

Capital Securities Corporation

Stewardship Report 2020

1. Stewardship policies

As an asset owner, our company uses its own funds to invest through brokerage, proprietary trading and underwriting businesses to seek interests for shareholders. Our company also participates in corporate governance by paying attention to investee companies, attending shareholder meetings, exercising voting rights, and appropriately communicating and interacting with board directors or managers of investee companies, in order to protect the rights and interests of asset owner. Our company regularly discloses the fulfilment of stewardship responsibilities on its website or annual report, which are updated at least once a year.

Our company fulfills the following stewardship responsibilities:

- (a) Environmental, social, and corporate governance (ESG) is incorporated into investment process
Our company's investment-related departments have gradually incorporated ESG into the scope of investment engagement and action in 2020. Our proprietary trading department and corporate finance department have incorporated ESG content into their investment-related regulations:

1. Article 2, paragraph 1, subparagraph 1 in investment guidelines regarding proprietary trading of securities: investment analysis report

In addition to investing in accordance with the company's securities trading policy, proprietary trading personnel shall analyze macro-economy, sectors, and individual stocks, and provide investment analysis report after considering risks and performance associated with ESG. Investment analysis report shall record the fundamentals for which analysis is made, reference and recommendation, and serve as the basis for trading decision after being approved by the accountable. Investment analysis report shall be updated every three months or immediately when share price exceeds the price range specified in the report.

2. Article 4 in investment guidelines regarding corporate finance department's proprietary trading of ESB-listed stocks: risk management mechanism

Corporate finance department shall consider risks and performance associated with ESG when buying or selling positions.

Additionally, our company's fixed income department sets a minimum rating standard for bond credit rating. Moreover, our company issues investment decision-making prior to investment and trading, which includes not only financial analysis of an investee company but also a review on whether the investee company is associated with any negative news (e.g., whether it fulfils social responsibilities, corporate integrity and environmental protection), in order to assess its investment value. During the process of investment decision-making, our company assesses various risks

associated with the investee company on an overall basis in accordance with the stewardship principles.

(b) Risk assessment on an investee company

1. Proprietary trading

Risk management measures are as follows:

- (i) Execute stop-loss and profit-taking mechanisms during proprietary trading in accordance with the company's "Risk Management of the Proprietary Trading Department"
- (ii) Our company shall not hold more than 10 percent of the total issued shares of any domestic company. The total amount of the cost of the securities issued by any domestic company held by our company shall not exceed 20 percent of our company's net worth.
- (iii) Our company shall not hold more than 5 percent of the total issued shares of any foreign company. The total amount of the cost of the securities issued by any foreign company held by our company shall not exceed 10 percent of our company's net worth.
- (iv) The total amount of our company's investment cost in holdings of equity securities issued by a single related party may not exceed 5 percent of our company's net worth.
- (v) Assessment: trading personal shall review the inventory of securities daily.

2. Underwriting business

Our company regularly reviews relevant news, announcements, financial performance, market risk, credit risk, liquidity risk, operational risk, legal risk, strategy risk and other risks of an investee company. Our company manages risks by conducting quantitative and non-quantitative assessments on whether major shareholders have integrity issue and whether there are abnormal shareholdings of directors/supervisors or changes in managerial level and finance personnel.

3. Derivatives products

Derivatives products are issued based on a list of underlying securities published by TWSE and TPEX. Changes in hedging positions are passively generated by the changes in investor trading and dynamic greeks. Relevant trading is considered a hedging behavior rather than an active investment behavior.

4. Fixed income

Our company conducts risk evaluation on investee companies and examine their credit ratings, financial information, operations and future outlooks. In addition, our company takes external factors into consideration, such as the global economy, politics and exchange rates, and makes comprehensive evaluation as the basis for trading decision.

Our company sets forth risk management guidelines regarding the bond positions it holds:

Credit risk:

- (i) NTD-denominated bonds and foreign bonds: secured or unsecured corporate bonds, financial bonds and asset-backed securities, that are underwritten in primary market or

purchased in secondary market, shall have credit ratings above or equal to Taiwan Ratings twA-, Moody's Credit Rating A3.tw or Fitch Ratings A-(tw).

