

Mandated Management Guidelines for the Labor Funds

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1. To implement the business of mandated management for the Labor Pension Fund, the Labor Retirement Fund and the Labor Insurance Fund, this Mandated Management Guidelines is hereby stipulated in accordance with Paragraph 2 to Article 33 of the Labor Pension Act, Paragraph 2 to Article 56 of the Labor Standards Act and Paragraph 2 to Article 2 of the Management and Application Rules for Labor Insurance Fund (hereinafter referred to as the Funds or each Fund).
2. The Bureau of Labor Funds of the Ministry of Labor (hereinafter referred to as the Bureau of Labor Funds) may, within the proportion and amount as set forth in the Annual Plan for Investment and Utilization of the Funds, delegate the management to mandated parties in accordance with Subparagraphs 1 and 4 to 12 of Paragraph 1 to Article 4 of the Regulations of Labor Pension Act on the Labor Pension Fund Management/Utilization and Profit/Loss Allocation, Subparagraphs 1 and 3 to 11 of Paragraph 1 to Article 4 of the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund and Subparagraphs 1 to 2 of Paragraph 1 to Article 4 and Subparagraphs 1, 2, 4 to 6, 8 and 11 of Paragraph 1 to Article 5 of the Management and Application Rules for Labor Insurance Fund.
3. The manager mandated by the Funds for management shall be an overseas or domestic asset management institution or its branch institution complying with relevant regulations on governing asset management businesses.

The manager mandated for domestic investment management shall comply with relevant regulations promulgated by the competent authority in charge of the relevant enterprises and satisfy the following qualifications:

- (1) The manager must be established for three (3) years or more.
- (2) The manager must be incorporated or recognized under the laws of the Republic of China to conduct business in the Republic of China.
- (3) The manager's clients' assets under management must be no less than NT\$10 billion up to the end of the month preceding the public tender date.
- (4) The cumulative rate of return of a single fund or trust account under its management for the past three years must be no less than that of the benchmark commonly used in the market or the rate of return set forth by the Bureau of Labor Funds.

The manager mandated for overseas investment management shall satisfy the following qualifications:

- (1) The manager must be established for three (3) years or more.
- (2) The manager must be incorporated and registered to conduct business under the laws of the Republic of China or any of the foreign countries.
- (3) The manager's clients' assets under management must be no less than US\$5 billion or the equivalent to other currencies up to the end of the quarter preceding the public

tender date.

- (4) The historical performance of the mandate type that the manager applies for shall not be less than three years.
- (5) The manager must have branch institution(s), business operation venue(s) or service team(s) in the territory of the Republic of China.

4. The custodian mandated by the Labor Pension Fund and the Labor Insurance Fund for mandate management shall satisfy the following qualifications:

- (1) With respect to the domestic mandate management:
 - (i) The custodian must be approved by the Financial Supervisory Commission to conduct custody business, and its paid-in capital must be no less than NT\$10 billion.
 - (ii) The capital adequacy ratio, the ratio of capital to risk weighted assets, must be no less than eight percent (8%).
 - (iii) The custodian's clients' assets under custody must be no less than NT\$10 billion.
 - (iv) The custodian's long-term debt credit rating for the past year must be at/above "twA" by Taiwan Ratings Corporation or the equivalent by another internationally prestigious rating agency.
- (2) With respect to the overseas mandate management:
 - (i) The custodian must be a financial institution whose clients' assets under custody must be no less than US\$500 billion or the equivalent to other currencies.
 - (ii) The custodian's long-term debt credit rating for the past year or the latest long-term debt credit rating must be at/above "twA" by Taiwan Ratings Corporation or the equivalent by another internationally prestigious rating agency.
 - (iii) If the custodian is a foreign financial institution, it should be a branch institution or subsidiary, and it must have a client service team in the territory of the Republic of China.

With respect to the qualification regarding the asset value under custody in subsection (i) of Subparagraph (2) to the Paragraph 1 above, where the asset value under custody is less than US\$500 billion or the equivalent to other currencies but no less than US\$3 billion or the equivalent to other currencies, such qualification shall be deemed as satisfied if the custodian seeks alliance with another custodian bank whose clients' assets under custody are no less than US\$500 billion or the equivalent to other currencies

5. The Bureau of Labor Funds shall publicly solicit companies that are eligible for Article 3 and 4 hereof to handle the mandated management for the Labor Pension Fund and the Labor Insurance Fund and that are eligible for Article 3 hereof to handle the mandated management for the Labor Retirement Fund.

