Mandatory Website Disclosure

APG Private Equity Pool 2022-2023

January 2025

APG Private Equity Pool 2022-2023

Mandatory website sections

a) 'Summary'

Investment strategy

The purpose of the Private Equity Pool 2022-2023 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:

1. Exclusions
2. Contribution to SDGs
3. Reduction of fossil fuel exposure
4. ESG Integration

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).

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).

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 Portfolio Manager (PM) Responsible Investment 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.

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. Exclusions
2. Contribution to the United Nations Sustainable Development Goals (SDGs)
3. Reduction of fossil fuel exposure
4. ESG integration

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. The purposes of the Pool are to acquire and manage globally diversified interests in private equity funds, amongst which also co-investments, secondary and mezzanine investments, which focus on, but are not limited to, buyouts and venture capital, and to outperform the benchmark.

- **Fund-of-funds Investments**: private equity investments through commitments to external fund of funds managers.
- **In-house Private Equity**: private equity investments made by the Manager in-house.
- **Secondary Investments**: invest in attractive existing partnership funds.
- **Co-Investments**: investments directly or indirectly through Investee Funds made in privately negotiated transactions on a side-by-side basis with other investors, arranged by third party managers selected by the Manager where the Pool participates pari passu with lead investors.
- **Mezzanine Investments**: investments in mezzanine positions (whether in mezzanine partnership funds, mezzanine co-investments or mezzanine secondary investments) selected by or at the order of the Manager.

All the E/S characteristics this Pool promotes are binding elements of the investment strategy.

Good governance practices (GGP) 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
2. Employee Relations	• No UN Global Compact Principles Flag related to Principles 1-6 on **Human Rights & Labour**	or
3. Tax Compliance	• No very severe **Tax Compliance** controversies	UNGC Flag or Very severe incident
4. Remuneration of staff	• No very severe Staff Remuneration controversies	

e) ‘Proportion of investments’

The product will mainly invest in Private Equity Primary Funds, Co-Investments and Secondary Funds. The E/S characteristics apply to all investments in this product, with the exception of Secondary Funds and derivatives.

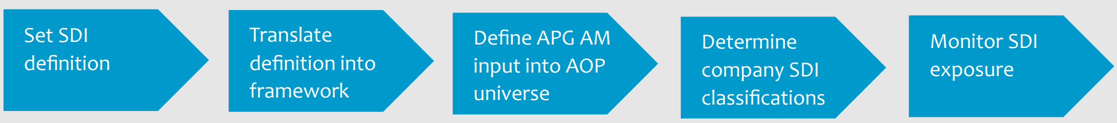
f) ‘Monitoring of environmental or social characteristics’

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 bi-annually (per December 1st and June 1st). The APG AM 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 APG AM 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. **Reduction of fossil fuel exposure**
The Pool is phasing out investments in the extraction of coal and tar sands. We do not invest in companies that generate >5% of their turnover from coal mines[1] and/or >1% of their turnover from tar sand extraction.

3. **Contribution to the United Nations Sustainable Development Goals (SDGs)**
Portfolio managers assess how the products and services of our 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. When companies contribute to these goals with their products and services, our investments in those companies are considered to be Sustainable Development Investments (SDIs). 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.

4. ESG integration

When making primary Private Equity investments, we require our external managers to take into account the UN Global Compact (UNGC) principles. Per side letter agreements, we require external managers to report any controversies or material incidents relating to ESG. The external managers are also requested to provide information on any corrective action that has been taken in respect thereof, following up with regular updates until the incident has been resolved. This is supplemented by using an external service provider platform to identify severe ESG incidents.

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

We do 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. Reduction of fossil fuel exposure

In general, companies or investments that: a) generate more than 5% of revenues from coal mining and/or, b) generate more than 1% of revenues from oil sands, are excluded from the investable universe.

Companies with exposure to the fossil fuel production chain, where fossil fuels refer to coal (non-metallurgical), oil and natural gas, are excluded from the investable universe. A distinction between two type of companies is made:

- Companies that are directly involved in the exploration (finding) and production of fossil fuels:
- Companies that are indirectly involved through other activities in the fossil fuel production value-chain (including: suppliers, transportation, storage, refining, processing, fossil fuel supply, fossil-fuel based power production and utilities involved in fossil-fuel based power production).

For companies in the 1st group, we exclude them if these investments derive more than 1% of their income from exploration and production of fossil energy. We exclude investments in companies in the 2nd group if these investments derive 20% or more of their income from fossil energy activities. We do make an exception for a number of companies. For example, because they work hard to make the transition to sustainable energy or because they offer us the opportunity to invest sustainably in Sustainable Development Goals 7 and 13.

