

State Street Tax Transparent Fund Solutions

Over the last decade, tax transparent funds (TTFs) have grown across the European marketplace and are now seen as a key regulated product for servicing institutional investors.

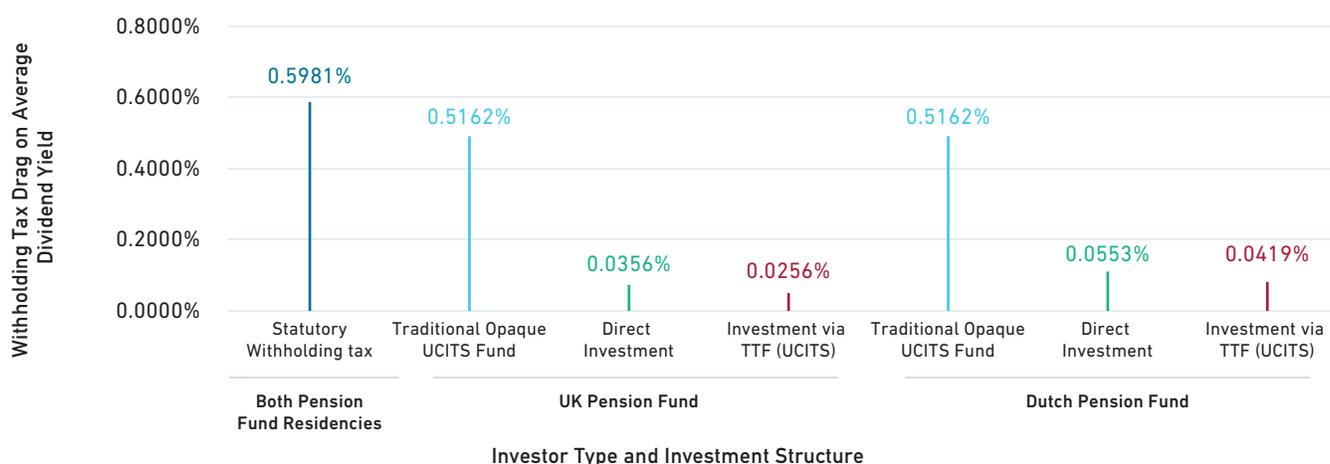
At State Street, we have experienced a steady growth across the TTF market in Europe with assets growing 35 percent in 2020 to a total of US\$127 billion¹ in assets being serviced across five EMEA jurisdictions.²

TTFs can provide economies of scale compared to fragmented products and strategies with different investment managers, administrators and custodians, resulting in lower costs and enhanced investor returns. Our TTF services are geared towards leveraging this advantage through the partnership approach we put in place with all our clients. This includes ensuring their TTF products are optimized by periodically reviewing withholding tax efficiencies of TTF portfolios, providing up-to-date market insights and identifying potential tax savings and additional opportunities for tax transparency.

What Are the Key Market Drivers for TTFs?

As pension funds and other tax-exempt investors are sensitive to tax incurred on portfolio investment, they are the key investor type driving growth in TTFs, with the United Kingdom, Netherlands and Switzerland being the main investor jurisdictions. In the context of European pension funds, the withholding tax differential is a result of the increased trend in domestic tax law and double tax treaties exempting pension funds from withholding tax on dividend income. The chart below illustrates withholding tax costs based on the Morgan Stanley Capital International (MSCI) World Index, comparing direct investment by institutional investors (UK and Dutch pension funds) to investment via a traditional Undertakings for the Collective Investment in Transferable Securities (UCITS) corporate fund vehicle and investment via a UCITS TTF.

Withholding Tax Analysis – Impact on Dividend Yields



¹ State Street internal data as at 31 December 2020.

² In EMEA, State Street services the following tax transparent funds structures: Irish Common Contractual Funds (CCF), UK Authorised Contractual Schemes (ACS), Luxembourg Fonds Commun de Placement (FCP), Swiss Fonds Commun de Placement (FCP) and Dutch Fonds voor gemene rekening (FGR).



Using the withholding tax drag data from the chart (previous page) and assuming an investment of USD 1 billion in a portfolio tracking the MSCI World Equity Index, UK and Dutch pensions funds could potentially increase their investment returns by more than USD 4.7mn (c. 48bps) annually by investing in a UCITS tax transparent fund compared to investing via a UCITS corporate fund vehicle. The actual tax savings will naturally vary depending on portfolio size, dividend yields, investor profiles and markets where tax efficiencies are sought, however this simple illustration demonstrates the tax efficient nature of TTFs for certain institutional investors and the tax benefit in such a scenario is clear.*

The potential withholding tax impact has led asset managers to promote TTFs in many ways:

