

Bureau of Labor Funds, Ministry of Labor

Investment Policy Statement of Labor Funds

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PREFACE

Labor funds, consisting of “Labor Pension Fund”, “Labor Retirement Fund”, “Labor Insurance Fund”, “Employment Insurance Fund”, “Overdue Wages Payment Fund”, and “Occupation Incidents Protection Fund “, are superintended by Ministry of Labor (MOL). In order to integrate the benefit and efficiency of investment, MOL reorganized and authorized Bureau of Labor Funds (BLF) to manage related matters.

BLF comprises 5 Divisions and 4 administrative offices. Besides, BLF sets up Investment Strategy Panel and Risk Management Panel in charge of significant issues about investment and risk management.

I . PURPOSE

The practice of investment should follow basic principles founded by the Investment Policy Statement (IPS) and related regulation. We also expect the investment can achieve our goal by affirming investment purpose and beliefs, instituting basic policy, establishing regulation principles, legislating external regulation and internal rules.

II . PERIODICAL REVIEW

The IPS regulates basic investment principles. In addition to annually regular review, it will be modified for investment purpose and beliefs alteration, drastic market fluctuation, significant variation of cash flow pattern, etc.

INVESTMENT GUILDLINES

I . PURPOSE AND OBJECTIVE

The investment purpose is to protect beneficiaries' interest according to related regulation and through drafting of short, mid and long term plan, as well as to achieve the objective of sustainable operation.

II . BELIEFS

(I) Long-term-horizon Investment

- 1.Taking into account of the beneficiaries for long-term generations.
- 2.Maintaining the soundness and sustainability of Labor Funds.
- 3.Reducing the influence of short-term fluctuation through diversifying investment.
- 4.Subsuming Socially Responsible Investment (SRI).

(II) Manage and assume reasonable risk

- 1.Pondering on multi-faceted risks and instituting related policy, regulation, management and control rules in order to manage risks.
- 2.Legislating applicable restriction or regulation toward different risk-exposing assets and varied risk-tolerant Labor Funds.
- 3.Exploiting definite strategies and techniques as well as the reciprocation of active and passive investment to increase long-term value of Labor Funds.
- 4.Weighing the status of politics and economy as well as the demand-supply uncertainty of natural resources in order to avert the effect from fluctuation of long-term trend toward portfolio return.

(III) Engage in effective monitoring and management

1. Ensuring the long-term rights and interests of BLF, beneficiaries, invested institutions, external investment entities and custodians.
2. Adopting effective performance measurement and risk control.
3. Keeping the consistency of the regulation toward external investment entities.

(IV) Explicit investment objective and return target

1. Setting up annual and mid-and-long term target performance.
2. Considering the equilibrium between return and risk.
3. Adopting explicit performance benchmark for external investment entities.

(V) Assets allocation strategy is a decisive factor for risk-return equilibrium

1. Contemplating the relation between varied risk factors and return, as well as diversifying investment.
2. Meditating the attribute, cash flow pattern and capital scale of Funds in order to increase their return.
3. Reviewing the appropriateness of assets allocation when facing significant alteration of risk-return relation.

(VI) Reasonable management and operation cost

1. Deliberating the equilibrium between risk premium and operation cost.
2. Providing appropriate incentive to encourage external investment entities in order to increase long-term benefit of Labor Funds.
3. Duly utilizing investment scale to reach the objective of enhancing return, saving cost and reducing operation complexity.

III. THE PROCEDURE OF INVESTMENT DECISION

(I)Legislate investment policy and regulation

Investment policy and regulation should be enacted and modified as the occurring of significant alteration of investment strategies, beliefs and organization.

(II)Draft annual investment plan

“Annual assets allocation and investment plan” should be drafted for each Labor Fund prior to the beginning of every year. It should be presented to the Investment Strategy Panel, and submitted to the Labor Funds Committee afterward.

(III)Compose investment programs

Investment programs should be composed for every asset according to their characteristics. In terms of external-managed investment, investment entities should proceed with investing in accordance with the plans or researches following regular procedure.

