

Mandatory Website Disclosure APG Alternative Credits Pool

January 2025

APG Alternative Credits Pool




Mandatory website sections

a) 'Summary'

Investment strategy

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.

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	 <ul style="list-style-type: none">  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 E/S characteristics apply to all investments in this product, with the exception of derivatives.

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:** standard legal provisions are included in contracts to require external managers to take into account the UNGC Principles and report on ESG incidents.

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

This Pool assesses ESG integration by managers through diligence and ongoing engagement with managers. Progress is tracked in an ESG tracking tool which is updated on an ongoing basis.

Designated reference benchmark

Not applicable.

b) 'No sustainable investment objective'

This Pool promotes environmental and/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 the United Nations Sustainable Development Goals (SDGs)
3. ESG-integration

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 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 the following long-term allocations to each strategy segment:

Real Asset Credit	0% - 20%
Specialty Finance	0% - 20%
Structured Credit	10% - 30%
Direct Lending	30% - 50%
Non-performing loans	0% - 20%
Distressed Debt & Special Situations	10% - 30%

The strategy segments are defined as follows: Real Asset Credit, Specialty Finance, Structured Credit, Direct Lending, Non-Performing loans and Distressed debt & special situations.



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.

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.

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 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	

e) 'Proportion of investments'

The E/S characteristics apply to all investments in this product, with the exception of derivatives.

f) 'Monitoring of environmental or social characteristics'

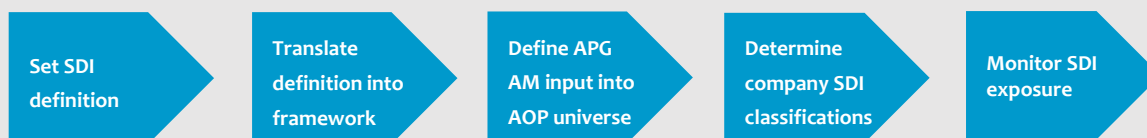
The E/S characteristics this Pool promotes, and the sustainability indicators used to measure the attainment thereof are described below:

1. Exclusions

The Exclusion list is updated every 6 months (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 Chief Investment Officer 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. APG AM's Responsible Investment Board approves the SDI methodology, which is reassessed 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

When making investments in Private Markets, standard legal provisions are required based on which external managers agree to:

- taking into account the UNGC Principles in connection with each portfolio investment and;
- informing APG AM of any severe ESG incident/controversy by the external manager.

Internal control mechanisms for the monitoring and attainment of the E/S characteristics require the responsible team to annually test the key controls and/or ISAE controls set for each RI policy implementation process; a procedure that 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'

1. Exclusions

The Pool does 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).

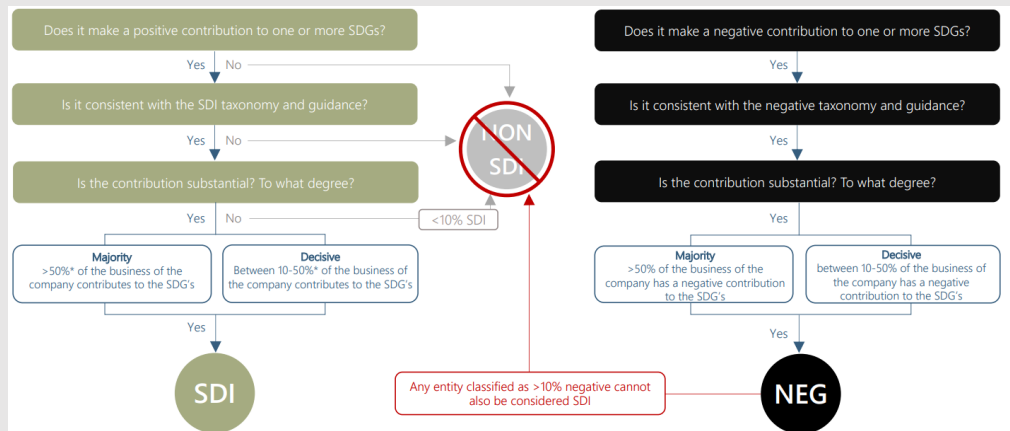
This also relates to companies indirectly involved through corporate ownership in excluded companies, if: a) the company has a stake of more than 20% in an entity that is directly involved in the production, development, sale or distribution of prohibited weapons; or b) more than 50% of the company's 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

When making investments in Alternative Credits, standard legal provisions are agreed based on which external managers are required to confirm:

- that the external manager takes into account the UNGC Principles in connection with each portfolio investment, and;
- APG AM will be informed of any severe ESG incident/controversy by the external manager.

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 data sources used and limitations per data source.

E/S characteristic	Data source	Data limitations
1. Exclusion	Proprietary research, Sustainalytics, ISS ESG	Negligible.
2. 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.
3. ESG integration	External manager	Not applicable.

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'

The first line Operational Due Diligence (ODD) function performs 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 financial economic crime due diligence (FEC DD) 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.

Further sustainability-related due diligence processes which apply to this Pool involve those described in the Responsible Investment Implementation Guidelines for the asset classes invested in by this Pool, and the internal Business Process Manuals for the applicable Responsible Investment policies. These set out the sustainability-related due diligence and monitoring processes and tools for the underlying assets.

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 which is updated on an ongoing basis. Portfolio managers engage with external managers to ensure that they act in line with the Responsible Investment 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 Responsible Investment 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.

I) 'Designated reference benchmark'

Not applicable.