atp=

Responsible for the area: Kenneth Hallum Knudsen
Replaces policy of: 1 January 2022
Applicable from: 1 January 2023

Tax policy for investments in the ATP Group

Contents

Adopted by ATP's Supervisory Board on 15 December 2022

1. Background, purpose, scope of application and strategic targets

Background

ATP plays a significant role in Danish society, and ATP therefore has to take responsibility. This applies to the active ownership we exercise as an investor in relation to ESG integration for investments and our tax policy for the investment of pension funds.

Tax is an important parameter in investing, and particularly in relation to international investments across countries with different tax regulations. The globalised economy has created a great deal of growth and prosperity around the world, but it has also resulted in complex legal structures where taxable returns and earnings can be moved across borders. In many cases, this is perfectly legitimate in order to avoid double taxation, but in other cases, it is against the spirit of the tax laws. The national tax laws and rules are not yet sufficiently adapted to a globalised world, and the consequence is that aggressive tax planning has become an international challenge. ATP opposes aggressive tax planning because it is against the intention of the law and goes against what ATP stands for as a responsible investor. At the same time, we view aggressive ta planning as an investment risk that does not contribute to the long-term value maximisation of investments.

In its tax policy, ATP has chosen to go further than what the legislation requires. ATP has high standards for ensuring that ATP pays the correct amount of tax - i.e., neither too much or too little. With this, ATP wants to assert its influence in the fight against aggressive tax planning, while maintaining a certain realism, since ATP does not always have the decisive mandate and we cannot force companies, external managers and co-investors to follow our tax policy. Nor are we in control of how other companies, external managers and co-investors act in relation to investments of which ATP is not involved in. In other words: ATP cannot change the world alone. What we can and do is give priority to our efforts so that it is concentrated where the impact is greatest. We align the effort with the value of ATP's investment and assess it against ATP's ownership stake and the opportunity to get individual companies, external managers and co-investors to accept our requirements. If aggressive tax planning is to be avoided entirely, it requires more international cooperation, legislation and standards.

ATP has experienced that not everybody has welcomed ATP's tough line against aggressive tax planning. In some cases, this has meant that ATP has turned down investment opportunities. Conversely, ATP has also met a willingness to be part of the agenda to improve tax practice and increase transparency.

As an investor, ATP is not mandated to oversee co-investors, external managers and the companies in which ATP invests. That is the job of the authorities. However, ATP works towards ensuring that the funds that ATP invests are invested within the framework of ATP's tax policy and that there is thus paid the correct amount of tax on the funds that Danes contribute to ATP. ATP is also working towards selecting external managers that operate in accordance with the spirit of the tax legislation, though we recognise that there are no guarantees of this. Finally, ATP is also working towards ensuring that co-investors in joint investments with ATP are bound by agreements that reflect ATP's tax policy. ATP's opportunities for making binding agreements with external asset managers and co-investors depend on ATP's negotiation power in the relevant investments.

Tax is a dynamic and complex area and social norms change over time. ATP is trying to make a positive difference and recognises that this goal requires both a constant adaptation and development of ATP's tax policy and how it is implemented in specific transactions.

Purpose

As a responsible investor, ATP wishes to be transparent about its tax policy, total tax payments and individual investments to the extent possible without acting against agreements entered into with asset managers and co-investors. ATP's Supervisory Board has therefore adopted this tax policy that applies to investments of pensions funds made by the ATP Group.

The tax policy has four overall purposes:

- **To ensure that the correct taxes are paid**
  ATP wishes to pay the correct tax – not too little, not too much – and wants to be in compliance with tax legislation and practice.

- **To reduce tax risks**
  ATP seeks to apply robust and functional tax structures with a view to reducing tax risks which may negatively affect the investment return in the long term, and to minimise the risk of structures and transactions being challenged by tax authorities.

- **To formulate clear expectations for external managers, co-investors and companies**
  ATP wishes to communicate clearly about what tax conduct ATP accepts and does not accept and ATP also seeks to influence the external managers, co-investors and companies in which ATP invests to act accordingly.

- **To support the push for more transparency about tax matters**
  ATP supports increasing tax transparency and supports OECD- and EU-based initiatives aimed at addressing this issue. At the same time, ATP wants to be transparent about its own tax affairs and, in addition, to contribute in general to a broader understanding of the complex tax conditions that investors and global companies navigate through.

2. Identification of risks and risk appetite and transparency concerning tax matters

ATP as an investor

Danish pension funds - unlike most other pension funds abroad - have to pay taxes on their investment returns. Thus, ATP pays a Danish pension yield tax on the returns from all investments, no matter where in the world the returns are generated.

