Aon

TCFD Entity Report

Aon Investments Limited
Year Ended 31 December 2024



This report is the annual Task Force for Climate-related Financial Disclosures (TCFD) report produced for Aon Investments Limited (AIL). It relates to the period 1 January 2024 to 31 December 2024.

AIL is a component part of Aon plc's (Aon) solution lines in the UK and a direct subsidiary of Aon Solutions UK Limited (ASUKL), which is itself an indirect subsidiary of Aon. AIL is comprised of a number of business lines — Investment Management, Investment Consulting, Defined Contribution Consulting and Risk Settlement Consulting.

The disclosures provided in this report set out how AIL takes climate-related risks and opportunities into account in managing investments on behalf of clients. Therefore, it relates to AIL's Investment Management business line and its respective asset portfolios only, and not to any other business lines within AIL or businesses Aon may operate in the UK. References to "we" or "our" refer to AIL's Investment Management business unless stated otherwise.

As a member of the Aon plc group, we rely on the climate-related financial disclosures consistent with the TCFD Recommendations and Recommended Disclosures made by Aon plc for our business-related disclosures in accordance with the FCA regulations. In addition to the disclosures provided in this report, general business-related scope 1 and scope 2 disclosures are reported in Aon plc's TCFD report for the period 1 January 2024 to 31 December 2024 which can be found here and is referenced throughout this report.

For the calculation of metrics, we use the industry standard methodology as set out by the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting and Reporting Standard for the Financial Industry Part A: Financed Emissions[1].

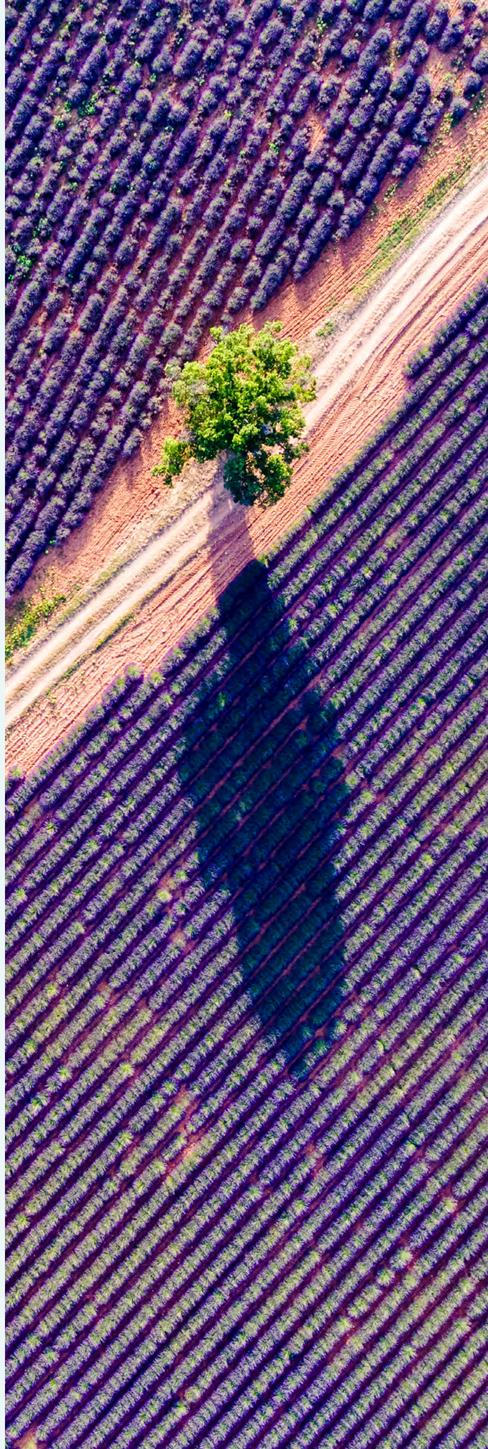


[1] The Global GHG Accounting and Reporting Standard for the Financial Industry (carbonaccountingfinancials.com).

Information in this report is correct at time of publication and for the year end in question. It does not reflect any changes in AIL's approach or strategy since that date.

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Foreword

We are delighted to present our annual TCFD report for AIL's Investment Management business, which encompasses how we integrate climate risk considerations into our investment portfolios.

Aon exists to shape decisions for the better - to protect and enrich the lives of people around the world. Through actionable analytic insight, globally integrated Risk Capital and Human Capital expertise, and locally relevant solutions, our colleagues provide clients in over 120 countries with the clarity and confidence to make better risk and people decisions to help protect and grow their businesses.

Climate risk is a critical global issue that poses significant risks to financial markets. In 2024, we experienced the hottest year ever recorded[2], with more extreme climate-related events such as heatwaves, wildfires, and rising sea levels, primarily due to continued record-levels of carbon dioxide emissions. These events had substantial impacts on peoples' lives and businesses worldwide.

To address these challenges, we have continued to integrate climate considerations into our investment portfolios to better manage climate-related risks for our clients. We are committed to transparency and driving positive change as responsible stewards of our clients' assets. Our latest analysis affirms our belief that our portfolios are resilient to climate risks and that we are well positioned to support our clients with their climate objectives.

Empowering Stewardship[3]

Achieving widespread market change is essential for reducing greenhouse gas emissions and limiting the effects of climate risk. By engaging with the managers we invest in, we encourage the collective action needed to address climate risk. We evaluate and monitor asset managers on how they integrate ESG, as well as how they exercise their stewardship duties and take action to address the carbon emissions profile of their funds.

Addressing climate-related risks requires coordinated efforts across geographies, governments, businesses, and other organisations. We support collaborative engagements with key stakeholders such as regulators, non-governmental organisations, and industry bodies to identify solutions to critical barriers. We are committed to improving climate outcomes for our clients by collaborating with other parties to drive necessary change.

Taking Action in Our Portfolios

The transition to a low-carbon economy requires significant change and presents new growth opportunities. We continue to develop investment ideas that accelerate progress towards carbon reduction within investment portfolios.

Our Multi-factor Equity Strategy aims to deliver half the weighted average carbon intensity compared to the broad equity market. This is achieved by filtering the investment universe to tilt towards companies with a lower carbon intensity.

Our Global Impact Equity Strategy, launched in September 2020, aims to deliver long-term returns in excess of its benchmark while also aiming to deliver positive social and environmental impact.

Our Multi-Asset Credit Strategy combines our extensive expertise in fixed income investing with our expertise in responsible investing. The strategy invests in multi-asset credit funds that align with key themes - the United Nations Sustainable Development Goals and climate.

[2] World Meteorological Organization (2025). Available from here.
[3] Please see Section 3.2 of this report and AIL's UK Stewardship Code submission.

We developed a passive Global Equity Climate Transition Fund and a passive Global Emerging Markets Equity Climate Transition Fund, which are now held within the majority of client portfolios. These funds, which we worked with an investment manager to design, focus on delivering decarbonisation and positive outcomes aligned with a 'just and fair' transition[4].

Progress to net zero

Through our AIL net zero target, we are strengthening our approach to building resilience and sustainability into client portfolios.

We continue to make progress on AIL's net zero commitment, reducing our combined scope 1 and 2 carbon footprint materially since 2019. This is in part due to steps we have taken to incorporate innovative climate solutions into our portfolios, such as the introduction of new funds, repositioning of existing funds, and addition of low-carbon overlays. For more information on our AIL net zero progress please see Section 5 *Targets*.

We remain dedicated to fostering positive change through our AIL net zero commitment, continuously developing and providing innovative solutions to our clients, and maintaining active engagement with investment managers and the broader industry. Our ongoing progress enables us to fulfil Aon's pledge to support our clients, colleagues, and communities in making informed decisions, reducing their environmental footprint, and ultimately contributing to a more sustainable future.

Thank you for reading our report.

Maria Johannessen
Head of UK Investment

Compliance Statement

This report has been prepared in accordance with Chapter 2 *'Disclosure of climate-related financial information'* of the FCA ESG Sourcebook.

I confirm to the best of my knowledge that the disclosures provided in this report for AIL comply with the requirements of Chapter 2 *'Disclosure of climate-related financial information'* of the FCA ESG Sourcebook.



[4] Intergovernmental Panel on Climate risk (IPCC) defines just transition as "A set of principles, processes and practices that aim to ensure that no people, workers, places, sectors, countries or regions are left behind in the transition from a high carbon to a low-carbon economy". IPCC, 2022. IPCC_AR6_WGIII_Annex-I.pdf

1 Governance

We remain committed to the highest ethical and compliance standards and design our governance structures to inform business decisions and improve the way we serve our clients.

AIL manages £23.2 billion on behalf of our clients using multi-manager investment fund solutions. Many of our clients are UK DB pension scheme clients, for whom we manage assets on a delegated basis. We offer fiduciary services for DC pension scheme clients. We also manage and advise assets on behalf of other clients, for example, non-UK DB pension schemes, endowments, or clients to whom we provide outsourced chief investment officer (OCIO) services. The assets we manage on behalf of these clients are included in the DB assets in this report.



1.1 Our Group Structure

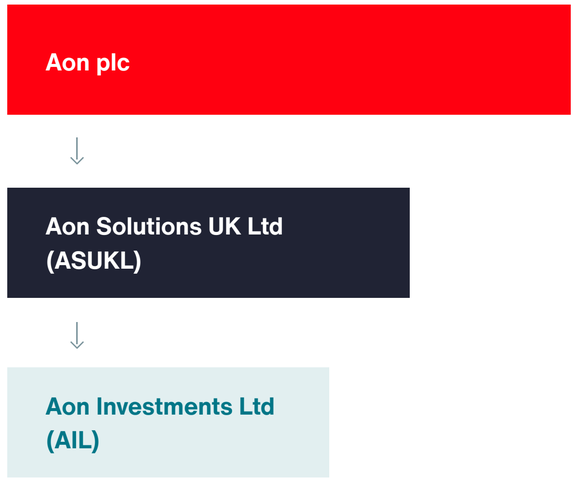
AIL sits within Aon Group's Global Human Capital solution line and is part of the broader UK business. It is an indirect subsidiary of Aon plc (as shown in Figure 1) and, as such, it shares Aon's climate-related corporate ambitions.

The Aon plc Board is responsible for the oversight of the global firm's climate-related risks. Aon's ESG Steering Committee and Net-Zero Committee report through senior management to the Aon plc Board. They set and monitor climate strategy for Aon as an organisation and oversee the reporting policies, practices, and progress globally against commitments for stakeholders.

More details on Aon's governance structure and its climate-related risk management processes can be found in its TCFD report, and on its Impact website.

To the right is a very simplified structure chart reflecting AIL's position within the Aon plc group.

Figure 1: Aon's Group Structure



This diagram only reflects part of the wider Aon group entities.





1.2 The AIL Board

AIL is governed by the AIL Board. The AIL Board is responsible for overseeing that climate-related risks and opportunities are identified, assessed, and managed with appropriate risk mitigation measures in place. Our assessment and management of climate-related risks fall into two strands a) how we operate as a business and b) our services to our clients.

