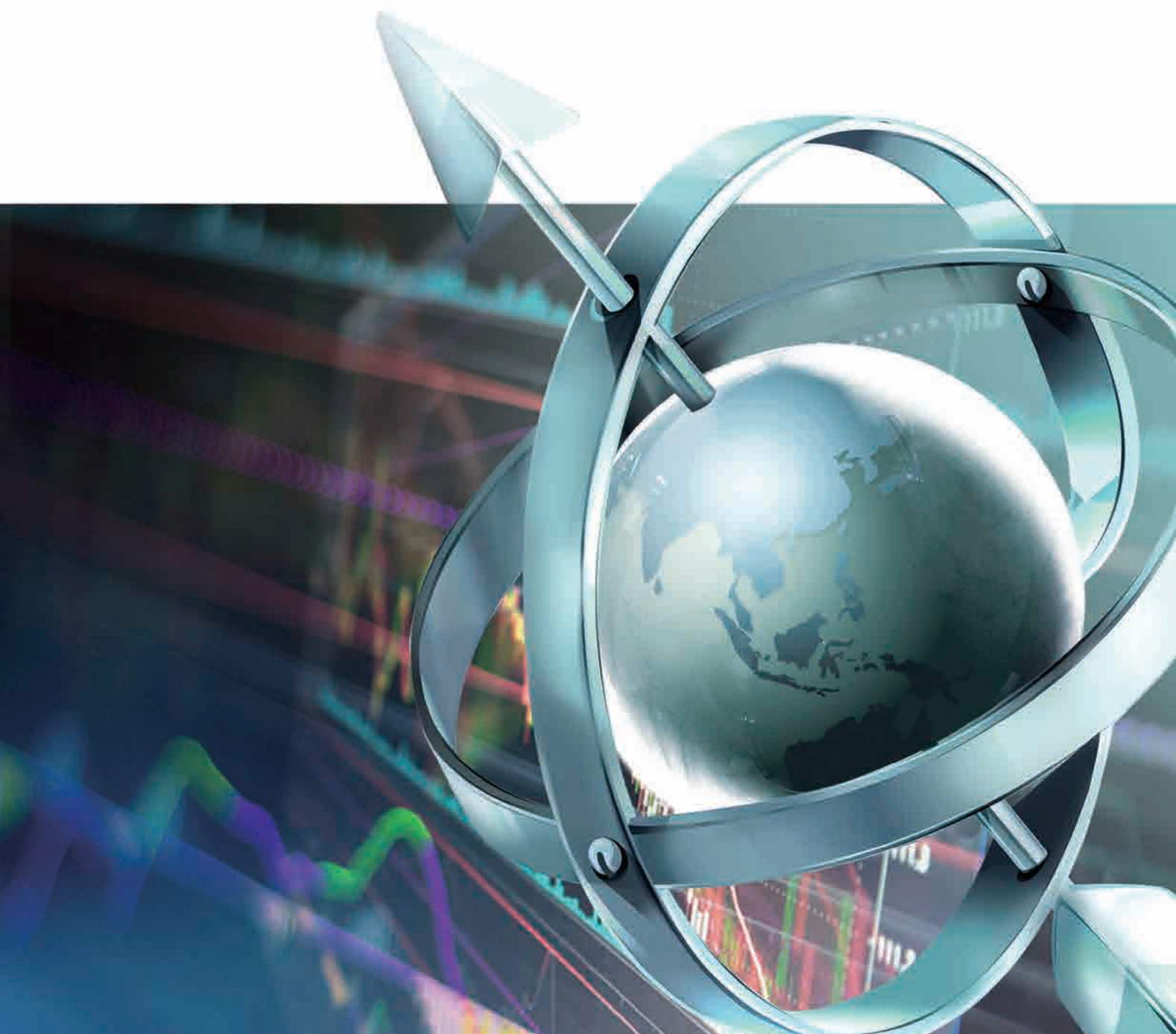



# 2016 Annual Report



Public Service Pension Fund





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

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# Address by Chairmen of the Supervisory Board and the Management Board of PSPF



Chairman of the Public Service Pension Fund Supervisory Board  
(also the Vice President of the Examination Yuan)

*Lee, Yi-yang*

## Expectations of Lee, Yi-yang Chairman of the Public Service Pension Fund Supervisory Board

Since the pension system of our country has faced an urgent ordeal in recent years, and it has triggered off disputes and concerns among the public for asking a radical reform. Due to the demographic change with social ageing and declining birthrates, the operation of

the pension system that based on the "dynamic balance of population" is facing a dilemma and unable to make ends meet. Moreover, caused by the ambiance of low growth, low inflation, low investment and lower interest-rate that makes recently the global economic in more waiting situations, and now the Public Service Pension Fund (PSPF) is facing enormous challenge on its maintaining soundness.

As we are all aware of that the task of pension reform has to be done even with extreme difficulties, and hence the management of PSPF(the Fund) is strongly concerning the retirees benefits, over and above, its adhering to the fundamental idea with "correlation of supervising and managing, coordination in authority and responsibility, and collaboration with division and capability", so either of the Supervisory Board and the Management Board were obliged to work together constantly to seek the best investment performance. All along, the Management Board has taken a positive action to keep investment portfolio adjusted dynamically, research and assessment as well as investment strategy with flexibility, in addition to fine interaction enduring between the two Boards, so the Fund has been able to grow steadily



and to advance its operating performance. Thus while global economic growth was not so good as expected in 2016, the Fund still surpass its annual performance targets, and it is worth of recognition.

Last year, the Supervisory Board has drawn up an "Improvement Plan of Established Supervisory System for Advancing Performance" as the main axis of administration, subsequently created the "Project for Advancing Supervision Performance of Fund" with undertaking measures to achieve goals among short, medium and long term, in order to fulfill the active supervising in foremost practice. So far to date, numeral short-term targets have been completed, such as improvement of supervisory performance, strategic issues analysis, procedures simplification, and application of information technology. For enhancing the effects of our Supervisory work that coincides with the internal audit of the Management Board as a whole performance, we are now engaging to develop and promote an "e-Platform of Supervisory information", by that the hi-technology will be launched to improve timely efficiency of supervision, therefore we ought to persist the spirit of earlier coordination and cooperation of the two Boards, and also to make an actual contribution to pension system in the Reform and the Fund to a sustainable development.



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

*Chou, Hung-hsien*

### **Expectations of Chou, Hung-hsien Chairman of the Public Service Pension Fund Management Board**

To reinforce the social security network and assure social justice, the pension reform project is currently one of the important tasks of the government. The reform process has to be mild and gradual and appropriate complementary measures

are needed to make sure the reform is reasonable and feasible and each civil servant can be economically secure in retirement. Meanwhile, it is also hoped that incumbent civil servants can continue to serve the country and the people without worries. Ministry of Civil Service drafted the Public Service Pension Act which was already reviewed by the Examination Yuan and presented on Mar. 30, 2017 to the Legislative Yuan for deliberation. After the passage of the third reading by the extemporaneous sitting of the Legislative Yuan on June 27, 2017 and the promulgation by the President of Republic of China, the Public Service Pension Act became effective starting from July 1, 2017. The interests of retired civil servants and their survivors as well as the reasonableness and appropriateness of the income of retired civil servants have both been taken into consideration, and the draft also complies with social justice and intergenerational justice.

As the number of retirees to be issued benefits and the lengths of time of benefit issuance are drastically increasing, plus the difficult financial environment around the globe, issuance of retirement pensions has become a heavy burden for the government and the Public Service Pension Fund (PSPF). Pension reform must be done and the assistance of all the military



personnel, civil servants and teachers is required. Hence, the passed Public Service Pension Act focuses on not only systemic modification, but also plans needed to be made to reduce retirement benefits to alleviate the financial burden of the government. Therefore the amount saved by the new Act can all be put into the Fund to extend the time before the Fund is used up. Although the global economy entered into the “new mediocre” era in 2016 with four lows (low growth, low interest rate, low inflation and low return) and one high (high fluctuation risk) in terms of difficulty increased in investment maneuvers, the performance of the Fund had still achieved 4.3% earning rate and the annual target. The realized profit and unrealized profit together from overall utilization amounted to NT\$23.69 billion.

The global economy will face four uncertainties in 2017, including US President Trump's shifts on policy, trade war triggered by protectionism, Brexit latest developments and the political and economic situations in the EU. These are factors likely to affect utilization of the Fund. Besides making flexible adjustments to investment strategies and portfolios in accordance with the domestic and overseas economic situation, grasping investment opportunities with good risk control practice, the Management Board of PSPF will also carefully assess the right point in time to make advantageous investments to increase the overall performance in utilization of the Fund to fulfill the obligation as a managing body.

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

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

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



# III

## Organization and members



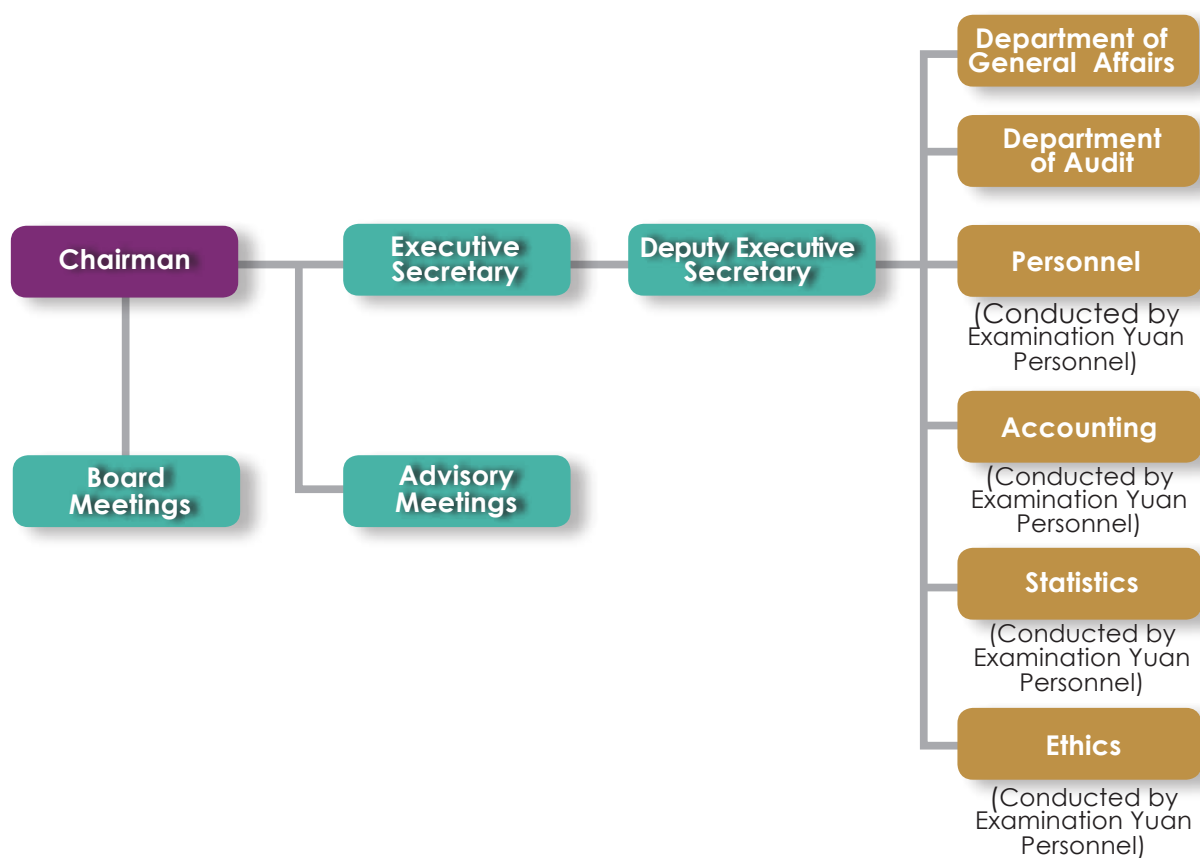
### 1. Organizational structure

#### ◆ Supervisory Board ◆

The Organic Act of Public Service Pension Fund Supervisory Board stipulates that the board shall comprise a chairman, with the Vice President of the Examination Yuan 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 or financial experts/scholars as its advisers who shall attend advisory and board meetings.

