

Mandatory Website Disclosure APG China Fixed Income Pool

January 2025

APG China Fixed Income Credits Pool

Mandatory website sections



a) 'Summary'

Investment strategy

The purpose of the APG China Fixed Income Pool is:

1. to provide broad access to non-sovereign fixed income asset classes in China, in a sustainable manner as described below, and;
2. to maximize the return relative to the Pool benchmark, while observing the Investment Restrictions outlined below and through prudent investment management.

Based on the Good Governance Practices (GGP) test, investee companies in this financial product are (pre-)screened on controversies related to sound management structures, employee relations, tax compliance and remuneration of staff.

SFDR GGP	Metric	GGP Test
1. Sound management structures	• No UN Global Compact Principles Flag related to Principle 10 on Anti-Corruption	 Material ESG incident reported by external manager or  UNGC Flag or Very severe incident
2. Employee Relations	• No UN Global Compact Principles Flag related to Principles 1-6 on Human Rights & Labour	
3. Tax Compliance	• No very severe Tax Compliance controversies	
4. Remuneration of staff	• No very severe Staff Remuneration controversies	

No sustainable investment objective

This Pool promotes environmental and social (E/S) characteristics but does not have sustainable investments as its objective.

Proportion of investments

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

Environmental and/or social characteristics

The Pool promotes the following E/S characteristics:

1. Exclusion Policy
2. Contribution to the United Nations Sustainable Development Goals (SDGs)
3. ESG-integration

Monitoring and methodologies for E/S characteristics

The monitoring and methodologies used to measure the attainment of the E/S characteristics vary per characteristic as summarized below:

1. Exclusion Policy: monitoring by semi-annual update of the Exclusion list and publication on clients’ websites.
2. Contribution to the SDGs: identification of SDIs by portfolio management based on the SDI Taxonomy & Guidance, and monitoring on SDI dashboard.

3. ESG-integration: Inclusion classifications are systematically evaluated and validated every six months in so-called Major Revisions. The list of Inclusion classifications is input to (a) the list of securities delivered to the index provider, and (b) the list of securities delivered to internal investment teams/ external managers to determine which companies they can invest in.

Data sources and processing

The collection and processing of data is done in multiple ways. It often requires the collection of data from a variety of sources, both internal and external. Integrating different sources into a consistent dataset can be complicated, especially when it comes to different data formats. In general, processes are automated as much as possible to reduce operational risks. The use of estimated data is limited and does not affect how the E/S characteristics promoted by the Pool are met.

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.

Due diligence

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 clients.

Engagement policies

The engagement policies which apply to this product are described in the APG AM Responsible Investment & Stewardship Policy which sets out how APG AM carries out its stewardship responsibilities such as engagement, monitoring, voting, collaboration and market engagement.

Designated reference benchmark

Not applicable.

b) 'No sustainable investment objective'

This Pool promotes environmental or social characteristics but does not have sustainable investments as its objective.

c) 'Environmental or social characteristics of the financial product'

This Pool promotes the following environmental and/or social characteristics:

1. Exclusion Policy
2. Contribution to Sustainable Development Goals (SDG)
3. ESG-integration

d) 'Investment strategy'

The purpose of the Pool is:

1. to provide broad access to non-sovereign fixed income asset classes in China, in a sustainable manner as described below and;
2. to maximize the return relative to the Pool benchmark, while observing the Investment Restrictions outlined below and through prudent investment management.

The specific investment universe is characterized by reputational risk and the limited availability of information on credit risk. The investment process therefore integrates environmental, social and corporate governance risks and opportunities, and relies on local external investment advice to bridge the gap in terms of data availability for credit-risk and ESG- risk management. The specific focus on credit quality and ESG may result in a concentrated portfolio.

The majority of the Pool’s assets are managed internally.

All the E/S characteristics this Pool promotes are binding elements of the investment strategy.

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. While the GGP-test focuses on the four mandatory good governance practices as prescribed by the SFDR, additional good governance practices are assessed as part of the (pre-)investment process followed for investments in this Pool.

Based on the Good Governance Practices (GGP) test, investee companies in this financial product are (pre-)screened on controversies related to sound management structures, employee relations, tax compliance and remuneration of staff. In the event that an investee company is linked to a GGP controversy, the severity and assess the solvability of the issue through engagement with the respective investee company is assessed. If the severity and solvability of the GGP issue is confirmed, an engagement trajectory will be initiated to address and resolve the issue. Such an engagement will be aimed at a transition by the investee company to a good governance practice, i.e. passing the Good Governance Practice Test within a maximum of 3 years.

