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2025 Asia Pacific Financial Services Tax Conference

Sovereign Wealth Funds in Asia Pacific

MAKING AN IMPACT THAT MATTERS since 1845

Speakers

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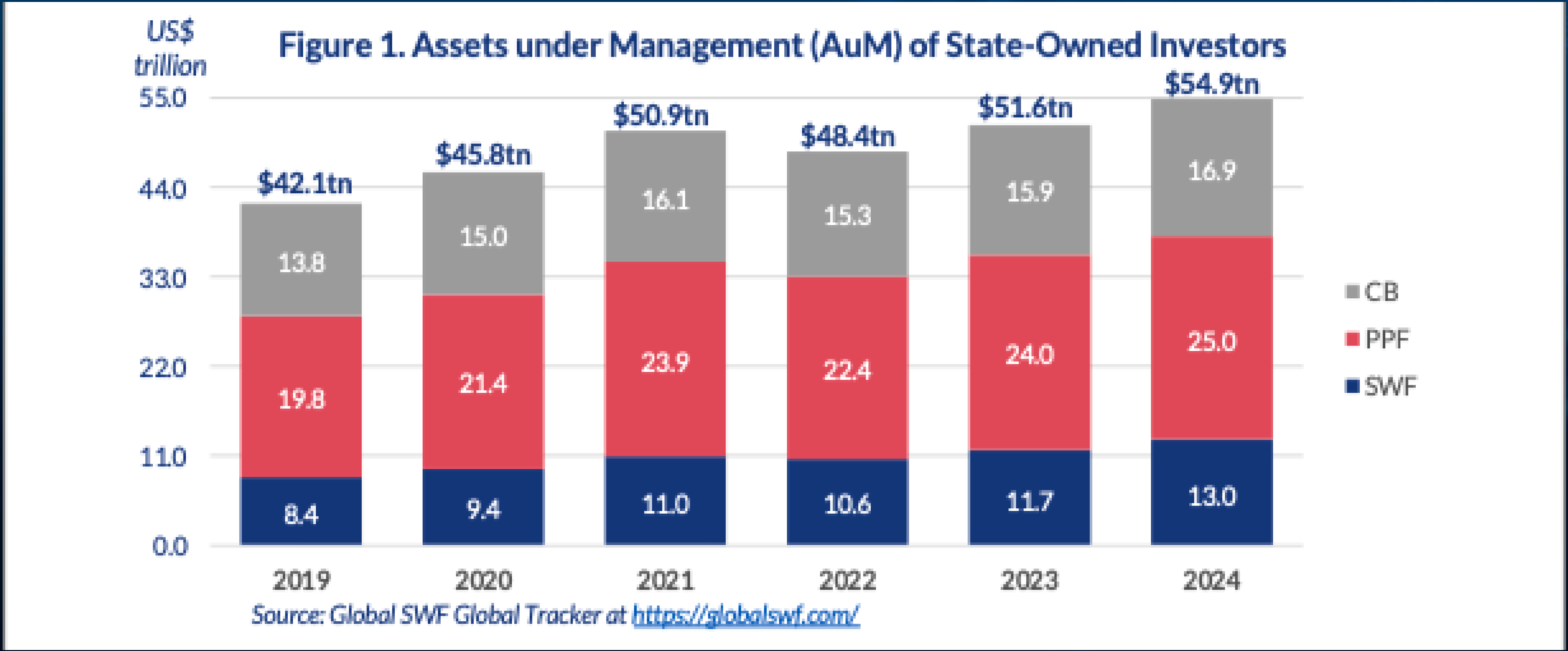
Overview of Sovereign Wealth Funds



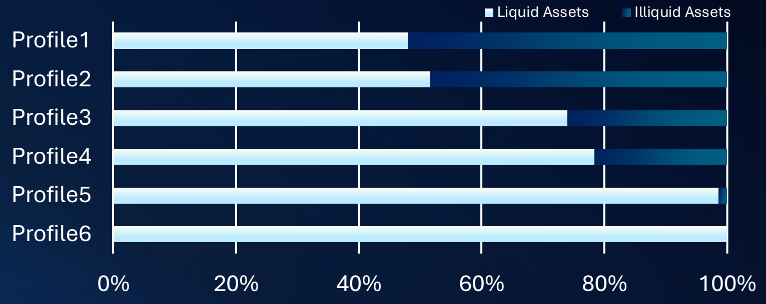
Europe

Country tax updates

Latest trend of Asian SWFs into alternative assets and global allocation

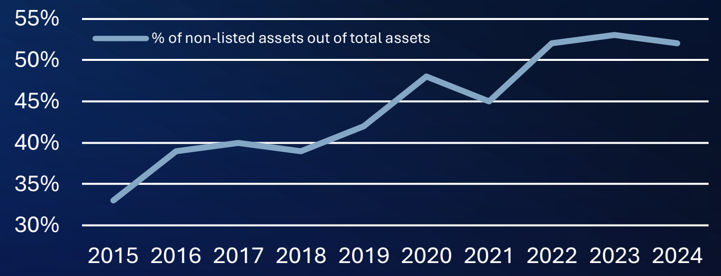
The trends of Asian SWFs in Alternatives

Currently most Asian SWFs hold predominantly liquid assets



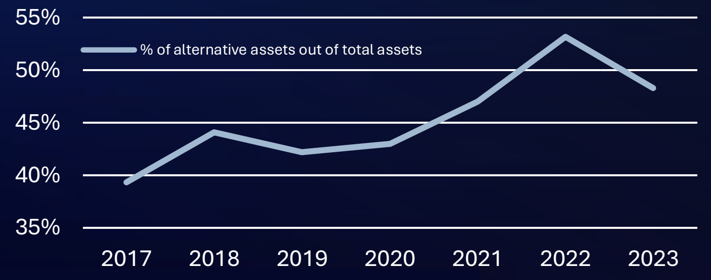
Source: Annual Reports

But we witness a strong growth in SWF's appetite for alternative Assets, such as Profile1….



Source: Annual Reports

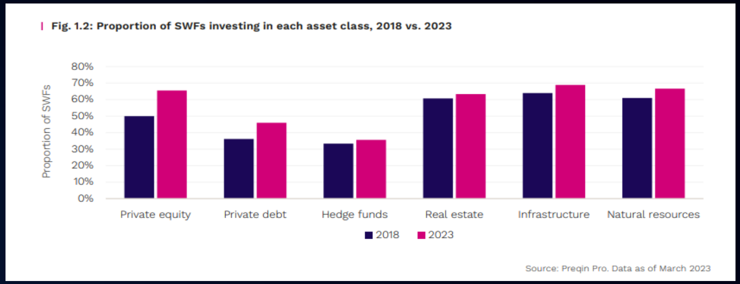
And Profile2…



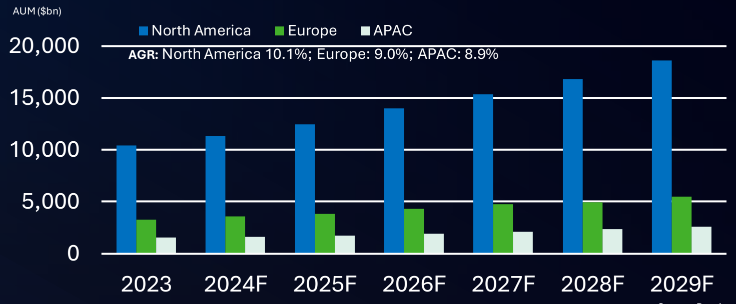
Source: Annual Reports

Follow the global trend to find opportunities

The growth in SWF's investment in Alternative Assets is a global trend

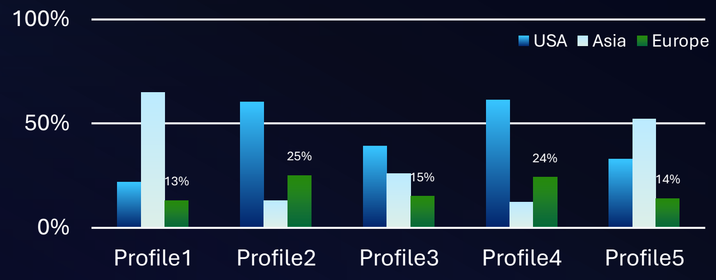


From a global perspective, the AuM for Alternative Assets keeps rising



Source: Preqin

for Asian SWFs European allocation remains in a range of +10pc – 25%

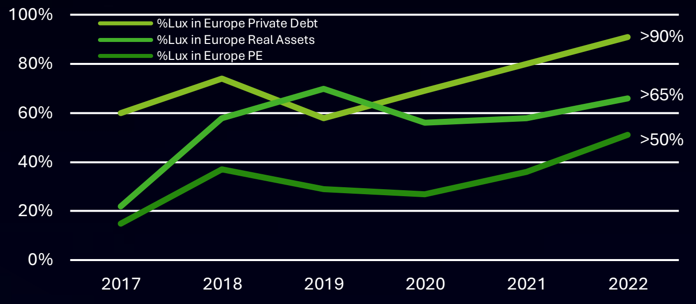


Source: Annual Reports

Note: P2 only discloses its distribution of the public equity, category EU data is the data for" Other developed economies"; Category USA also includes other North America Countries For P4; Category USA also includes other American Countries for P1

