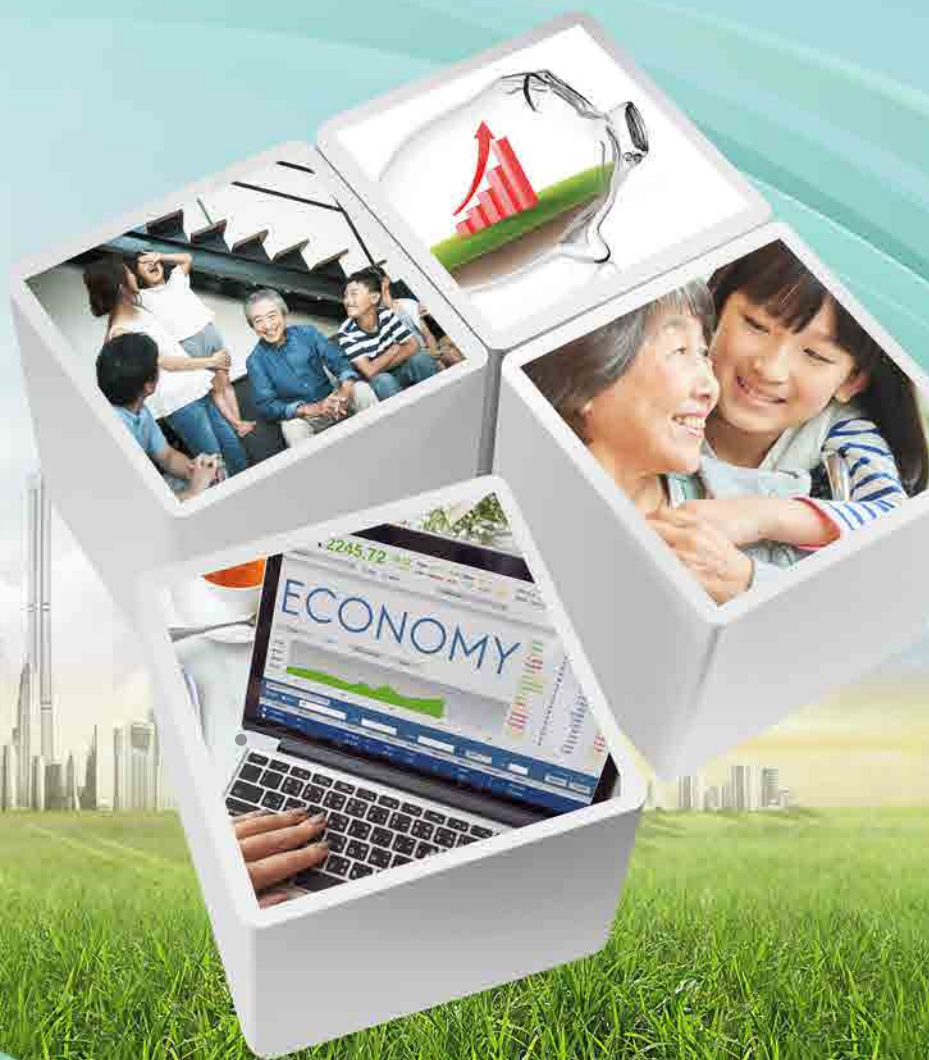


2017

Annual Report

PUBLIC SERVICE PENSION FUND



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

As the political, economic, and social scenes change over time, aging populations have become a policy priority for governments worldwide. Being the primary source of income for retirees of the military, governments and public schools, the Public Service Pension Fund (PSPF or the Fund) carries a tremendous financial responsibility under the heavy pension payments. Therefore, the Fund must remain in step with the times in response to the request of reform regarding both the pension system and

the investment of the Fund. In 2017, the pension reform reached a historical milestone, partly relieving the Fund's financial pressure, and benefit the long-term management of the Fund.

According to domestic and international studies, asset allocation is a key driver for fund performance. The Fund is facing an imbalance between inflow and outflow of fund, and the pressure of pension disbursement continues to grow. It is crucial for the Fund to maximize profit within the controllable risk levels - this makes diversified and balanced asset allocation all the more critical. In the Fund's 2018 Annual Asset Allocation Plan, the Supervisory Board of the Fund (Supervisory Board or PSPFSB) specifically approved to lower the exposure ceiling of assets with lower returns and increase the exposure to alternative assets to optimize the asset structure. The US Dollar sharply depreciated against the New Taiwan Dollar in 2017, resulting in an unrealized currency loss of the Fund's foreign positions. The Supervisory Board recognizes the importance of controlling currency risk and therefore has made specific recommendations to the Management Board of the Fund (Management Board or PSPFMB) to consider and continuously keep close monitoring the currency fluctuations in the future.

Owing to the efforts by colleagues of the Supervisory Board and the Management Board, in 2017, the Fund has gained a solid return of 7.15%. Meanwhile, to respond to the rapid changes in financial markets and investment environments, the Supervisory Board, working with the Management Board, urges all colleagues to expand their financial knowledge more proficient, strengthen investment and supervision capabilities and propose appropriate investment strategies by which endeavor to continually improve the Fund performance and fulfill the expectation of all participants of the Fund.



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

In 2017, the Public Service Pension System underwent major reform to maintain the sustainability of the Fund and to fulfill its payment obligations to the Fund participants. Changes made to the pension system includes lowering the base level of pension payments, terminating the preferential savings interest after two years from July 1, 2018, lowering the income replacement ratio, and adjusting the sources of funding and management structure of the Fund. In particular, the Civil Service Retirement, Severance and Survivor Relief Act,

and the Political Appointee Retirement and Survivor Relief Statute were passed after their third readings in parliament, the Legislative Yuan, and were announced by the President on August 9, 2017. Currently, the Ministry of Civil Service is amending relevant regulations to carry out pension payments in compliance with the amended laws.

Major economies worldwide enjoyed steady growth in 2017; consequently, the central banks began scaling back on monetary stimulation, pushing the financial markets to soar even higher. Thanks to the dedication of our colleagues, in 2017 the Public Service Pension Fund gained NT\$ 39.71 billion in return accompanying the equivalent annual rate of 7.15%, which is the best performance for the past few years. Since the pension reform stipulates that the contribution rate shall increase to 18% gradually therefore to decrease pension payments, it will inject more capital into the Fund. In the future, if the investment returns of the Fund could be solid then it help alleviate the financial burden caused by the rapid aging population, as well as reducing the pressure of the government's accrued pension liabilities.

In early 2018, global economy shared synchronized growth; Europe, the US, China, and Japan have shown great momentum unseen in years. Nevertheless, the investment environment still faces huge amount of uncertainty and risks arising from central bank policies and geopolitical conflicts which will affect the performance of the Fund. The Management Board will closely monitor the analyses and views by international institutions, remain abreast of developments of global financial markets, and adjust investment strategies and asset allocation accordingly. The Management Board aims to capitalize attractive investment opportunities while controlling risks rigorously in order to capture steady, long-term gains for the Fund, so that Fund participants could enjoy financial security in retirement.



Executive Secretary of the Public Service Pension Fund Supervisory Board

Kao, Shyh-nan

Message from Kao, Shyh-nan Executive Secretary of the Public Service Pension Fund Supervisory Board

The Public Service Pension Fund has been into the mature stage, an era of inflow less than outflow, and the imbalance between the pension funding and payment has become deteriorated over time. The public are having more concern about the issues of how well-established is the pension system and how well-performed is the investment operation. To safeguard the interest of the Fund participants in retirement, the Supervisory Board, working closely with the Management Board, has to address such issues and improve the performance of fund management.

Therefore, the Supervisory Board started the Improvement Project of Fund Supervision in 2015. Various short and mid-term goals have been finished, including the establishment of the Evaluation Standards for Fund Performance and the Review Process for Fund Performance. In 2018, it will continue to work on long-term goals of the above Project. Correspondingly, for improving the efficiency of active supervision, it completed the preliminary setup of the "E-Supervision Platform" and conducted relevant training in 2017. The funding for further development has also been secured by the Supervisory Board, so that the e-platform could expand its functions and capabilities in the future. The Supervisory Board will follow the existing schedule to build up the e-platform and expects to shorten the time for supervision process efficiently, monitor the performance and risks of the Fund effectively, prompt the Management Board to supervise mandated institutions thoroughly, and improve supervision effectiveness consequently.

The Supervisory Board will carry out supervision duties adhering to the law and the Policy Agenda of the Twelfth Administration of Examination Yuan. It will not only remain impartial, but also keep the belief to "Think Innovative, Act Professional and Work Efficient" for actively overseeing and encouraging asset allocation and risk control by the Management Board. It also seeks to improve staff proficiency and research capacity, so that it could endeavor for the sustainable performance of the Fund and secure the benefits of Fund participants as well.





Vice Chairman of the Public Service Pension Fund Management Board

Wei, Ting-shi

Message from Wei, Ting-shi Vice Chairman of the Public Service Pension Fund Management Board

According to the United Nation's latest World Economic Situation and Prospects 2018, economic growth in 2017 is the greatest since 2011. Two-thirds of the countries worldwide enjoyed positive economic growth. As long-term asset returns - equity and other risky assets - correlate to economic growth, the domestic stock market rose along with international counterparts. Just as Warren Buffett once put it, "Life is like a snowball. The important thing is finding wet snow and a really long hill." When capital and timing

are in place, investment yields fruitful results. The performance of the Fund in 2017 is a manifestation of Buffet's saying.

The International Monetary Fund (IMF) and IHS Markit predicted that the global economy would grow 3.7% and 3.2%, respectively, in 2018. The momentum of the emerging economies is the main driver behind the global synchronized growth. Also, DGBAS of the Executive Yuan estimates that Taiwan's economic growth in 2018 to be 2.29%. And a survey published by 104 Job Bank states that 40% of the companies are willing to raise salaries of their employees. All above-mentioned show positive signs of economies worldwide and in Taiwan. Capital is relatively abundant, which helps support global cyclical performance. Nevertheless, the global economy is still facing various risk variables. We should pay close attention to the future development of current events, including trade policies of the US, rate hikes by the Fed, localization of supply chain, industrial restructuring in China, Brexit negotiations, geopolitical tension, price fluctuations of crude oil and other commodities, volatility in international equity and FX markets, and trade protectionism. To improve long-term returns of the Fund, the Management Board will pursue sound management, adapt to changes in financial markets, and work towards a diversified and balanced portfolio.



