




2014

ANNUAL REPORT



Public Service Pension Fund

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

A stylized white dove is depicted in flight, facing left, with its wings spread and a trail of light behind it. The background is a vibrant blue, overlaid with a pattern of white, horizontally-oriented ovals that create a textured, mesh-like effect. The dove is positioned in the upper left quadrant, and its light trail extends towards the center of the image.

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

Table of Contents

I	Messages from two board chairpersons and other key executives	2
II	Objective and statutory missions	6
III	Organization and members	10
IV	Fund participants, contributions and payments	22
V	The size and asset allocation of the Fund	32
VI	Balance sheet, income statement, and contribution status of the Fund	36
VII	Performance of the Fund	48
VIII	Supervising and governance mechanism	54
IX	Operational highlights of the year	56
X	Prospect and conclusion	60

I Messages from two board chairpersons and other key executives



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

Kao Yuang-kuang

Expectation of Kao Yuang-kuang, Chairperson of the Public Service Pension Fund Supervisory Board

Taiwan is facing double pressure from declining birth rates and aging population. This makes protection of the economic security of fund participants in their later life becomes all the more important. The stability of the Public Service Pension System and successful fund management are closely associated with the level of accomplishment of the goal of the Fund. Presently, it is the moment for reform in order to achieve these two objectives. Since I started to serve concurrently as the chairperson, I have repeatedly reminded the staff members of the PSPFMB and the PSPFSB not to fail the expectation of all the fund participants and the public. As civil servants, they must cherish the trust of the people and create the best results with maximum efforts and power of execution to ensure sustainable management of the Fund.

In the last six years, the PSPFSB was able to conduct supervisory operations smoothly under the leadership of former Chairperson Wu. Whether in the aspect of improvement of fund asset allocation, reinforcement of supervisory functions, enhancement of administrative performance or stimulation of staff members' potential, remarkable results were achieved. I am deeply impressed. At the same time, under the outstanding leadership of Minister Chang who concurrently served as the PSPFMB chairperson, the Fund not only safely pulled through the Financial Tsunami and the European Debt Crisis but also exhibited excellent performance. The unsparing efforts Minister Chang made in diversification of fund asset allocation as well establishment of the systems of risk management and freedom of information laid a solid foundation for fund operation.

Managing fund operations is like a relay race. The baton is passed from one to another. Looking at the future, the PSPFSB will adhere to the concept of "innovative thinking, improvement of professional capacity and effective supervision" and take active measures in its passive supervisory role. Besides continuing to urge the PSPFMB to perfect asset allocation and risk control, the PSPFSB will conduct cross-department cooperation and exchange ideas with other government funds in the country and concerned agencies on issues regarding fund investment and performance evaluation. Moreover, the PSPFSB will also promote its own research and outsourced research work to strengthen the R&D energy in order to provide professional opinions for the PSPFMB.



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

Chang Che-shen



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

Pressure from change of population structure has a serious impact on a country and society. It happens in the West as well as in Taiwan. With dropping fertility rates and aging population, establishing a system to ensure people's economic security at old age becomes particularly important. For this reason, perfecting the financial balance and long-term, stable profitability of the Fund in order to pay pensions to all the participants is the most important issue at the moment.

The Public Service Pension Fund is the financial source of support for the pension system for military personnel, civil servants and education workers in the country. The quality of its operation is not only closely related to the retirement benefits of military personnel, civil servants and education workers but also a key to the success of the new pension system in the country. Therefore, various countermeasures have been taken. Reform of the pension system for military personnel, civil servants and education workers will be continued in stages to minimize the impact. The pressure in payment of pension benefits from the Fund will be effectively reduced. Safe and profitable long-term allocation and investment will be the future directions and key areas of fund management. The PSPFMB will keep a close watch on circumstances in global economy and make flexible adjustments to the investment portfolio. The target of investment will be selected carefully and action will be taken in response to the rapid changes in the financial environment to seize profit-making opportunities. It is hope that risk diversification can be achieved through diversification of investment to pursue stable investment performance. Meanwhile, with the increasing size of the Fund and diversity of investment, internal control procedures have become especially significant. Apart from repeated improvement of audit quality and efficiency, the PSPFMB will also enhance the mechanism of information notification with the Financial Supervisory Commission to strengthen the system and functions of discretionary management.

In the future, under the premise of maintaining financial solidity and self-sufficiency, the PSPFMB will seek new financial sources and cut down on expenses simultaneously. In addition to reducing benefit payment costs through pension system reform, the PSPFMB will continue to review and improve the balance, management and utilization of the Fund to ensure fund safety, perfect the financial structure and protect the rights and interests of participants. The PSPFMB will also continue to keep a close watch on economic circumstances and adjust asset allocation accordingly, utilize the funds with flexibility and enhance management performance to boost earnings and achieve sustainable management.



Executive Secretary of Public Service
Pension Fund Supervisory Board

Kao Shyh-nan

Remarks by Kao Shyh-nan, executive secretary of Public Service Pension Fund Supervisory Board

In recent years, the Fund has encountered worsening contribution-payment imbalance and it has become necessary to reform the pension system and fund operation. To perform their functions and responsibilities, the PSPFSB and the PSPFMB must cooperate to work out solutions in order to protect the economic security of fund participants in their old age.

Facing such significant responsibility, the PSPFSB has invested efforts over the past years to map out its future directions to maximize the synergy of supervision and ensure that the government can fulfill its responsibility of paying pension benefits. At the same time, the PSPFSB has also established short-, mid- and long-term strategies designed to reinforce R&D functions, enhance fund supervision capacity and evaluate fund performance. The goal is to make sure the fund can achieve sustainable development.

In recent years, the PSPFMB has made active efforts to adjust the investment portfolio and manage the fund with flexibility. As a consequence, the earnings have increased steadily and the performance is worth affirmation. However, pressure on the Fund from payment of benefits keeps increasing whereas new investment instruments are available in the financial market from time to time. To further improve earnings, the PSPFMB is seriously considering expanding investment items and increasing the diversity of investment instruments, and the Supervisory Board will be happy to see that happens.

In the upcoming year, the financial situations in and outside Taiwan will remain fluctuating and changeful. Hopefully, through continued cooperation and efforts between the PSPFMB and the PSPFSB, the Fund will bring in more profit and the maximum interest of fund participants can be assured.



Vice Chairperson of the Public Service
Pension Fund Management Board

Tsai Feng-ching

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

Since its establishment in Jul. 1995 until the end of 2014, the Fund had accumulated NT\$176.65 billion of realized earnings, with the ratio of realized earnings averaging out to be 3.3%. In 2014 along, the Fund brought in as much as NT\$25.21 billion of realized income. It was a record high. Over the last six years, the average rate of return on investment, when unrealized earnings was also included, reached 6.3%, making the Public Service Pension Fund the No. 1 in performance among all government funds in the country.

Due to oil price drops, plus the three major players having a significant effect on the international economy, namely the Euro Zone, Japan and the US, will continue to adopt relatively easy monetary policies, global recovery will become more obvious. Under this influence, domestic economy will also keep on making progress. According to the Global Economic Growth Forecast released by the International Monetary Fund (IMF) on Jan. 20, 2015, the global economic growth rates in 2015 and 2016 will be 3.5% and 3.7% respectively. This is an indication that the global economy this year and next year is likely to growth a little more than the 3.3% in last year and the year before. In the future, the PSPFMB will continue to pay attention to situations in global economy and adopt diversified and balanced asset allocation, adjust the investment portfolio with flexibility and spread management risk through management diversification. At the same time, the PSPFMB will also enhance its investment risk control in order to improve fund management performance and safeguard the rights and interests of fund participants.



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



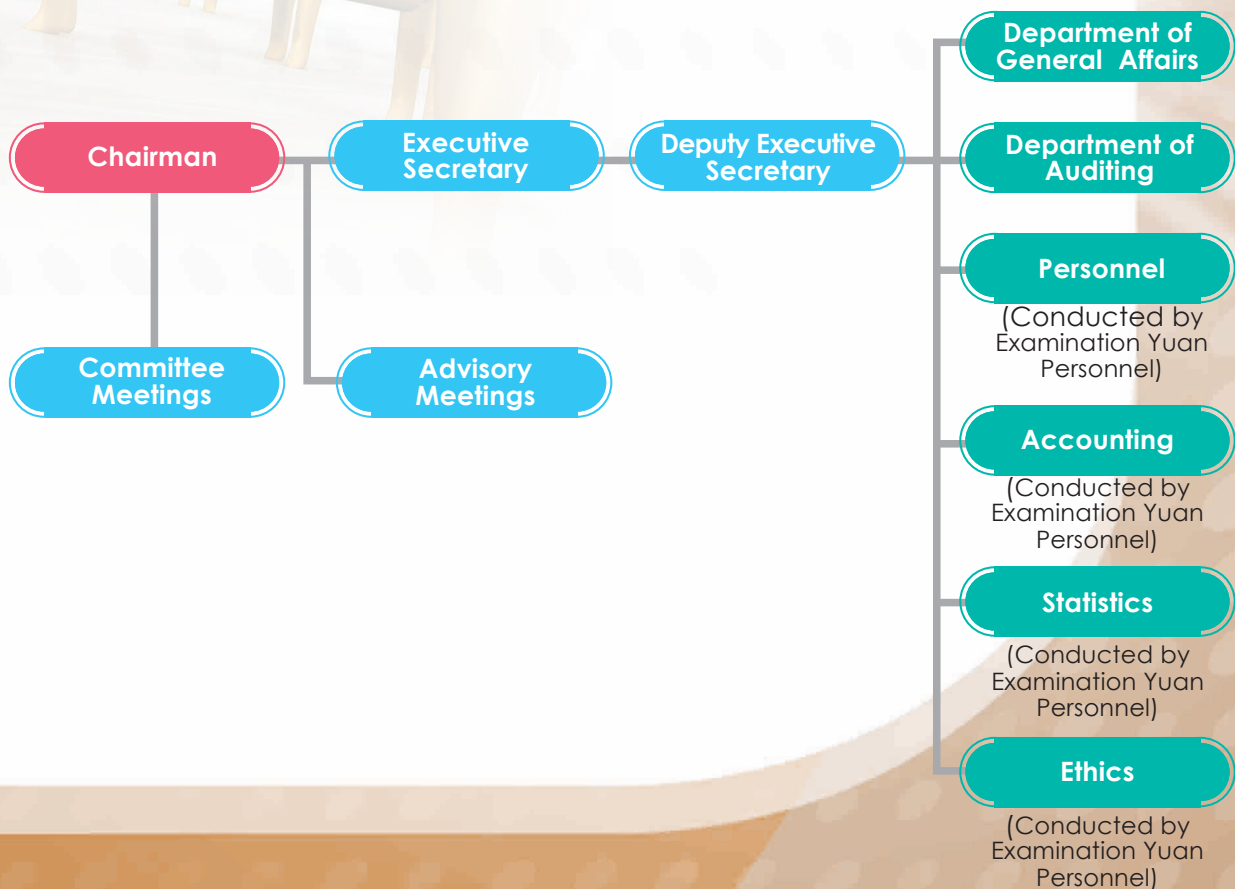
1. Organizational structure

Supervisory Board

The Organic Act of Public Service Pension Fund Supervisory Board stipulates that the board shall comprise a chairperson, 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 2014, 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 chairperson, 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.

