio and is used to identify and better manage key areas of climate risks.

Climate Change dashboard metrics			2021-2022	2022-2023
Absolute emissions metrics				
Absolute emissions	Scope 1 & 2 tonnes CO_2e		-	237,680
	Scope 3 tonnes CO_2e		-	1,538,494
Carbon intensity metrics				
Carbon footprint	Scope 1 & 2 tonnes CO_2e/£M EVIC		92.0	58.5
	Scope 3 tonnes CO_2e		-	411.3
Weighted average carbon intensity (WACI)	Scope 1 & 2 tonnes CO_2e		178.8	141.6
	Scope 3 tonnes CO_2e/£M sales		-	960.8
Portfolio alignment metric				
Implied temperature rise (degree celsius)			3.4°C	2.6°C
Additional climate metrics				
Data quality (% total portfolio)	Scope 1 & 2 emissions - covered (%)	Estimated (%)	46%	13%
		Reported (%)		60%
	Scope 1 & 2 emissions - Not covered (%)	No coverage (%)	54%	27%
Other climate metrics				
% of investments with approved Scienced Based Target initiative (SBTi) targets (1.5°C aligned net-zero targets)			0.3%	21.4%
% of investments aligned with climate opportunities[19]			3.6%	5.2%
Climate Value-at-Risk using MSCI 2°C NGFS REMIND disorderly scenario	Physical risks		-	-6.7%
	Transition risks		-	-12.7%
	Transition opportunities		-	0.7%
	Aggregate climate risks		-	-18.7%
Risk self-assessment				
Climate change risk self-assessment				yellow rating
Greenwashing risk self-assessment				yellow rating
Targets monitored				
Commitment #1	Net zero GHG emissions across Aegon BlackRock LifePath Flexi by 2050			
Ambition #1	Halving emissions across Aegon BlackRock LifePath Flexi by 2030			

19. As measured by MSCI green revenues, the recent-year percentage of revenue, or maximum estimated percent, a company has derived from products or services related to alternative energy, energy efficiency, green building, pollution prevention, sustainable water or sustainable agriculture.

We note that climate data trends may change as disclosure and data coverage improve. This is particularly true this year: the absolute emissions and carbon intensity metrics have increased, which may be explained by our significantly improved data coverage. Scope 3 emissions are currently all estimated by our data provider, and we expect to be able to report on data coverage of scope 3 emissions in future Scheme Years. The increase in data availability and data coverage explains the large increase in the proportion of investments with approved Scienced Based Targets initiative[20] targets and the proportion of investments aligned with climate opportunities.



Case study:

Challenging our data provider to provide improved climate risk scenarios

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. This is to reduce the risk that we make decisions based on misrepresentative or incomplete data. Whilst reviewing climate data over 2022, we identified that the scenarios offered by MSCI, specifically under a 1.5°C orderly transition, 1.5°C disorderly transition and 3°C failed transition scenario, were not giving consistent results with the widely accepted view that a failed transition will be more costly to society. We thus requested that Aegon UK engage in multiple discussions with MSCI over the Scheme Year to understand why the failed transition pathway underestimated the physical risk of a failed transition and to encourage MSCI to improve their methodology in the future. In July 2022, we were pleased to see that MSCI introduced new climate scenarios with improved physical risk, aligned with the IPCC scenarios. Since then, they have also released further improvements on transition risks. This is one reason why we have re-run our scenario analysis this year. We continue to challenge MSCI to improve the availability and accuracy of climate data it offers, especially regarding:

- scope 3 emissions,
- asset classes beyond corporate fixed income and listed equity,
- forward-looking metrics such as climate value-at risk and implied temperature rise,
- climate data and insights beyond traditional net-zero factors, such as nature and a just transition.