As part of its oversight responsibilities for climate-related risks and opportunities, the AIL Board receives periodic updates on management's progress towards our climate commitments (and other climate-related issues if required). In addition, the AIL Board, via its dedicated risk sub-committee, the Risk and Compliance Committee, receives quarterly reporting and escalations on the risks to AIL's business, which include climate-related risks where relevant.

AIL receives support from other Aon businesses via the Aon Business Services function, which includes vendor management, risk, compliance, legal, finance and technology functions amongst others.

A more detailed description of how AIL manages its business and climate-related risks below the AIL Board level is set out on the following pages.

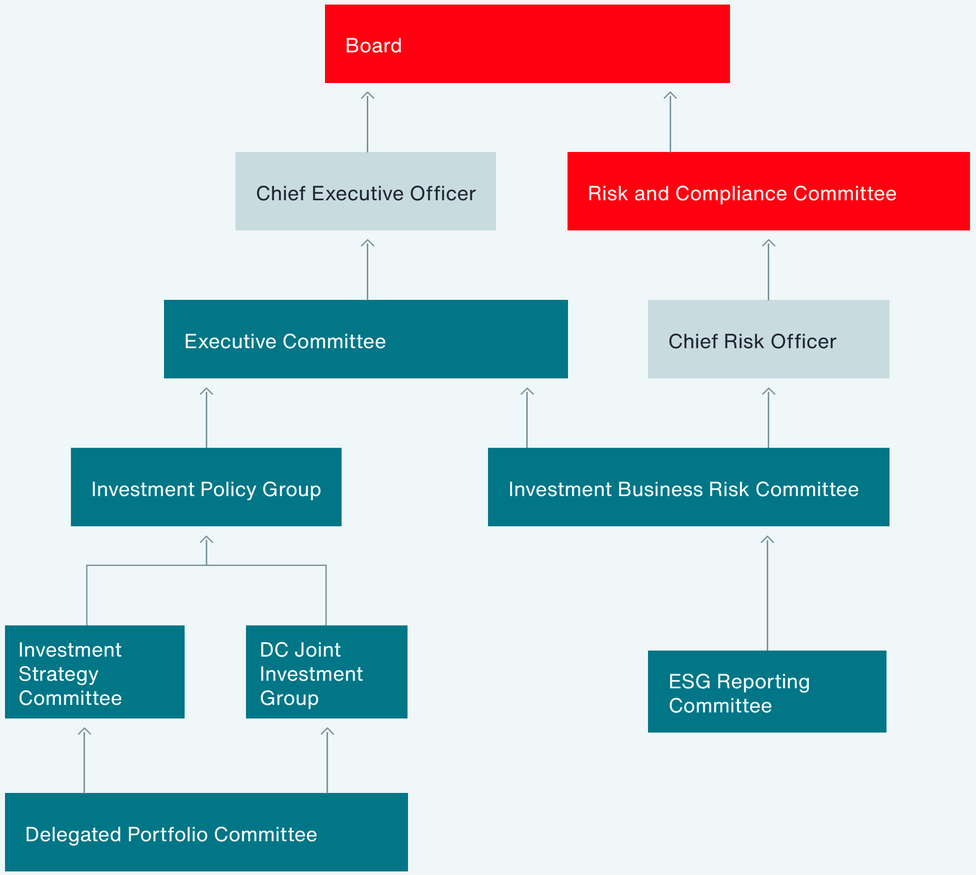
1.3 Our Governance Structure

The AIL Board delegates day-to-day management of its climate-related responsibilities to the Chief Executive Officer who is supported in the delivery of these responsibilities by the other executive directors on the AIL Board, including the Chief Risk Officer and a number of management committees. Members of these committees are experienced colleagues from across the business, including representatives from legal, compliance, risk, operations, portfolio management, responsible investment, investment manager research and asset allocation.

Figure 2 to the right shows our climate governance structure. We have provided additional narrative for the committees that explicitly deal with the management of climate-related risks and opportunities, covering their role in this process. With the exception of the AIL Board and the Risk and Compliance Committee, all the other committees presented on the diagram are management forums responsible for the management of climate-related risks and opportunities on a day-to-day basis, reporting through the relevant executive directors to the AIL Board to support it with the delivery of its oversight responsibilities.

On the left-hand branch of the tree are the committees that are responsible for developing and implementing AIL's climate solutions and innovations for our clients. On the right-hand branch sit the committees that are responsible for assessing climate-related risks to AIL, including risks arising from developing climate solutions for our clients.

Figure 2: Our Climate Risk Governance Structure



Executive Committee

The Executive Committee is responsible for the day-to-day management of AIL's investment business, which includes both advisory and fund management, as well as ensuring that climate-related risks and opportunities are appropriately considered by the business.

Investment Policy Group

The Investment Policy Group is responsible for ensuring that AIL's investment management services and funds take appropriate account of climate-related risks and opportunities.

Investment Strategy Committee (ISC)

The ISC is responsible for setting the investment strategy for fiduciary and OCIO clients integrating climate considerations into the strategy of these portfolios. The ISC is chaired by the EMEA Delegated Chief Investment Officer and consists of senior portfolio managers. It meets at least quarterly. The ISC reports on climate-related issues to the AIL Board annually via the Investment Policy Group and Executive Committee.

DC Joint Investment Group (JIG)

The JIG is responsible for integrating climate considerations into the strategy for the AIL delegated DC portfolios including our DC Default Investment Strategies. The JIG is chaired by the Chief Investment Officer for Aon DC Solutions and is comprised of senior DC experts around the business. The JIG meets at least quarterly and reports on climate-related issues to the AIL Board annually via the Investment Policy Group and Executive Committee.

Delegated Portfolio Committee (DPC)

The DPC is responsible for monitoring progress towards our net zero commitment in fund management (Fund DPC) and client portfolios (Client DPC). The DPC oversees the portfolio managers and their integration of ESG considerations into the investment decisions of their funds. The Fund DPC is chaired by the Head of EMEA Fund Management and the Client DPC is chaired by the Head of EMEA Portfolio Management. Both committees are comprised of portfolio managers, portfolio specialists, portfolio risk specialists and other risk management colleagues. The DPC meets at least quarterly and reports on net zero progress to the ISC annually.

For more information on how we monitor progress towards our AIL net zero commitment, see Section 3 *Risk Management*.

Investment Business Risk Committee (IBRC)

The IBRC is responsible for the identification and management of risk within AIL's Investment Management business line, including climate-related risks. The committee meets on a monthly basis. The IBRC is chaired by the Chief Risk Officer and comprises members of the risk, finance, compliance, legal and operations functions. It also has a reporting line to the Executive Committee.

The IBRC is also the forum through which regulatory and legislative developments are reported and their impact assessed, including any developments that relate to climate.

The Chief Risk Officer provides quarterly risk reports to the Risk and Compliance Committee (RCC) of the AIL Board. Any relevant climate-related risk issues are highlighted in said reporting, or if the risk issue warrants it, in a standalone paper.

The IBRC also has a role in developing and monitoring AIL's top tier and emerging risks as described in more detail in the Section 3 *Risk Management*.

ESG Reporting Committee (ESGRC)

The ESGRC ensures AIL meets its regulatory obligations for both DB and DC assets by overseeing the production of our climate-related disclosures including this TCFD report. The committee meets at least quarterly. The ESGRC is chaired by a senior responsible investment colleague and comprises members of legal, compliance, risk, operations, responsible investment and portfolio specialists and managers from DB and DC. The committee reports to the IBRC.

2 Strategy

Climate-related risk analysis is key to understanding how climate risk may impact our portfolios now and in the future. The analysis in this section supports our investment decision-making and helps us make informed decisions on climate-related risks and opportunities. We believe our portfolios are resilient to climate-related risks and that we are well positioned to support our clients with their climate objectives.



2.1 The Climate-Related Risks and Opportunities That Are Most Likely to Impact AIL

We use a combination of qualitative risks and opportunities assessments, together with climate scenario analysis to identify and assess our portfolios' exposure to climate-related risks. The analysis informs our investment decision-making on the risks and opportunities and how we incorporate these within portfolios.

Climate-related risks are considered over short-, medium- and long-term time horizons. These time horizons take into consideration our assets and the fact that a large number of climate-related issues manifest over the medium- and longer-terms.

Qualitative Climate-Related Risks and Opportunities Assessment

Climate-Related Risks

We apply risk ratings to the asset classes we have in our portfolios. We consider the risks under three climate scenarios (Orderly Transition, No Transition, Disorderly Transition) plus a Base Case. The Orderly Transition scenario is primarily impacted by transition risks in the short-term. The No Transition scenario is primarily impacted by physical risks in the long-term. The Disorderly Transition scenario is impacted by both physical risks and transition risks in the medium- and long-term. The Base Case is based on our Capital Market Assumptions which considers what is currently priced into the market. In our opinion, the transition to a low-carbon economy will come at significant cost.

Transition risks are associated with the transition towards a low carbon economy. For example, shifts in policy, technology or supply and demand in certain sectors. Physical risks are associated with the physical impacts of climate risk on companies' operations. For example, extreme temperatures, floods, storms or wildfires. Physical risks are a mixture of acute or chronic — acute risks being the risk of extreme/unpredictable weather events and chronic risks forming patterns over time such as rising temperatures and sea levels.



Results Commentary

Base Case

The Base Case is based on our Capital Market Assumptions which considers what is currently priced into the market. This includes some climate risk related impact. In the Base Case, action is taken to tackle climate risk, but the approach is fragmented. The transition to a low-carbon economy is expected to happen in a slow but orderly fashion.

Orderly Transition

In the Orderly Transition scenario, there is immediate, coordinated action to tackle climate risk through the introduction of carbon taxes and environmental regulation. A high level of financial risk exposure is expected in the short-term for some asset classes due to the costs of the transition to a low-carbon economy. Green policies and high levels of infrastructure investment in renewable energy technologies lead to the rapid development and take-up of green technology. The rapid transition to clean technologies and green regulation eventually boosts growth in the long-term. This all results in a trend from higher risk to lower risk over time.

Disorderly Transition

In the Disorderly Transition scenario, action is delayed initially and insufficient consideration is given to long-term policies to manage global warming effectively. We expect low risk exposure across many asset classes in the short-term as the effects of climate risk on global markets are relatively limited. Risk exposure increases in the medium- and long-term. Eventually, action is taken to mitigate and adapt to global warming, but the late timing means it is less effective and more costly to implement. The introduction of environmental regulation is late (beginning in the medium-term) and aggressive, and companies are insufficiently prepared for the transition to a low-carbon economy incurring high costs in the medium-term. Risk exposure reduces in the long-term once the transition has occurred.

