

# **Main Activities**

## **(I) Diversified asset allocation based on financial markets**

When planning annual fund asset allocation, the Bureau takes into account the different types of fund, their regulatory restrictions, the macroeconomic backdrop, and financial markets. The Bureau also uses asset allocation simulation systems to determine the most efficient allocation for various levels of risk tolerance. With the optimal risk/return asset allocation in place, the allocation is dynamically adjusted in response to changes in market trends so as to create steady returns for the Labor Funds. In accordance with budget programming practices, the Bureau has used asset allocation plans to draw up budgets for each fund and to estimate results, including forecast surpluses and deficits, cash flows, and investment profiles.

In a volatile global market with a low-interest-rate environment, the Bureau has continued to improve its global diversified investment strategy in order to effectively diversify portfolio risks and enhance fund utilization. The investment strategy now covers a wider range of financial products and markets and has added alternative investments with lower correlation to conventional equities and bonds, thus controlling the downside risks of portfolios and increasing the consistency of fund returns.

## **(II) Response to proposals for pension reform and efforts to improve investment efficiency**

Under the auspices of the Presidential Office, the national pension reform committee held weekly meetings between June 23 and November 10, 2016, to canvas the views of a variety of groups with a view to improving the

national pension system. The committee reviewed the pension payment systems used in Taiwan and abroad, and also brought the Bureau in to give an overview of Labor Fund and National Pension Insurance Fund investment and to respond to the committee's questions and recommendations. The Bureau's attendance helped the general public to understand how the funds are managed and clarified the problems that need to be addressed in order to push the reforms forward.

The Bureau has always been committed to enhancing the Labor Funds' steady long-term returns. Since it was established on February 17, 2014, the Bureau has put in place a series of systems to integrate fund investment teams, and the overall scale and returns of the Labor Funds have seen steady growth. Going forward, the Bureau will continue to improve investment strategies, expand global positioning, optimize investment portfolios, focus on risk controls, and increase the efficiency of fund operations in order to safeguard the economic security of retirees.

### **(III) Enhancement of risk control and audit systems**

In order to enhance control over the various risks arising from fund management, the Bureau has put in place a risk control system to estimate daily value at risk (VaR) generated by each fund and so keep abreast of changing risk levels in portfolios. The Bureau also monitors developments in the global financial market; in the event of major financial changes, ad hoc Risk Control and Management Team meetings are held to devise necessary response measures. For example, in order to ensure the security of fund investment, in addition to regular Risk Control and Management Team meetings tracking daily changes in risk exposure for portfolio positions, the Bureau convened special meetings to discuss the potential impact of and response measures to Brexit and Donald Trump's unanticipated election to the

presidency. The Bureau also uses an asset allocation simulation system to calculate risk limits for each fund in relation to day-to-day market risk monitoring and so increase control over investment position exposure.

The Bureau has always been rigorous in the monitoring of fund compliance with investment management agreements and operational standards. Internal and external due diligence checks are carried out in accordance with audit guidelines, and any mandated institutions that fall short are given a deadline before which to address their problems and are subject to follow-up evaluation. In order to protect the Labor Funds, the Financial Supervisory Commission is promptly notified of any domestic mandated institutions that are suspected of violating regulations governing securities trading.

#### **(IV) A secure information environment to ensure sustainable operations**

In response to IT security threats and in an attempt to enhance IT security protection, the Bureau has set up a range of systems, including firewalls, an intrusion detection system, spam filters, and antivirus systems that block hacker attacks. In addition, the Bureau is running a Security Operation Center (SOC) to monitor IT services. The SOC collects in real time data logs and records from firewalls, the intrusion detection system, and the antivirus servers, carrying out association analysis to identify potential IT security risks, which are then immediately reported and dealt with. The SOC also conducts regular disaster recovery drills to ensure that the Bureau is able to maintain core operations in the event of disaster.

In 2016, the Bureau introduced an Information Security Management System (ISMS) for two of its core IT operations as a way to further enhance IT security. On July 19, the ISMS passed third-party audit, receiving an ISO

27001: 2013 certification (TAF, IAF, DAKKS). This secure, stable, and efficient IT environment has been created for the Labor Funds in the hope of contributing to consistent long-term fund performance and sustainable operations so as to protect the rights of the labor force.

## **(V) Flexible adjustment of portfolio positioning and implementation of socially responsible investment**

In recent years, the global financial situation has been shifting at a rapid pace, and equity markets around the world have also seen violent fluctuations. In this environment, the Bureau has employed market timing strategies and dynamically adjusted portfolio positioning to avoid concentrated investment risks for the Labor Funds. In addition, the Bureau has taken into account social and environmental considerations in its investment decision-making and chosen to invest in companies with a focus on sustainable development. In this way, the Bureau hopes not only to generate investment returns, but also to contribute to society, the environment, and the economy.

In the area of in-house foreign investment, the Bureau has invested in corporate social responsibility–themed mutual funds and ETFs. In the area of foreign mandates, the Bureau has sent out official letters banning mandated institutions from investing in funds that fail to meet corporate social responsibility standards. The Bureau also drawn up the Global ESG Quality Mix Equity Indexation mandate, which integrates environmental, social and governance (ESG) factors among the criteria for investment target selection and excludes investment in vice industries and controversial companies. At the same time, in order to balance social responsibility and investment returns, the mandate also uses a high-quality Smart Beta strategy that has low volatility and enhanced value.

