

# Mandatory Website Disclosure for the APG Developed Markets Active Credits Pool

September 2023

## APG Developed Markets Active Credits

Mandatory website sections
<p><b>a) ‘Summary’</b></p> <p>The purpose of the Developed Markets Active Credits Pool is:</p> <ol style="list-style-type: none"> <li>1. to provide broad access to non-Treasury, fixed income asset classes, primarily in the U.S. and Europe and;</li> <li>2. to maximize the return relative to the credit benchmark.</li> </ol> <p><b>SFDR classification and environmental and/or social (E/S) characteristics</b></p> <p>The Developed Market Active Credit (DMAC) Pool is identified as an SFDR Art.8 product (light green). It promotes environmental and/or social characteristics but does not have sustainable investments as its objective (SFDR Art. 9).</p> <p>The Pool promotes the following environmental and/or social (E/S) characteristics which are binding elements of the investment strategy:</p> <ul style="list-style-type: none"> <li>▪ Corporate Exclusion Policy</li> <li>▪ Corporate Inclusion Policy</li> <li>▪ Sustainable Development Investments<sup>1</sup></li> </ul> <p>This Pool actively seeks investments that contribute to the Sustainable Development Goals (SDGs).</p>
<p><b>b) ‘No sustainable investment objective’</b></p> <p>This Pool promotes environmental and/or social characteristics but does not have sustainable investments as its objective.</p>
<p><b>c) ‘Environmental or social characteristics of the financial product’</b></p> <p>This Pool promotes the following environmental and/or social characteristics:</p> <ul style="list-style-type: none"> <li>▪ Corporate Exclusion Policy</li> <li>▪ Corporate Inclusion Policy</li> <li>▪ Sustainable Development Investments<sup>2</sup></li> </ul>

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

## d) 'Investment strategy'

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 relative to 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.

We assess this Pool to have 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'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 <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.
Employee Relations	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.
Employee Relations	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.
Tax Compliance	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.
Remuneration of Staff	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.

## **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. Government entities operating as agencies fall under the Sovereign Inclusion Policy. The Corporate Inclusion Policy does not apply to securitization structures (or whole loan mortgages) or to special purpose vehicles (SPVs) 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 incorporate excluded investments is permitted for efficient portfolio- and risk- management 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 that apply to this Pool are implemented.

Detailed processes for the implementation of the RI policies and approaches are described in the internal Business Process Manuals (BPMs) which set out in detail how the consistent and effective implementation of the RI policies and approaches is monitored and ensured.

The BPMs also include detailed descriptions of the processes, risks and control mechanisms for implementing the RI policies. These descriptions include the monitoring of the sustainability indicators which are measured under these policies and approaches.

Internal control mechanisms for the monitoring and attainment of the E/S characteristics require the Global Responsible Investment and Governance (GRIG) 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’**

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, and which can be found on the APG AM website.

APG AM has a detailed description of the methodologies for measuring 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 and the SDI Asset Owner Platform (AOP).

APG AM has internal BPMs 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 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'

### Investing through external asset managers:

The Operational Due Diligence (ODD) team carries out the first line ODD check. The most important steps in carrying out an ODD are:

- Trigger: new investment proposal, a scheduled periodic ODD, or an ad hoc request.
- Carry out a background check on external party.
- Prepare and submit a due diligence questionnaire and additional information.
- Conduct profound desk research to assess the organizational set-up of the external party.
- Prepare an ODD agenda and have ODD interviews with senior management of the external party.
- Draft an ODD report based on insights gained via prior steps.
- If the report is drafted by portfolio managers, a peer review will be carried out by a specialist of the 1st line ODD Desk to ensure quality and a consistent approach across asset classes.
- Finalize the ODD report.

The internal BPM for ODD describes the main activities performed by the 1st line ODD function. This is comprised of the portfolio managers and the central 1st line ODD Desk. The BPM includes a detailed description of the internal and external risks and key controls for the ODD process.

### Credit investments:

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 BPMs 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'

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, which can be found on our website, 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.