

Pre Contractual Disclosure for the APG Index Linked Bonds Pool¹

September 2023

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 Index Linked Bonds 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 Index Linked Bonds Pool

Legal entity identifier: 5493003LKS4Z1MVQH13

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



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

This product promotes the following environmental and/or social characteristics²:

Sovereign Exclusion Policy

The sustainability indicator to measure adherence to the Exclusion Policy is the absence of investments in bonds issued by countries that are subject to an arms embargo by the UN Security Council and/or European Union.

Absence of investments in bonds issued by countries that are among the 10% worst performers on Voice & Accountability in the World Bank's governance indicators

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 Investments³

This product invests partly in Green, Social and Sustainable bonds⁴ which contribute to the Sustainable Development Goals. The exposure to countries and government related bonds which contribute to the UN Sustainable Development Goals (SDGs) are measured for this product.

- The Inclusion Policy applies to the government related bonds in this product.
- For sovereigns, this product excludes bonds issued by countries that are subject to an arms embargo by the UN Security Council and/or European Union.
- For sovereigns, this product measures and monitors indicators based on the following categories: Climate & Environment and Social, Human Rights & Governance.
- This product includes investments in Green, Social and Sustainable bonds⁵ which contribute to the UN Sustainable Development Goals.
- Climate risk for sovereigns is measured and monitored. As part of this process, the product measures and monitors climate risk exposure to physical and transition risks.

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.

2) For more information about the Sovereign Exclusion Policy, Corporate Inclusion 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.

4) [apg-green-social-bond-guidelines_2019.pdf](#)

5) [apg-green-social-bond-guidelines_2019.pdf](#)

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

Sovereign Exclusion Policy

The sustainability indicator to measure adherence to the Exclusion Policy is the absence of investments in bonds issued by countries that are subject to an arms embargo by the UN Security Council and/or European Union.

Corporate Inclusion Policy

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

Sustainability indicators

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

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 indicator:

Sustainability indicators			
Indicator	Metric		Explanation
Related to PAI# 15	Sovereign bond carbon footprint	Sum of sovereign emissions within the product, multiplied by the share of total sovereign debt owned by the product.	PCAF is an industry led initiative for GHG accounting and reporting. PCAF has issued a global standard (PCAF Global) for carbon footprint measurement and disclosure in 2020 for a number of asset classes. This standard is widely used in the industry and especially among Dutch financial institutions. Within the Dutch Climate Commitment, Dutch pension funds agreed to use PCAF Global as the standard for carbon footprint measurement to ensure comparability.



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 # 15. However, the methodology used to measure the carbon footprint of the investments in this product is different from the formula prescribed in Annex I of the SFDR to measure PAI #15
- 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 this Pool is:

1. to provide protection against unexpected inflation.
2. to provide duration for liability hedging, liquidity and diversification versus other asset classes.

Active management is in charge of cost-effective and efficient portfolio management. It is internally managed and will mainly invest in government bonds and government related debt. Derivatives are used to hedge risks and for efficient portfolio management. Important drivers of excess returns are: country selection, break-even positioning, duration positioning, issuer - and issue selection.

Investment restrictions⁶

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%).

2) Financial instruments may be excluded or restricted based on APG's exclusion implementation guidelines. It should be noted that permitted financial instruments may not be permissible if they are used as an element of an excluded or restricted strategy as and when referred to in those guidelines.

Other restrictions are set out below.

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

Countries allowed

Worldwide; countries assessed by APG AM Emerging Markets Country Risk policy as Emerging Markets that are not part of the benchmark universe are not allowed.

Sectors allowed

Classification for all issuers is based on the Barclays Global Sector Classification Scheme also for issuers not included in Bloomberg Barclays benchmarks. The following class 1 sectors are allowed: Treasuries and Government-Related.

Issuers allowed

All treasuries and government related issuers allowed.

Credit ratings allowed

Issuers are allowed with a credit rating BB or higher when added to the portfolio.

Financial instruments allowed

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

Max positions per country/securities/derivatives/rating/FX-policy/break-even position.

a) Country⁷:

For a country with above average credit risk, the relative overweight of this country and the sum of issuers from this specific country of risk is maximized at 5% versus the benchmark. Above average credit risk is defined as a credit rating below the average benchmark rating.

Countries could be excluded based on the risk framework set by the Manager's Asset Management Risk Committee.

b) Securities:

80% of the portfolio's market value should consist of securities that have the same issuer as the benchmark. Issuers not included in the benchmark are maximized at 5% of Net Asset Value.

c) Derivatives:

The absolute notional of the derivatives exposure should be less than 60% of the Net Asset Value.

d) Rating:

The weighted average rating factor (WARF) is a numerical representation of the credit risk of a portfolio. The Pool's WARF shall not exceed the benchmark's WARF by more than an amount equal to 1 rating notch.

Maximum 10% of the Pool's Net Asset Value consist of securities that have an internal rating. Internal ratings are used when Moody's, S&P or Fitch do not provide a rating.

e) FX-policy:

Currency risk is minimized, active non-EUR exposures are currency hedged. The Pool's EUR exposure should be within the 98%-102% range of Net Asset Value.

f) Break-even position:

The sensitivity to movement of the expected inflation is limited to an inflation duration range of +/- 1 year versus the benchmark.

● **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?**

- Adherence to the Corporate Inclusion Policy. This means that the product seeks to have no exposure to corporates classified as laggards under the Inclusion Policy methodology.
- Adherence to the Corporate Exclusion Policy. This means the product has no exposure to any excluded products, companies or countries.

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

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.

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

SFDR GGP	Metric	Explanation	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.



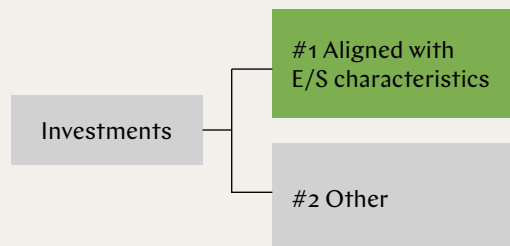
What is the asset allocation planned for this financial product?

The vast majority of investment included in the financial product classify as “#1 Aligned with E/S characteristics”.

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.



#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 used to hedge risks and for efficient portfolio management as defined by the Regulation, and only for efficient portfolio management and risk management purposes in accordance with the Dutch Pension Act (Pensioenwet). Derivatives use shall comply with the Manager's counterparty 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 Taxonomy⁸ ?**

<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
<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?

Only derivatives are included under “#2 Other”.



Where can I find more product specific information online?

More product-specific information can be found on the website: apg.nl.

8) 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.