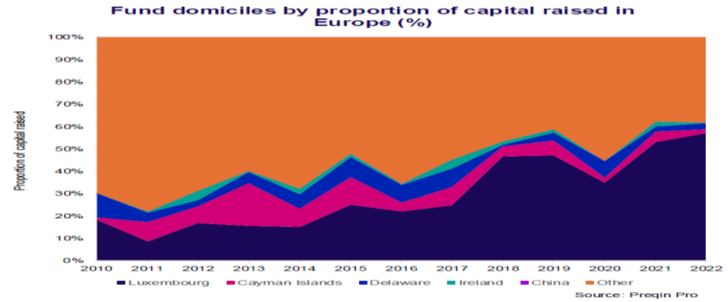
Luxembourg is a key hub for investments opportunities

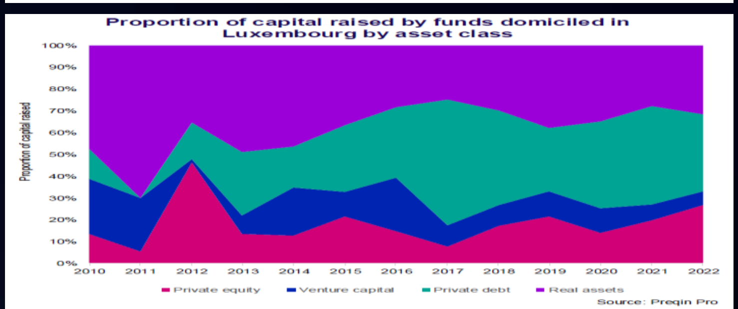
Luxembourg as a strategic gateway for EU alternatives



Source: Preqin

Luxembourg dominates the European investment fund market





Over the last decade, Asian SWFs have been active in Europe

Sovereign fund

Singapore sovereign wealth fund targets European investments

Temasek looking for bu

INDUSTRY NEWS

GIC Is Largest Nondomestic Buyer in Europe

Investing

China's sovereign fund may give 'indirect' support to Europe

China's sovereign wealth fund may give "indirect" support to Europe through investments without being the nation's main route for any aid, said Jesse Wang, the executive vice president of China Investment Corp.

Bloomberg N

Published Nov

China sovereign fund CIC looking to boost investments in Europe

By Reuters

July 11, 2018 11:39 AM GMT+2 · Update

CIC's €1.5bn European bet is latest in string of bilateral fund tie-ups

Eurazeo China Growth Fund will be sector agr that want to tap China's growing middle-class

GROWTH STOCKS

Temasek Holdings is Setting its Sights on Europe: Should You Follow Suit?

In April, Temasek Holdings announced the opening of its Paris office, marking an increased commitment to Europe. Could Europe be an interesting investment venue for investors?

BNP Paribas, China Investment Corporation ("CIC") and Eurazeo are pleased to announce the launch of the France-China Cooperation Fund with the first close for

INVESTORS

KIC to expand real estate footprint in Europe

Singapore's Temasek seeks deals in US and Europe

The giant SWF is looking to bulk up its portfolio in the US and Europe, despite persistent uncertainty over the health of their economies

By The Wall Street Journal

Japan's New Investment Boom into Nordic Tech

Silk Road Fund, European Investment Fund sign MOU

Temasek Steps Up Commitment in Europe with Opening of Paris Office

China Investment Corporation teams up with European investors on PE fund

By Cecile Sourbes. | 3 May 2012

Singapore's Temasek opens Paris office, plans to invest S$25 billion in Europe

GIC, MEAG pump €1.4bn into European data center platform

The Singaporean sovereign wealth fund and German reinsurer have separately invested billions in the asset class in recent months.

Singapore's GIC invested more than any other sovereign wealth fund into European startups in 2024

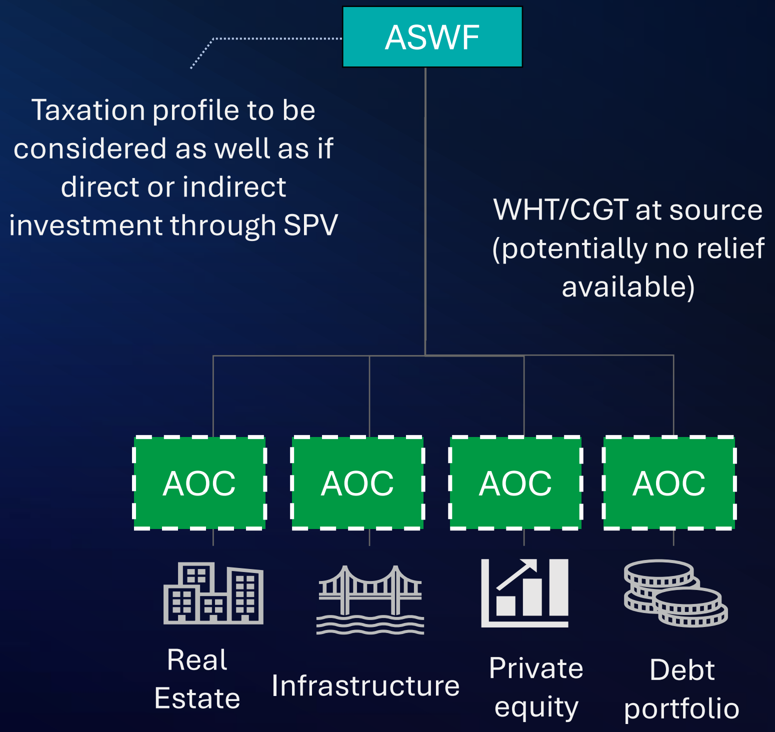
GIC put $1.9bn into European startups in 2024

Key structuring alternatives for investments into EU

Option 1

Trends/tax considerations

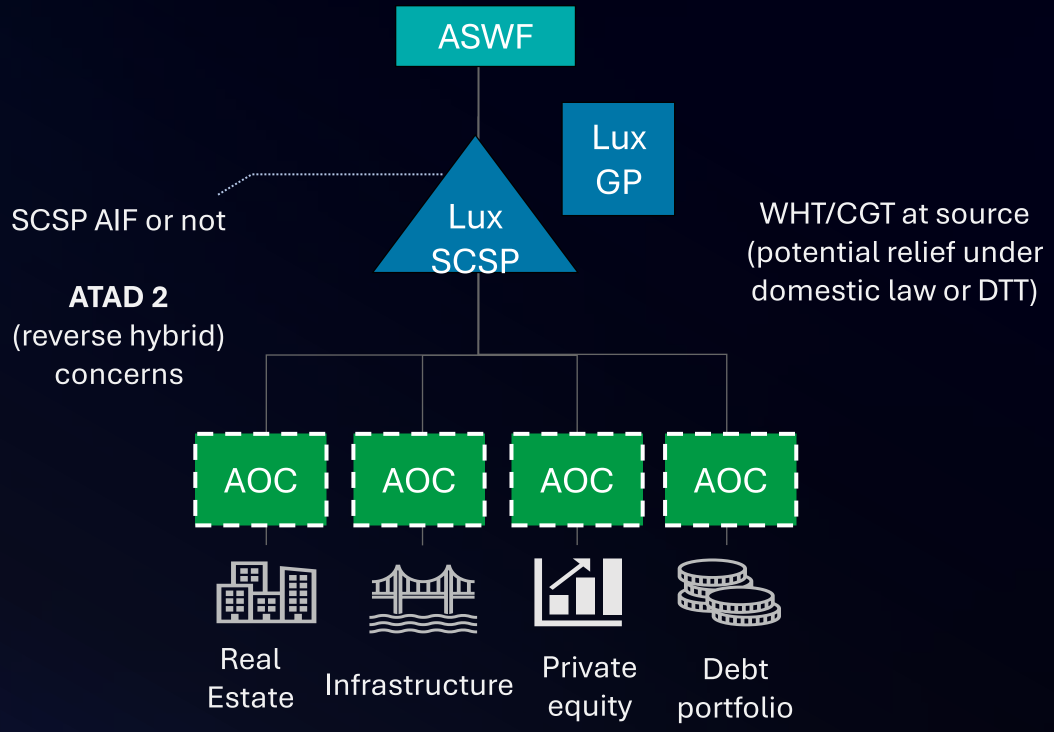
- Dividend WHT (EU): up to 30% (unless DTT/Sovereign immunity applies)
- Interest WHT (EU) : up to 35% (unless DTT/Sovereign immunity applies)
- CGT in EU: up to 35% (unless DTT applies)
- Limited access to SWF exemption