II

Objective and statutory missions



1. Objective

The country's public service 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 the 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 the 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 the 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



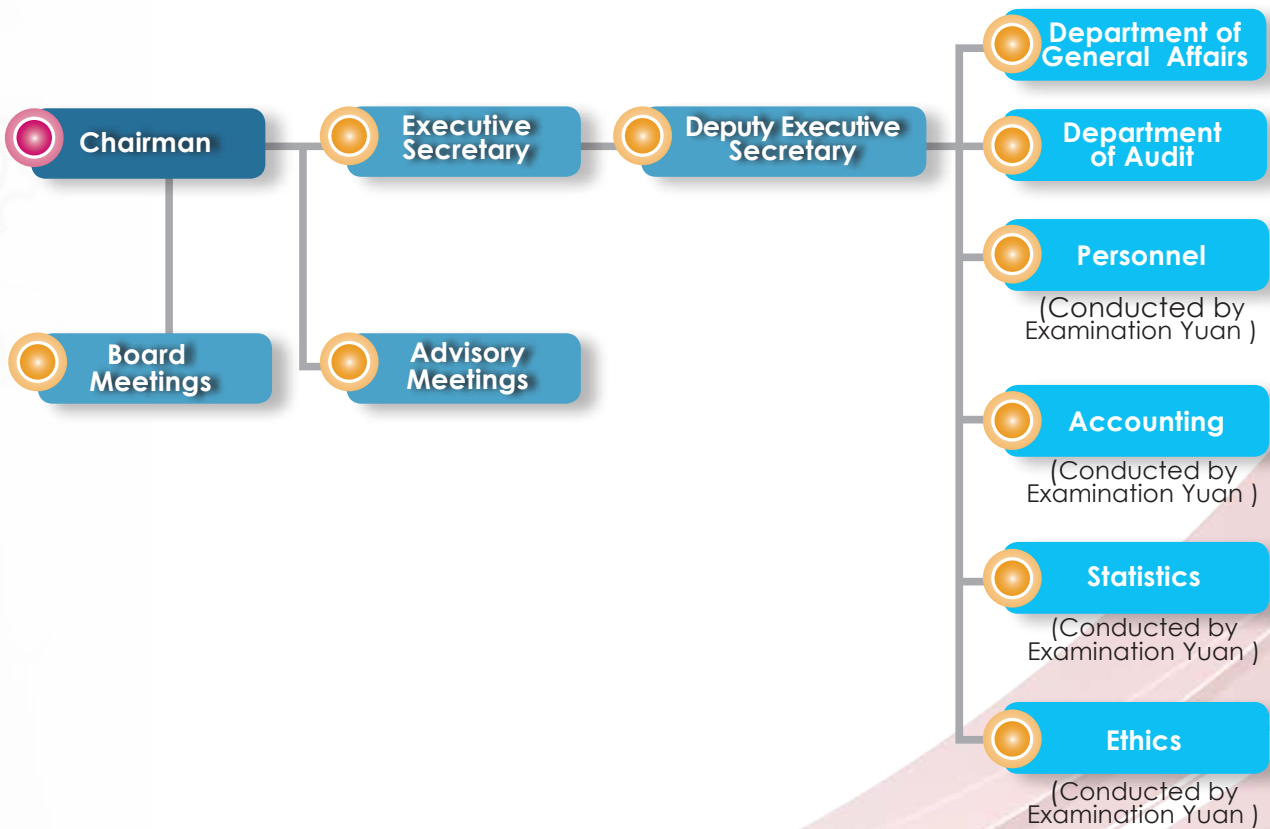
1. Organizational structure

◆ 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 2017, the Supervisory Board has 23 members and 7 advisers. The Supervisory Board appoints an Executive Secretary to take care of daily 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.

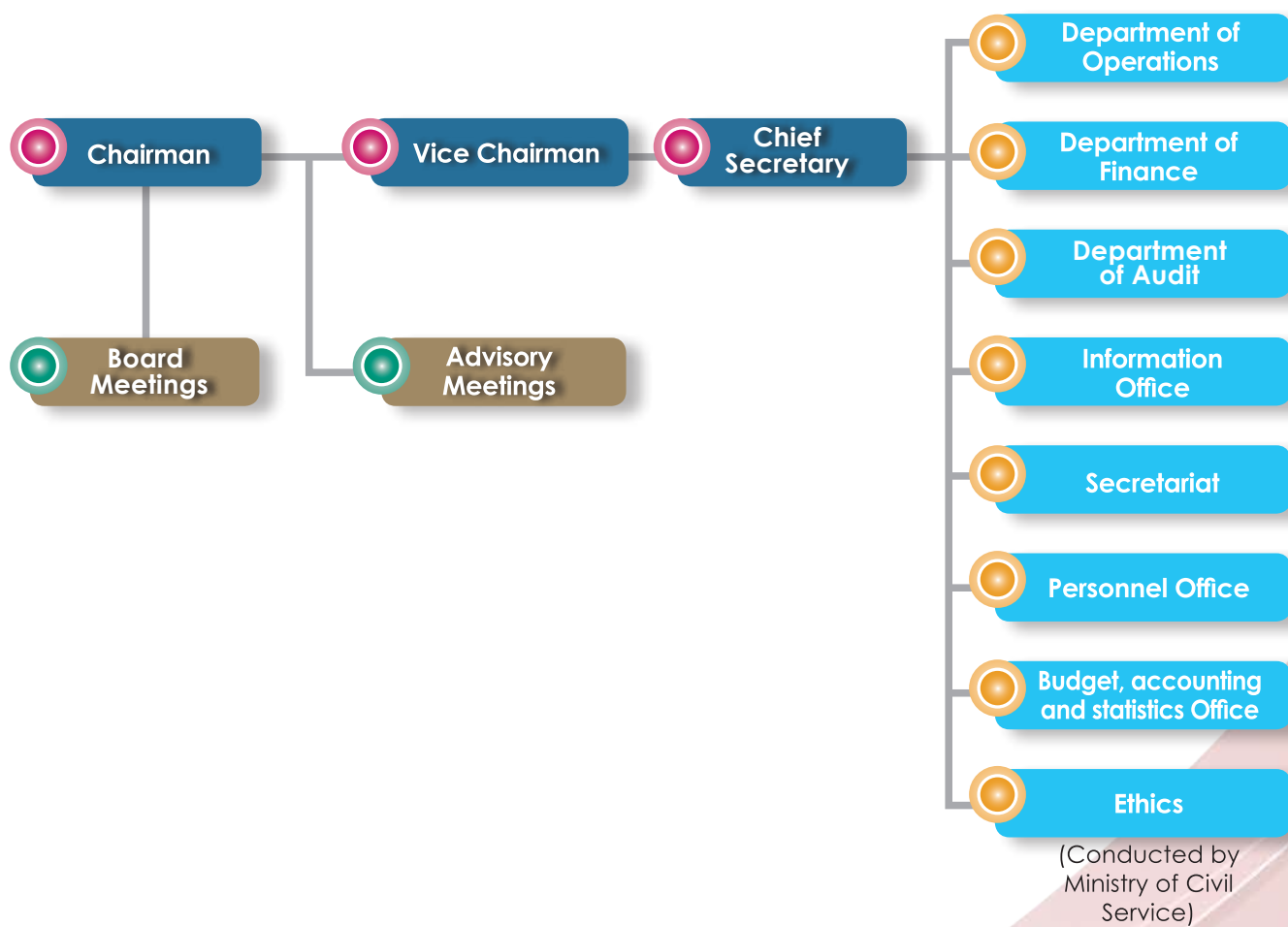




◆ Management Board ◆

Pursuant to the Organic Act of Public Service Pension Fund Management Board, the Management Board of PSPF 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 2017, the PSPFMB has 17 members and 9 advisers.

The PSPFMB also has a Vice Chairman to assist the Chairman in dealing with daily 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 conducted 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.

PSPF Supervisory Board Members

Organ Representatives

Secretaries-General

- Executive Yuan
- Examination Yuan

Agency Heads

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

Local Government Heads

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

Civil Servants Delegates Designated by

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

Military Personnel Delegates Designated by

- Ministry of National Defense 2

Education Workers Delegates Designated by

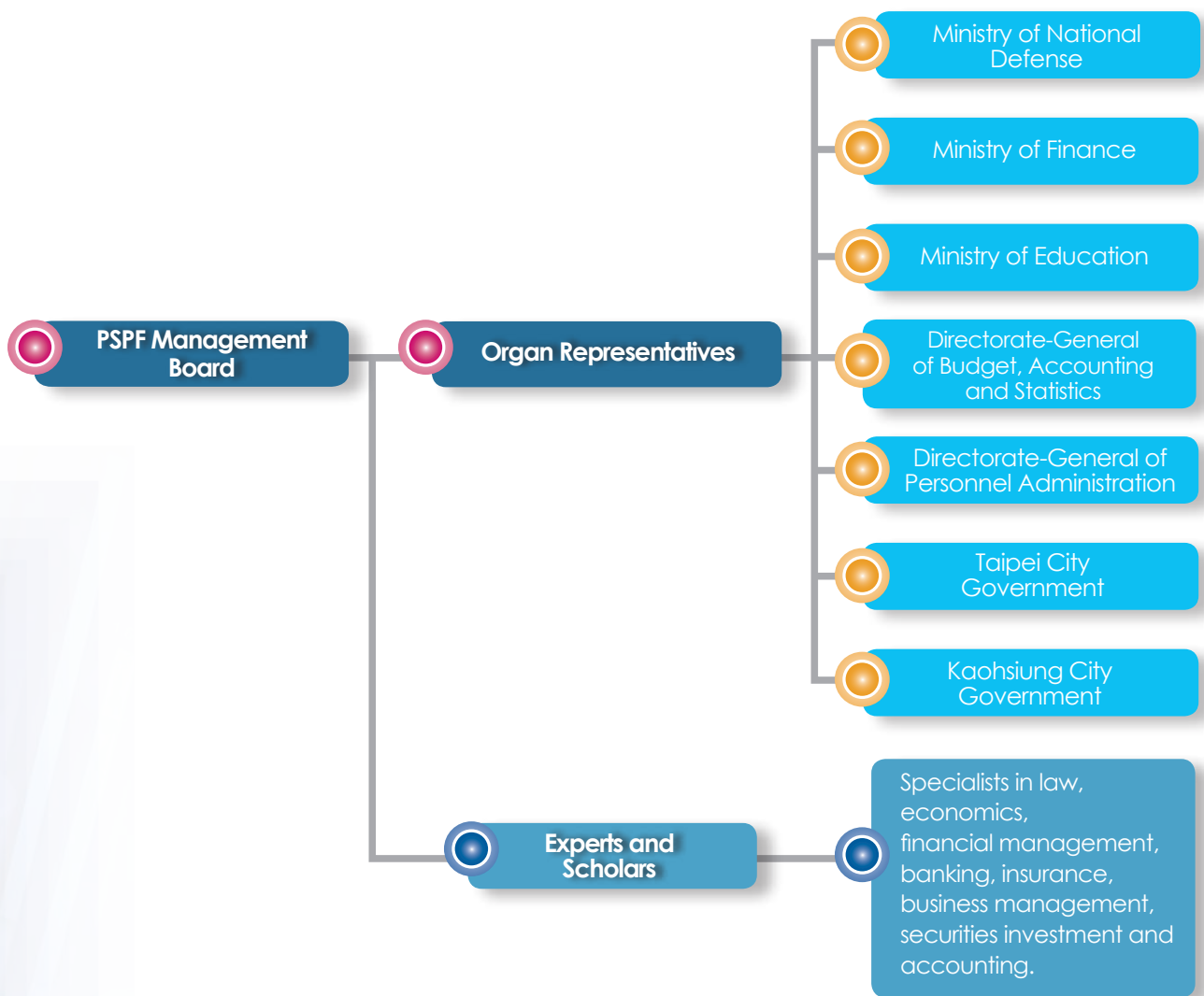
- National Teachers' Association R.O.C. 1
- National Federation of Teachers Unions 1
- Ministry of Education 1

Representatives of Three Categories of Participants

◆ Management Board ◆

The PSPFMB has 13-17 members who include one leading official each from the Ministry of 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.





