

2013  
ANNUAL REPORT

PUBLIC SERVICE PENSION FUND



# PUBLIC SERVICE PENSION FUND

Annual Report 2013

*Take good care of retirees and pay attention to the welfare of on-service participants*



*Perfect the financial structure and ensure sustainable operation;  
Ensure pension income and take care of the aged and their dependents.*

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## I. Messages from two board chairmen and other key executives



Chairman of the Public Service Pension Fund Supervisory Board  
(Wu is also vice president of the Examination Yuan)

*Wu Jin-lin*

### Expectation of Wu Jin-lin, Chairman of the Public Service Pension Fund Supervisory Board

In order to ensure retirees' living in their old age, the three-tier pension system proposed by the World Bank in 1994 is a prerequisite for building a free and safe society. The developed countries have adopted it as the notion and basis in their efforts to establish social security and pension fund systems.

Since the public service pension system in Taiwan was changed from the "Superannuation" system to the "Joint contributory plan" system in 1995, the sources of pension funds have been greatly expanded, and the pension income for retirees have also been increased. However, with the greater environment going through drastic changes, the finances of the Pension Fund may be secure for the time being yet the pension system faces tough challenges as a result of underfunding, extended life expectancy in the country, increased voluntary early retirement and the number of people collecting retirement pensions on a monthly basis, and overly high replacement rates of income.

With the tendencies of aging society and low birthrates, change of family structure and slackening economic growth, the pension funds not only provide protection for retirees in their old age but also involve rationality in allocation of national resources and maintenance of intergenerational justice. To build a solid and sound financial structure of the Pension Fund as well as to ensure the balance between the right to claim benefit payment and the obligation to contribute premiums, suggestions and warnings from various sectors have succeeded in urging related decision-makers to work out a plan to reform the Public Service Pension System and fund investment. The bill was presented in April this year to be reviewed by the Legislative Yuan.

In recent years, the sustainability of the Pension Fund has drawn concerns from different sectors. As the supervising agency, the PSPFSB has the responsibility to urge the Management Board to diversify the allocation of its assets in fund investment, control investment risks, ease appointment restrictions and recruit professional managers, and conduct organizational reform. The purpose is to alleviate the government's pressure in pension disbursement, ensure sustainable operation of the Pension Fund, and protect the economic security of retirees.



Chairman of the Public Service Pension Fund  
Management Board  
(Chang is also Minister of Civil Service)

*Chang Che-shen*



## Expectation from Chang Che-shen, Chairman of the Public Service Pension Fund Management Board

As a result of the financial storm in 2008 as well as the impact from the lowering of US credit rating in 2011 and the European debt crisis, stock markets around the world fluctuated drastically. Facing rapid changes in the financial sector across the globe, the Fund Management Board will continue to keep a close watch on financial development around the world, reinforce the management of investments from the Pension Fund, take advantage of investment opportunities and tighten the supervision and control of discretionary management to pursue stable investment performance in the long run.

The Pension Management Board will act according to the reform of the Public Service Pension System to revise contribution and payment management regulations to facilitate operations; enhance system functions, adjust organizational structure and study the feasibility of corporatization to upgrade service quality and overall administrative and utilization performance; continue to balance fund contribution and payment and ensure the sources of pension funds and retirees' pension acquisition; and also put forward the proposal of optimal adjustment of contributory premium rates to perfect the contribution and payment structure of the fund and its sustainable management.

The Pension Fund assets are growing increasingly in scale. Due to the diversity and complexity of financial products and uncertainty in the investment environment, reinforcement of internal auditing and control systems has become all the more important. The Fund Management Board will continue to enhance its auditing operations. In addition to reviewing the appropriateness and completeness of current auditing operations, adding or revising new audit items and key audit targets when necessary to ensure all operations comply with related regulations and safeguard the assets as well as improve the quality of auditors and their work performance, information technology will be applied to monitor the investment portfolios of various investment positions. Auditing and control of discretionary management will also be stepped up and the organizations of discretionary management will be requested to enhance their internal auditing functions, exercise internal control, and upgrade their self-disciplinary functions to create profits, lower moral risks, adopt professional management, and boost investment returns.

In light of the rapidly expanding scale of the operations of the Fund Management Board and increasing complexity in collection of contributory premiums, appropriation of funds and investment and control of the Pension Fund, the Management Board will continue to adjust related procedures according to development of global economy with security and profitability both taken into consideration to improve efficiency and investment performance and protect the rights and interests of all participants.



Executive Secretary of  
Public Service Pension Fund  
Supervisory Board

*Liu Teng*

## Remarks by Liu Teng, executive secretary of Public Service Pension Fund Supervisory Board

To establish the common value of the staff members and their positive attitude toward work, the PSPFSB has formed a special task force which met and discussed several times and established the short-, mid- and long-term targets in accordance with the prospects and missions approved by the chairperson, namely "to pursue optimal synergy in supervision and ensure the government fulfills the responsibility of pension disbursement" and "abide by the spirit of independence and neutrality, apply innovative thinking, professionalism and positiveness, and the concept of efficient supervision to execute fund supervisory duties, evaluate fund performance, protect asset security and ensure sustainable management of the fund".

Under the leadership of the chairperson and the joint effort of all the staff members for over a year, the PSPFSB has accomplished a number of short-term strategic targets, including analysis of asset allocation tendencies in different countries and asset allocation ability improvement. The accomplishments have brought forth significant effects in increase of benefits from fund asset allocation, protection of the rights and interests of fund participants, reinforcement of the PSPFSB's supervision capacity and upgrading of administrative performance. At present, PSPFSB has drawn up a concrete plan for achievement of mid-term strategic targets. In the future, further efforts will be made toward established directions to meet the expectations of fund participants.



Vice Chairman of the  
Public Service Pension Fund  
Management Board

*Tsai Feng-ching*

## Message from Tsai Feng-ching, Vice Chairman of the Public Service Pension Fund Management Board

In 2013, under the quantitative easing monetary policy of the central banks in the West, the declining European economy started to enjoy a mild recovery. Plus the balance achieved between structural adjustment and steady growth in China, stock markets across the globe continued to grow. Due to successful global deployment of the Pension Fund and appropriate investment, the overall realized gains from utilization of the fund in 2013 and unrealized gains totaled NT\$42.77 billion, increasing by 43.5% from 2012. As a result, the Fund netted NT\$62.4 billion, reaching a historic high. The overall annual gains reached 8.3%, the highest in four years and a praiseworthy accomplishment.

The International Monetary Fund has indicated that global economic growth will reach 3.7% in 2014, the first upward revision made to global economic growth predictions in the past two years. Meanwhile, according to the Bloomberg Global Poll, the degree of optimism of international investors has risen to a five-year high. Facing the rapid changes in financial development around the world, the Fund Management Board will continue its close watch on the development in the financial market. Through flexible application, careful investment portfolio adjustment and tightened control of investment risks, the Fund Management Board will make every effort to boost fund profits while at the same time work closely with the Financial Supervisory Commission to establish an information reporting mechanism to safeguard the fund and achieve sustainable management.



## II. Objective and statutory missions



### 1. Objective

The country's public service retirement pension system was changed on July 1, 1995. Before that day, it was the government which was solely responsible for paying pensions to its retirees. From that time on, the government and its employees make joint contributions to a newly established Public Service Pension Fund, the scope of whose participants was gradually expanded to include public school teachers and staff workers, as well as military personnel. Under the direction of the Examination Yuan, the Public Service Pension Fund Supervisory Board and the Public Service Pension Fund Management Board were set up to oversee the supervision and management, respectively, of the Fund.



## 2. Statutory Missions

### Public Service Pension Fund Supervisory Board (PSPFSB)

According to Public Service Pension Fund Management Act, the board is responsible for the review, supervision and evaluation of the Pension Fund. In addition, based on Article Three of the Organic Act of the Supervisory Board of Public Service Pension Fund, the board is in charge of following duties:

1. To review the plans for collection/payment, management and use of the Pension Fund;
2. To finalize the yearly plans for discretionary management of the Pension Fund;
3. To review and approve the annual budget and final accounts prepared by the PSPFMB;
4. To evaluate the overall management of the Pension Fund;
5. To review the contribution rates of the Pension Fund and their adjustment plans;
6. To solve payment disputes;
7. To handle other affairs in relation to the supervision of the Pension Fund.





#### **Public Service Pension Fund Management Board (PSPFMB)**

According to the Public Service Pension Fund Management Act, the Fund's Management Board is responsible for collecting contributions. The Board is also responsible for the payment, management and investment of the fund. Also, based on Article Three of the Organic Act of the Management Board of Public Service Pension Fund, the board is charged with:

1. To conduct the collection/payment, custody, investment and planning for the Pension Fund;
2. To determine on the proposals made by organizations in charge of the collection/payment, custody and investment of the Pension Fund;
3. To review the investment proposals submitted by discretionary agencies;
4. To prepare the annual budget and final financial reports for the Pension Fund;
5. To evaluate the results of performance with regard to the collection/ payment, custody and investment of the Pension Fund;
6. To recommend on the adjustment of the contribution rates of the Pension Fund and its scale;
7. To conduct the computerization, system analysis, programming, data processing and other related affairs for the Pension Fund;
8. To handle other affairs in relation to the management of the Pension Fund.





