Pre Contractual Disclosure for the APG Alternative Credits Pool[1]

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 Alternative 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 Alternative Credits Pool
Legal entity identifier: 549300BUPUURJJBXUZ38

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?	
☐ **Yes**	☒ **No**
☐ It will make a minimum of **sustainable investments with an environmental objective**: ___% ☐ in economic activities that qualify as environmentally sustainable under the EU Taxonomy ☐ in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy ☐ It will make a minimum of **sustainable investments with a social objective:** ___%	☐ 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 ☐ with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy ☐ with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy ☐ with a social objective ☒ 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 characteristics[2]:

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

Sustainable Development Investments[3]
This product actively seeks for investments that contribute to the Sustainable Development Goals (SDGs).

UNGC Principles
Investments in this product adhere to the UN Global Compact Principles (Human Rights, Labor, Environment and Anti-Bribery). APG expects General Partners in legal documentation to agree to take into account the UN Global Compact Principles when making investments. This requirement applies to most investments. There are some legacy investments to which the requirement did not apply.

ESG Integration and Transparency
This product promotes ESG integration and reporting by external managers in their investment processes.

- ESG Integration
  This product assesses ESG integration by managers through diligence and ongoing engagement with managers. Progress is tracked in our ESG Tracking tool and updated on an ongoing basis. This product engages with external managers to ensure that they behave consistently with their RI policy and agreed-upon ESG fund terms; to address identified gaps in their ESG practices; and to discuss other topics that may arise which in our view contribute to their ability to create and sustain long-term value. This product completes a Planet RI scorecard for each external manager on an annual basis.

- ESG Transparency
  This product requires annual reporting by external managers on ESG integration through completing an annual APG ESG questionnaire. This requirement applies to most investments. There are some legacy investments to which the requirement did not apply.

PRI Signatories
This product encourages external managers to become signatories to the UN Principles for Responsible Investing.

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.

Identification of Severe ESG Incidents
This product uses an external service provider platform to identify severe ESG incidents. Also this product requires the 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.

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.

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

UNGC Principles
The sustainability indicator to measure this E/S characteristic is the share of managers who agreed to take into account the UN Global Compact Principles when making investments

ESG Integration and Transparency
This product promotes ESG integration and reporting by external managers in their investment processes.

- <u>ESG Integration</u>
  The sustainability indicator to measure attainment of this E/S characteristic is whether the managers have complied with conditions and recommendations from the investment approval and how the external managers have been scored in the annual Planet RI scorecard.

- <u>ESG Transparency</u>
  The sustainability indicator to measure the attainment of this E/S characteristic is the percentage of managers reporting to us on ESG.

PRI signatories
The sustainability indicator to measure this E/S characteristic is the share of managers who are signatories to the UN Principles for Responsible Investing.

Identification of severe ESG incidents
On a quarterly basis this product reports the aggregated number of severe incidents to the clients.

Principal Adverse Sustainability Indicator		
Indicator	Metric	Explanation
PAI # 10	Violations of UN Global Compact principles and Organisation for Economic Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Cooperation and Development (OECD) Guidelines for Multinational Enterprises.	Companies are monitored using a third party data provider for violations of the Global Compact and OECD Guidelines.
PAI # 11	Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Based on legal the documentation (i.e. side letter provisions) external managers have agreed to take into account the UN Global Compact Principles in connection with each portfolio investment, subject to its fiduciary obligations to the partnership and its obligations under the express terms of the partnership agreement. This requirement applies to most investments. There are some legacy investments to which the requirement did not apply.
PAI # 14	Exposure to controversial weapons	Based on the Corporate Exclusion Policy, no investments in controversial weapons are made.

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 # 10, 11 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 Pool seeks alternative credit investments that offer superior returns versus credit investments that are traded on public markets, which is proxied by the public market benchmark (i.e. Risk Benchmark), as defined below. The risk-return profile of these alternative credit investments is additionally driven by non-traditional risk factors like illiquidity and complexity. The increased illiquidity and complexity is mostly driven by the instrument type, which can range from private (non-listed) debt exposures to fund investments with external managers. The additional return should be an adequate compensation for increased credit risk, illiquidity and complexity.

In order to provide access to a broad and diversified portfolio of alternative credit investments the Pool targets a maximum allocation of 35% of the Net Asset Value to each of the strategy segments stated below, except for the alpha-driven credit strategies which targets a maximum allocation of 10% of the Net Asset Value [4].