ATP is trying to avoid being subject to double taxation (being taxed on the same return both in Denmark and in another country) and to minimise foreign withholding taxes that are not eligible for offset against ATP's Danish pension yield tax. This allows ATP to ensure that the largest possible part of the returns from investments are taxed in Denmark and that the returns generated to fund pensions are not taxed twice. When ATP directly or indirectly invests in a company, the company's profits are normally taxed locally at the level of the company itself.

When ATP invests in partnership with other investors, this is generally done through an investment structure where a joint investment platform is established for the investors. Different tax rules and different circumstances among investors encourages such structures, as there are not imposed extra taxes on top of what would have been the case if the investment was made directly by the individual investors. This often takes place via tax transparent holding entities (also often called funds) and in practice, this means that ATP and the other investors are - in tax terms - viewed as owning the holding entity/fund's assets directly. Such structures are typically set up in the United States (for example, in the state of Delaware), the Cayman

Islands, Luxembourg, England and Scotland. None of these countries are on the EU's blacklist.

Part of ATP's investments are in listed companies. Such companies often act globally and with activities in many countries, they are exposed to several different tax systems. The development of cross-border tax cooperation has not fully kept up with a global economy that is increasingly globalised, and ATP recognises that there may be situations where multinational companies therefore need some room to manoeuvre when it comes to warding off unintended consequences of national tax legislation or where companies end up in disputes due to individual countries' tax systems not being sufficiently in sync. However, companies must continue to follow good tax practices, and ATP sees it as particularly important that companies strive for a high degree of transparency about their tax activities.

ATP has a proactive approach to managing ATP's relevant tax obligations and:

- Maps these tax obligations when entering into new investments via completing a tax due diligence process.
- Tries to influence and, if possible, simplify the investment structures in connection with entering into new investments.
- As far as possible, tries to commit the companies that ATP invests in to comply with ATP's tax policy from that moment onwards.
- Carries out spot checks that are intended to verify that ATP's investments follow ATP's tax policy which allows deviations found in companies and external managers to be addressed.
- Monitors changes to rules and practices that may have a significant impact on ATP's taxation from its investments.

Internal tax matters
ATP wants to be transparent about its own tax affairs. This means, among other things, that ATP:

- Reports on ATP's total tax payments and ATP's tax presence outside Denmark.
- Publishes lists of ATP's investments in listed and unlisted companies, together with indications of ownership stakes or values and reports on where the companies are based. ATP is most often prevented from providing information about the underlying structure of the individual investments, as ATP is usually subject to confidentiality clauses.
- Reports on ATP's active ownership regarding taxation and the work to promote principles of responsible tax conduct.

In order to contribute in general to increased tax transparency, ATP does not make direct investment in countries that, at the time of the investment, have undergone the evaluation process prepared by the OECD Global Forum for Tax Transparency and Information Exchange and received a non-satisfactory assessment ("non-compliant" or "partially compliant").

3. Acceptable and unacceptable tax behaviour

It is important for ATP that the correct tax is calculated and paid on time. Internationally, particular attention is paid to the tax consensus found in the OECD Base Erosion Profit Shifting ("BEPS") project and to the EU's efforts to counter aggressive tax planning, which ATP supports. ATP also generally supports the OECD's ongoing work with creating global taxation standards, including the efforts to introduce rules for a global minimum taxation.

ATP does not wish to take part in aggressive tax planning. ATP considers aggressive tax planning as an investment risk that does not contribute to the long-term value maximisation of investments.

ATP defines aggressive tax planning as taking advantage of technicalities in a tax system or inconsistencies between several tax systems for the purposes of reducing tax liability which goes against the spirit of the law. In addition, ATP regards it as aggressive tax planning if a structure is created for the primary purpose of getting tax advantages and if there is a mismatch between substance and form.

On this basis, ATP has established the following framework, which forms the basis for ATP's investment of pension funds.