Option 2

Trends/tax considerations

- SCSP is nowadays one of the most preferred vehicle in alternative.
- Usually tax neutral:
  - Reverse hybrid : N/A for tax exempt investors based on circular clarification
  - No Luxembourg WHT on distributions
  - New tax filing form from FY22 (Form 205 electronic filing)



Key structuring alternatives for investments into EU

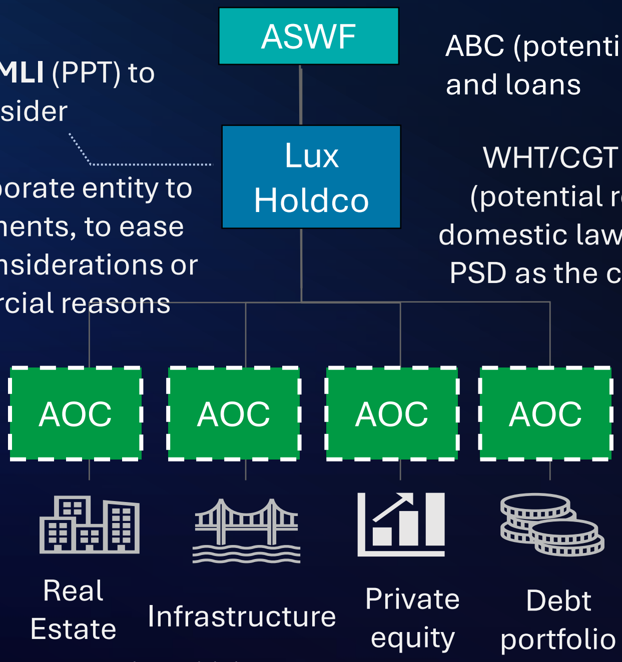
Option 3

Trends/tax considerations

- Various tax considerations:
  - Participation exemption:
    - ✓ exemption on dividends, capital gains, liquidation proceeds
    - ✓ Out: 15% dividend (unless DTT/PEX)
  - Alphabet shares: new favourable tax regime
  - DTT access/EU PSD (under conditions)
  - [NEW] Reduction in CIT rate by 1% in FY25
  - [NEW] Trends to rationalize underlying entities

ATAD 3 & **MLI** (PPT) to consider

Use of a corporate entity to pool investments, to ease WHT/CGT considerations or for commercial reasons



ABC (potentially) and loans

WHT/CGT at source (potential relief under domestic law or DTT or EU PSD as the case may be)

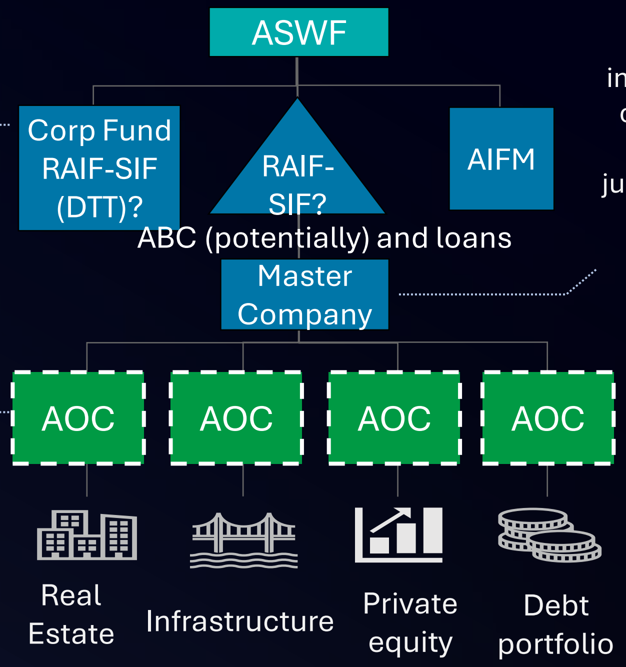
Option 4

Trends/tax considerations

- External fund manager
- Usually tax neutral:
  - Reverse hybrid : N/A for tax exempt investors based on Lux law clarification (side letter possible if external investors)
  - Nil Luxembourg WHT on distributions
  - [NEW] Circular Nº61 of 24 December 2024 expanding scope of DTT for corporate RAIF-SIF and SIF (from 55 to 63)

Corporate fund: Allows DTT access and blocker, less tension on X-border tax rules (ATAD 2, DAC6, etc.) **versus tax transparent?**

WHT/CGT at source (potential relief under domestic law or DTT or EU PSD as the case may be)



Luxembourg platform: implement own substance or rely on a consolidated model which would be justified by wider economic & commercial rationale

ATAD 3 & **MLI** (PPT) to consider

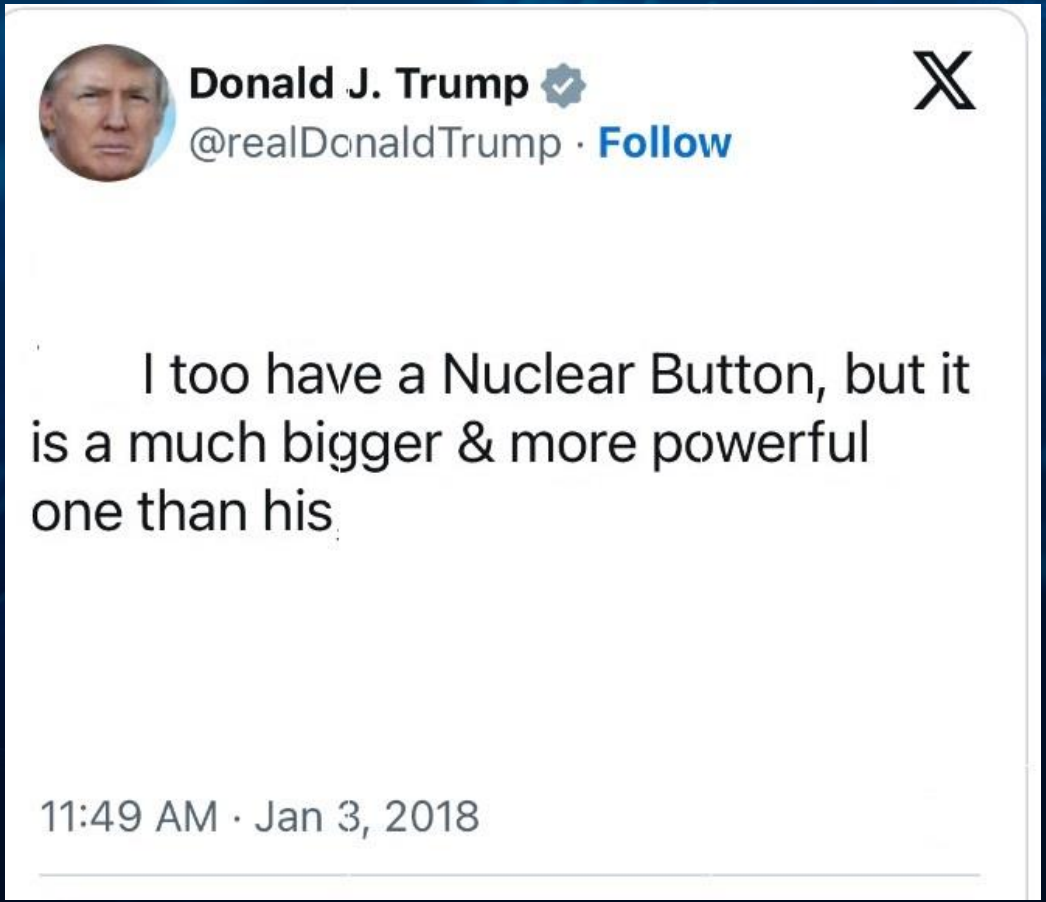
Convergence between AIFMD & Tax providing sustainability for the business model