As of the end of 2016, the Supervisory Board has 23 members and 7 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 Act. The board's personnel, accounting, statistic and ethics affairs are conducted by Examination Yuan staff.

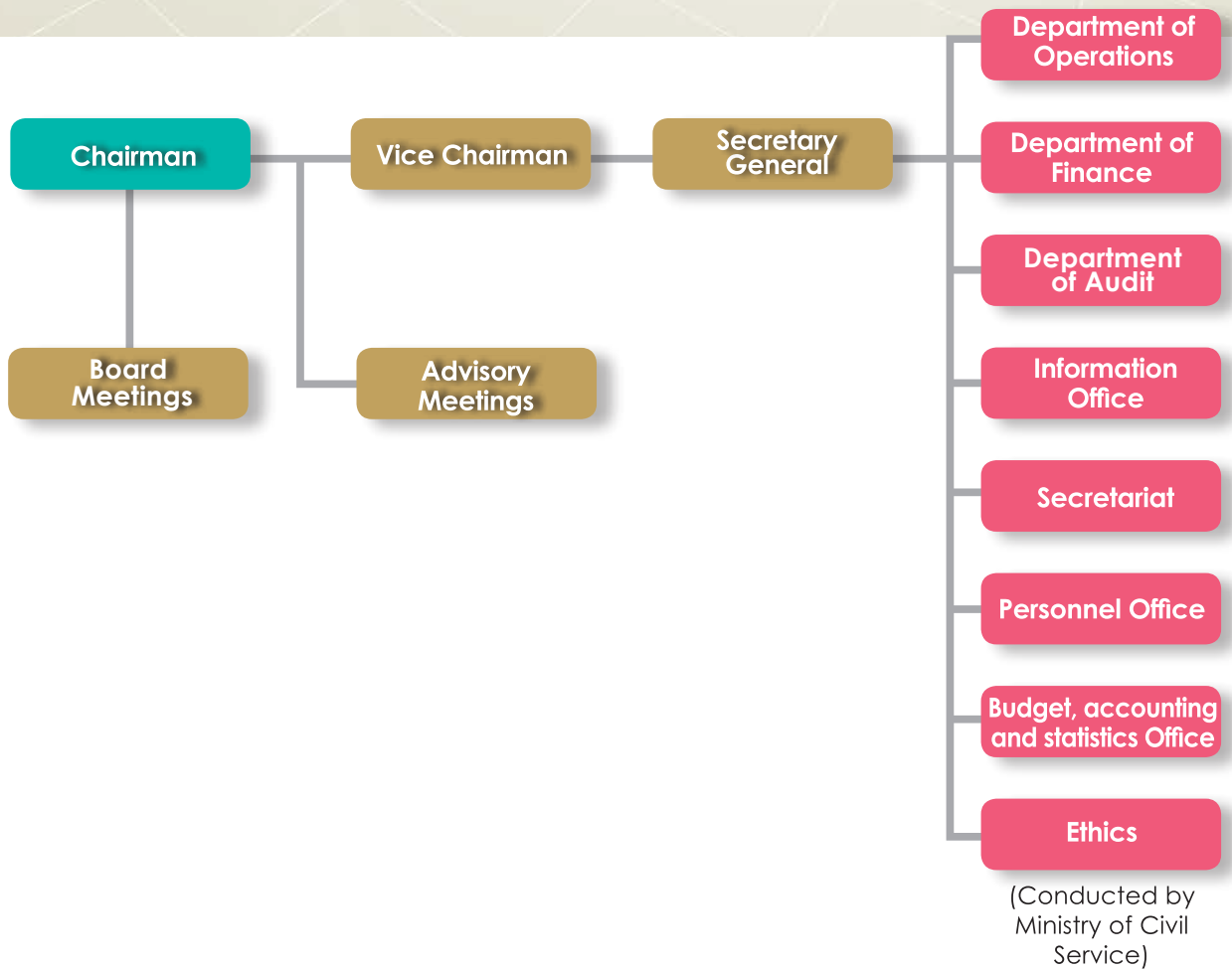


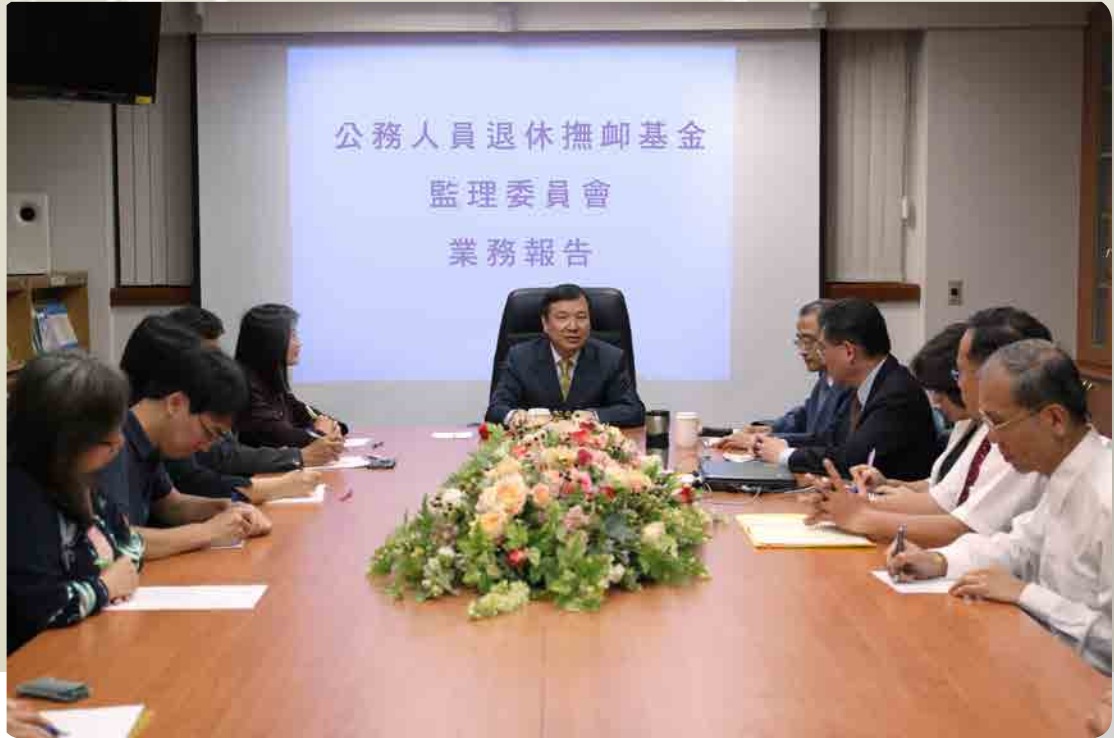


### ♦ Management Board ♦

Pursuant to the Organic Act of Public Service Pension Fund Management Board, the Management Board of Public Service Pension Fund 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 2016, the PSPFMB has 15 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 Audit, 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

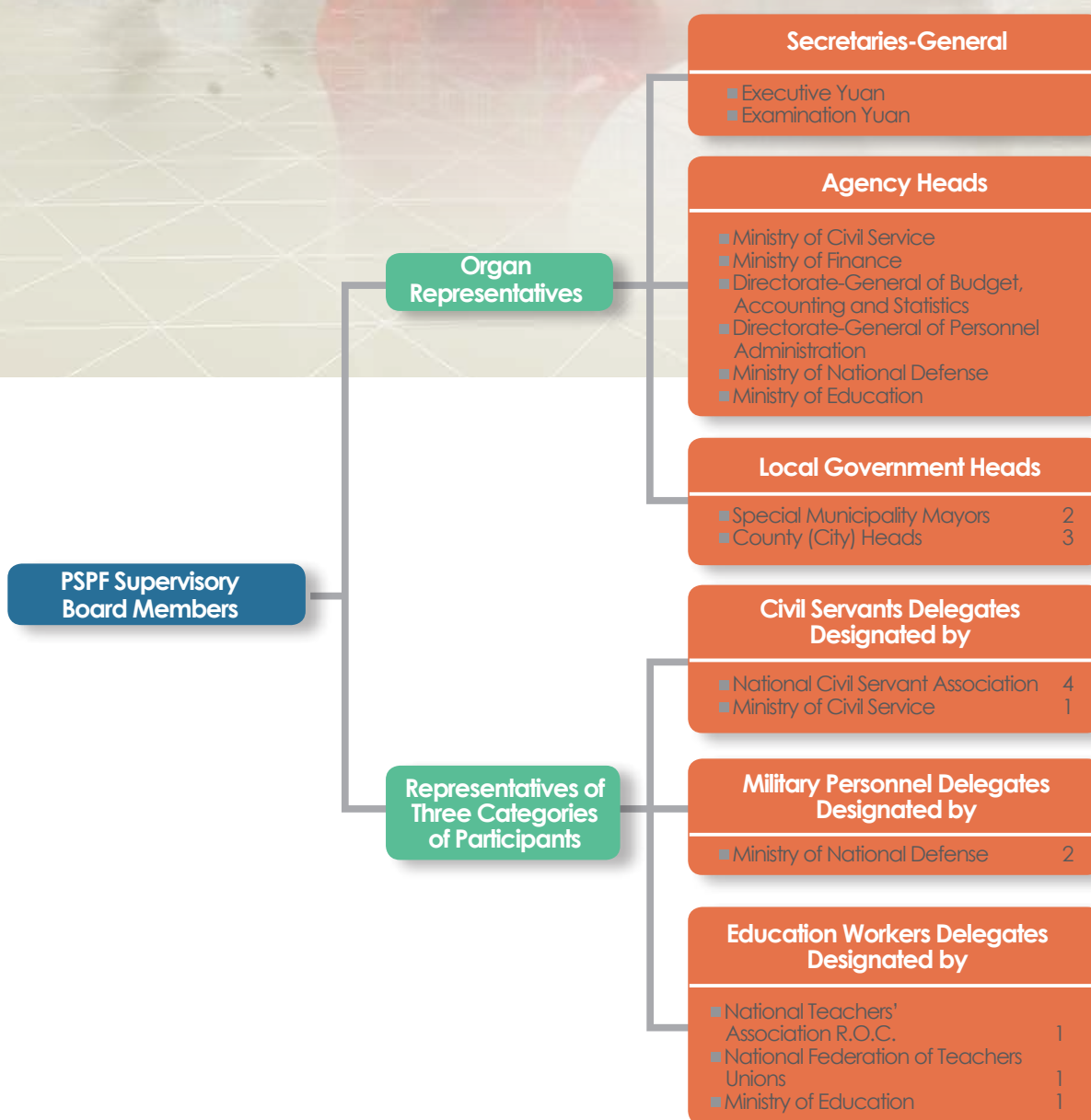
### ◆ Supervisory Board ◆

The Supervisory Board has 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 chiefs of special municipality and county governments, and 10 are representatives of civil servants, education workers and military personnel.

Among the members, 2 are special municipality mayors and 3 are county magistrates.