ATP does not accept aggressive tax planning, for example, via:

- The use of companies located in countries listed on the EU blacklist at the time of the investment (the EU's list of non-cooperating jurisdictions). ATP accepts that companies that have part of their business activities in those countries can carry out those activities via subsidiaries established locally.
- Exploiting agreements on double taxation by using holding companies with insufficient substance for the sole purpose of reducing or avoiding tax at source
- Transfer pricing planning, where risks and earnings are systematically transferred to low tax countries
- The use of financial instruments for aggressive tax planning
- The use of hybrid companies for aggressive tax planning
- The use of equities for dividend arbitrage, including making equities available to others via lending them out
- The use of highly geared acquisition structures for the purposes of unduly reducing the taxable earnings
- The use of tax incentive schemes that are in clear contrast to the purpose of the specific legislation

On the other hand, ATP does accept the kind of tax planning that only aims to ensure fair competition and to avoid double taxation, as this is not viewed as aggressive tax planning. ATP accepts tax planning as exemplified below in a non-exhaustive list:

- Use of available double taxation treaties where the business substance justifies the use of a specific double taxation treaty
- Using historic tax losses to reduce the taxable income
- Using a reasonable level of debt financing
- Using tax depreciations, for example, on infrastructure assets

4. Expectations for external asset managers and co-investors

ATP expects that our external fund managers will not use any of ATP's funds in any form of tax planning which is contrary to ATP's tax policy. With this approach, ATP attempts to ensure that our external asset managers act on our behalf to take into account the OECD's and EU's initiatives aimed at preventing aggressive tax planning. Additionally, ATP expects that our external asset managers support increased transparency on tax matters which, among other things, means:

- That they give priority to the development of a tax policy

- That the tax authorities' need for information to correctly process tax matters under applicable legislation and practices is supported to the extent possible and within the legal framework.

ATP also has a clear and stated expectation that ATP's external asset managers do not take part in tax evasion (either from employees or portfolio managers) when investing together with ATP.

ATP notifies its external asset managers of ATP's tax policy and expects that they comply with this policy and applicable tax legislation in general when they invest with ATP. In order to verify if the external asset managers comply with ATP's tax policy in terms of specific investments, ATP makes spot checks.

When discovering something that is not in compliance with the tax policy, ATP will immediately enter into a focused dialogue with the external asset manager about how the issues can be resolved and how violations (if relevant) can be stopped. It should be made clear here that this is an explicit violation of ATP's tax policy, and not a general violation of tax law. In such situations, ATP will consider what actions to take, including whether to stop doing business with the asset manager.

ATP does not take part in aggressive tax planning, and we expect the same from our co-investors when entering into investments with them. However, tax legislation is the responsibility of the relevant authorities, as is monitoring of ATP's co-investors, and ATP is not responsible for, nor can ATP systematically check the tax affairs of our co-investors.

Generally speaking, ATP trusts the local tax authorities to do their jobs. In some countries, however, international experiences have shown this task is not always solved in a way that inspires confidence. ATP follows the international conventions when assessing whether ATP, as a responsible investor, can invest in such countries. In non-OECD countries, ATP generally requires an annual declaration stating that the investment structure complies with legislation and that the required taxes are paid through the investment structure.

5. Approach to listed investments and our expectations for companies

For its listed investments, ATP has specified a number of stewardship principles. These are described in the Supervisory Board's policy for stewardship. The principles also apply to the tax area and mean, among other things, that the degree of dialogue conducted with companies in which ATP has invested is aligned with the value of ATP's investment, ATP's ownership stake and ATP's ability to effectively engage in an active dialogue with the companies.

ATP's active dialogue with the listed companies is thus aligned, among other things, with whether they are Danish or foreign listed companies as there are significant differences in ATP's ability to effectively engage in an active dialogue with various companies. ATP therefore uses one approach in relation to investments in Danish listed equities (so-called continuous dialogue) and another approach in relation to ATP's other investments in listed companies (dialogues at the annual general meeting).

Regardless of the degree of dialogue with the listed companies, ATP wishes to promote good tax practices and transparency on tax matters in the listed companies. Proper tax practices and communication on this is particularly relevant for investments in listed companies where ATP's investments are not based on prior discussion and contract negotiations with the companies and the other investors. For ATP as an investor, it is about ATP being able to carry out a proper risk assessment based on publicly available information.

In its dialogues, ATP will try to influence the development towards the following four messages and, moreover, in the direction that ATP believes best serves the companies, ATP's investments and thus ATP's members.

1. **Overall tax governance is a matter for boards of directors**

   There should be a board-adopted tax policy and it should be publicly available. The policy must be specific to the individual company and address the specific situation of the company. The policy should be evaluated with a fixed frequency, such as annually, and compliance should be reported on to the Board of Directors.

2. **Aggressive tax planning does not contribute to long-term value maximisation**

   Companies that not only comply with the wording, but also the aim of the tax legislation, in ATP's view, have a more robust approach to taxes and will be better positioned in relation to new national and international tax reforms. In ATP's view, compliance with both the wording and aim of the law is also an indication that the company is refraining from aggressive tax planning. An undertaking complies with the aim of the law if it reasonably seeks to determine the intention of the legislation and, by its actual application of the law, interprets it in accordance with that intention and the wording and history of the law. ATP would like companies to explore the possibility of having important questions clarified in advance by the authorities.

