

The Outlook

Future Prospects for Taiwan Asset Management Industry after the Signing of ECFA

Yuh Chang Chen
Chairperson of Financial Supervisory Commission

Foreword

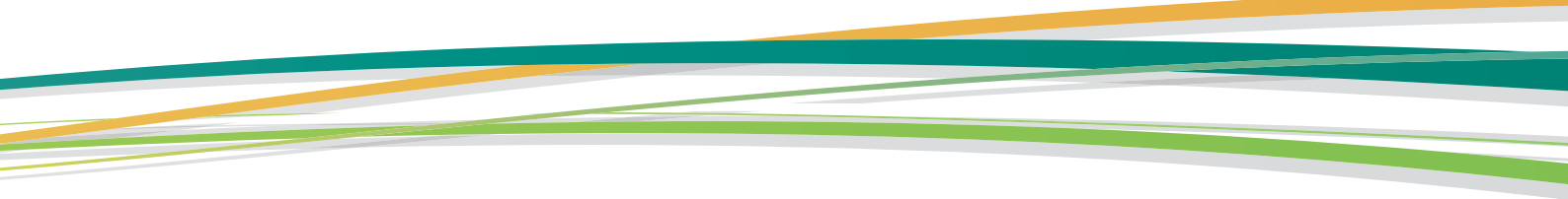
On June 29, 2010 the cross-strait Economic Cooperation Framework Agreement (ECFA) was signed. In it, mainland China included three commitments to the securities and futures industry, including simplifying applications for QFII qualification in the mainland by Taiwan's financial institution, list Taiwan Stock Exchange and Taiwan Futures Exchange as QDII who can invest in financial derivative products, and also simplify the relevant procedures of our professional securities personnel applying for license and professional qualification in mainland China. The above-mentioned commitments provide an advantage to our businesses seeking development in China as compared to other foreign businesses. Furthermore, it helps our businesses to develop their operations in China and increase the market activity in the domestic financial derivative product market, and promotes bilateral business exchanges.

In addition, Taiwan and mainland China has already signed three financial Memorandum of Understanding (MOU) in November 16, 2009 and the Financial Supervisory Commission (FSC) of Tai-

wan has announced the implementation of three cross-strait financial exchange measures. The implementation permits domestic financial institutions to set up operations and invest in China, however due to the fact that we have entered the market later than other foreign businesses so it was necessary to sign ECFA to favor exchange and mutual benefits. Although the commitments were unable to meet the industry's expectations, but as the saying goes "Success is the fruit of mindful inception". Once the window of opportunity has opened, it is important that we take calculated risks and continue to appeal for better conditions for domestic businesses entering China, and ultimately create cross-strait cooperation and mutual beneficial foundation.

Challenges and Opportunities for Taiwan asset management companies

The series of events in 2007 such as the financial crisis and the sub-prime mortgage crisis lead to the economic recession, shrinking of the retail market and widespread unemployment. Investors worldwide were impacted by the events and the onshore fund size reduced dras-



tically from NTD2.04 trillion to as much as NTD1.35 trillion in October, 2008 and fortunately since then, the market has slightly recovered. By the end of December, 2010 the total of 38 domestic investment and trust companies with 555 funds issued, the total asset size was standing at NTD1.9 trillion. Although the number of funds increased, but the total asset size remained stagnant, and require further observation and breakthrough.

In order to create favorable business environment and conditions to improve international competitiveness of Taiwan's asset management industry, the FSC hopes to attract the return of Taiwanese-owned offshore capital and foreign capital. Besides loosening related regulations and strengthening the nurturing of asset management talents, the FSC also wishes to enhance corporate governance and internal control mechanism of the industry. The improvements thereof hope to enhance the industry's self-regulating mechanism and establish a brand of integrity and professionalism to strengthen the trust of the citizens on the industry. Furthermore, the FSC will continue to strengthen its cooperation with foreign

fund governing authorities, so as to review and further simplify regulations governing discretionary funds in order to obtain more discretionary business from foreign institutional investors for the local industry. By amending the relevant regulations, the authority hopes to first enhance the capacity of domestic institutions as the cornerstone for expansion in the region.