The above companies shall, within the period prescribed by the Bureau of Labor Funds, submit the following documents to the Bureau of Labor Funds to apply for conducting the mandated management:

- (1) Supporting documents demonstrating the compliance with the requirements under Article 3 or 4 hereof;

- (2) Management or custody service proposals;
- (3) Other documents required by the Bureau of Labor Funds.

The content of the management and custody service proposals stipulated in subparagraph (2) of the above Paragraph shall conform to the requirement of the Bureau of Labor Funds.

The Bureau of Labor Funds may mandate a professional investment consultancy to assist in the selection, performance measurement, monitoring post-selection management and other relevant matters of the managers and custodians, and may engage an attorney to handle legal issues related to the mandated management.

6. The Bureau of Labor Funds shall select nine (9) to eleven (11) members to form the Selection Panel and designate one member from the Selection Panel to serve as the convener. The panelist shall include not only designated persons from the Bureau of Labor Funds but also experts and scholars selected by the Bureau of Labor Funds; the number of experts and scholars shall account for no less than half of the entire Selection Panel.

The duties of the Selection Panel are as follows:

- (1) Stipulate matters that ought to be specified in the investment management or custody service proposals;
 - (2) Review the investment management or custody service proposals; and
 - (3) Appraise the ranking of the applicant companies being reviewed.
7. Relevant fees and costs required for conducting the mandated management in the aforementioned two Articles shall be included in and listed as the transaction costs of the mandated management.
 8. The Bureau of Labor Funds will select managers, negotiate on the mandate agreement, the management fee and allocate the amount to each mandated manager based on the rankings appraised in accordance with Article 6 of the Guidelines.

The allocation amount to mandated managers and the standards of the scale for calculating the payment of the management fee shall be determined by the Bureau of Labor Funds. The management fee shall be calculated on the basis of the net asset value of the assets under mandated management.

The amount distributed for mandated management of each manager shall not exceed forty percent (40%) of the total mandate amount for each Fund at the time of such mandate. The aforementioned total mandate amount shall include the existing mandat amount and the newly increased mandate amount.

9. The term of each management mandate of the Funds shall not exceed five (5) years.
10. The mandate agreement entered into by and between the Bureau of Labor Funds and the manager shall be in Chinese. However, if the agreement is required to be in any foreign language, a Chinese translation thereof shall be attached. The content of the agreement in any foreign language is inconsistent with it in Chinese language, the Chinese version shall prevail. The interpretation of the provisions of the agreement shall be governed by the laws agreed upon by both parties.

The agreement shall contain the following:

- (1) The manager shall comply with the principle of recusal in the event of conflicts of interest.
- (2) In managing the matters mandated by the Bureau of Labor Funds, the manager shall use the financial institution designated by the Bureau of Labor Funds as the fund custodian to conduct matters relating to the custody, trading, settlement and accounts management of the mandate assets and investment revenues.
- (3) If the securities purchased by the manager with the mandate assets are in registered form, such securities shall be registered under the name of each Fund or the Bureau of Labor Funds; however, the investment in foreign securities shall be conducted in accordance with the overseas custodian agreement.
- (4) The independent accounting treatment adopted by the manager in managing the mandated fund; the preparation and presentation for review of accounting statements; the retention period for relevant evidences, account books and statements; and on-site due diligence by the Bureau of Labor Funds.
- (5) The manager shall deliver details of the mandate's net asset value and investment changes to the Bureau of Labor Funds on a regular basis, as per the Bureau of Labor Funds' request.
- (6) The manager's the duty of care as a good administrator or fiduciary duty.
- (7) The restriction on the total amount of investment in the stock, bonds and other securities of any single company listed on the stock exchange or over the counter market.
- (8) The restriction on the ratio of investment in the stock of any single company listed on the stock exchange or over the counter market to the total number of issued shares of such company.
- (9) Calculation method of net asset value and rate of return for the mandated fund.
- (10) Events of agreement rescission and termination.
- (11) An arbitration clause or a clause on the court of jurisdiction for dispute settlement.
- (12) Other matters required to be provided based on the nature of such mandate agreement.

An attorney who has practiced for five (5) years or more shall be engaged to issue a legal opinion on the agreement signed in accordance with the preceding Paragraph; for overseas mandate management, such engaged attorney shall have experience of relevant international legal practice. However, it is not required to engage an attorney to issue a legal opinion in any one of the following:

- (1) The agreement is extended without any change in clauses.
- (2) The mandated management is conducted again according to the agreement with the legal opinion of former engaged attorney.
- (3) The change only in mandated amount whatever the agreement is original or extended.
- (4) The clause modification is related to professional knowledge in investment-related or the administration of the Bureau of Labor Funds and also without any legal concern. It should be signed and approved by authorized officers.