3. **The attitude and approach to tax should be made visible in communications to the outside world**

   Tax reporting should go beyond financial reporting and it should be clear how the company works with and ensures good tax behaviour. ATP would like this transparency to be reflected in, for example, the tax notes in the financial statements. For ATP, this means that the company determine its approach to its overall financial and reputational risk-taking in the tax area, which - depending on the individual company - could, for example, be about attitudes to tax planning, a description of the overall structure for internal group transactions, an explanation about the company's presence in low- and zero-tax jurisdictions and a description of their system for identifying and managing tax risks.

4. **Country-by-country reporting and tax footprint reporting**

   ATP supports efforts to introduce legislation on publicly available country-by-country reporting. At the same time, ATP encourages each company to explore the possibilities of publishing a country-by-country report voluntarily and with reasonable consideration, among other things, for competitive conditions. The reporting can also be broadened and include the overall tax footprint globally and at country level, including being divided into taxes paid directly and taxes collected on behalf of others. In any case, the figures should not just be published on their own, they should be supplemented by explanations. If tax payments in a country differ significantly from the economic activities in the country (typically this applies to companies with a low effective tax rate), the main reasons for this should be apparent so that it can be more easily established whether it is due, for example, to carry-forward tax losses, the use of special tax incentive schemes or an indication of aggressive tax planning.

6. Active dialogue

ATP engages in an active dialogue with other pension funds and asset managers with a view to promoting and strengthening active ownership on the tax area and in order to achieve common standards and criteria for international investment structures.

ATP also aims to stay up to date on and comply with international tax initiatives. On that basis, there are made relevant adjustments on an ongoing basis to ATP's tax policy.

7. Reporting

The Supervisory Board

The person designated as responsible for tax matters continuously monitors developments in international tax matters in order to assess the need to make updates to ATP's tax policy. When necessary (and at least once a year), an evaluation and recommendation is prepared to the Supervisory Board to reassess and update the tax policy for the investment of pension funds to reflect developments in taxation rules and ATP's responsibility.

Group Management

ATP's Chief Investment Officer issues guidelines via ATP's Investment and Risk Committee for the handling of tax matters relating to ATP's investments. ATP's Group CFO issues guidelines for calculation, reporting and payment of taxes and duties for the ATP Group. ATP employees who receive authority pursuant to the issued guidelines, inform the tax responsible who makes an overall report on the tax policy to the "Committee for Responsibility".

Committee for Responsibility

The person designated as responsible for tax matters at ATP is responsible for implementing a process to collect and report annually on the implementation and compliance with ATP's tax policy for the investment of pension funds as well as reporting on the progress related to ATP's objectives in this area.

It is the Committee for Responsibility that monitors whether ATP's responsibility policies, including the tax policy, are appropriately implemented in the day-to-day operations of ATP. The person designated as responsible for tax matters ensures that there are continuous random checks on ATP's investments and monitors whether tax matters have been included in the assessment of investments. The activities are summarised in an annual progress report to the Committee on Responsibility, which includes:

- Developments during the year related to ATP's responsible tax objectives
- Observations in the context of spot checks and ongoing monitoring of the investment area, as well as compliance with tax policy
- The main tax risks related to ATP's investments and how these risks are managed

The Committee decides on necessary changes to objectives, activities and internal controls on the basis of the progress report as well as the results of random checks and dialogues with companies and asset managers, including whether there are matters that should be included in the evaluation of tax policy to the Supervisory Board.

Thematic report on taxes
ATP supports increased transparency in the tax area and communicates openly about how tax policy is implemented and complied with in the annual thematic report on taxes, which is published as part of the reporting on responsibility. The results of the report are based on the internal reporting process and include highlights from the year concerning:

- ATP's tax payments
- Activities implemented under the tax policy during the year
- Actions taken on the basis of dialogues with companies and asset managers, spot checks of investments, the Tax Code of Conduct, etc.

8. Options for dispensation

It is not possible to get exemptions for issues that are not in line with the framework of this policy.

9. Updating

Tax is a dynamic and complex area and social norms change over time. ATP stays continually up to date on tax matters and makes ongoing assessments of whether relevant adjustments need to be made to ATP's tax policy.

10. Entry into force

Adopted by the Supervisory Board on 15 December 2022.

The policy enters into force on 1 January 2023 and applies to investments made after this date. Therefore, it is natural that some of ATP's older investments may not fully comply with this current policy.