No Transition

In the No Transition scenario, no action is taken to tackle climate risk throughout the modelling period leading to significant global warming and increased exposure to physical climate risk. We expect low risk exposure across all asset classes in the short-term as the effects of climate risk on global markets are relatively limited. The risk exposure increases steadily over time as impacts from physical risks gradually become more severe. Climate risk headwinds facing the economy and markets steadily grow, acting as an increasing drag on economic growth and risk asset returns. This results in a trend from lower risk to higher risk over time.

Table 1: Qualitative Risk RAG Assessment

Qualitative Risk Assessment		Base Case			Orderly Transition			Disorderly Transition			No Transition		
		Short	Medium	Long	Short	Medium	Long	Short	Medium	Long	Short	Medium	Long
Equities	Developed Market Equity	🟢	🟢	🟢	🟠	🟢	🟢	🟢	🔴	🟠	🟢	🟠	🔴
	Emerging Market Equity	🟢	🟢	🟢	🔴	🟢	🟢	🟢	🔴	🟠	🟢	🟠	🔴
Fixed Income/ Cash	Sovereign Bonds — Developed Markets	🟢	🟢	🟢	🟢	🟠	🟠	🟢	🔴	🟠	🟢	🟠	🔴
	Sovereign Bonds — Emerging Markets	🟢	🟢	🟢	🟠	🟢	🟢	🟢	🔴	🟢	🟢	🟠	🔴
	Investment Grade Corporate Bonds	🟢	🟢	🟢	🟠	🟠	🟠	🟢	🔴	🟢	🟢	🟠	🟠
	High Yield Corporate Bonds	🟢	🟢	🟢	🔴	🟢	🟢	🟢	🔴	🟢	🟢	🟠	🔴
	Cash	🟢	🟢	🟢	🟠	🟠	🟠	🟠	🟠	🟢	🟢	🟢	🟢
	Asset-Backed Securities	🟢	🟢	🟢	🟠	🟢	🟢	🟠	🔴	🟠	🟢	🟠	🟠
Illiquid Alternatives	UK Property	🟢	🟢	🟢	🔴	🟢	🟢	🟠	🔴	🟠	🟠	🟠	🔴
	Infrastructure	🟢	🟢	🟢	🟠	🟢	🟢	🟠	🔴	🟠	🟢	🟠	🔴

Source: AIL. Data as at 31 December 2024.

Time Horizons

DB Time Horizons

Short-term	1–3 years
Medium-term	4–10 years
Long-term	11–20 years

DC Time Horizons

Short-term	1–3 years
Medium-term	4–10 years
Long-term	11–30 years

The scenarios are assessed relative to one another. We assign Red/Amber/Green ratings to each asset class and time horizon based on the relative comparison between scenarios. Red indicates a higher relative risk and green indicates a lower relative risk.



Climate-Related Opportunities

Efforts to mitigate and adapt to climate risk produce opportunities through, for example, resource efficiency and cost savings, the adoption of low-emission energy sources, the development of new products and services, access to new markets and maximising new policies that subsidise efficiencies and clean energy.

We seek to capture climate opportunities through our investment strategies, where we believe they align with our objectives and fiduciary duty. Working closely with our Investment Manager Research team, we identified some climate-related opportunities and made changes to our investment strategies to incorporate these.

To date, we have focused on the equities in our portfolios because it is an area we can influence. We have been extending our approach to investments in fixed income as opportunities have arisen in the market.



For Aon plc

Please see the Aon plc TCFD report which sets out the climate-related risks and opportunities for the operations of the global business.

Table 2: Climate-Related Opportunities Identified

	Opportunity	Potential Impact
Products and Services	• Development of new products or services through innovation. • Ability to diversify investments.	• Able to better support our clients to manage their climate-related risks.
Financial	• Access to new markets. • Use of public-sector incentives. • Shift in consumer preferences.	• Increased revenues through access to new and emerging markets (e.g., partnerships with governments, development banks). • Increased diversification of financial assets (e.g., green bonds and infrastructure). • Reduced exposure to greenhouse gas emissions and therefore less sensitivity to changes in cost of carbon.
Resilience	• Development of new products or services through innovation. • Increase in client demand for climate-related risk management.	• New products and services enabling us to better support our clients with their climate objectives ensuring climate resiliency. • Reputational benefits of being able to respond to changing consumer needs and preferences.

2.2 Climate Scenario Analysis

We carried out climate scenario analysis to better understand the potential impact climate risk could have on AIL's assets under management. Each climate scenario considers what may happen when transitioning to a low carbon economy under different temperature-related environmental conditions. We chose three scenarios and a Base Case as we believe these represent a reasonable range of possible outcomes. In our analysis, we compare the scenarios to the Base Case.

We are aware of the ongoing discussions in the industry about the usefulness of climate scenario analysis. Whilst there are limitations in current approaches, climate scenario analysis is an important tool to help understand the potential impact of climate-related risk on portfolios, as part of a broader approach to risk management. We welcome the ongoing debate and will continue to develop our approach as methodologies evolve.

The analysis was carried out on four model portfolios: a Core+ DB client portfolio, a Managed Growth DB client portfolio, and the DC Default Investment Strategy for two example members: a member 30 years from retirement and a member at retirement. Climate scenario analysis for non-pension fund clients may look different.

We chose to model a Core+ client and a Managed Growth client as these are our core DB client solutions and we believe they suitably illustrate the climate-related risks for clients invested in these portfolios (for more information on the Core+ and Managed Growth portfolios please see the *Results Analysis* on the next page). We modelled the DC Default Investment Strategy for two example members at different ages because climate-related risks and opportunities are likely to play out over a long-time horizon and, consequently, the impact on members' retirement savings will depend on factors like their age.

Core+

Our flagship fiduciary solution for DB clients, with flexibility to invest across a range of asset classes including several equity strategies, active credit, core diversifiers, hedge funds and liability driven investments (LDI).

Managed Growth

A well-diversified strategy reflecting our best ideas in a cost-effective way, investing in multi-factor equities, active credit, core diversifiers and LDI.

DC Default Investment Strategy

A lifestyling strategy which automatically switches from higher risk assets, such as climate transition equities and multi-factor equities, into lower risk assets, like core diversified assets, passive corporate bonds and government bonds and cash, as members approach retirement age.

The scenario analysis for the DB model portfolios measures the schemes' funding levels, which is a comparison of the assets versus the liabilities. The analysis for the DC model portfolio measures the asset value which is the amount of money in the example member's pension savings pot.

For each scenario, we look at the impacts of climate over short-, medium- and long-term time horizons. For DC, the most relevant time horizon depends on the age of the member, being much longer for a young member than for a member at retirement. For DB pension schemes, the time horizon will depend on the circumstances of the scheme and its intended plan for the future (e.g., whether it intends to buyout with an insurer in a few years time).

The climate scenario analysis presented in the following pages is based on projections as at 31 December 2023. It is consistent with the analysis presented in last year's report, as we believe it remains relevant today. We will continue to assess the relevance of our climate scenario analysis each year and update where appropriate.

Table 3: The Scenarios

	Temperature Rise by 2100	Reach Net Zero by	Introduction of Environmental Regulation
Base Case Emission reductions start now and continue in a measured way in line with the objectives of the Paris Agreement[5] and the UK government's legally binding commitment to reduce emissions in the UK to net zero by 2050.	+2°C – 2.5°C	2050	Uncoordinated
Orderly Transition Immediate and coordinated action to tackle climate risk is taken using carbon taxes and environmental regulation.	1.3°C – 2°C	2050	Coordinated
Disorderly Transition Limited action is taken in the short-term and insufficient consideration is given to sustainable long-term policies to manage global warming effectively.	<3°C	After 2050	Late and aggressive
No Transition No further action is taken to reduce greenhouse gas emissions, leading to significant global warming.	+4°C	After 2050, if at all	None

Source: AIL

Results Analysis

The best long-term outcomes (relative to the Base Case) for the example portfolios are under the Orderly Transition scenario. The scenario impacts DB funding levels and DC asset values in the short-term, but the portfolios recover by the end of the modelling periods. The worst outcome for the portfolios is the Disorderly Transition scenario; whilst the portfolios perform in line with Base Case initially, the DB funding levels and DC asset values suffer material falls which do not recover by the end of the modelling period.

For information on how we apply our scenario modelling to our investment business risk and decision-making process, please see *Sections: 3.1 and 3.2* within *Risk Management*.

[5] The Paris Agreement is a legally binding international treaty on climate risk. Its goal is to limit "the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels."

DB Core+ and Managed Growth

The model portfolios exhibit resilience under most of the climate scenarios modelled. This is mainly due to the diversification of assets and high levels of hedging against changes in interest rates and inflation, and in the case of the Core+ portfolio, the high funding level at the start of the modelling period. Clients with lower funding levels (or higher investment return targets) are likely to have higher allocations to risky assets like equities, which will increase their exposure to climate-related risks.

Figure 3: Core+ Client Model Portfolio

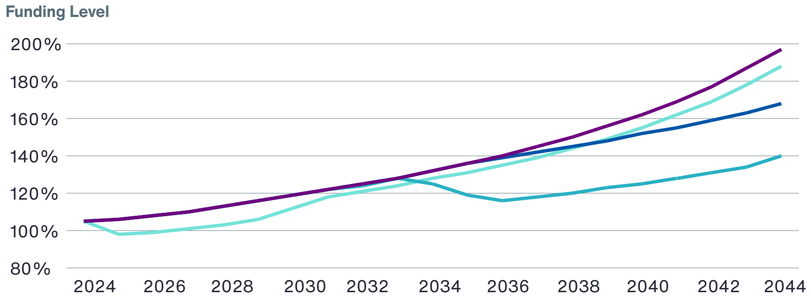
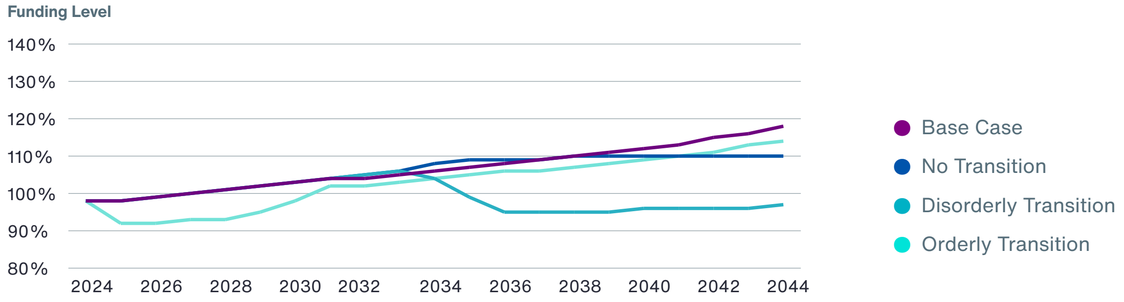


Figure 4: Managed Growth Client Model Portfolio



Short-Term (1–3 Years)

The funding levels are expected to increase similarly in the short-term for the Disorderly and No Transition scenario (mid blue and dark blue lines) due to the limited climate action taken and less abrupt policy implementation experienced in the short-term. The Orderly Transition scenario (light blue line) sees a material fall in funding levels caused by the heightened investment in climate-transition and the rapid shift away from fossil fuels.

