

Sustainable Tax Position Paper

Introduction

PGGM Vermogensbeheer B.V. ('PGGM Investment Management or PGGM IM') aims to achieve the best possible return needed to fulfill the pension ambitions of its clients. Tax is one of the aspects in the investment decision process.

PGGM IM has drafted this position paper to determine its position with respect to socially responsible tax behavior (hereinafter: Sustainable Tax) within its asset management practice.

Considerations about tax behavior are still a moving target and PGGM IM monitors closely the (social) developments in this area. This document will therefore be revised periodically.

PGGM organization

PGGM IM is part of the Dutch cooperative pension fund service provider PGGM (with no profit motive). Mandated by its Dutch pension fund clients, PGGM IM invests globally in both public and private asset classes through PGGM funds and/or individual mandates.

Sustainable Tax Policy

To give shape to Sustainable Tax, PGGM IM has renewed its tax policy whereby seven main points can be distinguished:

1. In all jurisdictions in which is invested, PGGM IM **complies with fiscal laws and regulations**;
2. PGGM IM will consciously take and apply position in various common tax matters based on **determined tax principles**. A more detailed explanation can be found in the paragraph 'Informed tax decision' below;
3. PGGM IM is **transparent** on its tax policy and the way it is carried out. PGGM IM aims to be transparent on the amount of tax paid in the investment structures used;
4. For purposes of monitoring and implementation of the tax principles and to safeguard tax compliance, PGGM IM applies a robust **tax risk management system**. This system is periodically monitored and tested with respect to set-up, existence and functioning;
5. PGGM IM aims to achieve a high degree of **tax awareness** within its own organization but also within the investment industry, for example its appointed external asset managers, to better understand and manage the tax implications on the investment activities (so-called 'informed decisions');
6. PGGM IM strives to have its service providers and other stakeholders endorse this **Position Paper** on Sustainable Tax;
7. PGGM IM will **actively participate in the social debate on tax principles** affecting pension funds and pension providers.

Tax Landscape

The levy of taxes and the responsibility of the taxpayer in that regard is an important subject in public debate. In recent years we have seen drastic changes in the international tax landscape. We recognize various developments, for example the Base Erosion and Profit

Shifting ('BEPS') initiative of the OECD and G20 countries. By establishing a set of coordinated international rules, it is intended to prevent international tax avoidance through base erosion and profit shifting.

Even though the BEPS initiative is aimed at multinational enterprises, it is also relevant for pension funds and their investments.

Tax authorities demand from organizations that they develop a tax policy and publish it, and that they implement a robust tax risk management system, often referred to as a 'Tax Control Framework'. This regulation of tax risk management is a trend that we see in a growing number of countries.

In addition, there is increased attention from policymakers and society in general for tax transparency. The rapid rise of global digitalization and the use of information technology will have large impact on (international) fiscal matters and the tax function of an organization. PGGM IM considers it important to proactively anticipate these developments.

Tax position Dutch pension funds

Pension funds operate in a complex international environment in which investment structures are commonly used. Under Dutch law, pension funds—due to their social function—are effectively exempt from corporate income tax and dividend withholding tax, because pension funds are non-profit making organizations with investment results being for the benefit of the beneficiaries.¹ The future retirement benefit, conversely, is subject to income tax in the hands of the individual beneficiary. The same principle is applied in the pension systems of many OECD jurisdictions.

However, in cross-border situations, whereby Dutch pension funds invest abroad, the tax-exempt status of the relevant pension fund is not always followed. Such foreign withholding taxes and other taxes **cannot** be set off against tax payable by a Dutch pension fund or its pension beneficiaries, resulting in (economic) double taxation for individual beneficiaries². This negatively impacts the return on investment and ultimately the

beneficiaries' pension payment. PGGM IM aims to prevent double taxation for pension beneficiaries in a responsible manner.

Ambition

PGGM IM fiscally addresses its core values³, whereby PGGM IM's strives to invest in a socially responsible tax manner within the context of its fiduciary obligations towards its clients. In addition, PGGM IM wants to anticipate developments in international regulations for 'good tax governance' and legislative proposals such as BEPS and the EU Anti-Tax Avoidance Package ('ATAP'). Also, social developments concerning sustainable tax are closely followed. In PGGM IM's opinion, socially responsible tax behavior contributes to a stable financial system.

Informed tax decision

In the execution of its investment activities, PGGM IM finds it important that 'informed decisions' are made at the appropriate organizational level, whereby it can be explained how decisions have been made and which considerations were used. Factors such as spirit of the law, reputational risk, costs, impact on the rate of return, legal requirements and other non-tax criteria are relevant for a solid investment process and will be taken into account. Often it will amount to professional judgment of the specialists involved in the deal team.

The degree of influence PGGM IM has over investment structures varies per specific investment. Where PGGM IM has decisive influence on the tax policy of an investment, for example in a direct investment situation, PGGM IM can apply the below principles one-on-one. Where there is no decisive influence, for example in a fund investment situation or a joint venture where we have a minority position, PGGM IM will call its investment partners to account for their policy and tax related activities. In extreme cases PGGM IM can decide not to take part in an investment or to exclude certain partners. The following principles apply obviously for the entire term of the investment.