IV. ASSETS ALLOCATION

(I)Set up investment proportion and range

- 1.Assets proportion target and range should be set up according to characteristics, position, attribute and regulation of Funds.
- 2.Establishing different restrictions according to risk tolerance for assets which bearing higher market risk.

(II)Assess multi-faceted factors

- 1.Deliberating macro-economy, capital market outlook, stock and bond prospect during assets allocation process.
- 2.Pondering investment cost, expected return, volatility and correlation.
- 3.Subsuming the following factors in assets allocation: attribute of Funds, net cash flow variation and risk tolerance.

(III)Implement assets allocation policy and plan

- 1.Gauging market status of respective assets to avoid that each asset position exceeds decided allocation policy and plan. Facing the extraordinary fluctuation of market, it's required to consider cost and liquidity in order to restore to allocation range timely.
- 2.Incorporating rebalance strategy by using central allocation target as foundation and max-min range as buffering.

(IV)Contemplate risk tolerance of Labor Funds

The risk tolerance of Labor Funds should be contemplated in assets allocation process. It depends on the cash flow pattern and attribute of Labor Funds. Risk budgets should be included when drafting annual plan.

V. RISK MANAGEMENT

BLF constitutes risk management division for monitoring risk and establishing control mechanism.

(I)Manage risk rather than eliminate it

Return is the outcome of risk taking. Instead of eliminating risk, the purpose of risk management is to seek for the equilibrium between risk-return and ensure that taking extra risk can get commensurate return.

(II)Institute management mechanism and procedure

Utilizing information system and adopting appropriate control measures to build up risk management mechanism.

(III)Set up risk limit and budget

Each Labor Fund should have sufficient elasticity to achieve return target under reasonable risk. The most applicable assets allocation and risk budget are obtained by utilizing allocation system for simulation through referring to the selected benchmarks, estimating return rate, gauging future trend as well as setting assets weighting and range according to current position and market capacity.

(IV)Stress test

Risk management division should carry out stress test periodically aiming at significant historic economy and finance events in order to estimate risk exposure and endurance in extreme condition.

(V)Constitute procedure to cope with ultra vires transactions

In the case of ultra vires transactions, it's necessary to be obedient to related regulation and commission contracts including notice, recognition of controversial issues, process, report, etc.

(VI) Legislate criteria of derivatives investment

Each investment division should enhance security, liquidity, profitability, or reduce risk when engaging in derivatives transactions. It's also necessary to conform to the essence of long-term steady operation. In the case of hedge purpose, total contract value of derivatives should not exceed total value of corresponding securities. Besides, derivatives trading cannot increase total financial leverage in the case of non-hedge purpose.

(VII) Establish comprehensive risk consciousness and regulation

Risk Management Panel and Risk Management Division should assist other departments to establish risk consciousness, as well as frame out operation procedure, internal control and risk management regulation.

VI. INVESTMENT EXECUTION

(I) Criteria for trading counterparties and intermediaries selection

The selected trading counterparties and intermediaries including brokers and dealers should be qualified for certain criteria such as credit rating and capital adequacy.

(II) Social responsibility

It's necessary to take social responsibility into consideration when choosing invested companies, it will be elaborately interpreted in next chapter.

(III) Best execution

It should be taken into consideration of fee, tax, amassed/scattered ordering cost and best efficiency for trading execution.

(IV) Assessable and reasonable benchmark

Investments should be provided with open market price, or evaluation by third party, or internal evaluation. It also should have reasonable benchmark to measure the performance.

(V) Independent custodians

The custody of assets should be administered by independent institutions for internal-managed or external-managed investments.

(VI) Security lending

It should be regulated when engaging in security lending. It's also necessary to follow the regulation of TWSE (Taiwan Stock Exchange) and GTSM (GreTai Security Market) for domestic security lending. In the case of overseas security lending, it's also necessary to regulate items about the qualification of intermediaries, collaterals, maintenance ratio. Moreover, the intermediaries should provide report about lending profit, quantity, market value, collateral ratio, expense, etc.