- (i) Foreign bonds: foreign bonds held by our company shall have investment grade ratings (BBB- or higher by S&P, or corresponding ratings by Moody's and Fitch Ratings), and the holding positions shall be statistically evaluated by country and by sector on a regular basis. All positions exposed to risks are to be reported in monthly meetings.

The limits of holding bond positions issued by a single company are as follows:

- (ii) NTD2.0bn of secured or unsecured corporate bonds, financial bonds or securitized products rated at twAAA; NTD3.0bn of corporate bonds issued by Taipower; NTD1.5bn of bonds rated at twAA+~twAA- and NTD1.0bn of bonds rated at twA+~twA-; or based on the approval and resolution of the review committee. Our company shall adjust the aforementioned positions within one quarter if they exceed limits due to rating downgrade.
- (iii) If the total amount of the convertible bonds issued exceeds NTD500mn, the investment in such target shall not exceed 15 percent of the total bond issuance value (based on a combined calculation of proprietary trading, asset swap and CLN). If the total amount of the convertible bonds issued are below NTD500mn, investment shall not exceed 500 units (based on a combined calculation of proprietary trading, asset swap and CLN). The holding of bonds issued by a single company is capped at NTD1.5bn for TCRI1~2, NTD1.0bn for TCRI3~4 and NTD600mn for TCRI5~6 (TCRI7~9 are not accepted).
- (iv) Foreign bonds held by our company shall have investment grade ratings (BBB- or higher by S&P, or corresponding ratings by Moody's and Fitch Ratings), and the holding positions shall be statistically evaluated by country and by sector on a regular basis. All positions exposed to risks are to be reported in monthly meetings.

Stop-loss control:

- (i) If annual trading losses in foreign-currency bonds (including realized and unrealized gains and losses) reach half of the annual profit target of fixed income department, early warning/control will be triggered, and hedging shall be undertaken with the submission of a review report.
- (ii) Structural adjustments on duration, region and rating shall be carried out if annual trading losses (including realized and unrealized gains and losses) reach 1 percent of the positions approved by the operational plan.

Stop-loss control for single investment target:

- (i) A review report shall be submitted to the president if unrealized losses reach 10 percent.
- (ii) If unrealized losses reach 20 percent or above, stop-loss shall be executed on at least 50 percent of the holding positions within one month; stop-loss can be suspended from executing if management by exception is applied for or if annual losses/unrealized losses are reduced down to less than 20 percent.

- (iii) The positions in foreign currency securities shall be sold or disposed if the sovereign credit ratings of issuing countries, long-term credit ratings of issuers or guarantors and bond issue ratings are downgraded to below the lowest standards set by the competent authority.

In addition to the aforementioned methods, our company's risk management department controls risks associated with investee companies through information system and related mechanisms.

Our company sets forth evaluation and management guidelines on ESG issues in our risk management system.

1. Evaluation and assessment on ESG risks: regarding ESG risks that are currently difficult to be quantified, our company adopts management measures that appropriately reflect and evaluate risks, in order to ensure risk management.
2. ESG risks are managed in accordance with our company's "Corporate Social Responsibility Best Practice Principles" and regulations set forth by competent authority.

(c) Protecting the rights of clients and beneficiaries

All personnel of our company shall adhere to the provisions of the Securities and Exchange Act, and may not take advantage of undisclosed information, of which they have learned, to engage in insider trading. Sales personnel of our company are required to understand the levels of risk associated with products provided to general clients, and shall not sell products which exceed the risk levels appropriate for clients or are limited to professional investors.

Our company's proprietary trading business follows an internal control system while making trading decisions. Trading decisions shall comply with proprietary trading rules and shall observe market conditions to effectively adjust supply/demand relationship, so as not to interfere with the formation of fair price or the soundness of the company's operations and to avoid abnormal trading activities. Trading decisions shall also comply with relevant company policies, such as procedures for ethical management and code of conduct, guidelines for sales of structured products, code of conduct for derivatives sales personnel, and rules governing client interest in derivative trading, in order to protect the rights and interests of clients and beneficiaries.