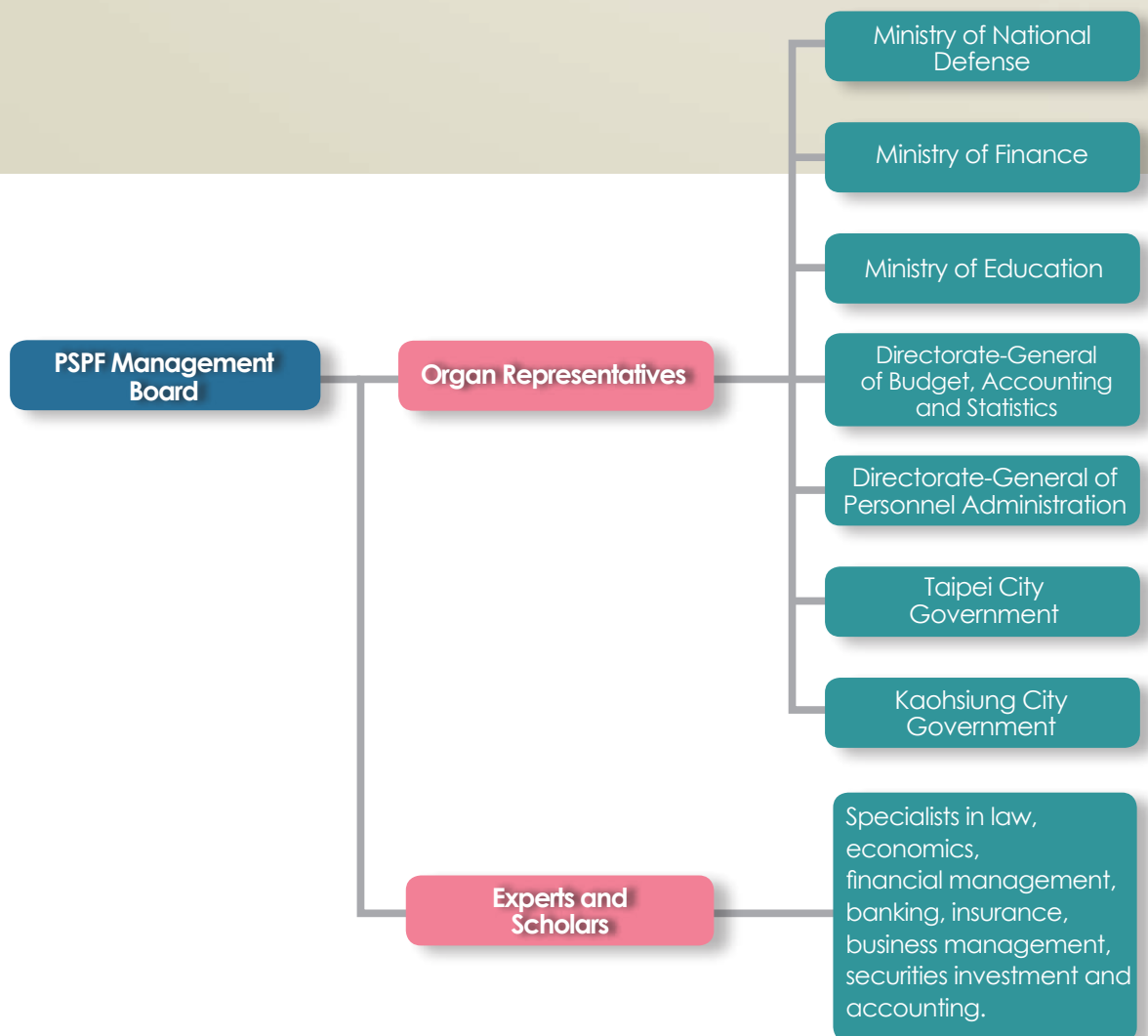
Of the 5 civil servant representatives, 4 are designated by the National Civil Servant Association and 1 are recommended by the Ministry of Civil Service.

The 2 military personnel representatives are designated by the Ministry of National Defense, while 3 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 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 governments as well as scholars and experts.



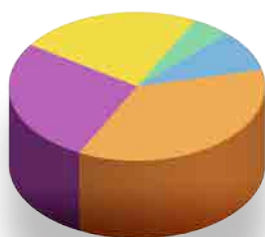


### 3. Management personnel overview

#### ◆ Supervisory Board ◆

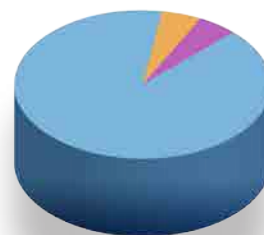
As of the end of 2016, the board actually had 22 staff members, of whom 10 were male and 12 were female, with an average age of 43.5 years old. As to their educational background, 1 had Ph.D., 14 had master's degrees and 7 were university graduates.

Distribution of Staff Members' Ages



Under 29 years old	9 %
30 ~ 39	36 %
40 ~ 49	27 %
50 ~ 59	23 %
Above 60	5 %

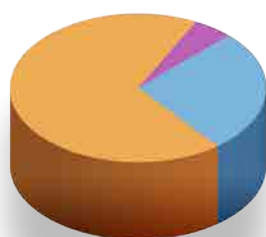
Distribution of Staff Members' Job Descriptions



Banking and Insurance	90 %
General Administration	5 %
Information Management	5 %

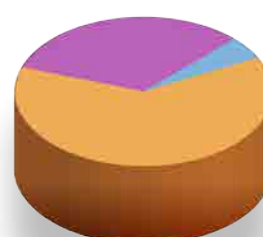


**Distribution of Staff Members' Rankings**



Senior Ranks	27 %
Middle Ranks	68 %
Junior Ranks	5 %

**Distribution of Staff Members' Academic Degrees**



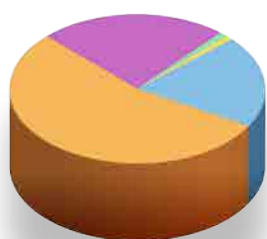
Doctor of Philosophy	5 %
Master's Degrees	63 %
Bachelor's Degrees	32 %

### ◆ Management Board ◆

As of the end of 2016, the board actually had 84 staff members, of whom 29 were male and 55 were female, at an average 44.9 years of age. With respect to their education background, 1 had Ph.D., 36 had master's degrees, 41 had bachelor's degrees and 6 were junior college graduates.

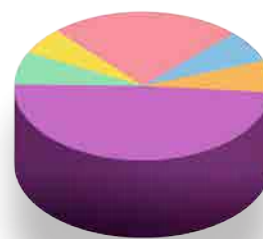
With the exception of contract staff, all other staff members have passed civil service examinations. Staff members at administrative units are recruited in accordance with personnel employment regulations, while staff recruitment at investment or business operation units tends to give priority to people 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**

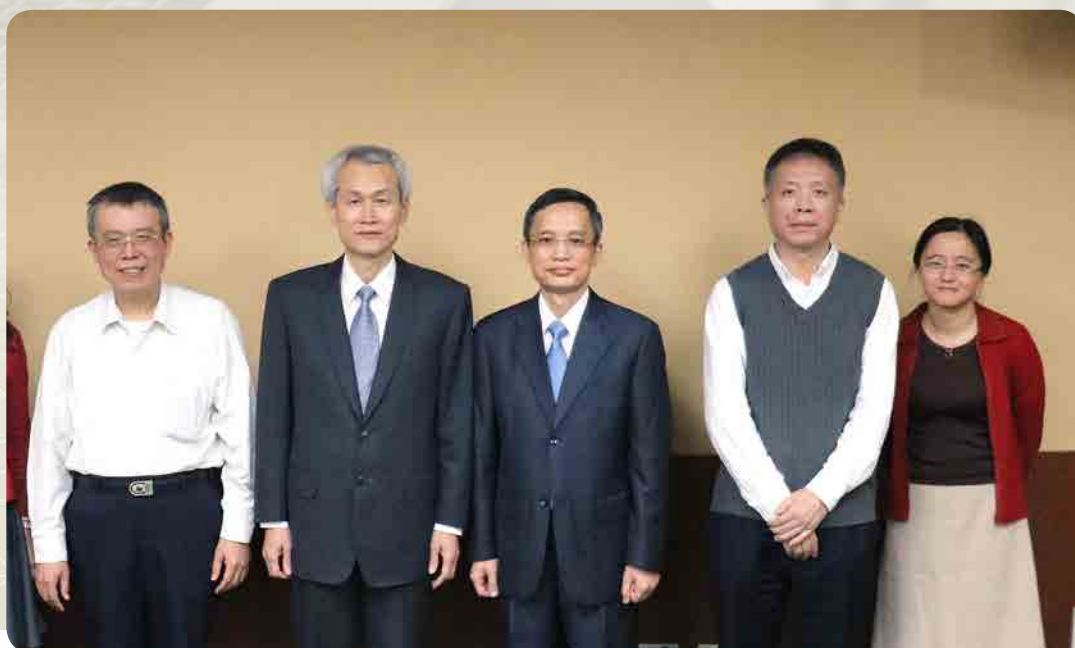


Under 29 years old	1 %
30 ~ 39	20 %
40 ~ 49	54 %
50 ~ 59	24 %
60 ~ 65	1 %

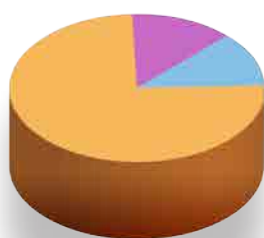
**Distribution of Staff Members' Job Descriptions**



Financial and Tax administration	49 %
Business Management	24 %
Information Processing	7 %
Accounting and Auditing	7 %
Personnel Administration	7 %
General Administration	6 %

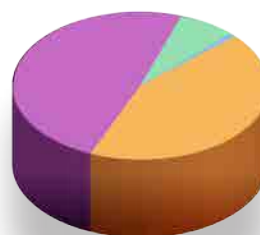


**Distribution of Staff Members' Rankings**



Senior Ranks	12 %
Middle Ranks	75 %
Junior Ranks	13 %

**Distribution of Staff Members' Academic Degrees**



Doctor of Philosophy	1 %
Master's Degrees	43 %
Bachelor's Degrees	49 %
Junior Ranks	7 %

# IV

## Fund participants, contributions and payments



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

Civil servants became immediate participants of the PSPF 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 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:

## PSPF 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

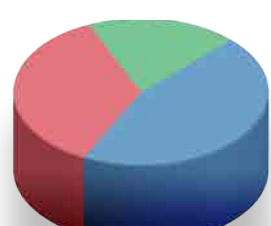
As of the end of 2016, the Fund had 635,000 participants, of whom about 289,000 were civil servants (45.5%), 186,000 were education workers (29.3%), and 160,000 were military personnel (25.2%).



Civil Servants	289,000	45.5 %
Education Workers	186,000	29.3 %
Military Personnel	160,000	25.2 %

### (2) Regular benefit recipients and ratios

As of the end of 2016, the Fund had 307,000 regular benefit recipients, of whom 138,000 (45.0%) were civil servants (including political appointees), 110,000 (35.8%) were education workers, and 59,000 (19.2%) were military personnel.

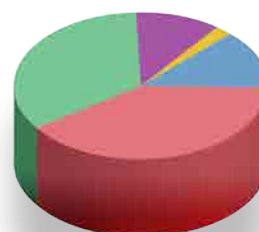


Civil Servants	138,000	45.0 %
Education Workers	110,000	35.8 %
Military Personnel	59,000	19.2 %



### (3) Participating units and ratios

As of the end of 2016, the Fund had 7,265 participating units, of which 972 (13.4%) were central government agencies, 2,895 (39.8%) were provincial and municipal government agencies, 2,494 (34.3%) were county and city government agencies, 760 (10.5%) were township offices and 144 (2.0 %) were state-owned enterprises.