(VII) Regulation for external investment entities and custodians

BLF can arrange for external-management investment within the limit of ratio and amount in annual investment plan. The external investment entities or custodians should be selected through open tender process and also be reviewed periodically.

(VIII)Criteria toward external consultants

There should be criteria for the selection of investment and legal consultants. Commissioned investment consultant should provide recommendation proposal aiming at potential or existing external investment entities' staff and investment process. Commissioned legal consultants should provide legal recommendation or opinion statement according to the requirement of BLF.

(IX)Regulation for the disobedience of investment restriction

In the case of disobedience of investment restriction for the reason of market fluctuation, it should be settled during certain period of time. Facing the need of postponement or incapability of settlement, it's necessary to obtain approval from authorized superintendent. In the case of disobedience of investment restriction without paying attention, it should be settled promptly as well as submitting complete report and precaution measures to authorized superintendent. It's also necessary to obtain approval from authorized superintendent for postponement.

(X)Accounting and assets appraisal

Labor Funds assets appraisal should follow government accounting regulation and Financial Reporting Standards according to investment characteristics.

VII. SOCIALLY RESPONSIBLE INVESTMENT

Socially Responsible Investment (SRI) refers to the conception that

it will get benefit for investment return as well as the whole society, environment and economy when considering the aspect of society, labors benefit, human rights and environment in the investment process. We hereby set up SRI policy under the prerequisite of increasing return, and adopt related strategy gradually according to the developing stage of SRI. It will increase the benefit of labors and encourage corporations to fulfill social responsibility, therefore attain win-win situation.

We take into account of environment, society, corporate governance, information disclosure in domestic investment. We also adopt investable and representable SRI indexes for domestic external-managed investment. Moreover, domestic external investment entities are requested to incorporate SRI into “Request for Service Proposal” for the selection reference. For the corporations seriously violating social responsibility, BLF will not invest or increase investment in them.

For the companies that BLF carries significant value of shares against total value of outstanding shares (or total net value of stock holding of Labor Funds), when they involve in major events relating to labor benefit, environment protection and corporate governance, we will urge them to pay attention by shareholder activism such as converse, official letter, attending stockholders meeting and voting. Besides, we also interpret the definition and regulation of Corporate Social Responsibility (CSR) and SRI in our website. Furthermore, we will periodically announce the percentage of equity investments that meet public standard of CSR.

VIII. INFORMATION DISCLOSURE

Referring to the benefit of Labors, BLF should disclose investment information to the public. BLF have been abiding by the resolution of imperative periodical disclosure items of government pension and insurance fund through negotiation between ruling and opposition party in the time of examining 2012 Central Government General Budget on 2012.12.14 in Legislative Yuan, ROC. The disclosure items include total amount of Labor Funds, investment performance, assets allocation, performance statistics report of domestic/overseas internal-managed/external-management investment. Besides, we also irregularly disclose information or press release referred to major events related to Funds investment in order to let the public grasp the picture of Labor Funds.

IX. ETHICS

(I)Internal staff

Interests conflict should be regulated for staff behavior in investment process including forbiddance of insider trading, canvass or lobby, social intercourse, etc.

(II)External entities and their staff

Commissioned institutions and their staff should abide by the ethics regulation of government, professional association and their own companies. They also bear the obligation for compensation when encountering the violation of above ethics regulation resulting in

damage of Labor Funds' benefit.

X. ASSETS AND BENCHMARK

The standards of assets classification are determined by the specific characteristics of assets and sufficient distinction from other assets including return, risk, correlation, asset scale, liquidity, etc.

The purpose of selecting benchmark is to provide long-term investment target. The benchmarks should be provided with investability, measurability, representability and clarity. The definition and benchmark for each asset are as follows:

(I)Domestic deposit

1. Definition : Taiwan-dollar (TWD) deposits saving in local bank.
2. Benchmark : One year large-amount average deposit interest rate from large banks.