## III. Organization and members



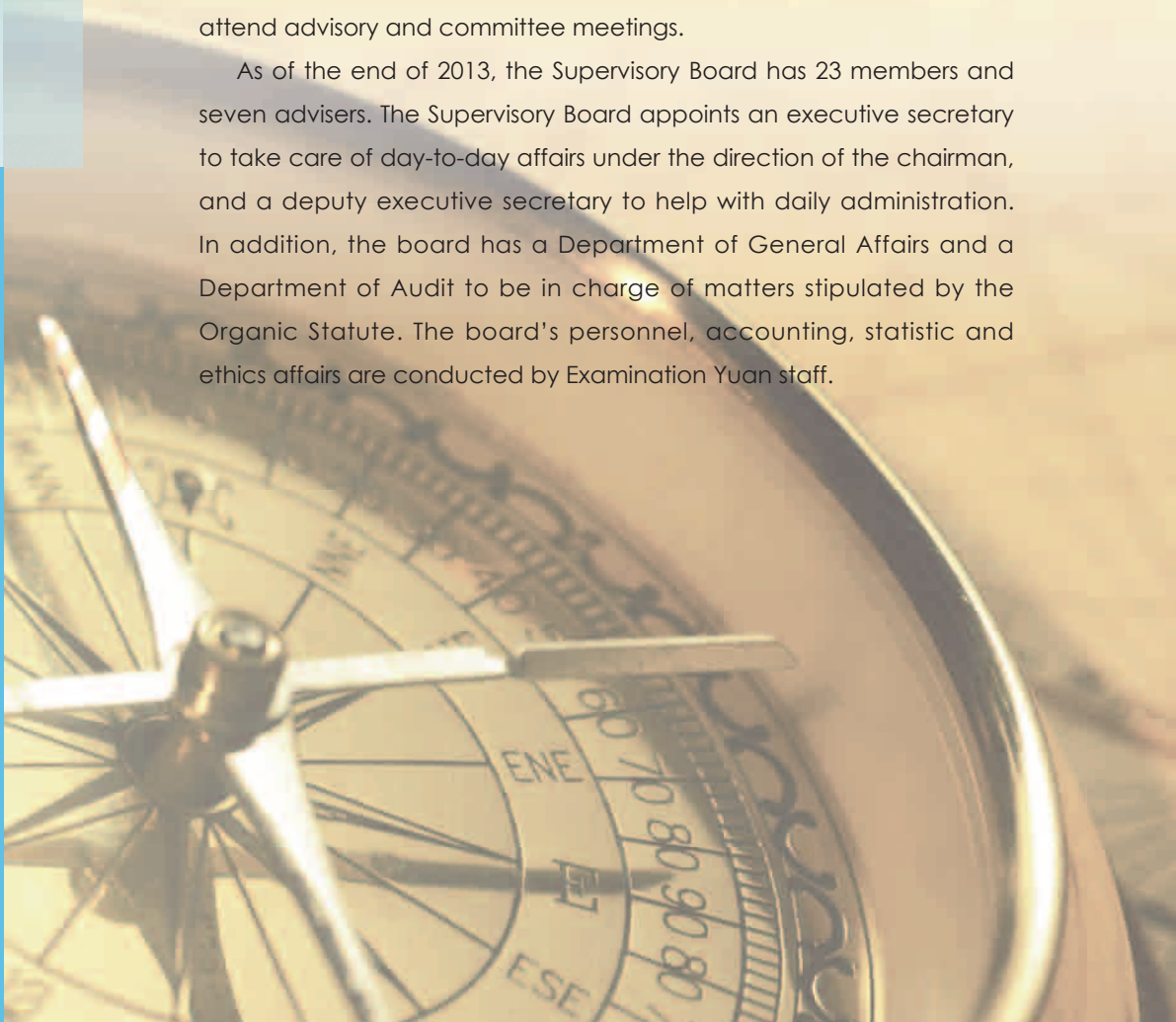
### 1. Organizational structure

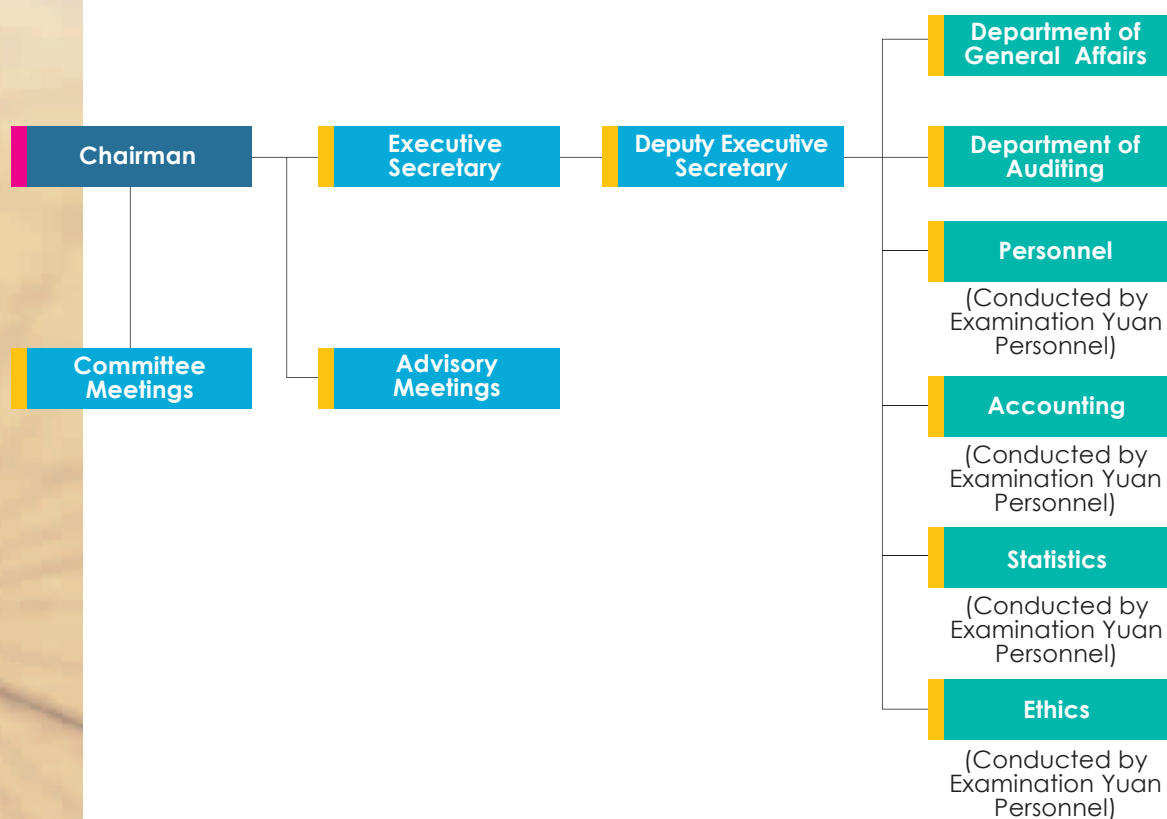
#### Supervisory Board

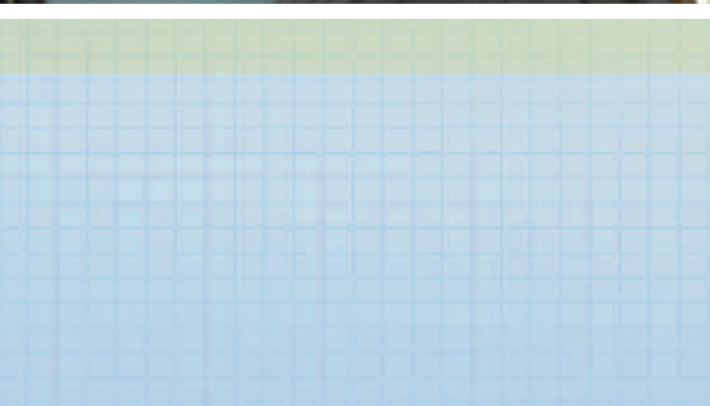
The Organic Act of Public Service Pension Fund Supervisory Board stipulates that the board shall comprise a chairman, with the Examination Yuan vice president concurrently taking the post to be in charge of overall administration, and 19 to 23 members who represent relevant central and local government agencies as well as civil servants, education workers and military personnel.

In accordance with the statute, the board should also recruit five to seven legal and financial experts and scholars as its advisers who shall attend advisory and committee meetings.

As of the end of 2013, the Supervisory Board has 23 members and seven advisers. The Supervisory Board appoints an executive secretary to take care of day-to-day affairs under the direction of the chairman, and a deputy executive secretary to help with daily administration. In addition, the board has a Department of General Affairs and a Department of Audit to be in charge of matters stipulated by the Organic Statute. The board's personnel, accounting, statistic and ethics affairs are conducted by Examination Yuan staff.





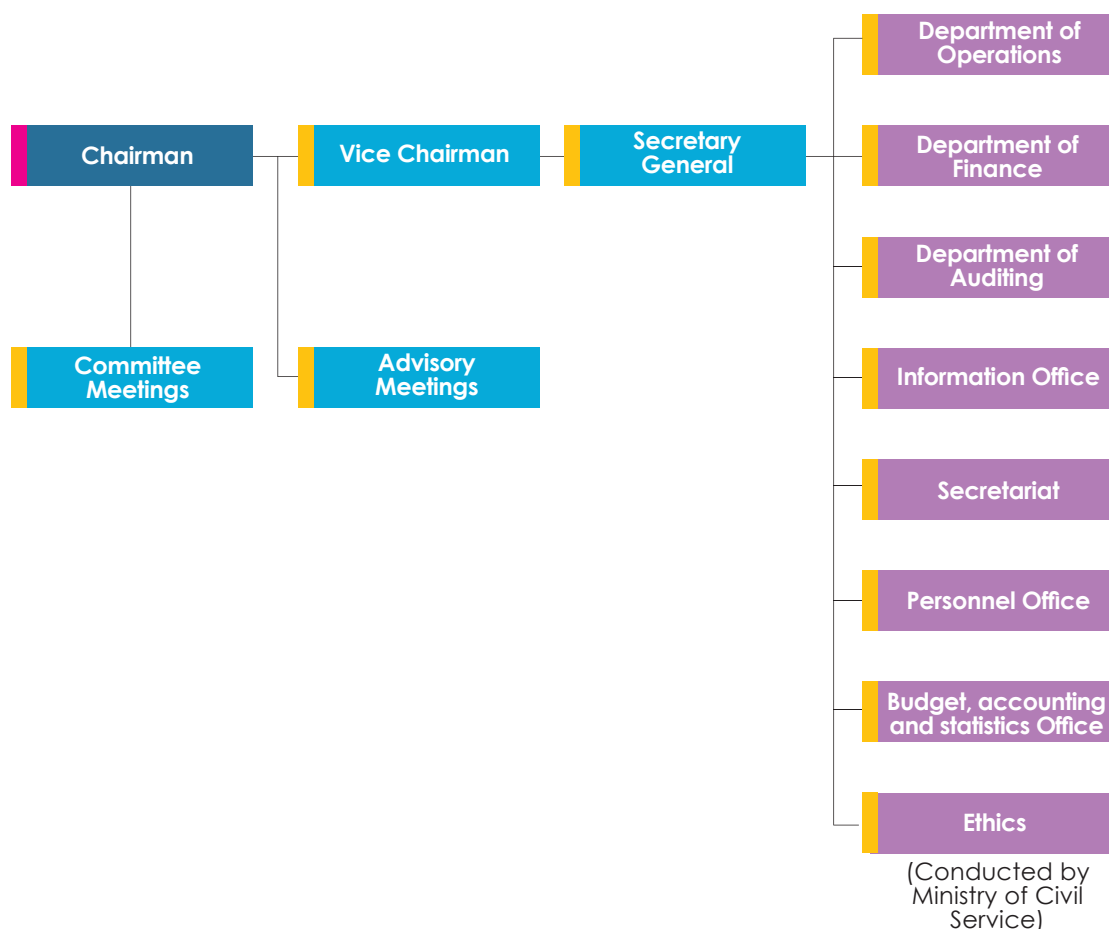




### Management Board

Pursuant to the Organic Act of Public Service Pension Fund Management Board, the Public Service Pension Fund Management Board appoints a chairman, with the minister of civil service concurrently taking the post to be in charge of overall administration; the PSPFMB also has 13 to 17 members who comprise government department chiefs in relevant fields, scholars and experts. In addition, the PSPFMB may retain academics and experts in law, economics, finance, banking, insurance, business management, securities investment and accounting as its advisers. As of the end of 2013, the PSPFMB has 17 members and 16 advisers.

The PSPFMB also has a vice chairman to assist the chairman in dealing with day-to-day operations, as well as a chief secretary. Under them, there are units in charge of affairs prescribed in the Organic Act and Operational Rules such as Department of Operations, Department of Finance, Department of Auditing, Information Office, Secretariat, Personnel Office and Budget, accounting and statistics Office. Ethics affairs are handled by the Ministry of Civil Service.





## 2. Composition of board meetings

### Supervisory Board

The Supervisory Board has 19-23 members, of whom 13 are secretaries-general of the Executive Yuan and the Examination Yuan, heads of the Ministry of Civil Service, the Ministry of National Defense, the Ministry of Finance, the Ministry of Education, the Directorate-General of Budget, Accounting and Statistics, and the Directorate-General of Personnel Administration as well as special municipality and county government chiefs, and ten are representatives of civil servants, education workers and military personnel.

Among the members, two are special municipality mayors and three are county magistrates.

Of the five civil servant representatives, four are designated by the National Civil Servant Association and one are recommended by the Ministry of Civil Service.

The two military personnel representatives are designated by the Ministry of National Defense, while three education workers are assigned by the Teacher's Association R.O.C., the National Federation of Teachers Unions R.O.C. and the Ministry of Education.

陳委員

台灣

台灣人民

台灣

台灣



## PSPF Supervisory Board Members

### Organ Representatives

#### Secretaries-General

- Executive Yuan
- Examination Yuan

#### Agency Heads

- Ministry of Civil Service
- Ministry of Finance
- Directorate-General of Budget, Accounting and Statistics
- Directorate-General of Personnel Administration
- Ministry of National Defense
- Ministry of Education