Central government units.	972	13.4%
Provincial/municipal government units	2,895	39.8%
County/city government units.	2,494	34.3%
Township offices	760	10.5%
State-owned Enterprises.	144	2.0%



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

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

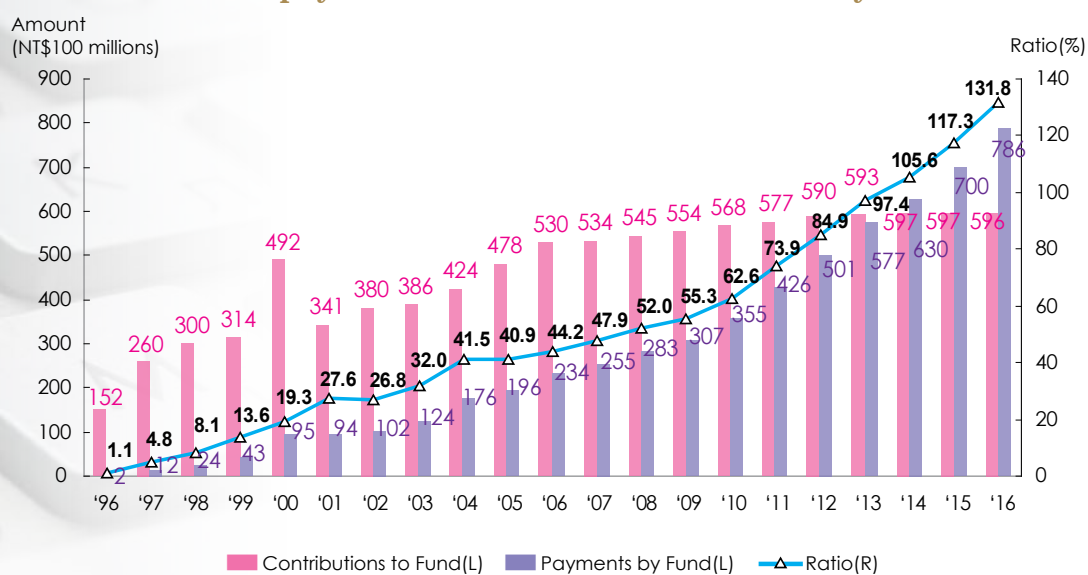
The Pension Fund received NT\$59.6 billion in contributions in 2016 from three categories of participants while paying out NT\$78.6 billion in benefits, with payments accounting for 131.8 percent of total contributions. The net contribution/payment amount was down NT\$8.7 billion from the year-earlier level. Since the Fund's inception, accumulated contributions from the three categories of participants amounted to NT\$980.9 billion and accumulated payouts totaled NT\$592.3 billion or 60.4 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 2016	Contribution Amount	278	219	99	596
	Payout Amount	347	279	160	786
	Payout/ Contribution Ratio	124.9%	127.2%	161.6%	131.8%
As of the end of 2016	Contribution Amount	4,679	3,625	1,505	9,809
	Payout Amount	2,300	2,226	1,397	5,923
	Payout/ Contribution Ratio	49.2%	61.4%	92.8%	60.4%

### 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 2016 while paying out NT\$34.7 billion in benefits, for a payment-to-contribution ratio of 124.9% in the category.

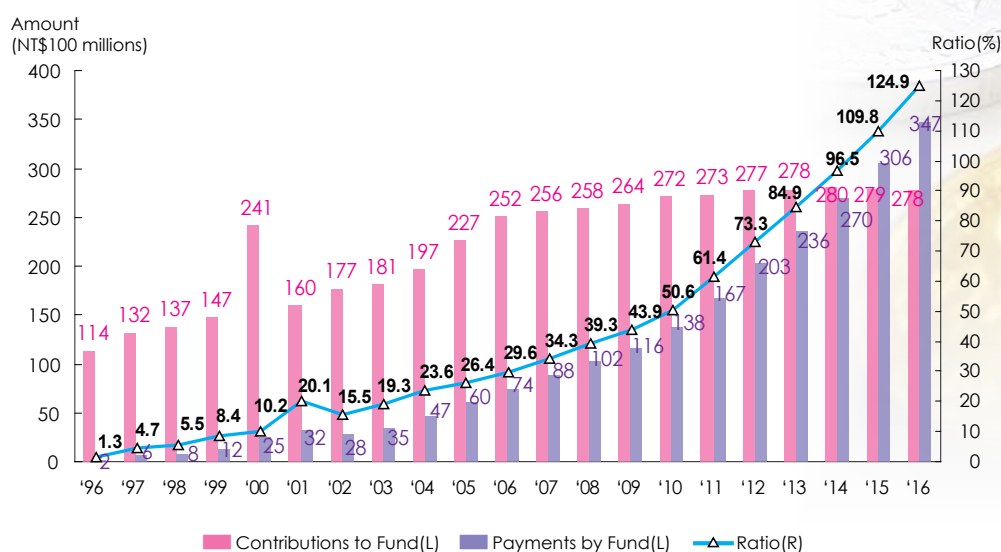
## (3) Education Workers Contribution/Payment Amount and Ratio

The Pension Fund collected NT\$21.9 billion in contributions from education workers in 2016 while paying out NT\$27.9 billion in benefits, for a payment-to-contribution ratio of 127.2% in the category.

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

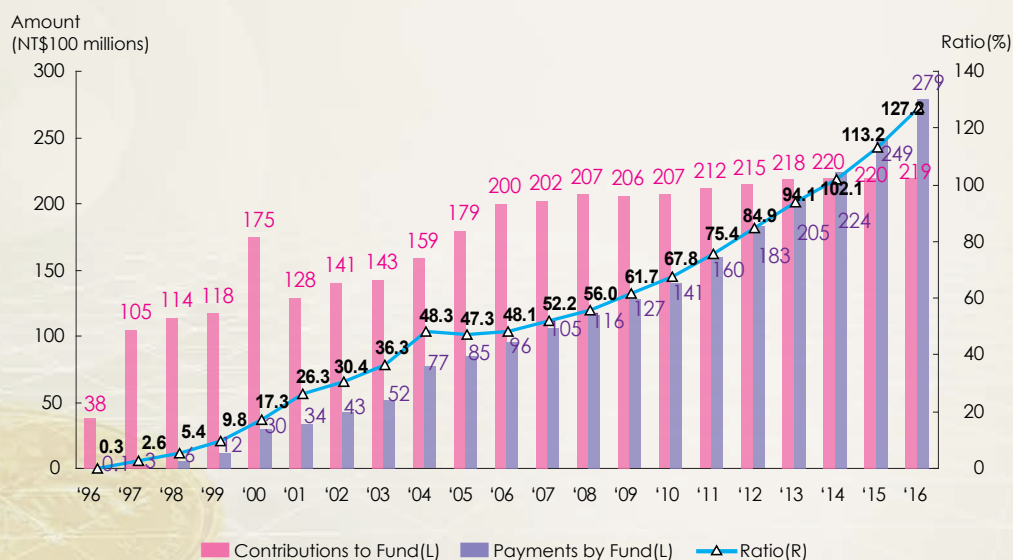
The Pension Fund collected NT\$9.9 billion in contributions from military personnel in 2016 while paying out NT\$16.0 billion in benefits, for a payment-to-contribution ratio of 161.6% in the category.

Chart of payments to civil servants and ratios over the years



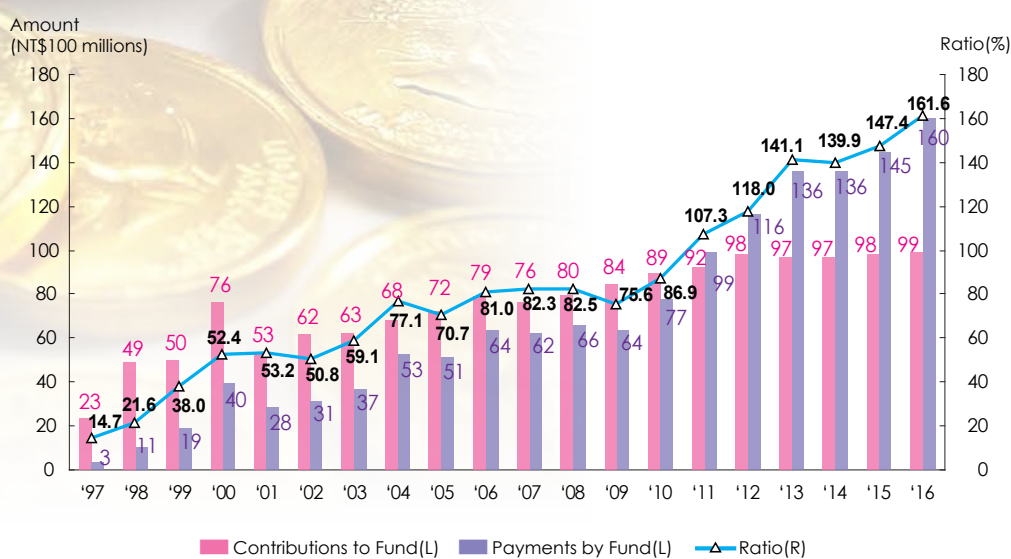
Note: Fiscal 2000 covers the period from July 1, 1999 to Dec. 31, 2000.

### 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 307,000 in 2016, up 21,000 from the year-earlier period, and overall annual payment amounted to NT\$69.6 billion, up NT\$8.1 billion over a year ago.

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

A total of 138,000 civil servants received an aggregate NT\$31.5 billion in regular benefit payouts in 2016.

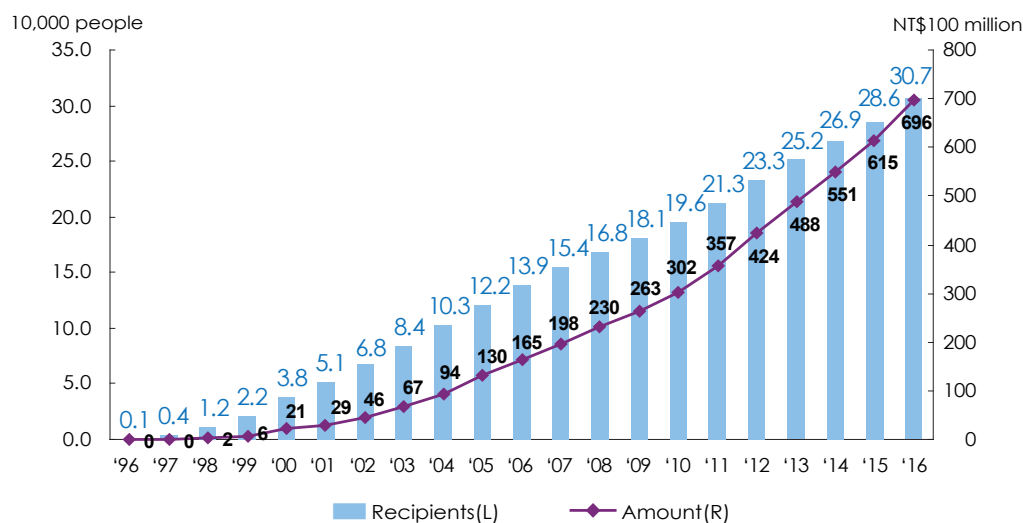
#### (3) Pension recipients and amount in education workers category

A total of 110,000 education workers received an aggregate NT\$25.8 billion in regular benefit payouts in 2016.