1. Pension consultants increasingly advising their clients of the tax inefficiencies in traditional opaque funds
2. Large asset managers proactively looking to launch TTFs for distribution to European institutional investors
3. Smaller managers establishing bespoke TTFs as a defensive measure to protect their institutional investor base
4. Asset managers looking to move European pensions from existing semi-transparent fund products to European regulated TTFs

Over and above the withholding tax savings, when compared with traditional tax opaque collective investment vehicles, the rationale and driver for establishing TTFs include:

1. Flexibility for asset owners allowing the set-up of single or multi-fund vehicles with single or multiple managers
2. More efficient governance and risk management for pension trustees

3. Use of a single master fund structure for different investor profiles (including direct institutional investors and retail investors through feeder structures)

Our Service Offering

State Street offers an end-to-end solution and a consultative approach to the design, launch and administration of bespoke TTF structures. Our comprehensive offering includes custody, accounting, depositary, transfer agency and fund administrative services. Our tax expertise coupled with our integrated pooling technology gives clients certainty around operational risk, a flexible operating model (multi-fund, multi manager, double tax transparency, lifestyle allocations, etc.) and service flexibility.

Our Value Proposition

With over a decade and a half of experience in servicing TTFs across Europe, we use this expertise to enable our clients to focus on their individual asset allocation strategy and managing those assets, while we take care of all other requirements. We advocate and advance TTF products from an industry perspective, enabling our clients with our expanding product team and expertise.

Our end to end solutions are based on four pillars to allow clients to broaden distribution and asset strategies in a complex global tax environment:



Tax Expertise



Flexible Operating Model



Unified Global Platform



Flexible Servicing

*The above tax saving estimate compares the tax drag suffered by a Dutch and by a UK pension fund investing via an UCITS TTF vs a traditional tax opaque UCITS fund. For the purposes of this calculation, the following key variables were assumed:
i) USD 1 billion equity portfolio, ii) investment mandate tracking the MSCI Index (US market accounting for circa 62% of the total),
iii) a benchmark dividend yield of 2.48% and iv) the TTF achieving tax transparency in 8 markets and fund level relief in 7 markets.



Tax Expertise

In the context of product knowledge and market insights, which are key in helping our clients to both design and evolve their TTF products, we continuously invest in our product tax team to ensure that we have the right tax and market expertise. Our broad product and market knowledge have evolved our overall service offering with a focus on the markets where reduced withholding tax rates can be supported in line with global tax policy through the application of tax transparency under domestic law provisions, double tax treaties and multi-lateral agreements.

Our clients benefit from access to a global tax knowledge resource to understand key issues impacting TTFs and the underlying investors. Our tax professionals closely follow global tax developments and share valuable insights with our clients. That knowledge sharing enables our clients to quickly take advantage of changes in the global and domestic tax environments. We continue to invest in our highly specialized subject matter experts and technology solutions that allow us to assist clients with building market specific IT solutions to deal with the increasing complexity of local tax laws and in ensuring that investors can achieve and maintain reduced tax costs while complying with complex and evolving tax legislation.



Flexible Operating Model

We have invested and continue to invest in building our end customer reporting, accommodating an ever-broadening investor base. Our State Street AlphaSM platform provides a streamlined operating model, ensuring systems rationalizing and consistency in data to facilitate better decision-making. In addition, we continuously strive to improve the investor onboarding experience by reducing complexity and simplifying the collection of investor-level tax documentation.



Unified, Global Platform

As the core pooling technology supporting TTFs is integrated into the Multicurrency Horizon (MCH) platform, our TTF toolkit provides a comprehensive service offering to meet our client's needs. Clients benefit from the fact that we administer the full breadth of tax-transparent fund structures within a single, global platform. Notably, our platform can adapt and evolve either in anticipation or as a consequence of regulatory change.

Our technology platform fully supports the automated allocation of withholding taxes to the underlying beneficial owners and facilitates the application of reduced withholding tax rates through relief at source and tax reclaim processing in line with market practice and our clients product requirements.



Flexible Servicing

Our flexible global custody network allows us to deal with tax transparency needs in an efficient manner including the flow of beneficial owner data to ensure withholding taxes are managed in the most efficient manner and 'at-source' relief is provided where possible. In addition, our product tax specialists work with our custody network to adapt to change in local investment markets to ensure our clients can avail of arising opportunities. We have the ability to provide underlying TTF investors with granular and transparent reporting to meet either internal or local fiduciary, governance or trustee requirements.

A key to our success over the next three years will be creating broader product awareness in the marketplace and working in partnership with asset managers and asset owners on product creation and evolution.

For more information on our tax transparent services, please contact:

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Disclaimers and Important Risk Information

*Assets under management as of March 31, 2021 includes approximately \$60 billion of assets with respect to SPDR® products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

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