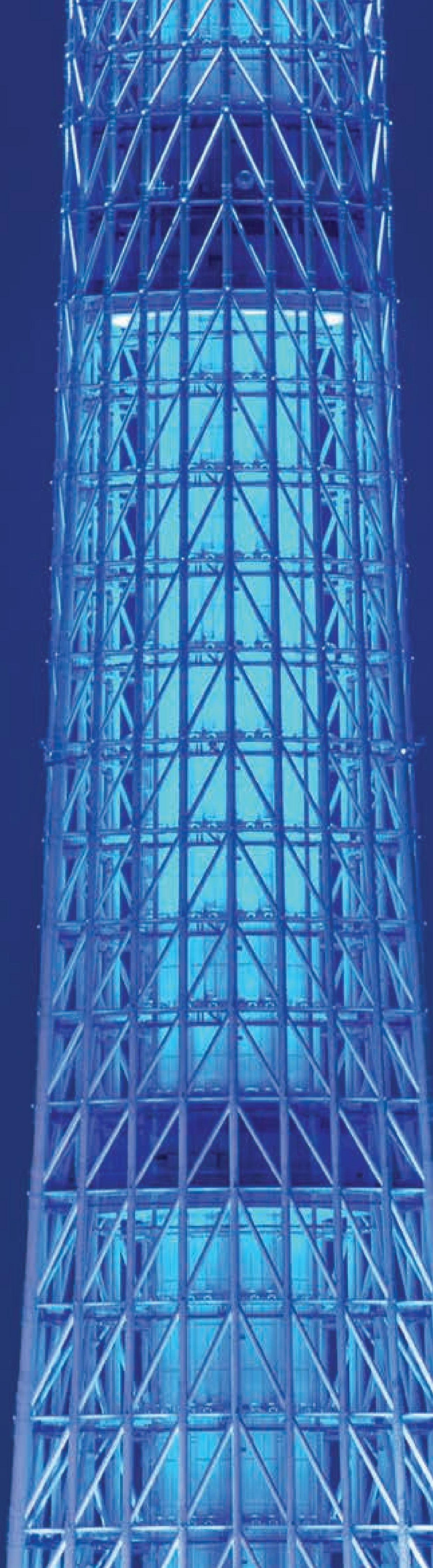
Sovereign wealth and pension investors — navigating the global tax environment



2016

KPMG International

Introduction

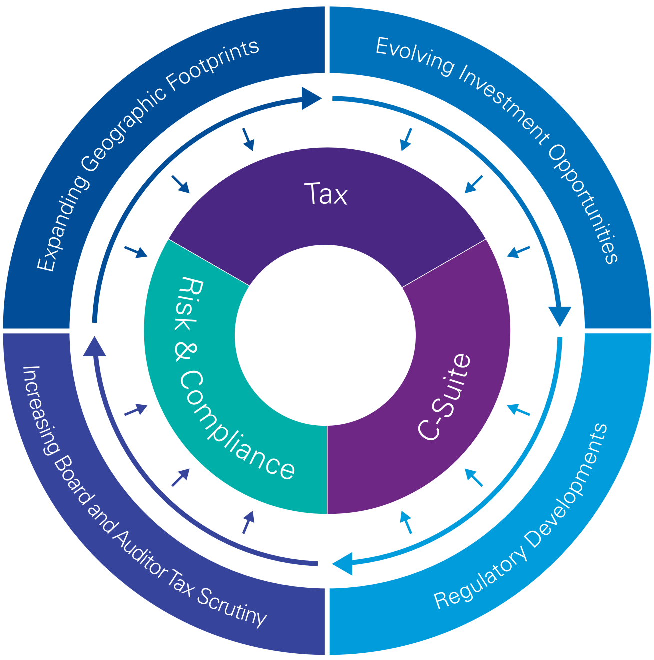
A changing investment landscape

In today's complex and competitive investment environment, pension funds and sovereign wealth funds (SWFs) are being asked to look harder and farther to find higher yields. To meet this challenge, managers are leaving few stones unturned. Emerging markets, especially those in high-growth countries, are increasingly on the itinerary. Alternative investments, in the form of infrastructure, real estate, private equity and private debt are becoming core to many allocation strategies. New structures such as funds of one, co-invests and directs are being explored. And partnerships are being formed with a wide variety of counterparties and participants.