United States

Country tax updates

A United States Sovereign Wealth Fund

Trump orders creation of US sovereign wealth fund, says it could buy TikTok



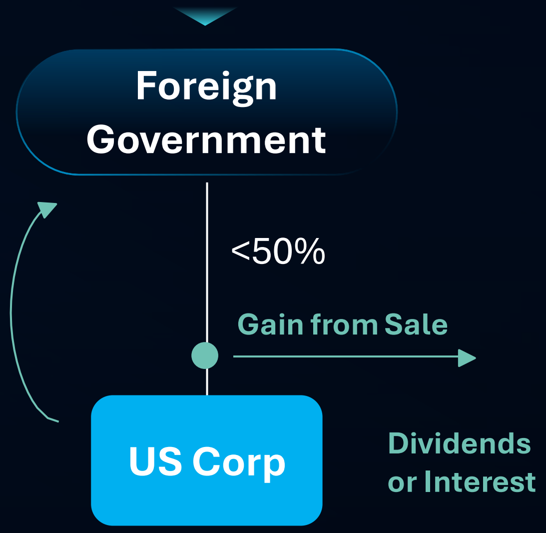
Section 892

In general

- Section 892 exempts from US taxation income of **foreign governments** from certain investments in the US.
  - Applies to ‘’passive’’ type income from:
    - Stocks, bonds, or other domestic securities, or
    - Financial instruments held in the execution of governmental financial or monetary policy.
- The term **foreign government** includes an *integral part of a foreign* sovereign or a *controlled entity* thereof.
- Exemption <u>does not</u> apply to any income that is:
  - Derived from the conduct of any **commercial activity** (inside the US or outside);
  - Received by or from a controlled commercial entity (**CCE**); or
  - Derived from the disposition of a CCE.
- **Commercial activity** is generally all activity conducted with a view toward current or future profit (commercial activity income is similar, but not identical, to effectively connected income).
- A **controlled commercial entity** is an entity that engages in any commercial activity anywhere in the world if:
  - 50% or more of the entity, by vote or by value, is owned, directly or indirectly, by a foreign government, or
  - The foreign government has “effective practical control” over such entity

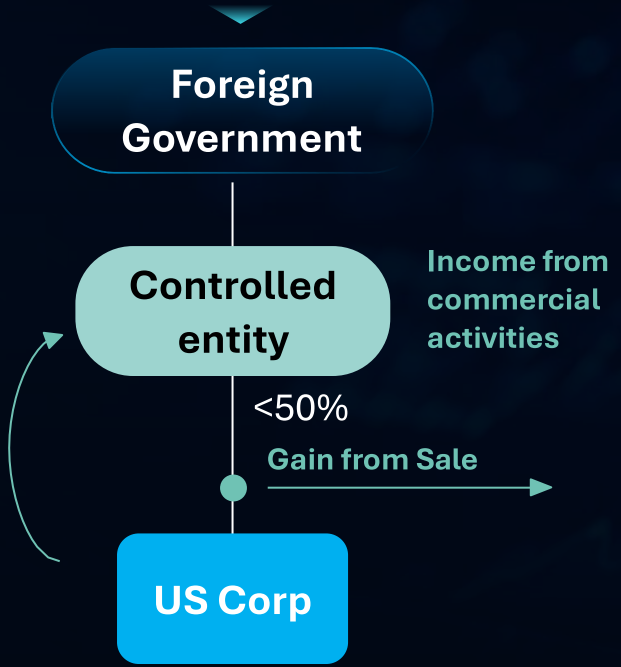
Section 892

Foreign Government invested in U.S. stock and debt



Dividends, interest, and gain from the sale of U.S. Corp stock are exempt from U.S. tax

Controlled Entity invested in U.S. stock and debt

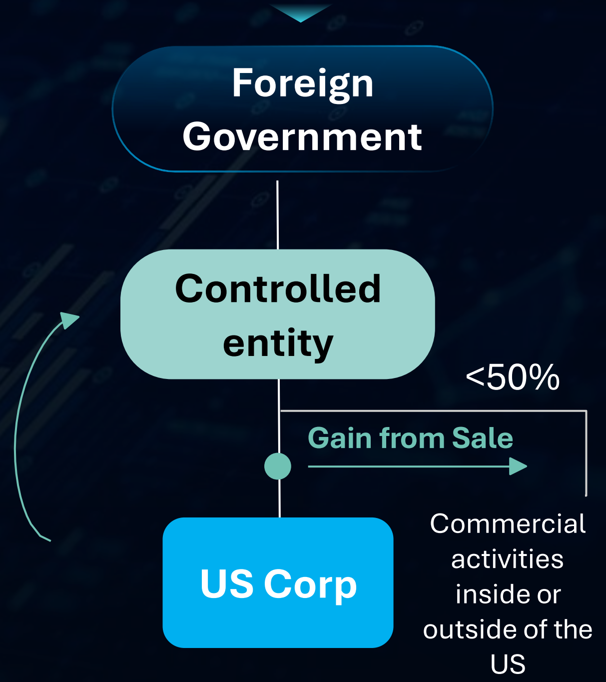


Dividends, interest, and gain from the sale of US Corp stock are exempt from U.S. tax

Foreign Government engaged in commercial activities inside U.S.

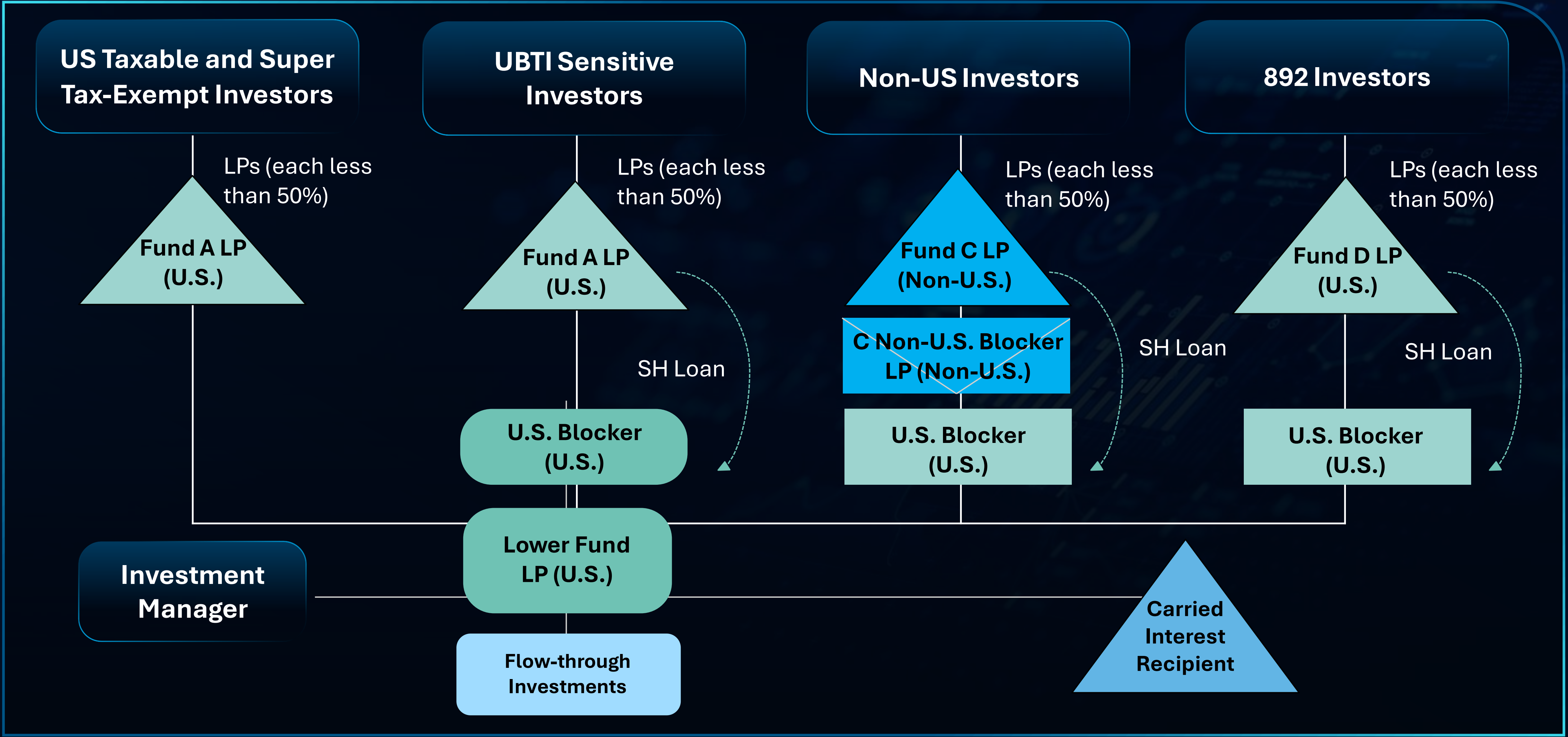
Income from commercial activities is not exempt from U.S. tax

Controlled Entity engaged in commercial activities outside U.S.



