

Mandatory Website Disclosure for the APG Index Linked Bonds Pool

September 2023

APG Index Linked Bonds Pool

Mandatory website sections
<p>a) ‘Summary’</p> <p>The purpose of the APG Index Linked Bonds Pool is:</p> <ol style="list-style-type: none"> to provide protection against unexpected inflation and; to provide duration for liability hedging, liquidity and diversification versus other asset classes. <p>SFDR classification and environmental and/or social (E/S) characteristics</p> <p>The Index Linked Bond Pool is identified as an SFDR Art. 8 product (light green). It promotes environmental and/or social characteristics but does not have sustainable investments as its objective (SFDR Art. 9).</p> <p>This Pool promotes the following environmental and/or social (E/S) characteristics which are binding elements of the investment strategy:</p> <ul style="list-style-type: none"> Sovereign Exclusion Policy Corporate Inclusion Policy Sustainable Development Investments¹ <p>This Pool invests a proportion of its assets in green, social and sustainability bonds which contribute to the UN Sustainable Development Goals.</p>
<p>b) ‘No sustainable investment objective’</p> <p>This Pool promotes environmental and/or social characteristics but does not have sustainable investments as its objective.</p>
<p>c) ‘Environmental or social characteristics of the financial product’</p> <p>This Pool promotes the following environmental and/or social characteristics:</p> <ul style="list-style-type: none"> Sovereign Exclusion Policy Corporate Inclusion Policy Sustainable Development Investments²

1) Please note that Sustainable Development Investments do not constitute sustainable investments as defined by SFDR.

2) Please note that Sustainable Development Investments do not constitute sustainable investments as defined by SFDR.

d) 'Investment strategy'

The purpose of this Pool is:

1. to provide protection against unexpected inflation and;
2. to provide duration for liability hedging, liquidity and diversification versus other asset classes.

The Pool has an aim to outperform the benchmark by 0.20%.

Active management ensures a focus on cost-effective and efficient portfolio management. The Pool is internally managed and mainly invests in government bonds and government-related debt. Derivatives are used to hedge risks and for efficient portfolio management. Important drivers of excess returns are: country selection, break-even positioning, duration positioning, issuer - and issue selection.

e) 'Proportion of investments'

The vast majority of investments included in this Pool are classified as “#1 Aligned with E/S characteristics”.

The portfolio is internally managed and mainly invests in government bonds and government-related debt. Derivatives are only used to hedge risks, and for efficient portfolio management.

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.

SFDR GGP	Metric	Explanation	Source data & Thresholds for failing the GGP Test
Sound management structures	Controversies related to Business Ethics practices in direct operations and supply chains	This indicator assesses whether a company has been involved in business ethics-related controversies.	Sustainalytics: Controversy of category 4&5, confirmed by APG research.
Employee Relations	Controversies related to Employees' Human Rights practices in direct operations and supply chains	This indicator assesses whether a company has been involved in human rights-related controversies with its employees (e.g. forced labor).	Sustainalytics: Controversy of category 4&5, confirmed by APG research.
Employee Relations	Controversies related to Labor Relations in direct operations and supply chains	This indicator assesses whether a company has been involved in labor relations controversies (e.g. labor standards).	Sustainalytics: Controversy of category 4&5, confirmed by APG research.
Tax Compliance	Controversies related to Accounting & Taxation practices	This indicator assesses whether a company has been involved in accounting and taxation related controversies.	Sustainalytics: Controversy of category 4&5, confirmed by APG research.
Remuneration of Staff	Controversies related to Staff Remuneration	This indicator assesses if whether a company has been involved in significant controversies related to staff remuneration.	MSCI: Controversy observed (binary data), confirmed by APG research.

f) 'Monitoring of environmental or social characteristics'

The Responsible Investment (RI) Implementation Guidelines for the asset classes this Pool invests in describe the different RI policies and approaches that apply to this specific Pool. The promoted E/S characteristics and the sustainability indicators used to measure how these are achieved are described in the summary descriptions of the different responsible investment (RI) policies and approaches which apply to this Pool, such as the Exclusion Policy, the Inclusion Policy, and the Sustainable Development Investments, all of which can be found on the APG AM website.

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.

Internal control mechanisms for the monitoring and attainment of the E/S characteristics require the Global Responsible Investment and Governance (GRIG) team to annually test the key controls and/or ISAE controls set for each RI policy implementation process; a process which is monitored and reviewed by Enterprise Risk Management. In addition, the external auditor annually tests and validates the key controls and/or ISAE controls.

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 the 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 Sustainalytics, MSCI, ISS, SDI Asset Owner Platform (AOP), GRESB, Baringa and ERM.

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'

Index linked bond investments:

Further 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, and the internal BPMs for the applicable RI policies and approaches. 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 Pool 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. The APG AM Responsible Investment & Stewardship Policy, which can be found on our website, also describes the governance and management of responsible investing.

The management of sustainability-related controversies in this Pool is predominantly covered in the Inclusion Policy, and is outlined in the summary description of the Inclusion Policy which is available on our website.

l) 'Designated reference benchmark'

Not Applicable.