Medium-Term (4–10 Years)

Under the Disorderly Transition and No Transition scenarios (mid blue and dark blue lines) the funding levels continue to rise but towards the end of ten years the funding levels under the Disorderly Transition begin to fall as climate action starts to be taken. On the other hand, under the Orderly Transition scenario (light blue line) funding levels recover from the falls seen in the short-term as the early policy adoption and restructuring towards a low-carbon economy begins to boost growth for assets.

Long-Term (11–20 Years)

The impacts of the Disorderly Transition and No Transition scenarios (mid blue and dark blue lines) is felt heavily over the long-term. Late and ineffective action to tackle climate risk acts as a drag on asset returns. Markets begin to price in high levels of economic damage and the irreversible loss of natural capital which results in the funding levels being materially worse off compared to the Base Case at the end of the modelling period. The benefits of the Orderly Transition scenario (light blue line) are fully realised over the long-term as the funding levels continue to rise.

Source: AIL. Scenario projections as at 31 December 2023.
Please note, the result of the scenario modelling is illustrative and relies on many assumptions. These are subject to considerable uncertainty.

DC Default Investment Strategy Modelled for Two Example Members

The DC Default Investment Strategy exhibits reasonable resilience under most of the climate scenarios, particularly in the short- to medium-term. This is due to inclusion of a climate overlay on the equity portfolio and the lifestyling built into the strategy which automatically switches assets into lower risk assets as members approach retirement. The recent addition of a climate transition equity fund, which is not reflected in the modelling, will have increased the resilience.

We modelled two example members at ages 35 (Member A) and 65 (Member B) at the start of the modelling period. The example member at age 35 has a higher allocation to growth assets and is indicative of the average age of members invested in the Default Investment Strategy. The member at age 65 illustrates the impact of climate-related risk on older members that will have a higher allocation to lower risk assets.

Figure 5: Member A: 35-Year Old

Projection of Real Fund Value (Inflation Base Date = 31 December 2021)

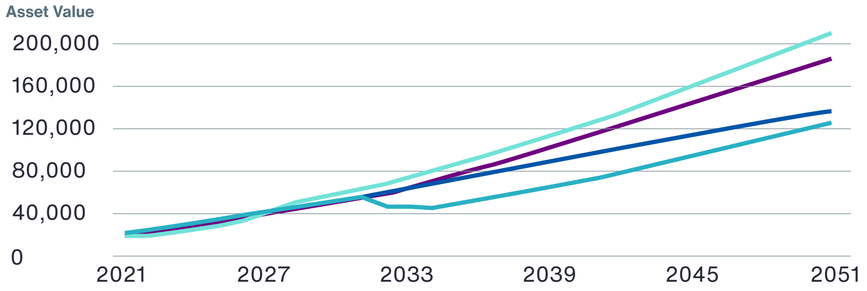
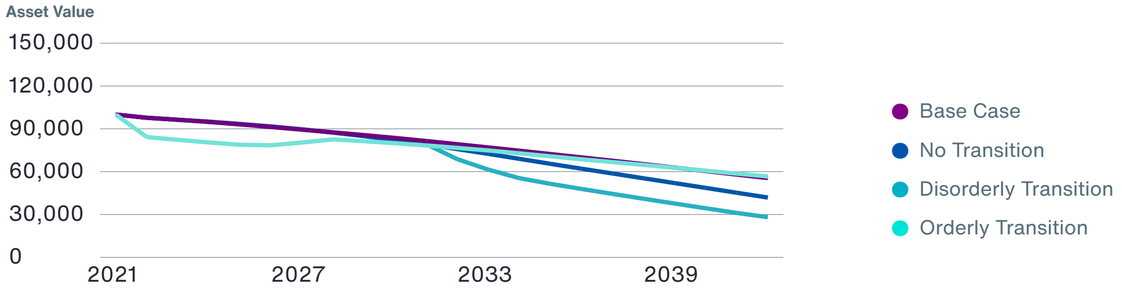


Figure 6: Member B: 65-Year Old Accessing Income Drawdown

Projection of Real Fund Value (Inflation Base Date = 31 December 2021)



Short-Term (1–3 Years)

In the short-term, the biggest risk for the younger example member is the Orderly Transition scenario (light blue line). Poor asset returns, particularly from equities, in the next few years cause the value of the member's pension savings to fall. The overall decline is mitigated by the climate overlay in place.

Medium-Term (4–10 Years)

In the medium-term, the biggest risks for the younger example member are the No Transition and Disorderly Transition scenarios (dark blue and mid blue lines), whereas the Orderly Transition scenario recovers and becomes the best scenario for the members' retirement savings. For older members, the Orderly Transition Scenario remains the worst for members, however stronger returns begin to bring this scenario in line with the other scenarios.

Long-Term (11–30 Years)

The biggest risk is the Disorderly Transition scenario (mid blue line). While initially the example members' pension savings rise in value, a large shock to asset returns takes place after 10 years. This results in lower returns over the longer-term and a lower value of pension savings compared with the Base Case scenario (purple line) at the end of the modelling period.

Source: AIL. Scenario projections as at 31 December 2021. Please note, the result of the scenario modelling is illustrative and relies on many assumptions. These are subject to considerable uncertainty.
Fund values are shown in real terms projected from 31 December 2021. Note these projections assume withdrawals of £3,000 p.a. (3% of the assumed starting fund value) from the asset pool over the modelling period for Member B. These are assumed to be paid half-way through the year. No contributions are made into the fund after retirement.

Modelling Limitations

Scenario modelling relies on many assumptions. They are only illustrative and subject to considerable uncertainty. Please see Section 6.1 *Climate Scenarios Modelling Assumptions and Limitations* in the *Appendix* for more detailed information on the assumptions underpinning the scenarios.

The climate scenario modelling illustrates the potential impact climate risk could have on the asset portfolios. It does not consider the impact climate risk could have on other risks for our clients, such as timing of member options, operational risks and, for DB clients, covenant and longevity risk.

The scenario modelling reflects market conditions and market views at the effective date of the modelling. The model may produce different results for the same strategy under different market conditions.

For Aon plc

Aon has reviewed climate-related scenarios to inform its efforts to mitigate environmental impact. The analysis has led to the enhancement of Aon's baseline emissions and the announcement of Aon's emissions reduction goal to achieve net zero across operations (scope 1 and 2) by 2030. The analysis provides Aon with reference points to determine the appropriate plans of action to achieve emissions reductions, such as energy efficiency measures and renewable energy investments.

More details can be found in the Aon plc TCFD report.



2.3 How Our Climate Scenario Analysis Shapes Our Business, Strategy and Financial Planning

We are working to expand our framework used to assess the impact of climate-related issues on our business, strategy and financial planning. The AIL Board looks at risks through four lenses; these categories are the areas we expect to build upon in the future.

Clients

The risk that our products and services are not in line with clients' changing needs and we do not adapt fast enough to market demands. We continue to expand and develop our range of climate-related products and services for our clients.

Financial

The risk that climate risk may negatively impact the value of the assets under management, impacting our clients and our business performance. For our clients, climate considerations are integrated into our investment strategy through asset allocation, portfolio construction and engagement.

Reputational

The risk of reputational damage to clients or to AIL because of actual or perceived lack of action on climate issues. We are aware of the increasing scrutiny from investors, clients and third-party evaluators on responsible investment practices. Our risk management approach is to stay informed on climate-related risks and opportunities as they develop, and to be at the forefront of industry discussions on climate.

Regulatory

The risk that a change in laws and regulations could potentially cause losses to our clients or our business, including the risk of non-compliance with regulations. Climate regulations are continually developing, and it typically takes time and money to adapt to regulatory changes. Our Legal and Compliance teams, together with the Climate Standards Working Group[6], keep up-to-date on the regulatory requirements related to climate risk for both our clients and business.



[6] The Climate Standards Working Group develops our approach to climate-related risks, reporting in line with the latest industry developments and best practice to ensure a robust framework for climate reporting.



Our AIL Net Zero Commitment

A core part of managing climate-related risks within our portfolios is our AIL net zero commitment. By 2030, we have committed to achieving a 50% reduction in the carbon emissions profile of AIL's UK delegated investment portfolios and DC Default Investment Strategies offered through the Aon MasterTrust, used by many of our DC trust-based clients, and Bigblue Touch, our Group Personal Pension Plan, relative to a baseline year of 2019. By 2050, we aim to deliver UK delegated investment portfolios and DC Default Investment Strategies which have a net zero carbon emissions profile.

To help us achieve our net zero targets we assess how the underlying managers incorporate climate considerations into the funds we invest in. This analysis helps us to understand where we expect the most material climate risks to come from within each of our portfolios so that we can make informed decisions about what actions to take. Possible actions include:

- Disinvestment and replacement by a fund more closely aligned to our net zero goals.
- ESG screens — in some strategies, we can exclude certain sectors that we believe carry an unacceptable level of climate-related risk. For example, within our global multi-factor equity strategy, we exclude the heaviest emitting fossil fuel stocks, such as producers of thermal coal and companies that produce oil from tar sands.
- Investment in innovative strategies tilted to lower carbon footprint investments such as our equity climate transition funds which aim to reduce greenhouse gas emissions year-on-year as well as investing more in businesses supportingsupporting a 'just and fair transition. Over the year, we increased our allocations to these funds to enhance how we manage climate-related risks within portfolios.

How we plan to achieve our AIL net zero commitment is explained further in Section 3 *Risk Management*.

For Aon plc

To achieve net zero emissions across our own operations (Scope 1 and 2) by 2030, the firm must be unified in its ESG ambitions, and regions must be aligned to implement environmental goals on a global level. Aon's current efforts focus on key areas, including:

- Refining Aon's sustainable sourcing strategy, in partnership with Aon Business Services.
- Driving energy efficiency across Aon's real estate portfolio and technology, including renewables.
- Thoughtfully approaching business travel.

