

# **Revision of 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, is advised to be based on fund provider's (may contain clients, beneficiaries or shareholders of the institutional investors) overall 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 and disclose clear voting policies and voting results

**Principle 6** Periodically disclose the 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.

### **Introduction to the guidelines**

#### **"Stewardship" of an institutional investor**

An institutional investor, when making an investment or carrying out its fiduciary duty, is advised to be based on fund providers' (may contain clients, beneficiaries or shareholders of the institutional investors) overall 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.

#### **Take into account the sustainable development of an investee company**

An institutional investor is responsible for its stewardship and advised to consider the risk and performance of an investee company in terms of environment, social and governance, and integrate them into the investment evaluation process and decision making. The constructive communication and interaction with an investee company promotes the sustainable development of an investee company, thereby enhancing the long-term interests of clients and having a positive impact on the society.

## **Scope of Stewardship**

As the investment scope of an institutional investor expands, the scope of stewardship should be extended by the importance to other asset classes such as bonds, real estate, private equity, alternative investment and other asset classes beyond equities.

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

### **Guideline 1-1**

When establishing stewardship policies, an institutional investor is 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 1-2**

An institutional investor is advised to integrate environmental, social, and corporate governance (ESG) factors into the investment evaluation process to fulfill their stewardship responsibility and create long-term investment value.

### **Guideline 1-3**

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

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

### **Guideline 2-2**

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

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

### **Guideline 2-3**

Situations of conflicts of interest may include the following:

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 2-4**

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.

### **Guideline 2-5**



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.

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

#### **Guideline 3-1**

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 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.

#### **Guideline 3-3**

An institutional investor is advised to use environmental, social, and corporate governance (ESG) factors to monitor, analyze, and evaluate the related risks and opportunities of an investee company. An institutional investor is advised to understand

the sustainable development strategy of an investee company.

**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 4-3**

Under circumstances where an institutional investor judges it necessary to take action, it may act collectively with other institutional investors, so as to protect the rights and interests of clients or beneficiaries, and for the sustainable development of investee companies. It may also participate in relevant advocacy organizations for specific environmental, social, and corporate governance “ESG” issues, jointly expand and leverage its influence as an institutional investor.

**Guideline 4-4**

An institutional investor should pay attention to the engagement, the impact brought to an investee company after negotiation, the formulation plan and concerns for future negotiation, so as to determine subsequent investment decisions.

**Principle 5 Establish and disclose clear voting policies and voting results****Guideline 5-1**

The purpose that an institutional investor exercises its voting right is to 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 5-2**

Voting rights shall be exercised based on information obtained from 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 5-3**

An institutional investor should establish and disclose voting policies, which may include the following:

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 5-4**

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, and the reason for in favor, against or abstaining of the motion which are considered important.

**Principle 6 Periodically disclose the status of fulfilment of stewardship responsibilities**

**Guideline 6-1**

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 6-2**

An institutional investor is advised to regularly review its stewardship policies, policies on managing conflicts of interest, voting policies and the status of fulfilment of stewardship responsibilities. An institutional investor is advised to evaluate the effectiveness in conducting stewardship activities.

**Guideline 6-3**

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 6-4**

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 publish a stewardship report annually on its website or disclose its stewardship activities in its reports such as the business report and annual report.

The content is advised to include:

1. A statement on "Stewardship Principles for Institutional Investors" and explanations for non-compliance with certain principles;
2. Information of the company's internal resources and organizational structure to implement stewardship;
3. Statistics of the engagement activities,
4. Case description of the dialogue and interaction with the investee company, the results of the agreement and the follow-up situation;
5. Cases of cooperation with other institutional investors;
6. Attendance in person or by proxy at shareholders' meetings of an investee company;
7. Voting activities (as specified under Guideline 5-4);
8. Contact channel for stakeholders such as clients, beneficiaries, investee companies or other institutional investors to reach a signatory;
9. Other material events (e.g. major incidents of conflicts of interest which have taken place in the last year).

#### **Guideline 6-5**

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.