

Mandatory Website Disclosure for the APG China Fixed Income Pool

September 2023

APG China Fixed Income Pool

Mandatory website sections

a) 'Summary'

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.

SFDR classification and environmental and/or social (E/S) characteristics

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).

The Pool promotes the following environmental and/or social characteristics (E/S) which are binding elements of the investment strategy:

- Corporate Exclusion Policy
- Corporate Inclusion Policy
- Sustainable Development Investments¹

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:

- Corporate Exclusion Policy
- Corporate Inclusion Policy
- Sustainable Development Investments²

1) Please note that Sustainable Development Investments do not constitute sustainable investments under the definition of SFDR.

2) Please note that Sustainable Development Investments do not constitute sustainable investments under the definition of SFDR.

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.

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. These apply to the Corporates in this product. 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.

e) 'Proportion of investments'

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

The Corporate Inclusion Policy applies to all corporate issuers, including government-owned corporates. Government entities operating as agencies fall under the Sovereign Inclusion Policy.

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

f) 'Monitoring of environmental or social characteristics'

The Responsible Investment (RI) Implementation Guidelines for the asset classes this Pool invests in outline the different RI policies and approaches which 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.

Internal control mechanisms for the monitoring and attainment of the E/S characteristics require annual management testing by the Global Responsible Investment and Governance (GRIG) team of the key controls and/or ISAE controls set for each RI policy implementation process which is monitored and reviewed by Enterprise Risk Management. In addition, the external auditor annually tests and authenticates 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, 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 Business Processes 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 Business Process Manuals (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’

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 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 can be found on our website. The Responsible Investment & Stewardship Policy 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.