

# Mandatory Website Disclosure for the APG Private Equity Pool 2018-2019

September 2023

## APG Private Equity Pool 2018-2019

### Mandatory website sections

#### a) 'Summary'

The purpose of the Private Equity Pool 2018-2019 is to build a diversified portfolio of global investments in private equity, i.e. equity investments in non-listed companies. It further aims to acquire and manage globally diversified interests in private equity funds, including co-investments, secondary and mezzanine investments, which focus on, but are not limited to, buyouts and venture capital, and to outperform the benchmark.

All investments will be in compliance with the APG Responsible Investment Implementation Guidelines for the Private Equity Building Block, which adheres to various policies including the APG Exclusion Framework.

Other binding legal requirements are in place for fund investments to:

- Provide APG with ESG reporting;
- Take into account the UN Global Compact (UNGC) principles;
- Report material ESG incidents to APG.

This Pool promotes environmental and/or social characteristics but does not have sustainable investment as its objective. The environmental and social characteristics promoted by the Pool are:

- Corporate Exclusion Policy
- Sustainable Development Investments<sup>1</sup>
- UNGC Principles
- ESG Integration
- ESG Transparency
- PRI Signatories
- Identification of Severe ESG Incidents

While the asset allocation is not known in advance due to the blind pool nature of the Pool, the majority (>80%) of investments should fall under Category #1 Aligned with E/S characteristics. This exposure will be made up of a combination of primary funds (indirect), co-investments (direct), and secondary funds (indirect).

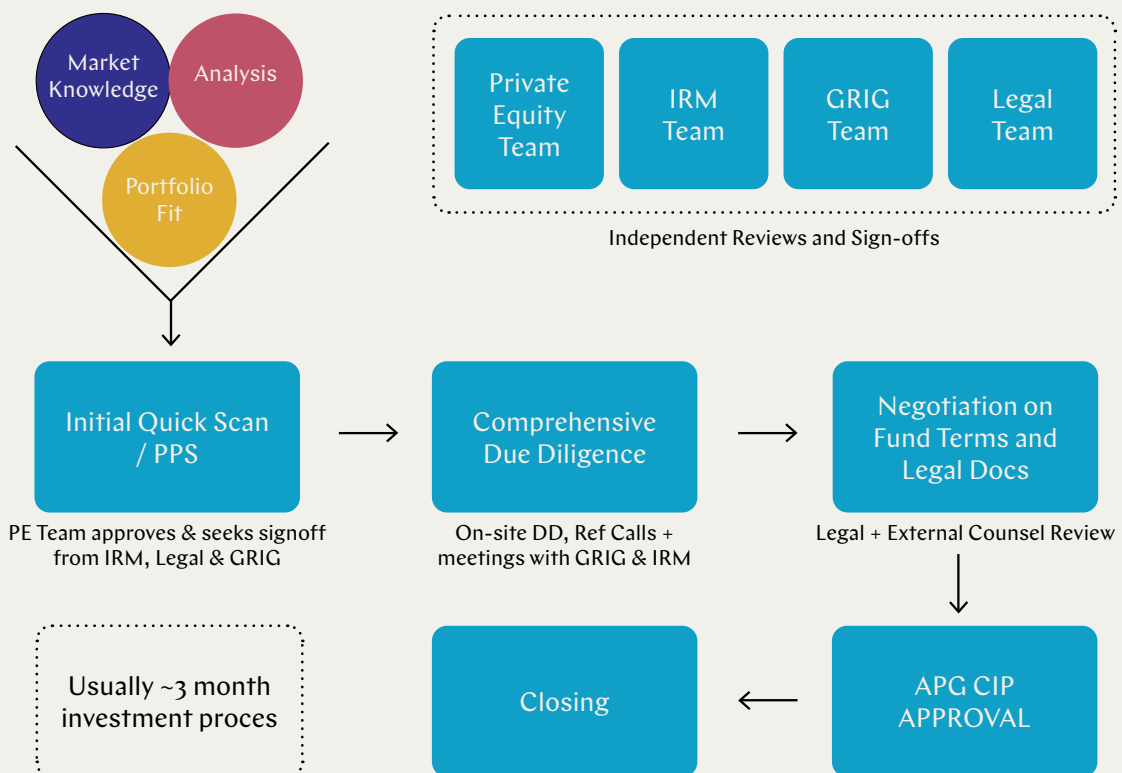
1) Please note that Sustainable Development Investments do not constitute sustainable investments as defined by SFDR.