¹ *Parliamentary Papers II, 1968–1969, 6000, no. 25, p. 27, and Parliamentary Papers II, 2003–2004, 29 210, no. 3, p. 23. This is also endorsed by the OECD.*

² *In general, an individual investor can set off foreign (withholding)taxes against Dutch income taxes, with the result that the income component is only taxed once. The same is not true for Dutch pension funds because under Dutch law the pension accrual (the pension contribution plus results from investments) is exempted from tax, with the future retirement benefit being subject to income tax in the hands of the individual beneficiary. At the moment the individual beneficiary receives the retirement benefit, previously withheld (withholding)taxes on the realized investment results by the pension fund cannot be set-off by the individual beneficiary. Many (OECD) jurisdictions apply a similar system.*

³ *Decisive, Open and Honest, Thought Leader and Respect for people and the environment.*

a. Structuring

In support of PGGM IM's investment strategy, PGGM IM's goal is to avoid (economic) double taxation for its clients and pension beneficiaries within the context of socially responsible tax behavior. In this regard, PGGM IM can make use of tax incentives and/or tax exemptions. We respect the letter and spirit of local tax laws and regulations and international tax provisions.

b. Explainable

Investment structures should at all times be understandable, explainable and manageable.

c. Direct Investments

PGGM IM strives, to the greatest extent possible, to make direct investments. That is, without using intermediate (holding) companies, or so-called special purpose vehicles ('SPVs'). This principle is in line with the broader international development towards tax transparency, whereby the tax position of the end investor is directly assessed.⁴

d. No primarily tax-driven investment strategies

Tax follows the investment activities and not vice versa. PGGM IM shall not use an investment strategy or enter into an investment transaction that is primarily tax-driven.

e. Principal purpose test

Where PGGM IM has decisive influence over the tax policy of an investment, PGGM IM will assess whether obtaining a tax advantage is the leading factor for engaging in and structuring of a transaction or arrangement, unless the legislator has explicitly provided for such fiscal incentive.

Where PGGM IM invests through an externally managed investment fund, PGGM IM will generally not have decisive influence over the tax policy of such fund. In such situation, PGGM IM will make a best effort to apply above-mentioned test.

f. Offshore jurisdictions

Within the investment industry, so-called (low-taxed) offshore jurisdictions are commonly used. Various (inter) national bodies (such as the EU) have explicitly listed these offshore jurisdictions. PGGM IM closely monitors the developments around these 'black lists'. Where PGGM IM has decisive influence over the tax policy of an entity, PGGM IM will not structure investments in or through such offshore jurisdictions to mitigate taxes.

Where PGGM IM invests through an externally managed investment fund, it will generally not have decisive influence on the tax policy of such fund. In such cases, PGGM IM will make an effort to engage the funds to prevent the use of offshore jurisdictions to mitigate taxes. To this end, PGGM IM will investigate alternative investment structures.

g. Securities lending

PGGM VB will not lend its securities if tax saving is the guiding principle for entering into the transaction, unless this reduces the impact of unequal treatment of PGGM customers vis-à-vis local pension funds. In such cases, PGGM IM will strive to engage with the relevant investee country.

PGGM IM will not borrow any securities as this may allow other parties to make use of the preferential withholding tax position of PGGM IM's clients.

h. Transfer pricing

PGGM IM adheres to both international and local transfer pricing rules and reporting obligations.

i. VAT Arbitrage

PGGM IM strives not to be involved in any VAT arbitrage on the supply of services by or to PGGM IM.

⁴ In this respect one could think for example of FATCA and CRS, the TRACE initiative of the OECD and various reports of the OECD with regard to tax transparency of collective and non-collective investment vehicles.

Transparency

PGGM IM communicates in a transparent manner about its tax policy. PGGM IM therefore publishes its tax policy and is working towards providing insight in annually paid corporate income and withholding taxes in the investment chain.

An important aspect in the context of transparency is that PGGM IM pro-actively engages with international and local (tax) authorities to ensure a correct tax treatment for its clients. In addition, PGGM IM applies the standard that SPVs used in investment structures are established in jurisdictions that qualify at least as (provisionally) largely compliant based on the criteria the OECD formulated in the 'Global Forum on Transparency and Exchange of Information for Tax Purposes'.

Status Sustainable Tax as per March 2018

The status of Sustainable Tax within PGGM IM is as follows:

- Tax principles have been renewed. From a practical point of view PGGM IM choose to, in the first place, predominantly focus on new investments. However, we also look critically at the current portfolio, whereby we realize that restructuring already existing investment structures can prove difficult. For example in the cases where we hold a minority position in an investment;
- An assessment framework has been designed on the basis of which investments and investment opportunities can be tested on a continuous basis from a tax perspective against the Sustainable Tax Policy;
- PGGM IM actively participates in tax related (legislative) initiatives and discussions relevant to the pension sector. In this regard, PGGM IM—together with other large international pension funds and pension administrators—has made a constructive contribution to:

- various OECD working groups with regard to the BEPS project, whereby the importance of the prevention of double taxation for pension funds worldwide has been emphasized;
- the Capital Markets Union initiative of the European Commission to address the barriers around withholding tax procedures within the European Union;
- a paper addressed to the European Commission concerning the introduction of an EU tax register for pension funds;
- A robust tax risk management system is being further developed;
- PGGM IM has carried out an impact analysis on its investment portfolio. The recommendations resulting from this analysis are now being followed up. Herewith, PGGM IM further implements its Sustainable Tax Policy;
- PGGM IM is in dialogue with various fund managers to explore the possibilities to obtain more and qualitatively better tax data, to be able to report and communicate in a more transparent manner for tax purposes.

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