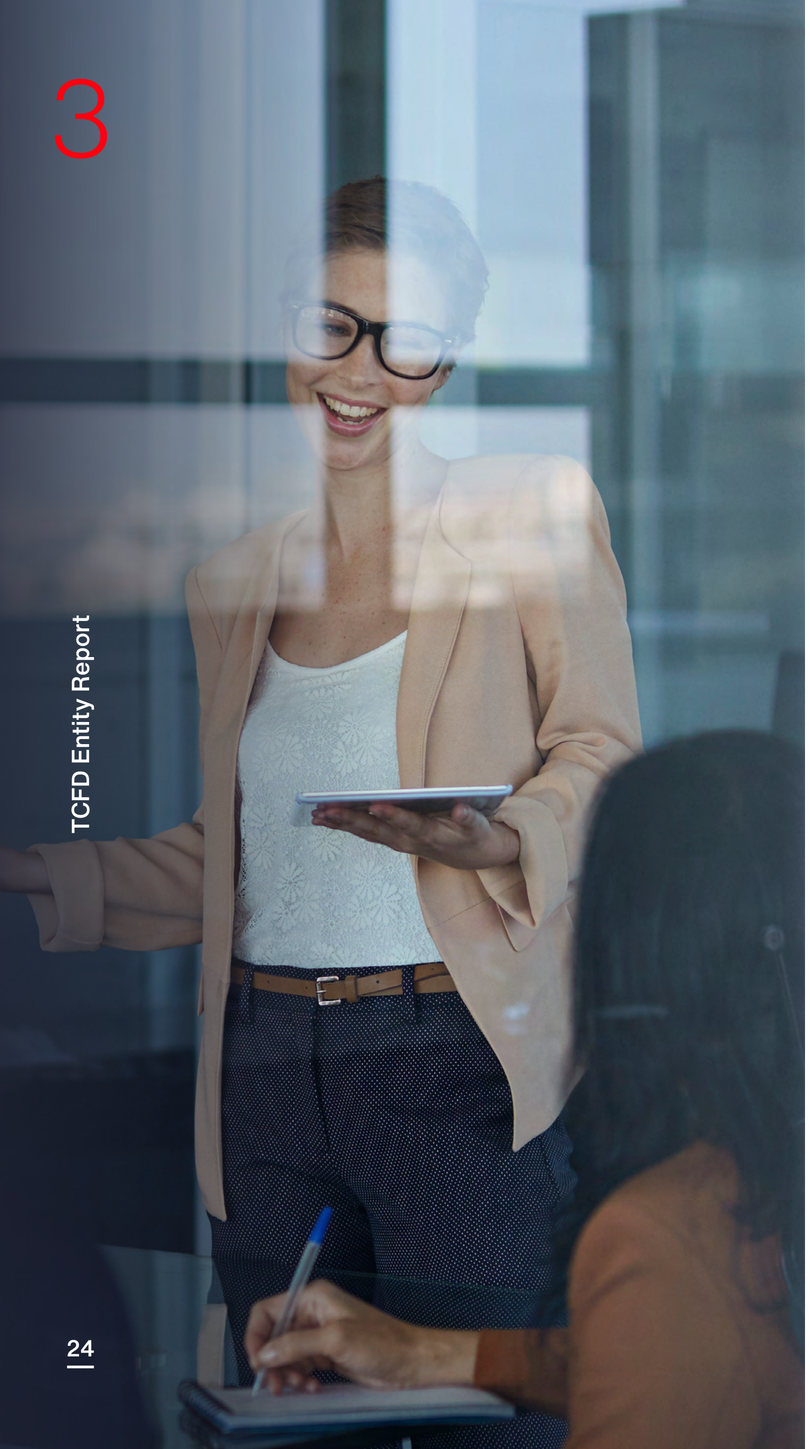
More details can be found in the Aon plc TCFD report and our Impact website.

3

Risk Management

Climate risk management is embedded into our business, investment strategy and culture. We are committed to having robust climate-related risk management processes to protect our business and our clients from the potential financial losses associated with climate risk. Proactively identifying and managing climate-related risks can help us to make better decisions for the future.





3.1 How We Identify and Assess Climate-Related Risks in AIL Client Portfolios

Consideration of climate-related risks is integrated into our investment decision-making at all stages. We capture climate-related risks through top-down asset allocation decisions, manager-specific risks are embedded in bottom-up portfolio construction, and our engagement with managers and the industry is contributing to mitigation of manager-specific risks and is continually driving a higher standard of decision making by managers.

AIL has made responsible investment an integral part of its business, strategy and culture, and we're proud to have embedded climate-related risks and opportunities into our investment solutions.

The climate-related risks that our portfolios are exposed to are affected by the asset classes we invest in and the managers we choose. We have processes to identify and assess climate-related risks in both parts of our investment decision-making including:

- **Climate Scenario Modelling**
  At the asset allocation level, we use climate scenario modelling to better understand how physical and transition risks will affect each asset class. Analysis from this modelling is set out in Section 2 *Strategy* of this report. Climate scenarios allow us to quantify the potential size and scope of climate-related risks and make informed decisions on the risks and opportunities.
- **Manager Selection**
  Since 2021, we have only appointed managers of funds that meet a minimum ESG rating of "Integrated"[7] from our Investment Manager Research team because we believe these managers effectively take ESG risks into account. This excludes funds where ESG rating is not applicable, such as LDI.

For funds that are selected for our UK delegated investment portfolios and DC Default Investment Strategies, we assess their alignment with our net zero goals. The assessment is a mix of qualitative information from the managers and quantitative data on the greenhouse gas emissions of their portfolios. This analysis allows us to understand where we expect the most material climate-related risks to come from within each of our portfolios.

Legal and Compliance teams, together with the Climate Standards Working Group, keep up-to-date on the regulatory requirements related to climate risk and report any new developments to senior management and the relevant boards and committees as set out in Section 1 *Governance*.

Our AIL net zero commitment is another key part of our climate risk management. It is supplemented by the work of other groups across Aon, such as Aon's Engagement Programme. For more information on Aon's Engagement Programme please see the next section.

[7] To gain an 'integrated' rating, investment managers must demonstrate that they have taken appropriate steps to identify, evaluate and mitigate potential financially material ESG risks within the portfolio.

3.2 How We Manage Climate-Related Risks in Our Client Portfolios

Responsible Investment Integration

Our processes for managing climate-related risks are evolving. We use a combination of qualitative risk and opportunities assessments, together with climate scenario analysis, to manage our portfolios' exposure to climate-related risks. The analysis informs our investment decision-making on the risks and opportunities and how we incorporate these within portfolios.

How we factor climate-related risks and opportunities into our client portfolios and DC Default Investment Strategies is a critical part of our climate risk management. Climate-related risks are integrated through the asset allocation, portfolio construction and engagement stages of our investment framework.



Asset Allocation

- Climate scenarios allow us to quantify the potential size and scope of climate-related risks and make informed decisions on the risks and opportunities. Climate scenario modelling supports our asset allocation decisions. We continue to evolve the integration of our climate scenario modelling into our risk management processes.
- A qualitative risk and opportunities assessment informs our understanding of the physical and transition risks, and climate-related opportunities that could impact our portfolios.



Portfolio Construction

- Since 2021, we have only appointed managers with a minimum ESG rating of 'Integrated'. This excludes funds where ESG rating is not applicable, such as LDI.
- If an underlying manager's rating slips below the minimum, it has twelve months in which to bring its rating back up to our minimum 'Integrated' rating level, otherwise we will disinvest where possible.



Engagement

- We have a dedicated Engagement Programme to engage with underlying managers. Net zero is one of our key topics of focus and over the past year we have continued to promote and progress the carbon measurement and monitoring expectations stated in our Investment Principles and Expectations document. This document is shared with all the managers we engage with and it sets out the expectations we have of greenhouse gas emissions reporting. Over 2024, the Engagement Programme engaged with selected underlying managers on these expectations, and we have summarised our findings in our UK Stewardship Code submission in Principle 8.

Engagement

Investment stewardship is key to managing and mitigating climate risk. Our engagements take the form of top-down, firm-level engagement through our Engagement Programme and bottom-up, fund-level engagement by our Investment Manager Research and portfolio management teams. We believe this two-tiered approach accelerates engagement impact by ensuring each investment manager's strategy is implemented at the fund-level.

In 2020, we launched our Engagement Programme as a cross-asset class initiative to align our firm's overall purpose, culture and strategy to our goals. The key purpose of the Engagement Programme is to engage with the underlying managers and understand how they integrate climate-related risks into their funds and how they are supporting the transition to a low-carbon economy. Climate issues such as decarbonisation, transition risk and nature loss continue to be key areas of focus.

As part of the programme, in 2024, our manager research colleagues completed a round of engagements with underlying investment managers. These focused on carbon measurement and monitoring, and included a questionnaire to collect qualitative data. Our portfolio managers use the insights and data from these engagements to inform their investment decision-making. Managers have been identified for priority engagement and these have been shared with the Engagement Programme team. Net zero will continue to be a focus of engagement meetings.

Where appropriate, we expect all the underlying investment managers to engage with companies on topics such as becoming net zero by 2050. Investment managers are expected to engage with issuers to provide greenhouse gas emissions data and should also promote the recommendations of the Task Force on Climate-Related Financial Disclosures. Where resources allow, investment managers are expected to be active members of key industry groups like the Principles for Responsible Investment (PRI), Institutional Investors Group for Climate risk (IIGCC), Climate Action 100+, Net Zero Asset Managers initiative (NZAM) or similar. Our expectations for investment managers are clearly set out in our Investment Stewardship and Expectations report, which provides us with a strong platform for engagement.

Innovation

We seek to innovate wherever possible to mitigate the climate-related risks of our portfolios. A core part of this is the integration of new funds, which align with our AIL net zero commitment, into our client portfolios and DC Default Investment Strategies. As part of this, our Investment Manager Research team actively looks for new funds to evaluate, identifying suitable funds to be integrated into our portfolios in the future.

During 2022 and 2023, we worked with an asset manager who developed a Global Equity Climate Transition Fund and a Global Emerging Markets Equity Climate Transition Fund. Initially, these were added to our DB Managed Growth Strategy and the DC Default Investment Strategies. In 2024, we increased our allocation to these funds within client portfolios. As a result, the majority of the equities in our UK delegated investment portfolios and DC Default Investment Strategies are invested in funds with either a dedicated climate focus or low-carbon approach.

Within our fixed income strategies, we continue to explore climate focussed short-dated credit strategies to progress our alignment to our AIL net zero commitment. During the year, we added two fixed income funds that are net zero committed across two of our DB fixed income strategies. All of our DB short-dated credit exposure is now net zero comitted.

Net Zero Implementation Plan

We have a 3-step plan to reach net zero:

1. Engagement
To drive investment change and accountability by working with investment managers, regulators, academics and the broader investment industry.

↓

2. Innovation
To accelerate progress through better quality greenhouse gas emissions data and analytics, and investment product design.

