

# **Stewardship Principles for Institutional Investors**

## **Chapter 1 Institutional Investors and Their Duties**

Institutional investors can be classified into two types based on their business models:

1. "Asset owners" (e.g. insurance companies, pension funds) which invest with their proprietary capital or funds collected from clients or beneficiaries; and
2. "Asset managers" (e.g. investment trust, investment consulting companies, etc.) which provide assistance to clients on management and investment/utilization of funds.

With financial services gradually becoming diversified, capital providers not only engage directly in trading of relevant assets (including securities such as stocks and bonds or other assets) but also achieve various investment objectives through the assistance of institutional investors.

Nowadays, the investment chain is frequently complicated and institutional investors can greatly influence the market and investee companies through fund management. An institutional investor, when making an investment or carrying out its fiduciary duty, shall base on fund provider's (may contain clients, beneficiaries or shareholders of the institutional investors) long-term interests, monitor the operation of an investee company and participate in corporate governance through attendance at shareholders' meetings, exercise of voting rights, engagement in appropriate dialogue and interact with management, including board of directors or executives, of the investee company. Such is "stewardship" of an institutional investor referred to in these Principles.

Institutional investors may outsource part of their stewardship activities (e.g. to provide voting advice or to cast proxy votes) to other professional service providers (e.g. proxy advisory firms or custodian banks). However, institutional investors shall not be released from their existing stewardship responsibilities to their clients and beneficiaries. The institutional investor must, through effective communications, agreements or monitoring, ensure that service providers act in accordance with their requests, so that the rights and benefits of their clients and beneficiaries are protected.

## **Chapter 2 Objectives of the Principles**

The Principles, through provision of a principle-based framework and guidance, are intended to encourage institutional investors to apply their expertise and influence, and fulfill their duties as asset owners or managers, so as to enhance long-term value for themselves and capital providers. The institutional investors, through monitoring, engaging in dialogue and interacting with investee companies, as well as efforts to enhance investment value, are also able to improve the quality of corporate governance of the investee companies, thus creating an overall positive effect on the development of industry, economy and society.

The Principles encourage institutional investors valuing stewardship to endorse and comply with relevant principles (Please refer to Chapter 3). All institutional investors, that are, asset owners or managers, investing in securities issued by Taiwanese companies (including but not limited to TWSE listed, TPEX listed, emerging or public companies), regardless of whether they are domestic or foreign, government- or private-owned, are encouraged to be signatories.

### **Chapter 3 Endorsement and "Comply or Explain"**

Institutional investors are encouraged to publicly endorse the Principles to demonstrate their intention to support the Principles. Public endorsement means an institutional investor discloses a statement of how the Principles has been applied (hereinafter the "statement") on its website and a website designated by the Corporate Governance Center, and it becomes a signatory after notifying the Corporate Governance Center of the above. Foreign institutional investors who are signatories of other national or international codes/principles with similar objectives may refer back to their home country reporting or statements and notify the Corporate Governance Center to become a signatory of the Principles.

A statement shall at least include the following:

1. A brief introduction of the business of an institutional investor;
2. A brief description of the status of compliance with each principle set forth under Chapter 4 herein;
3. Letterhead or signature of an institutional investor (the institutional investor may publicly endorse the Principles in the name of its business group or as an individual company);
4. Date of announcement (endorsement date) or update.

The institutional investor shall complete a brief description of status of its compliance with each principle mentioned in the preceding paragraph 2 within six months starting from the endorsement date and notify the Corporate Governance Center. Please refer to the Attachment for a sample statement.

A signatory may also disclose information to stakeholders by means of press releases,

press conferences or others. The Corporate Governance Center will consolidate a list of signatories, statements, and links to signatories' websites where they disclose information according to the guidelines for compliance with the Principles (refer to Chapter 5) and publish on a website designated by the Corporate Governance Center.

A signatory is advised to update its statement and other information disclosed according to the guidelines for compliance with the Principles depending on its business content and actual status in compliance with the Principles. If an update occurs, the Corporate Governance Center must be notified. The information disclosed by each signatory will form a reference point for future updates or ongoing facilitation of the Principles by the Corporate Governance Center.

Signatories are not required to fully comply with all six principles under Chapter 4 but rather apply a “comply or explain” basis which aims to retain flexibility, so that the Principles may be abided by more institutional investors. If a signatory is unable to comply with certain principles stipulated under Chapter 4, it must provide a reasonable explanation in its statement or incorporate such explanation on its website or reports such as business report or annual report, provided that relevant disclosures must be made in an ethical and transparent manner.

## **Chapter 4 Stewardship Principles**

**Principle 1** Establish and disclose stewardship policies

**Principle 2** Establish and disclose policies on managing conflicts of interest

**Principle 3** Regularly monitor investee companies

**Principle 4** Maintain an appropriate dialogue and interaction with investee companies

**Principle 5** Establish clear voting policies and disclose voting results

**Principle 6** Periodically disclose to clients or beneficiaries about status of fulfilment of stewardship responsibilities

## **Chapter 5 Guidelines for Compliance with Principles**

The following guidelines are references for signatories to comply with the six principles set forth under Chapter 4.