The monitoring of the E/S characteristics this Pool promotes is carried out through the following channels:

- Manager due diligence (including ESG due diligence questionnaire completed at each underwriting)
- ESG score per internally developed model – the APG PE ESG Assessment Tool
- Annual manager reviews
- Regular manager engagement (both as result of follow-up to RI improvement recommendations at underwriting and ad hoc)
- Periodic monitoring of investments to identify severe ESG incidents (RepRisk).

The diligence process is as follows:

### PE Fund Investment process fully integrated into CIP process in the Netherlands



### ESG Integration into Diligence Process

The Primary Funds team begins its ESG assessment early in its process and maintains high standards of what is required through each diligence stage.

- **Initial Screening:** the deal team determines whether a manager meets our ESG requirements and whether there are any early concerns with the manager's integration of ESG.
- **Our Quick Scan memo** includes a section on ESG. After the Quick Scan memo is circulated, the Global Responsible Investment and Governance team (GRIG) will conduct a preliminary ESG assessment as part of the Prudent Person Statement (PPS) review. The key ESG considerations in the PPS include any significant adverse impacts – actual or potential – and an initial assessment of whether the General Partner (GP) can address ESG issues and comply with our ESG expectations.

**Due Diligence:** As part of the formal diligence process, every new fund we assess is required to answer a detailed ESG-specific due diligence questionnaire. Also, managers are asked to hold an ESG diligence call with the Private Equity (PE) team and GRIG. For each fund commitment, managers are assigned an ESG Score utilizing the PE team’s ESG Manager Assessment Tool. **This process will ultimately lead to an investment decision.**

We seek to influence improved ESG integration because managers have significant leverage to drive ESG performance at portfolio companies. We prioritize transparent ESG company-level reporting and ESG data in order to determine where such change is or is not happening in the portfolio. This has been a frequent subject of discussion with GPs. We will work to drive more of our GPs towards ESG data reporting.

### **b) ‘No sustainable investment objective’**

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

### **c) ‘Environmental or social characteristics of the financial product’**

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

- Corporate Exclusion Policy
- Sustainable Development Investments<sup>2</sup>
- UNGC Principles
- ESG Integration
- ESG Transparency
- PRI Signatories
- Identification of Severe ESG Incidents

### **d) ‘Investment strategy’**

The purpose of the Pool is to build a diversified portfolio of global investments in private equity, i.e. equity investments in non-listed companies. It further aims to acquire and manage globally diversified interests in private equity funds, including co-investments, secondary and mezzanine investments, which focus on, but are not limited to, buyouts and venture capital, and to outperform the benchmark.

All investments will be in compliance with the APG Responsible Investment Implementation Guidelines for the Private Equity Building Block, which adheres to various policies including the APG Exclusion Framework.

Other binding legal requirements are in place for fund investments to:

- Provide APG with ESG reporting;
- Take into account the UN Global Compact (UNGC) principles;
- Report material ESG incidents to APG.

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

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

Good Governance Practice	Metric	Explanation
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.
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.
Tax Compliance	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.
Remuneration of Staff	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.