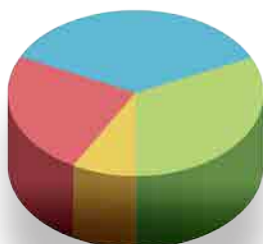
3. Management personnel overview

◆ Supervisory Board ◆

As of the end of 2017, the board actually had 25 staff members, of whom 13 were male and 12 were female, with an average age of 45 years old. As to their educational background, 2 had Ph.D., 17 had master's degrees and 6 were university graduates.

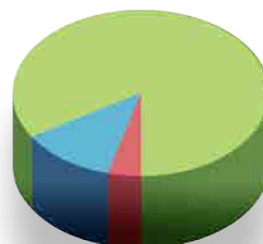


Distribution of Staff Members' Ages



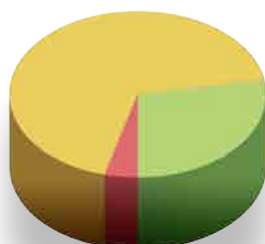
30 ~ 39	32 %
40 ~ 49	36 %
50 ~ 59	24 %
Above 60	8 %

Distribution of Staff Members' Job Descriptions



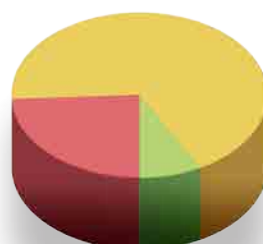
Banking and Insurance	84 %
General Administration	12 %
Information Management	4 %

Distribution of Staff Members' Rankings



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

Distribution of Staff Members' Academic Degrees



Doctor of Philosophy	8 %
Master's Degrees	68 %
Bachelor's Degrees	24 %

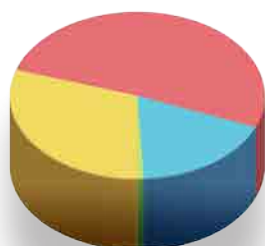
◆ Management Board ◆

As of the end of 2017, the board actually had 81 staff members, of whom 28 were male and 53 were female, at an average 45.6 years of age. With respect to their education background, 1 had Ph.D., 36 had master's degrees, 39 had bachelor's degrees and 5 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 29 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



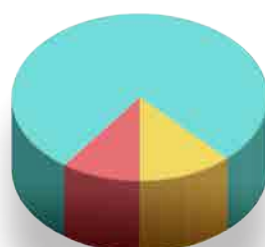
Under 29 years old	1 %
30 ~ 39	18 %
40 ~ 49	51 %
50 ~ 59	30 %

Distribution of Staff Members' Job Descriptions



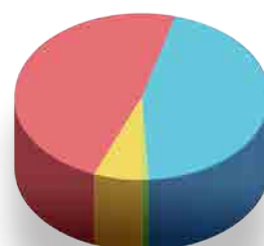
Information Processing	8 %
Accounting	8 %
Financial and Tax administration	49 %
Business Management	6 %
Personnel Administration	6 %
General Administration	23 %

Distribution of Staff Members' Rankings



Senior Ranks	12 %
Middle Ranks	78 %
Junior Ranks	10 %

Distribution of Staff Members' Academic Degrees



Doctor of Philosophy	1 %
Master's Degrees	45 %
Bachelor's Degrees	48 %
Junior Ranks	6 %

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 Management Board of PSPF. 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

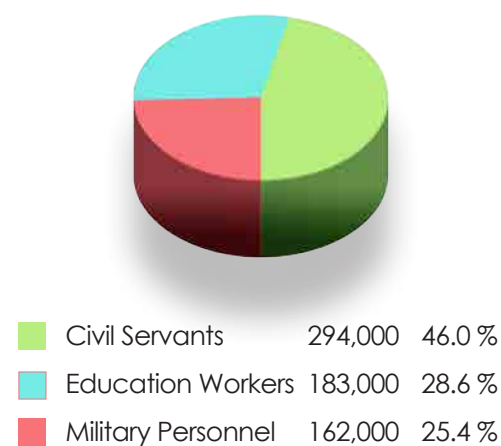
1. Principals, full-time teachers, teaching assistants and sports coaches at public schools at all levels who have been employed in accordance with the Act Governing Appointment of Educators and certified by competent authorities as well as full-time administrative staff who had been employed before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

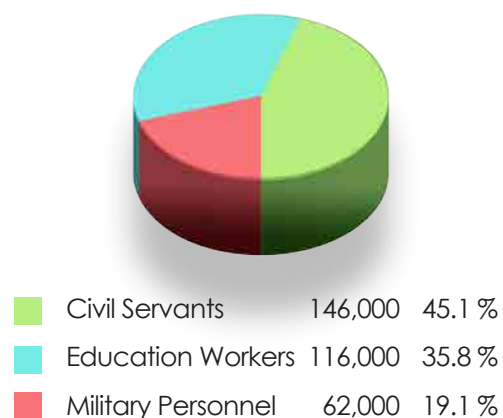
(1) PSPF on-service participants and ratios

As of the end of 2017, the Fund had 639,000 participants, of whom about 294,000 were civil servants (46.0%), 183,000 were education workers (28.6%), and 162,000 were military personnel (25.4%).



(2) Regular benefit recipients and ratios

As of the end of 2017, the Fund had 324,000 regular benefit recipients, of whom 146,000 (45.1%) were civil servants (including political appointees), 116,000 (35.8%) were education workers, and 62,000 (19.1%) were military personnel.





(3) Participating units and ratios

As of the end of 2017, the Fund had 7,212 participating units, of which 945 (13.1%) were central government agencies, 2,901 (40.2%) were provincial and municipal government agencies, 2,472 (34.3%) were county and city government agencies, 752 (10.4%) were township offices and 142 (2.0 %) were state-owned enterprises.



Central government units	945	13.1%
Provincial/municipal government units	2,901	40.2%
County/city government units	2,472	34.3%
Township offices	752	10.4%
State-owned Enterprises	142	2.0%



2. Overview of contributions/payments by the Fund

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

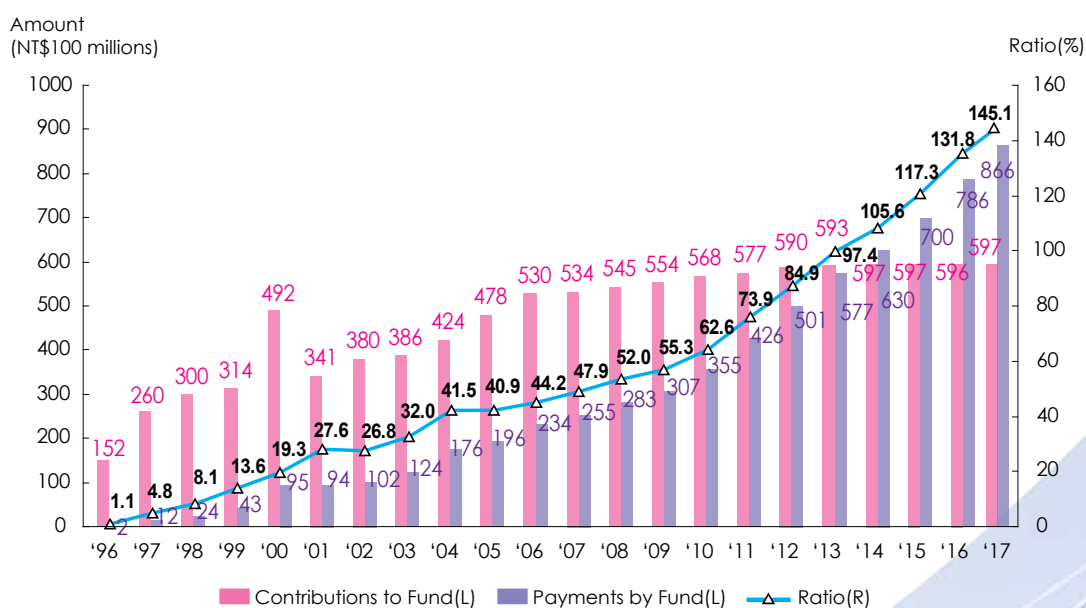
The Pension Fund received NT\$59.7 billion in contributions in 2017 from three categories of participants while paying out NT\$86.6 billion in benefits, with payments accounting for 145.1 percent of total contributions. The net contribution/payment amount was down NT\$7.9 billion from the year-earlier level. Since the Fund's inception, accumulated contributions from the three categories of participants amounted to NT\$1,040.6 billion and accumulated payouts totaled NT\$679 billion or 65.3 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 2017	Contribution Amount	281	218	98	597
	Payout Amount	382	310	174	866
	Payout/ Contribution Ratio	136.0%	141.9%	177.9%	145.1%
As of the end of 2017	Contribution Amount	4,959	3,843	1,604	10,406
	Payout Amount	2,682	2,536	1,572	6,790
	Payout/ Contribution Ratio	54.1%	66.0%	98.0%	65.3%

Chart of payment amounts and ratios over the years



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

(2) Civil Servants Contribution/Payment Amount and Ratio

The Fund collected NT\$28.1 billion in contributions from civil servants (including political appointees) in 2017 while paying out NT\$38.2 billion in benefits, for a payment-to-contribution ratio of 136.0% in the category.