(II)Domestic debt security

1. Definition : TWD-denominated debt securities including:
 - (1) Short-term commercial paper ◦
 - (2) Money market fund ◦
 - (3) Bond : Including government bonds, financial institution bonds, corporate bonds, and other bonds, as well as lending transactions and derivatives.
2. Benchmark :
 - (1) Short-term commercial paper : 30-day domestic commercial paper average interest rate.

(2)Money market fund : 30-day domestic commercial paper average interest rate.

(3)Bond :

①Government bond : Yield of 10-year domestic government bonds.

②Financial institution bond : Yield of 7-year A-credit-rating financial institution bonds ◦

③Corporate bond : Yield of 5-year A-credit-rating corporate bonds.

④Other bond : Appropriate benchmark.

(Ⅲ)Domestic equity security

1.Definition : TWD-denominated securities with the trait of directly or indirectly possessing stockholder's equity, as well as lending transaction and derivatives.

2.Benchmark : "Taiwan Stock Exchange Capitalization Weighted Stock Index" or appropriate benchmark.

(Ⅳ)Domestic alternative investment

1.Definition : TWD-denominated investments not belong to deposit, debt security or equity security.

(1)Property and land : Including domestic real estate, infrastructure, real estate trust investment, property trust beneficiary certificates, as well as other securitized products and derivatives.

(2)Loan : Including loan for government or government-owned enterprises and loan for the qualified insured.

(3)Others

2. Benchmark :

(1) Property and land : Reasonable return rate of real estate for insurance companies regulated by Financial Supervisory Commission, R.O.C or other appropriate benchmark.

(2) Loan :

① Loan for government or government-owned enterprises : Long-term funding lending rate regulated by National Development Council, R.O.C or other appropriate benchmark.

② Loan for the qualified insured : Average certificate deposits return rate of Labor Insurance Fund plus processing fee of commissioned bank.

(3) Others : Appropriate benchmark according to realistic environment.

(V) Overseas debt security

1. Definition : Non-TWD-denominated securities with the trait of debt, including foreign currencies, lending transaction and derivatives

2. Benchmark : Barclays Capital Global Aggregate Bond Index or appropriate indexes.

(VI) Overseas equity security

1. Definition : Non-TWD-denominated securities with the trait of directly or indirectly possessing stockholder's equity, as well as lending transaction and derivatives.

2. Benchmark : MSCI AC World Index or appropriate indexes.

(VII) Overseas alternative investment

1. Definition : Non-TWD-denominated investment not belonging to

deposits, debt securities or equity securities.

(1)Property and land : Including overseas real estate, infrastructure, real estate trust investment, property trust beneficiary certificates, as well as other securitized products and derivatives.

(2)commodity : Including overseas precious metals, energy resources, natural resources, as well as securitized products and derivatives.

(3)Others

2.Benchmark : FTSE EPRA/NAREIT Index 、Dow Jones Brookfield Global Infrastructure Index or other appropriate indexes.

INVESTMENT POLICY OF INDIVIDUAL FUND

Labor Funds consist of Labor Pension Fund, Labor Retirement Fund, Labor Insurance Fund, Overdue Wages Payment Fund, Employment Insurance Fund, and Occupation Incidents Protection Fund. Occupation Incidents Protection Fund is the supplement to Labor Insurance Fund. Therefore, the capital of it is deposited in domestic financial institutions for the need of high liquidity. According to Funds attribute and cash flow pattern, the risk tolerance is divided into five levels for each Labor Fund as follows: high, medium-high, medium, medium-low, low. Investment target and strategy limitation are set according to risk tolerance and liquidity requirement.

I . LABOR PENSION FUND

(I)Introduction

ROC government enacted “Labor Pension Act” on 2005.7.1. It adopts portable pension scheme of definite contribution. Individual labor’s pension accounts are aggregated into “Labor Pension Fund (new scheme)”.

