

# Pre Contractual Disclosure for the APG Fixed Income Credits Pool<sup>1</sup>

September 2023

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1) The disclosures in this document solely relate to APG AM's alternative investment funds ('Pools') and is prepared in accordance with art. 10 of the Sustainable Finance Disclosure Regulation (EU/2019/2088)



# APG Fixed Income Credits Pool

Pre-contractual disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852

**Product name:** APG Fixed Income Credits Pool

**Legal entity identifier:** 549300DXIO81FK92T397

**Sustainable investment** means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

Environmental and/or social characteristics	
<b>Does this financial product have a sustainable investment objective?</b>	
<input type="checkbox"/> <b>Yes</b>	<input checked="" type="checkbox"/> <b>No</b>
<input type="checkbox"/> It will make a minimum of <b>sustainable investments with an environmental objective:</b> ____% <ul style="list-style-type: none"> <li><input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy</li> <li><input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy</li> </ul> <input type="checkbox"/> It will make a minimum of <b>sustainable investments with a social objective:</b> ____%	<input type="checkbox"/> It <b>promotes Environmental/Social (E/S) characteristics</b> and while it does not have as its objective a sustainable investment, it will have a minimum proportion of ____% of sustainable investments <ul style="list-style-type: none"> <li><input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy</li> <li><input type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy</li> <li><input type="checkbox"/> with a social objective</li> </ul> <input checked="" type="checkbox"/> It promotes E/S characteristics, but <b>will not make any sustainable investments</b>



## What environmental and/or social characteristics are promoted by this financial product?

This product promotes the following environmental and/or social characteristics<sup>2</sup>:

### Corporate Exclusion Policy

Based on the Exclusion Policy, no investments in controversial weapons are made.

### Corporate Inclusion Policy

The sustainability indicator to measure adherence to the Corporate Inclusion Policy is the share of leaders in the product, based on the Corporate Inclusion Policy methodology.

### Sustainable Development Investments<sup>3</sup>

This product actively seeks for investments that contribute to the Sustainable Development Goals (SDGs).

Other environmental and social characteristics promoted by this product are:

Sustainability indicators	
Indicator	Metric
PAI # 2	Carbon footprint
PAI # 10	Violation of UN Global Compact principles and Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises.

Social	
Indicator	Metric
PAI # 14	Exposure to controversial weapons

**Sustainability indicators** measure how the environmental or social characteristics promoted by the financial product are attained.

## What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?

### Corporate Exclusion Policy

The sustainability indicator to measure adherence to the Exclusion Policy is the absence of excluded products/ companies in this financial product.

### Corporate Inclusion Policy

The sustainability indicator to measure adherence to the Corporate Inclusion Policy is the share of leaders in the product, based on the Corporate Inclusion Policy methodology..

2) For more information about the Exclusion Policy and the Sustainable Development Investments approach, please see: [Responsible investment, good pension in a sustainable world | APG](#).

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

### Sustainable Development Investments

The sustainability indicator to measure the SDIs is the % of investments classified as SDIs versus the overall NAV of this product.

In addition to the above sustainability indicators, this product considers the following principal adverse impact indicators:

Sustainability indicators			
Indicator	Metric		Explanation
PAI # 2	Carbon footprint	Carbon footprint	Based on our approach to carbon footprint, we measure how much carbon is emitted by companies we invest in and how much of this is attributable to investments in this product.

Social indicators			
Indicator	Metric		Explanation
PAI # 10	Violation of UN Global Compact principles and Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	Based on the Corporate Inclusion Policy this product does not invest in companies involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises.
PAI # 14	Exposure to controversial weapons	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	Based on the Corporate Exclusion Policy, this product does not invest in controversial weapons.



## Does this financial product consider principal adverse impacts on sustainability factors?

### Principal adverse impacts

are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.



Yes, this product considers PAI # 2, 10 and 14.



No



## What investment strategy does this financial product follow?

### The investment

strategy guides investment decisions based on factors such as investment objectives and risk tolerance.