Regarding clients who have signed the underwriting contracts with our company or are currently receiving consulting services, our employees are requested to comply with ethical corporate management principles, relevant procedures/code of conduct, and code of practice/conduct for corporate finance IPO personnel, in order to ensure clients' rights.

When our company engages in sales of structured products with clients who are not professional institutional investors, our company shall specify the highest potential loss or principal guaranteed rate in a prominent font or way on risk disclosure statement or individual confirmation letter, as well as the explanation on major risks, such as liquidity risk, FX risk, interest rate risk, tax risk and early termination risk.

(d) Engagement and the frequency of engagement with investee companies

Our company exercises voting rights of the stocks it owns through electronic voting every year, and regularly reviews and evaluates quantitative/non-quantitative indicators of investee companies,

including relevant news, financial performance, industry overview, operational strategies, corporate governance, etc.

Our company pays attention to investee companies every year by communicating with their managerial levels through telephone conference, face-to-face meeting, participation in earnings conference and participation in annual shareholder meeting or extraordinary general meeting.

2. Policies on managing conflicts of interest

Policies on managing conflicts of interest are formulated to ensure that our company executes its business based on the interests of shareholders, and to fulfill the responsibilities of institutional investor by ensuring no improper personal gains or decisions and actions.

Our company's conflicts of interest may include the following:

(a) Between our company and employees

1. Trading personnel of our company fail to strictly adhere to confidentiality while making internal trading decisions and act against laws/regulations, such as leaking trading information or business secrets of investee companies and conducting private trading or insider trading.
2. Company employees and their spouses, when engaged in trading at our company, are involved in illegal use of undisclosed information or conflicts of interest.

(b) Between our company/employees and clients

1. Sales personnel recommend products based on the amount of commission to be received instead of client's interest.
2. Company employees manipulate share prices in the course of duties to seek profits for oneself or others, or make the commitment to share profits or mutually bear losses with a third party, or ask for kickback or commission.
3. Employees engaged in bond/derivative trading shall not have better terms than those who are trading similar products.
4. Conceal or defraud clients or other behaviors that may cause misunderstanding.

(c) Between our company and other investee companies

Our company's trading personnel, when engaging in securities business, come to know of any information that may significantly impact the price of TWSE-listed stocks, and trade on such stocks or reveal the said information to clients or other persons before the information becomes public, given that the reveal of such information may cause material impact on stock prices issued by investee companies.

(d) Between our company and affiliates

Our company fails to do the following on the basis of equity/fairness principle when making deals with its subsidiaries: (a) specify written rules for any financial exchange and relevant procedures; (b) specify price and payment terms in contracts; (c) prevent irregular transactions.

An example of potential conflicts of interest incident:

Our company's stockbrokers/spouses/minor children buy or sell the same stocks on the same day in the same direction and within five minutes as the clients, regardless of manual or electronic orders.

Our company's ways of preventing and managing conflicts of interest are as follows:

- (a) Set guidelines for the prevention of conflicts of interest.

Our company set internal guidelines and employee code of conduct for business execution in order to prevent and manage conflicts of interest.

1. Code of ethical conduct

- (i) Directors and managers shall prevent their private interests from interfering or potentially interfering with the company's interests and causing conflicts of interest.
- (ii) Matters, confidential information and client data that our employees learned in the course of their duties shall be managed with discretion and must not be disclosed to others or used in non-work related ways, unless otherwise disclosed by the company or made public through regulations; the same applies to resigned employees.

2. Key points regarding proprietary trading of securities -- internal control measures

In order to build and systemize trading principles for proprietary trading department and flexibly allocate working capital, our company shall reinforce the prevention of conflicts of interest and conduct internal control in addition to setting up relevant procedures in accordance to this principle.