#### Local Government Heads

- Special Municipality Mayors 2
- County (City) Heads 3

#### Civil Servants Delegates Designated by

- National Civil Servant Association 4
- Ministry of Civil Service 1

#### Military Personnel Delegates Designated by

- Ministry of National Defense 2

#### Education Workers Delegates Designated by

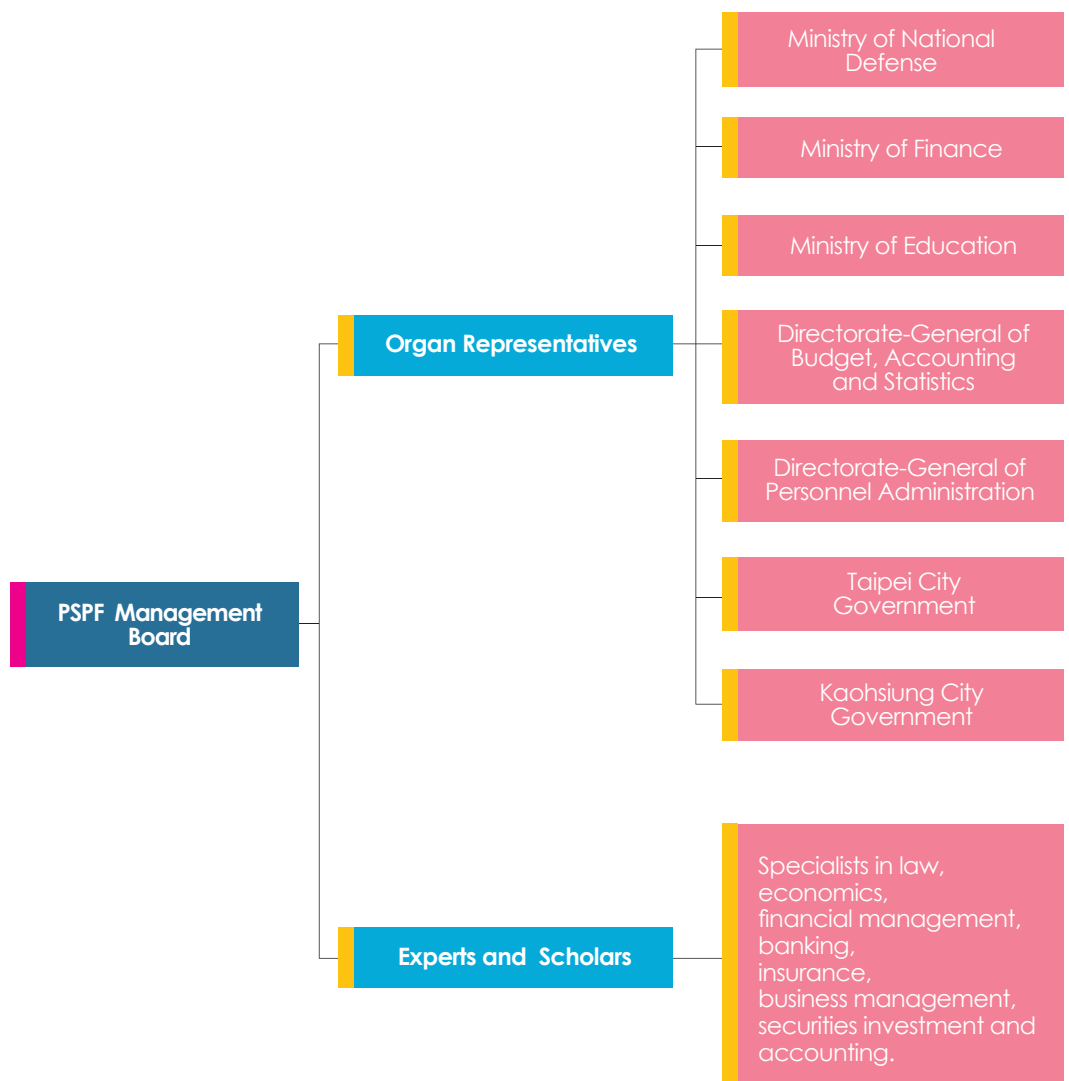
- National Teachers' Association R.O.C. 1
- National Federation of Teachers Unions 1
- Ministry of Education 1

### Representatives of Three Categories of Participants

### Management Board

The PSPFMB has 13-17 members who include one leading official each from the Ministry of the Civil Service, the Ministry of National Defense, the Ministry of Finance, the Ministry of Education, the Directorate-General of Budget, Accounting and Statistics, the Directorate-General of Personnel Administration, Taipei and Kaohsiung city government as well as scholars and experts.





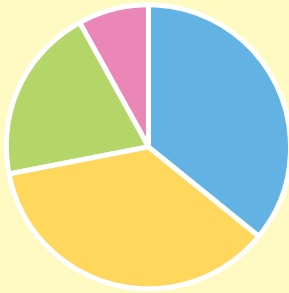
### 3. Management personnel overview

#### Supervisory Board

The board may hire up to 35 staff members, but only 25 can be legally supported by its budget. As of the end of 2013, the board actually had 25 staff members, of whom ten were male and 15 female, with an average age of 44.8 years old. As to their educational background, 16 of them had master's degrees, eight were university graduates and one were junior college graduates.

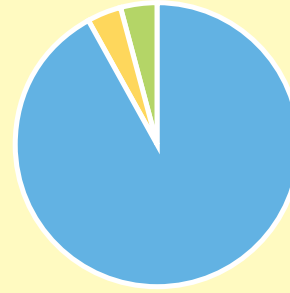


Distribution of Staff Members' Ages



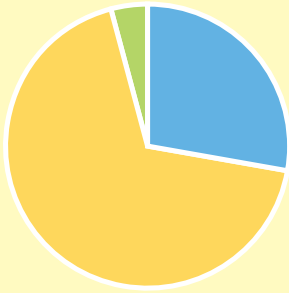
30 ~ 39	36 %
40 ~ 49	36 %
50 ~ 59	20 %
Above 60	8 %

Distribution of Staff Members' Job Descriptions



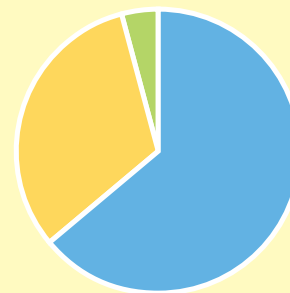
Banking and Insurance	92 %
General Administration	4 %
Information Management	4 %

Distribution of Staff Members' Rankings



Senior Ranks	28 %
Middle Ranks	68 %
Junior Ranks	4 %

Distribution of Staff Members' Academic Degrees



Master's Degrees	64 %
Bachelor's Degrees	32 %
Junior Colleges	4 %

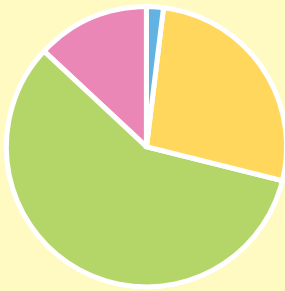
### Management Board

The PSPFMB's staff number is capped at 88, but only 86 can be supported by its budget. The board is also allowed to hire up to four contract workers. As of the end of 2013, the board actually had 82 staff members, of whom 26 were male and 56 were female, at an average 42.7 years of age. With respect to their education background, 35 had master's degrees, 39 had bachelor's degrees and 8 were junior college graduates.

With the exception of contract staff, all other staff members have passed civil service examinations. Staff members at administrative units are recruited in accordance with personnel employment regulations, while staff recruitment at investment or business operation units tends to give priority to people with economics or finance backgrounds. A total of 25 staff members possess professional licenses in finance or banking. An illustration of staff members' ages, education backgrounds and rankings is as follows:

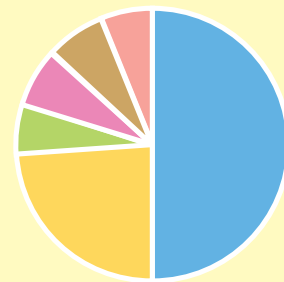


Distribution of Staff Members' Ages



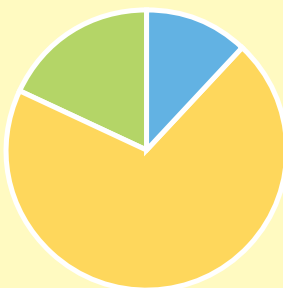
Under 29 years old	2 %
30 ~ 39	27 %
40 ~ 49	58 %
50 ~ 59	13 %

Distribution of Staff Members' Job Descriptions



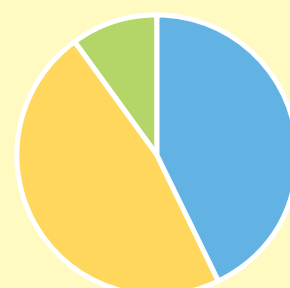
Financial and Tax administration	50 %
General Administration	24 %
Business Management	7 %
Information Processing	7 %
Accounting and Auditing	6 %
Personnel Administration	6 %

Distribution of Staff Members' Rankings



Senior Ranks	12 %
Middle Ranks	70 %
Junior Ranks	18 %

Distribution of Staff Members' Academic Degrees



Master's Degrees	43 %
Bachelor's Degrees	47 %
Junior Ranks	10 %

## IV. Fund participants, contributions and payments



### *1. An overview of participants and their working units*

Civil servants became immediate participants of the Pension Fund since the adoption of the new system on July 1, 1995, requiring joint contributions by the governments and participants. Soon afterwards, education workers and military personnel began taking part in the pension fund in February 1996 and January 1997, respectively. Political appointees joined the Fund in May 1996 but no longer participated after the Statute Governing Political Appointees Pension Fund came into effect January 1, 2004. As a result, contribution from political appointees has ended, but payments to them remain ongoing. All relevant matters are handled by the PSPF Management Board. The participants are defined as follows:



## Pension Fund Participants

### Political Appointees

1. Personnel who are nominated by the president and approved by the National Assembly or the Legislative Yuan in accordance with the Constitution.
2. Personnel who are nominated by the premier and appointed by the president in accordance with the Constitution, including political deputy ministers, ambassadors extraordinary and plenipotentiary and minister plenipotentiary and other specially appointed or assigned personnel.
3. Other central or provincial (municipal) government personnel who are appointed as 13th or higher grade civil servants, vice president, Taiwan provincial governor and mayors of special municipalities.
4. Deputy magistrates and deputy mayors who are appointed as political appointees in accordance with the Local Government Act.

Note: Pursuant to the Statute on Political Appointees Pension Fund, all the above-mentioned personnel no longer partake in the Public Servants Pension Fund starting on January 1, 2004.

### Civil Servants

1. Incumbent staff who are employed in accordance with civil service laws (including school administrative staff who are qualified for civil service and have had their qualifications accredited by the Ministry of Civil Service.
2. Incumbent staff who are recruited in accordance with the Temporary Assigned Worker Assignment Act.
3. Contract staff who are allowed to be subject to the Civil Service Retirement Act and the Civil Service Survivor Relief Act.
4. Staff members at public transportation agencies except Chunghwa Telecom Co. and Chunghwa Post Co..
5. Professional personnel in business, technology and medicine who are hired as specialists with the approval of the Ministry of Civil Service.
6. Other personnel who can be subject to the Civil Service Retirement Act and Survivor Relief Act in accordance with provisions of other laws or regulations.
7. Personnel who are allowed to join the Fund in accordance with collateral issued by competent authorities.

### Education Workers

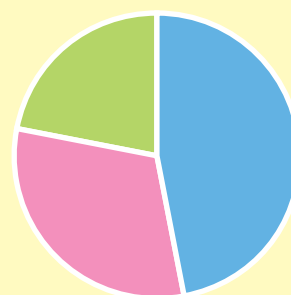
1. Principals, full-time teachers, teaching assistants and sports coaches at public schools at all levels who have been employed in accordance with the Act Governing Appointment of Educators and certified by competent authorities as well as full-time administrative staff who had been employed before the implementation of the act and has been formally listed by the schools or its affiliate organs as their salaried personnel.
2. Personnel at public social education institutions and academic research institutes as well as substitute teachers at elementary and junior high schools who have been allowed to be subject to the provisions of the Act Governing Appointment of Educators and nursing teachers who have been assigned by the Ministry of Education to teach relevant courses at public and private schools.

### Military Personnel

Volunteer military officers, non-commissioned officers and career soldiers in active service as well as military instructors at schools at all levels are covered in the Fund, but conscripts are not.

### (1) PSPF on-service participants and ratios

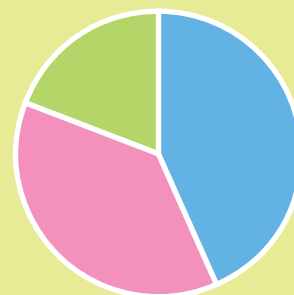
As of the end of 2013, the Fund had 622,000 participants, of whom about 294,000 were civil servants (47.2%), 192,000 were education workers (30.9%), and 136,000 were military personnel (21.9%).



Civil Servants	294,000	47.2 %
Education Workers	192,000	30.9 %
Military Personnel	136,000	21.9 %

### (2) Regular benefit recipients and ratios

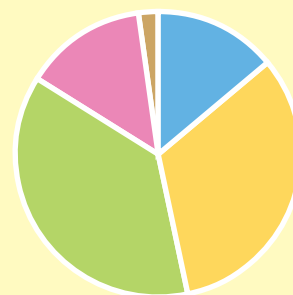
As of the end of 2013, the Fund had 252,000 regular benefit recipients, of whom 110,000 (43.5%) were civil servants (including political appointees), 94,000 (37.4%) were education workers, and 48,000 (19.1%) were military personnel.



Civil Servants	110,000	43.5 %
Education Workers	94,000	37.4 %
Military Personnel	48,000	19.1 %

### (3) Participating units and ratios

As of the end of 2013, the Fund had 7,623 participating units, of which 1,059 (13.9%) were central government agencies, 2,513 (33.0%) were provincial and municipal government agencies, 2,838 (37.2%) were county and city government agencies, 1,057 (13.9%) were township offices and 156 (2.0%) were state-owned enterprises.



