The ATP Group

2020
Tax

Part of ATP's Responsibility

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ATP's work with taxes

It is important to our credibility and the ATP members' long term return that we pay the correct amount of tax while supporting sound tax practices in our investments to manage potential risks. Accordingly, we focus on transparency and clarity in our policy and processes for paying taxes.

Basis

ATP has decided to go beyond the minimum statutory requirements in the area of taxes. We do so to ensure that our investments are more resilient to taxation risks and to assume co-responsibility for strengthening governance in the area. We have high standards for ensuring that ATP pays the correct amount of tax, which means neither too much, nor too little. We also want to exert our influence in the fight against aggressive tax planning, while also retaining some degree of pragmatism, since we do not always have the casting vote. We cannot force external asset managers and co-investors to follow our tax policy, and we cannot control how they act in relation to investments ATP is not involved in. We cannot change the world on our own, but as a major investor we are willing to assume part of the responsibility. Eliminating aggressive tax planning entirely requires enhanced international cooperation. We believe that transparency and clarity about our policy and processes for paying taxes are part of ATP's corporate responsibility.

Processes

ATP has fixed processes in place to incorporate tax-related considerations into our new investments. This ensures that our tax practices are appropriate in relation to our investments and that we minimise taxation risks when, for example, we take an ownership stake in a company. We also ensure that the tax structure of the investment is in accordance with our tax policy. The purpose of the due diligence phase is to map out and uncover any taxation risks in our investments, including whether the investments comply with our tax policy. ATP has its own tax experts who ensure that we can act swiftly and thoroughly when investment opportunities are identified. If the investments do not comply with ATP's tax policy, we look into whether we can adapt the investment or the contractual basis. This is often possible, but sometimes we have to turn down an investment opportunity.

Activities

In cooperation with a group of Danish pension funds, ATP developed a common Tax Code of Conduct for unlisted investments in 2019 which lays down a number of requirements and expectations for the tax practices of external asset managers. If enough investors set standards for responsible tax practices, it will limit the possibilities of the market players who do not want to align their tax practices to match the expectations of ATP and other responsible investors. In 2020, the number of signatories to the Tax Code of Conduct expanded to number 11 pension funds and 6 foundations and associations.

As part of ATP's efforts in the area of responsible tax practices, we perform annual random checks to ensure that our investments live up to our tax policy, and we maintain ongoing dialogues on tax-related matters with external asset managers and companies we have invested in. Over the course of 2020, we have had 9 focused tax dialogues. In two of those cases, our dialogues contributed to tax policies being adopted by companies that previously had none.

In 2020, ATP held a series of dialogues on tax policy and tax-related risk management with Danish listed companies. The companies were responsive and provided satisfactory answers to how they approach tax issues.

#1 ESG is an investment belief

#2 We believe in effective ESG integration via customised processes

#3 Actual integration requires internal ESG competences

#4 We believe in stewardship - within limits

In 2020, ATP:

- paid DKK **14.6bn** in taxes. DKK **51bn** over the past 5 years
- had **9** focused tax dialogues with companies in the unlisted portfolio
- was joined by an additional **11** pension funds as well as **6** foundations and associations that adopted the Tax Code of Conduct for unlisted investments.

ATP wants clarity and transparency on tax payments

ATP plays a significant role in Danish society in a number of areas, and it is our assessment that when it comes to tax, we can assume responsibility in a way that benefits both society and ATP. We believe that ensuring clarity and transparency in ATP's policy and processes for tax payments is part of the responsibility we carry.

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, the use of complex legal structures is completely legitimate in order to avoid double taxation, but as a number of controversial cases have demonstrated, they can also be used to bypass the intentions of tax legislation. Among other things, this is because national tax legislation and rules are not yet sufficiently adapted to a globalised world, and as a result, aggressive tax planning remains an international challenge that investors need to take into account in their work.

