

Navigating Net Zero Opportunities & Risks

Anne Scott

8th October 2024



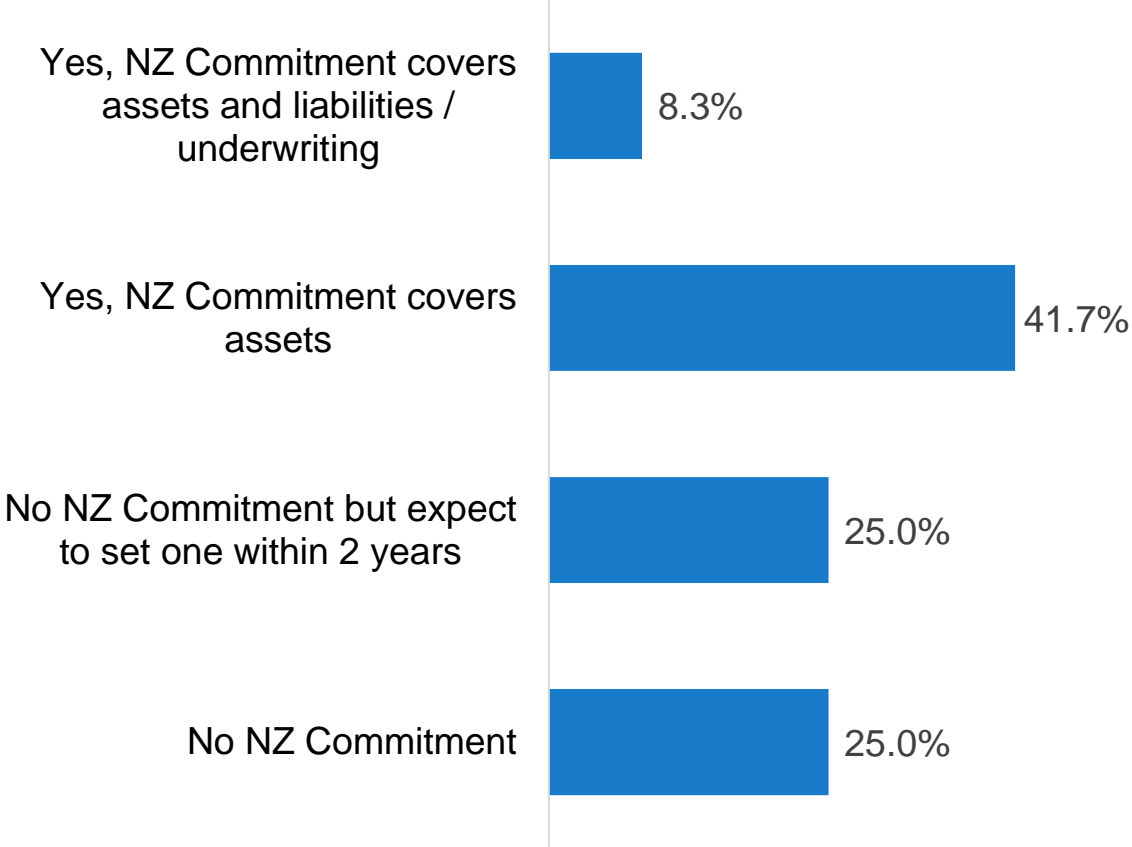
Introduction

Association of Financial Mutuals (AFM) and Aegon Asset Management created a member questionnaire designed to identify how prepared AFM members are to meet the PRA priorities in the year ahead, how they have engaged with their asset managers to help them embed climate risk in their processes and reporting as well as any areas outstanding where further supports are required.



Has your organisation made any net zero commitments?

The UN-convened Net Zero Asset Owner Alliance is an example of a member-led initiative of institutional investors committed to transitioning their investment portfolios to net-zero GHG emissions by 2050 – consistent with a maximum temperature rise of 1.5°C. Alliance members set intermediate targets, which include CO2 reduction ranges for 2025 and 2030.