Central government units	1,059	13.9 %
Provincial/municipal government units	2,513	33.0 %
County/municipal government units	2,838	37.2 %
Township offices	1,057	3.9 %
State-owned Enterprises	156	2.0 %



## 2. Overview of contributions/payments by the Fund

### (1) Overall contributions/ payments and proportions by the Fund

The Pension Fund received NT\$59.3 billion in contributions in 2013 from three categories of participants while paying out NT\$57.7 billion in benefits, with payments accounting for 97.4 percent of total contributions. The net contribution/payment amount was down NT\$7.3 billion from the year-earlier level. Since the Fund's inception, accumulated contributions from the three categories of participants amounted to NT\$801.9 billion and accumulated payouts totaled NT\$380.7 billion or 47.5 percent of overall contributions.

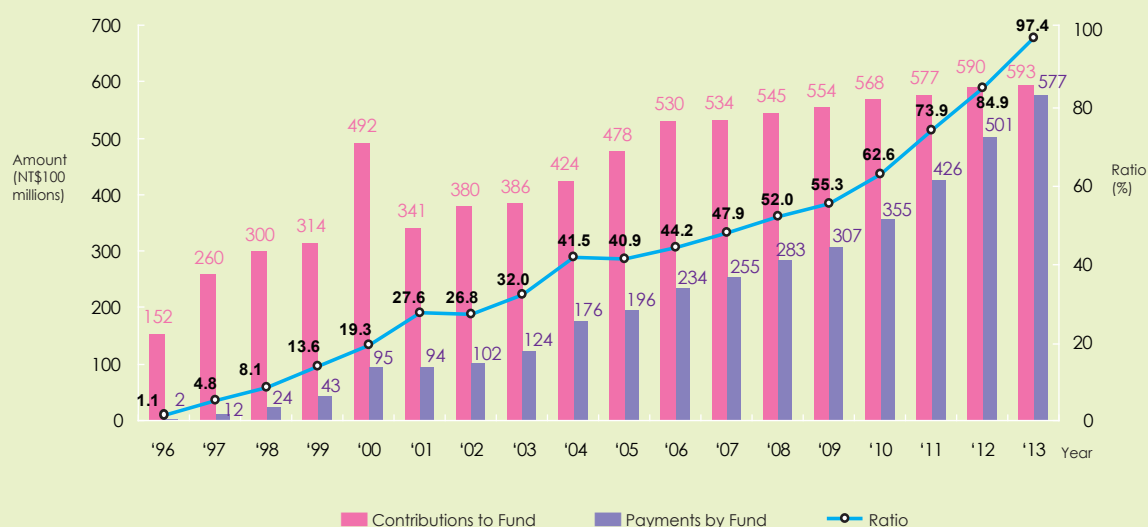


**Table of Pension Fund Contributions/Payments Amounts and Ratios**

Units NT\$100 Million

Period	Contributions/ Payments	Civil Servants	Education Workers	Military Personnel	Total
Fiscal 2013	Contribution Amount	278	218	97	593
	Payout Amount	236	205	136	577
	Payout/ Contribution Ratio	84.9%	94.1%	141.1%	97.4%
As of the end of 2013	Contribution Amount	3,842	2,966	1,211	8,019
	Payout Amount	1,377	1,473	957	3,807
	Payout/ Contribution Ratio	35.8%	49.7%	79.0%	47.5%

**Chart of payment amounts and ratios over the years**



Note: Fiscal 2000 covers the period from July 1, 1999 to Dec. 31, 2000.

## (2) Civil Servants Contribution/Payment Amount and Ratio

The Fund collected NT\$27.8 billion in contributions from civil servants (including political appointees) in 2013 while paying out NT\$23.6 billion in benefits, for a payment-to-contribution ratio of 84.9% in the category.

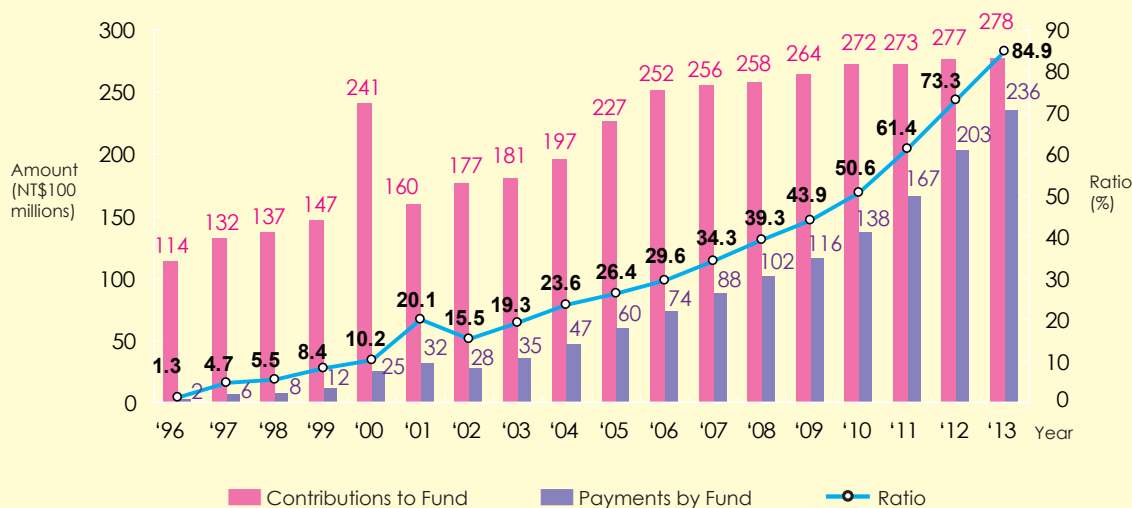
## (3) Education Workers Contribution/Payment Amount and Ratio

The Pension Fund collected NT\$21.8 billion in contributions from education workers in 2013 while paying out NT\$20.5 billion in benefits, for a payment-to-contribution ratio of 94.1% in the category.

## (4) Military Personnel Contribution/Payment Amount and Ratio

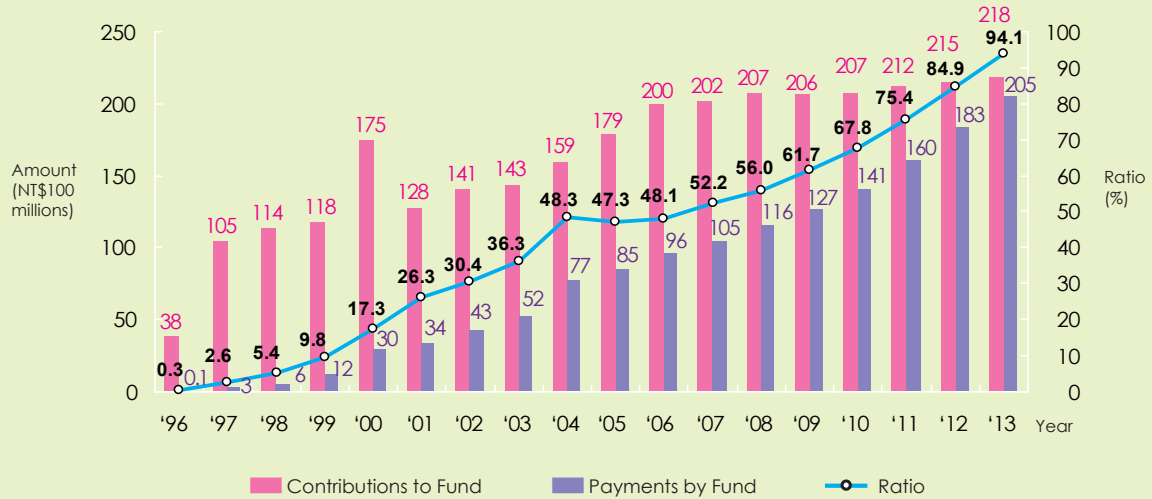
The Pension Fund collected NT\$9.7 billion in contributions from military personnel in 2013 while paying out NT\$13.6 billion in benefits, for a payment-to-contribution ratio of 141.1% in the category.

Chart of payments to civil servants and ratios over the years



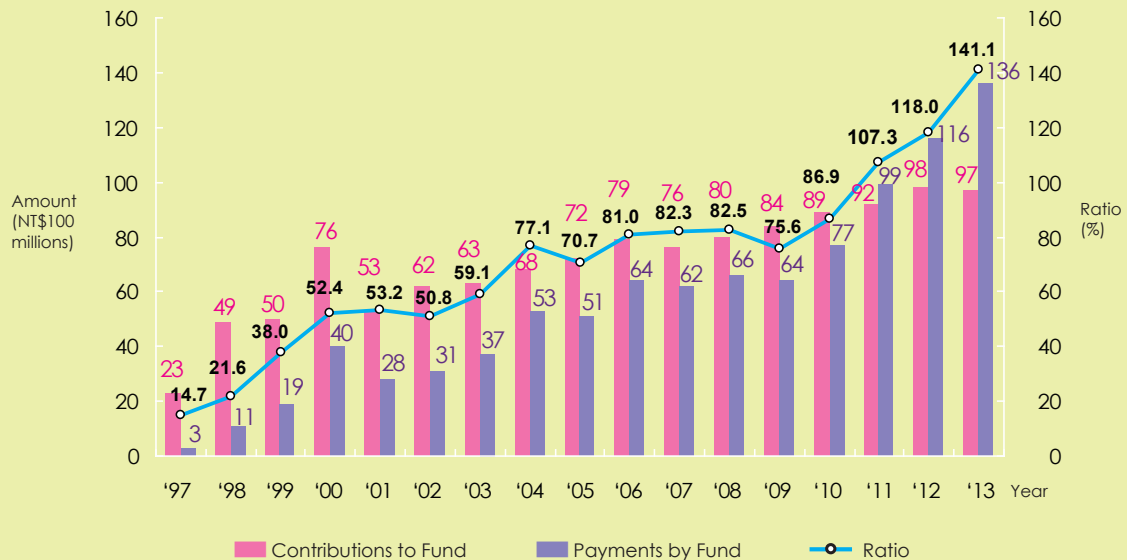
Note: Fiscal 2000 covers the period from July 1, 1999 to Dec. 31, 2000.

Chart of payments to education workers and ratios over the years



Notes: 1. Education workers started to join in the new pension system in February 1996.  
2. Fiscal 2000 covers the period from July 1, 1999 to Dec. 31, 2000.

Chart of payments to military personnel and ratios over the years



Notes: 1. Military personnel began joining the new pension system in January 1997.  
2. Fiscal 2000 covers the period from July 1, 1999 to Dec. 31, 2000.

### 3. Regular pension recipients and amount

#### (1) Total number of regular recipients and amount

The total number of regular pension recipients in three categories (including political appointees) reached 252,000 in 2013, up 19,000 from the year-earlier level, and overall annual payment amounted to NT\$48.8 billion, up NT\$6.50 billion over a year ago.

#### (2) Regular pension recipients and amount in civil servants category

A total of 110,000 civil servants received an aggregate NT\$21.3 billion in regular benefit payouts in 2013.

#### (3) Pension recipients and amount in education workers category

A total of 94,000 education workers received an aggregate NT\$18.9 billion in regular benefit payouts in 2013.

#### (4) Pension recipients and amount in military personnel category

A total of 48,000 military personnel received an aggregate NT\$8.6 billion in regular benefit payouts in 2013.