The purpose of the Pool is:

1. to provide broad access to non-Treasury, fixed income asset classes, primarily in the U.S. and Europe, and
2. to maximize the return above the credit benchmark

Bottom-up issue selection is combined with top-down risk management and sector allocation. Diversification of return and alpha sources is an essential element of the investment process. The Pool is actively managed relative to its benchmark.

The Pool should be seen as having moderate risk with a 3-5 year investment horizon. Investment decisions are based largely on in-house research and analyses.

The majority of the Pool is managed internally.

### Investment restrictions

Restrictions relating to the Pool as fiscal investment institution (fiscale beleggingsinstelling) as defined in section 28 Dutch Corporate Income Tax Act 1969 result in particular in the following restrictions: (i) the Pool's activities must consist of portfolio activities only, i.e. the Pool may not (partly) carry on a business and (ii) the fiscal investment institution (fiscale beleggingsinstelling) regime provides for specific restrictions as to the leverage of the Pool. The total debt must not exceed 60% of the tax book value of the immovable property and 20% of the book value of all other investments (shares in a subsidiary may only be leveraged with a maximum of 20%).

Other restrictions are set out below.

The Pool shall, either directly or indirectly, only make investments that meet the following criteria:

Countries allowed

Worldwide

Currency denomination

- A maximum USD denominated bond exposures of benchmark weight + 10% of the Net Asset Value
- A maximum EUR denominated bond exposures of benchmark weight + 10% of the Net Asset Value.
- A maximum sum of bond exposures denominated in other developed market currencies of benchmark weight + 10% of the Net Asset Value.
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Sectors allowed

All sectors allowed, subject to restrictions below.

Issuers allowed

All issuers allowed.

Credit ratings allowed

All ratings allowed, subject to restrictions below.

Financial instruments allowed

Instruments only to be used in compliance with the Manager's Allowed Pools List as annually reviewed.

Exchange Traded Funds (ETFs), provided that they are used for efficient portfolio management and risk management purposes only and that the ETFs invest solely in permitted fixed income sectors and products.

Currency policy

Max 0.5% deviation per currency from the currency distribution of the benchmark. The total open FX exposure of the Pool relative to the benchmark is not capped in aggregate but per currency.

The benchmark is unhedged: it contains USD and European currency exposures (primarily EUR and GBP). The policy is to hedge all currencies to the same currency distribution as the benchmark.

Max/min positions per country/sector/rating

- a. Country:  
Countries could be excluded based on the risk framework set by the Manager's Asset Management Risk Committee.
- b. Sector:  
The following sectors shall be within the pre-described ranges and limits:
  - 1. Spread Sectors: min. 90% of the Net Asset Value
  - 1.1 Securitized: benchmark weight + or -/- 15% of the Net Asset Value
  - 1.2 Corporates: benchmark weight + or -/- 15% of the Net Asset Value
  - 1.3 Government-related: benchmark weight + or -/- 20% of the Net Asset Value
  - 2. Cash and Treasuries: max 10% of the Net Asset Value

In addition to the above-mentioned sector limits, the Pool will not hold more than 0.5% of its Net Asset Value in equity or equity-like investments. Equity products should be related to distressed debt and/or special situations investments. This also includes investments in the most junior claims in structures or funds that invest in fixed income related products.

Sector classification will obey the following definitions:

Level 1 sector classification:

**Spread Sectors** in this context means all credit-related positions and any related derivative exposure in market value. This category includes Alternative Credit and Traditional Credit.

**Cash and Treasuries** in this context means: (1) investible cash: bank accounts, Margin accounts, Money Market Funds, Administrative accounts, short term receivables/payables, (2) debt issued by central governments, and backed by their full faith and credit, regardless of the maturity. Sovereign bonds are included in this sector.

**Level 2 sector classification**

The APG sector classification of each position within Spread Sectors (Securitized, Corporates and Government-Related excluding Sovereigns) follows mainly the definitions used by Bloomberg Barclays Sector Classification (Class 1 sector classification).