Transforming Taiwan into the Asia-Pacific asset management center is a crucial development for the asset management industry in Taiwan. The strategy should start from domestic to international, from near to far, where the greater China market is our strength as well as our opportunity. The fast-paced economic growth and resource-rich mainland China has become the market that the world is eager to enter and compete. Through the negotiation and signing of ECFA, although our industry could obtain more favorable conditions than other countries, but still need to face the competition from international asset management institutions and Chinese financial institutions with China government's backing. It is imperative for the industry to note the potential risks besides seeing the development opportunity.



Future prospects

In the post-ECFA era, Taiwan should seize the opportunity and create the first golden decade for Taiwan economy. Just as President Ma stated in the July 1st, 2010 presidential press conference, the vision of signing the ECFA is to allow the world to enter Taiwan, and for Taiwan to bond with the world. The signing of the agreement will improve the role of Taiwan in the Asia-Pacific economic arena.

Compared to mainland China, Taiwan's financial talents possess significant advantages in language and the understanding of international products. In addition to the volatility in the financial market in recent years, our asset management professionals have improved significantly in product sales procedure, after-sales service and dispute management. Furthermore, the historical experience from Taiwan's restrictive control measures in the past to deregulation, and the changes in policies and legislation is invaluable to the gradual deregulation of mainland China in the future, making the experience of our financial related talents even more important in the region. In the future, the international institutions would not only be able to tap into China through Taiwan, but China would also be able to interna-

tionalize through Taiwan. It is hoped that the Taiwan industry can seize this opportunity and develop a reputation of integrity and professionalism so as to turn risk into opportunity. Once our advantages are fully utilized, then the vision of becoming the Asia-Pacific asset management center would soon be realized.

Strategies in operating Labor Pension Fund influenced by Globalization

Ruey Ji Lee
Vice Chairperson of Labor Pension Fund Supervisory Committee

Foreword

The current labor pension fund policies include the old policy of “Labor Standards Act” and the new policy of “Labor Pension Act”, operating as parallel systems. In accordance to labor pension regulation, the Executive Yuan, Council of Labor Affairs should establish a Labor Pension Fund Supervisory Committee to be responsible for the reviewing, supervising and auditing of labor pension funds. At the same time, the old stipulations under “Labor Standards Act” will be integrated under the supervisory committee.

As of the end of 2010, the total new labor pension fund and old retirement fund has reached NTD1.13518354 trillion, with NTD537.8911 billion in old funds and NTD597.37443 billion in new funds.

Historical overview of asset allocation and the stipulation of investment policy manual

Asset allocation overview

The old retirement fund has been in operation for over 20 years, and under the past social environmental conditions, the asset structure maintained long term growth. On the other hand, the new labor pension fund was deposited into financial institutions by the Bureau of Labor Insurance before the establishment of the Labor Pension Fund Supervisory Committee on July 2nd, 2007. After the establishment of the supervisory

committee, the fund then actively, under the stipulated legislation, took diversified investment strategies and invested domestically and internationally. The asset allocation of the old retirement fund and the new labor pension fund from 2007 to 2010 is as follows:

Asset allocation of new labor pension fund

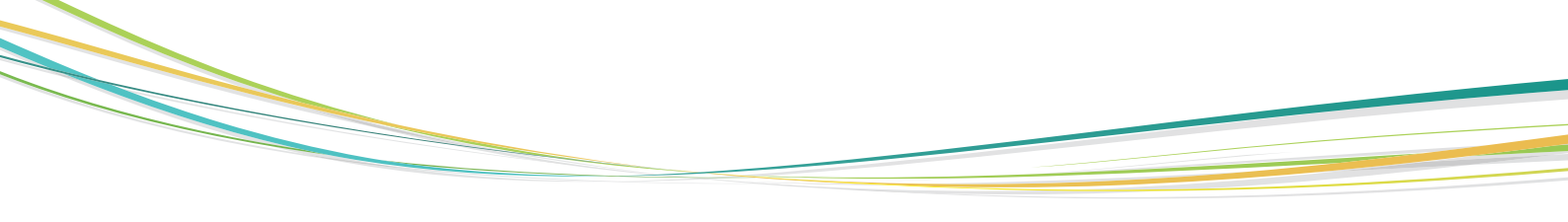
Allocation Items	New Fund			
	2007	2008	2009	2010
1、Deposit	82.05%	27.10%	30.44%	20.44%
2、Domestic debt securities	5.63%	19.86%	14.40%	16.12%
3、Domestic option securities	12.32%	24.55%	24.21%	33.32%
4、Foreign debt securities	—	22.22%	17.03%	14.08%
5、Foreign option securities	—	6.27%	13.92%	16.04%
6、Disbursement	—	—	—	—
Total	100%	100%	100%	100%