Income received by a controlled commercial entity (CCE) is not exempt from U.S. tax

Example Fund Structure—For illustrative purposes only



India

Country tax updates

SWF/PF tax exemption in India

Exempt Income [Nil Tax]^		
1	Dividend income	
2	Interest income	
3	Long term capital gains	
4	Repayment of capital to unitholders of InvIT	

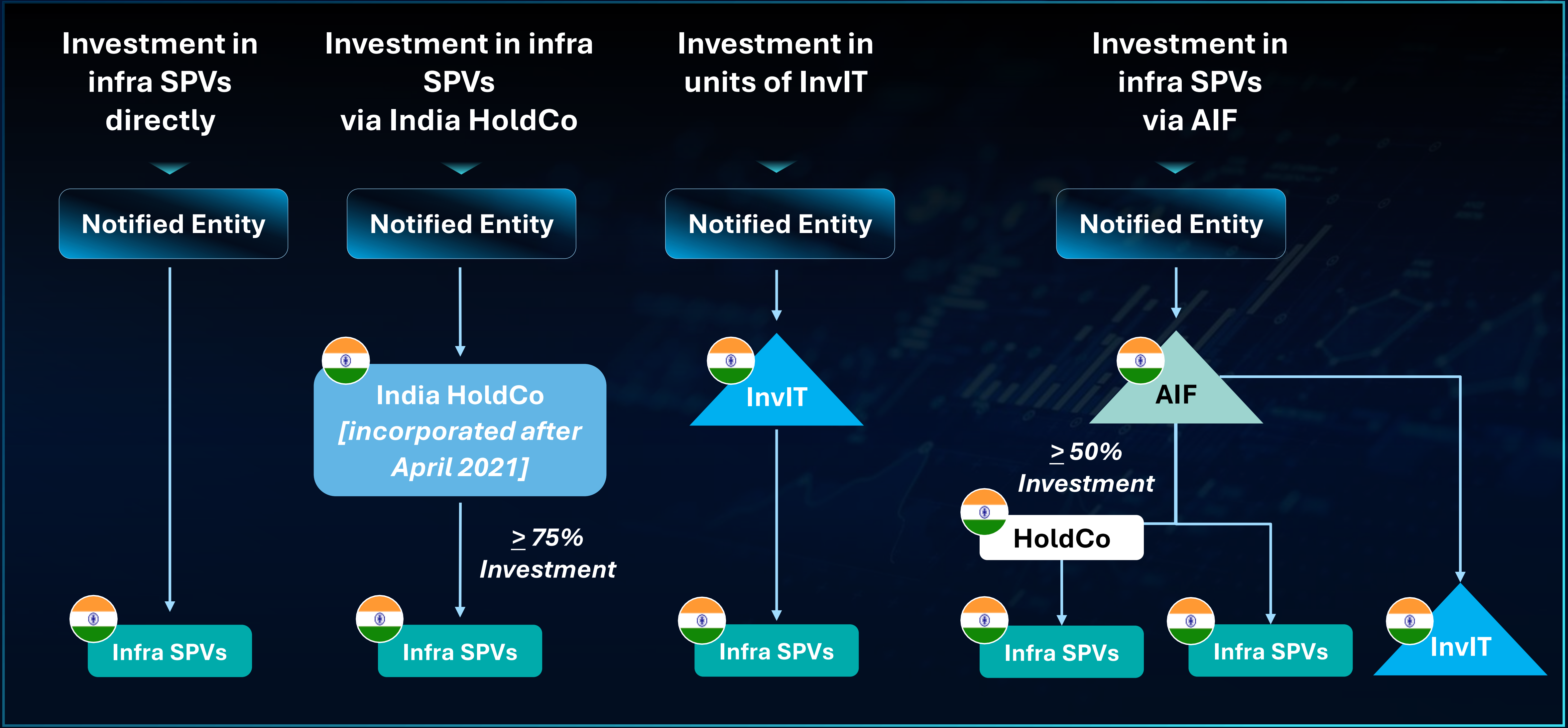
^ Prior registration is required with Indian government for availing the specified tax exemption

Key conditions (for claiming tax exemption)

1. Investments to be made directly (via Notified Entity)
2. Qualifying investments to be made by 31 March 2025 (Proposed to be extended to 31 March 2030)
3. Minimum investment tenure of 3 years
4. Investment should not be made out of loans or borrowings

Refer subsequent slides for qualifying investments: (A) Eligible Structure(s); and (B) Ineligible Structure(s)

Qualifying investments—Eligible structure(s)



Qualifying investments—Ineligible Structure(s)

Investment in Infra SPVs
Using intermediary jurisdiction

Notified Entity

Offshore Intermediary HoldCo (IHC)

Infra SPVs

Investment in Infra SPVs
via old HoldCo
(incorporated pre April 2021)

Notified Entity

HoldCo
[incorporated prior to 1 April 2021]

Infra SPVs

Recent developments in India

Focus on boosting investment, innovation, and infrastructure development

01 Announcements in Union Budget 2025

- Key theme—trust first, scrutinize later
- SWF/PF tax exemption extended till 31 March 2030
- Simplification of corporate mergers in India

02 New income tax bill

- Simple, predictable, and consistent tax law
- Simplification is the focus—Improved readability and navigation
- Proposed effective date of implementation (1 April 2026)

03 Ease of doing business 2.0

- Financial and non-financial sector reforms
- Deregulation and decriminalization
- State Investor Friendliness Index introduced

04 Keep fund and infra investments growing

- Public—Private Partnership in focus
- Asset monetization program ~ USD 120 billion
- Energy transition through Nuclear Energy Mission

India on track to become $35 trillion economy by 2047

Singapore

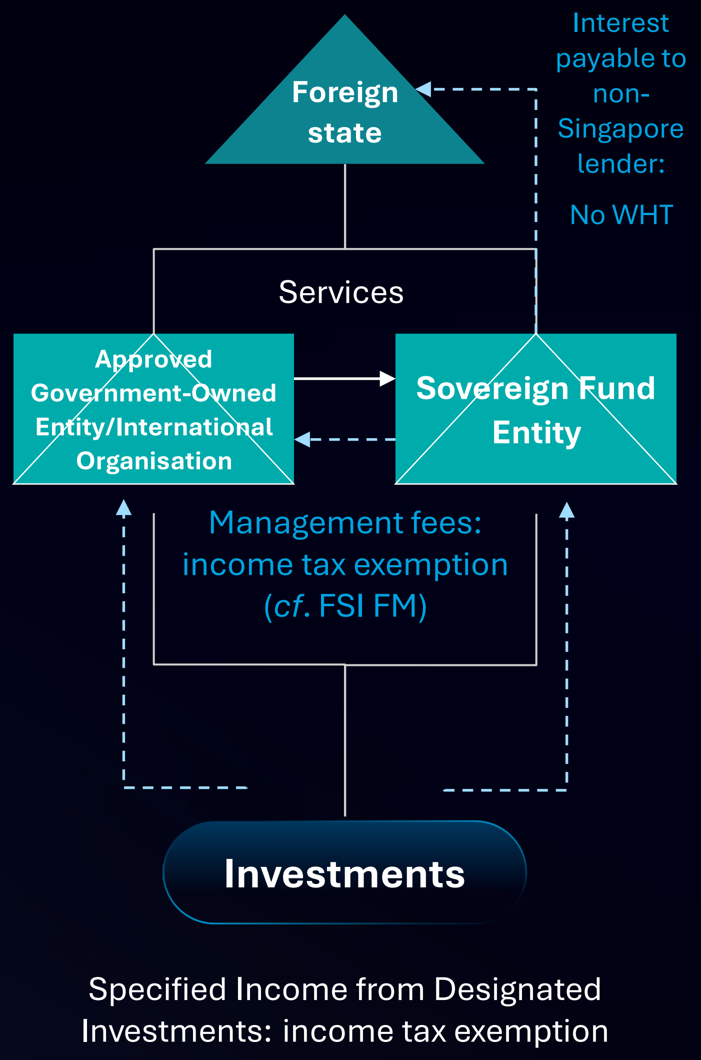
Country tax updates

Management of SWFs from Singapore—13V Exemption

No generally applicable concept of sovereign immunity, *but* availability of Section 13V exemption:

- Broadly, extends 13D/O/OA/U-like benefits to sovereign funds and international organisations without the application of 13D/O/OA/U economic conditions.
  - **FM:** Approved Government-Owned Entity, a Singapore-licensed FM or (from Feb 2024) a Prescribed/Approved International Organisation.
    - Tax exemption extends to **management and advisory fees income of Approved Government-Owned Entities and Approved International Organisations**.
  - **Fund:** Prescribed Sovereign Fund Entity, Approved Foreign Government-Owned Entity or (after February 2024) a Prescribed/Approved International Organisation.
    - MOF has prescribed based on conditions rather than identity, so no application required where within scope.
- **Before February 2024:** A Foreign Government-Owned Entity had to be wholly and beneficially owned by the government or public authority of a single foreign country (directly or indirectly).
- **After February 2024:** Extension to entities wholly-owned by one or more foreign countries (directly or indirectly).
- Tax exemption in respect of Specified Income from Designated Investments, interest WHT exemption

Use cases: Deployment of own funds via regional/global platform; tap into Singapore FM pool of expertise; Singapore treaty access.



Co-investment into funds managed from Singapore

Downstream structuring considerations

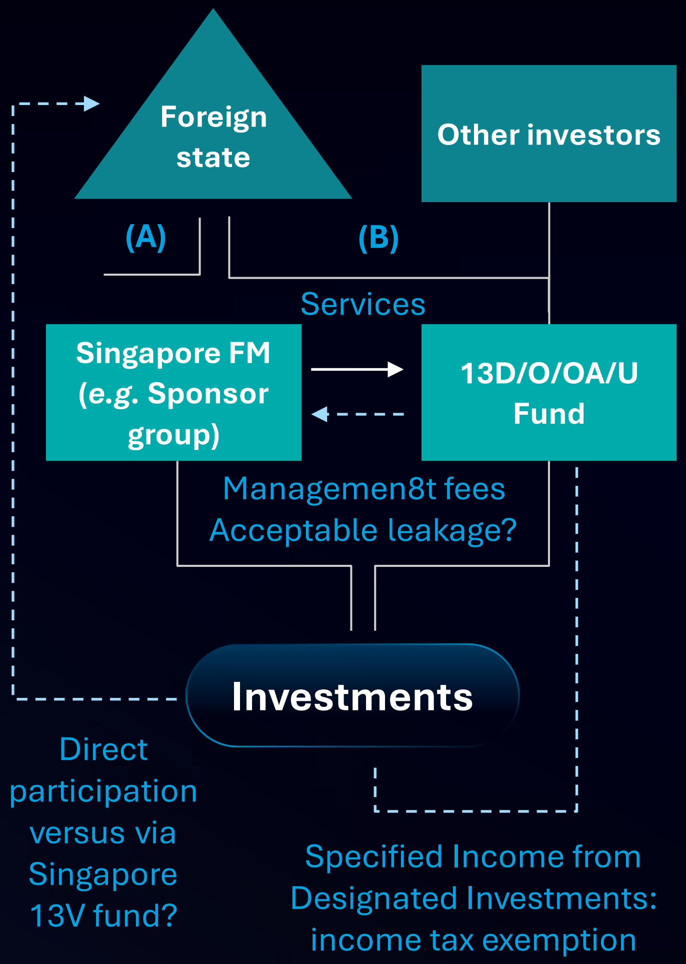
(A) Side-by-side: direct investment in target jurisdiction versus via Singapore 13V fund.

(B) LP in Singapore fund: application of 13D/O/OA/A exemption.

Likely to be a function of sponsor role, bargaining power, own management capability/capacity, deal economics, *etc*.

Funds exemptions (LP participation)

- 13D/O/OA/U: Exemption coverage is as applicable to foreign state investors as to other investors.
- 13U: No investor restrictions
- 13D/O/OA: Penalty provision if 30/50 Rule met.
  - Applicable to Singapore resident corporates/bodies only (not applicable to non-Singapore resident investors).
  - However, 30/50 Rule not applicable to Designated Persons.
    - GIC Pte Ltd and GIC Ventures Pte Ltd, GIC (Realty) Private Limited, Eurinvest Pte Ltd and any company directly or indirectly wholly-owned by them.
    - Any other company directly or indirectly wholly-owned by Singapore's Minister of Finance in his/her capacity as Minister, and any Singapore statutory board.

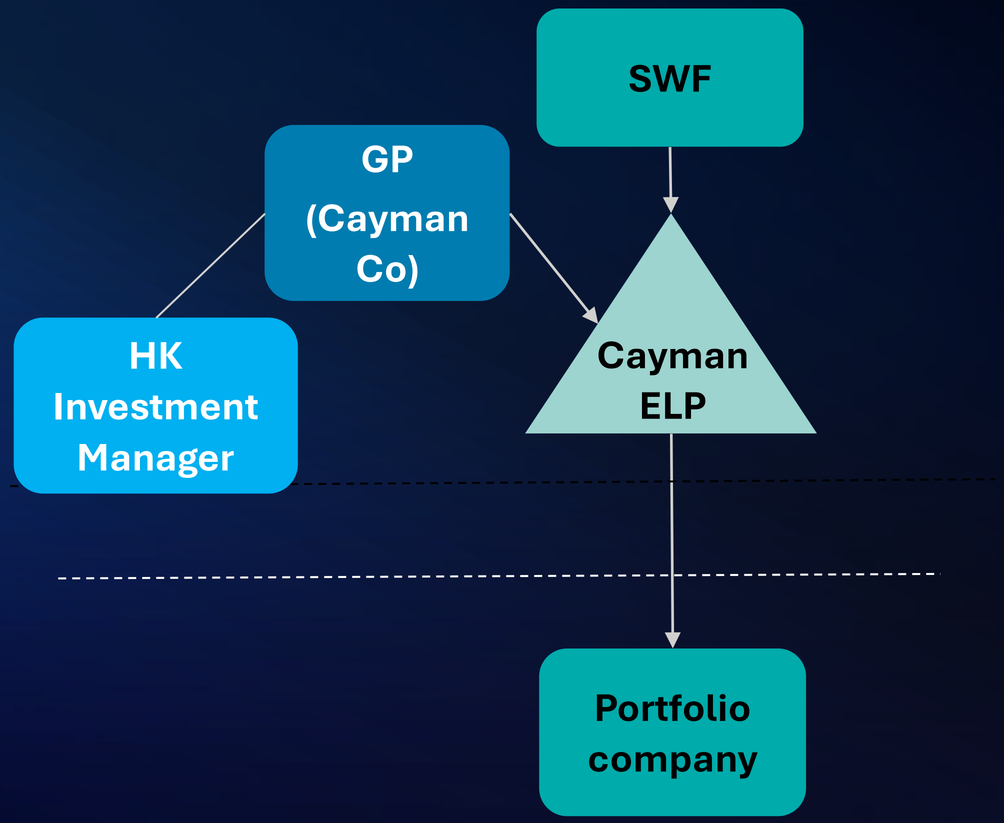


Hong Kong

Country tax updates

Typical fund structure for sovereign wealth funds

Cayman ELP structure



Unified funds exemption (UFE)

- Definition of "fund" and "SPE"
- "Specified person" or "Qualified investment fund"
- "Qualifying investments"

Sovereign wealth fund specifically defined to meet the definition of "fund" and hence eligible for HK tax exemption under UFE provided other conditions are satisfied

Proposed enhancements to UFE to expand the definition to cover **pension funds** and **endowment funds**.