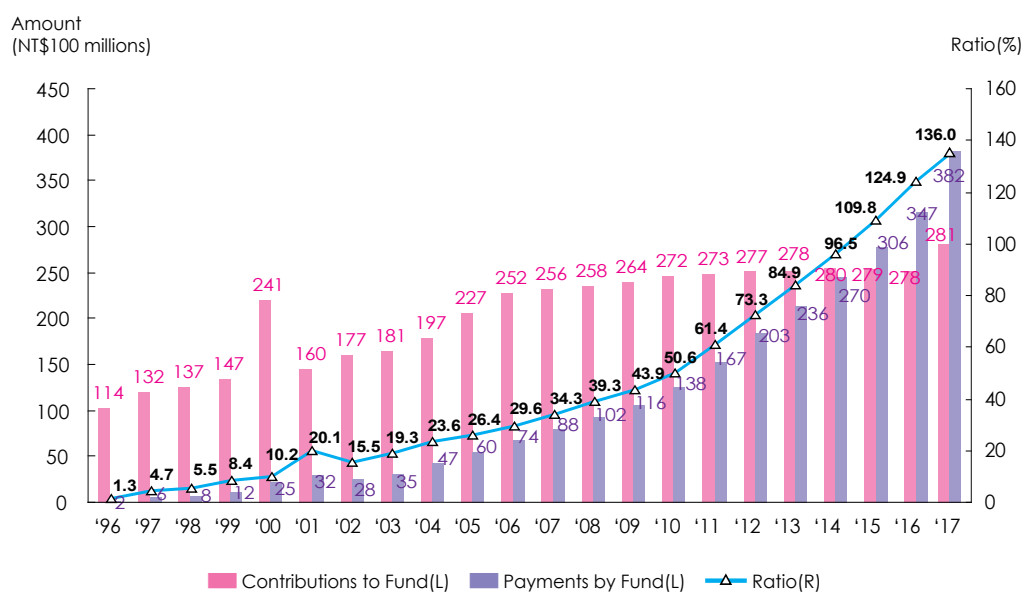
(3) Education Workers Contribution/Payment Amount and Ratio

The Pension Fund collected NT\$21.8 billion in contributions from education workers in 2017 while paying out NT\$31.0 billion in benefits, for a payment-to-contribution ratio of 141.9% in the category.

(4) Military Personnel Contribution/Payment Amount and Ratio

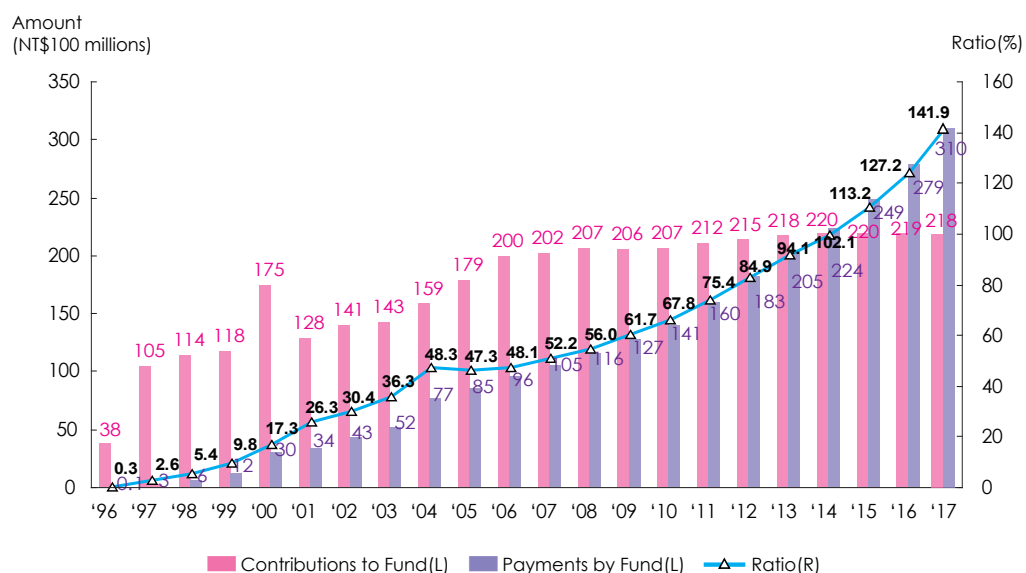
The Pension Fund collected NT\$9.8 billion in contributions from military personnel in 2017 while paying out NT\$17.4 billion in benefits, for a payment-to-contribution ratio of 177.9% in the category.

Chart of payments to civil servants and ratios over the years



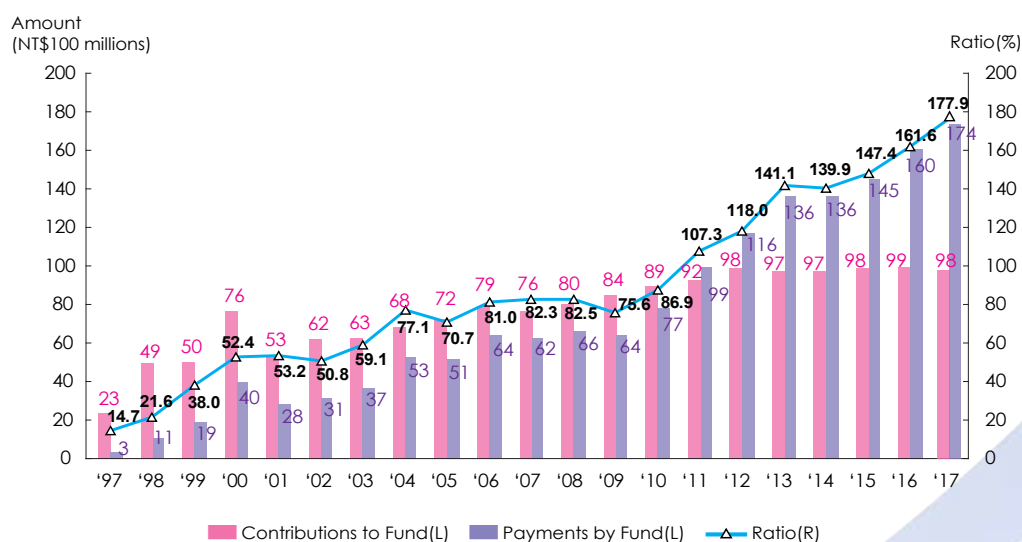
Note: Fiscal year 2000 covered the period from July 1, 1999 to Dec. 31, 2000.

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 year 2000 covered 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 year 2000 covered 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 324,000 in 2017, up 17,000 from the year-earlier period, and overall annual payment amounted to NT\$77.2 billion, up NT\$7.6 billion over a year ago.

(2) Pension recipients and amount in civil servants category

A total of 146,000 civil servants received an aggregate NT\$34.7 billion in regular benefit payouts in 2017.

(3) Pension recipients and amount in education workers category

A total of 116,000 education workers received an aggregate NT\$28.9 billion in regular benefit payouts in 2017.

(4) Pension recipients and amount in military personnel category

A total of 62,000 military personnel received an aggregate NT\$13.6 billion in regular benefit payouts in 2017.

Chart of numbers of payment recipients and amounts over the years

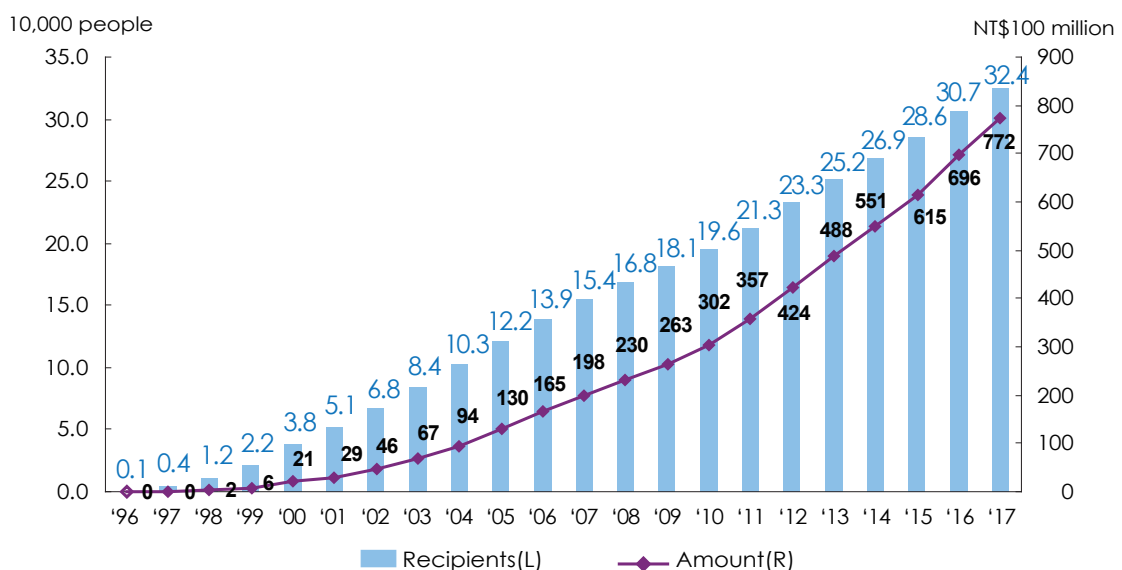


Chart of numbers and amounts of regular civil servant recipients of the Fund over the years

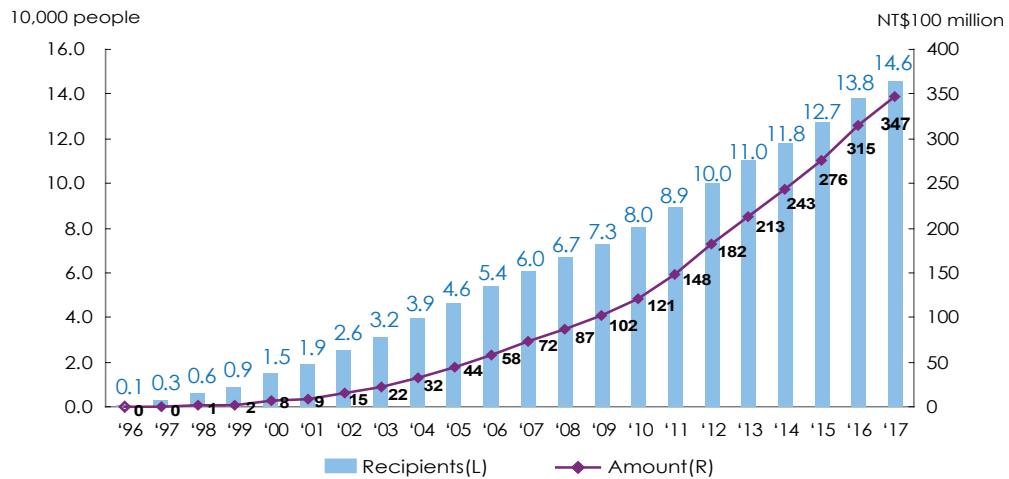


Chart of numbers and amounts of regular education worker recipients of the Fund over the years