(II)Mission and targets

The Fund belongs to defined contribution scheme. It has less pressure of asset-liability matching comparing to other Funds belonging to defined benefit scheme. It also has less pressure of cash inflow-outflow matching; therefore, it can endure higher risk, and maintain lower liquidity.

1.Fundamental mission : The mission is to increase long-term performance, safeguard labors retirement income and pursue

- maximum economic benefit for labors.
2. Risk tolerance target : Pursuing maximum return under endurable medium-high risk.
 3. Liquidity target : Maintaining sufficient medium-low liquidity in order to disburse retirement payment for each year.

(III) Mid and long term return target

The mid and long term return target of the Fund is that 5-year-average real return rate exceeds corresponding period of statutory guaranteed return rate plus annual growth rate of consumer price index.

(IV) Strategies

Following the above-mentioned overall policy such as assets allocation and risk management, the specific investment strategies for the Fund are as follows:

1. Asset allocation : Diversification of investment and risk is the principle of assets allocation. We construct efficient portfolio in accordance with global economy situation, market outlook, investment target, revenue-expenditure status, etc.
2. Internal-managed and external-managed investment : Investments are handled by both internal-managed and external-managed modes. Domestic and overseas equity securities are mainly handled by external-managed mode.
3. Active and passive investment : The investments are handled by both active and passive modes.

II . LABOR RETIREMENT FUND

(I)Introduction

By the regulation of “Labor Standards Act” taking effect on 1984.8.1, Labor Retire System (old scheme) adopts definite benefit pension system. Each business entity allocates pension to labors’ “Retirement Reserve Funds” monthly. Furthermore, they are aggregated into “Labor Retirement Fund (old scheme)”.

(II)Mission and targets

The Fund is in mature stage. Insurance premium revenue will have been declining along with the diminution of the insured. It can just endure medium-low risk.

- 1.Fundamental mission : The mission is to increase long-term performance, safeguard labors retirement income and pursue maximum economic benefit for labors.
- 2.Risk tolerance target: Pursuing maximum return under endurable medium-low risk.
- 3.Liquidity target : Maintaining sufficient medium liquidity in order to meet the gap between insurance premium revenue and retirement payment for each year.

(III)Mid and long term return target

The mid and long term return target of the Fund is that 5-year-average real return rate exceeds corresponding period of statutory guaranteed return rate plus annual growth rate of consumer price index. Simultaneously, the growth/decline of Fund will be referred to.

(IV) Strategies

Following the above-mentioned overall policy such as assets allocation and risk management, the specific investment strategies for the Fund are as follows:

1. Asset allocation : Diversification of investment and risk as well as revenue-expenditure stability is the principle of assets allocation. We construct efficient portfolio in accordance with global economy situation, market outlook, investment target, revenue-expenditure status, etc.
2. Internal-managed and external-managed investment : Investments are handled by both internal-managed and external-managed modes. Overseas equity securities are mainly handled by external-managed mode.
3. Active and passive investment : The investments are handled by both active and passive modes.

III. LABOR INSURANCE FUND

(I) Introduction

With the implementation of Labor Insurance in 1950, the scheme has been providing benefits for maternity, injury or sickness, disability, old-age, death, etc. The old-age benefit adopts definite benefit scheme. From the launch of annuity scheme on 2009.1.1, monthly payment approach has been added for old-age, disability and death benefits. Thereafter, the payment approach of the Fund changed from lump-sum payment to dual options of lump-sum or annuity payment. The change of payment approach brings forth significant effect for cash flow pattern and investment policy.

(II)Mission and targets

The Fund was in mature stage formerly. It had been diminishing along with the coming up of deferred payments of old-age benefit. It could only endure medium-low risk in the past. However, with the launch of annuity, the Fund recuperate to developing stage in the short run by the substantial increase of net cash inflow from present to the coming years. Meanwhile, the Fund can endure medium risk for the coming years.

- 1.Fundamental mission : The missions is to increase long-term performance, mitigate the pressure of increasing insurance premium, safeguard current and retirement income of labors, and pursue maximum economic benefit for labors.
- 2.Risk tolerance target: Pursuing maximum return under endurable medium risk.
- 3.Liquidity target : Maintaining sufficient medium liquidity in order to meet the gap between premium revenue and payment for each year.