Source: Aegon AM., as at April 2024

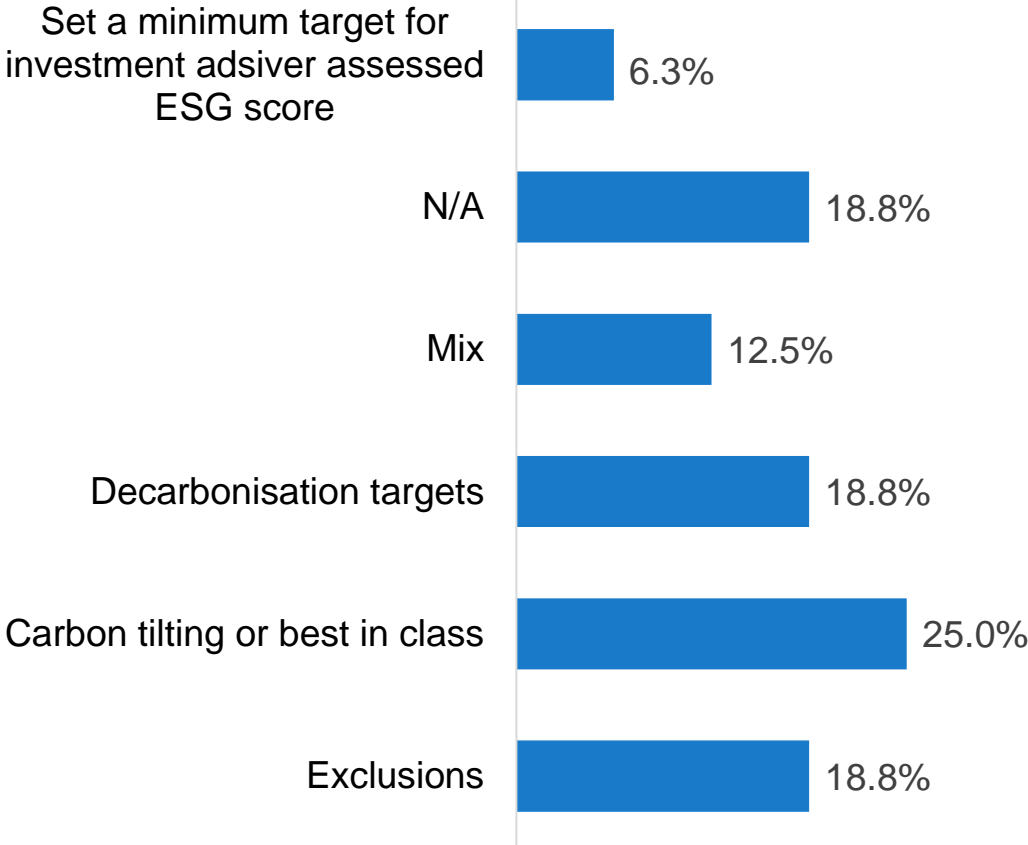
Are you preparing to issue TCFD-aligned reporting for year ending 2023?

58% of respondents told us that either they or their asset manager(s) are issuing TCFD reports during 2024



Do you have a dedicated allocation to low carbon assets within your investment portfolio?

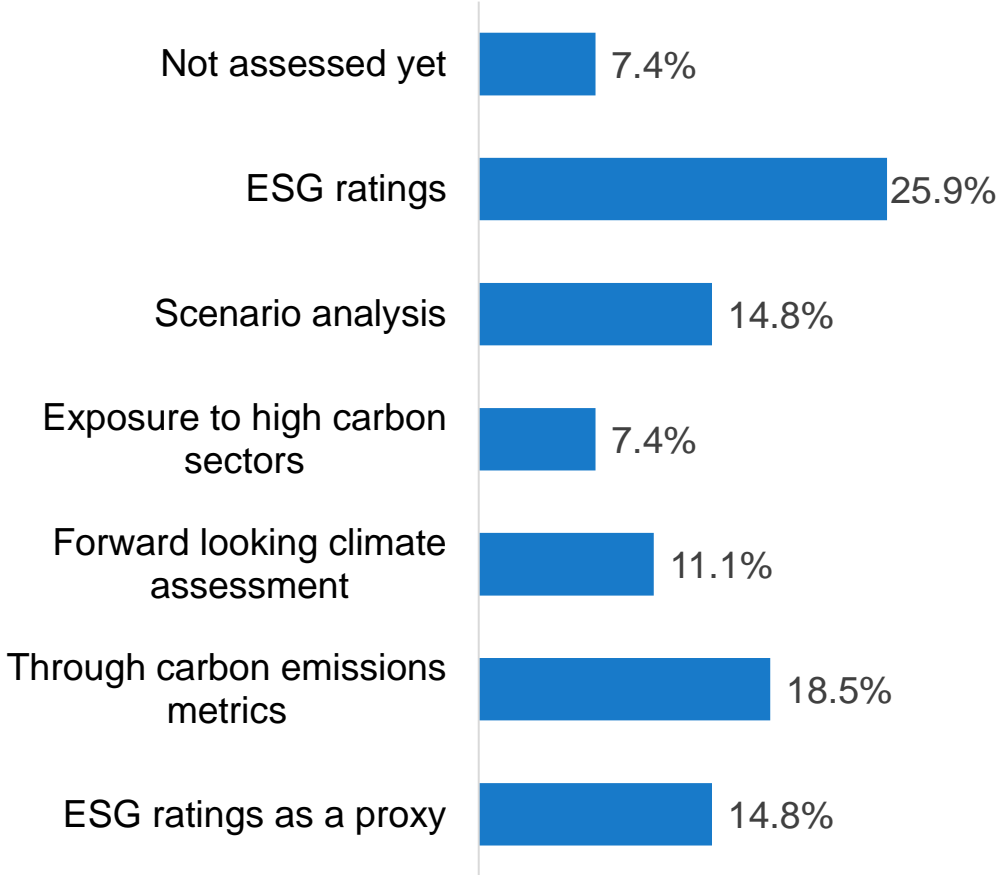
Do you have a dedicated allocation to low carbon assets within your investment portfolio and if yes, what approach have you taken?