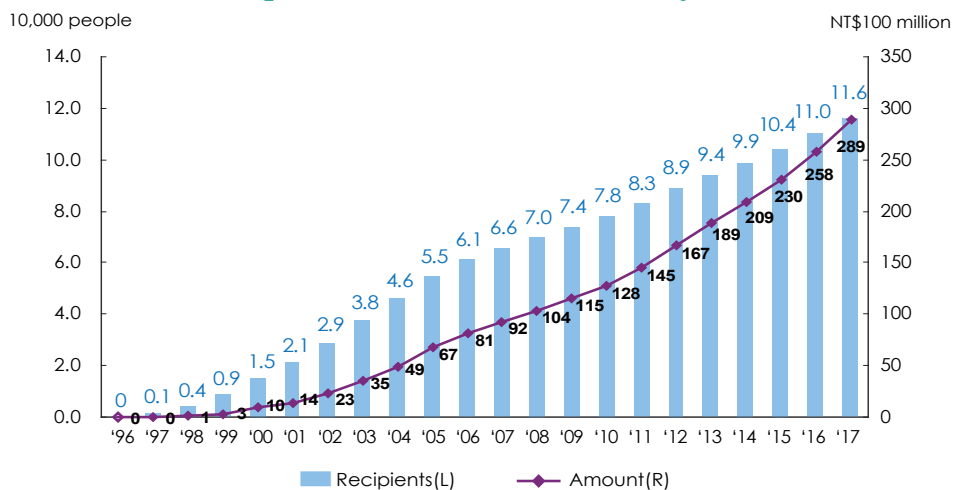
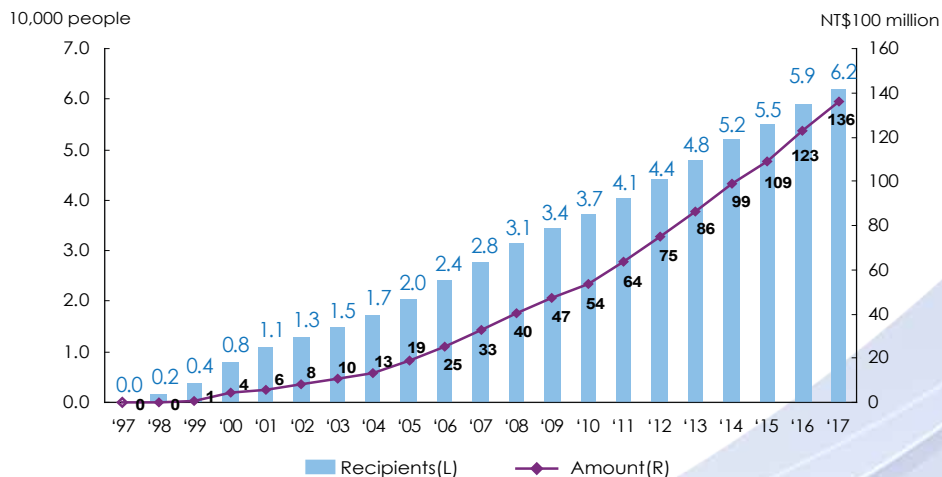


Chart of numbers and amounts of military personnel recipients of the Fund over the years





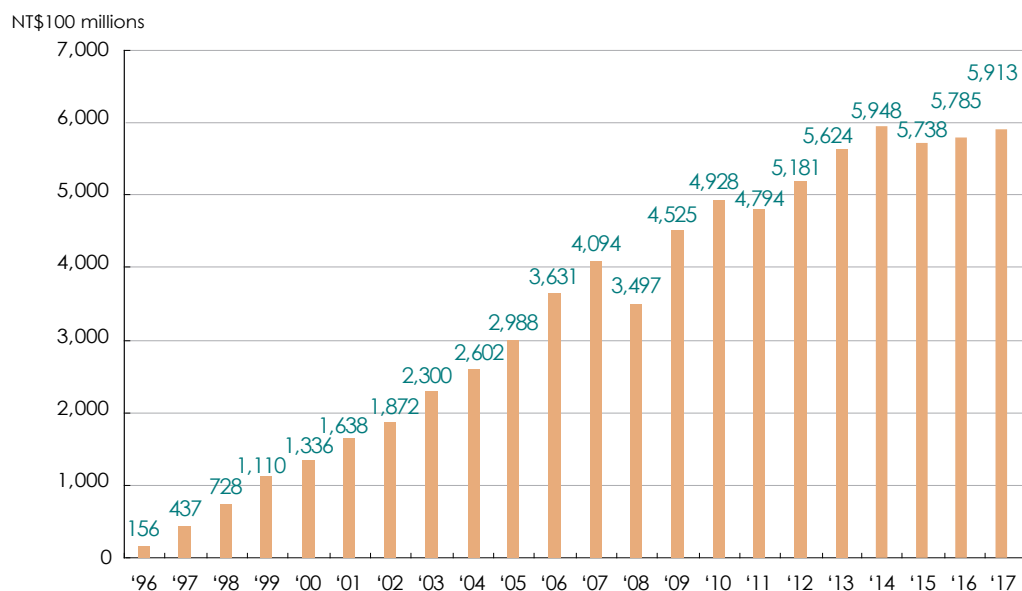
The size and asset allocation of the Fund



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 2017, the Fund's net asset stood at NT\$591.3 billion, up NT\$12.8 billion from the previous year.

The Fund's net asset value over the years



Notes: 1 For Fiscal Year 2000, it began on July 1, 1999 and ended on 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. 2017 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 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 2017, the investment items' investment areas, types of income and management modes are as follows:



The Fund's asset allocations as of Dec.31, 2017

Categories	Investment items		Actual amount (NT\$100 m.) (note 3)		Actual allocation % (A)		Center allocation % (B)		Difference % (A) -(B)	
Investment areas (note 1)	Domestic		3,207		54.90		51.90		3.00	
	Overseas		2,636		45.10		48.10		-3.00	
Income source (note 2)	Fixed income		2,970		50.82		42.00		8.82	
	Capital gains		2,678		45.84		55.00		-9.16	
	Alternative assets		195		3.34		3.00		0.34	
Management methods	Discretionary management	Domestic	2,188	647	37.45	11.07	48.00	17.00	-10.55	-5.93
		Overseas		1,541		26.38		31.00		-4.62
	In-house management	Deposits, short-term bills, securities	3,655	1,788	62.55	30.59	52.00	12.10	10.55	18.49
		Others		1,867		31.96		39.90		-7.94

- 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 54.66 percent of total asset and overseas investment 45.34 percent.
2. Fixed income investments include deposits, bonds, short-term bills and government bonds. Capital gains investments include beneficiary certificates, stocks and ETFs. Alternative investments include foreign mandate investments in real estate securities, infrastructure securities and multi asset.
3. The actual investment amount does not include receivables/payables, prepaid/advance items and bonds discount/premium amortization.

VI

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

1. Balance sheet for fiscal 2017

For fiscal 2017, the value of the Fund's total assets was NT\$594.2 billion, with current assets, which amounted to NT\$470.4 billion, taking 79.18 percent and the remaining 20.82 percent being long-term investment and receivables, totaling NT\$123.7 billion.

PSPF Balance sheet - Asset Accounts

Dec.31, 2017

Items	Final account for this fiscal year				
	In-house management	Discretionary management	Total	In-house management	
	Amount	Amount	Amount	Amount	
Assets	372,394,468,043	221,823,849,104	594,218,317,147	375,882,828,922	
Current assets	262,358,466,784	208,135,793,595	470,494,260,379	261,656,597,999	
Cash	65,763,557,455	7,528,474,941	73,292,032,396	52,190,538,835	
Bank deposits	65,763,557,455	7,528,474,941	73,292,032,396	52,190,538,835	
Current financial assets	188,428,880,691	199,395,417,686	387,824,298,377	200,070,113,424	
Financial assets held for trading-current	71,781,022,963	162,176,174,943	233,957,197,906	83,064,688,426	
Stocks	71,781,022,963	156,035,198,902	227,816,221,865	83,064,688,426	
Beneficiary certificates		5,167,470,408	5,167,470,408		
Short-term bills		343,138,874	343,138,874		
Bonds					
Futures margins		630,366,759	630,366,759		
Adjustment for Financial assets held for trading evaluation-current	-4,294,929,072	32,823,108,123	28,528,179,051	-14,864,270,218	
Stocks	-4,294,929,072	30,389,771,746	26,094,842,674	-14,864,270,218	
Beneficiary certificates		791,246,455	791,246,455		
Short-term bills		651,725	651,725		
Bonds					
Futures margins		14,461,382	14,461,382		

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	%
203,444,335,099	579,327,164,021	-3,488,360,879	-0.93	18,379,514,005	9.03	14,891,153,126	2.57
176,296,843,231	437,953,441,230	701,868,785	0.27	31,838,950,364	18.06	32,540,819,149	7.43
8,685,398,826	60,875,937,661	13,573,018,620	26.01	-1,156,923,885	-13.32	12,416,094,735	20.40
8,685,398,826	60,875,937,661	13,573,018,620	26.01	-1,156,923,885	-13.32	12,416,094,735	20.40
166,614,463,614	366,684,577,038	-11,641,232,733	-5.82	32,780,954,072	19.67	21,139,721,339	5.77
149,816,702,000	232,881,390,426	-11,283,665,463	-13.58	12,359,472,943	8.25	1,075,807,480	0.46
147,624,560,522	230,689,248,948	-11,283,665,463	-13.58	8,410,638,380	5.70	-2,873,027,083	-1.25
1,257,335,505	1,257,335,505			3,910,134,903	310.99	3,910,134,903	310.99
				343,138,874		343,138,874	
276,047,789	276,047,789			-276,047,789	-100.00	-276,047,789	-100.00
658,758,184	658,758,184			-28,391,425	-4.31	-28,391,425	-4.31
11,435,329,376	-3,428,940,842	10,569,341,146		21,387,778,747	187.03	31,957,119,893	
11,223,140,767	-3,641,129,451	10,569,341,146		19,166,630,979	170.78	29,735,972,125	
219,415,809	219,415,809			571,830,646	260.62	571,830,646	260.62
				651,725		651,725	
-11,903,472	-11,903,472			11,903,472		11,903,472	
3,419,539	3,419,539			11,041,843	322.90	11,041,843	322.90