4) Targets are on a best efforts basis (inspanningsverplichting) only and constitute a non-binding element of the pool specifics5) 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 guidelines6) Products managed via external alternative credit mandates and not mentioned in the Manager's Allowed Products List are allowed, provided they fit the investment strategy of the Pool 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.

The strategy segments are defined as follows;

- **Specialty Finance**
  Involves strategies that typically invest in securities or loans backed by various forms of collateral, which require a high degree of sector-specific origination or underwriting experience. The majority of strategies involves collateral types secured by 'mainstream' assets such as residential properties, commercial properties, infrastructure assets and consumer credits. However, it can also involve strategies backed by 'niche' types of collateral (leasing, trade finance, shipping, and aviation) or strategies that provide (senior) financing on portfolios, assets or financial instruments. This strategy segment is referenced against the Investment Grade part of the public market benchmark.

- **Private Credits**
  Special situations in which debt is offered to the Manager in a private, often bilateral, manner where the Manager can exploit its competitive advantages. These can be structured credits or corporate credits. Private corporate credit opportunities are currently not in portfolio or in scope for the near-term but the ambition is to grow this segment in the long run, subject to internal approvals. Structured credits include (synthetic) securitization tranches that expose investors to the most junior credit risk (e.g. first loss and residual tranches) of the underlying collateral portfolio. This does not include any securitization exposures that are government-guaranteed (i.e. US Agency mortgage-backed securities) which are, as such, not exposed to credit risk. This strategy segment is referenced against the High Yield part of the public market benchmark.

- **Direct lending**
  Private loans originated exclusively by one or a limited number of lenders with terms negotiated directly with the company. In this case the loan is not broadly syndicated by a consortium of banks to a wide group of investors but instead bilaterally negotiated between one or a limited number of investors/lenders and the company/borrower. Although these mandates can include subordinated/junior exposure, the majority is directed towards senior debt exposure.
  This strategy segment is referenced against the High Yield part of the public market benchmark.

- **Non-performing loans**
  Non-performing loans are loans that are in default or can reasonably be expected to enter default. Typically, non-performing loans bought at significant discounts (to par) after which a dedicated manager/servicer recovers as much principal value as possible. Strategies include often exposures to granular portfolios of consumer-related loans but can also involve loans secured by commercial real estate or other assets. This strategy segment is referenced against the High Yield part of the public market benchmark.

- **Distressed debt & special situations**
  Involves strategies that primarily invest in debt (securities and/or loans) of companies, local authorities, or countries that are in or near bankruptcy. Typically, distressed debt is bought at a significant discount (to par) with the intention to recover as much principal value as possible. The most common distressed debt securities are bank debt, bonds, trade claims, and common and preferred shares. This strategy segment is referenced against the High Yield part of the public market benchmark.

- **Alpha-driven credit strategies**
  Relative value strategies where the Manager aims to exploit mis-pricings in specific alternative credit segments. These strategies exhibit limited market beta and focus on alpha generation using credit-related investments where leverage is typically being used to increase returns. The underlying fixed income instruments or the strategies as a whole can be characterized as illiquid and complex. The Pool targets a maximum allocation to this sub-segment of 10% of the Net Asset Value.

Portfolio construction and diversification of return drivers drive the investment process in which external manager selection is an important element. The portfolio construction is the product of a bottom-up, opportunity-driven, investment process where investments should provide attractive (relative) value versus the Risk Benchmark. Given the private and illiquid nature of most alternative credit investments active management (relative to its benchmark) is limited, with a buy-and-hold investment style allowing for longer investment horizons.

The Pool should be seen as having higher (than investment-grade) credit risk with a 5 year investment horizon. Investment decisions are based on in-house research and analyses supported by research and analyses from external managers.

The Pool will not seek active duration or currency positions versus the Performance Benchmark.

Investment restrictions [5]
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:

<u>Countries allowed</u>
Worldwide. The Pool targets primarily investments from developed countries.

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

5) 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.

Credit ratings allowed
All ratings allowed. The majority of investments are non-rated due to the private nature and the lack of coverage from rating agencies.

Financial instruments allowed[174]
Instruments only to be used in compliance with the Manager's Allowed Products List as annually reviewed.

Currency policy
The Pool will not seek active currency positions versus the Performance Benchmark.