SFDR GGP	Metric	GGP Test
1. Sound management structures	• No controversies related to Business Ethics practices in direct operations and supply chains	
2. Employee Relations	• No controversies related to Employees’ Human Rights practices in direct operations and supply chains	
3. Employee Relations	• No controversies related to Labor Relations in direct operations and supply chains	
4. Tax Compliance	• No controversies related to Accounting & Taxation practices.	
5. Remuneration of Staff	• No controversies related to Staff Remuneration	
		<p> Sustainalytics: Controversy 4 & 5, confirmed by APG AM research</p> <p> MSCI: Controversy observed (binary data) confirmed by APG AM research</p>

e) ‘Proportion of investments’

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

- The Exclusion Policy applies to all investments, although the use of index products which incorporate excluded investments is permitted for hedging purposes.

- The Sustainable Development Investments (SDI) approach applies to all investments (excluding derivatives and cash). The percentage of SDI investments is calculated against the total value of the portfolio.
- The Inclusion Policy applies to all corporate issuers, including government-owned corporates. Government entities operating as agencies also fall under the Inclusion Policy.

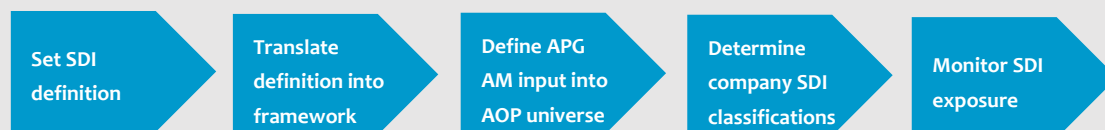
f) 'Monitoring of environmental or social characteristics'

1. Exclusions

The Exclusion list is updated twice a year (per 1 December and 1 June). The Responsible Investment Execution team reviews corporate involvement assessments of external research providers and, based on its proprietary analysis, recommends any necessary changes to the Exclusion list. Based on this proposal, two months before December or June 1st, the Responsible Investment Committee (RIC) decides on any changes to the Exclusion list to allow for internal decision making, client reconfirmation, and adequate ability to sell. Upon approval, the Exclusion list is formally communicated by the CIO to the organization and teams responsible for external managers. Relevant benchmarks are subsequently updated per December and June and the updated Exclusion list is published on clients' websites.

2. Contribution to the United Nations Sustainable Development Goals (SDGs)

Portfolio managers identify investments which qualify as Sustainable Development Investments (SDIs) according to the SDI Taxonomy & Guidance. The SDI methodology was established by a multidisciplinary team, with representatives from the investments teams, legal, risk and fiduciary management. The Responsible Investment Board approves the SDI methodology, which is re-assessed at least once a year. The end-to-end process regarding SDIs looks as follows:



This end-to-end SDI process contains the following elements:

- Setting an SDI definition and translating it into the assessment framework;
- Classifying SDIs (companies/assets) either using externally or internally generated data;
- Monitoring and Reporting of SDI exposure.

Once the SDI classification is confirmed, the investment teams will implement the SDI classification in their portfolios as part of their general portfolio management activities.

The methodology applied in determining whether a company can be classified as an SDI consists of several steps as further described in the [SDI AOP Taxonomy and Guidance](#).

To monitor progress against SDI ambitions, investment teams have access to an SDI dashboard which provides an overview of the latest (and historic) SDI exposure. In addition to the teams being able to monitor their SDI exposure directly themselves the Responsible Investment Committee also monitors progress against the ambitions at a total and asset class level and, if deemed necessary, provides an update to the Management teams of the investments.

3. ESG integration

Based on the Inclusion methodology, Inclusion classifications categorize companies based on their ESG practices into distinct groups. Classifications are based on actual and verifiable reported company-specific data in the public domain or collected by data providers and evidence of ESG controversies that reveal companies conduct over time.

Under Inclusion, companies are systematically evaluated and validated every six months in so-called Major Revisions. The list with Inclusion classifications is input to (a) the list of securities delivered to the benchmarks/ index providers, and (b) the list of securities delivered to internal investment teams/ external managers to determine which companies they can invest in.

g) 'Methodologies for environmental or social characteristics'

1. Exclusions

We do not invest in companies that carry out certain (undesirable) activities. The excluded activities include the following:

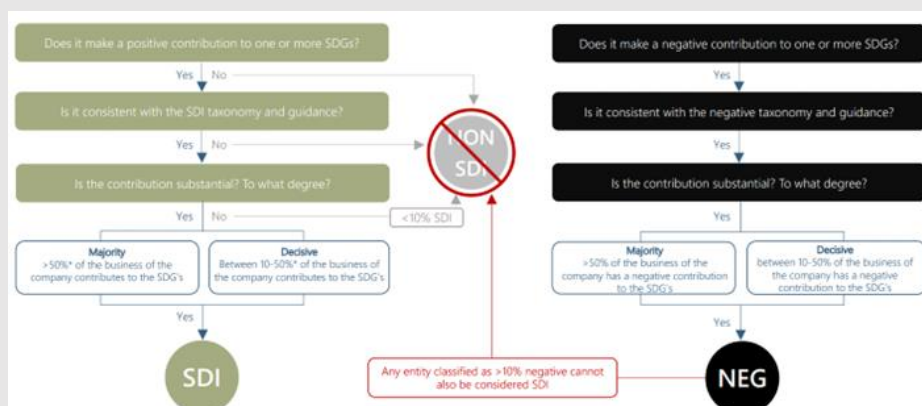
- Exposure to companies involved in the production, sale and/or distribution of controversial weapons (anti-personnel mines, cluster munitions, and nuclear, chemical and biological weapons).