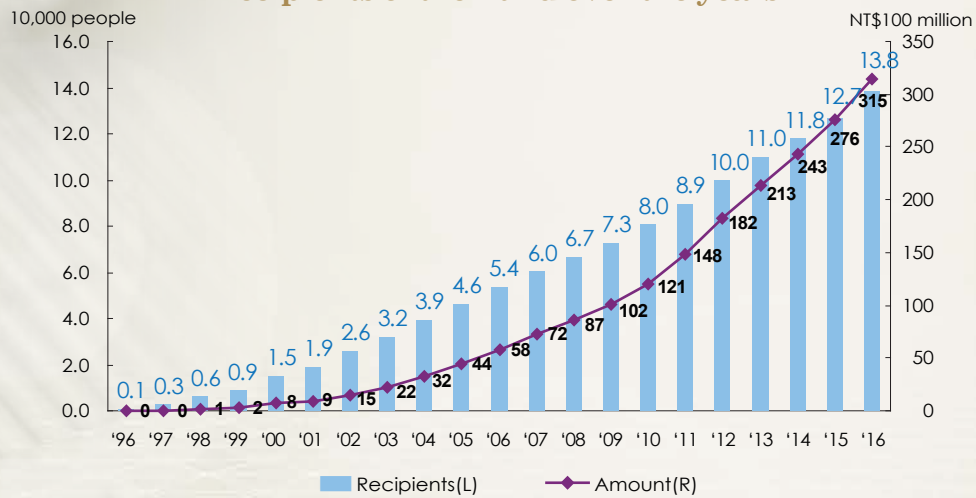
#### (4) Pension recipients and amount in military personnel category

A total of 59,000 military personnel received an aggregate NT\$12.3 billion in regular benefit payouts in 2016.

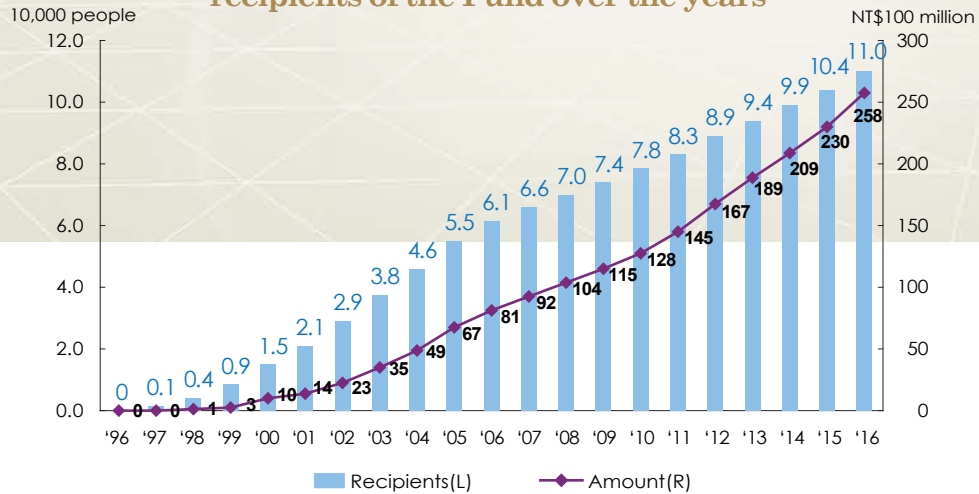
**Chart on the numbers of payment recipients and amounts over the years**



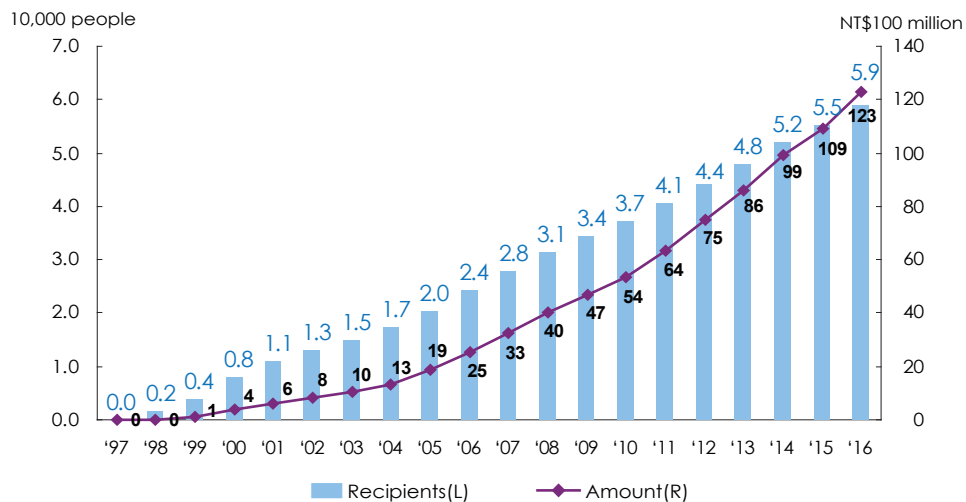
**Chart of numbers and amounts of regular civil servant recipients of the Fund over the years**



**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**



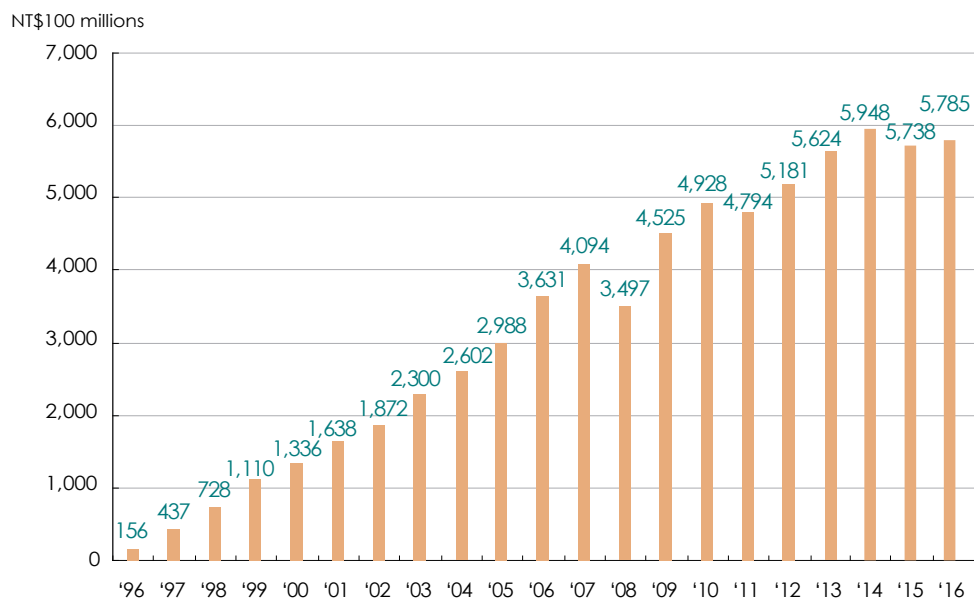


### 1. Size of the Fund over the years

The Fund has entered its maturity period, therefore the Fund's net asset would be subject to the shortfall between contributions and payments as well as the volatility of operational earnings. As of the end of 2016, the Fund's net asset stood at NT\$578.5 billion, up NT\$4.7 billion from the previous year.



### 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.  
 3. The net value of the fund was originally reported as NT\$573.6 billion, after the adoption of IFRS in 2015, the figure was adjusted to NT\$573.8 billion because of retrospective changes in accounting principle.



## 2. 2016 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 2016, the investment items' investment areas, types of income and management modes are as follows:

# Implementing Alternative Investment Presented by Herman Wong

## The Fund's asset allocations as of Dec.31, 2016

Categories	Investment items		Actual amount (NT\$100 m.) (note 3)		Actual allocation % (A)		Center allocation % (B)		Difference % (A) -(B)	
Investment areas (note 1)	Domestic		3,312		58.10		53.90		4.20	
	Overseas		2,389		41.90		46.10		-4.20	
Security type (note 2)	Fixed income		3,166		55.54		40.00		15.54	
	Capital gains		2,535		44.46		60.0		-15.54	
Management methods	Discretionary management	Domestic	2,022	568	35.47	9.97	49.00	18.00	-13.53	-8.03
		Overseas		1,454		25.50		31.00		-5.50
	In-house management	Deposits, short- term bills, securities	3,679	1,757	64.53	30.83	51.00	12.10	13.53	18.73
		Others		1,922		33.70		38.90		-5.20

- Notes: 1. If the Fund's in-house investment in domestic beneficiary certificates is separated its overseas amount into the overseas investment category, then the domestic investment will take a 62 percent of total asset 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 ETFs.
3. The actual investment amount does not include receivables/payables, prepaid/advance items and bonds discount/premium amortization.

## Balance sheet, income statement, and contribution status of the Fund

### 1. Balance sheet for fiscal 2016

For fiscal 2016, the value of the Fund's total assets was NT\$579.3 billion, with current assets, which amounted to NT\$438.0 billion, taking 75.6 percent and the remaining 24.4 percent being long-term investment and receivables, totaling NT\$141.3 billion.

#### PSPF Balance sheet - Asset Accounts

Dec.31, 2016

Items	Final account for this fiscal year				
	In-house management	Discretionary management	Total	In-house management	
	Amount	Amount	Amount	Amount	
Assets	375,882,828,922	203,444,335,099	579,327,164,021	356,015,343,083	
Current assets	261,656,597,999	176,296,843,231	437,953,441,230	246,068,142,435	
Cash	52,190,538,835	8,685,398,826	60,875,937,661	55,998,757,419	
Bank deposits	52,190,538,835	8,685,398,826	60,875,937,661	55,998,757,419	
Current financial assets	200,070,113,424	166,614,463,614	366,684,577,038	180,649,465,392	
Financial assets held for trading-current	83,064,688,426	149,816,702,000	232,881,390,426	101,553,674,313	
Stocks	83,064,688,426	147,624,560,522	230,689,248,948	101,443,351,776	
Beneficiary certificates		1,257,335,505	1,257,335,505		
Short-term bills					
Bonds		276,047,789	276,047,789	110,322,537	
Futures margins		658,758,184	658,758,184		
Adjustment for Financial assets held for trading evaluation-current	-14,864,270,218	11,435,329,376	-3,428,940,842	-22,351,133,911	
Stocks	-14,864,270,218	11,223,140,767	-3,641,129,451	-22,341,964,424	
Beneficiary certificates		219,415,809	219,415,809		
Bonds		-11,903,472	-11,903,472	-9,169,487	
Futures margins		3,419,539	3,419,539		
Foreign exchange forward contracts		1,256,733	1,256,733		
Bills and bonds purchased under resell agreements	26,055,234,301	5,362,432,238	31,417,666,539	26,595,735,562	
Short-term bills	26,055,234,301	4,527,046,151	30,582,280,452	26,595,735,562	
Bonds		835,386,087	835,386,087		
Held-to-maturity financial assets - current	72,114,460,915		72,114,460,915	42,651,189,428	
Short-term bills	63,809,918,215		63,809,918,215	35,865,866,977	
Bonds	8,304,542,700		8,304,542,700	6,785,322,451	
Other financial assets-current	33,700,000,000		33,700,000,000	32,200,000,000	
Time Deposit	33,700,000,000		33,700,000,000	32,200,000,000	
Receivables	2,453,986,336	996,980,791	3,450,967,127	3,209,548,898	
Accounts receivable	82,865,685	375,262,561	458,128,246	141,023,545	
Allowance for bad debt - account receivables	-2,133,868		-2,133,868	-309,372	