(Continued)

PSPF Balance sheet - Asset Accounts

Dec.31, 2017

Items	Final account for this fiscal year				
	In-house management	Discretionary management	Total	In-house management	
	Amount	Amount	Amount	Amount	
Foreign exchange forward contracts		1,626,976,815	1,626,976,815		
Bills and bonds purchased under resell agreements	15,387,489,344	4,206,134,620	19,593,623,964	26,055,234,301	
Short-term bills	15,387,489,344	2,945,572,444	18,333,061,788	26,055,234,301	
Bonds		1,260,562,176	1,260,562,176		
Held-to-maturity financial assets - current	73,105,297,456		73,105,297,456	72,114,460,915	
Short-term bills	65,179,691,799		65,179,691,799	63,809,918,215	
Bonds	7,925,605,657		7,925,605,657	8,304,542,700	
Other financial assets-current	32,450,000,000	190,000,000	32,640,000,000	33,700,000,000	
Time Deposit	32,450,000,000	190,000,000	32,640,000,000	33,700,000,000	
Receivables	1,207,615,919	1,211,900,968	2,419,516,887	2,453,986,336	
Accounts receivable	241,025,961	789,210,962	1,030,236,923	82,865,685	
Allowance for bad debt - account receivables	-5,065,672		-5,065,672	-2,133,868	
Earned revenue receivable	538,562	199,914,482	200,453,044	2,837,537	
Interest receivable	971,117,068	120,955,304	1,092,072,372	949,463,645	
State treasury subsidies receivable				1,420,795,338	
Other receivables		101,820,220	101,820,220	157,999	
Prepayments	6,958,412,719		6,958,412,719	6,941,959,404	
Other prepayments	6,958,412,719		6,958,412,719	6,941,959,404	
Long-term investments and receivables	110,036,001,259	13,688,055,509	123,724,056,768	114,226,230,923	
Noncurrent financial assets	110,036,001,259	13,688,055,509	123,724,056,768	114,226,230,923	

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	%
1,256,733	1,256,733			1,625,720,082	129,360.82	1,625,720,082	129,360.82
5,362,432,238	31,417,666,539	-10,667,744,957	-40.94	-1,156,297,618	-21.56	-11,824,042,575	-37.64
4,527,046,151	30,582,280,452	-10,667,744,957	-40.94	-1,581,473,707	-34.93	-12,249,218,664	-40.05
835,386,087	835,386,087			425,176,089	50.90	425,176,089	50.90
	72,114,460,915	990,836,541	1.37			990,836,541	1.37
	63,809,918,215	1,369,773,584	2.15			1,369,773,584	2.15
	8,304,542,700	-378,937,043	-4.56			-378,937,043	-4.56
	33,700,000,000	-1,250,000,000	-3.71	190,000,000		-1,060,000,000	-3.15
	33,700,000,000	-1,250,000,000	-3.71	190,000,000		-1,060,000,000	-3.15
996,980,791	3,450,967,127	-1,246,370,417	-50.79	214,920,177	21.56	-1,031,450,240	-29.89
375,262,561	458,128,246	158,160,276	190.86	413,948,401	110.31	572,108,677	124.88
	-2,133,868	-2,931,804				-2,931,804	
233,602,050	236,439,587	-2,298,975	-81.02	-33,687,568	-14.42	-35,986,543	-15.22
343,830,447	1,293,294,092	21,653,423	2.28	-222,875,143	-64.82	-201,221,720	-15.56
	1,420,795,338	-1,420,795,338	-100.00			-1,420,795,338	-100.00
44,285,733	44,443,732	-157,999	-100.00	57,534,487	129.92	57,376,488	129.10
	6,941,959,404	16,453,315	0.24			16,453,315	0.24
	6,941,959,404	16,453,315	0.24			16,453,315	0.24
27,147,491,868	141,373,722,791	-4,190,229,664	-3.67	-13,459,436,359	-49.58	-17,649,666,023	-12.48
27,147,491,868	141,373,722,791	-4,190,229,664	-3.67	-13,459,436,359	-49.58	-17,649,666,023	-12.48

(Continued)

PSPF Balance sheet - Asset Accounts

Dec.31, 2017

Items	Final account for this fiscal year				
	In-house management	Discretionary management	Total	In-house management	
	Amount	Amount	Amount	Amount	
Financial assets held for trading-noncurrent		13,288,757,133	13,288,757,133		
Bonds		13,288,757,133	13,288,757,133		
Adjustment for financial assets held for trading evaluation-noncurrent		399,298,376	399,298,376		
Bonds		399,298,376	399,298,376		
Available-for-sale financial assets noncurrent	21,087,577,885		21,087,577,885	24,720,596,116	
Stocks	9,954,576,878		9,954,576,878	9,799,461,553	
Beneficiary certificates	11,133,001,007		11,133,001,007	14,921,134,563	
Adjustment for Available-for-sale financial assets evaluation - noncurrent	2,123,428,867		2,123,428,867	-409,746,745	
Stocks	1,904,194,676		1,904,194,676	718,427,522	
Beneficiary certificates	219,234,191		219,234,191	-1,128,174,267	
Held-to-maturity financial assets - noncurrent	70,192,845,150		70,192,845,150	71,709,895,524	
Bonds	70,192,845,150		70,192,845,150	71,709,895,524	
Debt investments without active market -noncurrent	16,632,149,357		16,632,149,357	18,205,486,028	
Bonds	16,632,149,357		16,632,149,357	18,205,486,028	
Other assets					
Miscellaneous assets					
Overdue receivables	5,038,821		5,038,821	685,317	
Allowance for bad debt - overdue receivables	-5,038,821		-5,038,821	-685,317	
Total	372,394,468,043	221,823,849,104	594,218,317,147	375,882,828,922	

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	%
28,357,083,211	28,357,083,211			-15,068,326,078	-53.14	-15,068,326,078	-53.14
28,357,083,211	28,357,083,211			-15,068,326,078	-53.14	-15,068,326,078	-53.14
-1,209,591,343	-1,209,591,343			1,608,889,719		1,608,889,719	
-1,209,591,343	-1,209,591,343			1,608,889,719		1,608,889,719	
	24,720,596,116	-3,633,018,231	-14.70			-3,633,018,231	-14.70
	9,799,461,553	155,115,325	1.58			155,115,325	1.58
	14,921,134,563	-3,788,133,556	-25.39			-3,788,133,556	-25.39
	-409,746,745	2,533,175,612				2,533,175,612	
	718,427,522	1,185,767,154	165.05			1,185,767,154	165.05
	-1,128,174,267	1,347,408,458				1,347,408,458	
	71,709,895,524	-1,517,050,374	-2.12			-1,517,050,374	-2.12
	71,709,895,524	-1,517,050,374	-2.12			-1,517,050,374	-2.12
	18,205,486,028	-1,573,336,671	-8.64			-1,573,336,671	-8.64
	18,205,486,028	-1,573,336,671	-8.64			-1,573,336,671	-8.64
	685,317	4,353,504	635.25			4,353,504	635.25
	-685,317	-4,353,504				-4,353,504	
203,444,335,099	579,327,164,021	-3,488,360,879	-0.93	18,379,514,005	9.03	14,891,153,126	2.57

(End)

PSPF Balance sheet - Liability Accounts and Fund & surplus Accounts

Dec.31, 2017

Items	Final account for this fiscal year				
	In-house management	Discretionary management	Total	In-house management	
	Amount	Amount	Amount	Amount	
Liabilities	58,471,359	2,826,585,539	2,885,056,898	88,143,384	
Current liabilities	58,471,359	2,826,585,539	2,885,056,898	88,143,384	
Current Financial liabilities		1,655,896,096	1,655,896,096		
Adjustment for Financial liabilities held for trading evaluation-current		1,655,896,096	1,655,896,096		
Foreign exchange forward contracts		1,647,775,161	1,647,775,161		
Futures margins		5,182,167	5,182,167		
Interest swap		2,938,768	2,938,768		
Payables	58,180,054	1,170,689,443	1,228,869,497	88,112,024	
Accounts payable		926,390,521	926,390,521	83,614,757	
Receipts under custody payable	59,243		59,243	540,903	
Expenses payable	57,635,143	244,298,922	301,934,065	3,498,017	
Other payable	485,668		485,668	458,347	
Advance accounts	291,305		291,305	31,360	
Other advance accounts	291,305		291,305	31,360	
Fund and surplus	372,335,996,684	218,997,263,565	591,333,260,249	375,794,685,538	
Fund			589,209,831,382		
Public Service Pension Fund			361,635,094,788		
Public Service Pension Fund			361,635,094,788		
Public Service Pension Fund Accumulated surplus/deficit-distributed			227,574,736,594		
Public Service Pension Fund Legally fuaranteed return			17,524,717,087		
Public Service Pension Fund return above(below) legally guaranteed amount			33,877,897,134		
Accumulated surplus			176,172,122,373		
Accumulated other comprehensive income	2,123,428,867		2,123,428,867	-409,746,745	
Gains or losses on valuation of avaiable-for-sale financial assets	2,123,428,867		2,123,428,867	-409,746,745	
Total	372,394,468,043	221,823,849,104	594,218,317,147	375,882,828,922	

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	%
718,168,093	806,311,477	-29,672,025	-33.66	2,108,417,446	293.58	2,078,745,421	257.81
718,168,093	806,311,477	-29,672,025	-33.66	2,108,417,446	293.58	2,078,745,421	257.81
97,059,367	97,059,367			1,558,836,729	1,606.07	1,558,836,729	1,606.07
97,059,367	97,059,367			1,558,836,729	1,606.07	1,558,836,729	1,606.07
57,687,782	57,687,782			1,590,087,379	2,756.37	1,590,087,379	2,756.37
33,618,862	33,618,862			-28,436,695	-84.59	-28,436,695	-84.59
5,752,723	5,752,723			-2,813,955	-48.92	-2,813,955	-48.92
621,108,726	709,220,750	-29,931,970	-33.97	549,580,717	88.48	519,648,747	73.27
493,049,098	576,663,855	-83,614,757	-100.00	433,341,423	87.89	349,726,666	60.65
	540,903	-481,660	-89.05			-481,660	-89.05
128,059,628	131,557,645	54,137,126	1,547.65	116,239,294	90.77	170,376,420	129.51
	458,347	27,321	5.96			27,321	5.96
	31,360	259,945	828.91			259,945	828.91
	31,360	259,945	828.91			259,945	828.91
202,726,167,006	578,520,852,544	-3,458,688,854	-0.92	16,271,096,559	8.03	12,812,407,705	2.21
	578,930,599,289					10,279,232,093	1.78
	388,536,680,171					-26,901,585,383	-6.92
	388,536,680,171					-26,901,585,383	-6.92
	190,393,919,118					37,180,817,476	19.53
	19,655,692,462					-2,130,975,375	-10.84
	28,889,603,992					4,988,293,142	17.27
	141,848,622,664					34,323,499,709	24.20
	-409,746,745	2,533,175,612				2,533,175,612	
	-409,746,745	2,533,175,612				2,533,175,612	
203,444,335,099	579,327,164,021	-3,488,360,879	-0.93	18,379,514,005	9.03	14,891,153,126	2.57

2. Income statement of the Fund for fiscal 2017

The Fund accrued a balance of NT\$37.2 billion in fiscal 2017, other comprehensive income 2.5billion added, the figure stood at NT\$39.7 billion.