↓

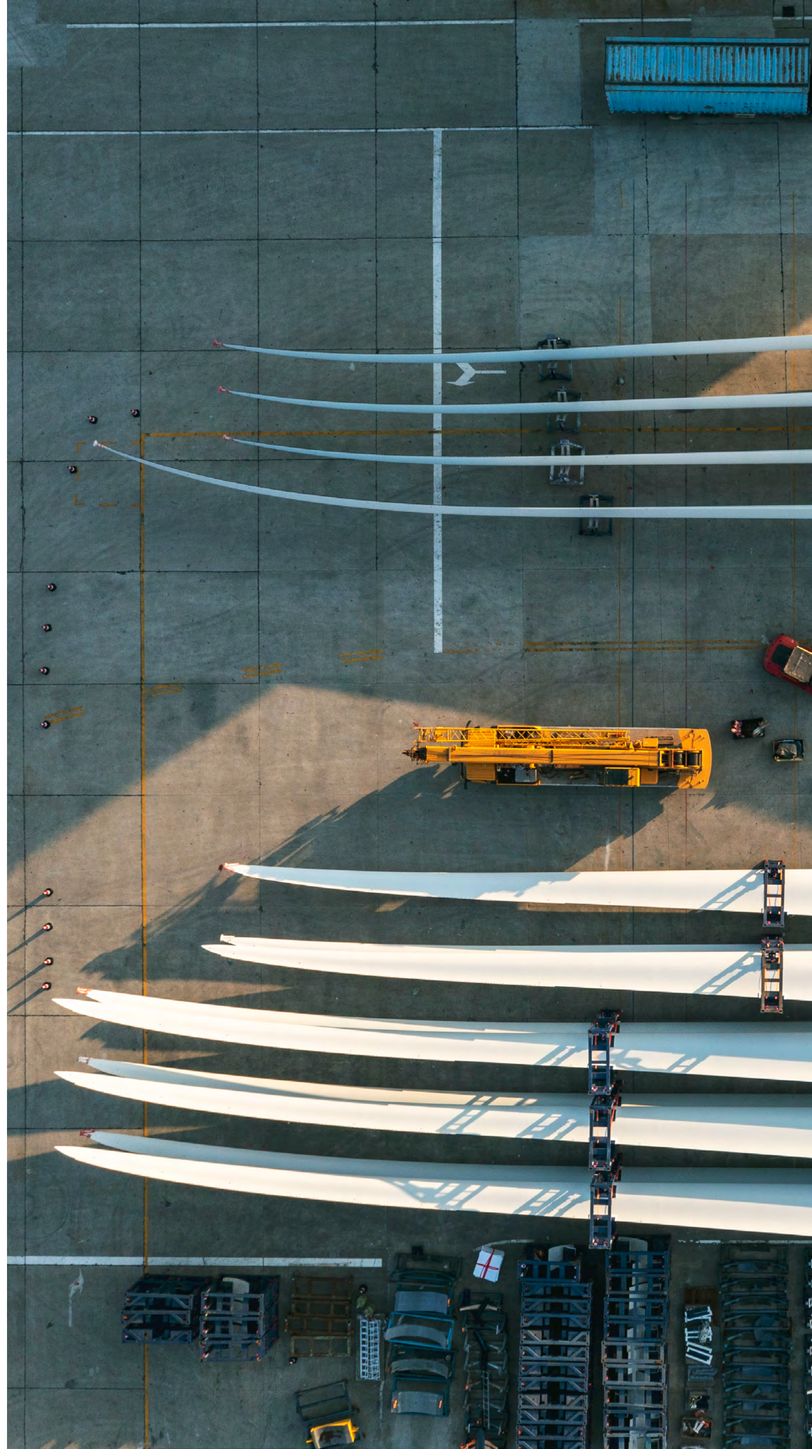
3. Insights
Into our progress, and the progress of the funds in which we invest, towards net zero. Achieved through transparent reporting and communication.

We assess how the underlying managers incorporate climate considerations into the funds we invest in. This analysis helps us to understand where we expect the most material climate-related risks to come from within each of our portfolios so that we can make informed decisions about what action to take; whether the manager is suitably aligned with our net zero goals, or if we want to seek a more suitable alternative. The assessment will be made annually to measure progress.

Our main focus at this stage is on engagement with the underlying managers that invest directly in companies, either in public equity or corporate debt. Our goal is to encourage the underlying managers to improve their measurement and disclosure of climate-related information and to decide which managers to prioritise for engagement.

Some of the underlying managers do not invest in companies directly but may use indices or other financial instruments, which makes engagement more challenging. In addition, there is currently no agreed method for calculating emissions for some financial instruments such as derivatives. We engage in discussions with industry regulators and industry bodies to promote clarity and develop methodology on this important aspect of the net zero journey.

Our Investment Manager Research team looks for new investment opportunities to meet our growing climate needs, allowing us to identify suitable options that we can incorporate into our UK delegated investment portfolios and DC Default Investment Strategies.



3.3 How Processes for Identifying, Assessing, and Managing Climate-Related Risks are Integrated into the Organisation's Overall Risk Management

We have a robust risk management framework that includes consideration of climate-related risks to our own business. The risk management framework forms an integral part of our risk management, and governance structure, business philosophy and practices.

Starting from the top-down, on an annual basis, the AIL Board determines its risk appetite, assessed through four lenses:

Four Lenses of Risk Appetite

- Clients
- Financial
- Regulatory
- Reputational

The AIL Board then considers the top tier risks it believes may breach its risk appetite over the next two years, alongside emerging risks that are either less well-defined or expected to develop over a longer-time horizon. The consequences of these risks crystallising alongside the mitigations in place within AIL for each are considered and documented. Finally, key risk indicators are agreed and monitored on a regular basis to ensure these risks are not in danger of causing AIL to breach its risk appetite.

From a bottom-up perspective, day-to-day climate-related risk management in AIL is assessed via its management risk committees. These committees feature representation from AIL's risk, finance, legal, compliance and operations functions, and are responsible for assessing risks to AIL's business arising from day-to-day business activities. Through these forums, the business keeps abreast of regulatory and legislative developments and any implications to AIL and monitors any actions required to maintain compliance with such developments.

The processes described above consider all risks to AIL's business and, as a result, throughout AIL's risk management framework climate-related risks are identified, considered and assessed relative to the other risks AIL faces.

As a subsidiary of Aon, AIL is also able to leverage the risk management processes of the wider Aon business, including the wider approach to assessing and managing climate-related risk at a global level.

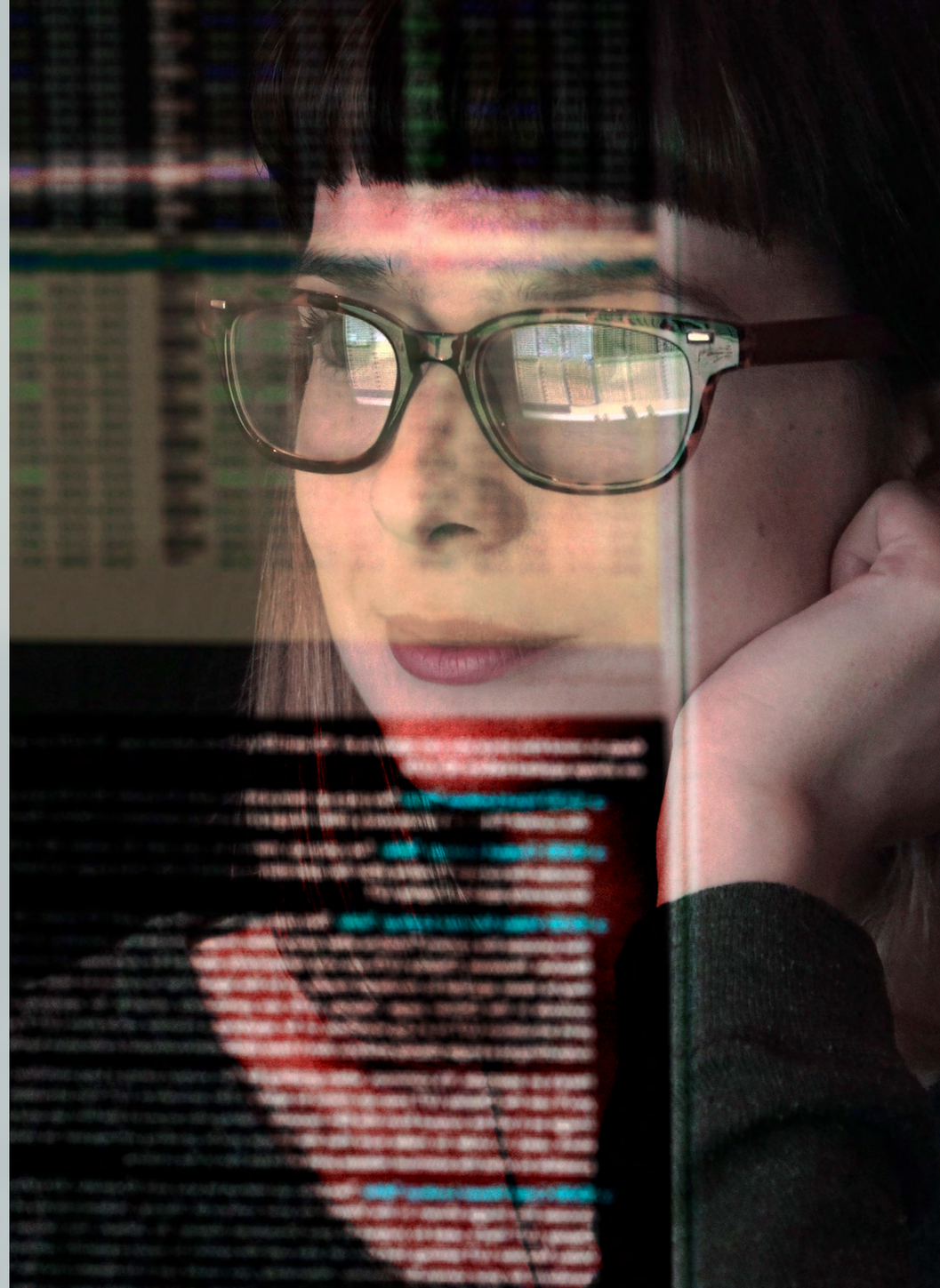
For Aon plc

Aon's ESG Risk Assessment process includes a review and analysis of risks related to climate risk and environmental matters. The 2022 ESG Risk Assessment (subsequently reviewed in 2023 and 2024) included a review of 62 applicable risks, including climate and environment risks, which were identified through an assessment of Aon's Enterprise Risk Management (ERM) framework, peer disclosures and ESG indices.

More details can be found in the Aon plc TCFD report and our Impact website.

4 Metrics

We believe better climate reporting will lead to better informed decision-making, and in addition, greater transparency should increase accountability and provide decision-useful information to investors and beneficiaries. Climate metrics help us to understand the climate-related risks involved in our portfolios and inform our investment decisions.



4.1 Our Climate Metrics

We use quantitative measures to help us understand and monitor our portfolio's exposure to climate-related risks. Measuring the greenhouse gas emissions related to our assets is a key way for us to assess our exposure to climate risk.

We have chosen the following metrics as we believe they provide us with the tools to measure and manage the climate-related risk exposure of our portfolios.

