Aegon High Yield Bond Fund

A sub fund of Aegon Asset Management UK ICVC

TCFD Product Disclosures Report as at 31 December 2024

aegon asset management

Introduction

The disclosures in this report have been created to satisfy the FCA's climate-related disclosure requirements for asset managers, which are consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Unless otherwise disclosed, the Aegon High Yield Bond Fund approach to the consideration of climate-related risks and opportunities is consistent with the approach followed by Aegon Asset Management UK plc as set out in the Entity Level Report which can be found here.

Fund information

The Aegon High Yield Bond Fund takes a high-conviction, bottom-up approach to unlocking value across global high yield markets. Our index-agnostic fund aims to generate long-term outperformance by exploiting global high yield market inefficiencies which range across issuers, sectors and geographies. The fund blends a top-down, strategic perspective on the asset class with high-conviction credit research, leveraging our deeply-resourced credit research team, and distressed debt specialists.

Base currency	GBP
NAV	£1,020 million
Total listed equity and corporate bonds versus NAV	98.55%

Source: Aegon Asset Management. The remaining exposures are to cash. derivates and other investments.

Climate-related metrics

At Aegon Asset Management, we use a range of metrics to identify and assess climate-related risks and opportunities, and track progress against our targets. We follow the Partnership for Carbon Accounting Financials (PCAF Standard) recommended methodologies for calculating the financed carbon emissions of our portfolios.

Coverage: Coverage of our portfolio gives an indication on the data availability per metric from our external provider – it should be noted that exposures to assets other than public equities, fixed income and sovereign bonds are not filtered out of the report, but no carbon emissions data is available for these asset classes. Coverage is expressed as a %, which is the sum of the market value of portfolio holdings that are covered by ESG data. Securities with no ESG data coverage are disregarded from the aggregation methodology for all metrics and the rest of the dataset is renormalized.

Data source: ESG data may be either: reported directly by the issuer company, estimated by a financial market participant or by a third party ESG data vendor. The source of the carbon emissions data used in this report is indicated accordingly, expressed as the aggregated market value or market value % of holdings in each respective category. For listed equities and corporate fixed income assets no internal estimations are carried out, estimated data is sourced from a third-party data provider and is based on their proprietary estimation models. We have seen an increase in company disclosures on emissions, particularly for Scope 1 and 2. Where data is available for Scope 3 emissions, it has been estimated by our third-party data provider.

The below explanations to each metric will highlight these to ensure clarity and transparency around the data captured in this report. It should be noted that explanations are based on recommended calculations for listed equity and corporate fixed income – for single-name derivative instruments, the issuer’s emissions of underlying assets are used.

Metric	What it is and what it tells us	How we use it
Financed GHG emissions metrics (tons of CO2 equivalent, "tCO2e")	Financed GHG emissions, shown in this report as Scope 1 & 2 emissions and Scope 3 emissions, are the absolute greenhouse gas emissions associated with a portfolio. **This metric uses an ownership-based methodology; multiplying the emissions of the issuer by an ownership factor: for listed equity and listed corporate fixed income issuers, it uses the current value of the asset manager's investment against the enterprise value including cash (EVIC) of the issuer to quantify the emissions associated with the investment.**	This metric is useful for considering the overall emission impact of a portfolio – changes can be monitored in the emissions and attribution analysis can be done on an issuer level. However, this metric is not optimal for comparison between portfolios since it is not normalised. Additionally, the EVIC, an underlying datapoint in the calculation, is calculated by external data providers and has been observed to differ greatly (by up to 300% in some cases) dependent on the exact calculation methodology used by a provider, which might inadvertently inflate or minimise the financed emissions.
Scope 1	Scope 1 carbon emissions are emissions generated from sources that are controlled by the company that issues the underlying assets	
Scope 2	Scope 2 carbon emissions are emissions from the consumption of purchased electricity, steam, or other sources of energy generated upstream from the company that issues the underlying assets	
Scope 3	Scope 3 carbon emissions are all indirect emissions that are not scope 1 or scope 2 emissions and that occur in the value chain of the reporting company, including both upstream and downstream emissions, in particular for sectors with a high impact on climate change and its mitigation	
Carbon footprint (economic emissions intensity)	This metric represents the financed carbon emissions (Scope 1 & 2 and Scope 3 reported separately in this report) of a portfolio normalised by the total portfolio value in millions of GBP.	This metric is useful for comparing portfolios but is sensitive to the same EVIC data dependencies detailed above under financed emissions. In addition, when comparing changes in carbon footprint over time, the metric can be driven by changes in EVIC rather than changes in carbon emissions. To correct for this, PCAF has suggested applying an adjustment factor to the