Chart on the numbers of payment recipients and amounts over the years

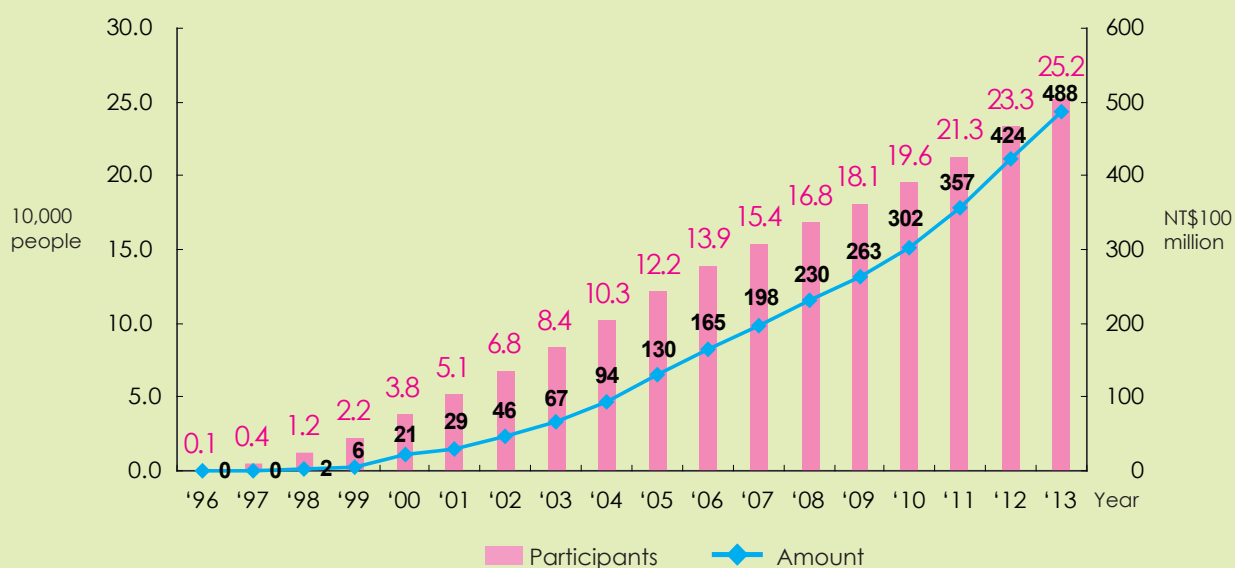


Chart of numbers and amounts of regular civil servant recipients of the Fund over the years

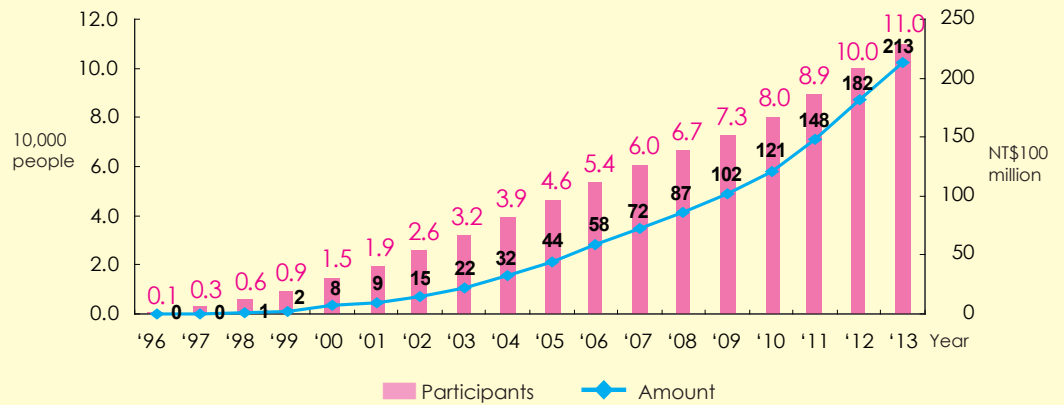


Chart of numbers and amounts of regular education worker recipients of the Fund over the years

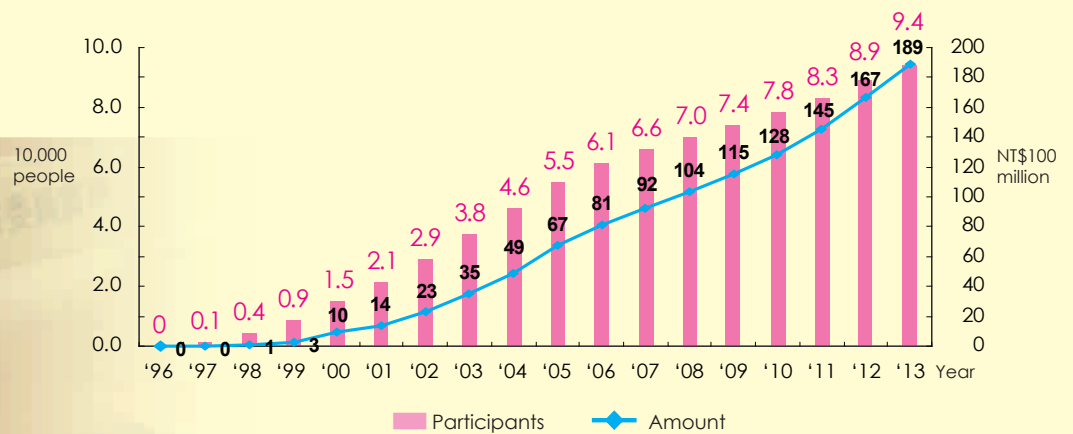
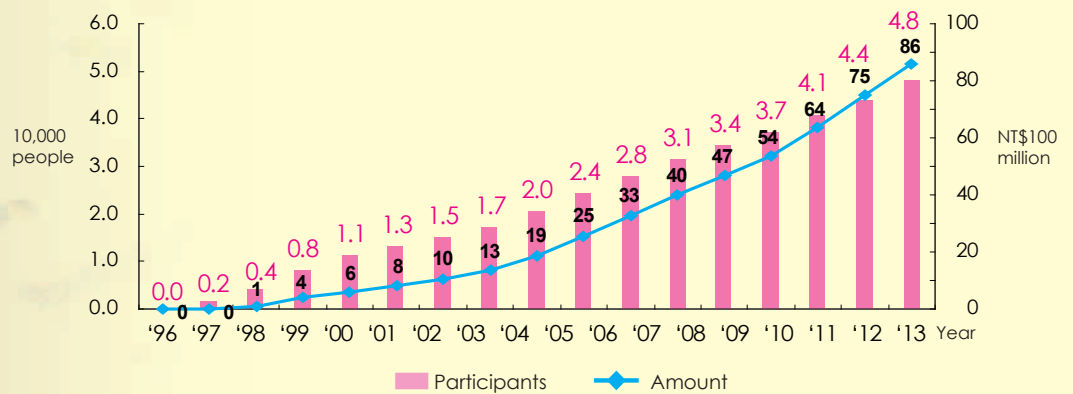
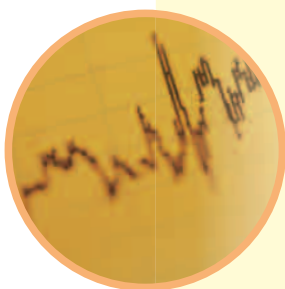


Chart of numbers and amounts of military personnel recipients of the Fund over the years



## V. The size and asset allocation of the Fund



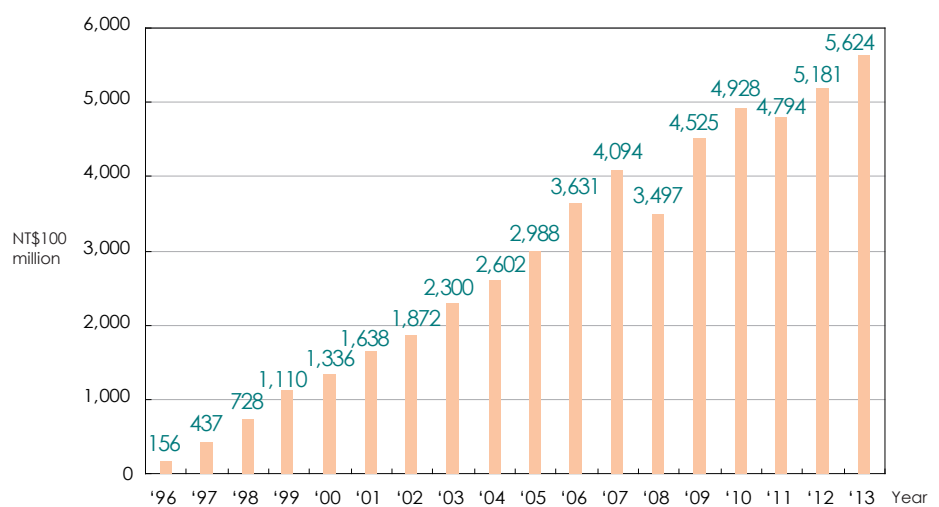
### 1. Size of the Fund over the years

The size of the Fund has continued to grow since its establishment, with the exception of 2008 and 2011. In both of the two years, the fund posted negative growth in terms of net asset due to the impacts of a global financial crunch, a devastating earthquake in Japan and a eurozone debt crisis. As of the end of 2013, the Fund's net asset stood at NT\$562.4 billion, up NT\$44.3 billion from the year earlier.





### The Fund's net asset value over the years



Notes: 1. For fiscal 2000, it started from July 1, 1999 and ends Dec. 31, 2000.  
 2. The net value of the Fund includes the accrued receivable/ payable items and revenue/expenses.



## 2. 2013 Asset allocation

The investments of the Pension Fund range from bank deposits, listed (including OTC) stocks, short-term bills, treasury bills, beneficiary certificates, bonds, corporate bonds, and overseas investment in the foregoing items, as well as the economic developmental investments, and loans relating to the welfare of civil servants. Under the provision of Subparagraph 5, Paragraph 1, Article 5 of "Public Service Pension Fund Management Statutes", any proposal of investment in a new item out of the foregoing categories may be carried out only after passing the review of the PSPFSB and approved by the Examination Yuan and the Executive Yuan.

The PSPFMB, by taking overseas/domestic economic situations and the budget of the Pension Fund into account, shall set a yearly target for income, draw up its operation principles and plans for a new year, and determine on the investment proportions and the range for asset allocation, which, after submitted to and approved by the PSPFSB, shall be carried out accordingly.

By the end of 2013, the investment items' investment areas, types of income and management modes are as follows:

**The Fund's asset allocations as of Dec. 31, 2013**

Categories	Investment items		Actual amount (NT\$100 m.) (note 3)		Actual allocation % (A)		Center allocation % (B)		Difference % (A) -(B)	
Investment areas (note 1)	Domestic		3,536		63.9		54.9		9.0	
	Overseas		2,001		36.1		45.1		-9.0	
Security type (note 2)	Fixed income		2,979		53.8		43.0		10.8	
	Capital gains		2,558		46.2		57.0		-10.8	
Management methods	Discretionary management	Domestic	1,869	679	33.8	12.3	44.0	18.0	-10.2	-5.7
		Overseas		1,191		21.5		26.0		-4.5
	In-house management	Deposits, short-term bills, securities	3,668	1,845	66.2	33.3	56.0	16.1	10.2	17.2
		Others		1,823		32.9		39.9		-7.0

- Notes: 1. If the overseas investment of the Fund's in-house investment in domestic beneficiary certificates is counted as overseas investment, then the domestic investment will take a 63.6 percent of total investment and overseas investment, 36.4 percent.
2. Fixed income investments include deposits, bonds, short-term bills and government bonds. Capital gains investments include beneficiary certificates, stocks and ETF.
3. The actual investment amount does not include receivables/payables, prepaid/advance items and bond discount/premium amortization.



## VI. Balance sheet, income statement, and contribution

### 1. Balance sheet for fiscal 2013

For fiscal 2013, the value of the Fund's total assets was NT\$563.1 billion, with current assets, which amounted to NT\$464.4 billion, taking 82.5 percent and the remaining 17.5 percent being long-term investment and receivables, totaling NT\$98.7 billion.