Source: Aegon AM., as at April 2024

How do you assess the climate risk of your investment portfolio?

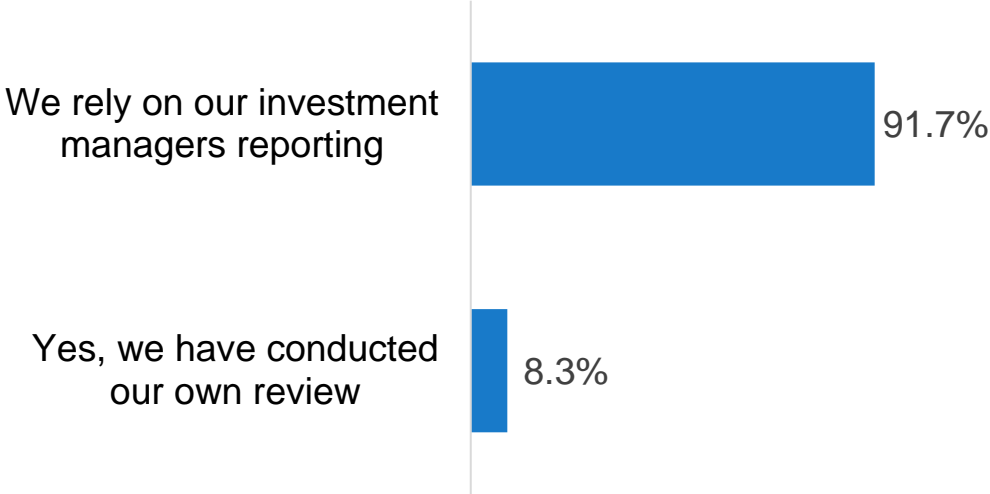
67% of respondents told us that the key driver for integrating climate risk & opportunity in the portfolio was for risk mitigation



Source: Aegon AM., as at April 2024

Carbon footprinting

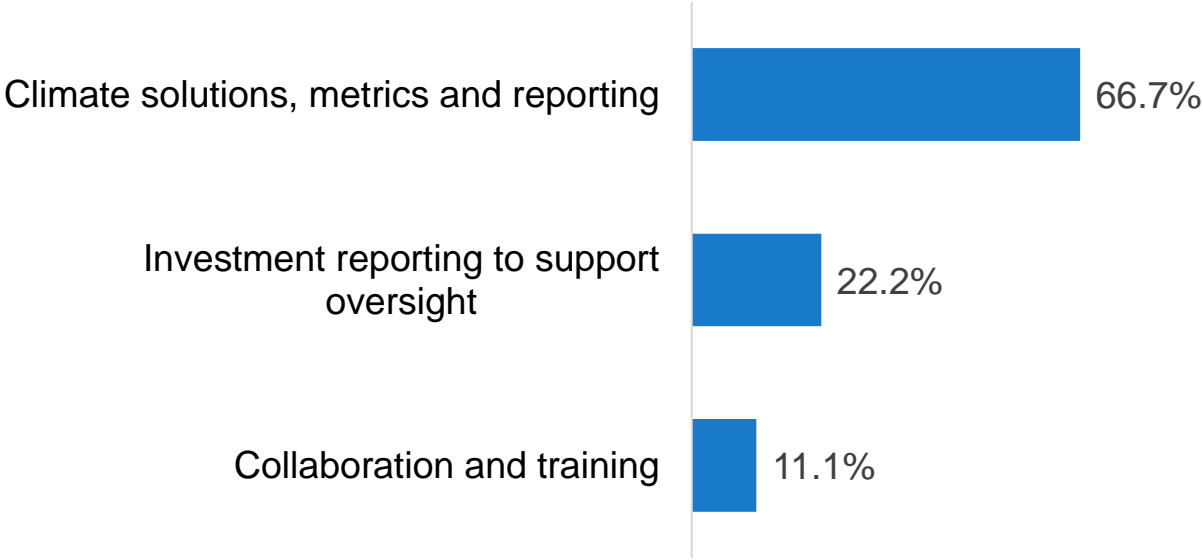
Have you conducted a carbon footprinting exercise on your investment portfolio or do your investment managers regularly report on carbon emissions metrics and climate exposures?