Unit : NT\$

Final account for last fiscal year		Comparison increase (+) decrease (-)					
Discretionary management	Total	In-house management		Discretionary management		Total	
Amount	Amount	Amount	%	Amount	%	Amount	%
218,836,957,163	574,852,300,246	19,867,485,839	5.58	-15,392,622,064	-7.03	4,474,863,775	0.78
218,836,957,163	464,905,099,598	15,588,455,564	6.34	-42,540,113,932	-19.44	-26,951,658,368	-5.80
9,127,505,001	65,126,262,420	-3,808,218,584	-6.80	-442,106,175	-4.84	-4,250,324,759	-6.53
9,127,505,001	65,126,262,420	-3,808,218,584	-6.80	-442,106,175	-4.84	-4,250,324,759	-6.53
208,543,544,018	389,193,009,410	19,420,648,032	10.75	-41,929,080,404	-20.11	-22,508,432,372	-5.78
207,270,520,357	308,824,194,670	-18,488,985,887	-18.21	-57,453,818,357	-27.72	-75,942,804,244	-24.59
168,586,942,776	270,030,294,552	-18,378,663,350	-18.12	-20,962,382,254	-12.43	-39,341,045,604	-14.57
1,303,080,135	1,303,080,135			-45,744,630	-3.51	-45,744,630	-3.51
4,928,026,157	4,928,026,157			-4,928,026,157	-100.00	-4,928,026,157	-100.00
31,111,092,044	31,221,414,581	-110,322,537	-100.00	-30,835,044,255	-99.11	-30,945,366,792	-99.12
1,341,379,245	1,341,379,245			-682,621,061	-50.89	-682,621,061	-50.89
1,273,023,661	-21,078,110,250	7,486,863,693	-33.50	10,162,305,715	798.28	17,649,169,408	-83.73
3,502,623,954	-18,839,340,470	7,477,694,206	-33.47	7,720,516,813	220.42	15,198,211,019	-80.67
239,582,550	239,582,550			-20,166,741	-8.42	-20,166,741	-8.42
-2,441,810,846	-2,450,980,333	9,169,487	-100.00	2,429,907,374	-99.51	2,439,076,861	-99.51
-55,565,669	-55,565,669			58,985,208	-106.15	58,985,208	-106.15
28,193,672	28,193,672			-26,936,939	-95.54	-26,936,939	-95.54
	26,595,735,562	-540,501,261	-2.03	5,362,432,238		4,821,930,977	18.13
	26,595,735,562	-540,501,261	-2.03	4,527,046,151		3,986,544,890	14.99
				835,386,087		835,386,087	
	42,651,189,428	29,463,271,487	69.08			29,463,271,487	69.08
	35,865,866,977	27,944,051,238	77.91			27,944,051,238	77.91
	6,785,322,451	1,519,220,249	22.39			1,519,220,249	22.39
	32,200,000,000	1,500,000,000	4.66			1,500,000,000	4.66
	32,200,000,000	1,500,000,000	4.66			1,500,000,000	4.66
1,165,908,144	4,375,457,042	-755,562,562	-23.54	-168,927,353	-14.49	-924,489,915	-21.13
527,485,858	668,509,403	-58,157,860	-41.24	-152,223,297	-28.86	-210,381,157	-31.47
	-309,372	-1,824,496	589.74			-1,824,496	589.74

(Continued)

## PSPF Balance sheet - Asset Accounts

Dec.31, 2016

Items	Final account for this fiscal year			In-house management	
	In-house management	Discretionary management	Total		
	Amount	Amount	Amount	Amount	
Earned revenue receivable	2,837,537	233,602,050	236,439,587	5,406,358	
Interest receivable	949,463,645	343,830,447	1,293,294,092	900,738,300	
State treasury subsidies receivable	1,420,795,338		1,420,795,338	2,160,795,338	
Other receivables	157,999	44,285,733	44,443,732	1,894,729	
Prepayments	6,941,959,404		6,941,959,404	6,210,370,726	
Other prepayments	6,941,959,404		6,941,959,404	6,210,370,726	
Long-term investments and receivables	114,226,230,923	27,147,491,868	141,373,722,791	109,947,199,388	
Noncurrent financial assets	114,226,230,923	27,147,491,868	141,373,722,791	109,947,199,388	
Financial assets held for trading-noncurrent		28,357,083,211	28,357,083,211		
Bonds		28,357,083,211	28,357,083,211		
Adjustment for financial assets held for trading evaluation-noncurrent		-1,209,591,343	-1,209,591,343		
Bonds		-1,209,591,343	-1,209,591,343		
Available-for-sale financial assets - noncurrent	24,720,596,116		24,720,596,116	28,971,465,729	
Stocks	9,799,461,553		9,799,461,553	10,625,716,325	
Beneficiary certificates	14,921,134,563		14,921,134,563	18,345,749,404	
Adjustment for Available-for-sale financial assets evaluation - noncurrent	-409,746,745		-409,746,745	-1,724,438,980	
Stocks	718,427,522		718,427,522	-189,663,196	
Beneficiary certificates	-1,128,174,267		-1,128,174,267	-1,534,775,784	
Held-to-maturity financial assets - noncurrent	71,709,895,524		71,709,895,524	69,307,653,658	
Bonds	71,709,895,524		71,709,895,524	69,307,653,658	
Debt investments without active market - noncurrent	18,205,486,028		18,205,486,028	13,392,518,981	
Bonds	18,205,486,028		18,205,486,028	13,392,518,981	
Other assets				1,260	
Miscellaneous assets				1,260	
Overdue receivables	685,317		685,317	616,031	
Allowance for bad debt - overdue receivables	-685,317		-685,317	-614,771	
Total	375,882,828,922	203,444,335,099	579,327,164,021	356,015,343,083	

Unit : NT\$

Final account for last fiscal year		Comparison increase (+) decrease (-)					
Discretionary management	Total	In-house management		Discretionary management		Total	
Amount	Amount	Amount	%	Amount	%	Amount	%
188,257,563	193,663,921	-2,568,821	-47.51	45,344,487	24.09	42,775,666	22.09
412,839,030	1,313,577,330	48,725,345	5.41	-69,008,583	-16.72	-20,283,238	-1.54
	2,160,795,338	-740,000,000	-34.25			-740,000,000	-34.25
37,325,693	39,220,422	-1,736,730	-91.66	6,960,040	18.65	5,223,310	13.32
	6,210,370,726	731,588,678	11.78			731,588,678	11.78
	6,210,370,726	731,588,678	11.78			731,588,678	11.78
	109,947,199,388	4,279,031,535	3.89	27,147,491,868		31,426,523,403	28.58
	109,947,199,388	4,279,031,535	3.89	27,147,491,868		31,426,523,403	28.58
				28,357,083,211		28,357,083,211	
				28,357,083,211		28,357,083,211	
				-1,209,591,343		-1,209,591,343	
				-1,209,591,343		-1,209,591,343	
	28,971,465,729	-4,250,869,613	-14.67			-4,250,869,613	-14.67
	10,625,716,325	-826,254,772	-7.78			-826,254,772	-7.78
	18,345,749,404	-3,424,614,841	-18.67			-3,424,614,841	-18.67
	-1,724,438,980	1,314,692,235	-76.24			1,314,692,235	-76.24
	-189,663,196	908,090,718	-478.79			908,090,718	-478.79
	-1,534,775,784	406,601,517	-26.49			406,601,517	-26.49
	69,307,653,658	2,402,241,866	3.47			2,402,241,866	3.47
	69,307,653,658	2,402,241,866	3.47			2,402,241,866	3.47
	13,392,518,981	4,812,967,047	35.94			4,812,967,047	35.94
	13,392,518,981	4,812,967,047	35.94			4,812,967,047	35.94
	1,260	-1,260	-100.00			-1,260	-100.00
	1,260	-1,260	-100.00			-1,260	-100.00
	616,031	69,286	11.25			69,286	11.25
	-614,771	-70,546	11.48			-70,546	11.48
218,836,957,163	574,852,300,246	19,867,485,839	5.58	-15,392,622,064	-7.03	4,474,863,775	0.78

(End)

## PSPF Balance sheet - Liability Accounts

Dec.31, 2016

Items	Final account for this fiscal year				
	In-house management	Discretionary management	Total	In-house management	
	Amount	Amount	Amount	Amount	
Liabilities	88,143,384	718,168,093	806,311,477	5,875,009	
Current liabilities	88,143,384	718,168,093	806,311,477	5,874,929	
Current Financial liabilities		97,059,367	97,059,367		
Adjustment for Financial liabilities held for trading evaluation – current		97,059,367	97,059,367		
Foreign exchange forward contracts		57,687,782	57,687,782		
Futures margins		33,618,862	33,618,862		
Interest swap		5,752,723	5,752,723		
Payables	88,112,024	621,108,726	709,220,750	5,655,407	
Accounts payable	83,614,757	493,049,098	576,663,855		
Receipts under custody payable	540,903		540,903	2,111,011	
Expenses payable	3,498,017	128,059,628	131,557,645	2,967,730	
Other payable	458,347		458,347	576,666	
Advance accounts	31,360		31,360	219,522	
Other advance accounts	31,360		31,360	219,522	
Other liabilities				80	
Miscellaneous liabilities				80	
Temporary accounts				80	
Fund and surplus	375,794,685,538	202,726,167,006	578,520,852,544	356,009,468,074	

Unit : NT\$

Final account for last fiscal year		Comparison increase (+) decrease (-)					
Discretionary management	Total	In-house management		Discretionary management		Total	
Amount	Amount	Amount	%	Amount	%	Amount	%
1,056,366,682	1,062,241,691	82,268,375	1,400.31	-338,198,589	-32.02	-255,930,214	-24.09
1,056,366,682	1,062,241,611	82,268,455	1,400.33	-338,198,589	-32.02	-255,930,134	-24.09
40,873,718	40,873,718			56,185,649	137.46	56,185,649	137.46
40,873,718	40,873,718			56,185,649	137.46	56,185,649	137.46
25,488,240	25,488,240			32,199,542	126.33	32,199,542	126.33
				33,618,862		33,618,862	
15,385,478	15,385,478			-9,632,755	-62.61	-9,632,755	-62.61
1,015,492,964	1,021,148,371	82,456,617	1,458.01	-394,384,238	-38.84	-311,927,621	-30.55
885,126,843	885,126,843	83,614,757		-392,077,745	-44.30	-308,462,988	-34.85
	2,111,011	-1,570,108	-74.38			-1,570,108	-74.38
130,366,121	133,333,851	530,287	17.87	-2,306,493	-1.77	-1,776,206	-1.33
	576,666	-118,319	-20.52			-118,319	-20.52
	219,522	-188,162	-85.71			-188,162	-85.71
	219,522	-188,162	-85.71			-188,162	-85.71
	80	-80	-100.00			-80	-100.00
	80	-80	-100.00			-80	-100.00
	80	-80	-100.00			-80	-100.00
217,780,590,481	573,790,058,555	19,785,217,464	5.56	-15,054,423,475	-6.91	4,730,793,989	0.82

## PSPF Balance sheet - Fund & surplus Accounts

Dec.31, 2016

Items	Final account for this fiscal year				
	In-house management	Discretionary management	Total	In-house management	
	Amount	Amount	Amount	Amount	
Fund			578,930,599,289		
Public Service Pension Fund			388,536,680,171		
Public Service Pension Fund			388,536,680,171		
Public Service Pension Fund Accumulated surplus/deficit-distributed			190,393,919,118		
Public Service Pension Fund Legally fuaranteed return			19,655,692,462		
Public Service Pension Fund return above (below) legally guaranteed amount			28,889,603,992		
Accumulated surplus			141,848,622,664		
Accumulated surplus/ deficit-undistributed				192,507,547	
Adjustment for First-time Adoption of International Financial Reporting Standards				192,507,547	
Accumulated other comprehensive income	-409,746,745		-409,746,745	-1,724,438,980	
Gains or losses on valuation of avaiable-for-sale financial assets	-409,746,745		-409,746,745	-1,724,438,980	
Total	375,882,828,922	203,444,335,099	579,327,164,021	356,015,343,083	

Unit : NT\$

Final account for last fiscal year		Comparison increase (+) decrease (-)					
Discretionary management	Total	In-house management		Discretionary management		Total	
Amount	Amount	Amount	%	Amount	%	Amount	%
	575,321,989,988					3,608,609,301	0.63
	407,513,566,640					-18,976,886,469	-4.66
	407,513,566,640					-18,976,886,469	-4.66
	167,808,423,348					22,585,495,770	13.46
	21,144,429,343					-1,488,736,881	-7.04
	46,343,718,998					-17,454,115,006	-37.66
	100,320,275,007					41,528,347,657	41.40
	192,507,547	-192,507,547	-100.00			-192,507,547	-100.00
	192,507,547	-192,507,547	-100.00			-192,507,547	-100.00
	-1,724,438,980	1,314,692,235	-76.24			1,314,692,235	-76.24
	-1,724,438,980	1,314,692,235	-76.24			1,314,692,235	-76.24
218,836,957,163	574,852,300,246	19,867,485,839	5.58	-15,392,622,064	-7.03	4,474,863,775	0.78

## 2. Income statement of the Fund for fiscal 2016

The Fund accrued a balance of NT\$22.4 billion in fiscal 2016, other comprehensive income 1.3billion added, the figure stood at NT\$23.7 billion.