The attorney issuing a legal opinion in accordance with the preceding Paragraph shall not

have been disciplined under the Attorney Regulation Act, the Attorney Discipline Rules or other regulations within two (2) years before issuing such legal opinion.

The legal opinion shall state the following:

- (1) Suggested amendments, the reasons of such suggestions and the legal ground thereof;
- (2) Name of attorney issuing this legal opinion and his/her legal opinion.

11. The custodian agreement entered into by and between the Bureau of Labor Funds and the custodian of the Labor Pension Fund or the Labor Insurance Fund shall be in Chinese. However, if the agreement is required to be in any foreign language, a Chinese translation thereof shall be attached. The content of the agreement in any foreign language is inconsistent with it in Chinese language, the Chinese version shall prevail. The interpretation of the provisions of the agreement shall be governed by the laws agreed upon by both parties. The agreement shall contain the following:

- (1) The custodian shall exercise its duty of care as a good administrator.
- (2) The custodian's responsibilities and fiduciary duty.
- (3) Other matters considered by the Bureau of Labor Funds as required to be provided based on the nature of such custodian agreement.
- (4) Events of agreement rescission and termination.
- (5) Calculation method for custodian fee.
- (6) An arbitration clause or a clause on the court of jurisdiction for dispute settlement.

An attorney may be engaged to issue a legal opinion on the preceding agreement in accordance with Paragraphs 3 and 4 of Article 10.

12. The Bureau of Labor Funds may designate brokerage firm(s) for the domestic manager to trade in securities, determine the rate paid on commission and relevant terms.
13. The Bureau of Labor Funds shall conduct quarterly review of the manager's management performance.
14. If the investment performance and risk control of the mandated manager are better than the evaluation criteria set by the Bureau of Labor Funds or the performance of the Bureau of Labor Funds mandated assets of the same type and the manager has not violated any relevant laws, regulations and agreements, the Bureau of Labor Funds may, without further review process during the term of agreement, increase the additional contribution amount up to twice of the original mandated amount stipulated in original agreement or the latest agreement signed for extension. Upon expiration of the mandate agreement, the Bureau may extend agreement with managers within amount of net asset value of mandate.

The amount of mandated assets withdrawn from other managers for transition management purpose is not calculated as the additional contribution amount mentioned above.

According to the first section, for those additional contribution amount managed in new account with different expiration date from the original one, the agreements for original and the other new accounts may be extended within the amount of net asset value of each account ; If total additional contribution amount related to first section does not exceed the double original mandated amount (upper limit) stipulated in the original agreement, the Bureau may

also increase the mandated amount within the upper limit during the extension period.

The evaluation method and calculation period for the management performance in the first paragraph shall be set forth in the mandate agreement; the evaluation criteria shall be determined by the Bureau of Labor Funds.

If, from the evaluation date to the date of agreement extension, the manager obtaining the qualification of agreement extension without re-selection is requested to remedy or take any action by the Bureau of Labor Funds, then the Bureau of Labor Funds may, at its sole discretion, reduce the mandate amount or cancel the agreement extension qualifications the manager has obtained.

If the custodian of the Labor Pension Fund or the Labor Insurance Fund has not violated any relevant laws, regulations and agreements with the qualification mentioned in Article 4, the Bureau of Labor Funds may extend the agreement with the custodian after evaluating cost and benefit.

15. In the event of any of the following on the side of the manager or the custodian that potentially decrease the principal or return of the Funds, the Bureau of Labor Funds may notify the manager or the custodian in writing to promptly remedy or provide necessary measures or retrieve part or whole of the mandate assets:

- (1) The manager or the custodian breaches its duty of care as a good administrator and its fiduciary duty.
- (2) The manager or the custodian violates relevant laws or regulations and is admonished or punished by the competent authority of the Republic of China or any of the foreign countries.
- (3) The manager or the custodian breaches the agreement.
- (4) The manager's investment performance as measured by the annual regular evaluation fails to achieve the statutory guaranteed return of each Fund or the return of benchmark commonly used in the market or the rate of return set forth by the Bureau of Labor Funds .

The method for the retrieval of mandate assets in the preceding Paragraph is determined by the Bureau of Labor Funds, and the Bureau of Labor Funds may mandate another institution or custodian to manage on a transfer basis or deal with the subsequent matters through transition management, or may mandate custody of the retrieval mandate assets to custodian of the Funds.

16. The Bureau of the Labor Funds may ask Bank of Taiwan to provide assistance in the operation of mandate management of the Labor Retirement Fund.

17. Other criteria that are not listed in the Guidelines may be stipulated in specific investment management agreement or other relevant regulations.