Source: Aegon AM., as at April 2024

What would you value most from your asset manager?

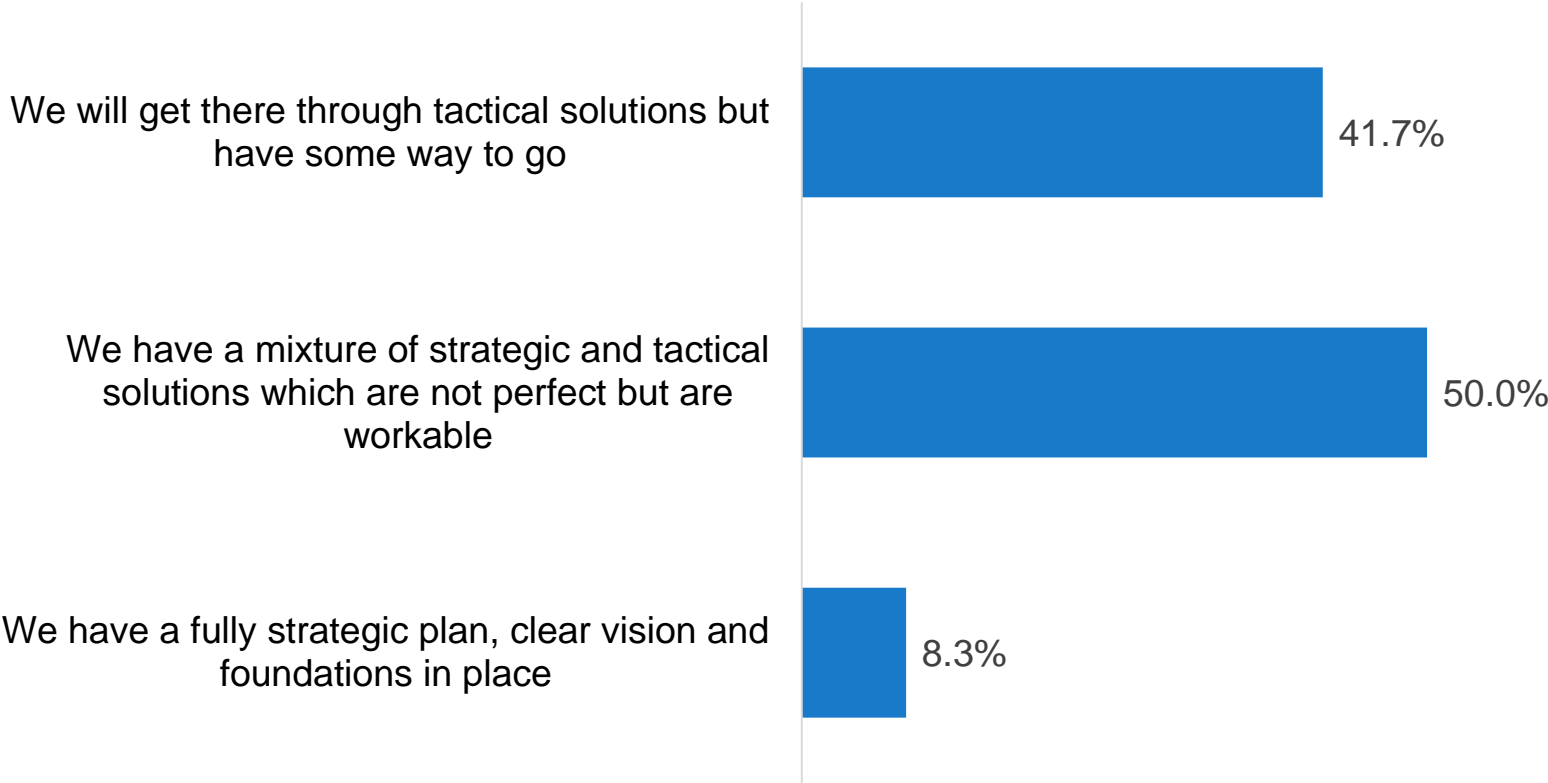
Supporting development of your capabilities and solutions.