### Public Service Pension Fund – Income Statement

Fiscal 2016

Items	Fiscal 2016 budget		
	Amount	%	
Total revenues	24,702,313,000	100.00	
Financial revenues	24,702,313,000	100.00	
Interest revenue	3,293,592,000	13.33	
Net gain of financial assets at fair value through profit or loss	21,408,721,000	86.67	
Net gain of financial liabilities at fair value through profit or loss			
Net gain of available-for-sale financial assets			
Net gain on foreign exchange			
Other operating revenues			
Miscellaneous revenue			
Total expenses	1,394,492,000	5.65	
Financial expenses	624,296,000	2.53	
Service fee expense	624,296,000	2.53	
Net loss of financial assets at fair value through profit or loss			
Net loss of held-to-maturity investments			
Net loss on foreign exchange			
Other Financial expenses	770,133,000	3.12	
Agency fee	770,133,000	3.12	
Other operating expenses	63,000		
Remittance fee paid	63,000		
Provision for doubtful debts			
Other expenses			
Surplus/deficit for the period	23,307,821,000	94.35	
Other comprehensive income			
Gains or losses on valuation of available-for-sale financial assets			
Total comprehensive income for the period	23,307,821,000	94.35	

Unit : NT\$

Fiscal 2016 Final Account		Increase/Decrease		Fiscal 2015 Final Account	
Amount	%	Amount	%	Amount	%
29,764,801,129	100.00	5,062,488,129	20.49	7,087,683,727	100.00
29,744,355,272	99.93	5,042,042,272	20.41	7,052,614,180	99.51
3,441,910,558	11.56	148,318,558	4.50	3,415,244,739	48.19
25,538,128,179	85.80	4,129,407,179	19.29		
1,272,139		1,272,139		15,043	
763,044,396	2.56	763,044,396		1,279,608,477	18.05
				2,357,745,921	33.27
20,445,857	0.07	20,445,857		35,069,547	0.49
20,445,857	0.07	20,445,857		35,069,547	0.49
7,371,812,906	24.77	5,977,320,906	428.64	15,998,875,205	225.73
6,798,215,720	22.84	6,173,919,720	988.94	15,395,511,125	217.21
422,566,079	1.42	-201,729,921	-32.31	69,210,530	0.98
				15,219,272,261	214.73
				107,028,334	1.51
6,375,649,641	21.42	6,375,649,641			
536,805,470	1.80	-233,327,530	-30.30	580,247,466	8.19
536,805,470	1.80	-233,327,530	-30.30	580,247,466	8.19
36,791,716	0.12	36,728,716	58,299.55	23,116,614	0.33
103,701		40,701	64.60	42,341	
1,895,042	0.01	1,895,042		-530,856	
34,792,973	0.12	34,792,973		23,605,129	0.33
22,392,988,223	75.23	-914,832,777	-3.93	-8,911,191,478	
1,314,692,235		1,314,692,235		-1,955,571,446	-125.73
1,314,692,235		1,314,692,235		-1,955,571,446	
23,707,680,458	79.65	399,859,458	1.72	-10,866,762,924	-153.32



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

As of December 2016, total funded assets are NT\$578.5 billion. The amount and ratio are showed as follows:

Valuation Date	Amount of Funded Asset (NT\$)	Funded Ratio
Dec. 31, 2016		
Political appointees	56,228,795	8 %
Civil servants	347,167,975,265	25 %
Education workers	207,115,008,919	17 %
Military personnel	24,181,639,565	5 %

Notes: 1. The table is extracted from the 2016 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 payments.



# VII

## Performance of the Fund



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

The Fund has accumulated realized earning of NT\$200.9 billion as of the end of fiscal 2016. With an accumulated realized earning rate of 3.11 percent, 1.26 percentage points higher or NT\$81.5 billion more than an assumed earnings of NT\$119.3 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\$186.8 billion, at a return rate of 2.89 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
2015	131.29	2.34	-108.77	-1.94	1.38	4.13
2016	110.75	2.01	236.93	4.29	1.12	4.25
<b>Total</b>	<b>2,008.56</b>	<b>3.11</b>	<b>1,868.02</b>	<b>2.89</b>	<b>1.85</b>	

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.

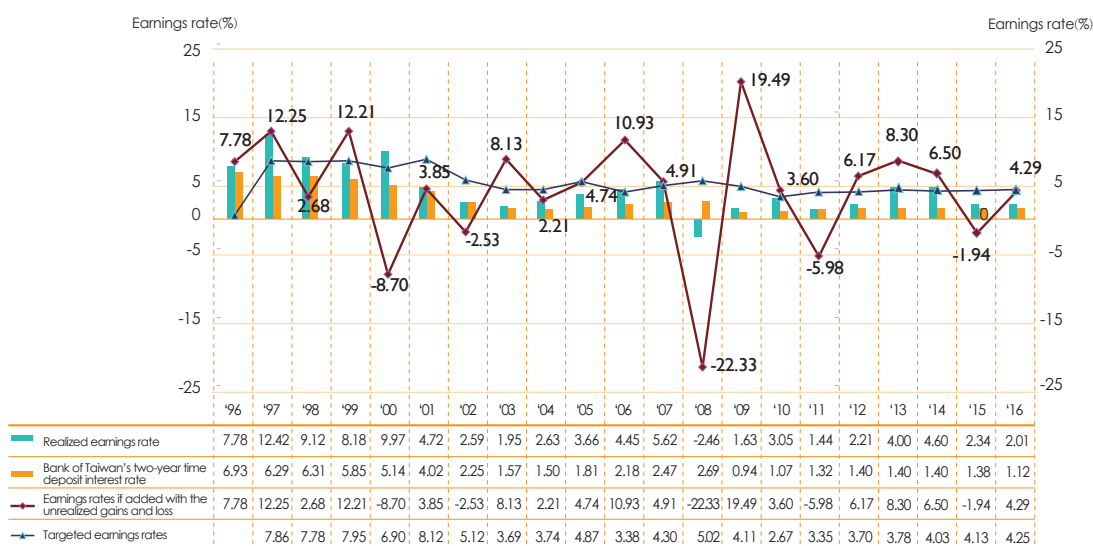
4. The national coffers shall make up for what the Fund suffers based on the realized earnings as instructed by the Directorate General of Budget, Accounting and Statistics in its official document dated April 24, 2001 (No. 03814 letter of Tai Jiu Shih Chu Xiao Yi Zi) .



## (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 on July 1, 1999 and ends on 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 2016

The Public Service Pension Fund recorded a realized earnings rate of 2.01 percent in fiscal 2016, which was 0.89 percentage points higher than Bank of Taiwan's two-year time deposit interest rate. It would be translated into an earnings rate of 4.29 percent if added with the unrealized gains and losses and rate of return with available-for-sale securities over the year 0.04 percentage points higher than the year's targeted earnings rate of 4.25 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 investments with fixed-income asset classes

Investment asset class	Actual return for fiscal 2016 (%)	Indexes for evaluating performance	
		Benchmark return(%)	Index
Domestic bonds	1.63	0.61	The closing interest rate of 10-year Taiwan government bond in first transaction day of each month at the Taipei Exchange ( OTC securities market)
Overseas bonds	3.99	2.44	Using the interest rate of the 5-year US treasury bond on the base day of evaluation
Short-term domestic bills	0.33	0.51	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	0.55	0.31	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	1.00	0.48	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 on 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 return for fiscal 2016 (%)	Indexes for evaluating performance	
		Benchmark return(%)	Index
Domestic stocks and ETFs	13.60	10.98	TWSE Capitalization Weighted Stock Price Index
Overseas stocks and ETFs	4.22	7.86	MSCI World Index
Domestic beneficiary certificates	-0.38	10.98	TWSE Capitalization Weighted Stock Price Index
Overseas beneficiary certificates	4.76	5.67	MSCI World Index and Bloomberg Barclays 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**

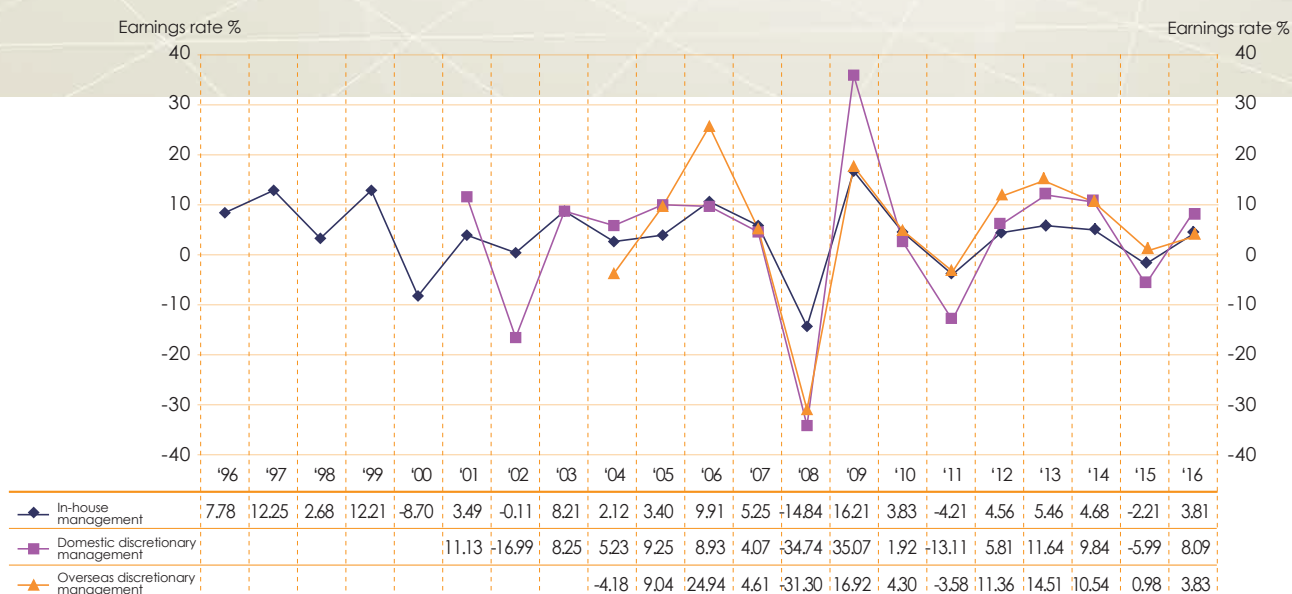
Investment item	Actual return for fiscal 2016 (%)	Indexes for evaluating performance	
		Benchmark return(%)	Index
Domestic discretionary management	8.09	9.27	Using the ratios of distribution of commissioned management's capital gains and fixed income as the weight function, weighted with the return of TWSE Capitalization Weighted Stock Price Index and the closing interest rate of 10-year Taiwan government bond in the first transaction day of each month at the Taipei Exchange during the same period
Overseas discretionary management	7.31	6.59	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 Bloomberg Barclays Global Aggregate Bond Index, during the same period

Note: The actual returns of foreign discretionary management after adding foreign exchange gain/loss were 3.83% for fiscal 2016.