As this new paradigm continues to take shape, a separate but parallel development is taking place in the international tax community. Governments around the world, eager to reduce deficit and debt after years of stimulus spending, are changing their behavior, too. They are taking advantage of public sentiment on tax morality and turning to tax reform to help determine that companies (especially multinationals) pay their fair share of taxes into the depleted national coffers. At the same time, these cash-strapped governments are looking to the private sector to help fund and build much-needed capacity in areas such as infrastructure, health care, and social services.

The resulting investment landscape is not always familiar, nor always stable. Tax risks are very real, and understanding, managing, and capitalizing on risks has never been more important. Governments and tax authorities, spurred by high-profile cases of tax avoidance, are rushing to reform.

KPMG's global network of member firms can provide a specific, tailored approach to sovereign investors for their next investment that truly adds value.
I encourage you to read on to find out how.



Source: KPMG International 2016

David Neuenhaus
KPMG's Global Head of Sovereign Wealth and Pension Funds Tax network

Teaming with you — KPMG's distinctive global capability

KPMG member firms are some of the leading tax advisers to sovereign and pension investors in their key markets, with the capability to assist sovereign investors in their next strategic investment.

They understand the sovereign and pension investor industry, key drivers for investment and how these factors can effect an investor's tax position.

- Not all investments or investors are the same. Some investors are passive portfolio investors, others take controlling interests. Some prefer infrastructure or property assets while others invest in more diverse industries ranging from transportation to banking.
- KPMG's member firms work with you to understand you and your investment profile and can provide commercially relevant tax and business insights into your next investment.

Working with you through your investment lifecycle

KPMG member firms understand that sovereign and pension investor risk parameters are different than a typical corporate investor.

They provide specialized technical service and advice, and provide a dedicated team who understands the bigger picture. For example, the impact of local sensitivities associated with foreign sovereign and pension investors.

A strong international network is ready to serve you.

- KPMG firms have dedicated teams throughout the world that can assist in managing the intricacies in implementing cross-border structures.

Strategy | **Execution** | **Post-completion**

Investment management

Strategy
- Policy and legislation
- Market creation
- Market entry
- Thought leadership
- Strategic planning
- Project screening
- Risk identification and allocation

Execution

Deal structure
- Feasibility and business case
- Procurement documentation (RFI, RFQ, RFP)
- Financial modeling
- Due diligence

Deal execution
- Bid evaluation
- Bid submission
- Negotiation
- Funding and financing
- Deal structuring

Deal closure
- Complete negotiations
- Commercial and financial close

Post-completion
- Refinancing
- Restructuring
- Post transaction
- Exit strategy
- Compliance

Source: KPMG International 2016

- KPMG teams understand your business and work together at both a local and international level to deliver leading advice for your business.
- They understand that sovereign and pension investors may co-invest with other investors such as private equity, hedge funds or other sovereign funds.
- They are able to bring insight into planning tax efficient structures for all parties involved.
- They provide tax services for the principal government pension plans and sovereign funds in key markets including:
  - Europe
  - North America
  - The Middle East
  - Australia
  - China
  - Singapore
- They provide tailored tax and financial due diligence services.
- They deliver due diligence that is specifically scoped to a client's needs, taking into account a target's investment size and the risk associated with the investment. Services are scalable, should further due diligence be required as a deal progresses.

KPMG professionals strive to be leaders in everything they do, to turn their experience and industry knowledge into real value for clients.