ATP has high standards for ensuring that we are paying the correct amount of tax, i.e. neither too much nor too little. This is so that ATP can exert its influence to fight aggressive tax planning. We recognise that ATP is not always the sole decider in our investments, and we also recognise that we cannot force external asset managers and co-investors to follow our tax policy. In other words, ATP cannot change the world on its own. If aggressive tax planning is to be prevented, it requires more international cooperation, legislation and common standards.

As an investor, ATP does not possess the mandate to control the actions of co-investors and external asset managers. That is the job of the authorities. However, ATP will work towards ensuring that the money we are responsible for investing is invested in accordance with ATP's tax policy and that, as a result, the funds that Danes contribute to ATP are taxed correctly. ATP will also work towards selecting external asset managers that operate in accordance with the spirit of the tax legislation, though we recognise that there are no guarantees. That is one of the reasons why we perform random checks.

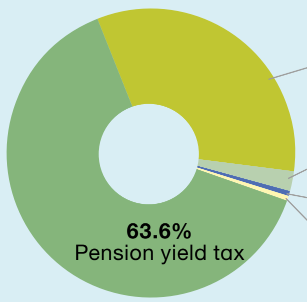
ATP's experience is that it is not easy to get everyone to accept ATP's firm standpoint against aggressive tax planning. In some cases, this has meant that ATP has turned down investment opportunities. Conversely, ATP has also found actors who are very willing to embrace the agenda of contributing to good tax practices and increased transparency.

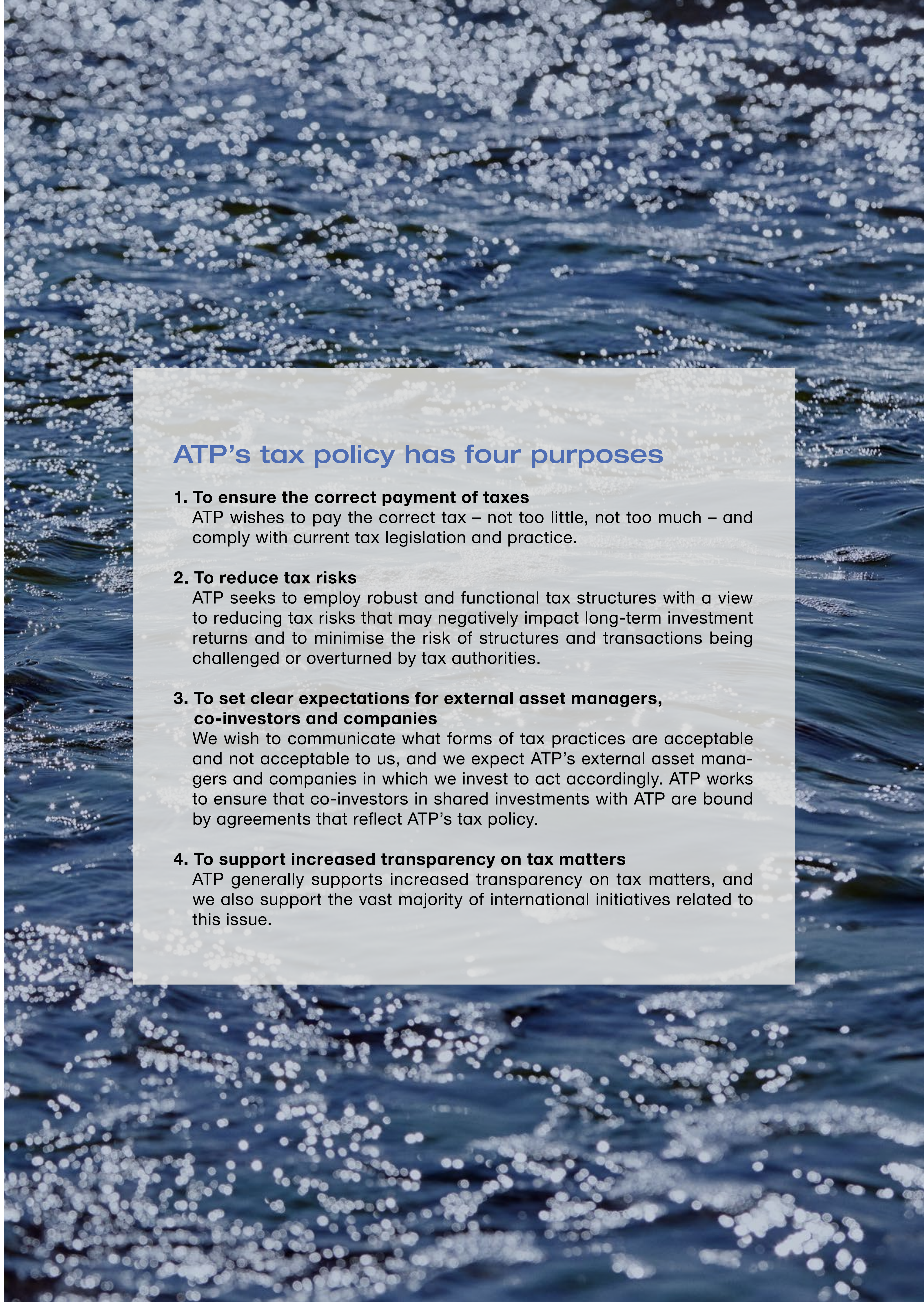
Greater cooperation between investors is key to influencing external asset managers. ATP is working to improving this cooperation and knowledge-sharing between investors who share a common interest in sound tax principles. In 2019, together with PFA Pension, Industriens Pension and PensionDanmark, ATP developed a common Tax Code of Conduct with principles and recommendations for investments in unlisted companies that set out how external asset managers, in our view as investors, should conduct themselves in the area of tax. Since then, an additional seven Danish pension funds have joined the partnership along with a subsequent six Danish foundations and associations. This broad collaboration ensures that we can better influence developments towards more responsible tax practices.