Table 4: Climate metrics

Metric	Description
Total Greenhouse Gas Emissions (Scope 1 and 2)	The total greenhouse gas (GHG) emissions associated with the portfolio. It is an absolute measure of all the financed GHG emissions associated with the portfolio's investments and is measured in tonnes of carbon dioxide equivalent (tCO2e).
Carbon Footprint	Carbon footprint is an intensity measure of emissions that takes the total GHG emissions and weights it to take account of the size of the investment made. It is measured in tonnes of carbon dioxide equivalent per million pounds invested (tCO2e/£m). We monitor our progress towards AIL's net zero commitment using this measure for scope 1 and 2 emissions.
Data Coverage	A measure of the proportion of the portfolio for which we have high quality data (i.e., data which is based on verified, reported, or reasonably estimated emissions).
Weighted Annual Carbon Intensity (WACI)	A measure of a portfolio's exposure to carbon-intensive companies and serves as a proxy for a portfolio's exposure to climate transition risks. It computes the carbon efficiency of a portfolio in financing economic activity. It is measured in tCO2e/£m revenue.
Implied Temperature Rise (ITR)	An estimate of the potential global temperature rise over the rest of the century based on the pledges, commitments and business strategy changes of the underlying companies and issuers. It is expressed as a temperature rise in degrees Celsius associated with the GHG emissions from a portfolio.

4.2 Reported Metrics

The scope 1 and 2 carbon footprint for corporate assets has decreased significantly since last year even as emissions from corporates have increased. This indicates our corporate portfolio is becoming more carbon efficient. Total GHG emissions, an absolute metric, has increased for corporates and sovereigns since last year due to a significant increase in assets under management over 2024.

Similarly, the scope 1 and 2 carbon footprints for sovereigns assets and LDI reduced over the year. This is an area where we have limited influence but it is positive to see a reduction.

This year we have reported scope 3 emissions for corporate assets for the first time (scope 3 data is not available for sovereigns and LDI). We acknowledge the challenges with reporting scope 3 emissions and are cautious about the conclusions we can draw from this information. Please see Section 6 *Appendix* for more detailed information for DB and DC portfolios.

Table 5: Metrics for AIL's Portfolios as at 31 December 2024

	Scope 1 and 2					Scope 3				Scope 1, 2 and 3
Portfolio Item / Metric	**Asset allocation (£m)**	**Total GHG emissions (tCO_2e)**	**Carbon footprint (tCO_2e/£m)**	**Data Coverage (%)**	**WACI (tCO_2e/£m)**	**Total GHG emissions (tCO_2e)**	**Carbon footprint (tCO_2e/£m)**	**Data Coverage (%)**	**WACI (tCO_2e/£m)**	**ITR (°C)**
Corporates	15,909	359,000	36	62	97	3,700,000	375	62	911	2.4
Sovereigns	1,414	300,000	228	93	229	—	—	—	—	—
LDI Physical	1,466	207,000	141	100	141	—	—	—	—	—
LDI Synthetic	4,667	659,000	141	100	141	—	—	—	—	—

Overall portfolio metrics were aggregated by AIL. Asset allocation as at 31 December 2024. Carbon data is the latest available. Figures are subject to rounding.

Additional footnotes to Table 5: Metrics

- Data for DB assets was provided by State Street Bank and Trust Company except for illiquid assets and liability driven investments (LDI) which was provided by the underlying investment managers or uses publicly available data.
- Data for DC Default Investment Strategies was calculated by AIL based on carbon data provided by MSCI and investment holdings data provided by the underlying managers.
- Data for LDI was calculated by AIL based on sovereign GHG emissions provided by the Emissions Database for Global Atmospheric Research and PPP-adjusted GDP from the World Bank Group.
- Asset allocation is measured as the net present value (NPV) of the physical assets and long derivative positions.
- We do not aggregate the metrics across the whole portfolio because the methodologies used for some asset classes are significantly different and it is not appropriate to combine them.
- Corporates include corporate bonds, equity, illiquid assets and associated long derivative positions. The data coverage of the long derivative positions are assumed to be zero.
- Sovereigns include government, supranational and municipal bonds and associated long derivative positions, and excludes any exposure to sovereign bonds or associated derivative positions held through LDI. The coverage of these long derivative positions are assumed to be zero.
- LDI includes UK government bonds and associated long derivatives. Physical emissions are those associated with physical assets held in the portfolio and synthetic emissions are those associated with the notional exposure to sovereign bonds gained through derivative positions.
- Carbon footprint/WACI for sovereigns and LDI is measured in tCO2e/£m of the issuing country's Gross Domestic Product adjusted for Purchasing Power Parity.
- Implied temperature rise and scope 3 emissions are not currently available for sovereigns and LDI as there are no widely accepted industry agreed methods to calculate it.



Data Observations

As part of the metrics provided on the previous page, we note the following:

- Scope 3 emissions are often the largest part of an organisation's emissions but they are also the hardest to measure. The complexity and global nature of an organisation's value chain make it hard to collect accurate data. Scope 3 emissions are often not reported or are reported with a lack of transparency regarding methodologies. Improving scope 3 data is a key topic of future engagements with underlying managers via the Engagement Programme.
- Last year, scope 3 emissions were excluded due to the poor quality of data available. Data quality has not materially improved since last year; however, we concluded that reporting scope 3 emissions offers a more complete picture and are satisfied that the inclusion of these metrics does not result in the disclosure being unclear or misleading. We therefore reported on scope 3 emissions this year.
- Where possible, we use the industry standard methodology Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting and Reporting Standard for the Financial Industry Part A: Financed Emissions[9] for calculating metrics.
- There is currently no widely accepted industry consensus on how to account for emissions associated with derivatives in a portfolio. We have included long derivative positions in our asset allocation data but, due to that lack of industry consensus, we have zero coverage associated with these positions. Similarly to last year, we have excluded short derivative positions from our reporting. For the LDI synthetic exposure gained through derivatives, we have used an industry standard method to estimate the total emissions and carbon footprint. We are monitoring methodology developments in this area and will incorporate them into future reporting when they become better established.

The metrics calculations rely on many assumptions. Please see Section 6 *Appendix* for more detailed information on the assumptions underpinning the calculations.

[9] The Global GHG Accounting and Reporting Standard for the Financial Industry (carbonaccountingfinancials.com).

5 Targets

We are committed to building climate resilience and sustainability into client portfolios as we transition to a low-carbon world. Our AIL net zero commitment is a critical part of our climate risk management plan.



5.1 Our AIL Net Zero Commitment

- By 2030, achieve a 50% reduction in the carbon emissions profile of AIL's UK delegated investment portfolios and DC Default Investment Strategies offered through the Aon MasterTrust, used by many of our DC trust-based clients, and Bigblue Touch, our Group Personal Pension Plan, relative to a baseline year of 2019.
- By 2050, deliver UK delegated investment portfolios and DC Default Investment Strategies which have a net zero carbon emissions profile.

For Aon plc

Aon has committed to achieve net zero across our own operations (scope 1 and 2) by 2030. More details can be found in the Aon plc TCFD report and our Impact website.





5.2 Our Progress Towards Net Zero

We have continued to make progress on our AIL net zero commitment having reduced our scope 1 and 2 carbon footprints materially since 2019, our baseline year. We note however that the data coverage is 62% for corporates, so we are cautious about the conclusions we can draw from these results.

We have the most ability to influence managers through our allocation to corporate assets within portfolios. Within our allocation to corporate assets, carbon footprint has reduced by 41% for our DB assets and by 74% for our DC Default Investment Strategies since 2019, our baseline year. This is in part due to steps taken to integrate climate solutions into our portfolios. Three core changes we made to our portfolios are responsible for some of the improvement since our baseline year:

- the introduction of our Global Impact Equity Fund and two new Equity Climate Transition Funds to our equity portfolio;
- repositioning of one of our multi-asset credit funds to more explicitly take account of our decarbonisation objectives; and
- introduction of a low-carbon overlay to a portion of the equities in our portfolios.

DB assets

Reduction in scope 1 and 2 carbon footprint 2019 – 2024	
Corporates	⌄ 41%
Sovereigns	⌄ 34%
LDI Physical	⌄ 29%
LDI Synthetic	⌄ 29%

Data as at 31 December 2019 and 31 December 2024.

DC assets

Reduction in scope 1 and 2 low-carbon footprint 2019 – 2024	
Corporates	⌄ 74%
Sovereigns	⌄ 47%

Data as at 31 December 2019 and 31 December 2024. Carbon footprint is for scope 1 and 2. Note that the increased reduction in Corporates carbon footprint for DC compared to DB is mainly as a result of the higher proportion of equity exposure in DC which saw a significant reduction.

5.3 How We Plan to Reach Net Zero

The implementation of our net zero plan focuses initially on our corporate assets because this is where we are able to make the greatest impact. We assess how our managers incorporate climate and carbon considerations into the funds we invest, so that we can make an informed decision about what action to take.

1 Engagement

Actions We Have Taken

We identified which underlying managers are our top priorities for engagement and shared this with the Engagement Programme which will carry out these engagements. This involved analysing the underlying managers' willingness to commit the funds we invest in to net zero and an assessment of the climate-related risk profile of each of our portfolios and the underlying funds.

Future Steps

We will prioritise managers for further engagement where we do not believe they are effectively taking climate-related risk exposure into account within their investment process.

2 Innovation

Actions We Have Taken

We launched the Global Impact Equity Fund, an actively managed equity strategy that invests in companies that address a range of impact themes targeting the transition to a more sustainable economy. Due to the nature of impact investing, this may result in supplying capital to more carbon intensive companies who are actively addressing climate risk, thereby increasing the carbon exposure of the fund.

Our multi-factor equity solution aims to deliver half the weighted average carbon intensity compared to the broad equity market. This is achieved by filtering the investment universe to tilt towards companies with a lower carbon intensity.

We worked with an investment manager to launch two climate transition equity funds, and over the past year, have increased our allocations to these funds. These funds have a 7% year-on-year decarbonisation pathway and aim to have a better exposure to metrics that measure the expected contribution of companies towards climate risk, overall ESG scores and alignment with specific United Nations Sustainable Development Goals (SDGs).

We have evolved our existing multi-asset credit fund to more explicitly take account of our decarbonisation objectives.

All of our DB short-dated credit managers are committed to net zero.

Future Steps

We are looking to develop further products that help us to meet our clients' financial objectives whilst also providing them with the ability to finance the transition towards net zero.

3 Insights

Actions We Have Taken

AIL has appointed State Street Bank and Trust Company to assist with our ESG data collection and reporting requirements on our portfolios.

Future Steps

We will provide our clients and third parties with statistics on our portfolio emissions and the processes we have in place to reduce these over time.

6 Appendix

6.1 Climate Scenarios Modelling Assumptions and Limitations

The purpose of the climate scenario modelling is to consider the impact of climate-related risks on:

- An example Core+ DB client portfolio and an example Managed Growth DB client portfolio; and
- The DC Default Investment Strategy for the two example members: a member 30 years from retirement and a member at retirement. More detail about these member profiles is set out in Table 7 on the next page.

The modelling considers the exposure of the portfolios to climate-related risks under different climate risk scenarios and the approximate impact on asset values (and liability values, in the case of the DB portfolios) over the long-term.

Our model assumes a deterministic projection of assets (and liabilities, in the case of the DB portfolios) using standard actuarial techniques to discount and project expected cashflows.

The model has been set up to capture market conditions and views at the effective date of the modelling; the model may propose different solutions for the same strategy under different market conditions.