### **Principle 1 Establish and disclose stewardship policies**

**Guideline** When establishing stewardship policies, an institutional investor is  
**1-1** advised to contemplate its role in an investment chain, its nature of business and how to protect rights and benefits of its clients and beneficiaries.

**Guideline** Disclosure of stewardship policies is advised to at least include the  
**1-2** following:

1. A brief introduction of business;
2. Duties to clients or beneficiaries;
3. Stewardship activities, e.g. frequency and methods of monitoring investee companies, interaction with management, participation in shareholders' meetings and voting;
4. Status and management measures of outsourcing stewardship activities;
5. Manner and frequency of status disclosure of stewardship fulfilment.

### **Principle 2 Establish and disclose policies on managing conflicts of interest**

**Guideline** A policy on managing conflicts of interest aims to ensure that an  
**2-1** institutional investor operates in the interests of its clients or beneficiaries.

**Guideline** A policy on managing conflicts of interest is advised to at least include the following:

**2-2**

1. Possible situations of conflicts of interest;
2. How conflicts of interest in each situation are managed.

**Guideline** Situations of conflicts of interest may include the following:

**2-3**

1. Where an institutional investor, for its own benefits, makes a decision or carries out an activity to the disadvantage of clients or beneficiaries.
2. Where an institutional investor, for benefits of certain clients or beneficiaries, makes a decision or carries out an activity to the disadvantage of other clients, beneficiaries or stakeholders.

**Guideline** Measures of managing conflicts of interest may include training, delegation of duties, information security, firewalls, control mechanisms regarding detection and monitoring, reasonable remuneration policies, and remedial measures.

**2-4**

**Guideline** An institutional investor is advised to consolidate and explain to clients or beneficiaries, either regularly or when considered necessary, about causes and handling measures for major incidents of conflicts of interest which have taken place.

**2-5**

### **Principle 3 Regularly monitor investee companies**

**Guideline** The purpose of monitoring investee companies is such that impacts of relevant information on long-term values of investee companies, clients or beneficiaries may be assessed, so that an institutional investor's manner and time of further dialogue and interaction with the investee companies

**3-1**

can be determined. It may also form a reference for future investment decisions.

**Guideline 3-2** In determining the content, extent and frequency of monitoring investee companies, an institutional investor is advised to consider its purposes of investment, cost and benefits. Information such as industry profile, opportunities and risks, shareholding structure, operational strategies, business profile, financial position, results of operation, cash flow, stock price, environmental impacts, social issues and corporate governance may be monitored.

#### **Principle 4 Maintain an appropriate dialogue and interaction with investee companies**

**Guideline 4-1** The purpose of an institutional investor's dialogue and interaction with investee companies is such that it may better understand the views of management of the investee companies regarding material issues and obtain mutual feedback, so as to strengthen corporate governance.

**Guideline 4-2** An institutional investor is advised to determine the manner and time of dialogue and interaction with investee companies by taking its purpose, cost and benefits of the investment and significance of particular issues of concern to it into account. The manners of dialogue and interaction between an institutional investor and its investee company may include the following:

1. Written or verbal communications with management;
2. Public statements on specific issues;
3. Expression of opinions at shareholders' meetings;
4. Submitting motions at shareholders' meetings;



5. Casting votes at shareholders' meetings.

**Guideline** Under circumstances where an institutional investor judges it necessary to  
**4-3** take action, it may act collectively with other institutional investors, so as to protect the rights and interests of clients or beneficiaries.

**Principle 5 Establish clear voting policies and disclose voting results**

**Guideline** The purpose that an institutional investor exercises its voting right is to  
**5-1** express opinion on each motion at a shareholder's meeting of investee companies. Specifically, the institutional investor is advised to carefully exercise voting rights of stocks it holds or manages in relation to motions which have significant impacts on rights and benefits of its clients and beneficiaries.

**Guideline** Voting rights shall be exercised based on information obtained from  
**5-2** investee companies by taking long-term joint interests of clients, beneficiaries and investee companies into account. An institutional investor shall not always vote in favor of, against or abstain from motions, but shall judge each motion individually. Voting rights shall be exercised objectively even in the case where a voting recommendation report has been obtained from a proxy advisory firm.

**Guideline** A voting policy may include the following:

- 5-3**
1. Threshold for exercising voting rights as determined in contemplation of cost and benefit. For instance, voting rights will only be exercised if shareholding reaches a certain percentage or amount;
  2. To the best of an institutional investors' ability, prudently evaluate

each motion of a shareholders' meeting before casting votes and communicate in advance with the management of an investee company when necessary;

3. Define types of motions which an institutional investor may support, oppose to or may only deliver its abstention from in principle;
4. A statement that an institutional investor does not necessarily support motions proposed by management;
5. Extent to which an institutional investor obtains and adopts voting recommendation reports made by proxy advisory firms;

**Guideline** An institutional investor is advised to carefully record and analyze voting rights exercised in accordance with relevant policies, so as to facilitate disclosure of the voting activities, which may be disclosed in aggregate. For instance, votes cast in favor, against or abstaining from various types of motions made by investee companies.

