

Sustainable Tax Position Paper

2019

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Introduction

PGGM Vermogensbeheer B.V. ('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 subject to ongoing debate and reflection. PGGM IM therefore monitors closely the (social) developments in this area and shall update this document periodically. The board of PGGM IM has approved this position paper.

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.

Tax landscape

The levy of taxes and the responsibility of the taxpayer in that regard is an important topic in the public debate. In recent years, we have seen drastic changes in the international tax landscape. We recognize and endorse various developments, for example the Base Erosion and Profit Shifting ('BEPS') initiative of the OECD and G20 countries. This initiative has led to the establishment of a set of coordinated international rules, intended to prevent international tax avoidance through base erosion and profit shifting. Within the European Union, these principles have been further defined and have been recorded in binding legislation.

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

Tax authorities increasingly 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 more attention from policymakers and society in general for tax transparency. The rapid rise of global digitalization and the use of information technology will have a 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 beneficiaries¹. The distribution of the 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 Dutch pension funds 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. PGGM IM aims to prevent such double taxation for pension beneficiaries in a socially responsible manner.

Sustainable tax focus areas

To give shape to Sustainable Tax, PGGM IM has identified, also based on stakeholder input, seven focus areas:

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 distributed retirement benefit being subject to income tax in the hands of the individual beneficiary with no ability to credit the amount of the foreign source jurisdiction tax. Many (OECD) jurisdictions apply a similar system.



In all jurisdictions in which is invested, PGGM IM **complies with tax laws and regulations**, respecting the letter and the spirit of these laws and regulations.



PGGM IM takes informed decisions in respect of all tax matters based on **determined tax principles**. A more detailed explanation can be found in the paragraph 'Informed tax decision' below.



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 its investment structures.



For purposes of monitoring and implementation of the tax principles and to safeguard tax compliance, PGGM IM applies a robust **tax risk management framework**. This framework, which includes tax processes and the regular identification of tax risks and required control activities, is periodically monitored and tested with respect to set-up, existence and functioning.



PGGM IM seeks 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 assess and manage the tax implications of PGGM IM's investment activities.



PGGM IM strives to have its service providers and other stakeholders endorse this **Position Paper** on Sustainable Tax.



PGGM IM **actively participates in the social debate on tax principles** affecting pension funds and pension providers, but also the asset management industry as a whole.

Ambition

In this document PGGM IM addresses its core values³ from a tax perspective, whereby PGGM IM's strives to invest in a socially responsible tax manner while being mindful of its fiduciary obligations towards its clients. In addition, PGGM IM follows closely developments in international regulations for 'good tax governance', legislative developments such as BEPS, the EU Anti-Tax Avoidance Package ('ATAP'), the EU mandatory tax disclosure regime ('DAC6'), and international initiatives like the draft Global Reporting Initiative ('GRI') Standard on disclosures related to tax and payments to governments. Also, social developments concerning sustainable tax are closely monitored. In PGGM IM's opinion, socially responsible tax behavior contributes to a stable financial system.

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 tax risk management and tax decisions. In this respect, PGGM IM is keeping track of international (transparency) reporting initiatives like the GRI who is developing a standard on disclosures related to tax and payments to governments.

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 so-called special purpose companies ('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'.

Securities lending

Securities lending is a financial transaction in which one party (the lending party) lends securities to another party (the borrowing party) against payment. Once the agreed term has expired, these securities are intended to be returned to the lending party.

PGGM IM manages long-term positions for its clients and PGGM funds in, for example, listed shares. When these positions are held, income is generated by receiving dividend income. In addition, a capital gain can be realized at the time of the sale of these positions. Securities lending is a strategy that can be used to increase the return on the investment of these long-term positions. If a dividend is paid when PGGM IM has lent the relevant securities, the client or PGGM fund receives a replacement payment for this dividend ('manufactured dividend').

For PGGM IM securities lending is a commercial investment strategy and is not used with one of the principal purposes to obtaining a tax benefit for its PGGM funds or clients. In addition, PGGM IM will also not borrow any securities if one of the principal purposes is allowing the borrowing party to make use of the preferential withholding tax position of PGGM IM's clients.