Source: Aegon AM., as at April 2024

Embedding climate risk within your framework

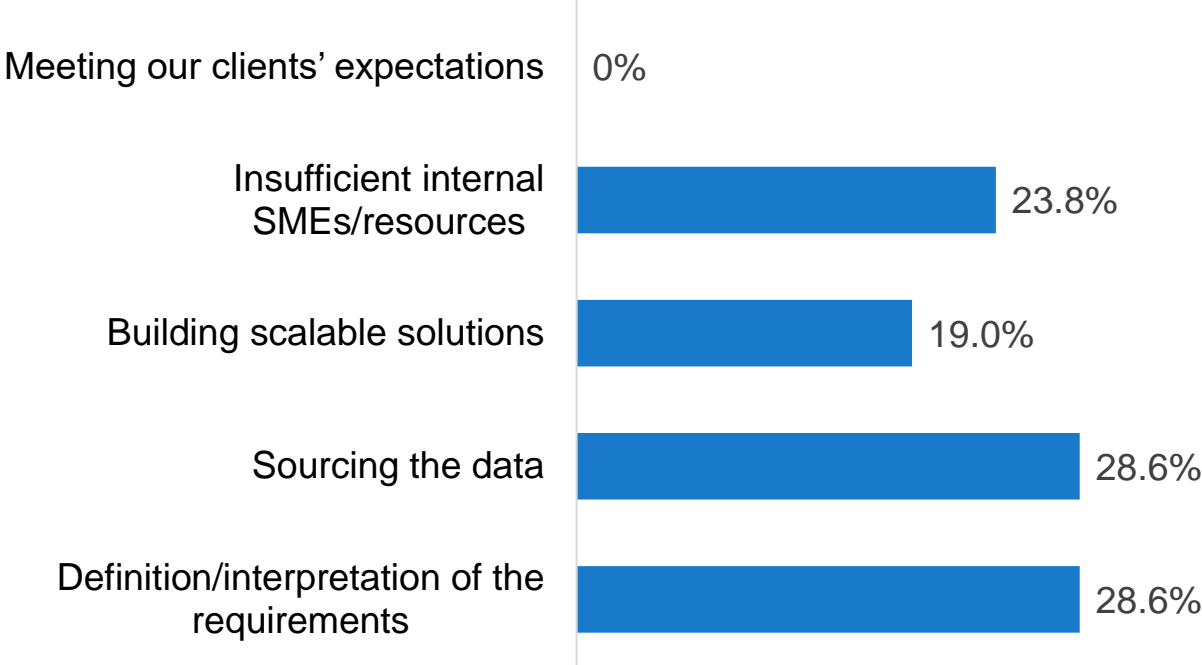
Are you preparing to embed climate risk within your framework?



Source: Aegon AM., as at April 2024

Compliance with climate related risks

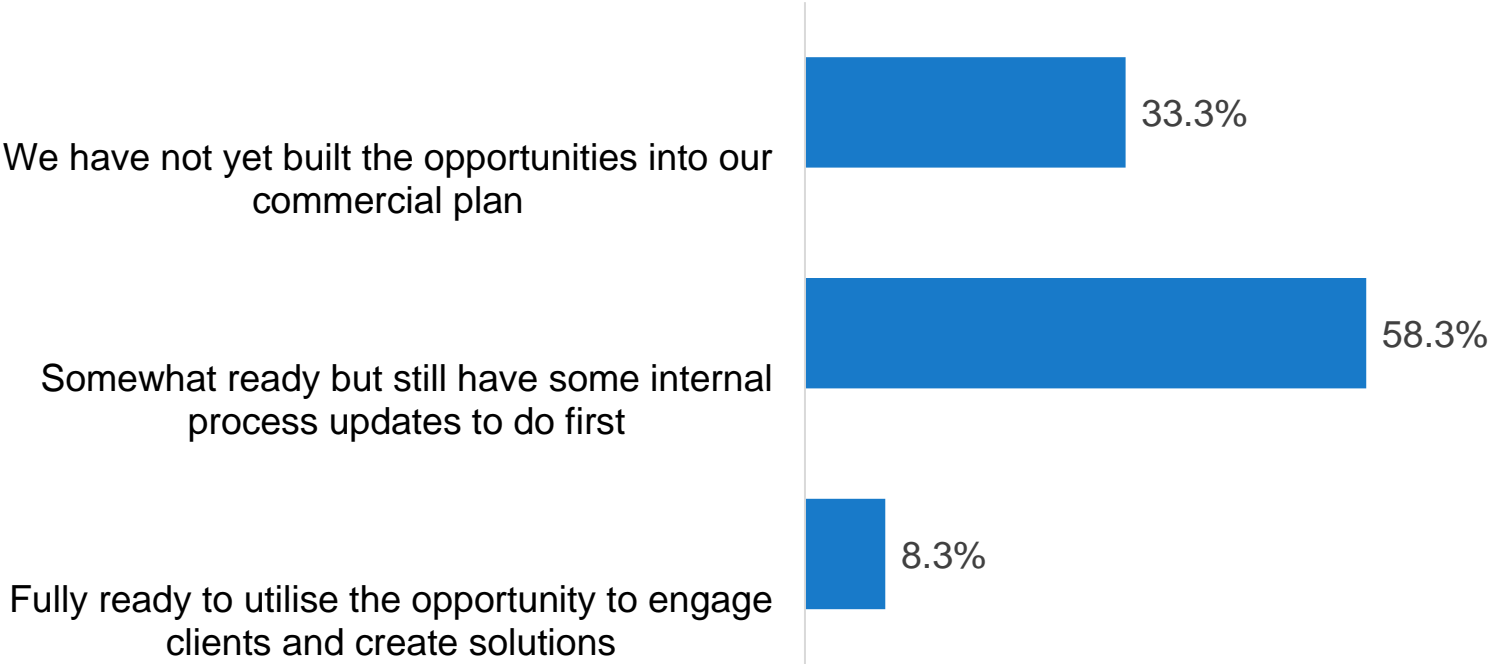
What's worrying you most about compliance with climate related risks?