Proposed enhancement to UFE

Removing the 5% threshold for incidental transactions

- All income derived from qualifying investments will be income eligible for tax exemption, no distinction between qualifying and incidental transactions
- Removal of control test & short-term asset test on transactions in private entities

Expanding scope of Special Purpose Entities (SPEs) activities

- To cover acquisition, holding, administering, and disposal of investee private companies/SPEs
- De minimis rules for SPEs

Expanding list of qualifying investments

To include:
- immovable property situated outside Hong Kong
- emission derivatives / emission allowance and carbon credits
- insurance-linked securities
- interests in non-corporate private entities
- loans and private credit investments
- virtual assets

To introduce tax exemption exclusion list, for example income derived from private companies which engage in property trading or property development of immovable properties in Hong Kong

China

Country tax updates

Overview on SWF tax implications in China

- No Domestic Tax Exemption: SWFs are subject to 10% WHT under Chinese domestic law, unless tax treaty benefits apply.
- The actual tax liability may be reduced or exempted under the provisions of a tax treaty, challenges vary by investment form.
- Taking the UAE as an example, the related tax implications are as follows:

Investment Form	Secondary Market	Primary Market		
		Direct Investment	Through Onshore Funds	Through Offshore Funds
Investment Channels	• Direct access to A-share market (QFII) • H-share invest or Stock Connect through its broker	• SWF invests to Chinese Enterprises, via Joint Venture (JV) or Wholly Foreign-Owned Enterprise (WFOE)	• QFLP allows WFS to establish funds in China to invest in domestic assets.	• Offshore Funds investments are being replaced gradually by Onshore Funds.
Tax Benefits	• 0% (via tax reclaim)	• 0% (direct application)	• 10% or 25% (PE disputes)	• 10% (conduit company issues)
Practical Challenges	• In practice listed companies generally withhold taxes for its foreign investors • For QFII invests into A-share, new rules can be applied to allow Relief-at-Source • Except for QFII A-share, the tax reclaims are till lengthy and complex	• Compare with Secondary Markets, private equity investments allows SWFs to apply for treaty benefits before receiving the Dividends, Capital Gain, etc.	• China tax authorities may determine the SWF has set up an establishment to carry out business activities trough QFLP fund therefore subject to 25% CIT • Due to the PE disputes, it is hardly for SWFs to apply further apply for treaty benefits	• Offshore funds are often treated as conduit companies, making it difficult to claim treaty benefits.

Japan

Country tax updates

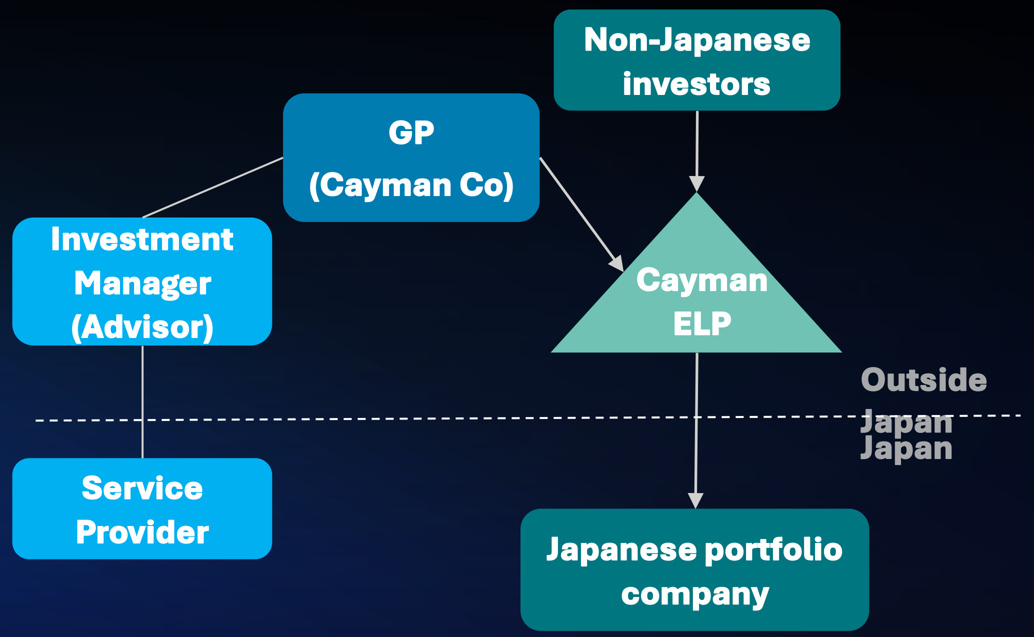
Overview of Japanese Tax for Sovereign Wealth Funds

- No exemption for SWFs under Japanese domestic tax law
- Specific tax treaties may provide exemptions for certain types of income
  - dividends received by a government pension fund;
  - interest received by a body exercising governmental functions, etc.
- WHT refund claims
- Typical structures used—please see the next slide
  - Fund Private Equity (PE) exemption
  - 25/5 rule exemption
- Latest developments in structuring
  - No tax law changes impacting typical structures
  - 2025 tax reform increase in Japanese corporate tax rate
    - Approximately 1% from fiscal years beginning on or after 1 April 2026

Investor taxation—Japan inbound investment

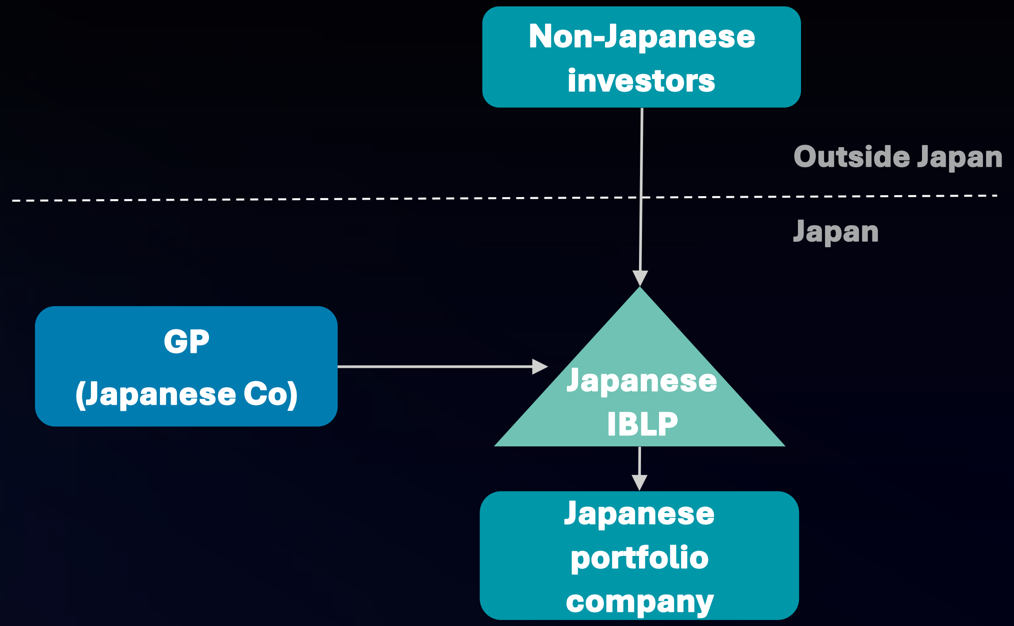
Typical fund structure for private equity investment for non-Japanese investors

Cayman ELP structure



Japanese tax issue	
PE exposure	Yes, need to manage
25/5, REHC, aggregation	Yes, need to manage
JCT on Management fees	No

Japanese IBLP structure



Japanese tax issue	
PE exposure	Deem to have a PE, PE exemption
25/5, REHC, aggregation	Yes, need to manage
JCT on Management fees	In principle, Yes

25/5 rule exemption—fund PE exemption

5/25 rules

Any capital gain arising from a disposition that satisfies the following conditions (the so-called "**5/25 rules**") should be subject to Japanese individual or corporate income tax even if a foreign investor does not have a PE in Japan:

i. a non-resident has owned or is deemed to have owned **25% or more** of the total number of issued shares or capital of a Japanese corporation during the three years preceding the last day of the fiscal year of the sale; and

ii. the non-resident disposes of **5% or more** of the shares in the Japanese corporation during the current fiscal year.

Note that:

- Even if the conditions for the 5/25 rules are not satisfied, any capital gain arising from a disposition of real estate holding company should be subject to Japanese individual or corporate income tax if the share ownership percentage exceeded 2% (or 5% for listed shares) on a day prior to the beginning of the fiscal year of sale.
- Many tax treaties provide a tax exemption on capital gains taxable under the 5/25 rule.

PE exemption rule

In general, income derived from an investment in a partnerhship with a PE in Japan should be subject to Japanese individual or corporate income tax as a result of each foreign investor being deemed to have a PE in Japan. However, a qualifying foreign limited partner that meets all of the following requirements may be exempt from this deemed PE treatment (PE exemption rule):

- The partner is a limited partner;
- The partner does not participate in the management of the partnership
- The partner's interest in partnership assets is less than 25%;
- The partner is not related to or otherwise have special dealings with the general partner(s) of the partnership; and
- The partner does not have a PE in Japan other than the PE attributed to them as a limited partner of the partnership.

