Position Statement on Tax

Brunel Pension Partnership Limited (Brunel) believes taxation is an essential component of a healthy, sustainable society.

As a publicly-owned entity, we recognise the importance of taxation to the functioning of a healthy economy and society. Paying tax should not be seen as an undesirable activity but as an essential contribution to the world in which we live and an integral part of realising Brunel's founding vision – "forging better futures by investing for a world worth living in."

The purpose of the position statement is to summarise Brunel's overall Tax Policy, pulling out the key points of interest to wider stakeholders. The objective of our Tax Policy is to ensure we have a consistent approach to tax across all areas of our activities that reflects our core values and principles. We aim to ensure consistency with best practice in this area and to communicate effectively. The full policy is available on request.

Brunel Pension Partnership Limited

Brunel was formed in July 2017 and manages the investment of the pension assets (around £35bn/$47bn) of ten Local Government Pension Scheme funds in the UK. We use the name 'Brunel' to refer to the FCA-authorised and regulated company.

Client partner funds (as administering authorities) retain responsibility for Strategic Asset Allocation (SAA) and for setting their investment strategies. Brunel is set up with a wide range of portfolios, which allows clients flexibility to decide on their SAA and engage with market developments. We offer a suite of portfolios specifically selected to provide a reasonable level of consolidation, while at the same time giving our clients the freedom to choose how they allocate their assets.

Brunel's investment team takes a long-term view on investment decisions. This view is aligned to our clients' liability profiles and investment objectives. The Brunel Pension Partnership Investment Principles clearly articulate the commitments of each Fund in the Partnership and the pool company.

Brunel aims to deliver stronger investment returns over the long term, protecting our clients' interests through contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society.

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Tax Principles

Taxation is an essential component of a healthy, sustainable society. As a publicly-owned entity, we recognise the importance of taxation to the functioning of a healthy economy and society. Paying tax should not be seen as an undesirable activity but as an essential contribution to the world in which we live and an integral part of realising Brunel's founding vision – "forging better futures by investing for a world worth living in."

Entities should pay taxes fairly and should not frustrate the will of government or the reasonable expectations of society. The actual tax behaviour of many entities is seen as controversial, with tax not being paid when most would expect it to be. Here, we consider that the traditional divide between legal tax avoidance and illegal tax evasion is too simplistic. Tax avoidance where an entity is taking advantage of legal tax breaks in line with their intended purpose is perfectly acceptable (such as a pension fund adopting tax incentives designed specifically for pension funds). However, it is a very different matter when when tax avoidance starts involving complex structures, offshore entities, and obtuse legal arguments which any reasonable person would consider unacceptable, or when it raises issues of sustainability, democracy and fairness.

Our shareholders / client Funds are legitimate tax-exempt investors and we should ensure they benefit from this status. This tax exemption is widely recognised and supported as being fair and appropriate. In part this is because, if our clients pay tax on their investments, this merely increases the burden on local ratepayers and shifts funds from one part of the public sector to another or even results in tax leakage overseas. Intergovernmental tax treaties are in place to avoid double taxation.

Transparency in taxation is a useful first step in addressing many public concerns. We support pragmatic initiatives to improve tax transparency.

Complexity in taxation is a major challenge to both fairness and efficiency and we support moves to simplify tax. Complex (and often inconsistent) tax codes increase costs for acceptable tax management, while creating loopholes for unacceptable avoidance. Practically, our approach to taxation must take account of these considerable complexities, which often create practical limits on what we can do on taxation. We will try to avoid adding to this complexity in our tax affairs.

We should collaborate with like-minded organisations on tax matters. As a single entity, Brunel can only play a limited part in addressing the many issues around taxation. However, where we can, we will intervene, and we will work with other investors to ensure the voice of responsible investors is heard.

In summary, Brunel will seek to mitigate tax exposure for Brunel and our clients where reasonable, but Brunel has a low tolerance for taking tax risk, so will take advice where appropriate and avoid aggressive, complex tax planning.

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Governance

The Tax Policy is ultimately owned by the Board, but accountability for the management of taxes is delegated to the COO (who is also the CFO); the COO should ensure that appropriate people, processes and systems are in place to ensure compliance. Within the Non-Executive, the chair of ARC will be responsible for oversight of this policy.

Adherence to the Tax Policy will be monitored by the Audit Risk Committee (ARC). Compliance with the Tax Policy will be considered by internal audit or subcontracted to an appropriately qualified outsourcing provider. Any concerns regarding the Tax Policy or its content may be raised confidentially with members of the ARC.