The Pool may, where required, hold active currency positions intra-month to facilitate capital calls or distributions from underlying portfolio funds ("**Portfolio Funds**"). Such temporary currency positions will not be considered a breach of the above active currency policy.

Max/min positions per region/instrument category/external manager/strategy

a. Region
The Pool targets primarily investments from developed countries. A maximum of 5% of the Net Asset Value can be invested in exposures from emerging market countries.
Exposures from emerging markets countries should constitute a (small) part of a broader investment mandate).

b. Instrument category
The Pool will not hold more than 20% of the Net Asset Value in 'Non-debt instruments'. The Manager will notify the Participants when the aggregate cost basis of all 'Non-debt instruments' in an individual investment mandate exceeds 30% of the total commitment to that individual investment mandate. The cost basis of 'Non-debt instruments' in an individual investment mandate may not exceed 40% of the total commitment to that investment mandate. This latter limit does not apply to individual investment mandates in distressed debt.

Non-debt in this context means all investments in equity (or equity-related) exposures and ownership of real assets. Typically, these investments are part of a distressed debt & special situation mandate with an external manager.
A non-exhaustive list includes: common stock, warrant, preferred convertible stock, stock options, preferred stock, stock future, and ownership of real assets.

c) External manager
A maximum of 25% of the Net Asset Value can be invested with one single external manager.

d) Strategy segment
The Pool targets a maximum allocation to the sub-segment Alpha-driven credit strategies (as defined above) of 10% of the Net Asset Value.

6) Products managed via external alternative credit mandates and not mentioned in the Manager's Allowed Products List are allowed, provided they fit the investment strategy of the Pool 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.

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?

The Exclusion Policy is binding to the investment strategy of this product.

Other binding requirements are in place to (for fund investments as of 2020):
- Provide APG with ESG reporting;
- Take into account the UN Global Compact Principles;
- Report material ESG incidents to APG.

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

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. Additional good governance practices are assessed as part of the due diligence and assessment processes for investments in this product.

Good governance practices			
Indicator	Metric	Explanation	Thresholds for failing the GGP Test
Sound management structures	Investments take into account the UN Global Compact Principles, including Principle 10 on Anti-Corruption.	We expect all new investments to contractually commit to take into account the UN Global Compact Principles.	ESG incident reported/RepRisk controversy threshold crossed + engagement with external manager/ investee entity does not result in timely remediation of issue.
Employee Relations	Investments take into account the UN Global Compact Principles, including Principles 1-6 on Human Rights and Labour.	We expect all new investments to contractually commit to take into account the UN Global Compact Principles.	ESG incident reported/RepRisk controversy threshold crossed + engagement with external manager/ investee entity does not result in timely remediation of issue.
Tax Compliance	Investments have no significant controversies related to tax compliance.	We screen for whether investee companies have been involved in significant controversies related to accounting and taxation.	ESG incident reported/RepRisk controversy threshold crossed + engagement with external manager/ investee entity does not result in timely remediation of issue.

175) For the APG Tax Policy, please see: Corporate Governance | APG

Remuneration of Staff	Investments have no significant controversies related to staff remuneration.	We screen for whether investee companies have been involved in significant controversies related to staff remuneration.	ESG incident reported/RepRisk controversy threshold crossed + engagement with external manager/ investee entity does not result in timely remediation of issue.

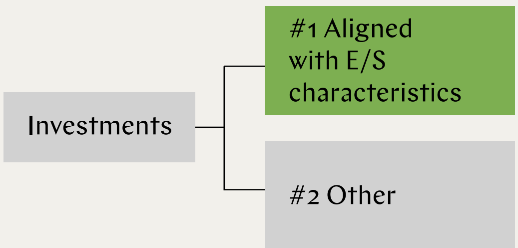
What is the asset allocation planned for this financial product?

Asset allocation describes the share of investments in specific assets.

Taxonomy-aligned activities are expressed as a share of:

- **turnover** reflecting the share of revenue from green activities of investee companies
- **capital expenditure** (CapEx) showing 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.

The vast majority of investments in this product fall under category #1 Aligned with E/S characteristics.



#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 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 Taxonomy ?

☐ **Yes**	☒ **No**
☐ In fossil gas ☐ In nuclear energy	

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

In this Pool, only derivatives fall under "#2 Other". All such derivatives would be considered for inclusion in the portfolio using the same considerations listed above.

Where can I find more product specific information online?

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