*Note that prescribed applications need to be timely submitted in order to apply for the PE exemption rule.

Australia

Country tax updates

Australia: Country tax update for the financial services industry

01

TAX REGIME

- Previous administrative practice regarding Sovereign Immunity
- Current law:
  - Portfolio interest (<10%)
  - No relevant influence
- Transitional rules for investments and rulings by 27 March 2018 (expires 1 July 2026 or ruling end)
- Structuring (direct vs Indirect)

02

LATEST TAX DEVELOPMENTS

- New debt deduction rules
- Foreign resident capital gains withholding
  — Now 15%
  — Minimum threshold removed
- Increased Tax Transparency
  — Impact on accounting consolidation and portfolio companies

03

TAX AUTHORITY ACTIVITY

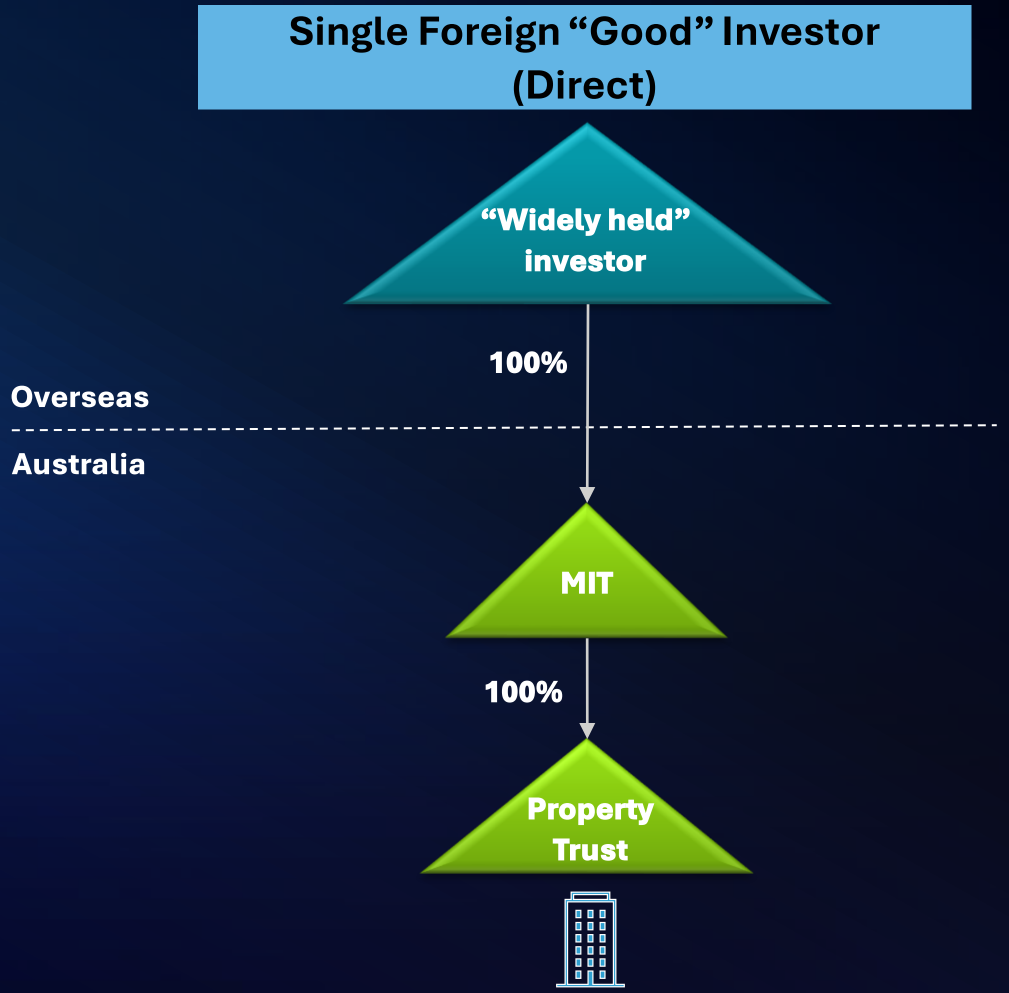
- MITs wholly by a single foreign “good” investor: Taxpayer Alert 2025/1 (issued on 7 March 2025) (c.f. Government announcement on 13 March 2025)
- Section 128F debt

04

PROPOSED TAX LAW CHANGES

- Proposed expansion of the capital gains tax regime for non-residents
- MIT changes (Government announcement on 13 March 2025)

Australian Taxation Office *Taxpayer Alert 2025/1* (released on 7 March 2025)



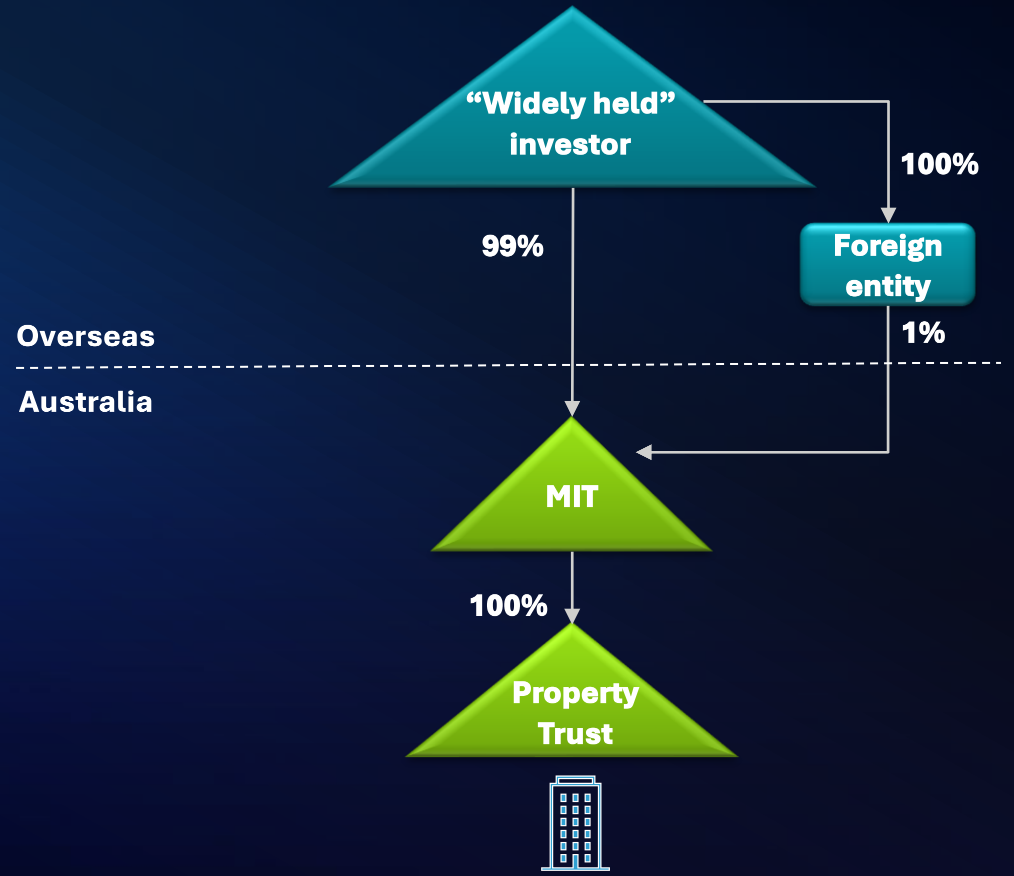
- Restructures (pre-sale) to access MIT 15% withholding tax rate

- Unit trust directly owned by a single unitholder:
  - Not a "*Managed Investment Scheme*" as defined in the *Corporations Act 2001*
  - Thus, not a MIT for tax purposes

- After 7 March 2025
  - New MIT structures
  - Existing MIT structures (with material new investment or ownership changes)

Taxpayer Alert 2025/1 and subsequent Government Media Release on 13 March 2025

Single Foreign "Good" Investor (Indirect)



- ATO concerned with a MIT indirectly wholly owned by a single foreign "eligible widely held investor"

- After 7 March 2025
  - New MIT structures
  - Existing MIT structures (with material new investment or ownership changes)

Government Media Release: 13 March 2025

"…trusts ultimately owned by a single foreign widely held investor (e.g., a foreign pension fund) are able to access the MIT concessions"

Deloitte.