In domestic investment, the Bureau took the lead by issuing a social

responsibility report in July 2016 to disclose its management philosophy in the fields of investment, society, and the environment. As part of its efforts to promote shareholder activism, the Bureau signed the Stewardship Principles for Institutional Investors, initiated by the Taiwan Stock Exchange, and urged all twelve of its domestic mandated institutions to follow suit.

## **(VI) Revitalization of real estate holdings to enhance long-term steady returns**

Despite the sluggish real estate market of the past few years, in January 2016 the Bureau managed to auction off surface rights to the Labor Insurance Fund–owned land on Bade Road in Taipei (site of the former Taipei Hope Plaza Farmer Market). The revitalization and development of the land brought the Labor Insurance Fund more than NT\$6.4 billion in income, including nearly NT\$4.1 billion in royalty payments and the right to charge a total of more than NT\$2.3 billion in rent over the next 70 years. This income will contribute to the Labor Insurance Fund’s long-term income, benefiting all of its participants. The redeveloped land will bolster the nearby IT cluster and help form an industrial corridor that promotes culture and green development, creating higher local tax revenues, greater job opportunities, and a more prosperous IT industry and local shopping area.

## **(VII) Improvement of foreign investment mandate strategies to diversify investment risks**

The global political and economic situation has seen many major changes. Financial markets around the world have also been highly volatile owing to the slowing economy in the Eurozone, Brexit, the US presidential election and the Fed’s rate hikes, the restructuring Chinese economy, fast capital flow in and out of emerging markets, and fluctuations in commodity

prices. In response to these changes, the Bureau has committed to the principle of steady investment while maintaining the flexibility to adjust investment strategies, and has continued to diversify the positioning of managed funds.

To create long-term steady returns for the Labor Funds, the Bureau has further improved investment systems and adopted diversified positioning in response to changes in the global financial situation, focusing on Smart Beta, alternative investments, and socially responsible investments. In addition, in 2016 the Bureau added private equity funds to its in-house foreign investment positions while increasing the use of Smart Beta benchmarks. For example, the Bureau added two new mandates (the Enhanced Asia-Pacific Mix Equity mandate that uses several Smart Beta benchmarks, and the Global Multi-Asset mandate that combines bond, equity, and alternative investments), which will help diversify fund investment risks and contribute to long-term steady income.

## **(VIII) Continuing promotion of international exchanges to keep abreast of global investment trends**

The Bureau has continued to improve its interaction with foreign institutions so that it can expand capabilities by learning from others in order to optimize fund management and allocation. In 2016, the Bureau sent staff to the eighth Annual Asian Investment Conference to discuss financial investment trends and strategies with international pension fund management institutions. The Bureau staff also visited the Federal Reserve Bank of New York, MSCI, and Willis Towers Watson for discussions on the global macro-economy, currency policies, investment strategies, and market trends. In November, the Bureau attended the Institutional Excellence Award ceremony organized by AsianInvestor magazine, which was also attended by

representatives from public pension funds across the Asia-Pacific region and CEOs from several global asset management and investment advisory companies. During the event, Bureau representatives met with those from other pension fund management institutions and asset management companies. This interaction has helped to raise the international visibility of Taiwan's Labor Funds.

Also in 2016, Secretary General of the Asian Corporate Governance Association (ACGA) Jamie Allen visited the Bureau for talks on the role of the institutional investor and corporate governance. In addition, Trần Đình Liệu, deputy director-general of the Vietnam Social Security, headed a delegation visiting the Bureau to discuss a wide range of issues, including Taiwan's pension systems, Labor Pension Fund investment regulations, choice of investment targets, risk control, and the role the Labor Pension Fund has played in the development of Taiwan's financial market. These discussions were beneficial for all involved.

## **(IX) Unwavering commitment to ethics and integrity and thorough checks for adherence**

As the agency responsible for managing Labor Fund investment, the Bureau has an unwavering commitment to ethics and integrity. In accordance with the Bureau's Rules Governing Conflict of Interest and Confidentiality, all employees are required to sign a self-regulation agreement, committing themselves to respect confidentiality and avoid conflicts of interest. For example, employees directly involved in fund investments are banned from equity trading, as are the spouses and underage children of such employees.

Apart from the afore-mentioned checks, the Bureau also visited major mandated institutions to determine whether the Bureau had interfered in any way with fund investments and how others rated our integrity. To ensure that

all staff members fully understand and follow all ethics and integrity standards and regulations, the Bureau has stepped up its awareness campaigns on the Act on Recusal of Public Servants Due to Conflicts of Interest, the Ethics Guidelines for Public Servants, and the Guidelines on Requesting an Intercession for Executive Yuan and Subordinates.

**(X) Regular reports to the Labor Funds Supervisory Committee on the utilization status of funds and major issues**

The Bureau attends monthly Labor Funds Supervisory Committee meetings and National Pension Supervisory Committee meetings to report on the funds' annual investment plans, performance, asset allocation, budgets, and financial statements. To further improve fund utilization, the Bureau also takes suggestions from committee members specializing in labor relations and finance.