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

Fiscal 2016 registered 3.81 percent earnings rate in the Fund's in-house management, 8.09 percent in its domestic discretionary management and 3.83 percent in overseas discretionary management, up 6.02 percentage points, 14.08 percentage points and 2.85 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 on July 1, 1999 and ends on 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. Either Management Board or Supervisory Board of PSPF has its own audit unit. For example, the PSPFMB has a Department of Audit, which is responsible for internal auditing. The audit unit performs daily monitoring of the Fund's operations and administrations. The PSPFSB has its own internal audit unit that is charged with reviewing significant issues and monthly management reports from PSPFMB. The PSPFSB performs annual on-site auditing at year end and additional auditing in case of extraordinary situation. The Examination Yuan, the Legislature Yuan and the National Audit Office are also obliged to conduct different types of supervision for 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 operational flexibility and improve investment performance while remaining in compliance with current regulations on use of the Public Service Pension Fund (PSPF) to invest in domestic stocks, as well as to perfect investment operation regulations to provide a legal basis for investment with the Fund, the Regulations Governing Utilization of the Fund for Investment in Stocks of Companies Listed at the Stock Exchange (OTC market) and Exchange Traded Funds were amended and were approved by the Management Board of PSPF.
- To increase the number of types of domestic open-ended beneficiary certificates for investment in order to promote operational flexibility and mid- and long-term investment performance, the Regulations Governing Utilization of the PSPF for Investment in Domestic Open-ended Beneficiary Certificates were amended and were approved by the Management Board.



- 
- To establish the 2017 Guideline and Asset Allocation Plan of the Fund and set the annual earnings targets after assessment of the domestic and overseas economic and financial situations and estimation of the income and expenditure of the Fund and evaluation of the market risk tolerance, to serve as the legal basis for utilization. It should be presented to and approved by both the Management Board and the Supervisory Board of PSPF.
  - Public solicitation of trustee institutions for discretionary management of investments in domestic equity funds in 2016 was conducted and the funds would be appropriated at the right time depending on future financial situation.
  - Public solicitation of trustee institutions for discretionary management of investments in global multi-asset funds in 2016 was conducted and three trustee institutions would be selected.
  - Public solicitation of trustee institutions for discretionary transition management in 2016 was conducted.
  - The performance of domestic discretionary management of the trustee institutions for the accounts entrusted in the 12th and 8th batches under renewed contracts was evaluated. Trustee institutions with performance achieving the target rates of earnings were given an extension of four years of discretionary management and some of the trustee institutions were given additional entrusted amounts. The other entrusted investments would be retrieved upon contract expiration.
  - Contracts with some domestic discretionary management organizations were terminated due to failed performances.
  - The performance of overseas discretionary management of the trustee institutions for the accounts entrusted under the 7th batch of contracts was evaluated. Trustee institutions with performance achieving the target rates of earnings were given an extension of four years discretionary management and some of the trustee institutions were given additional entrusted amounts. The other entrusted investments would be retrieved upon contract expiration.
  - The funds for the additional amounts to be given to trustee institutions for the overseas discretionary management accounts entrusted in the 7th batch were appropriated.
  - Staff members of the Fund were sent to take training at trustee institutions for discretionary management of overseas accounts and custodian institutions to understand the investment strategies of such trustee institutions and custody practices around the world as well as to learn from their investment and custody experiences and professional knowledge.
  - All written and onsite audits were completed in accordance with the 2016 auditing plan. The 2017 auditing plan was also established and each fund operation item, the auditing points and frequencies were specified.
  - Staff members of the Fund performed audits at the trustee institutions for discretionary management of domestic accounts and custodian institutions and also visited trustee institutions for overseas discretionary management accounts for inspections to understand the structures, utilization of entrusted funds, risk management policies, internal control and auditing systems of the trustee institutions in order to learn from their investment experiences and professional knowledge and improve the auditing and management performance of the Fund.
  - The Public Service Pension Fund conducts the information equipment renewal continually. It participated in the 2016 Cyber Offensive and Defensive Exercise by the National Information and Communications Security Task Force of Executive Yuan, and was rated as having outstanding performance.

### ◆ Supervisory Board ◆

- In 2014, it was the first time the income of the Public Service Pension Fund (PSPF) was not enough to cover the benefit payments and the deficit increased to NT\$19 billion in 2016, indicating the problem was worsening and had to be addressed. In recent years, the payment-to-income ratios for different types of members have escalated each year. The income-payment imbalance respectively happened to military personnel in 2011, teaching personnel in 2014 and civil servants in 2015, mainly because the Fund had reached maturity and expenditure had significantly increased while the growth of income was very slow. In light of this problem, the government has created the National Pension Reform Committee to find solutions.
- In response to changes in the domestic and overseas financial and capital markets in and outside the country, the Supervisory Board of PSPF cooperated with the Management Board of PSPF and completed the reference work for the Regulations Governing Utilization of the PSPF for Investment in Stocks of Companies Listed at the Taiwan Stock Exchange (OTC market) and Exchange Traded Funds and the Regulations Governing Utilization of the PSPF for Investment in Domestic Open-ended Beneficiary Certificates to facilitate utilization of the Fund for investment and improve the operational performance of the Fund.
- Through regular observation of the asset allocation tendencies of large pension funds in and outside the country, the Supervisory Board of PSPF was able to have a firm grasp of market developments and provide strategic suggestions for allocation of fund assets to improve investment results.
- The Supervisory Board started the Supervisory Daily Report and Biweekly Report to keep track of the influence of the performance of domestic and overseas financial markets and important political and economic news on the Fund investments. In addition, key targets of supervision were analyzed to provide references in supervisory operations.





- The Supervisory Board participated in the “Government Fund Operation Performance Promotion Task Force” Working Group Meeting convened by the Financial Supervisory Commission and exchanged ideas with other attending units on related issues, including asset allocation, active participation of government funds in shareholder’s meetings, the feasibility of participation in establishment of the “Guidelines for Institutional Investors in Fulfillment of Management Responsibility” and proposals for improvement of government fund performance in the future.
- To improve the supervisory functions and the Fund’s operation performance, the Supervisory Board of PSPF continued to promote the “Fund Supervision Performance Improvement” project and also completed several short-term work targets, including establishment of the standards for review of performance of invested items, performance review procedures, the formats of related sheets and forms, indicator lights for performance control and follow-up review measures, and the official website. In the future, the Supervisory Board will continue to accomplish the mid- and long-term work items as well as keep track of the results of execution and review them on a regular basis.
- The Supervisory Board continued to supervise the application of IFRS introduced by the Management Board and review the results of adjustments of financial statements, report forms and account items. In the future, after IFRS 9 is officially implemented, the Fund accounting system revision will be presented to the Supervisory Board for review to assure the accounting statements of the Fund can be more proper and precise.
- The Supervisory Board conducted the “Study on Optimization of Supervisory Indicators” and the “Study on Pension Fund Investments and Provision of Guidance in Corporate Governance”. It was hoped that, by performing the former study through analysis of the standards for evaluation of the performance of different investments with the Fund, a control mechanism using indicator lights could be established to understand the strengths and defects of Fund management. Meanwhile, the latter study, conducted by examining renowned international funds’ participation in establishment of governance policies and related principles on corporations to use as examples for the Fund, so it was intended to reinforce the governance capacity and management of companies the Fund invested in to increase and stabilize earnings. The above-mentioned studies have been provided to related agencies and internal units for reference.

# X

## Prospect and conclusion



The future work of the Pension Fund has to keep the situation of safety and profitability and continue to handle all the work according to the legal limitation of liability, there are two boards of focus on future work as follows:

- [Flexible adjustments of asset allocation in accordance with international financial trends](#)

In line with changes in the international economic situations, flexible asset allocation and investment strategy adjustments within the permissible range of the annual utilization plan will be made at relatively advantageous time points to invest in promising items to increase earnings.



- **Revisions of internal rules and regulations in time to accommodate the Fund's operational needs**

To perfect the operation of the Fund, related management and investment regulations will be reviewed and revised in response to management needs. Such revisions in the domestic and overseas investment rules could improve the Fund's performance in volatile financial markets .

- **Assessment and adoption of various investment instruments to improve the investment performance of the Fund**

In response to the rapid changes in the economic environment, and besides assessment of the feasibility of increasing investment targets, the discretionary management will be continued and the extent of investment will also be enhanced through diversified types of segregated accounts entrusted and areas of investment, therefore it can disperse the overall risk in the Fund's investment and improve management performance.

- **Enhancement of audits on discretionary mandates of investment to reinforce risk control**

In line with the investment target increase and investment restriction modification, an existing audit procedures will be reviewed and revised whenever deemed necessary, as while an on-the-job training will be stepped up to assure all operations that were carried out in reference to regulations and to secure the Fund assets. At the same time, the mechanism for reporting to the Financial Supervisory Commission will also be improved to reinforce the control system and functions of discretionary investment management.

- **Implement the overall performance appraisal and risk assessment of the Fund to impel the management capability**

To improve the overall Fund's management performance, diversified and objective performance benchmarks and risk control standards will be adopted to assess the Fund management results. In addition to performance indicator evaluation and execution of relevant evaluation measures, the Fund utilization profits and losses will be analyzed and the results and risks of management of trustee institutions will be reviewed on a quarterly basis to judge the Fund investment results through diversified performance appraisal and risk assessment to find ways to improve performance and upgrade management capability.



- **Enhancement of Fund control procedures and perfection of audit and supervisory functions**

As the scale of the Fund gradually increases and investment grows diversely, an internal control of the Fund becomes more and more important. To ensure the Fund operation security and perfect the supervisory system, the Supervisory Board of PSPF will continue to keep a close survey on the Fund operation and enforcement of relevant laws and regulations, establish corresponding review and control procedures and review existing operating procedures, as it is necessary to improve various audits and inspection procedures, to tighten the Fund control and prevent violations in its operations.

- **Establishment of a supervisory information system to perfect supervisory functions**

To have a firm grasp of the Fund operation and adopt suitable supervisory measures, the “e-Platform of Supervisory information” will be set up to digitize contents of supervisory operations to render the Fund operation information being more transparent. At the same time, efforts will also be made to consolidate supervisory instruments and performance evaluation measures. In the future, depending on that execution results, the Supervisory Board will obtain the budget to expand the functions of the platform to continue to improve supervisory functions and overall operation performance.



- **Improvement of supervisory performance and promote performance management in practice**

To make the organizational positioning and role functions more concrete and precise, performance management will be integrated in key supervisory operations and the missions, prospects and targets will be specified. Meanwhile, rolling review will be conducted on the work items of various timelines at the right time to assure the supervisory functions are exercised effectively and the Fund operation results are appropriately evaluated to safeguard the Fund assets and promote its sustainable development.

- **Promotion of self-motivated research to build up R&D energy**

The staff members will be encouraged to conduct studies on subjects related to board operations or important issues to integrate theories and practices, and improve the quality of self-motivated research and build up R&D energy, by which they can keep abreast with the pension Fund operation and asset allocation strategies in advanced nations and provide feasible suggestions for reference in policy planning and decision making.



- Establishment of smooth communication channels to solicit diverse viewpoints

Inter-agency cooperation communication on selected fund supervision and control issues will be conducted here with other domestic government funds and related administrative departments, as well as innovative energy and experiences in the private sector, that will also be utilized to help expedite the Fund operation development in addition to cope with changes in the domestic and overseas financial and economic environments to improve the results of governance of the Fund.

The pension system is an important link in the reform of the civil service system. The management quality 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 prudent 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.





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