

Pre Contractual Disclosure for the APG Emerging Markets Debt 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 Emerging Markets Debt 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 Emerging Markets Debt Pool

Legal entity identifier: 54930083ZPJIQ49UCC72

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 Exclusion Policy

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

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

The product invests partly in Green, Social and Sustainable bonds which contribute to the Sustainable Development Goals.

Corporates

- The following principal adverse impact indicators are considered:

Sustainability and social indicators	
Indicator	Characteristics
PAI # 10	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
PAI # 14	Exposure to controversial weapons

- This product applies an active engagement policy to engage on key governance topics among which matters related to social and employee, respect for human rights, anti-corruption and anti-bribery.

Sovereigns

- This product excludes bonds issued by countries that are on the EU and UN weapon embargo list and excludes bonds issued by countries that are among the 10% worst performers on Voice & Accountability in the World Bank's governance indicators.
- This product measures and monitors the carbon footprint of the portfolio, which relates to PAI # 15 although the formula used is materially different than prescribed by the SFDR.

2) For more information about the Corporate 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.

- Climate risk for sovereigns is measured and monitored at client portfolio level. As part of this process, this product measures and monitors climate risk exposure in the form of physical and transition risks.

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

Corporate and Sovereign Exclusion Policy

The sustainability indicator to measure adherence to the Corporate and Sovereign Exclusion Policy is the absence of excluded products, companies or countries in this financial product.

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 Investments

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

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

In addition to the above sustainability indicators, this product considers the following principal adverse impact indicators:

Sustainability indicators			
Indicator	Metric		Explanation
PAI # 10	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	Based on the Corporate Inclusion Policy this product does not invest in companies involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises.
PAI # 14	Exposure to controversial weapons	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	Based on the Exclusion Policy, no investments in controversial weapons are made.

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.
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Does this financial product consider principal adverse impacts on sustainability factors?

Yes, through the Corporate Inclusion Policy and Corporate and Sovereign Exclusion Policy, this product considers PAIs # 10 and 14. Carbon footprint which is related to PAI # 15 is also taken into account, albeit using a different formula than prescribed by SFDR.

No

What investment strategy does this financial product follow?

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:

Investment restrictions

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

Countries allowed

All countries are allowed. Countries can be excluded based on the risk framework set by the Manager's Asset Management Risk Committee or APG exclusion policy.

Sectors allowed

All sectors allowed.

Credit ratings allowed

All ratings allowed.

Financial instruments allowed

Instruments only to be used in compliance with the Manager's Approved Instruments List as annually reviewed. Exchange Traded Funds (ETFs), provided that they are used for efficient portfolio management and risk management purposes only and that the ETFs invest solely in permitted EMD fixed income sectors and products.

Sukuk bonds allowed

Only Sukuk issue(r)s are allowed which are either included in the benchmark or are JPM index eligible. In case the Sukuk bond is not part of the benchmark, the Manager will ascertain that the following criteria are met:

1. it is an asset-based Sukuk,
2. the security is required to be pari-passu with comparable conventional bonds. This criterion will be inclusive of senior and subordinated securities⁴; and;
3. upon redemption of the security (whether it is a scheduled maturity or following the occurrence of an event of default) the obligor has an obligation to pay the principal.

4) For example, a subordinated Sukuk should be pari-passu with subordinated conventional bonds.

FX Policy

The Pool will have exposure to emerging markets⁵ and developed markets' currencies. Hard currencies are: the USD, EUR, JPY, AUD, SGD, GBP, CAD and CHF. The positions in any currency may be (partly) hedged.

Allocation Hard Currency debt versus Local Currency debt

The maximum deviation versus the benchmark weight of hard currency bonds versus local currency bonds is +/-10% of the Net Asset Value.

Maximum deviations from the benchmark

At least 90% of the Net Asset Value must be invested in assets issued by Emerging Markets Issuers or that are denominated in emerging market currencies.