- (i) The proprietary department shall not trade the securities it recommends to brokerage department in the opposite side within five business days after making such recommendation, according to Article 44 of the Regulations Governing Securities Firms.
- (ii) Personnel of proprietary trading department shall strictly adhere to confidentiality while making trading decisions and shall not act against laws/regulations, according to Article 18 of the Regulations Governing Responsible Persons and Associated Persons of Securities Firms.
- (iii) In addition to the non-tradable securities as set forth in laws/regulations, proprietary trading department shall not trade stocks in the "List of Non-tradable Stocks" containing undisclosed information or causing conflicts of interest, according to Article 45 of the Regulations Governing Securities Firms.

3. Code of conduct for derivatives sales personnel

Derivatives sales personnel, when selling products to clients, shall perform their duties based on the principles of good faith and prudence, and comply with the following rules:

- (i) Prohibited from breaching duties, damaging the interests of the securities firm, or unlawfully seeking profits for oneself or a third party;
- (ii) Prohibited from making any agreement with or commitment to a client to share the income, or share the loss, on an investment;

- (iii) Prohibited from using non-public information of a client learned in the course of duties to seek unlawful profits for oneself or any related personnel;
- (iv) Prohibited from using untruthful promotional means directed at clients to seek profits for oneself;
- (v) Prohibited from accepting or offering improper compensation or gifts.

4. Code of conduct for internal personnel engaged in derivative trading

Internal personnel engaged in derivative trading shall comply with the following rules:

- (i) Our company's internal personnel engaged in derivative trading shall not make any use of such trading to carry out mergers or acquisitions or unlawful trades, either on one's own behalf or in cooperation with others.
- (ii) Our company's internal personnel shall not engage in derivative trading in the names of others. Our company's business unit dealing with derivative trading shall refuse to accept trading when such trading is made in the name of another person, and shall notify the supervisor in charge to handle this matter.
- (iii) Our company's internal personnel shall conduct derivative trading in person and shall not authorize others to trade on their behalf.
- (iv) Our company's employees shall not allow others to conduct derivative trading in their names.
- (v) Our company's internal personnel engaged in derivative trading, upon learning of any news that may materially impact the underlying of a derivative during the course of their duties, shall not conduct derivative trading prior to the public disclosure of such information.
- (vi) Our company's internal personnel engaged in derivative trading shall not violate securities management regulations or act in ways that are prohibited by the competent authority.

5. Code of conduct for corporate financing/IPO personnel

- (i) We prohibit our personnel from introducing investors to companies undergoing capital increase via personal connections or participating in the purchase of the shares released by company directors, supervisors or leading shareholders. The purchase of existing shares during the consulting period of an IPO project shall be reported internally and at VC monthly meetings, in order to jointly evaluate the fairness of the price and the selection of strategic targets.
- (ii) We prohibit our personnel from raising funds from the customers currently receiving our consulting services to privately set up an offshore company, purchase low-price shares via dummy accounts or accept investment profit-sharing from other VC or investment companies.

(b) Implementation of employee training

We offer continuous education through e-learning courses. We also hold regular employee training and testing sessions to inform them of relevant laws/regulations and the importance thereof. Relevant courses conducted in 2020 were as follows:

1. Advocacy on the procedures for handling material non-public information and regulations

related to insider trading in 4Q20

2. Advocacy on the regulations related to prohibited practices of securities practitioners in 2020
3. Training on ethical management in 2020

(c) Information control

We separate duties and functions of each business operations to maintain independence and confidentiality and to control information.

(d) Monitor/control measures

We establish three lines of defense in the internal control system and make sure the duties of each defense are fulfilled (ie. business unit shall guard the first line of defense, legal compliance/risk management office shall guard the second line of defense and internal audit office shall guard the third line of defense). Additionally, these lines of defense shall conduct annual internal controls and self-evaluations in order to appropriately manage conflicts of interest.

(e) We prohibit the trading of the stocks in the “List of Non-tradable Stocks” involving non-public information and conflicts of interest.