### e) 'Proportion of investments'

The majority (>90%) of investments in this product fall under category #1 Aligned with E/S characteristics

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

- This Pool applies the following means to monitor the environmental and/or social characteristics:
- Manager due diligence (including ESG due diligence questionnaire completed at each underwriting)
  - ESG score per internally developed model – the APG PE ESG Assessment Tool
  - Annual manager reviews
  - Regular manager engagement (both as result of follow-up to RI improvement recommendations at underwriting and ad hoc)
  - Periodic monitoring of investments to identify severe ESG incidents (RepRisk)

## g) 'Methodologies for environmental or social characteristics'

The methodologies used to measure the attainment of the E/S characteristics are described below.

### Corporate Exclusion Policy

- The sustainability indicator to measure adherence to the Corporate Exclusion Policy is the absence of excluded products/ companies in this Pool.

### Sustainable Development Investments

- The sustainability indicator to measure SDIs is the percentage of investments classified as SDIs versus the overall net asset value (NAV) of this Pool.

### UNGC Principles

- The sustainability indicator to measure this E/S characteristic is the share of managers who agreed to take into account the UNGC Principles when making investments.

### ESG Integration and Transparency

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 manager has achieved a Good Practice score or is improving towards a Good Practice score.<sup>3</sup>

#### ESG Transparency

- The sustainability indicator to measure the attainment of this E/S characteristic is the percentage of managers reporting to us on ESG in a separate report, and the percentages of managers reporting to us on ESG Data Convergence Project metrics.

### PRI signatories

- The sustainability indicator to measure this E/S characteristic is the share of managers who are signatories to the UN PRI.

### Identification of severe ESG incidents

- On a quarterly basis this Pool reports the aggregated number of severe incidents to the clients.

## h) 'Data sources and processing'

We rely on GP adherence to Limited Partnership Agreement (LPA)/side letter requirements, GP reporting, and regular monitoring. Source documentation includes the following:

- GP periodic reporting (both financial and ESG)
- GP-completed Request for Information (RFI) including ESG RFI
- Other diligence sources
- UN PRI website (publicly available)
- RepRisk

These are monitored as indicated in the methodology, Question (g) above. To ensure data quality, we have regular engagements with GPs on both investment strategy and ESG policy and implementation. When data is not available from a GP, an estimate will be made from the aggregate.

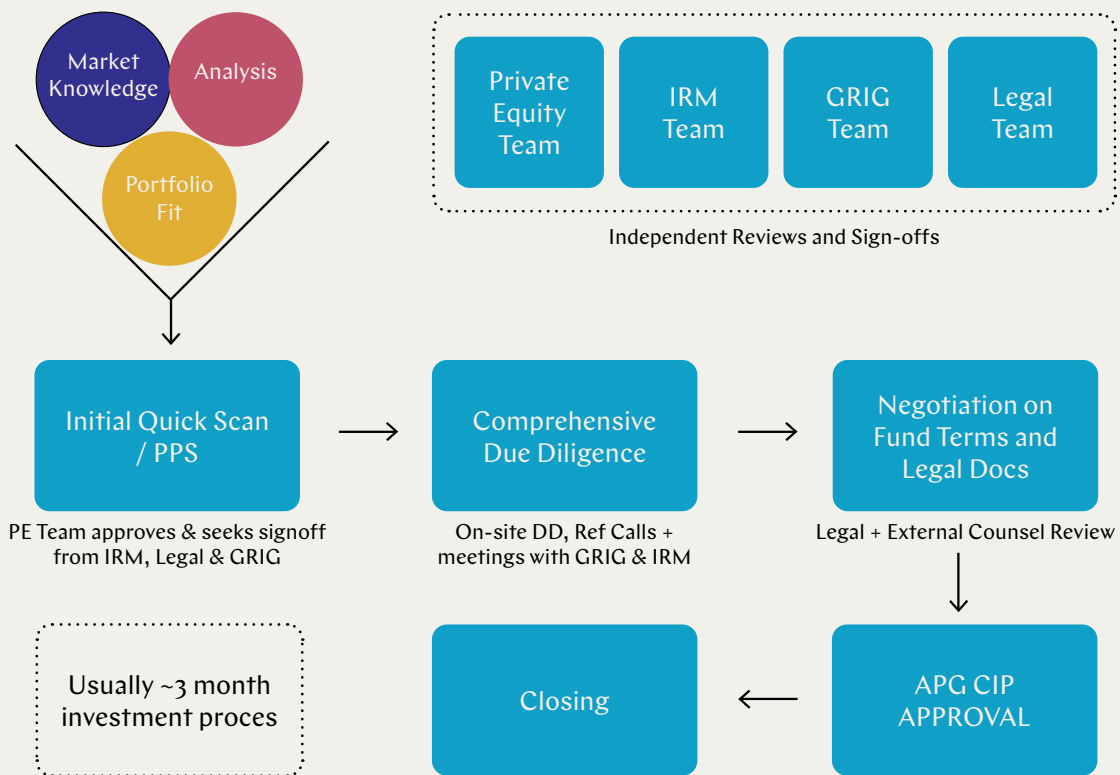
3) For investments made in 2016 prior to the adoption of the Tool and not subsequently evaluated in connection with a re-up, the sustainability indicator used to evaluate progress is the ESG Transparency indicator. .

