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Investors and shareholder groups hail NBIM divestment over tax policies

This is the first time the world's largest sovereign fund has pulled investments over the matter

country: Norway | by: Khalid Azizuddin | Feb 3rd, 2021

Dutch fund ABP, UK investor Epworth Investment Management and four shareholder membership groups have come out in support of a move by Norges Bank Investment Management (NBIM) - manager of Norway's $1trn sovereign wealth fund - to dump seven companies as a result of their tax policies.

The divestment was announced earlier this week by NBIM CEO Nicolai Tangen, who said in an interview with Reuters that the decision to exit the companies was due to "aggressive tax planning and cases where companies do not give information of where, and how, they pay tax". He declined to reveal which companies were affected by the exercise.

Responding to the announcement, a spokesperson for ABP - the largest pension fund in the Netherlands - said that it "welcomed responsible tax behaviour being implemented in the policy of organizations".

"For ABP responsible tax behavior means complying with the letter and spirit of the law," she said.

In a statement provided to RI, David Palmer, CEO of Epworth Investment Management, said that he was "extremely supportive" of NBIM for "recognising that aggressive tax planning is akin to tax evasion, which runs contrary to the most basic standards of ESG and good business conduct".

ABP and Epworth are both prominent investor advocates for responsible tax behaviour; the former recently issued new expectations on how portfolio companies should plan their taxes, while Epworth is the first asset manager to join the Fair Tax Mark, a UK initiative recognising equitable tax policies.

(Read RI's recent feature on tax here)

Aurélie Baudhuin, President of the values-based investor group Shareholders for Change (SfC) described the move as "great news" and said she was hopeful that it would bring tax issues to the forefront of investor priorities.

> "Modern society no longer sees tax as just a cost factor, but also as an instrument to create socio-economic cohesion, environmental value creation and long-term prosperity," Victor van Hoorn, Eurosif Executive Director

According to Badhuin, who is also the Deputy CEO of Meeschaert Asset Management, a recent SfC engagement campaign on tax transparency with EU telecommunication companies revealed that very few were willing to disclose the details of their tax arrangements.

"Multinational enterprises should be ready publicly to explain the business case for locating subsidiaries in significantly low tax environments or countries where no local employees carry out substantive business functions," she said.

Both Badhuin and Epworth's Palmer called on companies to publish country-by-country breakdowns on where revenue is generated and tax is paid, and employee headcount.

According to Victor van Hoorn, the head of Eurosif - the Europe's sustainable investment forum - the success of sustainability initiatives, such as national and regional climate plans, depends on being able to raise sufficient taxes from companies.

"Modern society no longer sees tax as just a cost factor, but also as an instrument to create socio-economic cohesion, environmental value creation and long-term prosperity," he said.

This was echoed by Simon Rawson, Director of Corporate Engagement at ShareAction, who argued that "global businesses have spent years finding ways to minimise their tax bills" despite taxes being key to address the "extreme levels of inequality" currently present.

Rawson said that "there has been barely any recognition from investors that it is in both company and investor interests for the company to pay its share of taxes and not to boost short-term profits at the cost of stability and security in society".

The Principles for Responsible Investment (PRI) also weighed in with a call for more engagement on tax policies despite acknowledging that companies are "often reticent to engage in a meaningful conversation on the issue".

Vaishnavi Ravishankar, PRI Senior Analyst, said: "We think investor-company engagement will indeed play a crucial role in steering portfolio companies away from tax practices that can undermine sustainable development – but it needs to be deliberate, systematic and impactful. Our ask for investors is that they engage on an ongoing basis and, where appropriate, use collaboration to amplify their voice and escalate."

While this is the first time that NBIM has publicly exited investments over tax concerns, its position on the issue is well-established. In 2017, the fund announced expectations that portfolio companies would pay taxes in the countries where value creation takes place, and provide country-by-country reporting of tax payments.

tagged with: PRI, ABP, ShareAction, NBIM, Eurosif, SFC, Epworth, Social