#### **Principle 6 Periodically disclose to clients or beneficiaries about status of fulfilment of stewardship responsibilities**

**Guideline** An institutional investor is advised to carefully record its stewardship activities to form a basis of assessment and improvement for its stewardship policy, action and disclosure.

**Guideline** When regularly disclosing to its clients or beneficiaries a status of its fulfilment of stewardship duty according to agreement with or request of its clients or beneficiaries, an institutional investor may disclose relevant

information may be made in written, electronic or any other form which can be easily accessible and readable.

**Guideline** Under a situation where clients and beneficiaries are vast in number or the provision of status of fulfilment of stewardship duty is not specified in an agreement, an institutional investor is advised to disclose its stewardship activities annually on its website or in its reports such as business report and annual report. The content is advised to include:

**6-3**

1. A statement on "Stewardship Principles for Institutional Investors" and explanations for non-compliance with certain principles;
2. Attendance in person or by proxy at shareholders' meetings of an investee company;
3. Voting activities (as specified under Guideline 5-4);
4. Contact channel for stakeholders such as clients, beneficiaries, investee companies or other institutional investors to reach a signatory;
5. Other material events (e.g. dialogue and interaction with an investee company or relevant opinions and actions on special events).

**Guideline** If investment or stewardship activities are not directly performed by a signatory, for instance where management of a fund is fully entrusted to an asset manager by an asset owner, measures taken to ensure the trustee's compliance with a stewardship policy is advised to be explained when disclosing the stewardship activities to the clients or beneficiaries.

**6-4**

## Attachment

### Sample Statement on

#### "Stewardship Principles for Institutional Investors"

※ Note:

This sample is for reference only. A signatory is advised to disclose and update its statement according to actual circumstances and its business model. Institutional investors shall complete a brief description of status of their compliance with each stewardship principle within six months starting from the endorsement date and notify the Corporate Governance Center. Foreign institutional investors who are signatories of other national or international codes/principles with similar objectives can refer back to their home country reporting or statements to demonstrate the status of compliance with each Stewardship Principle.

The ○○'s (name of institution) main business is \_\_\_\_\_ and is an asset owner / asset manager / or other (e.g. service provider or industrial association).

○○ hereby represents to comply with "Stewardship Principles for Institutional Investors". Compliance with the six principles is detailed below (or will be provided within six months starting from the endorsement date):

#### **Principle 1 Establish and disclose stewardship policies**

The operational objective of ○○ is to achieve maximum benefits for the clients / beneficiaries / shareholders through conducting the businesses of \_\_\_\_\_ (business). To achieve such an objective, the stewardship policies set forth by ○○ include but not limited to its responsibilities to clients / beneficiaries / shareholders and disclosure of fulfillment of stewardship duties. Please visit (website) for details of stewardship policies.

## **Principle 2 Establish and disclose policies on managing conflicts of interest**

To ensure that ○○ executes its businesses in the interest of its clients or beneficiaries, ○○ establishes policies on managing conflicts of interest, including types of conflicts of interest and management approach. Please visit (website) for details of policy content on managing conflicts of interest and handling of material conflicts of interest.

## **Principle 3 Regularly monitor investee companies**

To ensure that sufficient and valid information can be obtained by ○○ for assessing the nature, timeline and degree of dialogue and interaction with investee companies and to form a sound basis for investment decisions of ○○, ○○ focuses on issues regarding the investee companies, such as related news, financial performance, industry profile, operational strategy, activities for environmental protection, social responsibilities and corporate governance.

## **Principle 4 Maintain an appropriate dialogue and interaction with investee companies**

Through appropriate dialogue and interaction with investee companies, ○○ will further understand and communicate with management, including board of directors or executives, about risks faced by industry and strategies adopted, and strive to reach consensus with the investee companies on creating long-term values. ○○ communicates annually with management of investee companies through conference calls, face-to-face meetings, participation in institutional investors' roadshows or attendance at shareholders' meetings or significant extraordinary general meetings. If it is likely that an investee company may violate principles of corporate governance on specific issues or damage long-term values of clients / beneficiaries / shareholders of ○○, ○○ will, when considered necessary, inquire with management of the investee company about compliance handling and does not give up its rights to act collectively with other investors to protect their interests.

## **Principle 5 Establish clear voting policies and disclose voting results**

In order to achieve maximum benefits for clients / beneficiaries / shareholders, ○○ has established a clear voting policy and is a proactive voter at shareholders' meetings. The Company does not necessarily support proposals made by management. Please

refer to \_\_\_\_\_ (website) for (aggregated) details of voting activities.

**Principle 6 Periodically disclose to clients or beneficiaries about status of fulfilment of stewardship responsibilities**

The stewardship activities are disclosed by ○○ on its website (or concurrently in its annual report / business report) on a regular basis, including this statement, explanation on non-compliance with stewardship principles, attendance at shareholders' meetings of investee companies, voting activities, and other material matters.

**Signatory ○○ (name of institution)**

**Month/Date/Year**