(III)Mid and long term return target

The mid and long term return target of the Fund is that 5-year-average real return rate exceeds corresponding period of 2-year-deposit-interest-rate of “Bank of Taiwan” plus annual growth rate of consumer price index. Simultaneously, the growth/decline of Fund, and average-return-rate assumption of actuarial report will be referred to.

(IV) Strategies

Following the above-mentioned overall policy such as assets allocation and risk management, the specific investment strategies for the Fund are as follows:

1. Asset allocation : Diversification of investment and risk is the principle of assets allocation. We construct efficient portfolio in accordance with financial condition of beneficiaries, global economy situation, market outlook, investment target, revenue-expenditure status, etc.
2. Internal-managed and external-managed investment : Investments are handled by both internal-managed and external-managed modes. Domestic equity securities are mainly handled by internal-managed mode.
3. Active and passive investment : The investments are handled by both active and passive modes.

IV. OVERDUE WAGES PAYMENT FUND

(I) Introduction

Overdue wages payment scheme is stipulated in article 28 of the “Labor Standards Act”. Employers should allocate certain amount of premium to Overdue Wages Payment Fund on the basis of insurance salary of labors and stipulated rate. In the case of overdue wages less than 6 month owed by business units for the reasons of closing, liquidation or bankruptcy, labors can apply to Bureau of Labor Insurance, Ministry of Labor for payment.

(II)Mission and targets

The Fund is a supplement to Labor Fund. Its objective is for the preparation of irregular and considerable amount of overdue wages payment. In this way, the Fund can just endure medium-low risk although it is still in developing stage.

- 1.Fundamental mission : The missions are to increase long-term performance, and fully suffice the need of preparation capital.
- 2.Risk tolerance target: Pursuing maximum return under endurable medium-low risk.
- 3.Liquidity target : Maintaining sufficient medium-high liquidity in order to disburse overdue wages payment.

(III)Mid and long term return target

The medium and long term return target of the Fund is that 5-year-average real return rate exceeds corresponding average-return-rate of annual investment plan.

(IV)Strategies

Following the above-mentioned overall policy such as assets allocation and risk management, the specific investment strategies for the Fund are as follows:

- 1.Asset allocation : The principle of assets allocation is engaging in domestic investment.
- 2.Internal-managed and external-managed investment : Investments are handled by internal-managed mode.
- 3.active and passive investment : Investments are handled mainly by active mode.

V. EMPLOYMENT INSURANCE FUND

(I)Introduction

According to “Employment Insurance Act” implemented on 2003.1.1, the benefits include unemployment benefits, early re-employment incentives, vocational training living allowance, National Health Insurance premium subsidies, parental leave allowance, etc.

(II)Mission and targets

The Fund’s objective is to cope with the unemployment owing to abrupt economy crisis and recession, and fully prepare for the safeguard of basic living standard of unemployed labors. Therefore, it can only endure low risk.

- 1.Fundamental mission : The missions are to increase long-term performance, and fully suffice the need of unemployed labors.
- 2.Risk tolerance target: Pursuing maximum return under endurable low risk.
- 3.Liquidity target : Maintaining sufficient medium-high liquidity in order to disburse unemployment payment and subsidies for each year.

(III)Mid and long term return target

The medium and long term return target of the Fund is that 5-year-average real return rate exceeds corresponding average-return-rate of annual investment plan. Simultaneously, the average-return-rate of investment vehicles and assumption of actuarial report will be regarded as lower limit.

(IV) Strategies

Following the above-mentioned overall policy such as assets allocation and risk management, the specific investment strategies for the Fund are as follows:

1. Asset allocation : The principle of assets allocation is engaging in domestic deposits and debt security investment.
2. Internal-managed and external-managed investment : Investments are handled by internal-managed mode.
3. active and passive investment : Investments are handled mainly by active mode.