		formula to enable comparison of carbon footprint over time. This formula is conceptually endorsed by AAM, but fails to consider the implications of portfolio composition changes as well as data availability. As such, the carbon footprint used in this report has not been calculated using any adjustment factors, but we are awaiting and monitoring the maturation of the calculation methodology guidance from PCAF.
Weighted average carbon intensity (or GHG Intensity)	This metric represents the carbon emissions (Scope 1 & 2 and Scope 3 reported separately in this report) of an issuer divided by their revenue in millions of GBP which is then allocated by portfolio weight.	This metric is useful for comparison between portfolios of different sizes and allows for comparison of issuers' carbon intensity. However, companies with higher prices compared to their peers may be favourably impacted when normalising their emissions by revenues. In the future, we also expect the same inflation adjustment factor to be applied to issuers' revenues as suggested for issuers' EVIC, but, to date, no specific guidance has been issued on this metric by PCAF.
Sovereign financed GHG emissions	The attributed emissions of our sovereign debt holdings: similarly to financed emissions for listed equity and corporate fixed income, it uses an ownership-based methodology. For the attribution factor, the current value of the asset manager's investment is used against the Nominal GDP (in millions of GBP) of the issuer country to quantify the emissions associated with the investment.	It is important to note that the latest guidance issued by PCAF Standard for the calculation methodology of this metric utilizes the Purchase Power Parity (PPP)-adjusted GDP rather than the GDP nominal. We recognize that using the PPP-adjusted GDP improves comparison between actual economy sizes, and we fully intend to transition to this methodology next year when this datapoint is integrated into our systems. In this report, nominal GDP is used, which is in alignment with other industry standard calculation methodologies (e.g. Sustainable Finance Disclosure Regulation) and previous PCAF guidance.
Science based targets (SBTi)	This metric represents the sum of the market value % of our investments in issuers with approved Science based targets. The Science Based Targets initiative (SBTi) is a global body enabling businesses and FIs to set ambitious emissions reductions targets in line with climate science. It is focused on accelerating companies and financial institutions across the world to align with the Paris Agreement goals and halve emissions before 2030 and achieve net-zero emissions before 2050. The initiative is a collaboration between four of the world's most established environmental organizations: CDP,	This metric is a useful indicator to assess portfolio's exposure to issuers that have a clearly-defined, validated and approved path to reduce emissions in line with the Paris Agreement goals.

the United Nations Global Compact (UNGC), World Resources Institute (WRI) and the World Wide Fund for Nature (WWF), and is one of the We Mean Business coalition (WMB) commitments.
The SBTi defines and promotes best practice in science-based target (SBT) setting, offers resources and guidance to reduce barriers to adoption, and independently assesses and approves companies' targets.

Carbon emissions for this portfolio: Corporate bonds

	2023	2024
	Portfolio	**Portfolio**
Financed emissions (tCO2e)		
Scope 1&2	55,189	79,049
Scope 3	311,939	622,276
Total	**367,128**	**701,325**
GHG Intensity (tCO2e / £M)		
Scope 1&2	163	152
Scope 3	922	1,190
Total	**1,085**	**1,342**
Value with emissions data		
Scope 1&2	£338,636,846 (55.40%)	£523,616,003 (51.32%)
Scope 3	£338,636,846 (55.40%)	£522,949,918 (51.26%)
Value reported		
Scope 1&2	£263,771,163 (43.16%)	£450,687,141 (44.17%)
Scope 3	-	£73,901,037 (7.24%)
Value estimated internally (%)		
Scope 1&2	-	-
Scope 3	-	-
Value estimated externally (%)		
Scope 1&2	12.24%	7.14%
Scope 3	55.40%	44.02%

Source: MSCI ESG.

Definitions

Value with emissions data	also known as **Coverage**
Value reported	Amount of data collected from investee company reports, either directly or indirectly via third-party vendors
Value estimated internally (%)	The amount of data that is estimated using an internal methodology
Value estimated externally (%)	The amount of data that is estimated by the external provider
Science based targets (SBTi)	Investments with approved SBTs

Weighted average carbon intensity (WACI) (WACI tCO2e / £M)		
Scope 1&2	284	223
Scope 3	1,509	1,530
Total	**1,794**	**1,753**
Value with emissions data		
Scope 1&2	£421,146,766 (68.90%)	£534,825,032 (52.42%)
Scope 3	£405,952,055 (66.42%)	£534,825,032 (52.42%)
Value reported		
Scope 1&2	£289,639,729 (47.39%)	£443,282,647 (43.45%)
Scope 3	-	£73,901,037 (7.24%)
Value estimated internally (%)		
Scope 1&2	-	XXX
Scope 3	-	XXX
Value estimated externally (%)		
Scope 1&2	21.52%	8.97%
Scope 3	66.42%	45.18%
Science based targets (SBTi)		
Scope 1&2	N/a	N/a
Scope 3	N/a	N/a
Total	**14.43%**	**12.39%**

Source: MSCI ESG.