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

Metrics and targets

In this section we set out:

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

Description of metrics

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

All metrics were obtained via our data provider, MSCI, and calculated as of 31st December 2022. GHG emissions are calculated in line with the GHG Protocol, with emissions categories split into three distinct 'scopes', as defined by the GHG Protocol Corporate Standard[21]. Our reported climate metrics use carbon dioxide equivalents (CO2e) as a unit of measurement, which standardises the climate effects of various greenhouse gases[22]. The emissions metrics used are apportioned to Enterprise Value Including Cash (EVIC) expressed in British pounds, meaning that we allocate 'ownership' of greenhouse gas emissions across the total capital structure of the issuing company (equity and debt).

Since our last report, we have made the following changes:

- Included scope 3 emissions as per the new DWP requirement,
- Chosen a new portfolio alignment metric, implied temperature rise,
- Updated our carbon footprint metric to report in British pounds.

21. For a description of the three scopes defined by the GHG Protocol, please refer to The Global GHG Accounting and Reporting Standard for the Financial Industry p.18.
22. Department for Work and Pensions (June 2022), Statutory guidance: Governance and reporting of climate change risk: guidance for trustees of occupational schemes

Table 10: Summary of climate metrics for our default arrangement Aegon BlackRock LifePath Flexi

DWP metric category	Climate metric	Description	Asset classes covered	Emission scopes
Absolute Emissions	Total carbon emissions (tonnes CO_2e)	Measures the carbon emissions for which an investor is responsible by their total overall financing. Emissions are apportioned across all outstanding shares and bonds (% Enterprise value including cash).	Listed equity and corporate fixed income	Scope 1, 2 and 3
Emissions Intensity	Carbon footprint (tonnes CO_2e / £M invested)	Measures the carbon emissions, for which an investor is responsible, per million of British pounds invested, by their total overall financing. Emissions are apportioned across all outstanding shares and bonds (% enterprise value including cash).	Listed equity and corporate fixed income	Scope 1, 2 and 3
Additional metric	Data quality (%)	**Emissions – Estimated (%)**: emissions estimated by MSCI using sector analysis. **Emissions – Reported (%)**: emissions reported directly by companies and collected by MSCI. **Emissions – Not covered (%)**: No scope 1 or 2 emissions data reported/estimated.	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.	Scope 1 & 2
Portfolio alignment metric	Implied temperature rise	The implied temperature rise, expressed in degrees Celsius (°C), estimates the global implied temperature rise (in the year 2100 or later) if the whole economy had the same carbon budget over-/ undershoot level as the fund or portfolio in question.	Listed equity and corporate fixed income (representing over 70% of assets for the default arrangement, see Table 13)	