Informed tax decision

In the execution of its investment activities, PGGM IM finds it important that 'informed tax decisions' are made at the appropriate organizational level, so that it can be explained how decisions were made and on what basis. Factors as spirit of the law, reputational risk, costs, socially responsible tax principles, the rate of return, legal requirements and other (non-tax) criteria are relevant for a solid investment process and will be taken into account when considering investments. Often this will be a balanced decision on the basis of professional judgment of the investment committee.

The degree of influence PGGM IM can exercise over investment structures varies per investment. Where PGGM IM has decisive influence on the structure or 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 upon its investment partners to account for their policy and tax related decisions. In extreme cases PGGM IM can decide not to take part in an investment or to exclude certain partners. On the next page we have described our tax principles, which should apply for the entire term of the investment.

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

A. Tax compliance

In all jurisdictions in which is invested, PGGM IM complies with tax laws and regulations, respecting the letter and the spirit of these laws and regulations.

B. Prevent double taxation

In support of PGGM IM's investment strategy, PGGM IM's goal is to prevent (economic) double taxation for its clients and pension beneficiaries, but within the context of socially responsible tax behavior. In this regard, PGGM IM may make use of tax incentives and/or tax exemptions.

As a taxpayer we intend to prevent uncertain tax positions. However, tax laws may be subject to interpretation or not entirely clear. Taking into account the letter and spirit of applicable tax laws, tax regulations and international tax treaties we endeavor to at least a 'should' (a likelihood of more than 70%) level of comfort that our tax position will ultimately be upheld before the tax court based on all relevant facts and circumstances.

C. Explainable

Investment structures should at all times be understandable, explainable and manageable for the board of PGGM IM.

D. Investments held directly

PGGM IM strives, to the greatest extent possible, to make investments without using intermediate (holding) companies, or SPVs. This principle is in line with the broader international development towards tax transparency, whereby the tax position of the end investor is directly assessed⁴.

E. 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.

F. Principal purpose test

Where PGGM IM has decisive influence over the tax policy of an investment, PGGM IM will assess whether for each entity, contract and/or arrangement contemplated or used within an investment transaction, obtaining a tax benefit is one of the principal purposes, having regard to all relevant facts and circumstances, for engaging in

or structuring a transaction (or series of transactions), entity, scheme or arrangement, unless it is established that obtaining such benefit would be in accordance with the object and purpose of the relevant tax treaty or legislation.

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 principal purpose test.

G. 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 blacklisted 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 with one of the principal purposes to obtaining a tax benefit (see principal purpose test above).

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 when one of the principal purposes is to obtaining a tax benefit (see principal purpose test above). To this end, PGGM IM will investigate alternative investment structures.

H. Relationships with tax authorities

Based on mutual trust and respect we want to have a transparent and constructive relationship with tax authorities world-wide. PGGM IM may seek certainty in advance from tax authorities in relation to the tax treatment of a specific transaction, disclosing all relevant facts and circumstances.

I. Transfer pricing

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

J. VAT Arbitrage

PGGM IM does not want 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.

Status sustainable tax as per June 2019

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

- Since June 2018, PGGM IM has actively discussed the Sustainable Tax Position Paper internally and externally with for example external (fund) managers, peers and advisors. PGGM IM has also addressed its sustainable tax position during round table meetings with international investors. All these activities help to put sustainable tax on the agenda and to raise awareness in the investment market;
- PGGM IM has assessed its current portfolio based on the identified tax principles. In some cases, discussions lead to changes in the investment. New investments are also assessed on the tax principles by application of an introduced tax assessment framework;
- PGGM IM is in the process of documenting clear expectations on tax and transparency relating to investments and parties PGGM IM cooperates with;
- PGGM IM is further improving its tax risk management framework by amongst others strengthening tax monitoring;
- PGGM IM is working on a digital transformation to support its sustainable tax activities.

Changes compared to previous version (June 2018)

Compared to the last version of the Sustainable Tax Position Paper (June 2018), the following most major items have been changed:

- The 'spirit of the law' concept has been moved to the paragraph 'Informed tax decision';
- The section 'Tax Compliance' has been moved to the paragraph 'Informed tax decision';
- The section 'Prevent double taxation' has been updated with a 'level of comfort test' on tax positions;
- The text of the section 'Principal Purpose Test' has been brought in line with the OECD concept;
- The section 'Relationship with tax authorities' has been introduced in the paragraph 'Informed tax decision';
- The section 'VAT arbitrage' has been updated;
- The section 'Securities Lending' has been updated in a new paragraph.

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