I. The modelling uses the full yield curve as this allows for a more accurate treatment of the asset (and liabilities, in the case of the DB portfolios) cashflows and more realistic modelling of the future distribution of interest rates and inflation;

II. The modelling parameters vary deterministically for each scenario;

III. No allowance is made for expenses, with modelled cashflows left unaffected by these factors; and

IV. Climate-related risks are considered on an asset class level, and do not consider the specific geographical locations which will have a strong influence on the climate-related risks the portfolios are exposed to.

The scenario modelling focuses on the impact of climate risk on the example portfolios, highlighting areas where risk might be reduced through changing the investment strategy. When making changes to the investment strategy, we will also consider other relevant issues, such as governance, cost and implementation.

The scenario modelling does not consider the impact climate risk could have on mortality risk. Disorderly transition and no transition scenarios are likely to lead to earlier mortality and subsequent cost of securing benefits in retirement for individual members will be lower. Also, the modelling does not consider non-investment risks such as the timing of when members take their benefits, or operational risks.

DB Core+ and Managed Growth Portfolios

The liability update and projections are considered appropriate for the analysis. The model projects using the following assumptions as at 31 December 2023:

Table 6: DB Core+ and Managed Growth assumptions

	Core+	Managed Growth
Market value of assets	£67m	£334m
Present value of gilts+0.25% liabilities	£68m	£319m
Duration of liabilities	18 years	13 years
Real proportion of the liabilities	40%	60%
Deficit contributions	Nil	Nil

DC Default Investment Strategy

The model projects using the strategic asset allocation for the Aon Managed Core Retirement Pathway Funds. The modelling considers two example members (Table 7).

- For active members, the projections assume contributions are paid mid-year and continue to be paid until retirement. The projections allow for expected future salary growth.
- For deferred members, no allowance for future contributions is made.
- The projections assume members retire at age 65, no withdrawals are made from the asset pool over the modelling period and do not allow for withdrawals in retirement. The exception is the at-retirement member, where the projections assume withdrawals of £3,000 p.a. (3% of the assumed starting fund value) from the asset pool over the modelling period. These are assumed to be paid half-way through the year. No contributions are made into the fund after retirement.

Table 7: Membership Characteristics for the Two Example Members Modelled

Member	Age	Current Fund Value	Salary	Contributions/ Withdrawals (Employer and Employee)
Member A	35	£15,000	£25,000	10% p.a.
Member B	65	£100,000	N/A	3% p.a. withdrawal



6.2 Detailed Metrics

Table 8: Detailed metrics for the DB and DC portfolios

			Scope 1 and 2				Scope 3				Scope 1, 2 and 3
Portfolio Item / Metric		**Asset allocation (£m)**	**Total GHG emissions (tCO_2e)**	**Carbon footprint (tCO_2e/£m)**	**Data Coverage (%)**	**WACI (tCO_2e/£m)**	**Total GHG emissions (tCO_2e)**	**Carbon footprint (tCO_2e/£m)**	**Data Coverage (%)**	**WACI (tCO_2e/£m)**	**ITR (°C)**
Corporates	2024	8,965	169,000	52	36	122	1,100,000	343	36	821	2.1
	2023	7,392	187,000	65	39	119	-	-	-	-	2.3
Sovereigns	2024	802	209,000	298	88	298	-	-	-	-	-
	2023	622	175,000	313	90	313	-	-	-	-	-
LDI Physical	2024	1,466	207,000	141	100	141	-	-	-	-	-
	2023	1,503	257,000	171	100	171	-	-	-	-	-
LDI Synthetic	2024	4,667	659,000	141	100	141	-	-	-	-	-
	2023	4,886	837,000	171	100	171	-	-	-	-	-
DC											
Corporates	2024	6,944	190,000	29	96	85	2,600,000	390	96	955	2.6
	2023	4,527	140,000	35	88	77	-	-	-	-	2.2
Sovereigns	2024	612	91,000	149	100	149	-	-	-	-	-
	2023	163	32,000	197	99	197	-	-	-	-	-

Overall portfolio metrics were aggregated by AIL. Asset allocation as at 31 December 2024. Carbon data is the latest available. Figures are subject to rounding.

- Data for DB assets was provided by State Street Bank and Trust Company except for illiquid assets and liability driven investments (LDI) which was provided by the underlying investment managers or uses publicly available data.
- Data for DC Default Investment Strategies was calculated by AIL based on carbon data provided by MSCI and investment holdings data provided by the underlying managers.
- Data for LDI was calculated by AIL based on sovereign GHG emissions provided by the Emissions Database for Global Atmospheric Research (EDGAR) and PPP-adjusted GDP from the World Bank Group.
- Asset allocation is measured as the net present value (NPV) of the physical assets and long derivative positions.
- We do not aggregate the metrics across the whole portfolio because the methodologies used for some asset classes are significantly different and it is not appropriate to combine them.
- Corporates include corporate bonds, equity, illiquid assets and associated long derivative positions. The data coverage of the long derivative positions are assumed to be zero.
- Sovereigns include government, supranational and municipal bonds and associated long derivative positions, and excludes any exposure to sovereign bonds and associated derivative positions held through LDI. The data coverage of the long derivative positions are assumed to be zero.
- LDI includes UK government bonds and associated long derivatives. Physical emissions are those associated with physical assets held in the portfolio and synthetic emissions are those associated with the notional exposure to sovereign bonds gained through long derivatives positions.
- Carbon footprint/WACI for sovereigns and LDI is measured in tCO2e/£m of the issuing country's Gross Domestic Product adjusted for Purchasing Power Parity.
- Implied temperature rise and scope 3 emissions are not currently available for sovereigns and LDI as there are no widely accepted industry agreed methods to calculate it.

6.3 Metrics Calculations Methodology and Data Parameters

Calculation Methodology

Total greenhouse gas emissions

$$\sum_{n}^{i}\left(\frac{\textit{current £ value of investment}_i}{\textit{investee company' s enterprise value including cash}_i} \times \textit{investee company's Scope 1 and 2 GHG emissions}_i\right)$$

Sovereigns

$$\sum_{n}^{i}\left(\frac{\textit{current £ value of investment}_i}{\textit{Gross Domestic Product_i (PPP)}} \times \textit{The country's Scope 1 and 2 GHG emissions}_i\right)$$

Gross Domestic Product_i (PPP): Gross Domestic Product based on Purchasing Power Parity for country i.

Carbon Footprint

Corporates

$$\sum_{n}^{i}\left(\frac{\textit{current £ value of investment}_i}{\textit{investee company' s enterprise value including cash}_i} \times \text{investee company's Scope 1 and 2 GHG emissions}_i\right)$$

$$\frac{}{\textit{current value of all investments} \times \textit{Data coverage}}$$

Sovereigns

$$\sum_{n}^{i}\left(\frac{\textit{current £ value of investment}_i}{\textit{Gross Domestic Product_i (PPP)}}\right) \times \frac{\textit{The country' s Scope 1 and 2 GHG emissionsment}_i}{\textit{current £ value of all investments} \times \textit{Data coverage}}$$

WACI

Corporates

$$\sum_{n}^{i}\left(\frac{\textit{current £ value of investment}_i}{\textit{current value of all investments}} \times \frac{\textit{investee company's scope 1 and 2 GHG emissions}_i}{\textit{investee company's revenue}_i}\right)$$

Sovereigns

$$\sum_{n}^{i}\left(\frac{\textit{current £ value of investment}_i}{\textit{current value of all investments}} \times \frac{\textit{The country' s Scope 1 and 2 GHG emissions}_i}{\textit{normalisation factor}_i}\right)$$

The normalisation factor is Gross Domestic Product_i (PPP): Gross Domestic Product based on Purchasing Power Parity for country i.

Implied Temperature Rise

2°C + Relative company level over or undershoot × Global 2°C Budget × TCRE Factor

TCRE Factor: Transient Climate Response to Cumulative Carbon Emissions (TCRE Factor) was established by the Intergovernmental Panel on Climate risk and provides a relationship that links each additional unit of emissions emitted beyond the available remaining global 2°C carbon budget to degrees of additional warming.

Data Parameters

We have established certain parameters and assumptions to standardise the data in a matter consistent with the regulatory guidance at the time of writing. These are set out below.

1. The carbon metrics for our DB client portfolios have been provided by State Street Bank and Trust Company (State Street) as at 31 December 2024 and 31 December 2023 except for illiquid assets and LDI. State Street sourced data from MSCI where possible for the underlying managers and/or relied on published estimation methodologies to derive the related figures.
2. The emissions data for DB illiquid assets was sourced from the underlying investment managers and aggregated by AIL with the carbon metrics from State Street.
3. The LDI physical and synthetic exposures information was provided by the LDI managers as at 31 December 2024 and 31 December 2023.
4. The carbon metrics for the DC client portfolios have been calculated by AIL based on carbon data provided by MSCI and underlying holding data provided by the underlying managers.
5. We reported the carbon metrics associated with the physical assets and long derivative positions in the following asset categories:
   - Public Equities: includes publicly traded equities, equity index funds, listed real estate and infrastructure;
   - Public Credits: includes corporate bonds, asset-backed securities and credit funds;
   - Sovereigns: includes sovereign, supranational, and municipal bonds, and gilt-linked funds;
   - Illiquid Assets: includes our direct investments with investment managers; and
   - Cash: includes certificates of deposits, commercial papers and short-term liquidity funds.
6. Cash holdings are assumed to have zero emissions associated with them. This excludes liquidity fund holdings comprised of certificates of deposit and commercial papers.
7. Data coverage for the long derivative positions is assumed to be 0% because there is no widely accepted methodology for reporting emissions associated with long derivative positions.
8. Where data was not available from the underlying managers, in particular information for our DB client portfolios at 31 December 2019, some metrics have been proxied using comparable strategies.
9. For holdings which we have deemed to be immaterial and where data is unavailable, data coverage has been assumed to be 0%.
10. The sovereign GHG emissions and GDP data has been provided as at 31 December 2023 , 31 December 2022 and 31 December 2019 from the following sources:
    - Emission figures from the Emissions Database for Global Atmospheric Research.
    - PPP-adjusted GDP from the World Bank Group.

Explanation of Scopes

Greenhouse gases are produced by burning fossil fuels, meat and dairy farming, and some industrial processes. When greenhouse gases are released into the atmosphere, they trap heat in the atmosphere causing global warming, contributing to climate risk.

Greenhouse gases are categorised into three types or ‘scopes’ by the Greenhouse Gas Protocol, the world’s most used greenhouse gas accounting standard.

Scope 1	All direct emissions from the activities of an organisation which are under their control; these typically include emissions from their own buildings, facilities and vehicles.
Scope 2	These are the indirect emissions from the generation of electricity purchased and used by an organisation.
Scope 3	All other indirect emissions linked to the wider supply chain and activities of the organisation from outside its own operations — from the goods it purchases to the disposal of the products it sells.



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