Public Service Pension Fund – Income Statement

Fiscal 2017

Items	Fiscal 2017 budget		
	Amount	%	
Total revenues	22,087,799,000	100.00	
Financial revenues	22,087,799,000	100.00	
Interest revenue	2,686,804,000	12.16	
Net gain of financial assets at fair value through profit or loss	19,400,995,000	87.84	
Net gain of financial liabilities at fair value through profit or loss			
Net gain of available-for-sale financial assets			
Other operating revenues			
Miscellaneous revenue			
Total expenses	1,280,291,000	5.80	
Financial expenses	559,717,000	2.53	
Service fee expense	559,717,000	2.53	
Net loss on foreign exchange			
Other Financial expenses	720,512,000	3.26	
Agency fee	720,512,000	3.26	
Other operating expenses	62,000		
Remittance fee paid	62,000		
Provision for doubtful debts			
Other expenses			
Surplus/deficit for the period	20,807,508,000	94.20	
Other comprehensive income			
Gains or losses on valuation of available-for-sale financial assets			
Total comprehensive income for the period	20,807,508,000	94.20	

Unit : NT\$

Fiscal 2017 Final Account		Increase/Decrease		Fiscal 2016 Final Account	
Amount	%	Amount	%	Amount	%
55,516,086,757	100.00	33,428,287,757	151.34	29,764,801,129	100.00
55,495,962,165	99.96	33,408,163,165	151.25	29,744,355,272	99.93
3,791,910,268	6.83	1,105,106,268	41.13	3,441,910,558	11.56
50,984,749,854	91.84	31,583,754,854	162.79	25,538,128,179	85.80
76,305,258	0.14	76,305,258		1,272,139	
642,996,785	1.16	642,996,785		763,044,396	2.56
20,124,592	0.04	20,124,592		20,445,857	0.07
20,124,592	0.04	20,124,592		20,445,857	0.07
18,335,269,281	33.03	17,054,978,281	1,332.12	7,371,812,906	24.77
17,694,871,049	31.87	17,135,154,049	3,061.40	6,798,215,720	22.84
370,550,983	0.67	-189,166,017	-33.80	422,566,079	1.42
17,324,320,066	31.21	17,324,320,066		6,375,649,641	21.42
550,273,669	0.99	-170,238,331	-23.63	536,805,470	1.80
550,273,669	0.99	-170,238,331	-23.63	536,805,470	1.80
90,124,563	0.16	90,062,563	145,262.20	36,791,716	0.12
84,696		22,696	36.61	103,701	
7,285,308	0.01	7,285,308		1,895,042	0.01
82,754,559	0.15	82,754,559		34,792,973	0.12
37,180,817,476	66.97	16,373,309,476	78.69	22,392,988,223	75.23
2,533,175,612		2,533,175,612		1,314,692,235	
2,533,175,612		2,533,175,612		1,314,692,235	
39,713,993,088	71.54	18,906,485,088	90.86	23,707,680,458	79.65



3. Actuarial valuation results by various participating groups

As of December 2017, total funded assets are NT\$591.3 billion. The amount and ratio are showed as follows:

Valuation Date	Amount of Funded Asset (NT\$)	Funded Ratio
Dec. 31, 2017		
Political appointees	66,743,007	16%
Civil servants	361,303,972,760	26%
Education workers	212,174,005,068	18%
Military personnel	17,788,539,414	4%

1. The table is extracted from the 2017 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\$222.1 billion as of the end of fiscal 2017. With an accumulated realized earning rate of 3.17 percent, 1.39 percentage points higher or NT\$97.8 billion more than an assumed earnings of NT\$124.3 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\$226.5 billion, at a return rate of 3.23 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
2017	212.02	3.82	397.08	7.15	1.04	4.02
Total	2,220.57	3.17	2,265.10	3.23	1.78	

Notes :

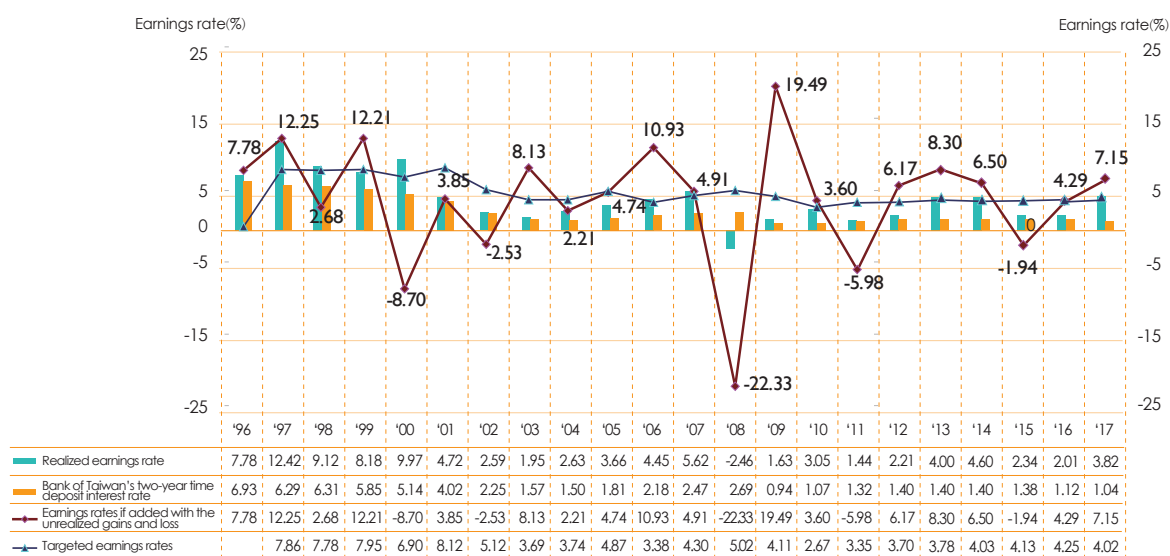
1. Fiscal 2000 began on July1, 1999 and ended on December 31, 2000.
2. The Lower of Cost or Market Value Method as applied from fiscal 1996 to fiscal 2005, and after that the Market Value Method has been adopted.
3. The realized earnings rates, Bank of Taiwan's two-year time deposit interest rate, earnings 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) .



(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 began on July 1, 1999 and ended 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 2017

The Public Service Pension Fund recorded a realized earnings rate of 3.82 percent in fiscal 2017, which was 2.78 percentage points higher than Bank of Taiwan's two-year time deposit interest rate. It would be translated into an earnings rate of 7.15 percent if added with the unrealized gains and losses and rate of return with available-for-sale securities over the year 3.13 percentage points higher than the year's targeted earnings rate of 4.02 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 2017 (%)	Indexes for evaluating performance	
		Benchmark return(%)	Index
Domestic bonds	1.62	1.09	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	3.88	2.41	Using the interest rate of the 5-year US treasury bond on the base day of evaluation
Short-term domestic bills	0.37	0.57	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	0.48	0.23	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	1.56	0.66	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 was 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 2017 (%)	Indexes for evaluating performance	
		Benchmark return(%)	Index
Domestic stocks and ETFs	17.10	15.01	TWSE Capitalization Weighted Stock Price Index
Overseas stocks and ETFs	11.09	23.97	MSCI World Index
Domestic beneficiary certificates	26.10	15.01	TWSE Capitalization Weighted Stock Price Index
Overseas beneficiary certificates	9.58	16.34	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, they all include currency gain/loss against NT dollars. But the actual returns of their benchmark indexes are denominated in US dollars and do not include currency gain/loss against NT dollars.

(3) Performances of discretionary management

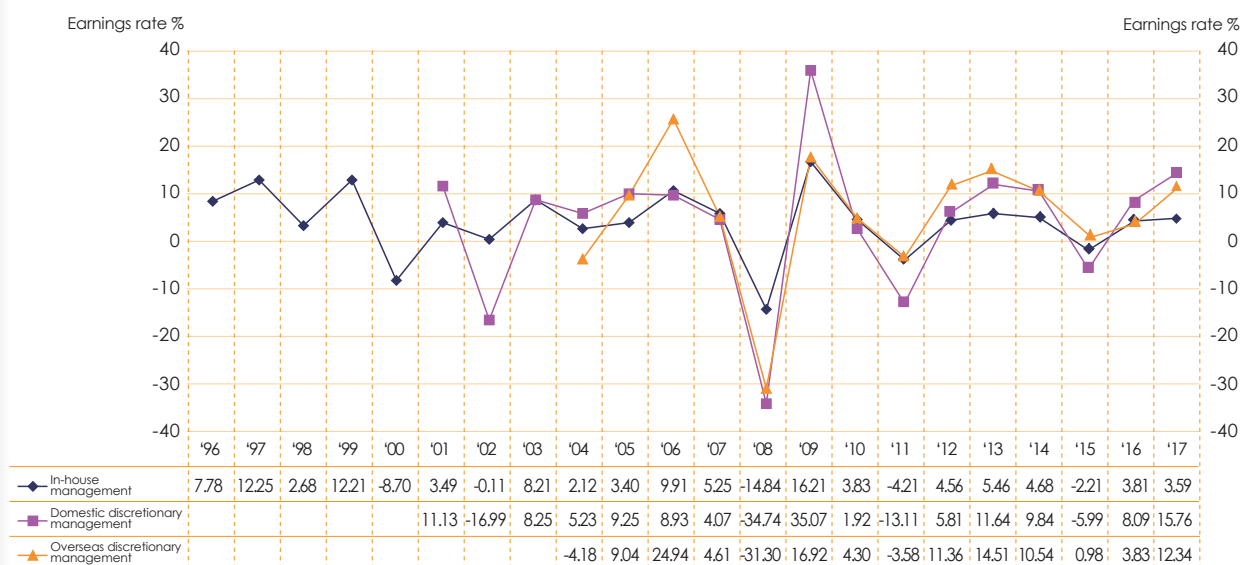
Investment item	Actual return for fiscal 2017 (%)	Indexes for evaluating performance	
		Benchmark return(%)	Index
Domestic discretionary management	15.76	12.99	Using the ratios distribution of commissioned management's positions in capital gains and fixed income as the weight function, weighted with 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	20.41	21.42	Using the ratios distribution of overseas commissioned management's positions in capital gains, fixed income and alternative assets as the weight function, weighted with the return of MSCI All Country World Index, Bloomberg Barclays Global Aggregate Bond Index, DJ Brookfield Global Infrastructure Index and FTSE EPRA/NAREIT Global Real Estate Index during the same period

Note: The actual returns of foreign discretionary management after adding foreign exchange gain/loss were 12.34% for fiscal 2017.