#### PSPF Balance sheet - Asset Accounts

Dec. 31, 2013

Items	Final account for this fiscal year			Final account	
	In-house management	Discretionary management	Total	In-house management	
	Amount	Amount	Amount	Amount	
Assets	375,135,384,171	188,002,162,436	563,137,546,607	341,500,580,752	
Current assets	276,440,101,881	188,002,162,436	464,442,264,317	246,420,990,309	
Cash	101,371,313,885	6,984,712,669	108,356,026,554	87,602,717,148	
Bank deposits	101,371,313,885	6,984,712,669	108,356,026,554	87,602,717,148	
Financial assets at fair value through income statement - current	162,255,531,477	180,027,418,913	342,282,950,390	143,089,999,438	
Stocks	78,896,796,329	144,257,755,559	223,154,551,888	71,486,250,881	
Beneficiary certificates		2,070,510,358	2,070,510,358		
Short-term bills	83,095,813,521	6,167,925,315	89,263,738,836	71,333,478,443	
Bonds	262,921,627	26,772,232,360	27,035,153,987	270,270,114	
Futures margins		750,723,006	750,723,006		
Foreign exchange forward contracts		8,272,315	8,272,315		
Held-to-maturity financial assets - current	2,950,007,386		2,950,007,386	5,952,853,596	
Bonds	2,950,007,386		2,950,007,386	5,952,853,596	
Receivables	4,819,851,065	990,030,854	5,809,881,919	5,408,069,669	
Accounts receivable	147,825,685	446,421,794	594,247,479	7,264,207	

## status of the Fund

Unit : NT\$

for last fiscal year		Comparison increase (+) decrease (-)					
Discretionary management	Total	In-house management		Discretionary management		Total	
Amount	Amount	Amount	%	Amount	%	Amount	%
177,773,157,355	519,273,738,107	33,634,803,419	9.85	10,229,005,081	5.75	43,863,808,500	8.45
177,773,157,355	424,194,147,664	30,019,111,572	12.18	10,229,005,081	5.75	40,248,116,653	9.49
5,857,204,278	93,459,921,426	13,768,596,737	15.72	1,127,508,391	19.25	14,896,105,128	15.94
5,857,204,278	93,459,921,426	13,768,596,737	15.72	1,127,508,391	19.25	14,896,105,128	15.94
171,136,393,914	314,226,393,352	19,165,532,039	13.39	8,891,024,999	5.20	28,056,557,038	8.93
138,232,148,631	209,718,399,512	7,410,545,448	10.37	6,025,606,928	4.36	13,436,152,376	6.41
1,540,095,948	1,540,095,948			530,414,410	34.44	530,414,410	34.44
19,328,760,558	90,662,239,001	11,762,335,078	16.49	-13,160,835,243	-68.09	-1,398,500,165	-1.54
10,850,383,301	11,120,653,415	-7,348,487	-2.72	15,921,849,059	146.74	15,914,500,572	143.11
1,027,453,921	1,027,453,921			-276,730,915	-26.93	-276,730,915	-26.93
157,551,555	157,551,555			-149,279,240	-94.75	-149,279,240	-94.75
	5,952,853,596	-3,002,846,210	-50.44			-3,002,846,210	-50.44
	5,952,853,596	-3,002,846,210	-50.44			-3,002,846,210	-50.44
779,559,163	6,187,628,832	-588,218,604	-10.88	210,471,691	27.00	-377,746,913	-6.10
492,574,131	499,838,338	140,561,478	1,934.99	-46,152,337	-9.37	94,409,141	18.89

(Continued)

## PSPF Balance sheet - Asset Accounts

Dec. 31, 2013

Items	Final account for this fiscal year			Final account	
	In-house management	Discretionary management	Total	In-house management	
	Amount	Amount	Amount	Amount	
Earned revenue receivable	20,910,948	81,089,377	102,000,325	32,781,867	
Interest receivable	990,252,092	422,738,424	1,412,990,516	985,164,101	
Allowance for bad debt-account receivables	-305,839		-305,839	-719,499	
State treasury subsidies receivable	3,640,795,338		3,640,795,338	4,380,795,338	
Other receivables	20,372,841	39,781,259	60,154,100	2,783,655	
Prepayments	5,043,398,068		5,043,398,068	4,367,350,458	
Other prepayments	5,043,398,068		5,043,398,068	4,367,350,458	
Long-term investments and receivables	98,695,282,290		98,695,282,290	95,079,590,443	
Available-for-sale financial assets - noncurrent	29,770,250,667		29,770,250,667	31,666,283,119	
Stocks	12,479,536,431		12,479,536,431	14,193,138,103	
Beneficiary certificates	17,290,714,236		17,290,714,236	17,473,145,016	
Debt investments without active market - noncurrent	2,710,064,478		2,710,064,478	3,417,526,807	
Bonds	2,710,064,478		2,710,064,478	3,417,526,807	
Held-to-maturity financial assets - noncurrent	66,214,967,145		66,214,967,145	59,995,780,517	
Bonds	66,214,967,145		66,214,967,145	59,995,780,517	
Other assets					
Miscellaneous assets					
Overdue receivables	574,935		574,935	712,856	
Allowance for bad debt - overdue receivables	-574,935		-574,935	-712,856	
<b>Total</b>	<b>375,135,384,171</b>	<b>188,002,162,436</b>	<b>563,137,546,607</b>	<b>341,500,580,752</b>	

Unit : NT\$

for last fiscal year		Comparison increase (+) decrease (-)					
Discretionary management	Total	In-house management		Discretionary management		Total	
Amount	Amount	Amount	%	Amount	%	Amount	%
105,464,396	138,246,263	-11,870,919	-36.21	-24,375,019	-23.11	-36,245,938	-26.22
166,626,924	1,151,791,025	5,087,991	0.52	256,111,500	153.70	261,199,491	22.68
	-719,499	413,660	-57.49			413,660	-57.49
	4,380,795,338	-740,000,000	-16.89			-740,000,000	-16.89
14,893,712	17,677,367	17,589,186	631.87	24,887,547	167.10	42,476,733	240.29
	4,367,350,458	676,047,610	15.48			676,047,610	15.48
	4,367,350,458	676,047,610	15.48			676,047,610	15.48
	95,079,590,443	3,615,691,847	3.80			3,615,691,847	3.80
	31,666,283,119	-1,896,032,452	-5.99			-1,896,032,452	-5.99
	14,193,138,103	-1,713,601,672	-12.07			-1,713,601,672	-12.07
	17,473,145,016	-182,430,780	-1.04			-182,430,780	-1.04
	3,417,526,807	-707,462,329	-20.70			-707,462,329	-20.70
	3,417,526,807	-707,462,329	-20.70			-707,462,329	-20.70
	59,995,780,517	6,219,186,628	10.37			6,219,186,628	10.37
	59,995,780,517	6,219,186,628	10.37			6,219,186,628	10.37
	712,856	-137,921	-19.35			-137,921	-19.35
	-712,856	137,921	-19.35			137,921	-19.35
177,773,157,355	519,273,738,107	33,634,803,419	9.85	10,229,005,081	5.75	43,863,808,500	8.45

(End)

### **PSPF Balance sheet - Liability Accounts**

Dec. 31, 2013

Items	Final account for this fiscal year			Final account	
	In-house management	Discretionary management	Total	In-house management	
	Amount	Amount	Amount	Amount	
Liabilities	6,039,150	682,434,563	688,473,713	289,448,148	
Current liabilities	5,855,262	682,434,563	688,289,825	289,448,148	
Short-term debt		41,193,135	41,193,135		
Foreign exchange forward contracts		41,193,135	41,193,135		
Payables	5,566,413	641,241,428	646,807,841	289,448,148	
Accounts payable		492,845,636	492,845,636	284,970,834	
Receipts under custody payable	1,078,079	46,038	1,124,117	421,593	
Expenses payable	522,681		522,681	489,628	
Management fees payable		137,254,725	137,254,725		
Custody fees payable	3,687,192	11,095,029	14,782,221	1,842,725	
Other payables	278,461		278,461	1,723,368	
Advance accounts	288,849		288,849		
Other advance accounts	288,849		288,849		
Other liabilities	183,888		183,888		
Miscellaneous liabilities	183,888		183,888		
Temporary accounts	183,888		183,888		

Unit : NT\$

for last fiscal year		Comparison increase (+) decrease (-)					
Discretionary management	Total	In-house management		Discretionary management		Total	
Amount	Amount	Amount	%	Amount	%	Amount	%
842,919,387	1,132,367,535	-283,408,998	-97.91	-160,484,824	-19.04	-443,893,822	-39.20
842,919,387	1,132,367,535	-283,592,886	-97.98	-160,484,824	-19.04	-444,077,710	-39.22
181,609,527	181,609,527			-140,416,392	-77.32	-140,416,392	-77.32
181,609,527	181,609,527			-140,416,392	-77.32	-140,416,392	-77.32
661,309,860	950,758,008	-283,881,735	-98.08	-20,068,432	-3.03	-303,950,167	-31.97
471,458,930	756,429,764	-284,970,834	-100.00	21,386,706	4.54	-263,584,128	-34.85
397,565	819,158	656,486	155.72	-351,527	-88.42	304,959	37.23
	489,628	33,053	6.75			33,053	6.75
175,042,243	175,042,243			-37,787,518	-21.59	-37,787,518	-21.59
14,411,122	16,253,847	1,844,467	100.09	-3,316,093	-23.01	-1,471,626	-9.05
	1,723,368	-1,444,907	-83.84			-1,444,907	-83.84
		288,849				288,849	
		288,849				288,849	
		183,888				183,888	
		183,888				183,888	
		183,888				183,888	

### PSPF Balance sheet - Fund and surplus Accounts

Dec. 31, 2013

Items	Final account for this fiscal year			Final account	
	In-house management	Discretionary management	Total	In-house management	
	Amount	Amount	Amount	Amount	
Fund and surplus	375,129,345,021	187,319,727,873	562,449,072,894	341,211,132,604	
Fund			560,677,791,278		
Public Service Pension Fund Capital			421,182,471,499		
Public Service Pension Fund Capital			421,182,471,499		
Public Service Pension Fund Accumulated surplus/deficit - distributed			139,495,319,779		
Public Service Pension Fund Legally guaranteed return			20,225,947,622		
Public Service Pension Fund Return above (below) legally guaranteed amount			25,104,692,326		
Public Service Pension Fund Accumulated surplus			94,164,679,831		
Accumulated surplus/deficit - undistributed			3,640,795,338		
Shortfall from legally guaranteed return to be reimbursed			3,640,795,338		
Equity Adjustments	-1,869,513,722		-1,869,513,722	-4,059,078,174	
Equity adjustments	-1,869,513,722		-1,869,513,722	-4,059,078,174	
Gains or losses on valuation of available-for-sale financial assets	-1,869,513,722		-1,869,513,722	-4,059,078,174	
Total	375,135,384,171	188,002,162,436	563,137,546,607	341,500,580,752	

Unit : NT\$

for last fiscal year		Comparison increase (+) decrease (-)					
Discretionary management	Total	In-house management		Discretionary management		Total	
Amount	Amount	Amount	%	Amount	%	Amount	%
176,930,237,968	518,141,370,572	33,918,212,417	9.94	10,389,489,905	5.87	44,307,702,322	8.55
	517,819,653,408					42,858,137,870	8.28
	419,660,173,739					1,522,297,760	8.28
	419,660,173,739					1,522,297,760	2.17
	98,159,479,669					41,335,840,110	37.60
	18,030,124,570					2,195,823,052	19.08
	706,803,388					24,397,888,938	-98.32
	79,422,551,711					14,742,128,120	459.43
	4,380,795,338					-740,000,000	-16.89
	4,380,795,338					-740,000,000	-16.89
	-4,059,078,174	2,189,564,452	-53.94			2,189,564,452	-53.94
	-4,059,078,174	2,189,564,452	-53.94			2,189,564,452	-53.94
	-4,059,078,174	2,189,564,452	-53.94			2,189,564,452	-53.94
177,773,157,355	519,273,738,107	33,634,803,419	9.85	10,229,005,081	5.75	43,863,808,500	8.45

## 2. Income statement of the Fund for fiscal 2013

The Fund accrued a balance of NT\$40.6 billion in fiscal 2013, NT\$22.3 billion in excess of the projected surplus.

### Public Service Pension Fund – Income Statement

Fiscal 2013

Items	Fiscal 2013 budget		
	Amount	%	
Total revenue	19,011,464,000	100.00	
Financial revenue	19,011,464,000	100.00	
Interest revenue	2,921,638,000	15.37	
Net gain on foreign exchange			
Securities lending revenue	24,000,000	0.13	
Net gain on investment	16,065,826,000	84.51	
Net gain on valuation of investment			
Other revenue			
Trust revenue			
Miscellaneous revenue			
Total expenses	760,207,000	4.00	
Financial expenses	760,207,000	4.00	
Discretionary management fees	691,089,000	3.64	
Custody fees	50,948,000	0.27	
Net loss on foreign exchange			
Remittance expenditure and account maintenance fees	4,986,000	0.03	
Transaction expenses	12,800,000	0.07	
Securities lending fees	384,000		
Bad debt expense			
Impairment losses on asset			
Other expenses			
Other expenses			
Surplus/deficit during this period	18,251,257,000	96.00	

Unit : NT\$

Fiscal 2013 Final Account		Increase/decrease		Fiscal 2012 Final Account	
Amount	%	Amount	%	Amount	%
41,142,125,666	100.00	22,130,661,666	116.41	33,491,166,716	100.00
41,109,869,484	99.92	22,098,405,484	116.24	33,465,140,292	99.92
4,215,732,351	10.25	1,294,094,351	44.29	3,752,841,017	11.21
2,267,038,723	5.51	2,267,038,723			
5,223,507	0.01	-18,776,493	-78.24	11,793,739	0.04
18,235,467,231	44.32	2,169,641,231	13.50	7,953,098,093	23.75
16,386,407,672	39.83	16,386,407,672		21,747,407,443	64.93
32,256,182	0.08	32,256,182		26,026,424	0.08
3,650		3,650		958,573	
32,252,532	0.08	32,252,532		25,067,851	0.07
546,285,556	1.33	-213,921,444	-28.14	6,834,493,909	20.41
535,001,702	1.30	-225,205,298	-29.62	6,828,171,236	20.39
482,559,959	1.17	-208,529,041	-30.17	401,816,332	1.20
41,524,236	0.10	-9,423,764	-18.50	36,154,861	0.11
				6,355,824,842	18.98
9,012,838	0.02	4,026,838	80.76	10,923,956	0.03
1,821,112		-10,978,888	-85.77	5,485,460	0.02
83,557		-300,443	-78.24	188,678	
				1,047,291	
				16,729,816	0.05
11,283,854	0.03	11,283,854		6,322,673	0.02
11,283,854	0.03	11,283,854		6,322,673	0.02
40,595,840,110	98.67	22,344,583,110	122.43	26,656,672,807	79.59

### 3. Actuarial valuation results by various participating groups

As of December 2013, total funded assets are NT\$562.4 billion. The amount and ratio are showed as follow:

Valuation Date	Amount of Funded Asset (NT\$)	Funded Ratio
Dec. 31, 2013		
Political appointees	60,520,812	6%
Civil servants	326,952,734,693	23%
Education workers	199,156,334,448	16%
Military personnel	36,279,482,941	8%

Notes:

1. The table is extracted from the 2013 fiscal year Actuarial Valuation Results which are compiled by the commissioned Actuarial Firm.
2. The funded ratios refer to funded assets as percentage of accrued liability.
3. Political appointees have stopped contributing to the Fund since Jan. 1, 2004, according to Political Appointees' Pension Statute, but have continued to receive pension payment.