This also relates to companies indirectly involved through corporate ownership in excluded companies, if: a) the company has a stake of more than 20% in an entity that is directly involved in the production, development, sale or distribution of prohibited weapons; or b) more than 50% of the company's capital is held by an entity that is directly involved in the production, development, sale or distribution of prohibited weapons. If the boards of the former and the latter are near-identical, and/ or the parent entity is not listed, a lower threshold of 20% applies.

- Exposure to companies involved in the production of tobacco.

2. Contribution to Sustainable Development Investments

Portfolio managers assess if the products and services of investments contribute to the achievement of the Sustainable Development Goals (SDGs), such as sustainable energy, safe and sustainable cities, decent work and economic growth, and health and well-being. The assessment by portfolio managers of Sustainable Development Investments (SDIs) is based on the methodology as set out in the SDI AOP Taxonomy and Guidance. The SDI methodology was established by a multidisciplinary team, with representatives from the investments teams, legal, risk and fiduciary management. When companies contribute to these goals with their products and services, our investments in those companies are considered to be Sustainable Development Investments (SDIs).



3. ESG Integration

Under Inclusion, companies are systematically evaluated and validated every six months in so-called Major Revisions. The list with Inclusion classifications is input to (a) the list of securities delivered to the benchmarks/ index providers, and (b) the list of securities delivered to internal investment teams/ external managers to determine which companies they can invest in.

The engagement process is an essential part of Inclusion, whereby clear and measurable engagement plans are drawn and monitored to drive change at the selected entities.

Based on Inclusion we only invest in companies that meet our minimum ESG-criteria around:

- Climate
- Nature, Circularity & Biodiversity
- Human & Labour rights
- Business Integrity, and
- Investor Alignment

We set sector and market-specific criteria for companies, broadly in line with the OECD guidelines, to test whether there is evidence that our investee companies (do not) meet our expectations. We only invest in companies that pass all criteria ('average performers' and 'leaders') or in companies with whom we can engage ('engaged laggards').

h) 'Data sources and processing'

To attain the E/S characteristics promoted by this Pool we use data from different sources. The table below shows the sources and limitations per data source.

E/S characteristic	Data source	Data limitations
Exclusion	Proprietary research, Sustainalytics, ISS ESG	Negligible.
Contribution to SDGs	SDI: SDI-Asset Owner Platform	Limitations in coverage, quality and consistency of the data. The data is made accessible with a delay.
ESG Integration	Sustainalytics, MSCI, ISS, Global Coal Exit List (GCEL)	Limitations in coverage, quality and consistency of the data. The data is made accessible with a delay.

Measures taken to ensure data quality

Before data vendors are selected, several aspects are checked, including the data quality of the vendor, methodologies used, coverage and completeness of data. During the reporting process, sanity checks are performed to ensure data quality and completeness before incorporation in sustainability disclosures. Data providers are assessed annually.

Data Processing

The collection and processing of data is done in multiple ways. It often requires the collection of data from a variety of sources, both internal and external. Integrating different sources into a consistent dataset can be complicated, especially when it comes to different data formats. In general, processes are automated as much as possible to reduce operational risks.

Proportion of data that is estimated

The proportion of data that is estimated is limited and does not affect how the E/S characteristics promoted by the Pool are met.

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 section h: data sources and processing. Such limitations do not affect how the E/S characteristics promoted by the financial product are met.

j) 'Due diligence'

Sustainability-related due diligence processes which apply to this Pool involve those described in the RI Implementation Guidelines for the asset classes invested in by this Pool. These set out the sustainability-related due diligence and monitoring processes and tools for the underlying assets.

k) 'Engagement policies'

The engagement policies which apply to this product are described in the APG AM Responsible Investment & Stewardship Policy which sets out how APG AM carries out stewardship responsibilities such as engagement, monitoring, voting, collaboration and market engagement. The APG AM Responsible Investment & Stewardship Policy, which can be found on our website, also describes the governance and management of responsible investing.

APG AM enters into a dialogue with many of its investee companies and investment entities in order to influence them to improve their performance on sustainability and corporate governance. We often cooperate with other investors and regularly discuss sustainability and shareholder rights with legislators and regulatory bodies, to increase our impact.

l) 'Designated reference benchmark'

Not applicable.