Brunel Pension Partnership

# 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.

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Authorised and regulated by the
Financial Conduct Authority
No.790168

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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.**

## 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 planning where an entity is taking advantage of legal tax breaks for the purpose they are intended is perfectly acceptable (such as a pension fund), but when tax planning becomes aggressive and starts involving complex structures and obtuse legal arguments to avoid tax which any reasonable person would consider payable is unacceptable, 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 widely endorsed and other 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 recognises the important role of taxation in contributing to societal wellbeing and economic prosperity. Accordingly, Brunel will support enhanced tax transparency and initiatives to simplify tax rules. While we seek to mitigate tax exposure for our organisation and our clients where reasonable, we will avoid aggressive, complex tax planning.

## 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.

Any tax decisions that deviate from day-to-day compliance activities or if there are issues with complex tax implications, this should be escalated through to Head of operations, Head of Private Markets, Head of Finance or Chief Responsible Investment Officer, based on responsibilities allocated.

## 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) with a third party authorized body 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 monitored by Operations, with more significant matters potentially referred to Executive Committee (ExCo) or 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.

Where a tax related design or process is outsourced to a third party the party responsible for the process internally will ensure that provider is appropriately resourced, instructed and monitored to ensure Brunel's standards are met. We may provide outsourced parties with a public facing version of this document to help alignment, though this is only supplementary to our ongoing engagement and oversight.

## 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
- 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 and with our investment managers, we will use benchmarks which best reflect our tax position and that of our client Funds, to ensure that our performance reporting is on a like for like basis to the extent possible.

## Encouraging best practice

One of our core principles is responsible stewardship of the companies we invest in.  One of our core principles is responsible stewardship of the companies we invest in. As a fairly large international investor, we have some influence.

In line with our tax principles, we will steer 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, particularly when a company has relied on government support and aid during turbulent times. We believe that such an approach is critical to ensure that short-term profit maximisation goals of individual companies do not jeopardise wider portfolio returns.

In order to systematically monitor corporate tax behaviour, more meaningful and timely corporate reporting on tax risks is needed. We, therefore, encourage companies to improve their disclosure on their policies, governance and risk management processes and financial reporting on a country-by-country basis.

To this end, we engage with companies through our service provider, Hermes EOS, asset managers and through collaboration with other investors. Over the next year, we will be seeking to escalate this topic as an engagement priority. We intend to undertake a structured programme of activity, 2024 onwards which will include an evaluation of engagement plans and broadening the set of parameters used to select target companies for engagement.

We are supportive of the Principles for Responsible Investment's tax programme and are informed by the guidance and expectations documents that have been published, in our stewardship efforts. We also refer to the GRI standard on tax as a benchmark for corporate disclosure practices on the topic.

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| 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:<br>• Comply with all tax laws and regulations in all countries of operation<br>• 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<br>• Ensure that their tax policies and practices do not damage their social licence to operate in all jurisdictions in which they have a presence<br>• Disclose the taxes paid by or collected by them in each country<br>• Provide country-by-country reporting in order to demonstrate that taxes are paid where economic value is generated<br>• Have an approach to tax policy that is sustainable and transparent<br><br>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.<br><br>Extract from Brunel Voting Guidelines (2024) | We will engage with companies on tax transparency.<br><br>We will support shareholder resolutions that seek to align company reporting with the Global Reporting Initiative (GRI) tax standard.<br><br>We will reinforce engagement via votes against Chair of the audit committee or other relevant directors in 2025 for a set of companies that are identified as high risk and demonstrate poor disclosure. |

We recognise that corporate engagement, on its own may not lead to the changes at a systemic level and so we participate in policy consultations and engage with other stakeholders to enable establishment of tax norms that promote integrity, transparency and accountability within the financial markets. Below is an example of our support for comprehensive country-by -country reporting disclosure requirements in the EU.

**Public policy engagement example - May 2021**

**Public country-by-country reporting (CBCR) REQUIREMENTS IN THE EU**

Brunel co-signed a letter led by 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), and 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/

We monitor international regulations that enable good tax governance such as the OECD BEPS, EU anti-tax avoidance package, the general anti-abuse rule (GAAR).

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

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

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

## 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.

This statement was last updated and published in June 2023.

## Important Information

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## 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.
"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.