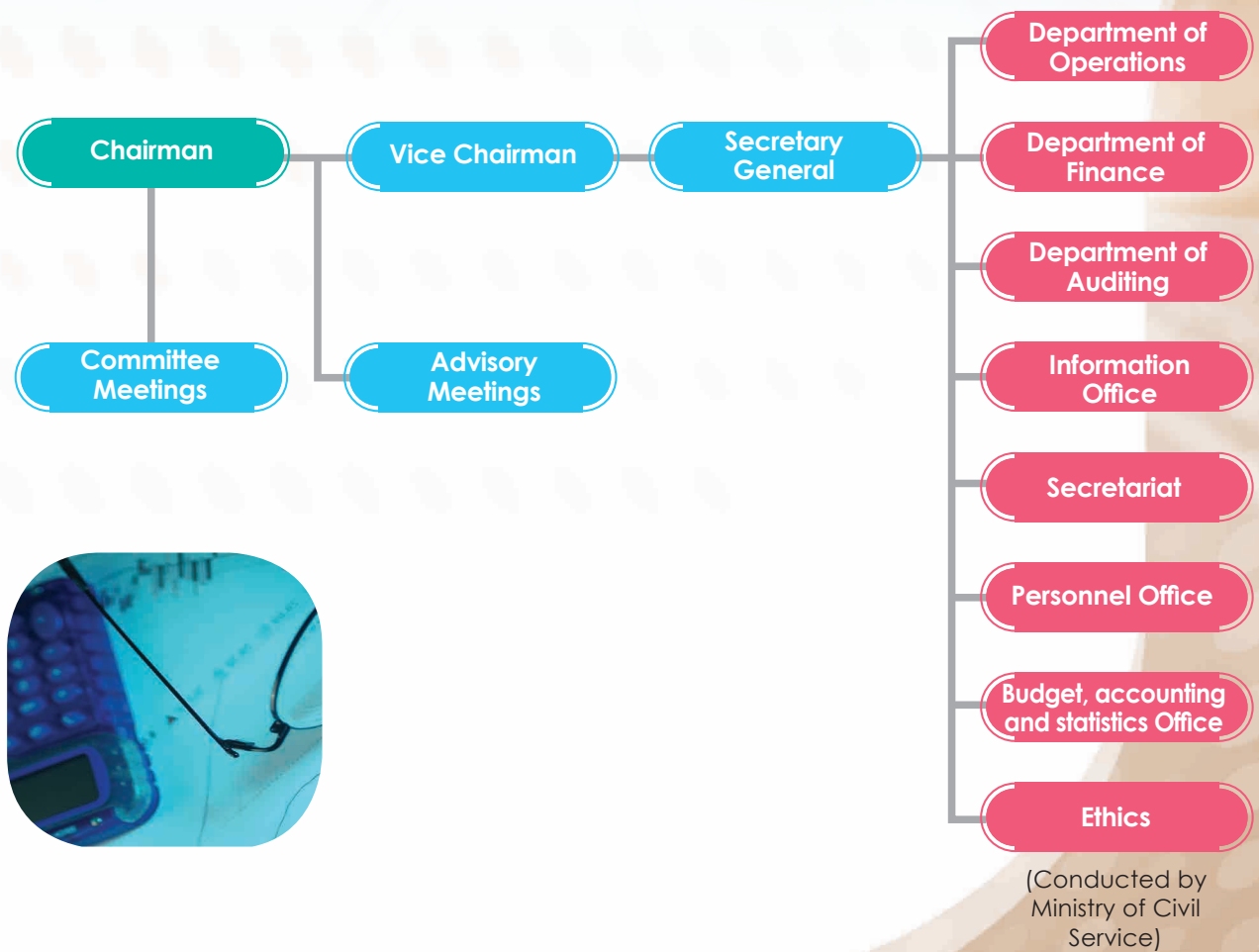




Management Board

Pursuant to the Organic Act of Public Service Pension Fund Management Board, the Public Service Pension Fund Management Board appoints a chairperson, 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 2014, the PSPFMB has 17 members and 16 advisers.

The PSPFMB also has a vice chairperson to assist the chairperson 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 & statistics Office. Ethics affairs are handled by the Ministry of Civil Service.



2. Composition of board meetings

Supervisory Board

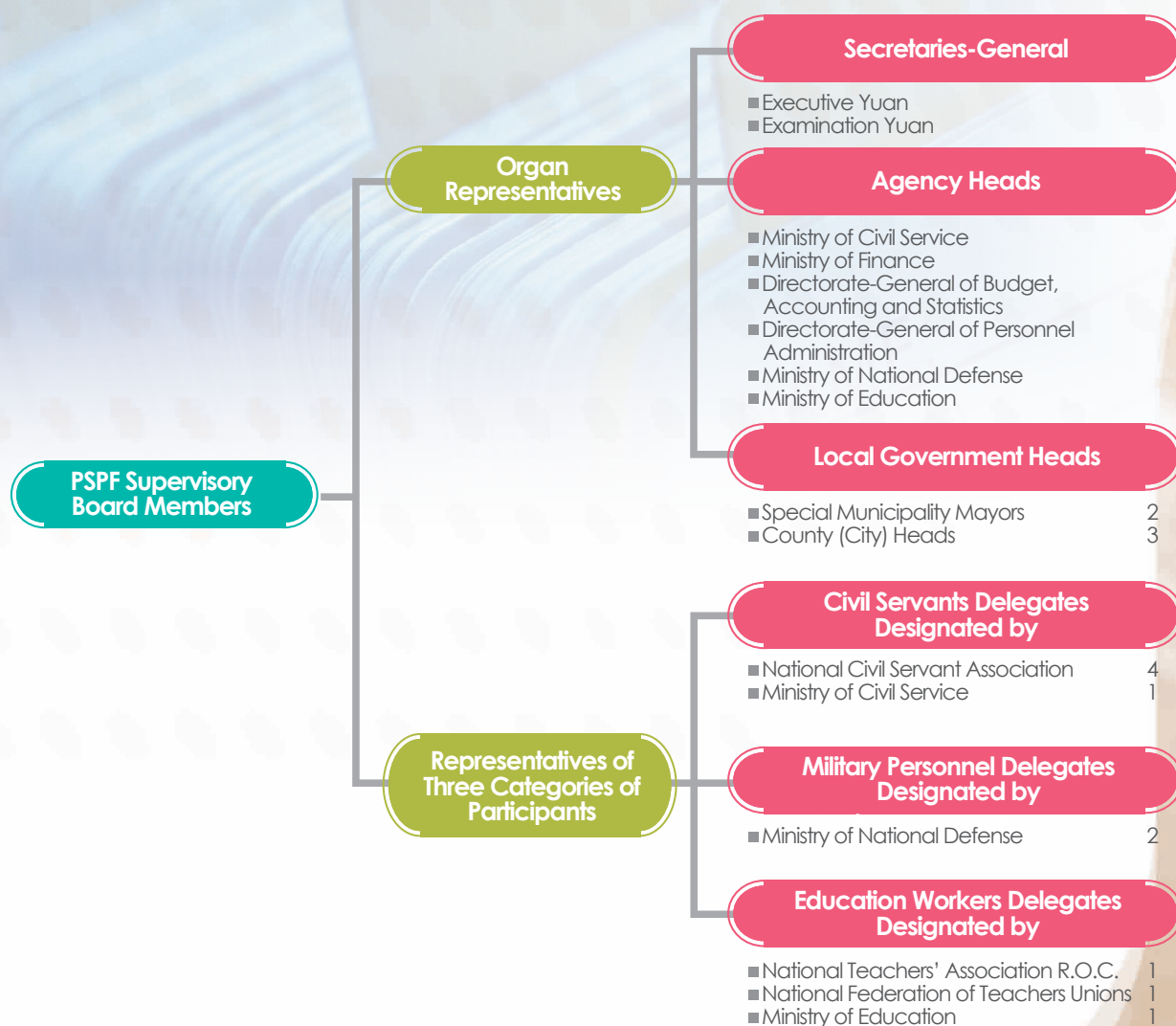
The Supervisory Board has 19-23 members, of whom 13 are secretaries-general of the Executive Yuan and the Examination Yuan, heads of the Ministry of Civil Service, the Ministry of National Defense, the Ministry of Finance, the Ministry of Education, the Directorate-General of Budget, Accounting and Statistics, 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.

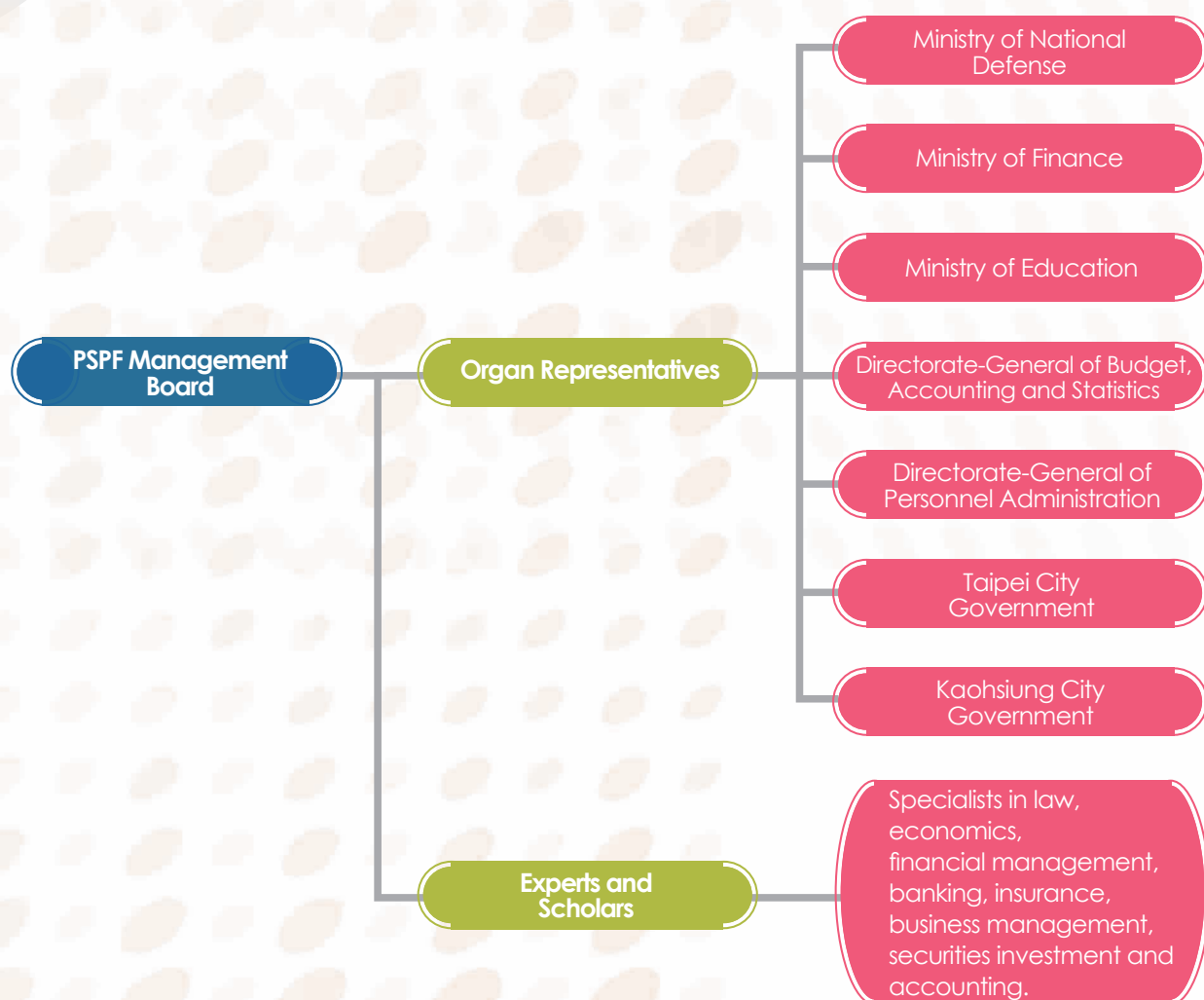
The two military personnel representatives are designated by the Ministry of National Defense, while three education workers are assigned by the Teacher's Association R.O.C., the National Federation of Teachers Unions R.O.C. and the Ministry of Education.