Reported metrics for Aegon BlackRock LifePath Flexi

Table 11: Climate metrics for Aegon BlackRock LifePath Flexi

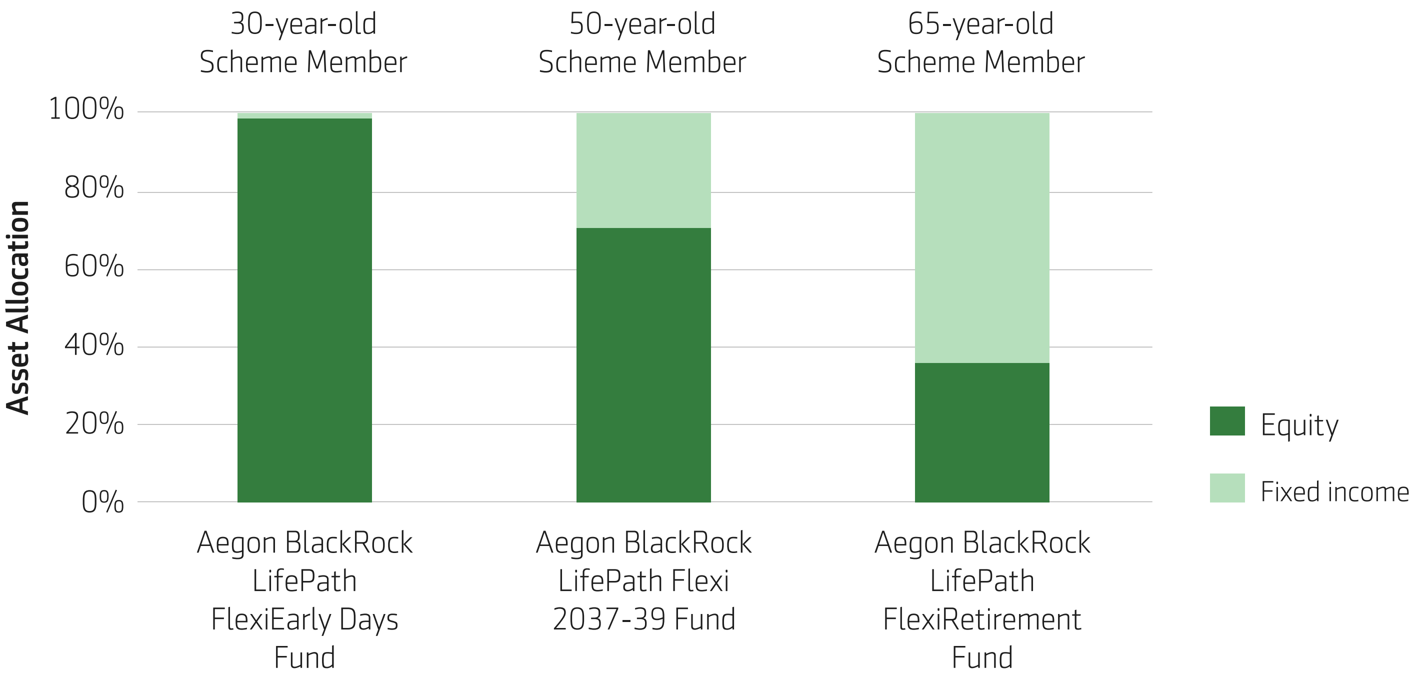
Climate metrics			2021-2022	2022-20 23
Absolute emissions metric				
Absolute emissions	Scope 1 & 2 tonnes CO_2e		141,708	198,536
	Scope 3 tonnes CO_2e		-	1,284,179
Carbon intensity metric				
Carbon footprint	Scope 1 & 2 tonnes CO_2e/£M EVIC		44.4	56.2
	Scope 3 tonnes CO_2e/£M EVIC		-	393.5
Portfolio alignment metric				
Implied temperature rise (degree celsius)			n/a	2.6˚C
Additional climate metric				
Data quality (% total portfolio)	Scope 1 & 2 emissions - covered (%)	Estimated (%)	63%	14%
		Reported (%)		60%
	Scope 1 & 2 emissions - Not covered (%)	No coverage (%)	37%	27%

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, greater ESG integration in growth stages of portfolios with higher allocation to equities is likely to result in a less carbon intensive profile whilst a higher allocation to fixed income during the de-risking phase is typically associated with a less carbon intensive profile. But this may be due to the higher proportion of assets, such as sovereign debt, with no climate data. Consequently, we have also mapped the different carbon-intensity profiles of three Members aged 30, 50 and 65 in Figure 3 below. This is to demonstrate how carbon metrics vary across different Members depending on the different risk profiles and asset classes they are invested in.

Figure 3: Asset allocation for the individual portfolios of three different Scheme Members invested in the Aegon BlackRock LifePath Flexi default



Please bear in mind that the value of investments may go down as well as up and the final value of a member's pension pot may be less than has been paid in. There's no guarantee funds will meet their objectives. Funds investing in a single asset class, for example UK equities, should only be used as part of a diversified portfolio. Any charts are for illustrative purposes only, and we reserve the right to change funds' asset allocations and charges. You should get financial advice if you're not sure whether an investment or product is right for you.