(f) Once an employee finds himself in a situation that may illegally profit himself or related stakeholders in the course of duties, he or she shall report the situation to his or her department manager and our company’s dedicated unit. The department manager shall also provide appropriate guidance to this employee.

3. Voting policies

Our company exercises its voting rights at the shareholder meetings of its investee companies in accordance with Article 5 of the “Key Points for the Exercise of Shareholder Voting Rights”.

(a) For the securities in possession, once the notice of shareholder meeting or the meeting concerning shareholder’s rights and interests is received, it shall be submitted to finance department for signing and filing. The finance department shall notify relevant departments of the aforementioned meeting notice and file a list of meeting notices that adopt electronic voting and appoint personnel to exercise voting rights. The remaining meeting notices for which voting rights are not exercised shall be bound into a book and filed.

(b) Regarding shareholder meetings or beneficiary meetings for the securities and beneficiary certificates in possession, in addition to relevant laws/regulations, those not adopting electronic voting and holding less than 300,000 shares may elect not to appoint personnel to attend the shareholder meeting. In respect of the exercise of voting rights, finance department shall notify the department holding the securities of matters related to attendance. If a single stock is jointly owned by two or more departments, the department holding the largest stake shall be in charge of subsequent matters.

- (c) In the event that an investee company has a proposal concerning non-ordinary resolution or special controversial issue, related matter can only proceed after receiving approval from the president, or otherwise it will be treated as abstention.
- (d) Relevant departments shall fill in an application form for the letter of appointment (letter of proxy) and provide instructions on the exercise of voting rights within the time limit of the meeting according to the provisions of the second paragraph of Article 5 or due to business needs. Except for the provisions of the third paragraph of Article 5, this application shall be processed after receiving approval from the department manager.
1. Cast a vote in writing:
 - (i) A department shall specify reasons of application on the application form for the appointment letter (letter of proxy), and provide clear instructions regarding the exercise of voting rights for each proposal on the appointment letter.
 - (ii) The appointed person shall return the certificate of attendance after exercising voting rights. A meeting notice, letter of appointment and certificate of attendance sealed with company stamps shall be retained by the finance department in writing for future reference.
 2. Electronic voting:

It is not required to issue a letter of appointment. A business unit shall select the voting instructions in each proposal on the proxy letter of the meeting notice, and submit it to the finance department to execute voting on an electronic voting platform. The files of electronic voting records shall be retained in writing or electronic format for future references.
- (e) Our company shall exercise its voting rights on the resolutions of its investee companies via written or electronic means according to Clause 1 of Article 177 of the Company Law.
- (f) In addition to the investee companies approved by regulators, in terms of exercising voting rights, while maximizing our benefits, our company shall not directly or indirectly get involved in a company's operations or engage in any misconduct. Our company shall also take care not to damage its corporate image, hinder sales or jeopardize public interests.
- (g) Should a securities house has any staff member on the board of directors of its investee company, its legal person should be an employee of the securities house (excluding his spouse or minor child). If that is not the case, sufficient reasons and the documents on the assignment procedures of a substitute should be provided and kept for future references.
- (h) Any unspecified conditions shall be dealt with in accordance with relevant laws in the country.

Our company may not fully support the proposal(s) made by the management of our investee companies. In the event that an investee company has a proposal concerning non-ordinary resolution or special controversial issue, related matter can only proceed after receiving approval from the president, or otherwise it will be

treated as abstention. In 2020, our company has included the type of proposals that we may “support in principle, object to or abstain from voting” into the “Key Points for the Exercise of Shareholder Voting Rights” and act accordingly.

External research & proxy voting services

As a securities house, our subsidiary Capital Investment Management Corp releases equity reports monthly to meet the needs of research into our company’s investee companies, thus requiring no external research services.