Source: MSCI ESG.

Climate scenario analysis

Our approach to climate scenario analysis

Climate-related scenario analysis can be useful tool for identifying which areas of our strategies and businesses might be impacted by climate change, under a range of plausible future states. We have a set of climate risk tools, which assess both transition and physical risk and refer to this as **climate value-at-risk:** a way to measure climate-related valuation impacts at a portfolio and/or asset level.

We have carried out scenario analysis on how the market value of our listed equities and corporate fixed income holdings held within the fund would be impacted under the following Network for Greening the Financial System ("NGFS") phase 3 scenarios:

Scenario	
Orderly – Net Zero 2050	Limits the global mean surface temperature rise to 1.5°C by 2100 by introducing early and gradually more strict climate policies. The representative scenario for an orderly transition assumes immediate action is taken to reduce emissions consistent with the Paris Agreement. It assumes introducing a carbon emissions price in 2020 calibrated to keep global warming well below 2°C. Since policy measures are introduced early and increase progressively, physical risks are assumed to remain low over the period.
Disorderly	Limits the global mean surface temperature to 1.8°C by 2100, which explores higher physical risk due to delayed climate policies followed by aggressive policy response starting in 2030. The representative scenario for a disorderly transition shows a much more challenging pathway to meeting the Paris Agreement targets. The delay means that net-zero CO2 emissions must be reached more quickly by around 2050. Correspondingly the increase in emissions prices is much more rapid.
Hot House	Limits the global mean surface temperature to 3.3°C by 2100, assuming that policies are implemented in some jurisdictions, but globally efforts are insufficient leading to high physical risks. The representative scenario for a "Hot House World" assumes that only current policies are implemented. As a result, the climate goals set out in the Paris Agreement are not met, leading to substantial physical risks over the medium and long term.

In addition, we are reporting implied temperature risk:

Implied Temperature Rise	Temperature Alignment evaluates the climate performance of an issuer by comparing cumulative emission projections to emission budgets implied from NGFS scenario benchmarks. The result is expressed as an implied degree Celsius temperature increase (compared to pre-industrial levels) which the issuer is aligned to. Issuer projections feeding this metric reflect company information (such as emission reduction targets) and technological advancements and policy changes (as accounted for through a choice of scenarios). The Temperature Alignment metric shown in this report is for 2050, uses the Hot House – Nationally Determined Contributions climate scenario and assumes any GHG reduction targets issuers have set are met in full.

Scenario analysis results

The analysis below covers the corporate fixed income and equity holdings within the in-scope fund list. The charts below set out the transition and physical climate adjusted values under the three scenarios analysed.

Exposure to carbon intensive sectors	19.14 %	Not High

Source: Aegon Asset Management. % of total NAV invested in holdings in 'carbon intensive' sectors. We use the Global Industry Classifications Standard (GICS) to define sectors. We have identified the following carbon intensive sectors that significantly contribute to our fund's emissions – Materials: all industry groups and sub-sectors, Energy: all industry groups and sub-sectors, Consumer Discretionary: automobiles and components; consumer durables and apparel , Consumer Staples: agriculture products & services, Industrials: construction and engineering; air freight and logistics; passenger airlines, Information Technology: technology distributors; electronic manufacturing services and Utilities: electric; gas; multi; independent power & renewable electricity producers . We consider a 25% exposure or greater to be high.

	Climate Value at Risk	Coverage	Comment
Orderly Scenario (transition)	-3.75%	99.5%	Under either of orderly or disorderly transition scenarios, there is a minimal negative impact on the value of the assets, reflecting the cost of transition on the underlying issuers.
Disorderly Scenario (transition)	-1.86%	99.5%	
Hot House World Scenario (physical)	-0.49%	99.5%	Under hot house world scenario, there is a minimal negative impact on the value of the assets, reflecting the cost of adapting to a changing physical climate.
Implied Temperature Rise	2.44		

Source: Blackrock Aladdin Climate.

Disclaimer

This is not intended to be used for marketing purposes and does not constitute investment advice or recommendation and should not be relied upon as such. Past performance does not predict future returns.

Please refer to the Prospectus of the UCITS and to the KIID before making any investment decisions.

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