HOW ATP PAYS ITS TAXES

Danish pension funds - unlike most other pension funds abroad - have to pay taxes on their ongoing returns. Thus, ATP pays a Danish pension returns tax on the returns from all investments, no matter where in the world the returns are generated. Generally speaking, this means that if ATP realises a positive return, then it will pay 15.3 per cent in taxes on the return on behalf of our members.

Tax footprint 2020 – distribution of DKK 22.8bn.





ATP's tax policy has four purposes

1. To ensure the correct payment of taxes
ATP wishes to pay the correct tax – not too little, not too much – and comply with current tax legislation and practice.

2. To reduce tax risks
ATP seeks to employ robust and functional tax structures with a view to reducing tax risks that may negatively impact long-term investment returns and to minimise the risk of structures and transactions being challenged or overturned by tax authorities.

3. To set clear expectations for external asset managers, co-investors and companies
We wish to communicate what forms of tax practices are acceptable and not acceptable to us, and we expect ATP's external asset managers and companies in which we invest to act accordingly. ATP works to ensure that co-investors in shared investments with ATP are bound by agreements that reflect ATP's tax policy.

4. To support increased transparency on tax matters
ATP generally supports increased transparency on tax matters, and we also support the vast majority of international initiatives related to this issue.

How ATP incorporates tax considerations into the investment process

ATP has established processes in place to incorporate tax considerations into our new investments. We thereby manage compliance with taxes and risks in our investments, which protects us against unnecessary surprises when we step in as owners in a company. Similarly, we are working towards ensuring that our tax policy is implemented to the greatest possible extent.