Statistics on research notes released by Capital Investment Management Corp.													
Item/ Date	JAN20	FEB20	MAR20	APR20	MAY20	JUN20	JUL20	AUG20	SEP20	Oct20	NOV20	Dec20	Total
Stocks	20	56	66	41	55	25	38	69	27	32	60	38	527
Industry briefing	12	11	9	10	11	6	12	1	9	2	8	12	103
Macroeconomics briefing	23	14	22	21	19	19	18	7	20	21	19	5	208
Integrated views (insights & weekly reports)	4	4	4	4	4	4	5	4	4	4	4	5	50
Corporate financing	3	5	6	3	3	3	2	5	12	5	6	5	58
Morning briefing	15	19	22	20	21	20	23	21	22	19	21	23	246
Investment-related monthly	1	1	1	1	1	1	1	1	1	1	1	1	12
Revenue stats	14	11	7	6	5	8	8	6	7	8	14	16	110
Unaudited financial stats	15	15	17	20	15	15	21	16	14	23	22	16	209
Trading strategy-weekly report	3	4	4	4	4	4	5	4	4	4	4	4	48
Trading strategy-market wrapup	15	19	22	20	21	20	23	21	22	19	21	23	246
Morning briefing summary	15	19	22	20	21	20	23	21	22	19	21	23	246
Special topic	24	24	27	30	27	27	38	23	27	31	43	26	347
Industry monthly report (revenue estimate & review)	2	2	2	2	2	2	2	2	2	2	2	2	24
Industry quarterly report (financial report)				1				1			1		3
US & HK stocks	58	70	81	71	73	75	83	78	80	68	74	69	880
English report	25	33	57	26	36	24	26	41	21	16	44	21	370
Total	249	307	369	300	318	273	328	321	294	274	365	389	3,687

Our company does not use proxy voting services but mainly uses electronic voting or physically attend shareholders meetings to vote.

4. Elements of Stewardship Report

(a) Institutional investors’ fulfillment of stewardship responsibilities with internal resources

Our company’s proprietary trading, corporate financing, bond, finance, and planning departments take charge of stewardship duties after deliberating on feasibility issues as they keep in step with international standards. By paying attention to the ESG trend worldwide, our company familiarizes its staff with the importance of corporate social responsibility through on-the-job training sessions.

(b) Establishing a means of communication for our stakeholders (e.g., clients, beneficiaries, investee companies or institutional investors)

To provide a channel of communications for various stakeholders, we set up a stakeholder section on our company website for stakeholders to express their concerns over different stewardship issues and topics. (<https://www.capital.com.tw/Capitalgroup/stakeholder/stakeholder.asp?xy=16&xt=16>) Our stakeholders may also contact our spokesperson through emails or express their opinions to our customer service center on the phone or through emails.

Our stakeholders may reach us through the following contacts:

Stakeholder	Contact
Investor	Investor relations: Tony Tan (vice president) at (02) 8789-8888 (ext. 7042)
Employee	Management Department: Mr. Chen at (02) 8789-8888 (ext. 7121)
Client	Customer service center at 412-8878; please first dial 02 when using a cellphone. Spokesperson: Tony Tan (vice president) at (02) 8789-8888 (ext. 7042)
Government	Spokesperson: Tony Tan (vice president) at (02) 8789-8888 (ext. 7042)
Supplier & community	Management Department: Mr. Zhu at (02) 8789-8888 (ext. 3205)

(c) On major conflicts of interest and ways to deal with them

Our company did not experience any significant conflicts of interests from 01/01/2020 to 12/31/2020.

After inspecting the self-auditing results on internal controls from different departments, competent authorities and external agencies as well as analyzing the reported cases of client conflicts and whistleblowers, we hereby confirm that we had not experienced any significant conflicts of interest during the given period. Here are some brief descriptions:

1. Self-auditing results on internal controls: based on our findings, we discovered that while our internal controls did not apply to one instance, our departments had carried out these controls on 357 instances and missed on one instance. Yet no significant internal control failures and conflicts of interests had occurred in the given period.
2. Internal auditing results: based on our findings, we discovered auditing missteps but no significant conflicts of interests.
3. Cases of client conflicts: we had closed all 59 cases arising in this period. 50 of them had not been verified to be true while the other nine had not represented significant conflicts of interest.
4. Whistleblowing cases: our documented cases did not meet the criteria and standards to be classified as whistleblowing. Nor had they been verified as a violation of company regulations.
5. External audits & disciplines: the external audits & disciplines we had undergone during this period had not shown any major conflicts of interests.

