

## **Fund Investments/Offshore Financial Centres**

Below are some frequently asked questions and answers:

### **Why does Swedfund invest in funds?**

Swedfund's mission is, as a responsible, long-term and active investor, to help reduce poverty through sustainable business. To achieve this, Swedfund invests both directly in local businesses through equity and loans, and indirectly via funds whereby investments are channelled via a fund to an operating company. Whether or not the investment takes place directly or indirectly, the objective remains the same – to reduce poverty through sustainable business. Investments via funds complement Swedfund's direct investments. In developing and transition economies with limited opportunities for the supply of capital, funds are an important source of longer-term finance. This complements other, shorter-term forms of finance such as bank loans, project finance and short-term working capital facilities. Funds enable local companies that Swedfund would otherwise have been unable to invest in to obtain the necessary financing for sustainable and profitable growth. They can then contribute to reducing poverty by offering jobs, strengthening the tax base and being involved in developing know-how.

### **How do investments in funds complement Swedfund's direct investments?**

Investments in funds account for around 25% of Swedfund's portfolio, providing a complement to direct investments. The funds in which Swedfund invests are managed by teams with strong local knowledge, a history of making responsible and successful investments and sometimes with better opportunities than Swedfund to identify, undertake, develop and actively support growth businesses in their day-to-day operations. It is difficult for Swedfund to handle this intensive management work with its limited local presence. Investments in funds enable Swedfund to reach more growth companies to invest in and to contribute to growth, job creation and sustainable economic development. In order to reach these companies, Swedfund believes it is important to continue to invest in funds. As well as the direct effects funds have on the development of individual companies, they also provide the transfer of knowledge, networks and the introduction of international best practice in areas such as ESG.

### **What requirements does Swedfund stipulate for the funds it chooses to invest in?**

Swedfund stipulates the same relevant requirements for indirect investments in funds as it does for direct investments. For Swedfund to be able to invest in a fund, for example,:

(i) the fund's investment guidelines, ethical and environmental guidelines and reporting requirements must meet Swedfund's standards; (ii) the fund's structure must be transparent; (iii) the fund manager must be competent and reliable and have a good track record; (iv) the fund's investments must be assessed to generate good development results; and (v) the investment in the fund must provide a good complement to Swedfund's direct investments.

Agreements with funds incorporate Swedfund's ESG requirements as per point (i). This means that the company commits to comply with [Swedfund's Sustainability Policy](#) or equivalent from another investor. Swedfund also establishes an individual action list for the fund. This list contains a number of points that must be in place within a set period of time; these may relate to environmental management systems or assigning dedicated personnel for environmental, social and corporate governance issues. They must also generally report in accordance with two reporting models, and report any serious incidents and accidents within 72 hours. Funds must also maintain complete

records of all ESG information for those companies in which the fund invests and ensure that this information is available to Swedfund personnel or our representatives in the event of an inspection.

Swedfund's owner instruction stipulates that Swedfund may not invest in funds domiciled in a country which, under the OECD Global Forum Peer Review Process, has not achieved phase 1 approval or is deemed to be partially compliant or non-compliant in phase 2.

The owner instruction also requires Swedfund's investments to "take place within sound and clear corporate structures that do not contribute to tax avoidance or to the financing of terrorism". In addition, in 2016 Swedfund adopted a [tax policy](#) that provides further information about Swedfund's positions and considerations regarding tax and tax structures in connection with an investment.

### **Why are funds/holding companies sometimes located in offshore financial centres (OFCs)?**

The country that is chosen as the domicile for a fund must have the specific legal and financial infrastructure necessary to establish and operate funds. These conditions are usually found in jurisdictions classified as offshore financial centres. Funds generally have investors from a number of different countries/regions and, in turn, invest in a number of countries/regions, which means it is important to establish the fund in a country that offers tax transparency, predictability in terms of corporate and tax legislation, an effective judiciary and well-functioning financial regulation (see also [EDFI general guidelines on OFCs](#)). As set out in [Swedfund's tax policy](#), tax is included in Swedfund's due diligence before an investment is made. In addition to the regulations that exist in the domicile countries of funds/holding companies, Swedfund's agreements with funds and their fund managers always include provisions intended to counter issues such as money laundering and corruption. In addition, Swedfund must ensure that the fund's investment guidelines (regarding ESG, etc.) comply with Swedfund's policies and values.

The company in which the fund invests must pay the requisite tax in the country in which the company is domiciled. When, after a number of years, the fund has hopefully helped the company grow and develop, the fund sells its holding in the company.

Like all Swedish companies, Swedfund pays tax on any profit. Profit after tax is reinvested by Swedfund in new companies in developing and transition economies to further contribute to growth and sustainable economic development ("combating poverty through sustainable business").

### **What is the OECD Global Forum Peer Review Process?**

In simple terms, [the OECD Global Forum Peer Review Process](#) aims to establish and grade its member countries' level of transparency and exchange of information for tax purposes. The OECD has established a standard with which member countries are expected to comply and which, in brief terms, means that the country in question must have;

1. a process for the submission of material upon request;
2. reliable information and the ability to obtain such information (principally banking, ownership, identity and account information) for further distribution, within a reasonable time, upon request;

3. respect for the establishment of, restrictions within and strict confidentiality rules on the exchange of information.

The OECD Global Forum Peer Review Process is carried out in two stages (or in one stage, combining stages 1 and 2, for certain selected jurisdictions). In the first stage, the relevant country's legal and regulatory framework is assessed in terms of transparency and the exchange of information for tax purposes. Once approved for phase 1, the country then proceeds to phase 2. The second phase comprises a review/study of the practical implementation of the country's regulations and standards. After the phase 2 review, the country in question may receive the following grades;

<b>Compliant</b>	The principal element is fully implemented in practice.
<b>Largely compliant</b>	There are only small failings in the implementation of the principal element.
<b>Partially compliant</b>	The principal element is only partially implemented.
<b>Non-compliant</b>	There are significant failings in the implementation of the principal element.

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