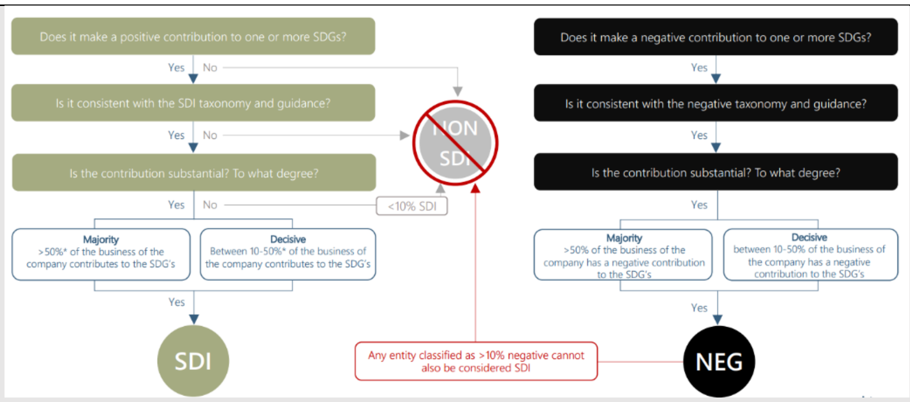
In short, we make exceptions for:

- Investments in utilities (companies that are of great importance to society, such as electricity companies) that need time to change their energy mix.
- Investments that contribute more than 50% of their income to achieving SDG7 (sustainable and affordable energy) or SDG13 (taking action for the climate).
- Companies that derive less than 50% of their revenues from fossil energy activities and that are recognized by independent scientific agencies (SBTi or TPI) as operating in line with the goal of limiting global warming to 1.5 degrees °C.

A different definition and list of investments is applied compared to those of the Global Coal Exit List (GCEL) and the Global Oil & Gas Exit List (GOGEL).

3. 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).



4. **ESG Integration**

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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 sources and limitations per data source.

E/S characteristic	Data source	Data limitations
Exclusion	Proprietary research, Sustainalytics, ISS ESG	Negligible.
Reduction of fossil fuel exposure	Sustainalytics, ISS ESG	Negligible.
Contribution to SDGs	SDI-Asset Owner Platform	Limitations in coverage, quality and consistency of the data. The data is made accessible with a delay.
ESG Integration	RepRisk, External Managers	Limitations in coverage, quality and consistency of the data. The data is made accessible with a delay.

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.

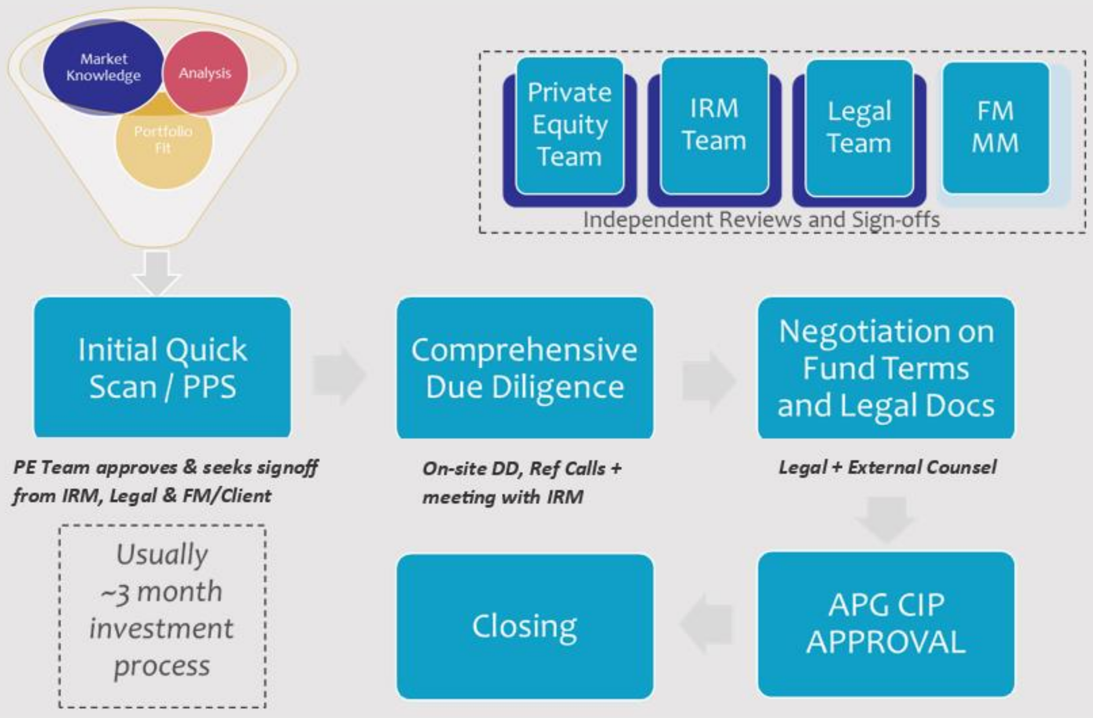
Proportion of data that is estimated
The proportion of data that is estimated is not tracked. However, the use of estimations of data which is estimated is limited.

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 and data used to attain the E/S characteristics promoted by the Pool are described above 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'



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 Portfolio Manager (PM) Responsible Investment 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. 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.

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 the PM Responsible Investment and submitted as an independent sign-off to CIP. The PM Responsible Investment 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, 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 High 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 the PM Responsible Investment. 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.

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.

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 Business Process Manuals 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'

For Private Equity specifically, 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. The PM Responsible Investment 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 the RI PM 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.

l) 'Designated reference benchmark'

Not applicable.