

# Mandatory Website Disclosure for the APG Alternative Credits Pool

September 2023

## APG Alternative Credits Pool

Mandatory website sections
<p><b>a) ‘Summary’</b></p> <p>The purpose of the APG Alternative Credits Pool is to provide access to a diversified portfolio of illiquid, and often private credit (non-government bond) investments, primarily in the US and Europe, that provide attractive relative value versus the Risk Benchmark, where the additional return should compensate for increased (credit) risk, complexity and illiquidity.</p> <p><b>SFDR classification and environmental and/or social (E/S) characteristics</b>            This Pool is identified as an SFDR Art. 8 product (light green). The Pool promotes environmental and social characteristics but does not have sustainable investments as its objective (SFDR Art. 9).</p> <p>The Pool promotes the following environmental and/or social (E/S) characteristics:</p> <ul style="list-style-type: none"> <li>▪ Corporate Exclusion Policy</li> <li>▪ Sustainable Development Investments</li> <li>▪ UNGC Principles</li> <li>▪ ESG Integration and Transparency</li> <li>▪ PRI Signatories</li> <li>▪ Identification of Severe ESG Incidents</li> </ul>
<p><b>b) ‘No sustainable investment objective’</b></p> <p>This Pool promotes environmental and/or social characteristics but does not have sustainable investments as its objective.</p>
<p><b>c) ‘Environmental or social characteristics of the financial product’</b></p> <p>This Pool promotes the following environmental and/or social characteristics:</p> <ul style="list-style-type: none"> <li>▪ Corporate Exclusion Policy</li> <li>▪ Sustainable Development Investments</li> <li>▪ UNGC Principles</li> <li>▪ ESG Integration and Transparency</li> <li>▪ PRI Signatories</li> <li>▪ Identification of Severe ESG Incidents</li> </ul>

## d) 'Investment strategy'

The Pool seeks alternative credit investments that offer superior returns to credit investments that are traded on public markets, which is proxied by the public market benchmark (i.e. Risk Benchmark). The risk-return profile of these alternative credit investments is also driven by non-traditional risk factors like illiquidity and complexity. This increased illiquidity and complexity is mostly linked to the type of instrument, which can range from private (non-listed) debt exposures to fund investments with external managers. The additional return should be an adequate compensation for increased credit risk, illiquidity and complexity.

In order to provide access to a broad and diversified portfolio of alternative credit investments the Pool targets a maximum allocation of 35% of the Net Asset Value to each of the strategy segments, except for the alpha-driven credit strategies which target a maximum allocation of 10% of the Net Asset Value.

The strategy segments are defined as follows: Specialty Finance, Private Credits, Direct Lending, Non-Performing loans, Distressed debt & special situations, and Alpha-driven credit strategies.

Portfolio construction and diversification of return drivers form the basis for the investment process in which external manager selection is an important element. The portfolio construction is the product of a bottom-up, opportunity-driven, investment process where investments should provide attractive relative value versus the Risk Benchmark. Given the private and illiquid nature of most alternative credit investments, active management (relative to the benchmark) is limited, with a buy-and-hold investment style allowing for longer investment horizons.

We assess this Pool to have higher than investment-grade credit risk with a five-year investment horizon. Investment decisions are based on in-house research and analyses supported by research and analyses from external managers.

The following good governance practices around sound management structures, employee relations, remuneration of staff and tax compliance are considered before making a new investment in this Pool. Additional good governance practices are assessed as part of the due diligence and assessment processes for investments in this Pool.

Good Governance Practice	Metric	Explanation	Thresholds for failing the GGP Test
Sound management structures	Investments take into account the UN Global Compact Principles, including Principle 10 on Anti-Corruption.	We expect all new investments to contractually commit to take into account the UN Global Compact Principles.	ESG incident reported/ RepRisk controversy threshold crossed + engagement with external manager/investee entity does not result in timely remediation of issue.
Employee Relations	Investments take into account the UN Global Compact Principles, including Principles 1-6 on Human Rights and Labour.	We expect all new investments to contractually commit to take into account the UN Global Compact Principles.	ESG incident reported/ RepRisk controversy threshold crossed + engagement with external manager/investee entity does not result in timely remediation of issue.

<b>Tax Compliance</b>	Investments have no significant controversies related to tax compliance.	We screen for whether investee companies have been involved in significant controversies related to accounting and taxation.	ESG incident reported/ RepRisk controversy threshold crossed + engagement with external manager/investee entity does not result in timely remediation of issue.
<b>Remuneration of Staff</b>	Investments have no significant controversies related to staff remuneration.	We screen for whether investee companies have been involved in significant controversies related to staff remuneration.	ESG incident reported/ RepRisk controversy threshold crossed + engagement with external manager/investee entity does not result in timely remediation of issue.