- The due diligence phase is aimed at mapping out ATP's tax position and uncovering the tax-related risks in the investments, including assessing whether the investments comply with ATP's tax policy. ATP has its own tax specialists who ensure that ATP can act swiftly and thoroughly when investment opportunities are identified. If the investments do not comply with ATP's tax policy, we will investigate whether we can adjust the investment or the contractual basis so that it does comply with our requirements for the area.
- In the structuring phase, we analyse whether the investment is optimally structured for ATP within the established framework of the tax policy or if it should be adjusted so that it meets our needs.
- In the negotiation phase, we discuss the following matters with our business partners:

  I. Ensuring that ATP's tax policy is implemented in the contractual basis for the investment.
  II. ATP's requirements relating the tax and legal structure of the investment.
  III. Ensuring that the purchase sum reflects any potential extra tax expenses due to historical events in the investment.
  IV. Requirements for tax reporting.

- In the implementation phase, we ensure that the investment is implemented correctly in all of ATP's systems so that the correct tax is paid.
- The asset management process is part of ATP's ongoing work with our investments, where we follow up on whether the investment continues to remain in compliance with ATP's tax policy and the signed agreements. Likewise, we also assess the tax structure compared to general developments on the area.

ATP regularly influences asset managers through dialogue on specific tax matters.

We have found that it is not easy to get everyone to accept ATP's standpoint against aggressive tax planning. In some cases, this has meant that ATP has had to turn down investment opportunities. Conversely, ATP has also found actors who are very willing to embrace the agenda of contributing to good tax practices and increased transparency. Generally, we have seen a growing willingness among our asset managers and investment partners to address tax issues in the investment partnerships we enter into.

PRIORITISING ASSET MANAGEMENT

We are continuously increasing our focus on the asset management process. Several dialogues with asset managers and investment partners in 2020 have demonstrated that this dialogue results in change. For example, we can have dialogues where we encourage asset managers and investment partners to develop tax policies or avoid working with/in blacklisted countries, and we have seen several instances where they end up taking action on the basis of that dialogue.

TAXATION IN THE OECD'S GUIDELINES FOR MULTINATIONAL ENTERPRISES

OECD's guidelines for multinational enterprises firmly establish that companies have a responsibility to not just follow the letter, but also the intention of tax legislation of the countries they operate in. However, this does not mean that companies should pay more in tax than legislation commits them to. OECD's guidelines make it clear that it is important for companies to work constructively with authorities so that they have the information they need to enforce the tax legislation.

ATP'S STRUCTURE FOR INCORPORATING TAX ISSUES INTO NEW INVESTMENTS

Due diligence	Mapping ATP's tax position, compliance with the tax policy and determining tax-related risks.
Structuring	Ensuring an optimal structure for ATP and changing structures that may bypass tax legislation.
Negotiations	Ensuring that the contractual basis includes ATP's tax policy.
Implementation	Correct processing of taxes in ATP's systems and reporting taxes to authorities
Asset management	Following up on whether the investment still complies with the tax policy

No thank you to aggressive tax planning

We consider aggressive tax planning as an investment risk that does not contribute to the long-term value creation in investments. At the same time, however, we have a strong interest in ensuring that our members are not unduly taxed on the returns of their investments, e.g. via double taxation.

Therefore, it is important for us to understand the background of the tax-related choices that are taken on behalf of ATP. It is important for ATP that the correct tax is calculated and determined on the basis of the international tax consensus, which is found in the OECD's Base Erosion Profit Shifting (BEPS) project and in the EU's efforts to tackle aggressive tax planning.

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 considers it to be aggressive tax planning if a corporate structure exploits tax legislation to gain an unwarranted tax advantage.

International tax legislation is constantly changing. As are the norms for what is considered acceptable. Our goal is to remain at the forefront of these developments. In practice, this means that we screen several of our investments every year to determine whether any changes have occurred that require our attention.

TAX STRUCTURES MUST FOLLOW OUR TAX POLICY

Before we make new investments, we examine the tax structure of the investment. The tax structure needs to comply with legislation and our tax policy. If the proposed structure is not in line with our tax policy or legally controversial, we attempt to change the structure. Failing that, we turn down the investment.

It is important for ATP to look into whether a company's tax practices are acceptable and not just where a company is headquartered. We must ensure that our investments are not engaged in aggressive tax planning while also ensuring that ATP's members are not taxed unnecessarily on their pensions.