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.



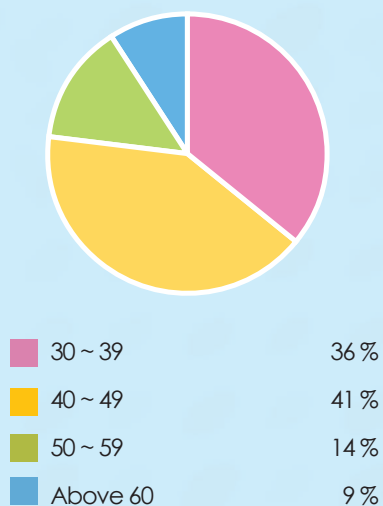


3. Management personnel overview

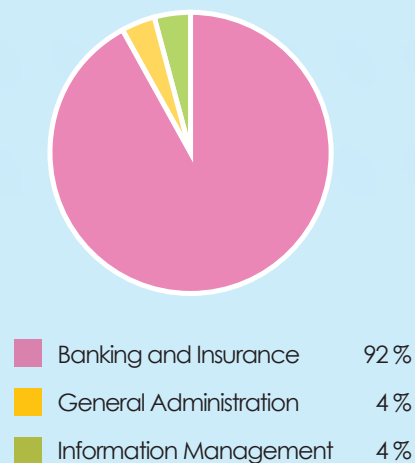
Supervisory Board

The board may hire up to 35 staff members, but only 25 can be legally supported by its budget. As of the end of 2014, the board actually had 22 staff members, of whom 11 were male and 11 female, with an average age of 43.2 years old. As to their educational background, 16 of them had master's degrees and six were university graduates.

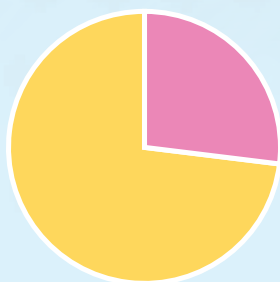
Distribution of Staff Members' Ages



Distribution of Staff Members' Job Descriptions

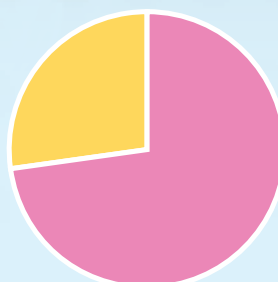


Distribution of Staff Members' Rankings



■ Senior Ranks	27 %
■ Middle Ranks	73 %

Distribution of Staff Members' Academic Degrees



■ Master's Degrees	73 %
■ Bachelor's Degrees	27 %

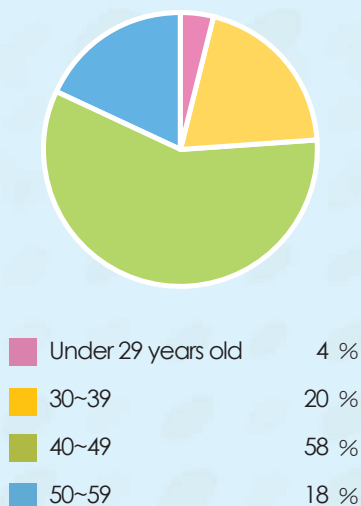


Management Board

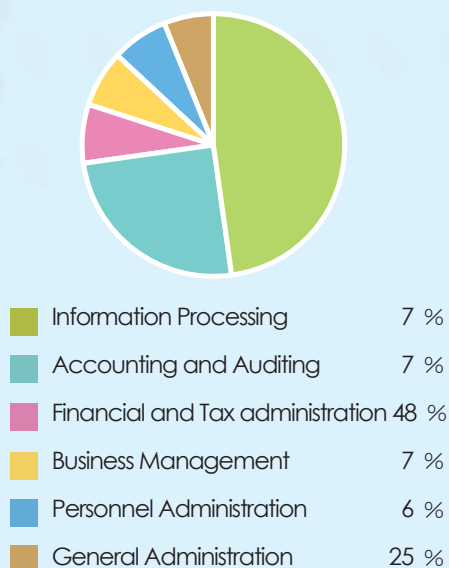
The PSPFMB's staff number is capped at 88, but only 85 can be supported by its budget. The board is also allowed to hire up to five contract workers. As of the end of 2014, the board actually had 84 staff members, of whom 27 were male and 57 were female, at an average 43.5 years of age. With respect to their education background, 36 had master's degrees, 40 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 30 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

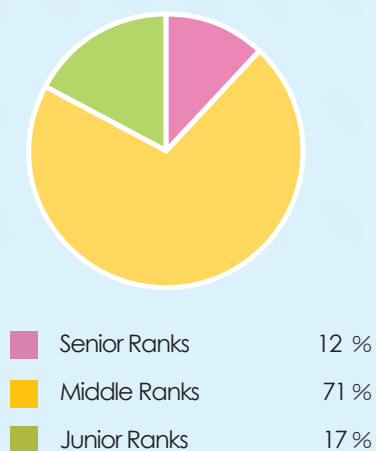


Distribution of Staff Members' Job Descriptions

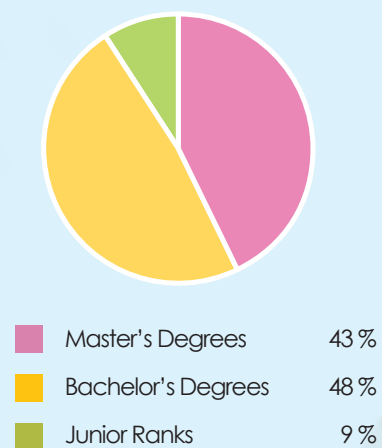




Distribution of Staff Members' Rankings



Distribution of Staff Members' Academic Accreditation



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

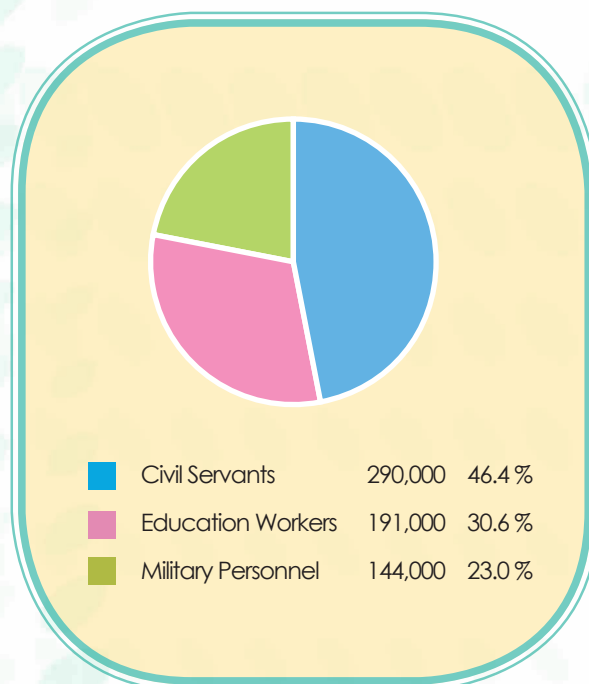
1. Principals, full-time teachers, teaching assistants and sports coaches at public schools at all levels who have been employed in accordance with the Act Governing Appointment of Educators and certified by competent authorities as well as full-time administrative staff who had been employed before 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.

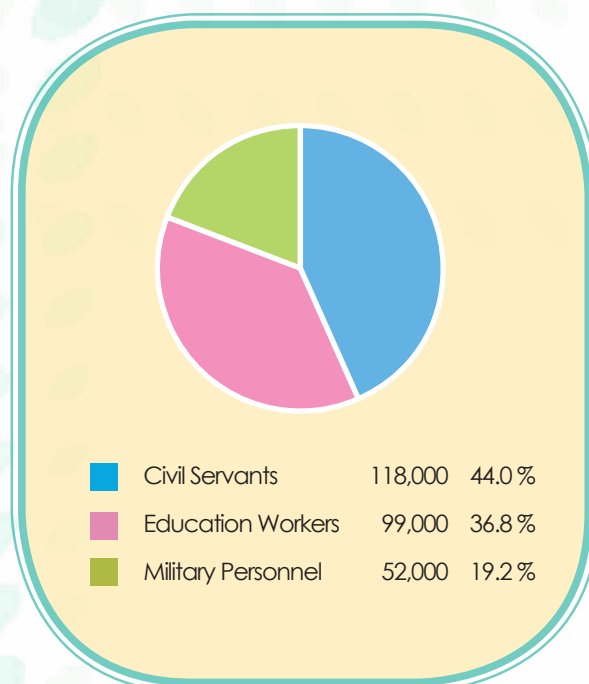
(1) PSPF on-service participants and ratios

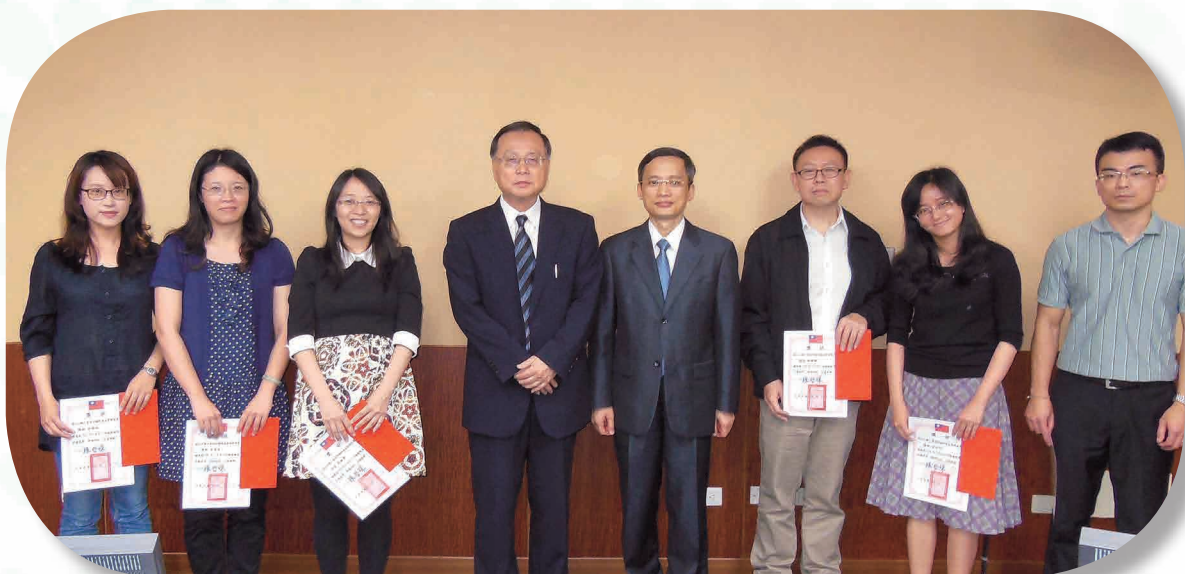
As of the end of 2014, the Fund had 625,000 participants, of whom about 290,000 were civil servants (46.4%), 191,000 were education workers (30.6%), and 144,000 were military personnel (23.0%).