- Maximum country exposure:
- The maximum weight per emerging market country shall not be greater than the country weight in the benchmark +10%.
- Maximum currency exposure:
- The maximum weight for a single emerging markets currency shall not be greater than the currency weight in the benchmark +/- 10% of the Net Asset Value.
- Maximum duration contribution exposure:
- The maximum duration contribution for a single country shall not be greater than the duration contribution in the benchmark +/- 1.5 year.
- Corporate exposure (excluding Quasi-Sovereigns):
- The maximum exposure in emerging market corporate bonds shall not be greater than the exposure in the benchmark +5%.
- Sovereigns and supranational: The maximum exposure in issuers of emerging market sovereigns, quasi-sovereigns and supranational not part of the benchmark is 15% of the Net Asset Value.

Security:

A maximum of 1% of the Net Asset Value can be invested in non-fixed income or non-foreign exchange securities (e.g. equity, convertibles). These products are only allowed if these are or have been part of a debt exchange offer and/or special situations strategy. Investments in junior claims in structures or funds that are primarily collateralized by fixed income related products are considered fixed income securities.

A maximum of 0.5% of the Net Asset Value can be invested in securities of a single corporate issuer. This limit does not apply to quasi-sovereign issuers.

The maximum exposure in Contingent Convertibles (Coco's) as percentage of the Net Asset Value of the portfolio shall not be greater than the exposure in the benchmark + 1.0%.

Ratings:

A maximum deviation to the benchmark weight of 5% consist of securities that have a rating of CCC and lower or are non-rated according to the APG Rating methodology.

The investment strategy guides investment decisions based on factors such as investment objectives and risk tolerance.

5) An emerging market country is any country which is considered a low to upper middle income economy by the World Bank and any country which is included in the benchmark.

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

● **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 product has the following binding elements:

- 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 and Sovereign 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. 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 product.

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.

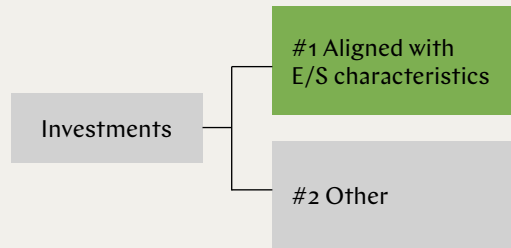
Remuneration of Staff	Controversies related to Staff Remuneration	This indicator assesses if whether a company has been involved in significant controversies related to staff remuneration.	MSCI: Controversy observed (binary data), confirmed by APG research.
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What is the asset allocation planned for this financial product?

All investment strategies included in the financial product classify under “#1A Aligned with E/S characteristics”, except derivatives.

Asset allocation describes the share of investments in specific assets.



#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 with the Manager’s counter party policy, collateral policy, liquidity policy and market risk policy.



To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?

● **Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy⁶ ?**

<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”.

6) 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.



Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes?

Reference benchmarks are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.

Yes, the benchmark of this product is customized to exclude sovereigns and quasi-sovereigns that should be excluded based on the Corporate and Sovereign Exclusion Policy.

● ***How is the reference benchmark continuously aligned with each of the environmental or social characteristics promoted by the financial product?***

The reference benchmark is tailored to take into account corporate and sovereign exclusions. It is thus continuously aligned with the E/S characteristics promoted.

● ***How is the alignment of the investment strategy with the methodology of the index ensured on a continuous basis?***

The index composition is by JPMorgan, and further tailored to reflect the promotion of E/S characteristics resulting from the application of the Corporate and Sovereign Exclusion Policy, which results in exclusions of issuers from the investment universe of the product.

● ***How does the designated index differ from a relevant broad market index?***

The tailored index of this product differs from the broad market index as it excludes these issuers that do not meet the relevant criteria of the Corporate and Sovereign Exclusion Policy.

● ***Where can the methodology used for the calculation of the designated index be found?***

The standard market benchmark is further tailored by the index provider to exclude sovereigns and quasi-sovereigns as mandated by the Corporate and Sovereign Exclusion Policy.



Where can I find more product specific information online?

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