The relative exposure to each of the level 2 sectors will be calculated as follows:  
The sum of Market Value of positions classified in the sector (excluding derivatives), plus the sum of the Market Value and the Notional Exposure of derivatives which underlying assets is classified in the sector, divided by the Net Asset Value of the Pool, minus the benchmark weight of the sector.

Positions that are absent from the benchmark provider classification (off-benchmark positions) will abide to the following sub-sector definitions:

**Securitized** in this context means any position which payments are backed or directly derived from a pool of assets that is protected or ring-fenced from the credit of a particular issuer. The underlying collateral for securitized positions can

include residential mortgages, commercial mortgages, public sector loans, auto loans or credit card payments. This also include any derivative product for which the underlying security pertains to this sector. A non-exhaustive list of positions included in this category includes: Mortgage Backed Securities Pass-Through, Asset Backed Securities (ABS), Commercial Mortgage Backed Securities (CMBS), Commercial Mortgage Backed Obligations, Collateralized Bond Obligations (CBOs), Collateralized Loan Obligations (CLOs).

**Government-related** in this context means any position issued by issuers with government affiliations including corporate bonds for which the issuers are owned, sponsored or whose payments are guaranteed by a government, country or supranational entity. A non-exhaustive list of positions included in this category includes bonds issued by Agencies, Supranational and Local Authorities.

**Corporates** in this context means fixed income exposure issued by a corporation, which does not belong to the Government-related sector, irrespective of the rating and seniority of the security. This category also includes any derivative product for which the underlying security pertains to this sector. A non-exhaustive list of such investments include: corporate bonds and bank loans.

CLOs (incl. Small and Medium sized Enterprises CLOs) max 3% of the Net Asset Value allowed.

Contingent Convertible Bonds (CoCos) max 1.5% of the Net Asset Value allowed.

Emerging Markets Debt:

Emerging Markets Sovereign Debt not allowed.

Other Emerging Markets Debt: maximum benchmark weight + 0.5% of the Net Asset Value.

No exposure to local currency Emerging Markets Debt allowed.

c. Rating:

The ratings are assigned according to the APG Rating methodology.

The following rating buckets shall be within the described ranges:

BBB and lower including non-rated	Between benchmark weight + 15% and -/- 5% of the Net Asset Value
BB and lower including non-rated	Between benchmark weight + 15% and -/- 5% of the Net Asset Value
CCC and lower, including non-rated	Between benchmark weight+ 5% and -/- 2.5% of the Net Asset Value
CCC and lower, excluding non-rated	Between benchmark weight+ 3.0% and -/- 2.5% of the Net Asset Value

For purposes of enforcing compliance with these conditions, the credit rating of a derivative position shall be the credit rating of the reference asset(s).

The notional value and market value of Credit Default Swaps will be used for the calculation of exposure per Rating bucket.



- d. Individual issuer:  
Max individual position (by issuer)

AAA Corporates	Benchmark weight + 3% of the issuer Net Asset Value
AA & A	Benchmark weight + 3% of the issuer Net Asset Value
BBB	Benchmark weight + 1.5% of the issuer Net Asset Value
BB and lower, including non-rated	Benchmark weight + 1.0% of the issuer Net Asset Value

- e. Excess Duration Times Spread (DTS) Ratio:  
The Pool shall be within the pre-described ranges and limits:
- Excess DTS ratio between -0.4 and 0.6.

DTS ratio is derived by dividing the absolute DTS level of the portfolio by the absolute DTS level of the benchmark. The Excess DTS ratio is the DTS ratio – 1.

- f. Derivatives exposure  
The derivatives total exposure should be less than 70% of the Net Asset Value. The total exposure is calculated by adding up the absolute value of the net exposure per type of derivative, using the notional, market value or cash exposure as appropriate. We distinguish 6 types of derivatives: Interest Rate Swaps, Bond Futures, Interest Rate futures, Credit Default Swaps, FX forwards and Agency TBAs.