(2) Regular benefit recipients and ratios

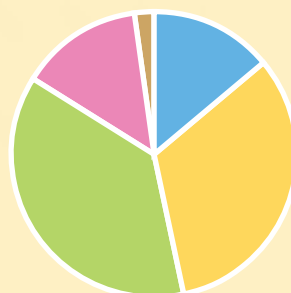
As of the end of 2014, the Fund had 26,900 regular benefit recipients, of whom 118,000 (44.0%) were civil servants (including political appointees), 99,000 (36.8%) were education workers, and 52,000 (19.2%) were military personnel.





(3) Participating units and ratios

As of the end of 2014, the Fund had 7,637 participating units, of which 1,032 (13.5%) were central government agencies, 2,543 (33.3%) were provincial and municipal government agencies, 2,849 (37.3%) were county and city government agencies, 1,064 (13.9%) were township offices and 149 (2.0 %) were state-owned enterprises.



Central government units	1,032	13.5 %
Provincial/municipal government units	2,543	33.3 %
County/ municipal government units	2,849	37.3 %
Township offices	1,064	13.9 %
State-owned Enterprises	149	2.0 %

2. Overview of contributions/payments by the Fund

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

The Pension Fund received NT\$59.7 billion in contributions in 2014 from three categories of participants while paying out NT\$63.0 billion in benefits, with payments accounting for 105.6 percent of total contributions. The net contribution/payment amount was down NT\$4.9 billion from the year-earlier level. Since the Fund's inception, accumulated contributions from the three categories of participants amounted to NT\$861.5 billion and accumulated payouts totaled NT\$443.7 billion or 51.5 percent of overall contributions.

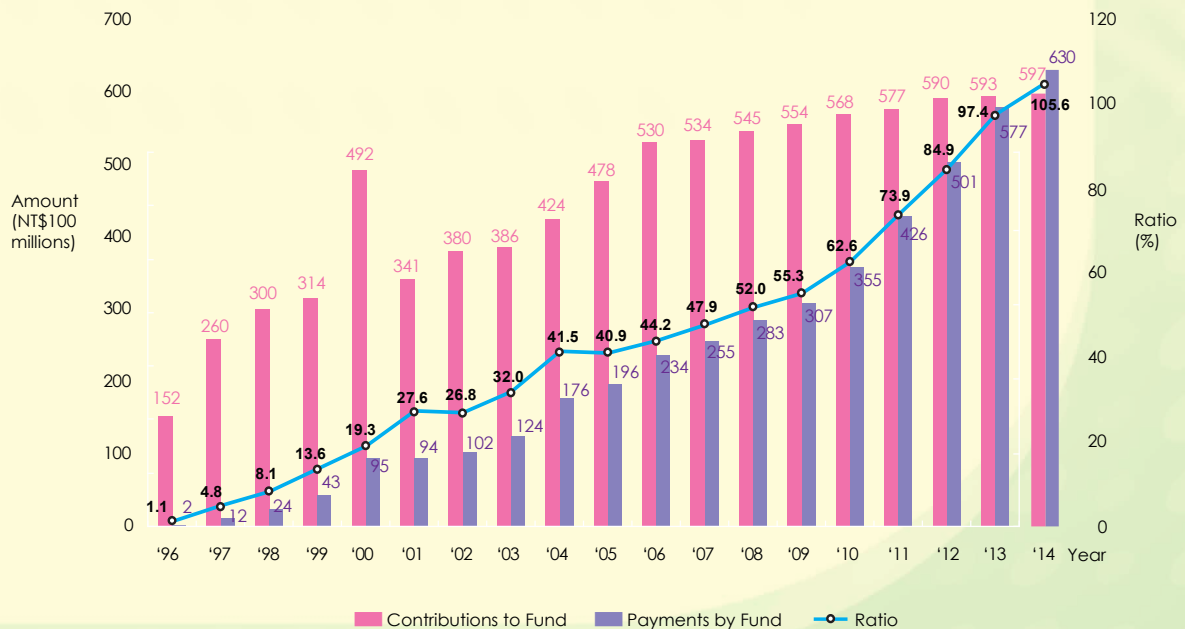


Table of Pension Fund Contributions/Payments Amounts and Ratios

Units NT\$100 Million

Period	Contributions/ Payments	Civil Servants	Education Workers	Military Personnel	Total
Fiscal 2014	Contribution Amount	280	220	97	597
	Payout Amount	270	224	136	630
	Payout/ Contribution Ratio	96.5%	102.1%	139.9%	105.6%
As of the end of 2014	Contribution Amount	4,122	3,185	1,308	8,615
	Payout Amount	1,647	1,697	1,093	4,437
	Payout/ Contribution Ratio	40.0%	53.3%	83.5%	51.5%

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\$28.0 billion in contributions from civil servants (including political appointees) in 2014 while paying out NT\$27.0 billion in benefits, for a payment-to-contribution ratio of 96.5% in the category.

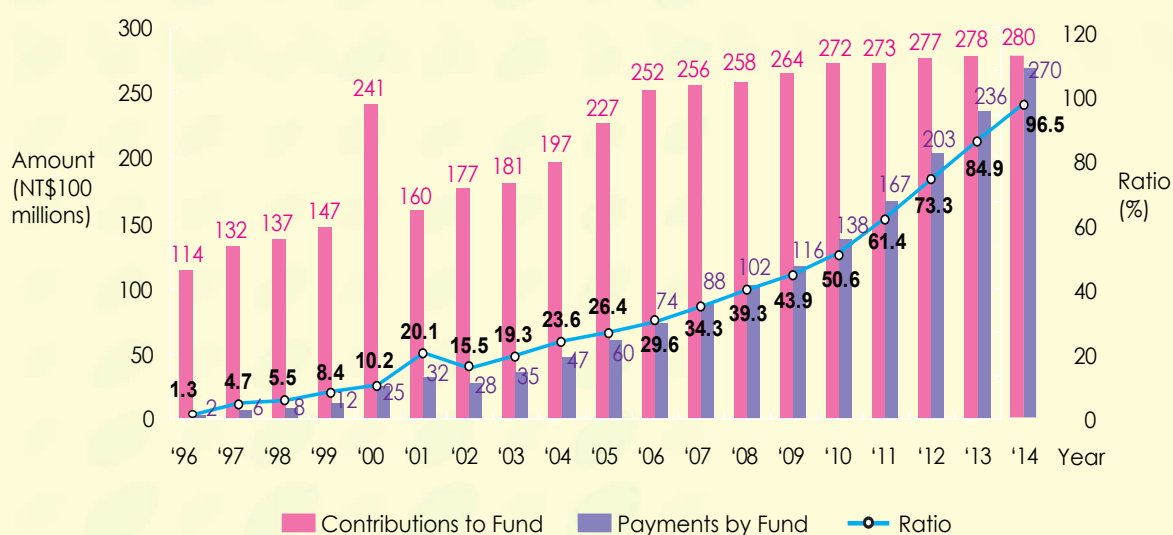
(3) Education Workers Contribution/Payment Amount and Ratio

The Pension Fund collected NT\$22.0 billion in contributions from education workers in 2014 while paying out NT\$22.4 billion in benefits, for a payment-to-contribution ratio of 102.1% in the category.

(4) Military Personnel Contribution/Payment Amount and Ratio

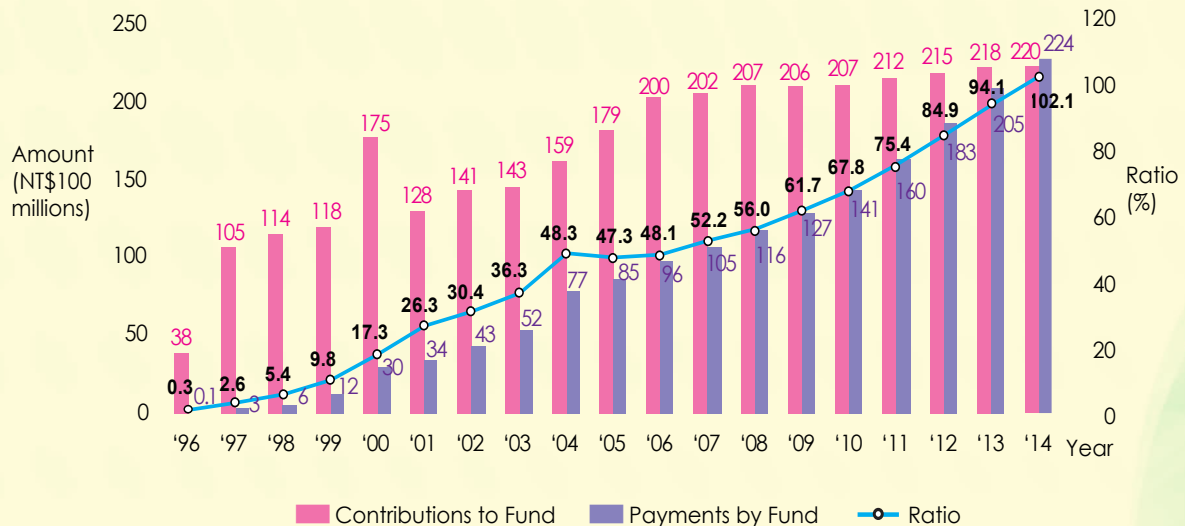
The Pension Fund collected NT\$9.7 billion in contributions from military personnel in 2014 while paying out NT\$13.6 billion in benefits, for a payment-to-contribution ratio of 139.9% in the category.