Source: Aegon AM., as at April 2024

Taking opportunity

How ready do you feel to take advantage of opportunities presented by improving your capabilities to assess climate risk?

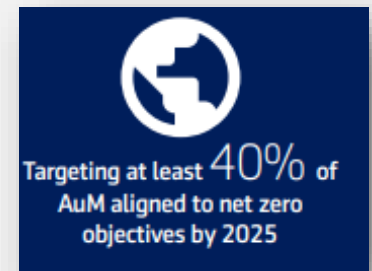


Source: Aegon AM., as at April 2024

Our climate action plan is focused on enabling clients to align investments with their net zero objectives. We are taking the following actions:

- ✓ Increasing the proportion of assets, we manage in line with the attainment of net zero emissions by 2050 or sooner.
- ✓ For the assets we manage in line with the attainment of net zero emissions by 2050 or sooner, we set interim targets consistent with the global reduction in emissions needed to limit global warming to 1.5°C.
- ✓ Encourage top 25 corporate emitters in our affiliated accounts to set science based reduction targets by no later than end of 2024.

Aegon Group and Aegon AM targets and climate action plan



Aegon AM UK Entity Level Report

[Aegon AM TCFD Aligned Climate Report 2023 available here](#)

The TCFD outlines 11 recommendations for organisations to include in their climate reporting categorised under the four pillars below.

GOVERNANCE

Describe the Board's oversight of climate-related risks and opportunities.

Describe management's role in assessing and managing risks and opportunities.

RISK MANAGEMENT

Describe the organisation's processes for identifying and assessing climate-related risks.

Describe the organisation's processes for managing climate-related risks.

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

STRATEGY

Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

METRICS & TARGETS

Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.

Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Aegon AM UK Entity Level Report

[Climate Action Plan available here](#)

2023 activity highlights



Published our Climate Action Plan which is focused on enabling clients to align investments with their net zero objectives.



As an active member of the Institutional Investors Group on Climate Change (IIGCC) and Climate Action 100+ we encouraged the world's largest corporate GHG emitters to take necessary action.



Strategic focus areas for 2024 and beyond



Introduced the Global Short Dated High Yield Climate Transition fund, increasing our offering to support investors to invest in companies with strong and credible transition plans.



Supported climate and ESG related training for employees across Aegon Asset Management through our 'Responsible Investment 2 Know' training program.



Encouraged the 25 biggest public corporate emitters in our affiliated insurance client accounts to set science-based reduction targets for their businesses by no later than 31 December 2024.



Evaluated climate-related risk through our proprietary ESG integration process and applied forward looking climate transition research to dedicated climate transition solutions.



On-boarded climate risk and reporting tools, which assess both transition and physical risks.

- Continue to support real world decarbonisation efforts by engaging with companies that we believe need to take action to meet the transition challenge.
- Enhance client offerings across solutions and reporting using climate risk and reporting tools.
- Introduce products and solutions to support our clients' net zero goals and enable investment in companies with credible transition plans.
- Strengthen our investment in ESG and climate change training to ensure our team is equipped with the latest knowledge and skills.