ATP does not accept...

arrangements that make use of the following structures:

- Investments in jurisdictions that are on the EU's blacklist (EU list of non-cooperative tax jurisdictions)
- 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 shares for dividend arbitrage, including making shares available to others via lending them out
- Use of highly geared acquisition structures for the purposes of unduly reducing the taxable earnings

ATP accepts...

tax planning that is intended to ensure fair competition and avoid double taxation. For example, we accept structures characterised by:

- Making use of available double taxation treaties where the business substance justifies the use of a specific double taxation treaty
- Using historical tax deficits to reduce future taxable earnings
- Applying debt financing to a reasonable degree
- Utilizing tax write-offs on, for example, infrastructure assets

Common tax principles to increase transparency and reduce aggressive tax planning

For a number of years, ATP has actively used its tax policy in negotiations with potential investment partners and asset managers. Even though we have succeeded in changing a number of conditions and structures in several investment agreements, we have not yet reached our goal. The more we form a united front on setting standards for responsible tax practices, the more impactful we will be.

Therefore, together with a number of Denmark's largest investors, ATP has established a common Tax Code of Conduct outlining the expectations for the tax practices of external asset managers.

Initially, Industriens Pension, PensionDanmark and PFA Pension joined ATP in adopting the common Tax Code of Conduct in 2019. Since then, the number of participants has expanded significantly. In 2020, an additional seven pension companies adopted the code, followed by six Danish foundations and associations in 2021.

If enough investors set standards for responsible tax practices, it will limit the possibilities of market actors who do not want to align their tax practices to the standards set by ATP and other responsible investors.

Finally, the common tax principles encourage a process of continuous learning and knowledge-sharing between the group of investors. Tax on investments is a complex and resource-intensive area, and tax regulations and societal norms develop over time. At ATP, we are continuously monitoring new developments in this area and adapting our efforts accordingly.

ATP CONTRIBUTES TO BEST PRACTICE

ATP is a regular participant in a number of national and international forums in which we inform others of our tax policy and the experiences we have gained. The reason why this is important is that it allows us to engage in dialogue with investors, asset managers and advisors on our experiences with responsible tax practices and share our view on what best practice in this area entails.

We are thrilled that more investors have signed up for our Tax Code of Conduct in 2020. We have more power to impact developments when we stand together as investors. With these shared tax principles, we have gained even more power.

Bo Foged, CEO

The common Tax Code of Conduct

The common Tax Code of Conduct covers six areas and outlines the expectations for external asset managers and investors.

Expectations for external asset managers
Investors expect that external asset managers do their best to ensure compliance with tax legislation in the countries where investments are made and that this includes taking into account future developments in tax legislation and international initiatives.

Tax planning
Investors are obliged to effectively manage investments, and therefore they expect that external asset managers apply an acceptable level of tax planning for the purposes of limiting double taxation for investors and ensuring fair competition. Aggressive tax planning, which takes advantage of technicalities in the tax legislation or inconsistencies between different tax systems is not acceptable.

Blacklisted countries
The investors behind the Tax Code of Conduct support increased transparency and the international initiatives that are working towards this under the auspices of the EU and the OECD. Therefore, the investors expect that external asset managers are not investing in companies that are based in countries that are on the EU's blacklist or which do not meet the requirements in the OECD's peer review for tax transparency.

Investments in developing countries
The investors recognise that governments, particularly in developing countries, can use tax incentives as part of their development policy, but external asset managers are encouraged to be cautious when using these - for example, by being cautious about using shareholder loans that can be used to decrease the taxable income.

Transparency and dialogue
The investors expect that external asset managers should be transparent in their approach to taxes and also be willing to enter into a constructive dialogue with the investors about taxes, including providing the investors with access so that they can perform spot checks of the tax matters for the investment.