Asset allocation of old retirement fund

Allocation Items	Old Fund			
	2007	2008	2009	2010
1、Deposit	39.58%	32.27%	43.55%	29.48%
2、Domestic debt securities	23.85%	24.62%	14.38%	22.73%
3、Domestic option securities	23.20%	24.53%	24.41%	29.53%
4、Foreign debt securities	11.26%	11.72%	7.90%	9.54%
5、Foreign option securities		5.52%	9.00%	8.44%
6、Disbursement	2.11%	1.34%	0.76%	0.28%
Total	100%	100%	100%	100%

The formulation of the Investment Policy Statement

The fund performance is greatly affected by its asset allocation, and prior to allocation, it is important to establish its investment policy manual. Therefore, after the



establishment of the supervisory committee, beside the set up of and execution of investment related guidelines, the supervisory committee also commenced the formulation of the investment policy statement. The policy statement that took more than two years was announced in January 2010, clearly stipulating the investment objective, the responsibility and obligation of each investment agencies, investment procedure of the fund, and responses to different risks and related risk management regarding the labor pension fund. It hopes to ensure that all related investment agencies would use discretion in the management and operation of the fund, and assist the international and external communication, report, and supervision, as well as the transparency in the operation of the Labor Pension Fund Supervisory Committee.

Future Prospects

After the 2008 financial crisis, the global stock market rebounded quickly in 2009 and 2010. Looking forward in 2011, the International Monetary Fund (IMF) predicted a global economic growth of 4.2%. Furthermore, under current global economic trends with slow recovery, low-interest in major countries, sufficient liquid capital, and upward trend in global yield rate, is still full of investment opportunities. In such environment, investing in the stock market is not only beneficial, but also diversify one's risk and improve overall performance.

The "2011 Fund Utilization Plan" considers the current economic trends, changes in

financial environment, and the long term returns required in the fund investment policy manual. Next, it utilizes the "asset allocation simulation management system" of the supervisory committee to determine several most effective asset allocation portfolios, and finally assess the market size, future trend, current position, manpower, and portfolio feasibility of each asset category and make subtle adjustments to set the most suitable asset allocation for the labor pension fund in 2011. The main purpose is to gradually reduce the savings ratio, maintain the domestic capital market investment then adjust foreign investment ratio and add alternative investment allocation. The new labor pension fund asset consists of 57% domestic and 43% foreign position. Amongst them, domestic option securities and debt securities are 27% and 18% respectively, foreign option securities and debt securities allocation are 23% and 20% respectively. As the bank savings being the least profitable, and with constant cash inflow, its position is 12%. As for asset allocation of the old retirement fund, its domestic position accounts for 72% and foreign position 28%. Among them, the domestic option and debt securities are 35% and 20.8% respectively, with foreign option securities and debt securities being 16% and 12% respectively, and bank saving being 16% with a 0.2% disbursement according to current position.

As for foreign investment object, besides continuing to invest in traditional stocks and bonds according to market situation, this year, we will include Real Estate Investment

Trust (REITs) with the purpose of diversifying portfolio risk and beating inflation. Depending on the economic trends, transparency and maturity of commodity market, in the future, we will gradually establish alternative investment positions such as real estate, gold, precious metals and other commodities to effectively beat medium-long term inflation.

Regarding domestic investments, currently we have opted mainly discretionary fund for absolute returns to pursue long term positive returns in different markets. However, when considering bullish stock market, relative returns strategy possesses the ability to follow the market trends and performance would be relative or even exceed the market, and also reduce management cost and individual company risk, matching the long-term, stable growth investment objectives of a pension fund. Thus, the supervisory committee will plan the addition of discretionary passive index investment.

To meet the expectations of our labor, we will continue to take diversified, stable growth strategies to establish our long-term investment position. Once the market corrects, we will cautiously watch the market developments and review our investment position by replacing non-performing investments to maintain fund performance and protect the livelihood of our labor after retirement.

