

# Pre Contractual Disclosure for the APG China Fixed Income Pool<sup>1</sup>

September 2023

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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 China Fixed Income 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 China Fixed Income Pool

**Legal entity identifier:** 549300SYWIIEOV2L8835

**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.

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



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

This product promotes the following environmental and/or social characteristics<sup>2</sup>:

### 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 Investments<sup>3</sup>

This 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.

### 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 Corporate Exclusion Policy is the absence of excluded products, companies or countries in this financial product.

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

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.

**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.

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.



## 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, through the Corporate Inclusion Policy and Corporate Exclusion Policy, this product considers PAI # 10 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 purpose of the Pool is:

1. to provide broad access to non-sovereign fixed income asset classes in China,
2. in a sustainable manner as described below, and to maximize the return above the Pool benchmark, given the Investment Restrictions below and prudent investment management

The specific investment universe is characterized by reputational risk and limited availability of information on credit risk. Therefore, the investment process followed integrates environmental, social and corporate governance risks and opportunities, and relies on local external investment advice to bridge the gap in data availability for credit risk and ESG risk management. The specific focus on credit quality and ESG may result in a concentrated portfolio. The majority of the Pool is internally managed.

### Investment restrictions<sup>4</sup>

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%).

4) 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 policies.

Other restrictions are set out below.

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

Countries allowed

Worldwide.

Sectors allowed

All sectors allowed except for Securitized, Sovereign and Sub-Sovereign bonds (as defined below).

Issuers allowed

All issuers allowed, except those excluded by the sector restriction above.

Credit ratings allowed

All ratings allowed, subject to restrictions below.

Financial instruments allowed

Instruments only to be used in compliance with the Manager's Allowed Products List as annually reviewed. In the Manager's Allowed Products List, Chinese structured products (securitized exposure) and derivatives covered under so-called on-shore regulation, are excluded.

Currency policy

Instruments in the Pool are predominantly denominated in CNY. Currencies in EUR and USD are allowed for transition purposes required due to payments received from or to be paid to Participants (in EUR) and/or of non-CNY denominated costs. Currency risk versus CNY is minimized such that the absolute netted positions in EUR and in USD should each not exceed 1% of the Net Asset Value.

The Pool will not seek active currency positions versus the performance benchmark.

Max/min positions per country/sector/securities/issuer

- a. Country<sup>5</sup>: The market value of investments in China should be greater than 90% of the Net Asset Value.
- b. Sector:

The following sectors shall be within the pre-described ranges and limits<sup>6</sup>

- Government related: Between 25% and 75% of the Net Asset Value
- Corporates: Between 25% and 75% of the Net Asset Value
- Cash: Maximum 20%
- Securitized: Not allowed.

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5) Subject to EMP.

6) Subject to EMP.

Sector classification will obey the following definitions:

The relative exposure to each of the sectors will be calculated as follows:

The sum of market value of positions classified in the sector, divided by the Net Asset Value, minus the benchmark weight of the sector.<sup>7</sup>

Positions that are absent from the benchmark provider classification (off-benchmark positions) will abide to the following sub-sector definitions:

**Cash** in this context means investible cash: bank accounts, Money Market funds, Administrative accounts, short term receivables/payables.

**Sovereign bonds** in this context means debt issued by the central government and backed by its full faith and credit, regardless of the maturity including both nominal and inflation-linked government debt.

**Sub-Sovereign bonds** in this context means debt issued by local government, such as provinces and municipalities, and backed by its full faith and credit, regardless of the maturity including both nominal and inflation-linked debt.

**Government related** in this context means any position issued by issuers with government affiliations including corporate bonds for which the issuers are owned, sponsored or whose payments are guaranteed by a government, country or supranational entity. A non-exhaustive list of positions included in this category includes bonds issued by policy banks, municipalities and agencies.

**Corporates** in this context means fixed income exposure issued by a corporation, which does not belong to the Government-related sector, irrespective of the rating and seniority of the security. This category also includes any derivative product for which the underlying security pertains to this sector. A non-exhaustive list of such investments include: corporate bonds.

**Securitized** includes bonds which payments are backed or directly derived from a pool of assets that is protected or ring-fenced from the credit of a particular issuer. The underlying collateral for securitized positions can include residential mortgages, commercial mortgages, public sector loans, auto loans or credit card payments. This also include any derivative product for which the underlying security pertains to this sector. A non-exhaustive list of positions included in this category includes:

Mortgage Backed Securities Pass-Through, Asset Backed Securities (ABS), Commercial Mortgage Backed Securities (CMBS), Commercial Mortgage Backed Obligations, Collateralized Bond Obligations (CBOs), Collateralized Loan Obligations (CLOs).

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7) Sectors according to benchmark definition of government related and corporates.

c. Individual issuer<sup>8</sup>:

Exposure to an individual issuer (excluding policy banks) is limited to benchmark weight + 10% of the Net Asset Value. Policy bank issuers have no individual issuer exposure limits.

d. Rating:

At least 50% of the Net Asset Value should have a rating from at least one of Moody's, S&P and Fitch. Maximum 10% of the Net Asset Value may have a rating lower than BBB minus.

● ***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 Exclusion Policy. This means the product has no exposure to any excluded products, companies or countries.



**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. 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
<b>Sound management structures</b>	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.
<b>Employee Relations</b>	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.
<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.



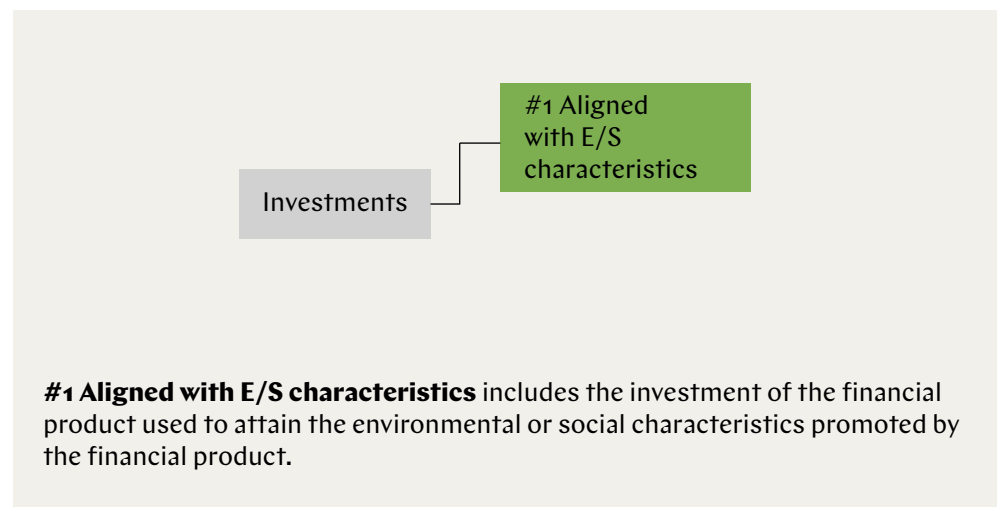
## What is the asset allocation planned for this financial product?

**Asset allocation** describes the share of investments in specific assets.

Taxonomy-aligned activities are expressed as a share of:

- **turnover** reflecting the share of 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.

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



● **How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?**

No trading of derivatives is allowed.

● **Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy<sup>9)</sup>?**

<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?**

No investments are included under “2 Other”.

9) 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.



## **Where can I find more product specific information online?**

More product-specific information can be found on the website: [apg.nl](http://apg.nl)