We provide advice on complex capital structures that suit both the sovereign and pension investor and its target.

We work closely with existing key contacts within local tax authorities in an effort to deliver assurance over the tax structure and tax advice provided to you.

- They can assist sovereign and pension investors to obtain a ruling from the local tax authorities (where permitted in the country of investment) for their investment.
- They have contributed to and continue to be part of the consultative process with governments in the development of legislation and policy governing taxation.

Other tailored services are available to suit you, including 'health check' plans for your investments, financial and pensions due diligence, audit services, project management services and advisory services.

KPMG professionals understand the tax issues investors' face.

While many sovereign and pension investors are generally tax exempt in their home jurisdiction, the taxation of such investors and/or their income stream in foreign jurisdictions is rarely straightforward. KPMG firms can assist a sovereign investor navigate their way through foreign investments to enhance their financial return with an efficient and ethical approach.

Some questions that sovereign and pension investors should consider

Which jurisdiction will I be investing in?

What is the business that I am investing in? Does my investment involve real property?

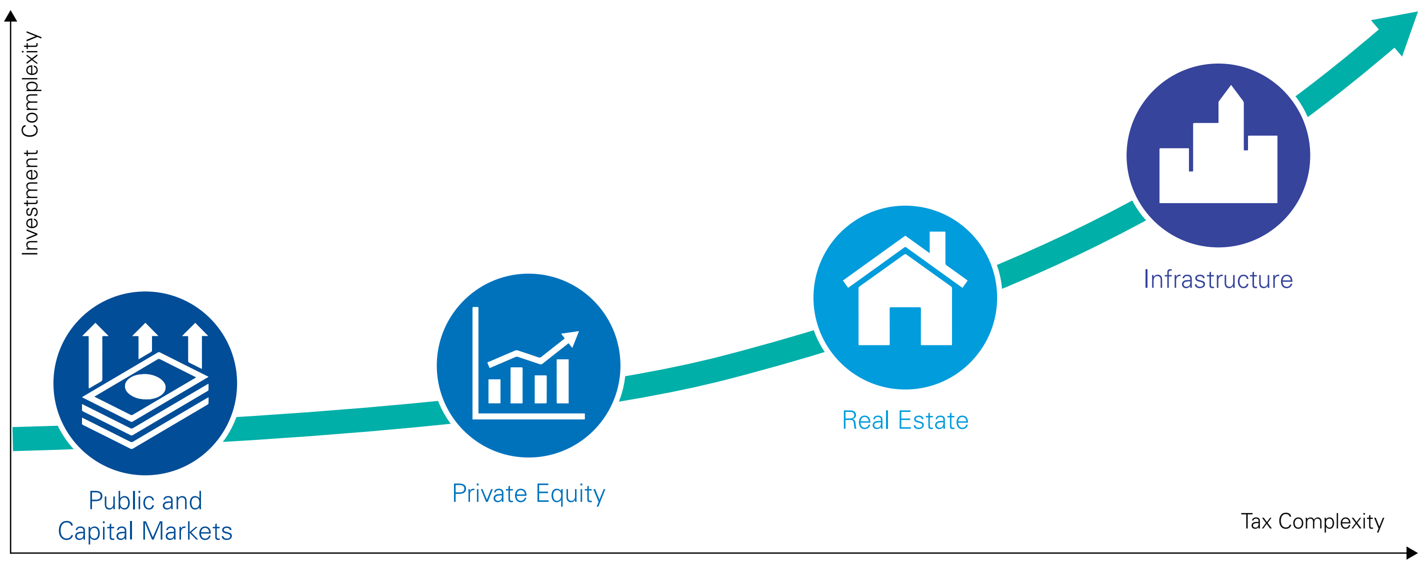
With whom am I investing? Can my co-investors and I achieve our differing financial objectives?

Does sovereign immunity apply to the taxation of my foreign investment and what criteria need to be met?