Chart of payments to civil servants and ratios over the years



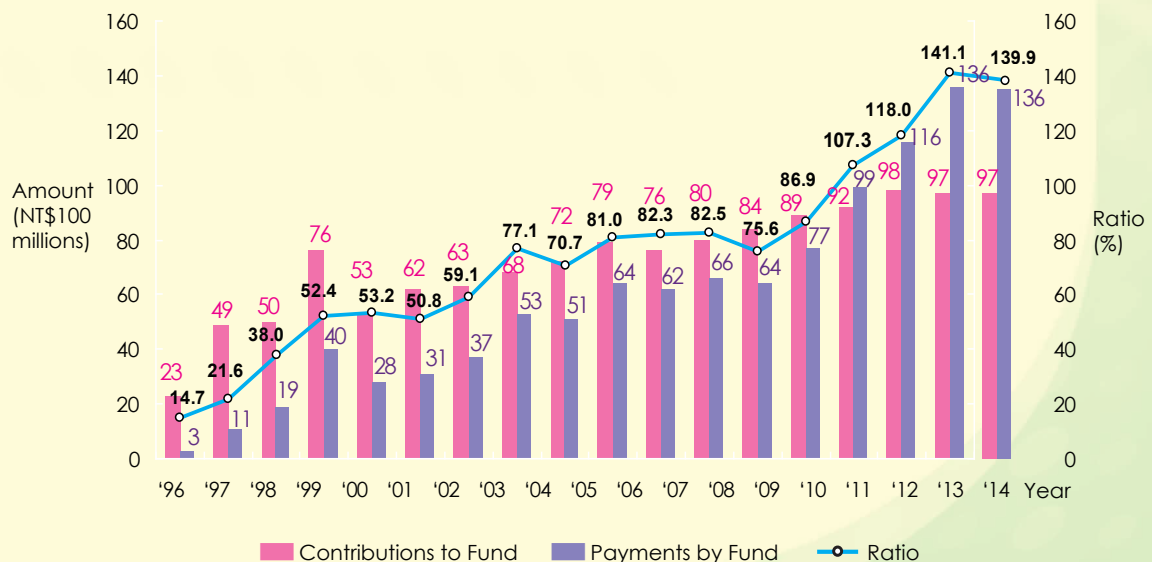
Note: Fiscal 2000 covers the period from July 1, 1999 to Dec. 31, 2000.

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 269,000 in 2014, up 17,000 from the year-earlier level, and overall annual payment amounted to NT\$55.1 billion, up NT\$6.20 billion over a year ago.

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

A total of 118,000 civil servants received an aggregate NT\$24.3 billion in regular benefit payouts in 2014.

(3) Pension recipients and amount in education workers category

A total of 99,000 education workers received an aggregate NT\$20.9 billion in regular benefit payouts in 2014.

(4) Pension recipients and amount in military personnel category

A total of 52,000 military personnel received an aggregate NT\$9.9 billion in regular benefit payouts in 2014.

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

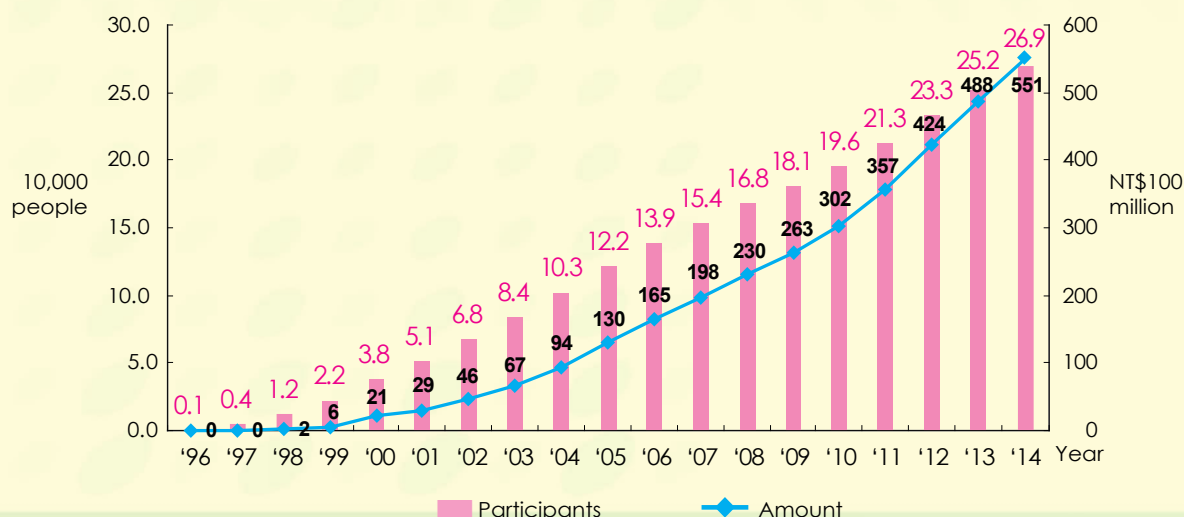


Chart of numbers and amounts of regular civil servant recipients of the Fund over the years

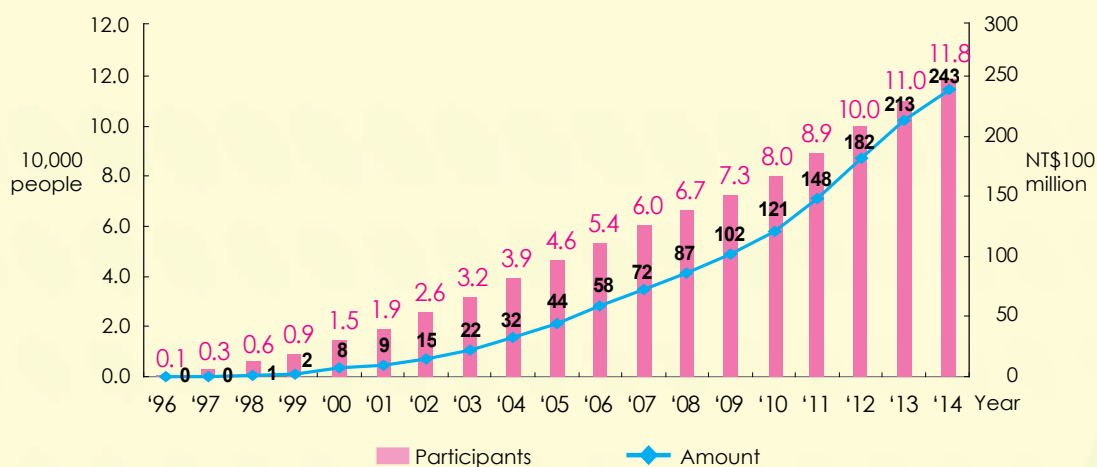


Chart of numbers and amounts of regular education worker recipients of the Fund over the years

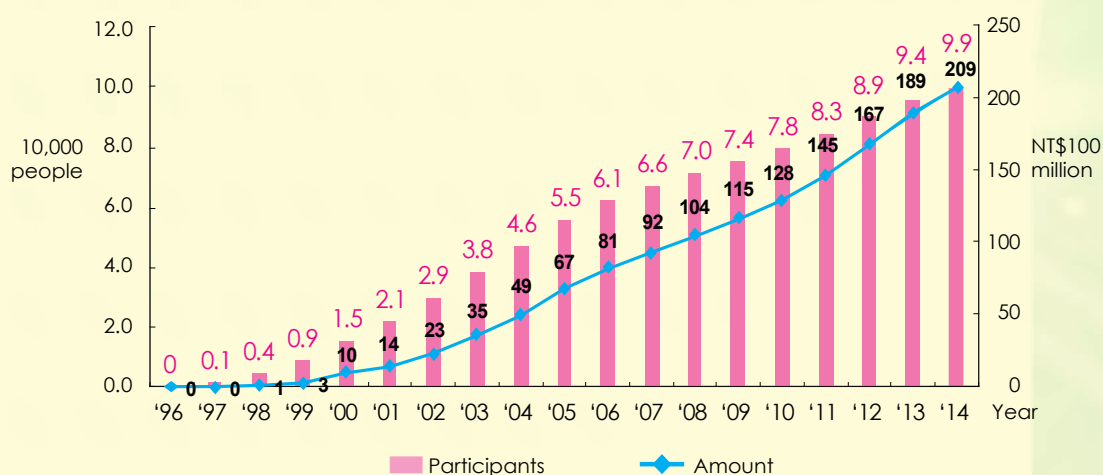
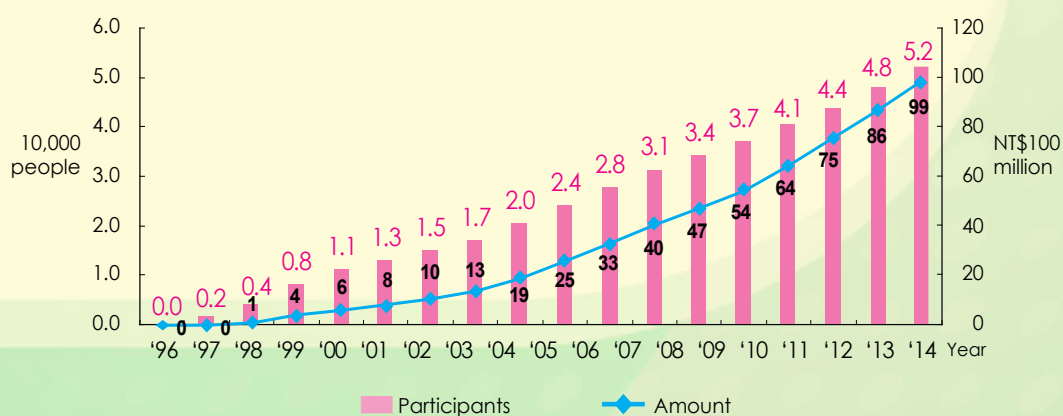


Chart of numbers and amounts of military personnel recipients of the Fund over the years



V

The size and asset allocation of the Fund

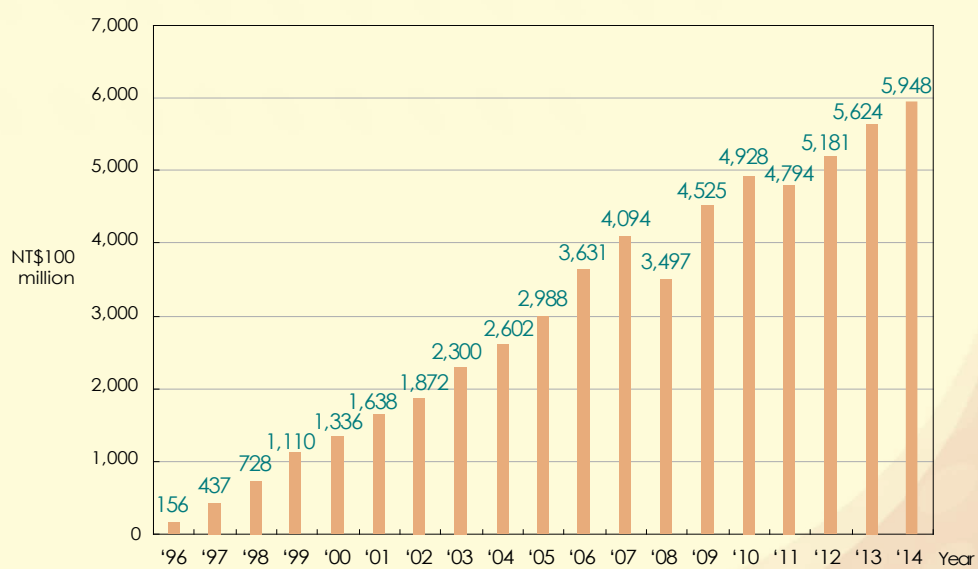
1. Size of the Fund over the years

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 2014, the Fund's net asset stood at NT\$594.8 billion, up NT\$32.4 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. 2014 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 2014, the investment items’ investment areas, types of income and management modes are as follows:

The Fund's asset allocations as of Dec. 31, 2014

Categories	Investment items		Actual amount (NT\$100 m.) (note 3)		Actual allocation % (A)		Center allocation % (B)		Difference % (A) -(B)	
Investment areas (note 1)	Domestic		3,652		62.26		54.90		7.36	
	Overseas		2,213		37.74		45.10		-7.36	
Security type (note 2)	Fixed income		3,304		56.32		40.00		16.32	
	Capital gains		2,561		43.68		60.00		-16.32	
Management methods	Discretionary management	Domestic	1,789	584	30.51	9.97	46.00	18.00	-15.49	-8.03
		Overseas		1,205		20.54		28.00		-7.46
	In-house management	Deposits, short-term bills, securities	4,076	2,064	69.49	35.18	54.00	13.10	15.49	22.08
		Others		2,012		34.31		40.90		-6.59

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 62 percent of total investment and overseas investment, 38 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 status of the Fund

1. Balance sheet for fiscal 2014

For fiscal 2014, the value of the Fund's total assets was NT\$595.5 billion, with current assets, which amounted to NT\$489.1 billion, taking 82.1 percent and the remaining 17.9 percent being long-term investment and receivables, totaling NT\$106.4 billion.