Policy effectiveness:

When carrying out duties, our employees must abide by the procedures established to prevent conflicts of interests and implement training, decentralization, information governance, firewalls, control mechanism, etc. to prevent any conflict of interest. Should any major conflict occurs that causes serious damage to shareholder interests, our company shall disclose the incident and our way to deal with it through our website, faxes, emails, telephone calls, and other means.

To prevent selfish gains or inappropriate policies or actions, insider trading or any conflict of interests while taking profits from investment targets, we have thereby devised a set of conduct codes, guidelines on proprietary trading of equities and derivative financial products to fulfill our obligations as institutional investors.

(d) Fulfillment statement, explanation on non-compliances and assessment of effectiveness of stewardship duties

Our company has signed the statement “Stewardship Principles for Institutional Investors” on 12/20/2018 and signed an updated version of the statement on 09/20/2020 and SEP2021, which is published on our company website (<https://www.capital.com.tw/Capitalgroup/PR/governance.asp>).

Explanation for non-compliances:

For our derivative trading business, we own stocks for hedging purposes to deal with the changes in the share prices related to our products and trading targets. Since the share prices related to our products are announced by exchanges each quarter, ESG requirements and some principles of the “Stewardship Principles for Institutional Investors” are thus inapplicable. Nevertheless, we abide by relevant external rules, our internal regulations and internal control system when we adjust stockholding ratios for individual products.

(e) Authorization level

This report is approved by our Chairperson after being reviewed by our internal audit or legal compliance staff.

5. Engagement & Disclosure

(a) Regular attendance at engagement events and relevant data (e.g., company visits, investor conferences and shareholders meetings)

Our company seeks to communicate with the management of our invested companies by visiting these companies, attending their conference calls, seminars, investor conferences and shareholders meetings. The situation in FY20 was as follows:

1. Proprietary trading department:

In FY20, the department attended 165 investor conferences.

In FY20, the department attended the shareholders meetings held by 39 companies.

In FY20, the department exercised voting rights (all electronically) at the shareholders meetings held by 39 companies.

2. Corporate Finance Management:

In FY20, the department visited 545 companies.

In FY20, the department held investor conferences for 48 companies.

In FY20, the department attended 38 shareholders meetings held by its invested companies and voted on 196 bills without rejecting or abstaining a bill.

(b) Assessing the need to engage/interact with invested companies

To establish long-term client relationships, our company interacts with our invested companies by visiting, telephoning, emailing, organizing activities, attending shareholders meetings, investor conferences, etc. Our proprietary department, however, conducts analysis on macroeconomics, industries and stocks and attends earnings calls organized by the Taiwan Stock Exchange Corporation, Taipei Exchange and different companies in order to determine if it needs to engage in further contact with its invested companies.

(c) Engagement activities and stewardship policies

Our company seeks to understand our invested companies in areas such as human rights policies, labor rights, corporate governance, finances, operational strategies, involvement in ESG, etc. and instill in the companies the importance of ESG-related issues through dialogues and interactions at investor conferences and other activities.

(d) Issues, reasons & scope of engagement with invested companies, impact on companies & expected follow-up and impact on future investment decisions

In addition to regular business topics, during visits and other interactions, our company also taps into ESG-related issues like human rights policies, labor rights, corporate governance, finances, operational strategies and their involvement in ESG so as to boost their sense of stewardship. After these exchanges, we shall continue to show our concern for our investee companies.

On 11/17/2020, we visited [Tung Ho Steel \(2006 TT\)](#), Taiwan's biggest manufacturer of construction-related steel, and showed our interest in the company's human rights policies, labor rights, corporate governance, finances, operational strategies and involvement in ESG issues.

