

# Mandatory Website Disclosure for the APG Developed Equity RI Index Pool

September 2023

## APG Developed Equity RI Index Pool

### Mandatory website sections

#### a) 'Summary'

The purpose of the APG Developed Equities RI Index Pool is to provide access to a diversified portfolio of equity and equity-related products of companies established or otherwise predominantly active in developed markets. It aims to offer equity exposure by tracking an index that incorporates leading ESG investment approaches in a risk-controlled framework.

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

The Developed Equities RI Index 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).

The Pool promotes the following environmental and/or social (E/S) characteristics:

- Exclusion policy
- Inclusion policy
- Carbon footprint reduction
- Sustainable Development Investments<sup>1</sup>

This product actively seeks investments in the investable UN Sustainable Development Goals (SDGs). An ambition has been set for this product to invest 20% of assets under management in Sustainable Development Investments (SDIs) by 2025.

#### **Benchmark**

The following reference benchmark is used for this Pool:

iSTOXX APG World Responsible Low-Carbon SDI Index, total return (gross dividends) unhedged in Euro.

The index excludes all constituents that are on the APG Exclusion List based on product-related and UN Global Compact exclusion, and includes companies that are classified by APG as ESG Leaders. The index makes use of optimization techniques to ensure a minimum target exposure to Sustainable Development Investments (SDIs), a maximum target carbon emission intensity and controlled factor and tracking-error risk versus a market-cap weighted parent index. The parent index is the iSTOXX World Index.

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

The customized benchmark that has been designated for the purpose of attaining the E/S characteristics promoted by this Pool is aligned with the Corporate Inclusion Policy and the Corporate Exclusion Policy. This means that the benchmark for this Pool excludes the following investments:

- Product-based exclusions:
  - Controversial weapons
  - Tobacco production
- Energy and utility companies that we believe to be lagging on climate change. We refer to the Net Zero Investment Framework and identify laggards as companies that have not yet “committed to align” to a net zero pathway. In practice, these are companies that have been found not to have quantitative long-term emissions reduction targets.

### 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:

- Inclusion policy
- Exclusion policy
- Carbon footprint reduction
- Sustainable Development Investments<sup>2</sup>

### d) ‘Investment strategy’

The purpose of the Pool is to provide access to a diversified portfolio of the equity and equity-related products of companies established or otherwise predominantly active in developed markets. It aims to offer equity exposure by tracking an index that incorporates leading ESG investment approaches in a risk-controlled framework.

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. 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.

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

<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.

### e) 'Proportion of investments'

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

The Pool will invest in:

- Equity and equity related products (e.g. American Depository Receipts (ADRs)/Global Depository Receipts (GDRs) actively in developed markets. These products will be aligned with the E/S characteristics of the Pool;
- Derivatives used for efficient portfolio management. These financial instruments are indicated as other investments, and might not be aligned with the E/S characteristics.

### 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 the attainment thereof 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, the Carbon Target 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 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 attain 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 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, and which 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 first line Operational Due Diligence (ODD) function is responsible for the ODD activities in relation to external mandates. The first line ODD function comprises the PMs and ODD Team, with the former having ultimate responsibility for the external mandates they manage on behalf of APG AM's clients.

The most important steps while carrying out an ODD are:

- Trigger: new investment proposal, a scheduled periodic ODD, or an ad hoc request.
- Carry out a background check by the ODD Desk 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 was 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 BPMs for both ODD and Background checks describe the main activities performed by the 1st line ODD function. These BPMs include detailed descriptions of the internal and external risks and key controls for the ODD and background check processes. In addition to due diligence on external parties in relation to external mandates, the ODD Team also performs ODDs on the internal manager.

### Equity 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'

Engagement is not part of the investment strategy of this Pool.

## l) 'Designated reference benchmark'

iSTOXX APG World Responsible Low-Carbon SDI Index, total return (gross dividends) unhedged in Euro.