This report covers the period 1 January 2023 to 31 December 2023, unless otherwise specified.

Product Level Reporting under TCFD



Product-level reports provide core climate metrics for relevant products or funds. They help:

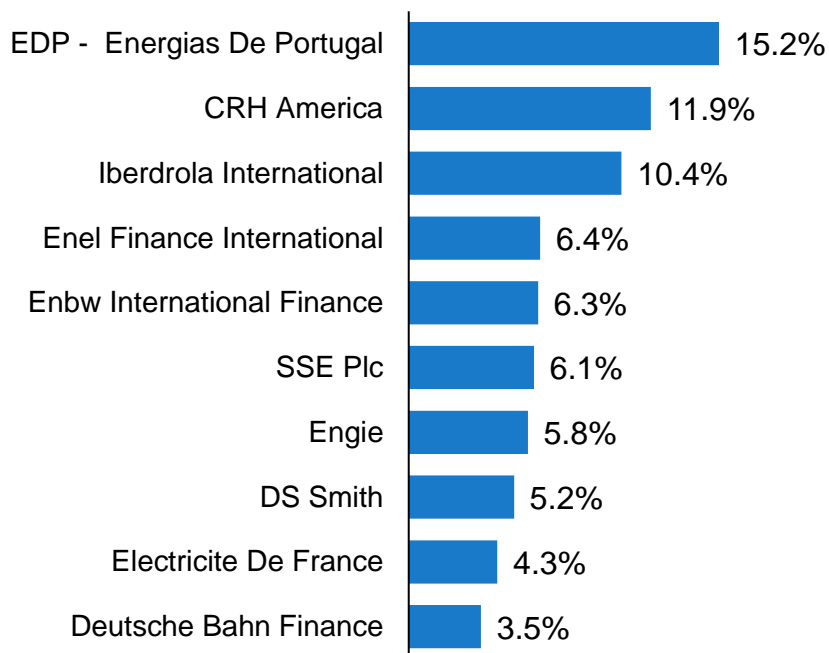
- Clients understand and manage climate-related risks and opportunities
- Investors use consistent, comparable information for climate impact decisions
- Contribute to a common framework for climate-related reporting

Low carbon footprint

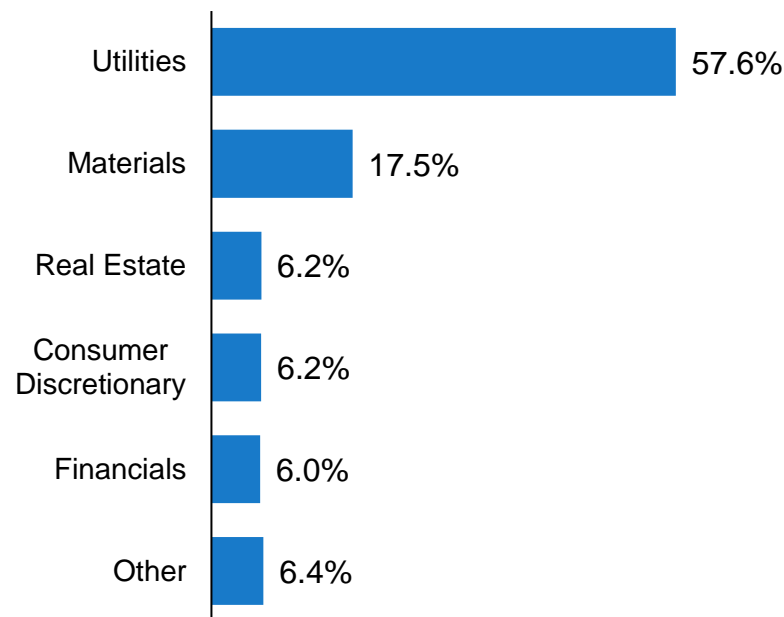
Transparent carbon footprint reporting

Metric	Unit	Portfolio	Portfolio coverage	Universe	Index coverage	Portfolio carbon reduction vs index
GHG intensity	tCO2e / GBP million revenue	84	96%	184	98%	54% lower

GHG intensity by issuer (Top 10)



GHG intensity per Industry



Source: Aegon Asset Management, 31 December 2023. GHG Intensity metric to measure carbon reduction. GHG intensity is the portfolio weighted sum of the carbon intensity (in tCO2e per GBP million revenue) by issuer and recommended metric by Task Force for Climate-related Financial Disclosures (TCFD). Aegon AM sources carbon emissions data from external ESG data providers: Sustainalytics and MSCI. Combined they have comprehensive coverage of the proposed investment universe and portfolio (>90%) which can be further enhanced by internal mapping where appropriate. Certain