Table 11: Climate data reflecting the individual portfolios of three different Scheme Members invested in the Aegon BlackRock LifePath Flexi default, including associated emissions' metrics

LifePath Funds	Aegon BlackRock LifePath Flexi Early Days Fund			
Date	Dec 19	Dec 20	Dec 21	Dec 22
Scope 1 & 2 emissions coverage	98%	99%	99%	99%
Financed carbon footprint Scope 1 and 2 tonnes CO2e/ £M invested EVIC	n/a	76	62	59
Financed carbon footprint Scope 3 tonnes CO2e/ £M invested EVIC	n/a	n/a	n/a	404
Sales carbon emissions intensit Scope 1 and 2 CO2e/ £M sales	208	188	166	139
Sales carbon emissions intensity Scope 3 CO2e/ £M sales	n/a	n/a	n/a	945

LifePath Funds	Aegon BlackRock LifePath Flexi 2037-39 Fund			
Date	Dec 19	Dec 20	Dec 21	Dec 22
Scope 1 & 2 emissions coverage	67%	68%	67%	75%
Financed carbon footprint Scope 1 and 2 tonnes CO2e/ £M invested EVIC	n/a	74	58	56
Financed carbon footprint Scope 3 tonnes CO2e/ £M invested EVIC	n/a	n/a	n/a	389
Sales carbon emissions intensit Scope 1 and 2 CO2e/ £M sales	226	192	166	138
Sales carbon emissions intensity Scope 3 CO2e/ £M sales	n/a	n/a	n/a	937

LifePath Funds	Aegon BlackRock LifePath Flexi Retirement Fund			
Date	Dec 19	Dec 20	Dec 21	Dec 22
Scope 1 & 2 emissions coverage	43%	47%	48%	48%
Financed carbon footprint Scope 1 and 2 tonnes CO2e/ £M invested EVIC	n/a	72	57	53
Financed carbon footprint Scope 3 tonnes CO2e/ £M invested EVIC	n/a	n/a	n/a	375
Sales carbon emissions intensit Scope 1 and 2 CO2e/ £M sales	242	198	178	141
Sales carbon emissions intensity Scope 3 CO2e/ £M sales	n/a	n/a	n/a	976

Analysis and limitations of climate metrics

We have reflected on 2021 metrics versus 2022 for Aegon BlackRock LifePath Flexi. Firstly, we note that absolute emissions and carbon footprint have increased compared to last year. The increase can be explained in part by higher data coverage, a positive development to ensure we make decisions with more complete climate information. We have not included a benchmark as we are now comparing data between Scheme Years. Secondly, we specifically asked Aegon UK to work to increase data coverage from last year. Through collaborating with our data provider to improve fund mapping and liaising with key asset managers to obtain holdings of funds, our coverage increased by over 10%. In addition, we have spent time looking at the details and drivers of remaining data coverage gaps. Table 13 illustrates the data coverage split by asset classes for our portfolio.

- Our data coverage is excellent for equity and corporate fixed income, representing the majority of assets our Members are invested in.
- There is no industry consensus on the best methodology to use for reporting on sovereign debt emissions and we are currently not able to calculate these via our data provider.
- There is no methodology to measure emissions from cash and cash-equivalent.
- We have significantly increased our real estate coverage by improving how we identify Real Estate Investment Trusts, for which data quality is high.

Table 12: Data quality per asset classes for Aegon BlackRock LifePath Flexi

Asset classes	Data quality for Aegon Black-Rock LifePath Flexi (Scope 1 and 2 emissions covered in %)	% AUM of Aegon BlackRock LifePath Flexi
Equity	99.7%	67.8%
Sovereign debt	0%	25.3%
Corporate fixed income	96.8%	5.7%
Cash and equivalent	0%	0.9%
Real estate	99.5%	0.3%