### i) 'Limitations to methodologies and data'

We rely on GP adherence to LPA/side letter requirements, GP reporting, and regular monitoring; as well as the availability of updated public information (e.g. PRI signatories as published on the UN PRI website).

### j) 'Due diligence'

#### PE Fund Investment process fully integrated into CIP process in the Netherlands



#### ESG Integration into Diligence Process:

The Primary Funds team begins its ESG assessment early in its process and maintains a high standard of what is required through each diligence stage.

- **Initial Screening:** Our ESG review begins when the deal team determines whether a manager meets our ESG requirements and whether there are any early concerns regarding the manager's integration of ESG.
- **Our Quick Scan memo** includes a section on ESG. After the Quick Scan memo is circulated, GRIG will conduct a preliminary ESG assessment as part of the PPS review. The key ESG considerations in the PPS include any significant adverse impacts – actual or potential – and an initial assessment of whether the GP can address ESG issues and comply with our ESG expectations.

**Due Diligence:**

As part of the formal diligence process, every new fund we assess is required to answer a detailed ESG-specific due diligence questionnaire. Also, managers are asked to hold an ESG diligence call with the PE team and GRIG. For each fund commitment, managers are assigned an ESG Score utilizing the PE team's ESG Manager Assessment Tool.

**Investment Decision:**

A summary of our diligence findings is documented through separate ESG discussions included in all interim memos (Team IC memos) and final memos (Committee on Investment Proposals (CIP) memos) for consideration by the relevant investment committees. An overall view on a manager's ESG practices is prepared by GRIG and submitted as an independent sign-off to CIP. GRIG and the deal team will discuss any conditions that are required for investment and any recommendations that are to be communicated to the manager. To strengthen engagement in 2021, GRIG and the PE team launched a new initiative to issue ESG recommendations and feedback to the manager after closing.

**Pre-Closing Conditions:**

Contractual requirements that we seek in the side letter include:

- Taking into account the UNGC Principles in making investments
- Complying with APG's Exclusions Policy/Exclusion List
- Providing ESG reporting on portfolio companies
- For managers without a policy in place, developing an ESG policy
- For managers investing in emerging markets, considering International Finance Corporation (IFC) Performance Standards
- For managers investing in non-OECD countries, committing to APG's country restrictions under APG's oHigh Risk Country Framework

**The Co-Investment team leverages the ESG diligence conducted by the Primaries team and incorporates additional scrutiny at the individual company level.**

APG PE only co-invests alongside existing relationship GPs (GPs to whom APG has committed primary capital). As such, these GPs have already undergone full due diligence by the Primary Funds team and GRIG. However, ESG remains an integral part of deal team diligence.