Taxation in our investment structures

General Investment Structures

When making investments, particularly in private markets, we will use a variety of investment structures in different jurisdictions. One consideration in choosing such structures will be the extent of tax leakage through the use of the pooled vehicle – when a pooled structure is introduced for operational reasons, it can create an entity which is subject to tax.

Generally, we wish to minimise the tax incurred at the client Fund level, noting that, in doing so, we are merely seeking to ensure that our clients are not disadvantaged by investing in the pooled fund compared to investing directly, and that there is no attempt to avoid tax outside the spirit of the law.

Authorised Contractual Scheme (ACS)

For Brunel's active listed equity portfolios, we have established an Authorised Contractual Scheme (ACS) in conjunction with FundRock as fund operator and State Street as fund depository, custodian, and accountant.

An ACS is a particular type of UK pooled investment vehicle. It was created by HM Treasury as a vehicle to enable tax-efficient pooled investment by investors, such as pension funds. In the UK, it should be tax-transparent for income and tax-exempt for capital gains, so no UK tax is payable by the pooled vehicle itself. The aim of the vehicle is to convey the same tax treatment on investors as if they invested in the underlying asset directly. This makes it a tax-efficient vehicle for our investors. It is also clear that its use is entirely supported by the tax authorities.

Brunel actively monitors applicable taxation to the ACS, tracking evolving markets and regulations.

Taxation Management and advice

We are committed to ensuring our tax affairs are managed appropriately and prudently. Tax matters are usually subject to agreement at Brunel Operation Committee (BOC), but more significant matters may be referred to Executive Committee (ExCo)

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The investment team will be consulted on tax matters relating to investment. Ultimately, responsibility for tax matters lies with the Board, and tax risk with the Audit. Risk and Compliance Committee of the Board. Where there is significant complexity, uncertainty or insufficient in-house expertise around any issues relating to tax, we will employ the use of third-party advisors. Brunel has appointed a leading accountancy firm as our retained tax advisor.

Relationship with tax authorities

Our tax obligations inevitably and appropriately involve our engagement with tax authorities in the various jurisdictions in which we operate. All such engagement should be undertaken in line with the following standards:

- We conduct our dealings with the relevant tax authorities with honesty, integrity, respect and fairness, and in a spirit of co-operative compliance
- Where possible, we will seek early guidance and certainty on matters of complexity. Where we do this, we will always seek to provide the information required by the tax appropriate authority to provide such guidance
- For corporate matters, the Head of Finance is primarily responsible for corresponding with the tax authorities with the aim of minimising any contention that could potentially arise. For client Fund-related taxes, the Head of Investment Operations is responsible
- All personnel within the business should consult with the Head of Finance before engaging with the authorities
- In the event of a tax audit, the Head of Finance must be informed immediately. All document/information requests from the authorities must be reviewed and approved first to establish whether the authorities are entitled access to all of the information requested
- We seek to swiftly resolve any disputed matters through proactive and transparent discussion and negotiation
- Any negotiations or settlements reached with the tax authorities require approval from the Chief Operating Officer (COO)
- However, Brunel is prepared to litigate issues where we disagree with a ruling or decision provided by tax authorities and where we feel we have a strong technical position. Decisions to actively take a case to litigation is subject to for Board approval. However, routine procedural activities such as stand-over applications and appeals behind lead cases need not be referred to the Board

Tax measuring and reporting

In our Annual Report and Financial Statements, we will disclose corporate and VAT tax, in compliance with prevailing accounting and company standards.

We fully support and seek to implement the LGPS cost transparency code and other initiatives designed to improve the visibility of investment costs. This includes tax costs arising from the investment process. In our funds we will, in coordination with our investment managers, use benchmarks which best reflect our tax position and that of our client Funds, to

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ensure that both our performance and our performance reporting are not artificially boosted by using an index that assumes greater tax leakage than we actually incur.

Encouraging best practice

One of our core principles is responsible stewardship of the companies we invest in. Brunel focuses on public policy engagement, with corporate-level engagement delivered primarily through our specialist engagement provider EOS at Federated Hermes (see their Engagement Plan) and our asset managers. As a fairly large international investor, we have some influence. We will encourage companies to exercise restraint in their tax planning and to avoid excessively complex structures that result in little or no tax being paid in the jurisdictions where their revenues are earned.