## VII. Performance of the Fund

### 1. Records of overall performance over the years

The Fund has accumulated realized earning of NT\$151.4 billion as of the end of fiscal 2013. With an accumulated realized earning rate of 3.16 percent, 1.12 percentage points higher or NT\$51.8 billion more than an assumed earnings of NT\$99.7 billion based on the two-year time deposit interest rate of the Bank of Taiwan. If the unrealized earnings and the unrealized gain or loss for available-for-sale financial assets are added, the overall earnings will be NT\$138.3 billion, at a return rate of 2.88 percent.



(1) The amounts of earnings over the years and earnings rates

Fiscal Year	Realized earnings (100 million)	Realized earnings rate (%)	Earnings if added with the unrealized earnings and the unrealized gain or loss for available-for-sale financial assets (100 m.)	Earnings rate if the unrealized earnings and the unrealized gain or loss for available-for-sale financial assets are included (%)	Interest rate of two-year time deposit at Bank of Taiwan (%)	Targeted annual earnings rates (%)
1996	4.83	7.78	4.83	7.78	6.93	-
1997	34.66	12.42	34.19	12.25	6.29	7.86
1998	52.86	9.12	15.51	2.68	6.31	7.78
1999	73.97	8.18	110.40	12.21	5.85	7.95
2000	196.92	9.97	-171.83	-8.70	5.14	6.90
2001	67.13	4.72	54.71	3.85	4.02	8.12
2002	45.43	2.59	-44.26	-2.53	2.25	5.12
2003	39.50	1.95	164.98	8.13	1.57	3.69
2004	63.32	2.63	53.14	2.21	1.50	3.74
2005	99.14	3.66	128.30	4.74	1.81	4.87
2006	140.96	4.45	346.63	10.93	2.18	3.38
2007	210.88	5.62	184.28	4.91	2.47	4.30
2008	-94.97	-2.46	-860.87	-22.33	2.69	5.02
2009	63.59	1.63	762.63	19.49	0.94	4.11
2010	134.89	3.05	159.47	3.60	1.07	2.67
2011	68.73	1.44	-284.51	-5.98	1.32	3.35
2012	106.63	2.21	298.11	6.17	1.40	3.70
2013	205.92	4.00	427.68	8.30	1.40	3.78
Total	1,514.41	3.16	1,383.39	2.88	2.04	

Notes :1. Fiscal 2000 begins July1, 1999 and ends December 31, 2000.

2. The Lower of Cost or Market Value Method as applied from fiscal 1996 to fiscal 2005, and after that the Market Value Method has been adopted.

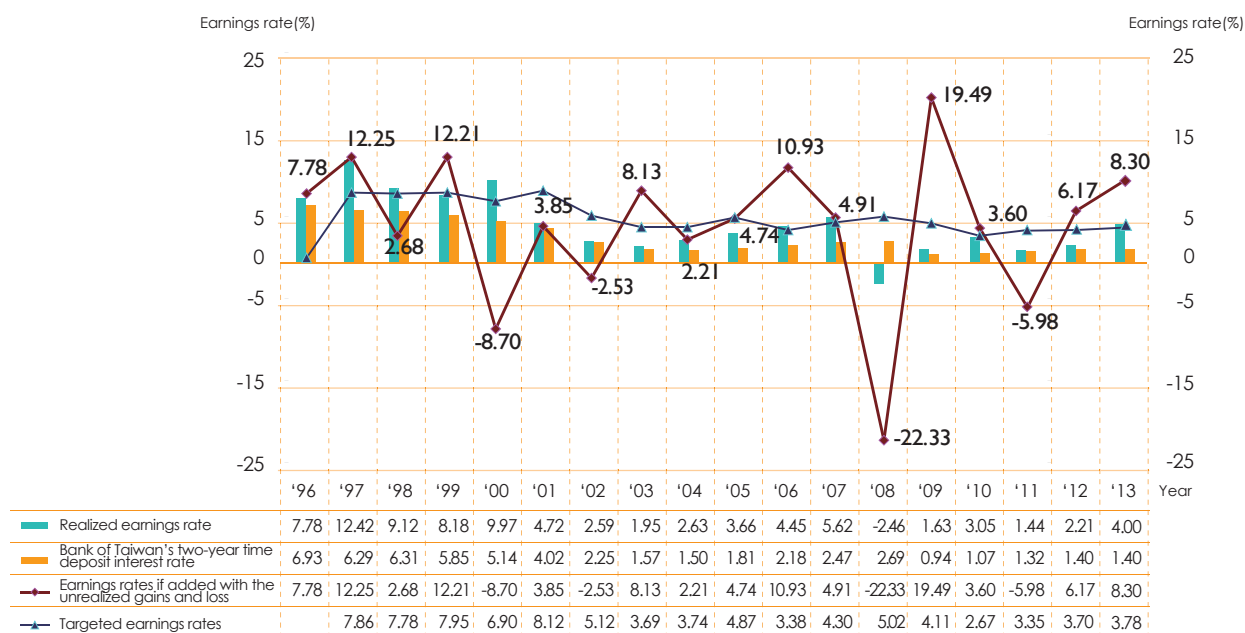
3. The realized earnings rates, Bank of Taiwan' s two-year time deposit interest rate, earnings rate if added with the unrealized earnings and the unrealized gain or loss for available-for-sale financial assets over the years as listed in the table are all calculated based on the Weighted-average System.

4. The national coffers shall make up for what the Fund suffers based on the realized earnings as instructed by the Directorate General of Budget, Accounting and Statistics in its official document dated April 24, 2001 (No. 03814 letter of Tai Jiu Shih Chu Xiao Yi Zi) .

## (2) Trend of earnings rates over the years

The Fund's earnings rates have mostly been stable over the past years except for the periods of the dot-com bubble in 2000, the U.S. subprime mortgage crisis in 2008 and the European debt crisis in 2011.

Chart of the Fund's earnings over the years



- Notes 1. Fiscal 2000 begins July1, 1999 and ends December 31, 2000.  
 2. The Lower of Cost or Market Value Method as applied from fiscal 1996 to fiscal 2005, and after that the Market Value Method has been adopted

## 2. Fund's performance in fiscal 2013

The Public Service Pension Fund recorded a realized earnings rate of 4.00 percent in fiscal 2013, which was 2.60 percentage points higher than Bank of Taiwan's two-year time deposit interest rate. It would be translated into an earnings rate of 8.30 percent if added with the unrealized gains and losses and rate of return with available-for-sale securities over the year – 4.52 percentage points higher than the year's targeted earnings rate of 3.78 percent.

The followings are the earnings rates of the Fund's various investments and their corresponding market performances (Benchmark earnings rate)

### (1) Performances of in-house management investments with fixed-income asset classes

Investment asset class	Actual returns for fiscal 2013 (%)	Indexes for evaluating performance	
		Benchmark (%)	Names of Index
Domestic bonds	1.76	1.35	The closing interest rate of 10-year Taiwan government bond in first transaction day of each month at the ROC GreTai Securities Market
Overseas bonds	4.75	3.03	Using the interest rate of the 5-year US treasury bond as the base day of evaluation
Short-term domestic bond	0.72	0.65	The interest rate of 30-day commercial paper sold at the secondary bond market as published by the Economic Daily News in the first trading day of each month
Bank deposits in New Taiwan Dollar	0.81	0.53	The average deposit interest rate of five leading banks as defined by the Central Bank (rate of one-year jumbo time deposit)
Bank deposits in foreign currencies	0.81	0.30	According to the one-month time deposit interest rates set by the Bank of Taiwan, weighted according to the ratios of major foreign currencies held by the Fund at the base day of evaluation

Note: The actual returns of foreign bonds and foreign currency deposits, after adding foreign exchange gain/loss, were 6.59% and 3.21% respectively for fiscal 2013.

## (2) Performances of in-house investments with capital gains asset classes

Investment asset class	Actual returns for fiscal 2013 (%)	Indexes for evaluating performance	
		Benchmark (%)	Names of index
Domestic stocks and ETF	13.42	11.85	Taiwan Weighted Stock Index-TWSI
Overseas stocks and ETF	17.73	22.80	MSCI World Index
Domestic beneficiary certificates	16.18	11.85	Taiwan Weighted Stock Index-TWSI
Overseas beneficiary certificates	10.80	12.90	MSCI World Index and Barclays Capital Global Aggregate Bond Index, weighted on the ratios of distribution of bonds and stocks

## (3) Performances of discretionary management

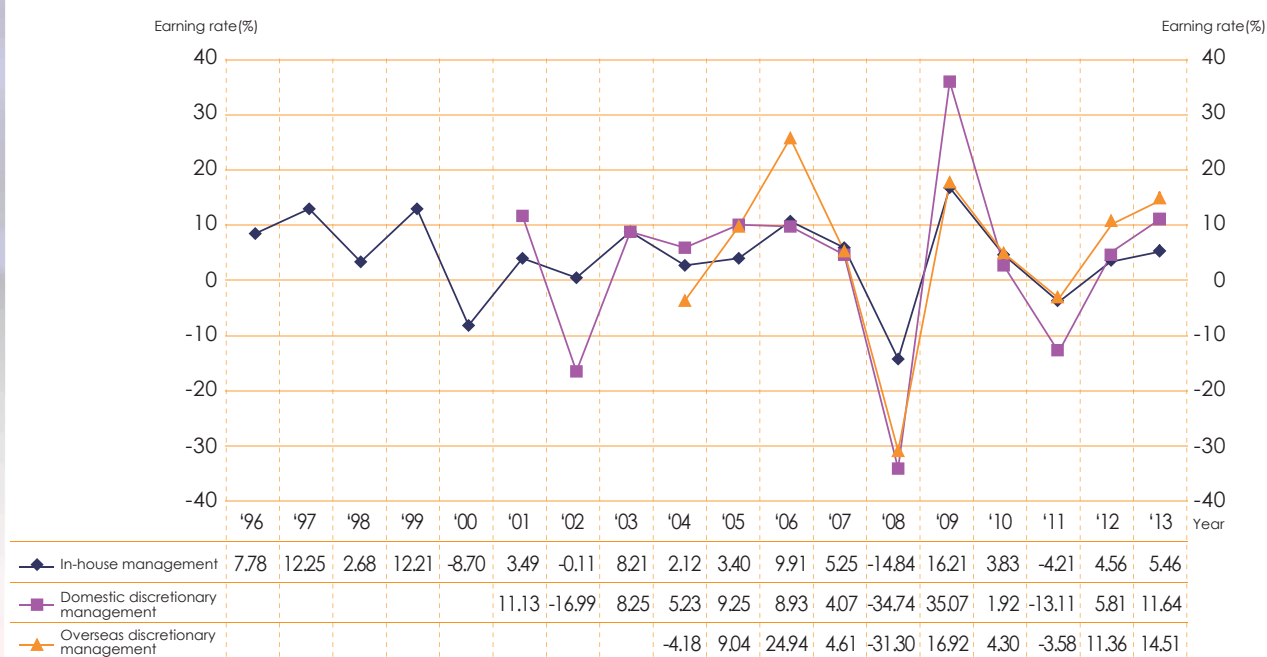
Investment items	Actual returns for fiscal 2013 (%)	Indexes for evaluating performance	
		Benchmark (%)	Names of index
Domestic discretionary management	11.64	10.27	Using the ratios of distribution of commissioned management's capital gains and fixed income as the weight function, weighted with the earnings rate of Taiwan Weighted Stock Index-TWSI and the closing interest rate of 10-year Taiwan government bond in the first transaction day of each month at the ROC CreTai Securities Market during the same period
Overseas discretionary management	13.46	16.46	Using the ratios of distribution of Overseas commissioned management's capital gains and fixed income as the weight function, weighted with MSCI World Index and Barclays Capital Global Aggregate Bond Index, during the same period

Note: The actual returns of foreign discretionary management after adding foreign exchange gain/loss were 14.51% for fiscal 2013.