At the time of evaluating a transaction alongside a GP, the Co-Investment team confirms: (i) that the GP is still in good standing with respect to ESG and (ii) that the investment is appropriate from an ESG perspective. To facilitate this diligence, the Co-Investment team runs through a detailed ESG Co-Investment Checklist, which focuses on the nature of the portfolio company, RI policies and reporting, and diligences any past or potential areas of concern. As part of diligence, the Co-Investment team also confirms that there will be appropriate ESG-level reporting to APG post-acquisition, so that we are aware of any issues that have arisen or may arise at the portfolio company level, and we can follow up to ensure they are being appropriately dealt with by the GP. GRIG is not typically involved in the diligence due to Material Non-Public Information (MNPI) restrictions, and therefore ESG diligence results are shared with GRIG quarterly for feedback after the deals close. However, sensitive sectors or issues may be run by GRIG on an MNPI-free basis as the team evaluates a transaction.



**The Secondaries team uses a detailed question list to review potential opportunities with relationship GPs.**

The Secondaries team pursues transactions that have exposure to relationship GPs as well as non-relationship GPs. As part of the diligence process, all potential transactions are reviewed for ESG issues utilizing a series of detailed questions in the Secondaries Transaction Overview Checklist. Fund investments are screened for potential Exclusion Policy violations. Since the end of 2020, we have only closed on secondaries transactions with relationship GPs. For non-relationship GPs, the deal team will seek to complete an ESG Diligence Overview for Non-Relationship GPs, which covers topics including overall ESG rating/assessment, approach to incorporating RI guidelines, approach to ESG due diligence on potential investments, approach to ESG monitoring of portfolio companies, and approach to ESG reporting to LPs.

**k) 'Engagement policies'**

We engage to improve the manager's integration of ESG into the investment process, including portfolio company engagement.

Deal teams lead and own dialogues with GPs to ensure ESG outcomes. GRIG sets engagement prioritizations, provides expert advice, insight on performance, and potential improvements. Our engagements with managers are numerous and we expect would surpass 100 in a given year. Depending on the manager, our touchpoints with GPs on ESG can be extensive.

1. Engagement begins during underwriting when we secure manager commitments to ESG requirements and discuss ESG integration progress and performance. We decline investments with GPs who will not agree to the requirements. If a manager is lagging, we may require they agree to additional improvement conditions before we invest.
2. Engagement continues after closing when we communicate ESG improvement recommendations to managers.
3. Managers are expected to present on ESG at Limited Partner Advisory Committee meetings, which offers APG another opportunity for engagement. The deal teams participate in discussions on ESG.
4. If we have identified a manager as lagging on ESG, we prioritize follow up engagement with them through questions at the Limited Partner Advisory Committee and/or separate calls and discussions. This prioritization was formalized in 2022 as discussed above.
5. Co-investment teams engage with GPs during their diligence, when they conduct a thorough ESG review of an investment opportunity being offered to us by the GP.
6. Co-investment teams engage on a regular basis with GPs regarding the co-investment and may integrate ESG issues that they determine should be prioritized or that GRIG has recommended prioritizing. During diligence, the investment teams highlight in the ESG checklist potentially material ESG risks or opportunities that serve as the basis for an ESG engagement.
7. We may engage with specific GPs or a cross-section of GPs on thematic topics. We prioritize topics based on client priorities, OECD guidelines, and relevance to the portfolio.
8. In addition, there may be other opportunistic engagements the teams run on ESG as part of their ongoing portfolio management.

If we decline to renegotiate a contract with a manager, we will deprioritize engagements with them going forward, as our leverage will be subsequently limited.

As mentioned earlier, we seek to influence improved ESG integration because managers have significant leverage to drive ESG performance at portfolio companies. We prioritize transparent ESG company-level reporting and ESG data in order to determine where such change is or is not happening in the portfolio. This has been a frequent subject of discussion with GPs. We will work to drive more of our GPs towards ESG data reporting.

Lastly, we prioritize engagement with industry initiatives as it gives us greater collective impact.

### **I) 'Designated reference benchmark'**

Not Applicable.