To what income does sovereign immunity apply? Are there limitations?

What foreign withholding taxes apply if sovereign immunity is not available for my investment?

Are there any local anti-avoidance rules that should be considered as part of my investment structure?



Source: KPMG International 2016

KPMG's approach

KPMG member firm professionals can help you navigate this complexity, providing advice that is tailored to your business, your strategic objectives and the nature of the opportunity at hand.

Public markets

- KPMG's member firm professionals can assist clients with establishing a reporting arrangement with custodian banks to expedite the process and minimize the timelines for repatriation of funds. Working with clients and custodians, KPMG professionals can:
  - compute the amount of gain on equity and debt securities and issue certificates to the local custodian confirming tax liability or absence thereof, depending on the application of a relevant tax treaty
  - compute and certify the tax liability or absence thereof on interest/dividends
  - prepare and file tax returns as appropriate.
- These services can be provided on a trade-by-trade, weekly, monthly or quarterly basis, depending on volume of activity and repatriation/reinvestment requirements.

Co-investment

- KPMG's Sovereign Wealth and Pension Fund team's view of the market and leading practices for managing tax risks can provide investors with a clear understanding of the local tax risks and provide information to encourage fund managers to maintain leading practices to help mitigate that risk. In addition, KPMG member firms maintain close ties to the local tax authorities to help determine that clients are kept abreast of and can provide input into the development of tax regulations and administrative practices.

Direct investing

- KPMG's Sovereign Wealth and Pension Fund practice has tailored its conventional services to focus on and anticipate the particular requirements of sovereign and pension investors. Working with investment teams, client support groups (operations and finance) and other advisors, KPMG teams pace transaction work to help minimize the potential impact of failed deal costs and help determine that clients are fully informed of the opportunities, issues and risks on a timely basis.
- Due diligence work is tailored to provide frequent "red flag" reporting and coordinate the timing, nature and extent of work to suit the circumstances and control costs. Reports can provide plain language practical views on risks, issues mitigation strategies — keeping pace with and informing the transaction process.

Case studies

A government pension plan's (GPP) investment in Asia Pacific

One of our member firms provided tax due diligence and tax structuring services to a North American GPP who took a portfolio interest in an Asia Pacific-based infrastructure group.

Due diligence services were structured in two phases:

— ***1st phase:*** to provide the client with an overview of the material tax and commercial risks associated with their investment.

— ***2nd phase:*** further examination of the tax consequences arising from a high-risk cross-border debt financing arrangement to determine the likelihood of exposure to deny the deductibility of interest by local tax authorities.

The KPMG team provided strategic and commercial advice for a tax structure for the client's investment in the infrastructure group and successfully sought clearance from the tax authorities that the sovereign immunity principle would apply to interest and dividend income streams from its investment.

A sovereign wealth fund's investment in a European trading company

One of our member firms assisted a Middle Eastern sovereign wealth fund acquire a 100 percent stake in a European chemical manufacturer via a Luxembourg holding structure.

The structure was designed to be Sharia compliant for the Middle Eastern investor in respect of instruments used to fund the investment into the Luxembourg holding company.

The KPMG team successfully obtained private tax rulings in Luxembourg and other European jurisdictions providing clarity over the taxation treatment of dividend and interest receipts, the deductibility of interest to shield taxable profits of the underlying companies and the tax consequences associated with future refinancing and exit planning.

They are continuing to work on refining the tax profile of the group including providing transfer pricing services within the group's pan-European operations.

The KPMG difference

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 155 countries and have more than 174,000 people working in member firms around the world. KPMG's global tax practice is made up of more than 27,000 professionals based all over the world, who can think beyond the present and beyond borders to help create and deliver long-lasting value for clients.

Notes

Notes

Contact us

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Designed by Evalueserve.

Publication name: Sovereign wealth and pension investors — navigating the global tax environment
Publication number: 133714-G
Publication date: July 2016