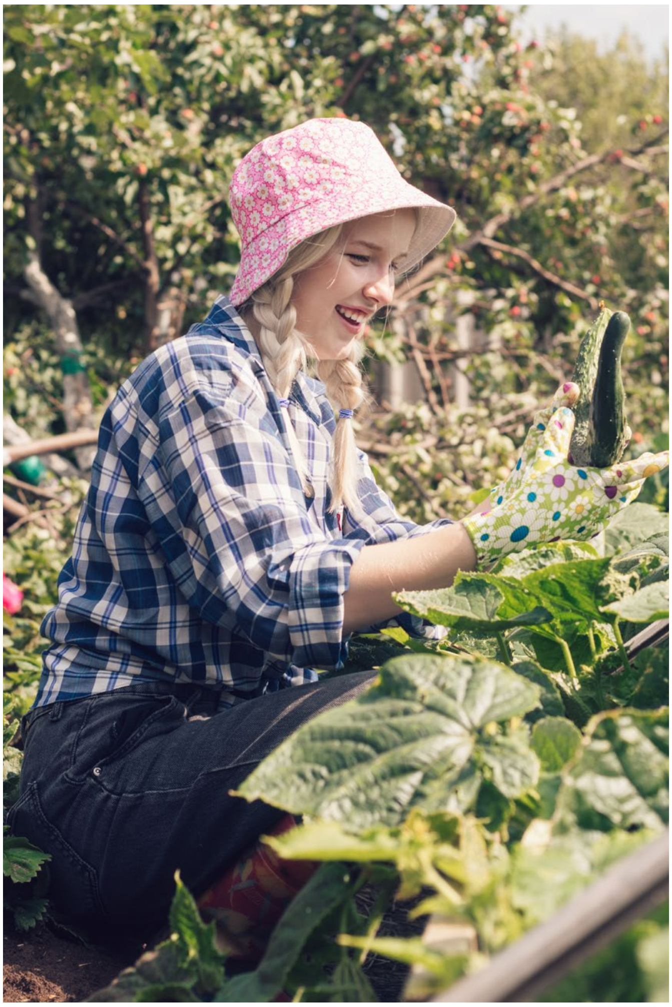
While having two years of data is helpful to begin to understand the climate impact of the Scheme's main default arrangement, we remain mindful of key limitations to current data, as per the below:

- We are currently not reporting data for sovereign debt. We have requested that Aegon UK provides us with the latest industry guidance and possible methodologies for us to do so. We recognise the emergence of industry guidance on sovereign debt such as Partnership for Carbon Accounting Financials (PCAF) standards[23] but we note there is no single publicly available source of data or commonly agreed industry methodology. We have asked Aegon UK to report progress and activities on this topic in the next Scheme Year and expect them to report on their industry engagement and data provider advocacy activities.

- 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, due to a lack of industry-wide company emissions auditing and regulation. This is particularly significant for scope 3 emissions which are all currently estimated, although they represent the majority of the carbon footprint of the financial sector. We will continue to monitor our scope 3 estimations and work with the industry to improve disclosures across scope 1, 2 and 3.

- We understand there are limitations regarding the calculation of implied temperature rise. In February 2022, our service provider, Aegon UK fed into the MSCI implied temperature rise consultation to improve calculation methodology. Improvements, including aligning with a 1.5°C industry standard, are expected to be released this summer so they will not be reflected in this year's report. As a result, we recommend considering implied temperature rise in conjunction with other metrics in 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 data disclosures and would like to see a greater transparency and consistency of emissions reporting across the industry.



23. Partnership for Carbon Accounting Financials (December 2022), The Global GHG Accounting and Reporting Standard for the Financial Industry

Progress against our net-zero targets

Annual absolute emissions and emissions intensity metrics help us track progress towards our net-zero targets. We have committed our default arrangement, Aegon BlackRock LifePath Flexi, to be net-zero greenhouse gas emissions by 2050. Furthermore, our medium-term net-zero target is to halve the carbon footprint of this fund by 2030 against a 2019 baseline, measured in tonnes of CO2 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 (e.g. cash, sovereign debt, commodities and alternative assets) but we expect that the scope of our target may widen to other areas of the Scheme over time. For example, we are currently working to explore how we could monitor the climate metrics of sovereign debt.

The progress being made in relation to BlackRock LifePath Flexi 2050 net-zero target is shown in Table 11 above, as at 31 December 2022. Whilst carbon footprint has increased since the 2021-22 Scheme Year, we believe we are still making progress towards our 2030 target by having improved data coverage and having significantly increased our net-zero alignment with BlackRock (see case study below). 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.