PSPF Balance sheet - Asset Accounts

Dec.31,2014

Items	Final account for this fiscal year			Final account	
	In-house management	Discretionary management	Total	In-house management	
	Amount	Amount	Amount	Amount	
Assets	415,398,424,322	180,127,650,746	595,526,075,068	375,135,384,171	
Current assets	308,956,072,050	180,127,650,746	489,083,722,796	276,440,101,881	
Cash	121,443,362,582	5,775,510,743	127,218,873,325	101,371,313,885	
Bank deposits	121,443,362,582	5,775,510,743	127,218,873,325	101,371,313,885	
Financial assets at fair value through income statement - current	171,601,607,316	173,579,292,132	345,180,899,448	162,255,531,477	
Stocks	86,421,945,900	135,645,327,931	222,067,273,831	78,896,796,329	
Beneficiary certificates		1,708,850,386	1,708,850,386		
Short-term bills	84,924,398,020	6,129,878,271	91,054,276,291	83,095,813,521	
Bonds	255,263,396	29,162,667,580	29,417,930,976	262,921,627	
Futures margins		861,407,557	861,407,557		
Foreign exchange forward contracts		71,160,407	71,160,407		
Held-to-maturity financial assets - current	6,155,303,384		6,155,303,384	2,950,007,386	
Bonds	6,155,303,384		6,155,303,384	2,950,007,386	
Receivables	4,140,308,842	772,847,871	4,913,156,713	4,819,851,065	
Accounts receivable	191,466,948	211,967,239	403,434,187	147,825,685	

Unit : NT\$

for last fiscal year		Comparison increase (+) decrease (-)					
Discretionary management	Total	In-house management		Discretionary management		Total	
Amount	Amount	Amount	%	Amount	%	Amount	%
188,002,162,436	563,137,546,607	40,263,040,151	10.73	-7,874,511,690	-4.19	32,388,528,461	5.75
188,002,162,436	464,442,264,317	32,515,970,169	11.76	-7,874,511,690	-4.19	24,641,458,479	5.31
6,984,712,669	108,356,026,554	20,072,048,697	19.80	-1,209,201,926	-17.31	18,862,846,771	17.41
6,984,712,669	108,356,026,554	20,072,048,697	19.80	-1,209,201,926	-17.31	18,862,846,771	17.41
180,027,418,913	342,282,950,390	9,346,075,839	5.76	-6,448,126,781	-3.58	2,897,949,058	0.85
144,257,755,559	223,154,551,888	7,525,149,571	9.54	-8,612,427,628	-5.97	-1,087,278,057	-0.49
2,070,510,358	2,070,510,358			-361,659,972	-17.47	-361,659,972	-17.47
6,167,925,315	89,263,738,836	1,828,584,499	2.20	-38,047,044	-0.62	1,790,537,455	2.01
26,772,232,360	27,035,153,987	-7,658,231	-2.91	2,390,435,220	8.93	2,382,776,989	8.81
750,723,006	750,723,006			110,684,551	14.74	110,684,551	14.74
8,272,315	8,272,315			62,888,092	760.22	62,888,092	760.22
	2,950,007,386	3,205,295,998	108.65			3,205,295,998	108.65
	2,950,007,386	3,205,295,998	108.65			3,205,295,998	108.65
990,030,854	5,809,881,919	-679,542,223	-14.10	-217,182,983	-21.94	-896,725,206	-15.43
446,421,794	594,247,479	43,641,263	29.52	-234,454,555	-52.52	-190,813,292	-32.11

PSPF Balance sheet - Asset Accounts

Dec.31,2014

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	6,149,720	92,505,494	98,655,214	20,910,948	
Interest receivable	1,034,796,638	450,432,311	1,485,228,949	990,252,092	
Allowance for bad debt - account receivables	-948,723		-948,723	-305,839	
State treasury subsidies receivable	2,900,795,338		2,900,795,338	3,640,795,338	
Other receivables	8,048,921	17,942,827	25,991,748	20,372,841	
Prepayments	5,615,489,926		5,615,489,926	5,043,398,068	
Other prepayments	5,615,489,926		5,615,489,926	5,043,398,068	
Long-term investments and receivables	106,442,352,272		106,442,352,272	98,695,282,290	
Available-for-sale financial assets - noncurrent	31,590,207,699		31,590,207,699	29,770,250,667	
Stocks	13,262,785,929		13,262,785,929	12,479,536,431	
Beneficiary certificates	18,327,421,770		18,327,421,770	17,290,714,236	
Debt investments without active market - noncurrent	6,135,009,357		6,135,009,357	2,710,064,478	
Bonds	6,135,009,357		6,135,009,357	2,710,064,478	
Held-to-maturity financial assets - noncurrent	68,717,135,216		68,717,135,216	66,214,967,145	
Bonds	68,717,135,216		68,717,135,216	66,214,967,145	
Other assets					
Miscellaneous assets					
Overdue receivables	476,929		476,929	574,935	
Allowance for bad debt - overdue receivables	-476,929		-476,929	-574,935	
Total	415,398,424,322	180,127,650,746	595,526,075,068	375,135,384,171	

Unit : NT\$

for last fiscal year		Comparison increase (+) decrease (-)					
Discretionary management	Total	In-house management		Discretionary management		Total	
Amount	Amount	Amount	%	Amount	%	Amount	%
81,089,377	102,000,325	-14,761,228	-70.59	11,416,117	14.08	-3,345,111	-3.28
422,738,424	1,412,990,516	44,544,546	4.50	27,693,887	6.55	72,238,433	5.11
	-305,839	-642,884	210.20			-642,884	210.20
	3,640,795,338	-740,000,000	-20.33			-740,000,000	-20.33
39,781,259	60,154,100	-12,323,920	-60.49	-21,838,432	-54.90	-34,162,352	-56.79
	5,043,398,068	572,091,858	11.34			572,091,858	11.34
	5,043,398,068	572,091,858	11.34			572,091,858	11.34
	98,695,282,290	7,747,069,982	7.85			7,747,069,982	7.85
	29,770,250,667	1,819,957,032	6.11			1,819,957,032	6.11
	12,479,536,431	783,249,498	6.28			783,249,498	6.28
	17,290,714,236	1,036,707,534	6.00			1,036,707,534	6.00
	2,710,064,478	3,424,944,879	126.38			3,424,944,879	126.38
	2,710,064,478	3,424,944,879	126.38			3,424,944,879	126.38
	66,214,967,145	2,502,168,071	3.78			2,502,168,071	3.78
	66,214,967,145	2,502,168,071	3.78			2,502,168,071	3.78
	574,935	-98,006	-17.05			-98,006	-17.05
	-574,935	98,006	-17.05			98,006	-17.05
188,002,162,436	563,137,546,607	40,263,040,151	10.73	-7,874,511,690	-4.19	32,388,528,461	5.75

PSPF Balance sheet - Liability Accounts

Dec.31,2014

Items	Final account for this fiscal year			Final account	
	In-house management	Discretionary management	Total	In-house management	
	Amount	Amount	Amount	Amount	
Liabilities	11,395,260	745,156,964	756,552,224	6,039,150	
Current liabilities	11,395,260	745,156,964	756,552,224	5,855,262	
Short-term debt		50,881,222	50,881,222		
Foreign exchange forward contracts		34,416,280	34,416,280		
Interest swap		16,464,942	16,464,942		
Payables	11,078,361	694,275,742	705,354,103	5,566,413	
Accounts payable		576,475,267	576,475,267		
Receipts under custody payable	7,812,569	127,640	7,940,209	1,078,079	
Expenses payable	449,270	3,834	453,104	522,681	
Management fees payable		107,936,809	107,936,809		
Custody fees payable	2,670,653	9,732,192	12,402,845	3,687,192	
Other payables	145,869		145,869	278,461	
Advance accounts	316,899		316,899	288,849	
Other advance accounts	316,899		316,899	288,849	
Other liabilities				183,888	
Miscellaneous liabilities				183,888	
Temporary accounts				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	%
682,434,563	688,473,713	5,356,110	88.69	62,722,401	9.19	68,078,511	9.89
682,434,563	688,289,825	5,539,998	94.62	62,722,401	9.19	68,262,399	9.92
41,193,135	41,193,135			9,688,087	23.52	9,688,087	23.52
41,193,135	41,193,135			-6,776,855	-16.45	-6,776,855	-16.45
				16,464,942		16,464,942	
641,241,428	646,807,841	5,511,948	99.02	53,034,314	8.27	58,546,262	9.05
492,845,636	492,845,636			83,629,631	16.97	83,629,631	16.97
46,038	1,124,117	6,734,490	624.68	81,602	177.25	6,816,092	606.35
	522,681	-73,411	-14.05	3,834		-69,577	-13.31
137,254,725	137,254,725			-29,317,916	-21.36	-29,317,916	-21.36
11,095,029	14,782,221	-1,016,539	-27.57	-1,362,837	-12.28	-2,379,376	-16.10
	278,461	-132,592	-47.62			-132,592	-47.62
	288,849	28,050	9.71			28,050	9.71
	288,849	28,050	9.71			28,050	9.71
	183,888	-183,888	-100.00			-183,888	-100.00
	183,888	-183,888	-100.00			-183,888	-100.00
	183,888	-183,888	-100.00			-183,888	-100.00

PSPF Balance sheet - Fund & surplus Accounts

Dec.31,2014

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	415,387,029,062	179,382,493,782	594,769,522,844	375,129,345,021	
Fund			591,637,595,040		
Public Service Pension Fund Capital			417,818,775,552		
Public Service Pension Fund Capital			417,818,775,552		
Public Service Pension Fund Accumulated surplus/ deficit - distributed			173,818,819,488		
Public Service Pension Fund Legally guaranteed return			21,039,905,741		
Public Service Pension Fund Return above (below) legally guaranteed amount			81,443,106,885		
Public Service Pension Fund Accumulated surplus			71,335,806,862		
Accumulated surplus/ deficit - undistributed			2,900,795,338		
Shortfall from legally guaranteed return to be reimbursed			2,900,795,338		
Equity Adjustments	231,132,466		231,132,466	-1,869,513,722	
Equity adjustments	231,132,466		231,132,466	-1,869,513,722	
Gains or losses on valuation of available-for-sale financial assets	231,132,466		231,132,466	-1,869,513,722	
Total	415,398,424,322	180,127,650,746	595,526,075,068	375,135,384,171	

Unit : NT\$

for last fiscal year		Comparison increase (+) decrease (-)					
Discretionary management	Total	In-house management		Discretionary management		Total	
Amount	Amount	Amount	%	Amount	%	Amount	%
187,319,727,873	562,449,072,894	40,257,684,041	10.73	-7,937,234,091	-4.24	32,320,449,950	5.75
	560,677,791,278					30,959,803,762	5.52
	421,182,471,499					-3,363,695,947	-0.80
	421,182,471,499					-3,363,695,947	-0.80
	139,495,319,779					34,323,499,709	24.61
	20,225,947,622					813,958,119	4.02
	25,104,692,326					56,338,414,559	224.41
	94,164,679,831					-22,828,872,969	-24.24
	3,640,795,338					-740,000,000	-20.33
	3,640,795,338					-740,000,000	-20.33
	-1,869,513,722	2,100,646,188	-112.36			2,100,646,188	-112.36
	-1,869,513,722	2,100,646,188	-112.36			2,100,646,188	-112.36
	-1,869,513,722	2,100,646,188	-112.36			2,100,646,188	-112.36
188,002,162,436	563,137,546,607	40,263,040,151	10.73	-7,874,511,690	-4.19	32,388,528,461	5.75

2. Income statement of the Fund for fiscal 2014

The Fund accrued a balance of NT\$33.6 billion in fiscal 2014, NT\$13.0 billion in excess of the projected surplus.

