



What the growth of Sovereign Wealth Funds means for investors, financiers, and fund managers

20 November, 2008

TAX

Outline of presentation

- **Who are the new investors and why are they different?**
- **Panel discussions:**
 - **What issues are relevant to different classes of investors?**
 - **What are country relevant tax issues for the different investors?**

The changing landscape

- The last few months have seen
 - Share price volatility without parallel
 - Government investment in Banks throughout Europe and the US
 - Hedge Funds closing positions on global investments
 - A liquidity and credit crisis without parallel since the end of WW II
- In a buyers market, there are opportunities for entities that do not require funding from financial intermediaries

What new investors have been active?

- Sovereign Wealth Funds
 - State owned investment funds
 - Largest is Abu Dhabi Investment Authority (US\$875b of assets)
 - 10 largest SWF each have at least US\$100b of assets
 - Issues in relation to transparency and national security concerns
- Government Pension Funds
 - Japanese Government Pension Fund > US\$1 trillion of assets
 - North America alone has 10 Government sponsored pension plans with at least \$100b of assets each
 - Recent headlines....OTPP, CPPIB, CalPERS, etc

Panel Discussion

The changing Face of M&A Players

Moderator

Peter Poulos, KPMG M&A Tax

Panel Introductions

Ashish Shastry, Head of Singapore, TPG Capital

Mike Smith, SWF advisor, KPMG

Stuart Whipp, Global Head of Tax, AWB

Christian Janisch, Global Head of M&A Tax, KPMG

Panel Discussion

Changing investors...changing tax issues?

Moderator

Justin Davis, KPMG in Australia

Panel Introductions

Duncan Adrain – KPMG Japan

Leonard Ong - KPMG Singapore

John Lee – KPMG China



Outline KPMG tax panel discussion

- What different tax consequences arise in Australia, China, Japan and Singapore where foreign investor is:
 - Sovereign Wealth Fund;
 - Government Pension Plan;
 - PE Fund; and
 - Corporate
- Invest in:
 - A real property or infrastructure owning entity which holds as its principal assets a real property interest either by free hold or lease hold
 - A trading company that does not hold real property interests

Is there a principle of sovereign immunity?

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| Australia | <ul style="list-style-type: none">● Yes, Australian Taxation Office Interpretative Decision in 2002● Private tax rulings issued to different SWF● Applies to wholly owned enterprises of foreign governments |
| China | <ul style="list-style-type: none">● No exemption provided under domestic law● Treaty relief for certain interest income● SWFs generally subject to China tax like any foreign investors |
| Japan | <ul style="list-style-type: none">● No exemption provided under domestic law● Treaty relief available on interest withholding tax for certain entities● SWFs generally taxed in line with other foreign fund investors |
| Singapore | <ul style="list-style-type: none">● No sovereign immunity provided for under domestic law● Some tax treaties provide for exemption on certain income● SWFs generally subject to Singapore tax like any other investor |

How are foreign government pension funds taxed?

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| Australia | <ul style="list-style-type: none">● Depends on type of fund (eg. OTPP v CPPIB)● Statutory WHT exemptions for foreign superannuation funds● Operation of sovereign immunity |
| China | <ul style="list-style-type: none">● No specific exemptions unless protected under tax treaty |
| Japan | <ul style="list-style-type: none">● No exemption provided under domestic law● Recent tax treaty trend towards inclusion of specific pension fund provisions |
| Singapore | <ul style="list-style-type: none">● No specific exemptions unless protected under tax treaty |

What are the differences in taxation consequences between a PE Fund and an ordinary corporate investor?

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| Australia | <ul style="list-style-type: none">● Depends whether investment on revenue or capital account● Non-resident CGT exemption and Treaty protection● MIT provisions (30% v 7.5% withhold, EOI requirement) |
| China | <ul style="list-style-type: none">● PE funds do not receive special tax benefits● The structure depends on the nature of underlying investment and future exit strategies |
| Japan | <ul style="list-style-type: none">● Fund investment potentially more likely to fall within Japanese tax net on capital gains● Impact of fund structure on tax treaty benefits |
| Singapore | <ul style="list-style-type: none">● Under the qualifying fund regime, specified income are exempt● Non-qualifying funds and other corporate investors are subject to tax |

If a consortium of investors including SWF, GPP, PE Funds and corporates bid for a real estate or infrastructure asset what tax considerations arise?

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|------------------|---|
| Australia | <ul style="list-style-type: none">● Trust or stapled trust investment structure is typically used for real estate and infrastructure investment● MIT rules will impact individual investor structure● Non-resident capital gains tax exposure |
| China | <ul style="list-style-type: none">● Real estate investments are tightly controlled● Require the investment to be made via a PRC legal entity● Special debt/equity rules apply to real estate companies |
| Japan | <ul style="list-style-type: none">● Tax efficient TMK and TK investment structures typically used for inward real estate investment |
| Singapore | <ul style="list-style-type: none">● Qualifying fund regime allow for exemption on specified income● Listed REIT structure allows for tax transparency and reduced rate of withholding for non-resident non-individual investors |

If a consortium of investors including SWF, GPP, PE Funds and corporates bid for a trading company what tax considerations arise?

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|------------------|---|
| Australia | <ul style="list-style-type: none">● Use of onshore CIV should provide greater flexibility for individual tax planning● Revenue v capital investment (CGT and treaty considerations) |
| China | <ul style="list-style-type: none">● No special treatment● Treaty shopping to reduce withholding tax on dividends and capital gains |
| Japan | <ul style="list-style-type: none">● Capital gains and treaty issues for collective investment vehicle as with PE fund investment above● Acquisition debt push down |
| Singapore | <ul style="list-style-type: none">● No difference in Singapore tax treatment for SWF, GPP, PE Funds and corporates for direct investment● Use of intermediate holding vehicle for indirect investment possible |

Concluding comments...

- Sovereign investors are cashed up and looking for opportunities
- With the exception of Australia, currently no specific tax concessions for sovereign investment in China, Japan and Singapore
- For tax planning purposes is still a question of
 - Who are the investors
 - Where is the investment
 - What is the investment
 - Plus...retain flexibility for future changes

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