According to our understanding, the company has not had any significant violations in ESG issues such as human rights, labor rights and corporate governance recently. Following this visit, we shall continue to show our concern for this company.

(e) Partnership policies/examples with other institutional investors & examples with these investors on jointly expanding/exercising impact concerning ESG advocacy groups

Our company does not have any partnership policies/examples at the moment. Nor do we participate in any ESG advocacy group.

6. Voting disclosure

Regarding our voting at shareholders meetings, we voted 304 times electronically and 21 times non-electronically. In FY20, there had not been any instance of objection. For specifics, please visit our company website (<https://www.capital.com.tw/Capitalgroup/PR/governance.asp>).

Our company does not always agree with the proposals made by the management of our invested companies. Should special or controversial proposals arise, we may abstain from voting upon the approval of our President. The following is a list of examples:

- (1) With regard to the dismissal of two board members at **D-Link (2332 TT)**, we abstained from voting (5 votes) due to the controversial nature of this matter.
- (2) With regard to the election of board members and supervisors at **Pharmally International (6452 TT)**, **D-Link (2332 TT)**, and **WUS Printed Circuit (2316 TT)**, we respectively abstained from one vote.
- (3) On nullifying non-competes for **Pharmally International's (6452 TT)** board of directors, since it was the company's shareholder self-help group held an extraordinary shareholders meeting to reelect the company's board of directors and supervisors and make extempore motions, we abstained from voting (one vote).
- (4) With regard to **Teco (1504 TT)**, as its major shareholder PJ group proposed to reduce capital by 10% in cash and return the capital to the company's shareholders, we abstained from voting (1 vote).

<u>Proposal type</u>	<u>Topic</u>	<u>Number of proposals</u>	<u>In favor of</u>	<u>Objection</u>	<u>Abstention</u>
Financial issue	Acknowledgment of operational & financial reports	<u>296</u>	<u>296</u>	<u>0</u>	<u>0</u>
	Earnings distribution or loss make-up	<u>315</u>	<u>315</u>	<u>0</u>	<u>0</u>
Corporate governance	Revision of articles of incorporation or procedures	<u>579</u>	<u>579</u>	<u>0</u>	<u>0</u>
	Nullifying non-competes	<u>196</u>	<u>195</u>	<u>0</u>	<u>1</u>
	Exercising rights of disgorgement	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Personnel structure	Election of board of directors	<u>124</u>	<u>121</u>	<u>0</u>	<u>3</u>
	Dismissal of board members	<u>5</u>	<u>0</u>	<u>0</u>	<u>5</u>
Employee benefit	Issuance of Restricted Stock Awards (RSA)	<u>16</u>	<u>16</u>	<u>0</u>	<u>0</u>
	Issuance of employee stock options at lower-than-market prices	<u>2</u>	<u>2</u>	<u>0</u>	<u>0</u>
	Transfer of treasury stocks to employees at lower-than-average prices	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>
Shareholder rights	Company shut-down, merger, acquisition, & share transfer/split	<u>10</u>	<u>10</u>	<u>0</u>	<u>0</u>
	Capital increase (via earnings/capital surplus/ distributed bonuses or issuance of stocks for capital increase in cash)	<u>51</u>	<u>51</u>	<u>0</u>	<u>0</u>
	Private placement in stocks	<u>19</u>	<u>19</u>	<u>0</u>	<u>0</u>
	Capital decrease/capital decrease in cash (to make up for losses or return cash)	<u>10</u>	<u>9</u>	<u>0</u>	<u>1</u>
<u>Others</u>	<u>Others</u>	<u>21</u>	<u>21</u>	<u>0</u>	<u>0</u>
<u>Total</u>		<u>1,645</u>	<u>1,635</u>	<u>0</u>	<u>10</u>
		<u>100.00%</u>	<u>99.39%</u>	<u>0.00%</u>	<u>0.61%</u>

Note: Data received after attending shareholders meetings through the Taiwan Depository & Clearing Corporation and after attending shareholders meetings on our own.