Public Service Pension Fund – Income Statement

Fiscal 2014

Items	Fiscal 2014 budget		
	Amount	%	
Total revenue	21,390,723,000	100.00	
Financial revenue	21,390,723,000	100.00	
Interest revenue	2,729,420,000	12.76	
Net gain on foreign exchange			
Securities lending revenue	12,000,000	0.06	
Net gain on investment	18,649,303,000	87.18	
Net gain on valuation of investment			
Other revenue			
Trust revenue			
Miscellaneous revenue			
Total expenses	760,225,000	3.55	
Financial expenses	760,225,000	3.55	
Interest expense			
Discretionary management fees	691,451,000	3.23	
Custody fees	50,299,000	0.24	
Remittance expenditure and account maintenance fees	5,435,000	0.03	
Transaction expenses	12,800,000	0.06	
Securities lending fees	240,000		
Net loss on valuation of investment			
Bad debt expense			
Other expenses			
Other expenses			
Surplus/Deficit during this period	20,630,498,000	96.45	

Unit : NT\$

Fiscal 2014 Final Account		Increase/Decrease		Fiscal 2013 Final Account	
Amount	%	Amount	%	Amount	%
35,959,698,897	100.00	14,568,975,897	68.11	41,142,125,666	100.00
35,919,825,079	99.89	14,529,102,079	67.92	41,109,869,484	99.92
4,934,764,577	13.72	2,205,344,577	80.80	4,215,732,351	10.25
8,971,176,022	24.95	8,971,176,022		2,267,038,723	5.51
992,817		-11,007,183	-91.73	5,223,507	0.01
22,012,891,663	61.22	3,363,588,663	18.04	18,235,467,231	44.32
				16,386,407,672	39.83
39,873,818	0.11	39,873,818		32,256,182	0.08
				3,650	
39,873,818	0.11	39,873,818		32,252,532	0.08
2,376,199,188	6.61	1,615,974,188	212.57	546,285,556	1.33
2,366,060,621	6.58	1,605,835,621	211.23	535,001,702	1.30
3,711,593	0.01	3,711,593			
517,534,685	1.44	-173,916,315	-25.15	482,559,959	1.17
38,589,924	0.11	-11,709,076	-23.28	41,524,236	0.10
8,411,504	0.02	2,976,504	54.77	9,012,838	0.02
4,616,445	0.01	-8,183,555	-63.93	1,821,112	
15,878		-224,122	-93.38	83,557	
1,792,537,708	4.98	1,792,537,708			
642,884		642,884			
10,138,567	0.03	10,138,567		11,283,854	0.03
10,138,567	0.03	10,138,567		11,283,854	0.03
33,583,499,709	93.39	12,953,001,709	62.79	40,595,840,110	98.67



3. Actuarial valuation results by various participating groups

As of December 2014, total funded assets are NT\$594.8 billion. The amount and ratio are showed as follow:

Valuation Date	Amount of Funded Asset (NT\$)	Funded Ratio
Dec. 31, 2014		
Political appointees	61,509,052	7%
Civil servants	348,907,623,875	23%
Education workers	211,335,647,405	16%
Military personnel	34,464,742,512	7%

Notes:

1. The table is extracted from the 2014 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\$176.7 billion as of the end of fiscal 2014. With an accumulated realized earning rate of 3.30 percent, 1.33 percentage points higher or NT\$69.9 billion more than an assumed earnings of NT\$106.8 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\$174.0 billion, at a return rate of 3.25 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
2014	252.11	4.60	356.46	6.50	1.40	4.03
Total	1,766.52	3.30	1,739.85	3.25	1.97	

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.

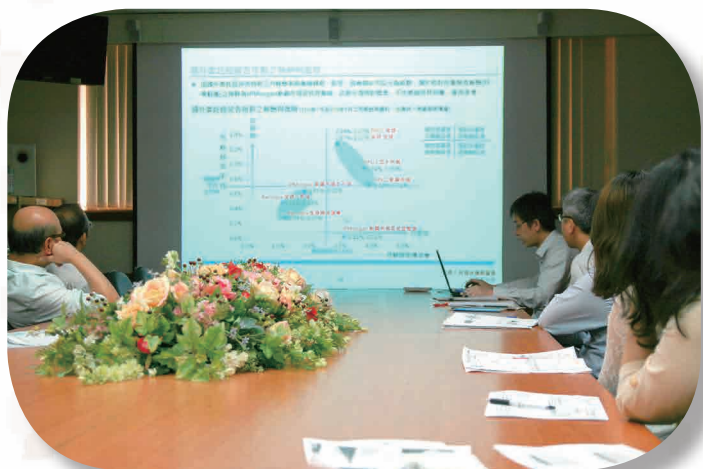
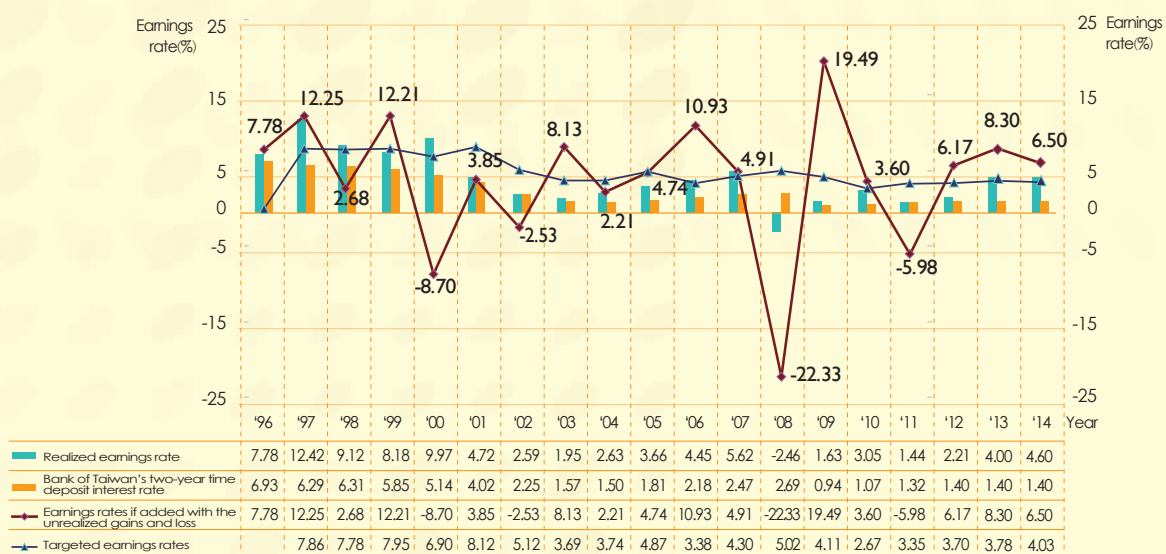


Chart of the Fund's earnings over the years



- 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 2014

The Public Service Pension Fund recorded a realized earnings rate of 4.60 percent in fiscal 2014, which was 3.20 percentage points higher than Bank of Taiwan's two-year time deposit interest rate. It would be translated into an earnings rate of 6.50 percent if added with the unrealized gains and losses and rate of return with available-for-sale securities over the year – 2.47 percentage points higher than the year's targeted earnings rate of 4.03 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 2014 (%)	Indexes for evaluating performance	
		Benchmark (%)	Names of Index
Domestic bonds	1.84	1.61	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	4.46	2.17	Using the interest rate of the 5-year US treasury bond as the base day of evaluation
Short-term domestic bill	0.65	0.66	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	0.74	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	1.20	0.31	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: In calculating the actual returns of overseas bonds and bank deposits in foreign currencies, foreign exchange gain/loss were disregarded due to the features of their benchmarks.

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

Investment asset class	Actual re- turns for fiscal 2014(%)	Indexes for evaluating performance	
		Benchmark (%)	Names of index
Domestic stocks and ETF	10.59	8.08	Taiwan Weighted Stock Index-TWSI
Overseas stocks and ETF	4.65	4.16	MSCI World Index
Domestic beneficiary certificates	6.23	8.08	Taiwan Weighted Stock Index-TWSI
Overseas beneficiary certificates	4.80	2.73	MSCI World Index and Barclays Capital Global Aggregate Bond Index, weighted on the ratios of distribution of bonds and stocks

Note: In calculating the actual returns of overseas stocks and ETF as well as overseas beneficiary certificates, foreign exchange gain/loss were disregarded due to the features of their benchmarks.

(3) Performances of discretionary management

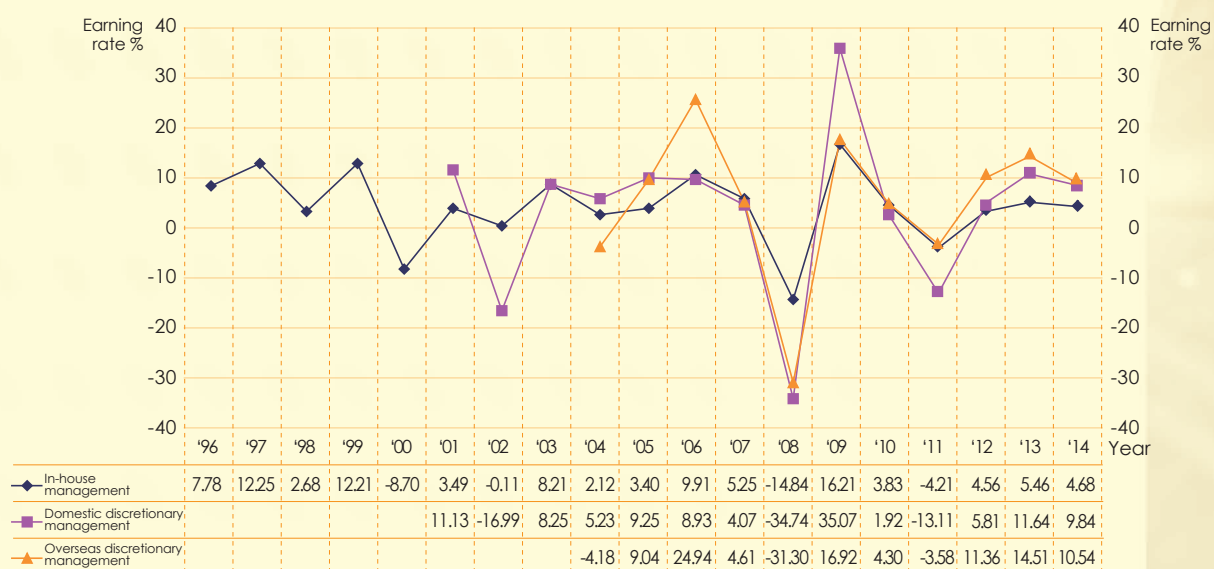
Investment items	Actual returns for fiscal 2014 (%)	Indexes for evaluating performance	
		Benchmark (%)	Names of index
Domestic discretionary management	9.84	7.13	Using the ratios of distribution of commissioned management's capital gains and fixed income as the weight function, weighted with the earnings 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	5.50	3.20	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 10.54% for fiscal 2014.