- g. Quant credit  
Quant credit is defined as the current exposure to corporate credits that is managed using a quantitative multi-factor investing approach. Investments in quant credit are restricted to a maximum of 1.5% of the Net Asset Value.

● ***What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?***

- Corporate Exclusion Policy
- Corporate Inclusion Policy
- Sustainable Development Investments

● **What is the policy to assess good governance practices of the investee companies?**

**Good governance** practices include sound management structures, employee relations, remuneration of staff and tax compliance.

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 product. Post investment, various governance practices are monitored and evaluated when controversial incidents arise.

SFDR GGP	Metric	Explanation	Thresholds for failing the GGP Test
<b>Sound management structures</b>	Controversies related to <b>Business Ethics</b> 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.
<b>Employee Relations</b>	Controversies related to <b>Employees' Human Rights</b> 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.
<b>Employee Relations</b>	Controversies related to <b>Labor Relations</b> 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.
<b>Tax Compliance</b>	Controversies related to <b>Accounting &amp; Taxation</b> 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.
<b>Remuneration of Staff</b>	Controversies related to <b>Staff Remuneration</b>	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.

165) This good governance practice is currently only assessed for external managers in this product. APG is in the process of setting up a pre-assessment for remuneration of staff for investee companies in this product.



## What is the asset allocation planned for this financial product?

**Asset allocation** describes the share of investments in specific assets.

Taxonomy-aligned activities are expressed as a share of:

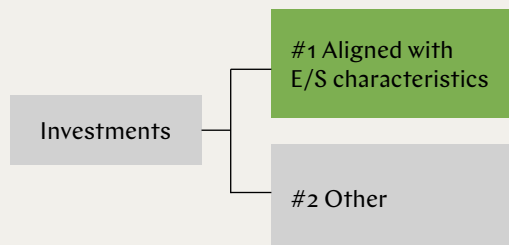
- **turnover** reflecting the share of the revenue from green activities of investee companies
- **capital expenditure** (CapEx) shows the green investments made by investee companies, e.g. for a transition to a green economy.
- **operational expenditure** (OpEx) reflecting green operational activities of investee companies.

For this product, E/S characteristics are promoted for the vast majority of the investments.

The Corporate Inclusion Policy applies to all corporate issuers, including government owned corporates. Government entities operating as agencies are captured by the Government Inclusion Policy. The Corporate Inclusion Policy does not apply to Securitisation structures (or whole loan mortgages), and SPV's with no corporate activities

The Sustainable Development Investments 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 contains excluded investments is permitted for hedging purposes.



**#1 Aligned with E/S characteristics** includes the investment of the financial product used to attain the environmental or social characteristics promoted by the financial product.

**#2 Other** includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

## How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?

Derivatives are only used for efficient portfolio management and risk management purposes in accordance with the Dutch Pension Act (Pensioenwet). Derivatives use shall comply with the Manager's counter party policy, collateral policy, liquidity policy and market risk policy.

**Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy<sup>4</sup>?**

<input type="checkbox"/> <b>Yes</b>	<input checked="" type="checkbox"/> <b>No</b>
<input type="checkbox"/> In fossil gas  <input type="checkbox"/> In nuclear energy	



**What investments are included under “#2 Other”, what is their purpose and are there any minimum environmental or social safeguards?**

There are investments held in this product which are not aligned with the environmental or social characteristics. These will predominantly consists of:

- Cash (liquidity buffer or temporary position prior to (re-)investment)
- Derivatives (interest rate derivatives/futures for interest rate hedging purposes, currency forwards, repurchase agreements and derivatives for currency hedging, and credit derivatives for risk management, forward Mortgage Backed Security transactions in the so called TBA market).



**Where can I find more product specific information online?**

More product-specific information can be found on the website: [apg.nl](https://www.apg.nl).

4) Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change (“climate change mitigation”) and do not significantly harm any EU Taxonomy objective - see explanatory note in the left hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.