**e) 'Proportion of investments'**

The vast majority of investments in this Pool fall under Category “#1 Aligned with E/S characteristics”.

**f) 'Monitoring of environmental or social characteristics'**

The Responsible Investment (RI) Guidelines for the asset classes this Pool invests in outline the different RI policies and approaches that apply to this specific Pool.

This Pool promotes ESG integration and reporting by external managers in their investment processes:

- **ESG Integration**  
The sustainability indicator to measure attainment of this E/S characteristic is whether the managers have complied with conditions and recommendations from the investment approval process and how the external managers have been scored in the annual Planet RI scorecard.
- **ESG Transparency**  
The sustainability indicator to measure the attainment of this E/S characteristic is the percentage of managers reporting to us on ESG.

These summary descriptions also describe the governance on how each of the RI policies and approaches which apply to this Pool are implemented.

Detailed processes for the implementation of the RI policies and approaches is described in the internal Business Process Manuals (BPMs) which set out in detail how the consistent and effective implementation of the RI policies and approaches is monitored and ensured.

The BPMs also include detailed descriptions of the processes, risks and control mechanisms for implementing the RI policies. These descriptions include the monitoring of the sustainability indicators which are measured under these policies and approaches.

### **g) ‘Methodologies for environmental or social characteristics’**

The methodologies used to measure the attainment of the E/S characteristics are described in the summary descriptions of the different responsible investment (RI) policies and approaches that apply to this Pool, and which can be found on the APG AM website.

APG AM has a detailed description of the methodologies for measuring E/S characteristics for each of the RI policies, including the data and methodology used.

### **h) ‘Data sources and processing’**

To measure, monitor and report on the E/S characteristics promoted by this Pool, we use data from external data providers such as RepRisk.

APG AM has internal BPMs in place for each of the RI policies which set out in detail how the consistent and effective implementation of these policies - and the methodologies used - is monitored and ensured. This includes a description of how the data quality is ensured, how data is processed, and where relevant what proportion of this data is estimated.

### **i) ‘Limitations to methodologies and data’**

Sustainability-related data is still less mature than regular financial data and qualitative performance assessments are often translated into numeric values. Generally, we recognize the limitations of the methodologies and data sources for sustainability-related data such as the lack of consistent and transparent measurement methodologies and data assessment processes, and the limited availability, comparability and quality of data.

The limitations to the methodologies used to attain the E/S characteristics promoted by the Pool are described in the internal BPMs for each of the RI policies which apply to this Pool. These BPMs also set out in detail how the consistent and effective implementation of these policies - and the methodologies used - is monitored and ensured.

### **j) ‘Due diligence’**

#### Investing through external asset managers:

The first line Operational Due Diligence (ODD) function is responsible for the ODD activities in relation to external mandates. The first line ODD function comprises the PMs and ODD Team, with the former having ultimate responsibility for the external mandates they manage on behalf of APG AM’s clients. The most important steps while carrying out an ODD are:

- Trigger: new investment proposal, a scheduled periodic ODD, or an ad hoc request.
- Carry out a background check by the ODD Desk on external party.
- Prepare and submit a due diligence questionnaire and additional information.
- Conduct profound desk research to assess the organizational set-up of the external party.
- Prepare an ODD agenda and have ODD interviews with senior management of the external party.
- Draft an ODD report based on insights gained via prior steps.
- If the report was drafted by portfolio managers, a peer review will be carried out by a specialist of the 1st line ODD Desk to ensure quality and a consistent approach across asset classes.
- Finalize the ODD report.

The internal BPMs for both ODD and Background checks describe the main activities performed by the 1st line ODD function. These BPMs include detailed descriptions of the internal and external risks and key controls for the ODD and background check processes. In addition to due diligence on external parties in relation to external mandates, the ODD Team also performs ODDs on the internal manager.

### **k) 'Engagement policies'**

This Pool assesses ESG integration by managers through diligence and ongoing engagement with managers. Progress is tracked in our ESG tracking tool and updated on an ongoing basis. This Pool engages with external managers to ensure that they behave consistently with the RI policy and agreed-upon ESG fund terms; to address identified gaps in their ESG practices; and to discuss other topics that may arise which in our view contribute to their ability to create and sustain long-term value. This Pool completes a Planet RI scorecard for each external manager on an annual basis.

This Pool requires external managers to report annually on ESG integration by completing an annual APG ESG questionnaire. This requirement applies to most investments with the exception of some legacy investments to which it does not apply.

### **l) 'Designated reference benchmark'**

Not Applicable.