3. Performances of in-house and discretionary managements

Fiscal 2017 registered 3.59 percent earnings rate in the Fund's in-house management, 15.76 percent in its domestic discretionary management and 12.34 percent in overseas discretionary management, down 0.22 percentage points, up 7.67 percentage points and 8.51 percentage points year-on-year, respectively.

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

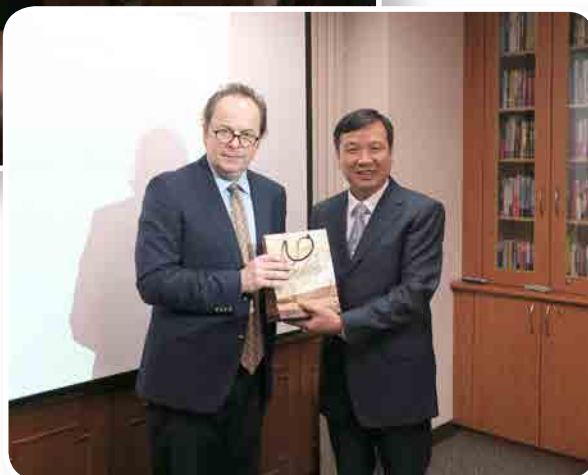


- Notes: 1. Fiscal year 2000 began on July1, 1999 and ended on December 31, 2000.
2. The Lower of Cost or Market Value Method as applied from fiscal 1996 to fiscal 2005, and after that the Market Value Method has been adopted.
3. Earnings rates refer to the realized rates of return, added with the unrealized 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 the Management Board or the Supervisory Board of PSPF has its own audit unit. For example, the Management Board 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 Supervisory Board has its own internal audit unit which is charged with reviewing significant issues and monthly management reports from the Management Board. The Supervisory Board also 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 website of the Fund 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 frequency of pension payments to all categories of retirees was changed from biannual payment to monthly payment. So the PSPF website was updated accordingly with additional features enabling beneficiaries to make enquiries, download information and print out documents. All measures established are trying to meet diversified information needs from participants. In addition, the Management Board amended the Directions for Pension Payments of New Pension System to streamline beneficiary eligibility checks under the New Pension System, while the pension payment system was completely revised and a new function of inquiry about pension payment was set up.



- Owing to the renaming, dissolution and liquidation of a number of credit rating companies, a draft amendment of the Guidelines Governing Time Deposits by the Public Service Pension Fund was submitted to the Supervisory Board and approved after deliberation.
- In an effort to increase investment flexibility and investible targets, a draft amendment of the Guidelines Governing Investment of Domestic Short-term Bills by the Public Service Pension Fund was submitted to the Supervisory Board and approved after deliberation.
- Contracts with some domestic discretionary management organizations were early terminated due to failed performances.
- The funding to certain domestic mandate managers was canceled due to the underperformance of their accounts.
- The contract renewal with one of foreign custodian banks was completed in 2017.
- The funding to foreign segregated accounts contracted in 2016 was completed.
- The appropriation of additional funding of NT\$ 2 billion for one of domestic discretionary accounts in 12th batch was completed.
- The performance evaluation for 8th batch foreign separate accounts was carried out upon expiry of the contracts. The assets managed by total three managers were all redeemed in cash.
- The performance evaluation of the renewal 4th batch foreign mandate accounts was exercised upon expiry of the contracts. All their contracts were extended by four years.
- Staff members of the Fund were sent to take training at the institutions trusted for discretionary management of overseas accounts and custodian banks to understand the investment strategies of such trusted institutions and custody practices around the world as well as to learn from their investment and custody experiences and professional knowledge.
- After assessment of domestic and overseas economic and financial situations, market appetite for risk, and estimation of the incomes and payments of the fund, the 2018 Annual Fund Utilization Guidelines and Asset Allocation Plan were devised to provide a legal basis for fund investment and set annual income target. The proposals of the above Guidelines and Plan were presented to both the Management Board and the Supervisory Board and approved after deliberation.
- The 2017 public manager selection for foreign mandate accounts was implemented. A total of four external asset managers are expected to be selected for the Global Total Return fixed-income mandate.
- All written and onsite audits were completed in accordance with the 2017 auditing plan. The 2018 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 institutions trusted for discretionary management of domestic accounts and custodian banks and also visited trusted institutions of overseas discretionary management accounts for inspections to understand the structures, utilization of entrusted funds, risk management policies, internal control and auditing systems of the trusted institutions in order to learn from their investment experiences and professional knowledge and improve the auditing and management performance of the Fund.

◆ Supervisory Board ◆

- The PSPF saw its first income deficit in 2014, when contributions were not sufficient to cover pension payments. In 2017, the deficit widened to NT\$ 26.9 billion, indicating that the shortfall was worsening by the day and had to be tackled. In recent years, the fund payment as a share of income has been rapidly increasing for all categories of retired personnel. Of these, military, education, and civil service members saw deficits in their accounts for the first time in 2011, 2014, and 2015, respectively. In response to this situation, the government instituted pension system reforms and the President promulgated the new laws: the Civil Service Retirement, Severance and Survivor Relief Act and the Act Governing Retirement, Severance, and Bereavement Compensation for the Teaching and Other Staff Members of Public Schools. Meanwhile, the relevant authorities have been studying to revise the retirement law for military personnel. It is expected that these measures will gradually close the income-payment gap.
- In response to changes in domestic and overseas financial markets, the Supervisory Board worked with the Management Board to revise guidelines for investment in domestic open-ended beneficiary certificates, time deposits, and short-term bills. The Supervisory Board also completed the review on the Management Board's guidelines for pension payments from new system. Both tasks are aimed at enhancing the effectiveness of fund investment and operation.
- An advisory meeting was convened by the Supervisory Board to discuss response measures to valuation risks arising from fluctuating foreign exchange rates. Concrete measures suggested by the meeting were presented to the Management Board for future policy reference, including allocation to a wide range of currencies by in-house investment, possible changes to NT Dollar as reporting currency and performance evaluation currency for foreign separate account mandates.





- The Supervisory Board has kept abreast of market developments by regular tracking the asset allocation trends of large pension funds in Taiwan and abroad. It also suggested that the ceiling for fixed-income investment in the Annual Asset Allocation Plan of PSPF needed to be lower in order to enhance investment performance for the Fund.
- The Supervisory Board started the Supervisory Weekly 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.
- In proper response to a suggestion to increase the intensity of supervision by a number of board members, the Supervisory Board devised the Evaluation Standards for the Overall Fund Performance and stipulated that evaluation is to be carried out quarterly.
- In an effort to further improve the PSPF performance evaluation system, the Supervisory Board and the Management Board discussed the issues related to the intensity of supervision and devised directions for the Monthly Performance Review and the Review on Performance of Investment Items and Annual Targets, both based on the consideration of frequency and intensity of investment performance reviews, working experiences and streamlining procedures.
- In light of the growing scale of the PSPF, the expanding of its investment overseas and more diversified allocation, the fund's accounting task has become increasingly complex. To ensure the fair presentation of financial statuses and management results of the Fund, the Supervisory Board has kept reviewing monthly fund financial reports and conducting year-end audits to monitor compliance with accounting systems. In addition, it has continued to follow up on the Management Board's adoption of the IFRS in order to make sure our standards are in line with international practices.
- In the lead-up to establish the "E-Supervision Platform", the demand for computer software and customization were assessed. The e-platform was set up with the necessary hardware and software to form the database, and the e-platform has been interfacing with and receiving the data from the Management Board. After finishing the training sessions and identifying the specific customized needs for the e-platform, the Supervisory Board already selected qualified external provider to design the application system to run the e-platform.
- The Study on the Enhancement of Supervising Alternative Asset Investment and the Study on the Adoption of Socially Responsible Investment Strategy by Pension Funds were completed on time and printed. The first study discusses the nature of various alternative assets and allocation to these assets by large pension funds around the world; it also uses the example of hedge funds to analyze the investment process of alternative assets and feasible supervisory mechanisms. The second study investigates possible investment strategies for pension funds who want to adopt socially responsible investing in their portfolios as a way to enhance asset allocation.

X Prospect and conclusion



The future work of the 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:

- 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 trusted 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 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 fund supervisory information system to enhance supervisory effectiveness

An e-platform of supervisory information was set up as a way to keep track of fund operation and take appropriate supervisory measures whenever necessary. It was hoped that the digitization of supervisory information would make fund operation more transparent, strengthen performance oversight, evaluation and supervisory measures, in order to enhance supervisory capabilities and overall operational performance.



- Timely revision of relevant regulations in response to practical needs

In an effort to further contribute to sound financial management and operation of the fund, the guidelines governing the fund's investment and management of revenue and expenditure should be reviewed in response to legal amendments and changes in financial conditions in Taiwan and abroad. This will also help to optimize operations of pension management and establish procedures more in line with practical needs.

- Prudent adjustments of asset allocation and strengthening of investment risk management

The Supervisory Board continuously pays close attention to any change in the international economic landscape and keeps an eye on the prudence of portfolio adjustments and the selection of investments made by the Management Board accordingly. It also continues to implement the risk management system to carefully evaluate the returns and risks of each investment item and pursue long-term stable income together with the Management Board.



- **Study into a more diversified portfolio of investment to enhance fund performance**

In light of the increasing variety of financial products, we persist in exploring new investment instruments and agreeing with the Management Board's outsourcing mandates to external asset managers. We believe the diversification of mandate types and investment regions will enhance both the depth and breadth of investments. In addition, it will also help effectively diversify the overall risks of the Fund and improve investment performance.

- **Enhancement of audit efficiency to ensure proper functioning of the internal audit**

Current audit procedures for the adjustment of asset allocation, adding of new investment instruments, and revision of investment restrictions will be reviewed and amended as necessary. In addition, job training will be upgraded and communication with the Financial Supervisory Commission's information reporting system will continue to ensure comprehensive regulatory compliance and asset security.

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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