Tax

Tax is complex, but it is also one crucial way in which corporations contribute to the economies in which they operate. We believe openness about the approach taken is a key step to building understanding and trust. Aggressive tax strategies, even if structured legally, can pose potentially significant reputational and commercial risk for companies. We expect companies to:

- Comply with all tax laws and regulations in all countries of operation
- Recognise the importance of taxation to the funding of good public services on which they and their stakeholders rely, and to commit to paying their fair contribution
- Ensure that their tax policies and practices do not damage their social licence to operate in all jurisdictions in which they have a presence
- Disclose the taxes paid by or collected by them in each country
- Provide country-by-country reporting in order to demonstrate that taxes are paid where economic value is generated
- Maintain an approach to tax policy that is sustainable and transparent

We take a negative view of aggressive tax practices – in the case of legally deployed tax practices, particularly when a company has relied on government support and aid during turbulent times.

We will engage with companies on tax transparency.

Extract from Brunel Voting Guidelines (2021)

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Examples of where tax issues have been controversial are in the extractive industries and technology sectors where some companies appear to pay very little tax on their operations despite deriving substantial revenue streams.

The UK Government published guidance on the general anti-abuse rule (GAAR). This can assist Brunel in recognising potentially abusive tax arrangements and the process for counteracting them. The guidance is regularly updated, and the latest version is available here[1]

We report on our activities to promote tax transparency in our annual Responsible Investment and Stewardship Outcomes report on our website.

Tax and global initiatives

We support the introduction of fair, transparent and simple taxation regimes and will participate in investor initiatives to these ends. Brunel is a signatory of the United Nations-backed Principles for Responsible Investment (PRI). The PRI published several reports that provide guidance in delivering our stewardship commitments outlined above. Brunel also supports the Tax Engagement Programme coordinated by the PRI.

- What Is Tax Fairness and What Does It Mean for Investors? Discussion Paper, December 2021
- Advancing Tax Transparency: Outcomes From The PRI Collaborative Engagement, 2020
- Evaluating and engaging on corporate tax transparency: An investor guide, May 2018.

We monitor research and initiatives undertaken by inter-governmental organisations such as the United Nations' Inter-Agency Task Force on Financing Development, the OECD and the European Union and International Monetary Fund. This research is used to inform our evaluation regulatory risk at both a country and corporate level.

We monitor non-governmental organisations' (NGOs) research and activism relating to tax issues, for example Fair Tax Mark and Tax Justice Network. We keep the work of NGOs under review and will selectively choose to support activity where it is aligned with our own policy approach.

[1] https://www.gov.uk/government/publications/tax-avoidance-general-anti-abuse-rules

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Public policy engagement example – May 2021
Public country-by-country reporting (CBCR) REQUIREMENTS IN THE EU

Brunel co-signed a letter led by the PRI to the Rapporteur of the Economic and Monetary Affairs, European Parliament (26 May 2021) in relation to tax transparency proposals.

The letter welcomed the EU proposal for a new Corporate Sustainability Reporting Directive (CSRD), which is vital to strengthen tax transparency and accountability while reducing the prevalence of tax avoidance practices that continue to challenge global economies and their pursuit of sustainability goals.

Specific asks:

- The legislation should require multinational companies to provide disaggregated information on taxes paid and other relevant economic information for all countries of operation
- Any exemptions to the requirements should only be provided on a limited basis and accompanied by careful monitoring
- An impact assessment of the regulation is conducted after two years

Further details - https://www.brunelpensionpartnership.org/stewardship/policy-advocacy/

Getting in touch

If you have any questions or comments about this position statement, please email Faith Ward, Chief Responsible Investment Officer at RI.Brunel@brunelpp.org.

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Past performance is not a guide to future performance.

Definitions

"The ACS" – FP Brunel Authorised Contractual Scheme. An ACS is a type of tax transparent authorised fund that is an alternative to authorised unit trusts and open-ended investment companies. In this document, ACS refers to the ACS established by Brunel as sponsor with FundRock as operator

"BOC" – Brunel Operations Committee

"Brunel" – Brunel Pension Partnership Limited, the FCA authorised and regulated firm responsible for implementing the investment strategies of its Client Funds

"FCA" – Financial Conduct Authority, the UK financial services regulator

"**HMRC**" – Her Majesty's Revenue and Customs, the UK tax authority

"**VAT**" – Value Added Tax, a tax charge on the supply of certain goods and services

"Other taxes" – defined to be taxes not including VAT, Corporation Tax, With-holding Tax (WHT), Transition Taxes (TT), or employment taxes. An example of this is the tax incurred on insurance policies.

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