ROYAL LONDON

ASSET MANAGEMENT

The subject of corporate responsibility and tax compliance continues to be a high profile issue for companies and investors. At RLAM, we believe that tax can be managed in a responsible way, and still be good for business. It is for this reason that we treat tax strategy of the companies that we invest in, in the same way that we treat all material investment issues: by ensuring the companies we invest our clients' money in are enacting a strategy that is in their best interests.

We believe that current tax legislation is ill-equipped to deal with an increasingly globalised business environment. This is a key driver of the prevailing lack of consensus between governments, investors, campaigners and companies. This divergence of stakeholder expectations is the source of uncertainty, media scrutiny and potential risk - reputational, regulatory and financial.

In formulating this position, we have considered a variety of stakeholders – those outside the business who place demands on it, and those from inside our business, to whom we have a fiduciary duty. We have taken a real-life view of the differences between a proactive and an aggressive tax policy, and what the implications for each different set of stakeholders are.

OUR EXPECTATIONS REGARDING TAX STRATEGY

RLAM believes that the board retains ultimate responsibility for maintaining an appropriate balance between returning long term value to shareholders and managing reputational and legal requirements. When we apply these beliefs to tax, we see it as a responsibility of the board to strike an appropriate balance between the financial benefits of reducing tax expense, any heightened reputational and regulatory risk, and fairness to the society in which the company operates.

We engage meaningfully on strategy with all the companies that we invest in. We expect companies to be prepared for tax strategy to be part of this engagement. We need to be able to assess the extent to which profits would be impacted, in the event of tax legislation changing, and to be reassured that management have a realistic view of all the stakeholders in the taxation debate.

In order to do this, we expect two things:

- Transparency with respect to tax **strategy** – including accountability, risk mitigation and frequency of review.
- Transparency relating to tax **reporting** – including transparency of tax policy, sufficient information on tax liability and payments, including open discussion about any prior year's tax liabilities that are yet to be settled.

We see engagement as our primary lever if we believe tax strategy to be problematic or in cases where a company is engaged in ongoing litigation. We routinely meet with management and company directors to discuss strategy, risk management, governance and sustainability. This engagement positions us favourably to conduct meaningful discussions on tax. We advocate for reform in markets and regulation consistent with our clients' interests in a sustainable and fair economy.

SUSTAINABLE FUNDS

For our Sustainable funds range, which invest in companies making a net positive contribution to society, our approach is taken a step further: we believe that tax should be considered as part of our investment process and where bad practice is evident it should influence our view on the suitability of a potential investment.

Our screening criteria for inclusion in our Sustainable funds are that companies should be net contributors to solving social and environmental challenges. We believe that the most effective analysis is a holistic one – we take into account broader economic considerations, and the welfare of all stakeholders: customers, staff, and the communities in which a company operates. We appraise tax in this light, by considering whether a particular strategy would render the company in question a net detractor of value to society.

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