Case study:

Challenging BlackRock to set a climate target for BlackRock LifePath

During the 2021-22 Scheme Year we identified a risk of us not meeting our net-zero targets if we did not successfully partner with BlackRock. As a result, we increased our engagement with BlackRock throughout 2022 and requested that Aegon UK did the same. This included asking BlackRock to consider the adoption of a climate target for BlackRock LifePath. BlackRock LifePath had no specific climate target built into its objectives, despite BlackRock already having taken action to increase the fund's asset under management screened and/or optimised for ESG factors. Following our engagement, BlackRock proposed the addition of a target to halve carbon emissions intensity by sales across BlackRock Lifepath by 2029. In December 2022, the BlackRock LifePath investment strategy formally incorporated an ESG policy, which includes a climate objective and other sustainability-related objectives, into its fund prospectus. The update includes the aim to:

- Achieve a reduction of 50% in carbon emissions intensity by sales over a 10-year period (starting from July 2019)
- Invest a minimum of 80% of the assets held in corporate issuers in ESG screened/optimised strategies
- Invest a minimum of 80% of the assets held in sovereign debt issuers in strategies with an ESG sovereign rating of BB or higher
- Provide additional flexibility to invest in non-index funds.

We see this proposal as the first step towards creating a net-zero transition plan for Aegon BlackRock LifePath Flexi, which helps us mitigate the risk of the Scheme not meeting its net-zero targets. We will continue to engage with BlackRock on their delivery plan to meet the 2029 target. This includes using stewardship to support emissions reduction in the underlying investee companies, and sector and strategy-specific decarbonisation pathways.

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, 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. Whilst we are pleased with the foundations we have put in place to identify and address climate risks for Members, we expect we will continue to build our climate understanding and evolve our approach, in particular for transitioning Aegon BlackRock LifePath Flexi to net zero by 2050.

Going forward we will continue to:

- Measure our decarbonisation progress and regularly review the strength of our net-zero targets
- Monitor our asset 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.

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

- Updating our statement of investment principles to incorporate our new responsible investment beliefs and to reflect the availability of the new AMT Fund Range, in accordance with regulatory requirements
- Implementing our new expressions of wish approach and reviewing the alignment of our asset managers with our expectations, in relation to most significant votes, for the 2023 annual general meeting season
- Continuing to upskill ourselves on emerging areas related to climate change, such as biodiversity, so we can improve how these are addressed in our investment strategy.

In our view, climate change is a systemic issue: it requires global collaboration to smoothly transition the economy to net zero. We thus welcome regulatory 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 benefiting our Members' investments and the world they live in.

Appendix

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

Fund Name			1.5°C orderly scenario	2°C disorderly scenario	4°C failed transition scenario
World population	Peak year		2070	2070	2070
	in 2100 (million)		9019	9019	8990
GDP	Real GDP growth 2010-2100 (CAGR)		2%	2%	2.3%
Electricity generation by fuel source	2030 energy mix	% renewables	72%	41%	30%
		% nuclear	6%	6%	18%
		% gas	17%	26%	21%
		% coal	4%	28%	31%
	2050 energy mix	% renewables	94%	94%	50%
		% nuclear	3%	4%	15%
		% gas	3%	3%	15%
		% coal	0%	0%	20%
Carbon sequestration ($MtCO_2$/year)	Uptake (surpasses 5000 Mt/year)		2037	2050	2055
	Carbon sequestration peak (Mt/year)		8779	5926	12311
Low-carbon fuel sources in transport	2050 low carbon fuel sources (%)		26%	26%	4%
GHG emissions	Peak year		2020	2030	2020
	90% reduction achieved by		2045	2049	N/A
	Zero emissions achieved by		2055	2060	N/A
	Annual change – 2020-2030 (Compound Annual Growth Rate)		-7.1%	0.7%	-0.4%
	Annual change – 2020-2050 (Compound Annual Growth Rate)		-11.7%	-8.1%	-0.7%

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