Future development
The investors behind the Tax Code of Conduct are continually monitoring the developments in the area and entering into active dialogues with other investors and asset managers about it as well. The Tax Code of Conduct will be updated on an ongoing basis if developments require it.

Companies' tax policy should be company-specific

In 2020, ATP took a new step in our dialogue on tax with Danish companies. Previously, tax matters have been covered in our general and ongoing dialogue with Danish companies, but based on our aim to increase awareness about companies' tax practices, we chose to engage in focused tax dialogues with the heads of tax at the biggest companies in Denmark.

Over the past few years, we have seen several examples of companies that have been the object of negative coverage due to tax controversies. Aside from the fact that there are societal consequences to companies not paying the taxes they should, it can also affect them negatively in the form of fines as well as legal cases that can draw the management's focus away from other matters while also making them the source of negative publicity, warranted or otherwise.

We regard aggressive tax practices as an investment risk that does not contribute to long-term value creation. Norms in the field of taxation change over time and result in frequent regulatory changes aimed at combating aggressive tax conduct. Accordingly, it is necessary to maintain a constant focus on tax matters.

Tax policies among companies kicked off in earnest around 8-10 years ago, where several companies began to formulate relatively basic tax policies that read more as declarations of intent on tax practices. However, one of the things we have noted over the course of several years now is that many companies continue to have generic tax policies that do not specifically address the particular challenges they face, failing also to provide specific information about how they work with tax.

Therefore, we have had three primary items on the agenda in our dialogue with companies:

1. A company's tax policy should reflect that specific company's circumstances relating to tax. It should be clear whether a company is working with medicine or industrial products.

2. Companies ought to operate according to the intention of tax legislation and not just the wording. Aggressive tax conduct not only poses a reputational risk, but also a financial risk in the long term. Companies should also consider expected developments in tax legislation and international initiatives relating to tax. ATP encourages companies to strive to clear up any important ambiguities with tax authorities where possible.

3. We would like to see greater transparency in how companies work with responsible tax policies, e.g. in their annual reports, investor communication, etc., and they should explain via concrete examples how they have implemented and worked with their tax policy.

Generally, we have found that companies - and their heads of tax - have welcomed the dialogue and expressed understanding for our wish for them to adopt more specific policies and communication. Several companies have responded positively to this dialogue and have already had similar thoughts prior to us contacting them, and others have also adapted their tax policies following their dialogue with ATP. Similarly, we have benefited greatly from having focused dialogues with the companies' heads of tax, who have improved our understanding of how tax issues are managed in the Danish companies ATP has invested in.

INTERNATIONAL COOPERATION ON TAXATION OF FOREIGN COMPANIES

At ATP, we regularly strive to have a dialogue on tax with the companies we are invested in. In recent years, we at ATP have had a focus on companies' tax conduct through several different initiatives. In practice, this means that we have engaged in dialogues on tax matters, both on our own and through communities with other investors. Our collaboration with other investors can entail working through formal organisations as well as more information partnerships. For example, a few years ago we took part in a tax-related collaboration via the organisation PRI. In 2020, we have focused on informal collaborations, which has included holding meetings with large international companies alongside like-minded international investors. These collaborations allows us better access to dialogue, as we collectively represent a major proportion of the companies' shareholders.

FOCUS ON C25 COMPANIES' TAX POLICIES

As part of our focus on tax, we have reviewed the tax policies of every company listed on the C25 index over the course of 2020. We also entered into a dialogue with a number of our portfolio companies on their tax-related efforts. In general, we encountered a lot of enthusiasm from the companies to meet with us and listen to what we had to say.

In order to lend some structure to our efforts, we employ three overarching categories that allow us to establish how far a company has come with its tax policies.

The best:
There are a few companies that stand out positively by having taken particularly large strides on the issue of tax. What these companies have in common is an up-to-date tax policy that is extensive and tailored to the individual company. Their tax policies are also well-integrated into the organisational working processes, which helps ensure consistent compliance with the policy. Finally, these companies have proactive and responsible tax practices, ensuring that they will remain on top of developments in this area.