3. Performances of in-house and discretionary managements

Fiscal 2014 registered 4.68 percent earnings rate in the Fund's in-house management, 9.84 percent in its domestic discretionary management and 10.54 percent in overseas discretionary management, down 0.78 percentage points, 1.80 percentage points and 3.97 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.
- The Regulations on Investment from the Public Service Pension Fund in Domestic Listed or OTC Companies and Exchange Traded Funds were reviewed and amended in accordance with the current status of domestic stock investment development to perfect the regulations.
- To increase flexibility in discretionary management performance while also taking into account international practices and the needs in actual fund operation, a partial amendment to the Regulations on Discretionary Management of the Public Service Pension Fund was proposed. It was reviewed and approved by the PSPFMB and presented to the PSPFSB which reached the decision that further consultations would be conducted before the proposal would be formally discussed.



- To increase investment in utilization as well as to meet the needs in future investment, new investment items including “domestic and overseas listed equity” and “domestic and overseas real estate, private equity, gold passbook and other alternative assets” were added. They were reviewed and approved by the PSPFMB and presented to the PSPFSB which reached the decision that further consultations would be conducted before the proposal would be formally discussed.
- To provide the legal basis for fund operation and set the annual earnings targets, domestic and overseas economic and financial situations, fund balance estimates and the market risk tolerance level were assessed and the 2015 fund operation directions and plan were established accordingly and presented to be reviewed by the PSPFMB and the PSPFSB.
- Contract signature and appropriation of corresponding funds for 2013 domestic and overseas discretionary management were completed. These discretionary accounts include the types of relative return equity, global high-dividend yield enhanced equity and global minimum volatility indexed equity.
- Domestic organizations for discretionary management in 2014 were selected through public tender to manage investments of the type of equity using the market yield rate as the performance benchmark index. The corresponding funds would be appropriated depending on future economic situation.
- Overseas organizations for discretionary management in 2014 were selected through public tender to manage investments of the type of global real estate equity and global infrastructure equity. The corresponding funds would be appropriated depending on future economic situation.
- Performance evaluation on domestic discretionary management organization which had entered into the first agreements in 2010 was conducted. Discretionary management contracts will be taken back at expire date due to failed performance.
- Performance evaluation on overseas discretionary management organizations of the types of Asia-Pacific equity and international equity which had entered into the second round in 2009 was conducted. Those that had reached given investment return targets will be extend contract while the rest of discretionary management contracts will be taken back at expire date.
- Contracts with some domestic discretionary management organizations were terminated due to failed performances.
- All written and onsite audits were completed in accordance with the 2014 auditing plan. The 2015 auditing plan was also established. Each fund operation item to be audited, the focus areas and audit frequencies were specified.
- The PSPFMB conducted on-site audits at domestic discretionary management and custody institutions and also assigned staff members to inspect at foreign discretionary management organization to understand their structure, investment of entrusted funds, risk management policies and systems, internal control and auditing systems. The visits also provided the opportunity for learning from their investment experience and expertise.
- According to schedules set up in line with the International Financial Reporting Standards (IFRS), the systems in relation to management of domestic and overseas investment product transactions and financial instrument recognition, measurement and impairment as described in IFRS 9 and International Accounting Standards No. 39 (IAS 39) were completed. At the same time, the accounting information system of the Fund was also established.

Supervisory Board

- In 2014, current contribution was not enough to fulfill current payment for the first time. The difference was around NT\$3.3 billion, but there was no immediate financial crisis because the surplus was still of NT\$32.3 billion when the fund utilization income of NT\$35.6 billion was included. However, the payment-to-contribution ratio for each type of participants went up rapidly each year in recent years. In particular, for military personnel and education workers the contribution was not enough to cover the payment respectively from 2011 and 2014. That was mainly because the Fund had entered maturity. Spending increased significantly yet the growth of income was very slow. Each concerned authority needs to pay attention to this issue and try to find the solution.
- In response to changes in the domestic and overseas financial markets as well as according to the results of amendments to various regulations by the PSPFMB, referencing work for related operating guidelines or regulations was completed to facilitate fund operation.
- To make the position and functions of the Fund more concrete and precise, the PSPFMB had defined its missions, prospects and objectives. The short-term objectives were incorporated in daily routines. The short- and mid-term targets currently being promoted include “establishment of investment style, performance attribution analysis indices and effective evaluation of investment results.” The purpose is to strengthen supervisory functions and upgrade administrative performance.
- Through regular observation of the asset allocation tendencies of large pension funds in and outside the country, the PSPFSB was able to have a firm grasp of market developments and provide strategic suggestions for allocation of fund assets to improve investment results.





- To promote overall fund performance and the effects of performance evaluation, the PSPFSB collected related documents from in and outside the country and applied external data and models to analyze the outcome of self-management in the country, actual data on domestic and overseas discretionary management and the results of operation by delegated managers. The research on fund investment style and performance attribution indices was completed and it helped improved the performance evaluation mechanism with effectiveness.
- To reinforce audit functions and promote informatization of supervisory work, the PSPFSB established a database on PSPFMB statements, domestic stocks under self-management, domestic stocks under discretionary management and investment transactions of beneficiary certificates.
- In light of the tendency in overseas management outsourcing to move toward discretionary management according to smart beta indexes for different government funds and the investment performance having been proven likely to surpass the results of investment according to the market-value weighted index, the PSPFSB therefore completed “A Study on Choice and Application of Index in Overseas Discretionary Management--Investment According to Smart Beta Indexes” in the hope that it could help improve the investment performance of the Fund.
- Adoption of the implementation dates specified in IFRS 9 in domestic accounting systems was postponed. To prevent the postponement from impacting the timeline of conversion of accounting approaches for the Fund, the PSPFSB proposed to adopt the practice of replacing the current accounting procedures with those set forth in IAS 39 and requesting the PSPFMB to provide the principal differences in accounting accounts and main financial statements after adoption of IFRS approaches before the end of September 2015.
- The PSPFSB attended the Government Fund Operation Performance Promotion Working Group meeting convened by the Financial Supervisory Commission and exchanged ideas with attending units on asset allocation strategy adjustment, talent recruitment, freedom of information, recruitment of consultants to assist government funds in selection of investment management agents, and other fund operation issues. It was hoped that such exchanges could help improve the performance of government funds.
- To keep track of the views of personnel responsible for Public Service Pension Fund affairs in each agency toward the administrative operations of the Fund as well as the opinions of various type of participants about fund operation and the pension system, the board wrote up a special topic report based on the results of comparison and analysis of differences indicated in (nine) surveys conducted over the years and posted it on the website of the Fund.

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:

- **Cautious asset allocation planning in accordance with fund management development**

To establish the most appropriate investment portfolio, after assessing the global economic environment and the level of market risk tolerance, we will establish the annual asset allocation plan and adjust the investment portfolio at the right moment in accordance with market changes. The investment strategy will be adoption of both self-management and discretionary management in the hope of achieving the management target of increasing investment income and management efficiency.

- **Appropriate amendment of related regulations and increase of diversified investment approaches**

To execute the investment arrangements set forth in the annual investment plan successfully, we will continue to review and amend related regulations to make fund utilization more systemic. At the same time, the PSPFMB and the PSPFSB will also study the feasibility of including new investment objects and types of investment management to be outsourced and performance reference benchmark as well as extending the depth and width of investment to diversify investment risk effectively and improve management performance.





- **Enforcement of overall fund performance evaluation and risk assessment to upgrade management capacity**

To improve overall fund management performance, we will continue to apply diverse and objective performance measurement indices and risk control systems to conduct quarterly evaluation and analysis of fund operation data and results of outsourced operations by institutional trustees in and outside the country to assess the effects of fund management. It is hope that through multifarious evaluation and risk assessment, we will be able to establish measures to improve performance and management capacity.



- **Enhancement of fund control procedures and enforcement of audit and supervisory functions**

With gradual expansion of fund size and increasing diversity of investment, the internal control procedures are becoming all the more important. To ensure fund management safety and perfect governance mechanisms, besides continuing fund operation supervision, the PSPFMB and the PSPFSB will also review and revise audit plans properly in accordance with changes in the management environment to make sure all operations are conducted according to regulations, the assets are well guarded, and fund management performance is improved.



- **Enhancement of discretionary management control and enforcement of information notification mechanisms**

To ensure effective control of discretionary management, we will cooperate closely with the Financial Supervisory Commission. By way of adopting information sharing to enhance audit functions and security of fund assets as well as to achieve the goal of sustainable management.



- **Promotion of self-conducted and outsourced research to cultivate R&D energy**

In addition to encouraging the staff members to conduct studies on fund-related or important topics as well as integrate theories and practices to upgrade the quality of self-conducted research and cultivate R&D energy, we will also promote outsourced research to seek progressive technologies extensively from the research sectors and continue to learn from management practices and asset allocation strategies of pension funds in advanced nations. Concrete and feasible suggestions offered in such studies will be adopted as references in policy planning and decision making.

- **Establishment of cross-department communication channels to solicit opinions from diverse sources**

We will cooperate and exchange ideas with other government funds in the country and concerned administrative departments on specifically chosen topics. Efforts will also be invested to make good use of creative energy from the private sector to strengthen fund governance performance in accordance with fund management development and economic situations in and outside the country.

The pension system is an important link in the reform of the civil service system. The quality of management of the Fund is closely associated with the rights and interests of retirees from the military, civil service and public schools. The staff members of the PSPFMB and the PSPFSB have the obligation to make active efforts and devote themselves to maximize their functions as good managers. Apart from responding to global economic developments and making timely adjustments to investment strategies, they must also enhance the performance of discretionary management to pursue long-term stable investment performance to achieve the goal of sustainable management.





Public Service Pension Fund Supervisory Board

4F, 1-3, Shih Yuan Rd. Wenshan, Taipei, 116

Tel: 886-2-82367200

Fax: 886-2-82367268

<http://www.fund.gov.tw>

Public Service Pension Fund Management Board

3F, 1, Shih Yuan Rd. Wenshan, Taipei, 116

Tel: 886-2-82367300

Fax: 886-2-82367467

<http://www.fund.gov.tw>