Building a net-zero pathway

- Portfolio guidelines reflect a reasonable pace of transition
- Net-zero alignment by 2040
- Aim to build a diversified portfolio and encompass issuers from various sectors
- Compatible with emerging net-zero market frameworks
 - E.g. Paris Aligned Investment Initiative, Net-Zero Asset Owner Alliance, Net Zero Investment Framework

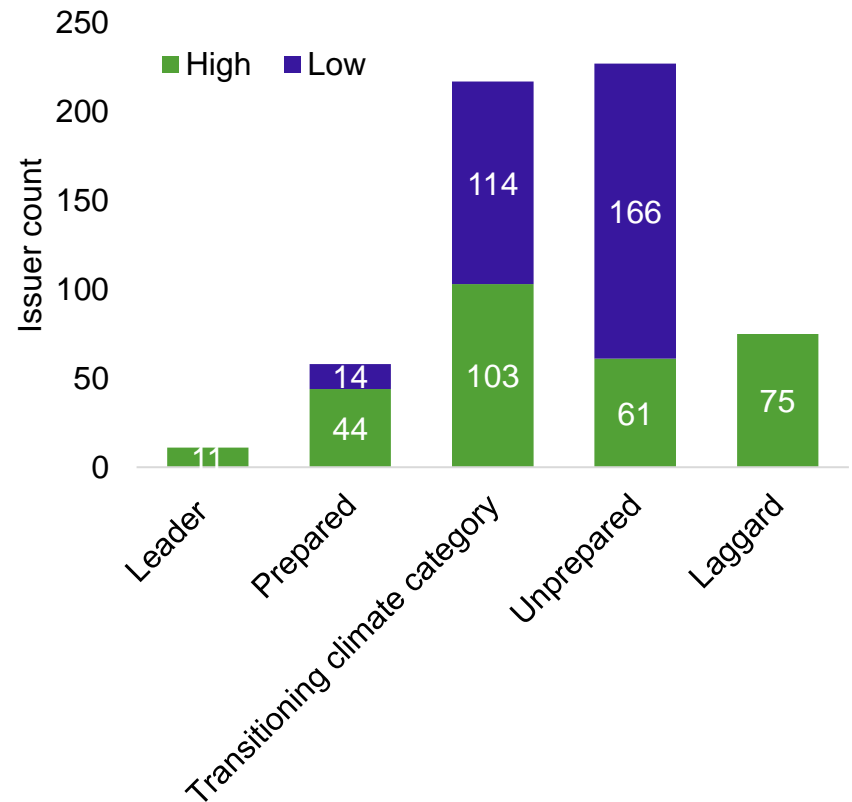
Climate Transition Category		Day 1	End 2024	End 2029	End 2034	End 2039
Leader	Ready for a low carbon future and actively driving the net-zero transition		No maximum limit			100%
Prepared	Policies, targets and actions aligned toward progress on net-zero		No maximum limit			100%
Transitioning	Demonstrating awareness of transition but a mixed degree of alignment	< 80%	< 60%	< 40%	< 20%	0%
Unprepared	Policies, targets and actions misaligned or unaware of required transition	< 40%	< 30%	< 20%	< 10%	0%
Laggard	Unprepared for a low carbon future and actively working against climate goals	< 10%	< 5%	0%	0%	0%

Emerging themes in our coverage

- Negative skew across categories – over 50% rated in the bottom 2 most misaligned categories.
- European companies tend to score better than companies from other regions.
- Our coverage is across High Yield and Investment Grade.
- In general, seeing progress overall but mindful some companies are reducing ambition.
- Portfolio management considerations need to reflect this.

High & Low Influence Coverage by Category

- Approx. **588** companies covered to date*
- Low influence names cannot be leaders or laggards by definition
- **39%** of names covered are unprepared
- **37%** of names are transitioning
- **2%** of names covered are leaders



*As at September 2024

Summary

- Financial organisations are increasingly climate aware and are working with stakeholders across the value chain to make commitments and implement changes to achieve these
- Increasing standardization is supporting disclosures and reporting
- Respondents are utilizing a range of tools to adjust their portfolios to meet client and regulatory demands
- Risk mitigation remains the key driver for portfolio adjustments
- Clear that Asset Managers need to do a good job in supporting clients with portfolio metrics and reporting alongside the development of climate solutions



Thank you to all
members who
responded and
supported our
initiative



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