On the way:
The majority of companies in the C25 index have a tax policy that lives up to the most basic expectations in terms of content. In general, however, the tax policies for companies in this category are very generic. These companies can benefit from a greater focus on their tax policies, which would put them in a better position as developments occur in the area of tax. Based on our dialogue with the companies, it is our clear impression that they are making good progress and willing to raise the priority on efforts in this area.

Action required:
Our initial review of the C25 companies found that the tax policies of some companies either lacked substance or were simply non-existent. Following our dialogue with those companies, we have already now seen some of them releasing new tax policies, while others have assured us that they are working on improving their tax practices. We expect that all the companies in this category will set clear ambitions to improve their tax practices in the near future.

Five questions for ATP's Tax Director

Lars Toft, Tax Director at ATP

1. WHAT HAVE YOU FOCUSED ON IN PARTICULAR IN 2020?

Over the past few years, we have had a growing focus on randomly reviewing and inspecting that our existing investments live up to our expectations and requirements relating to tax. This has definitely also been the case over the course of 2020, where we had nine focused tax dialogues as well as more than 15 theme-specific dialogues, e.g. in association with the Cayman Islands' brief appearance on the EU's blacklist. The aim is to ensure that our investments are set up in accordance with agreements we have made with our external asset managers and co-investors and to make necessary considerations for future changes to legislation and established case law. It's about ensuring that our investments do not make use of aggressive tax planning as well as making sure that we at ATP pay the right amount of tax - not too much nor too little.

2. WHAT HAVE BEEN THE MOST POSITIVE DEVELOPMENTS IN THE AREA OF TAX IN 2020?

That would be the growing number of participants in the Tax Code of Conduct that ATP has developed in collaboration with PFA Pension, Industriens Pension and PensionDanmark. The code contains principles and recommendations for responsible tax practices in relation to unlisted investments through external asset managers. At the start of the year, seven pension funds adopted the code of conduct, along with six foundations and associations at the end of 2020. We are thrilled that a growing number of investors are adopting the principles and joining us in the fight to prevent aggressive tax planning and encourage transparent tax practices. The more investors stand together, the better our chances of influencing developments.

3. WHAT'S THE NEXT BIG UNDERTAKING?

Here at the start of 2021, DAC6 is taking up a lot of our attention. The DAC6 rules, also known as mandatory disclosure rules, are a coordinated set of EU rules aimed at combating aggressive tax planning. This strategy is to require actors such as asset managers, advisors and investors to report certain transactions that have one or several characteristics that could be indicative of aggressive tax planning. Among other things, the rules require that we add a screening for a DAC6 reporting obligation to our existing investment processes, and that we review several of our existing investments. Screening for potential reporting obligations and compliance with those obligations will continue to be a focus point in the random checks we carry out among our external asset managers.

4. WHAT ELSE WILL BE IN FOCUS IN 2021?

We want to increase our focus on tax matters in our listed investments. We have already begun requesting special, separate meetings with the major Danish companies, and we have also previously had dialogues with foreign companies, e.g. via a special survey within the pharmaceutical sector. It is therefore not an entirely unfamiliar topic to us, but we definitely have more to learn. At the same time, we see more investors beginning to take an interest in the topic. This pushes developments in the right direction, and it also motivates companies to become better at communicating more proactively about their tax conduct.

5. WHAT'S THE NEXT BIG TOPIC IN THE WORLD OF TAX?

The OECD and G20's Inclusive Framework, which covers more than 130 countries, has kicked off a major process aimed at finding internationally coordinated solutions to handling the tax-related challenges resulting from digitisation. These efforts can be divided into two components. One part is about agreeing on principles for how the taxation competences between countries should be determined; for instance, should a tech company pay taxes in its home country or where the user lives? The other part is about establishing a global standard for effective minimum taxation. We are monitoring both of these efforts. Given the broad participation in that project, it has the potential to result in major, global changes.