### 3. Performances of in-house and discretionary managements

Fiscal 2013 registered 5.46 percent earnings rate in the Fund's in-house management, 11.64 percent in its domestic discretionary management and 14.51 percent in overseas discretionary management, up 0.90 percentage points, 5.83 percentage points and 3.15 percentage points year-on-year, respectively.

**Trend chart of the earning rates of the Fund's in-house and discretionary managements**

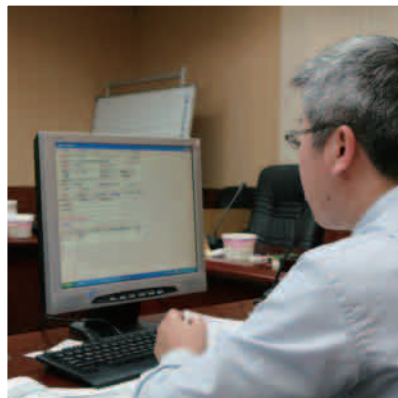
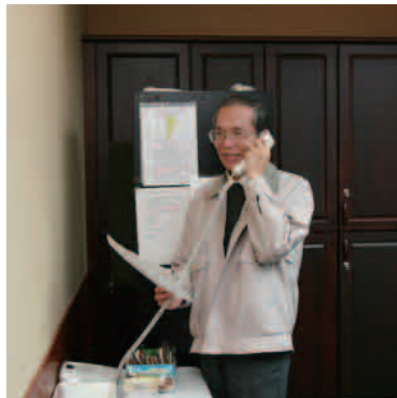
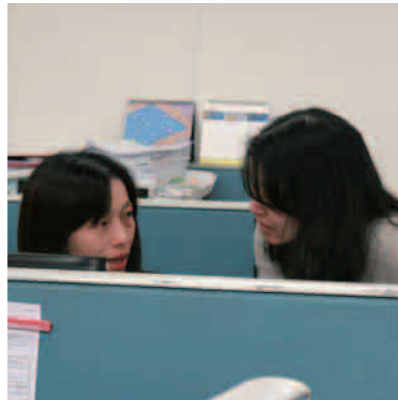


- Notes: 1. Fiscal year 2000 begins July1, 1999 and ends December 31, 2000.  
 2. The Lower of Cost or Market Value Method as applied from fiscal 1996 to fiscal 2005, and after that the Market Value Method has been adopted.  
 3. Earnings rates refer to the realized rates of return, added with the unrealized gains and losses and earnings rate with available-for-sale securities over the years.  
 4. The Fund started domestic discretionary management on July 16, 2001. Therefore, the 2001's earnings rate 11.13% was calculated on the basis of annualizing the earnings rate of 5.10% over the period from July 16 to December 31.  
 5. Because there was only 10 days before that Year ended, the 2003's earnings rate of overseas discretionary management was not herein provided.

## VIII. Supervising and governance mechanism



To ensure that the Fund's management conforms to its mission, various supervising mechanisms have been set up since the Fund's establishment. Each participating government agency has its own auditing unit. For example, the PSPFMB has a Department of Auditing, which is responsible for internal auditing. The auditing unit performs daily monitoring of the Fund operations and administrations. The PSPFSB has its own internal auditing unit that is charged with reviewing significant issues and the monthly management reports. The PSPFSB performs year-end on site auditing and additional auditing in case of extraordinary situation. The Examination Yuan, the Legislature and the National Audit Office are also obliged to conduct different types of supervision of the Fund to ensure the security of fund assets.



## IX. Operational highlights of the year

### Management Board

- According to statutorily established schedules, the PSPFMB not only conducted matters in relation to contributions and payments of the fund but also updated the personal information of incumbent public servants and retirees to protect the rights and interests of fund participants.
- The PSPFMB posted new and amended regulations and interpretations from different competent authorities on the Pension Fund website for personnel in charge of pension operations in government agencies, public schools and military units to understand related information and conduct their work accordingly.
- To increase investment opportunities and flexibility and improve fund investment results, the PSPFMB classified the types of domestic and foreign bonds and also established choice standards while at the same time reviewed and revised the Regulations for Investment of the Pension Fund in Domestic and Foreign Bonds.
- The PSPFMB established the 2014 fund investment plan and plans for domestic/foreign discretionary management organizations in accordance with domestic and international economic and financial circumstances, fund contributions and payments estimates, and tolerable market risk evaluation to set the guidelines for fund utilization and the annual profit target.





- The PSPFMB signed contracts and appropriated funds for discretionary investment management organizations domestically and overseas in 2012. The discretionary accounts include both type of relative return equity and emerging market bonds.
- The PSPFMB held a public tender to seek domestic organizations for discretionary management of the type of relative return equity for 2013 and funds were to be appropriated in accordance with economic circumstances in the future.
- The PSPFMB held a public tender to seek four foreign organizations for discretionary management of the type of global minimum volatility index equity and global high dividend yield enhanced equity for 2013.
- The PSPFMB has made evaluations of the foreign discretionary management organizations which had entered into the first agreements with the PSPFMB in fiscal 2009. Those that had reached the given investment return targets won an extended contract, while the rest of discretionary management contracts will be taken back on due date.
- The PSPFMB has terminated contracts with some domestic discretionary management organizations ahead of schedule because their investment performances failed to reach expectations.
- According to the 2013 auditing plan, the PSPFMB completed all written audits and on-site audits and also established the 2014 auditing plan in which the items in each fund operation to be audited; key audit targets and audit frequencies were clearly listed.
- The PSPFMB conducted on-site audits at domestic discretionary management and custody institutions and also assigned staff members to inspect and receive training at foreign discretionary management organizations to understand their structure, investment of trusted capital as well as learn from their investment experience and professional knowledge.
- To enhance information operation security and perfect the information security management system, the PSPFMB adopted the ISO 27001 Information Security Management System standards and also passed the certification.
- In line with the schedule planning of the International Financial Reporting Standards adopted, the PSPFMB completed the initial stage of installation of the domestic financial and accounting system.

### Supervisory Board

- The payment-to-contribution ratio of each pension fund for different kind of retirees has escalated to a higher level year by year. Furthermore, the ratio of the whole fund for all kind of retirees has reached 97.4% in 2013, the contribution may soon fall short of the payment. All competent authorities ought to take heed of the impending problem and seek solutions.
- To make its positioning, role and functions concrete and clear, the PSPFSB established its prospects, missions and goals. So far, the projects to achieve various short-term targets were already completed and the results would facilitate allocation of fund assets, protection of the rights and interests of fund participants, reinforcement of supervisory functions, and improvement of administrative performance.
- The PSPFSB conducted the 9th survey on the opinions of different participants about fund utilization and the pension system as well as the opinions of personnel responsible for Pension Fund operations in various agencies toward the administrative approaches of the fund, analyzed the tendencies and provided the results to be references for each competent authority in policy making.
- The PSPFSB kept a constant watch on the tendencies in allocation of large pension funds in and outside the country in order to understand market developments and propose strategic suggestions for allocation of Pension Fund assets to increase investment returns.





- The PSPFSB collected important domestic/foreign literature on fund performance attribution and models of performance attribution in utilization of the discretionary management custodians. Not only to learn how to apply performance attribution analysis on the Pension Fund, the PSPFSB also examined the performance attribution models and compared them with actual fund investment in order to improve supervisory functions.
- To keep track of the assets, liabilities and the sources/levels of likely risks of the Pension Fund, the PSPFSB not only established a number of risk indicators but also made reference to economic and industrial indices to set up a system for assessment of the tendency of the stock market in Taiwan and design a number of reversal patterns to serve as the basis for evaluation of fund asset allocation ratios and analysis of market changes.
- The PSPFSB studied famous literature on pension funds from in and outside the country and also interviewed each competent authority in the country, using open questionnaires to sort out the key targets in their supervisory work and practices, to collect and compare their supervisory systems and methods and establish references for PSPFSB's own operations.
- The PSPFSB drew up a number of improvement projects, targets and execution plans to be carried out to promote auditing techniques and quality.
- The PSPFSB attended the working group meetings of the "Government Fund Utilization Performance Promotion Task Force" convened by the Financial Supervisory Commission. In the hope of improving the investment performance of the government funds, the task force members exchanged ideas with other attending units on fund utilization issues such as the talent recruitment, the public access to government information and indices applied in performance evaluation on the discretionary management.

## X. Prospect and conclusion

The future tasks of the two Boards, which will continue to do their jobs according to law, aiming to ensure both the Fund's security and good investment returns, are as follows:

- Appropriate and careful asset allocation planning to increase fund management performance

To establish the fittest investment portfolios, we will assess domestic and international economic situations, evaluate the capacity of the Pension Fund to tolerate market risks and establish annual fund asset allocation plans accordingly. The Fund will put equal emphasis on in-house investment and discretionary management to achieve risk diversification, professional management and improvement of investment returns.

- Review of the current system of discretionary management to establish diversified investment approaches

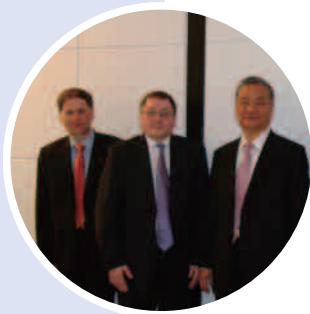
Besides keeping a close watch on changes in the economic environment and examining the results of discretionary management in the past, we will solicit opinions from different sectors and continue to review and revise the modes of discretionary management and related operating guidelines. In the meantime, plans will be made to discretionary management of different types of investments to increase investment varieties in the hope of reducing investment risks and improving fund management performance by investing through diverse channels.





- Evaluation of fund performance and risks from multiple angles to stimulate management performance

To improve overall fund management performance, we will continue to adopt diverse and objective performance measurement indices and risk control systems to evaluate and analyze fund management data as well as assess the management results of domestic and foreign discretionary management organizations on a quarterly basis. It is hope that through performance evaluation and risk assessment from multiple aspects, performance can be improved and management capacity will be boosted.





- Assurance of public access to fund information to upgrade fund information transparency

The Pension Fund comes from joint contributions from the government and participants. Related financial information and management performance have always been the concern of governments at various levels, competent authorities, participants and the general public. In the future, we will continue to ensure public access to such information and review the mechanism in response to external demand in order to upgrade the transparency of financial information.



- Enhancement of fund supervision functions and observance of auditing procedures

With the scale of the fund growing immense and investment becoming diversified, the significance of internal control procedures for the fund has increased. To ensure the fund management security and perfect the supervisory system, besides continuing to design various review and control procedures and reexamine existing procedures, PSPFMB and PSPFSB will also reinforce various audits to tighten fund control mechanisms to prevent violations and negligence.





- Review of current fund contribution/payment management efficiency and establishment of personal accounts under the multi-tier pension system set up in accordance with pension system reform

We will review and simplify fund income collection and expenditure procedures for incumbent public employees to ensure fund contribution/payment security. In the future, the multi-tier pension system with defined contribution plans will be applied to new public employees. In line with the legislative progress of the pension reform bill, efforts will be made to revise pension management regulations and plan fund income and expenditure operations.

The PSPF are responsible for the contribution/payment, management and investment of the Pension Fund established with contributions from different types of participants. The investment and management of the Pension Fund is closely related to the rights and interests of public employees. In particular, as pension system is undergoing a reform, the staff members of PSPFMB and PSPFSB will continue their conscientious attitude they have always adopted toward work and fulfill their responsibilities to provide various services in order to improve fund investment performance and protect asset security.



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