SHEPPNews

SPRING 2019

PARTICIPATING EMPLOYER NEWSLETTER

Investing to Keep Benefits Secure and Contribution Rates Stable

How SHEPP's active fund management helped stabilise returns in 2018's volatile equity market

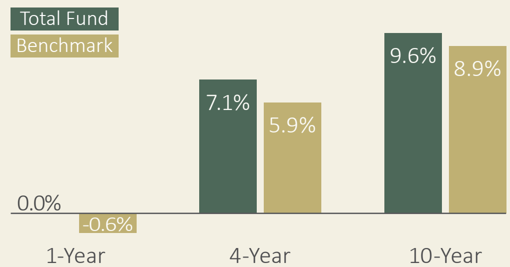
Investment returns are critical to SHEPP's sustainability. About 75% of pension benefits are paid with funds generated from investment returns. SHEPP's challenge is not just to earn enough return to cover liabilities, but also to protect the Fund during volatile periods. A volatile equities market in 2018 left many investors with negative returns. SHEPP, however, finished the year with flat returns and beat its benchmark.

This positive result is due largely to SHEPP's active management of its well-diversified investment portfolio. "Active management" means SHEPP's Board of Trustees and its in-house investments team are regularly reviewing the expected risk and return of SHEPP's investments, setting the targeted asset mix (investment portfolio), and hiring and monitoring investment managers to achieve its investment mandate.

A key aspect of active management is setting the targeted asset mix--essentially determining what assets SHEPP will invest in. SHEPP regularly reviews how its Fund is invested, looking for opportunities to enhance diversification. The goal of diversification is to smooth returns by investing in a variety of asset types that respond differently to changes in the market. That way, if one investment goes down, another hopefully goes up (or at least doesn't go down as much) during a market downturn. And because SHEPP is a defined benefit pension plan with $7.2 billion in assets, its able to diversify its asset mix further than an individual investor can.

As an example, you can look to SHEPP's "alternatives" asset class which includes investments like infrastructure and real estate. Since the financial crisis in 2008, SHEPP has been shifting part of its investment portfolio into alternatives to reduce risk. Traditionally, reducing risk meant reducing exposure to equities (stocks) and moving into fixed income investments (bonds), resulting in lower risk, and lower returns. But alternatives offer equity-like returns with less correlation to daily fluctuations in the equity markets. What results is more stable returns with less risk.

ANNUALISED RETURNS*
(as at Dec. 31, 2018)



*Net of investment management fees

Canadian Equities	11.2%
Global Equities	29.7%
Emerging Markets Equities	5.1%
Fixed Income	29.2%
Alternatives	24.8%

Alternatives were a major factor in SHEPP's ability to outperform its benchmark in 2018. While volatility in equities left many investors with negative returns, SHEPP was able to weather the storm by actively managing the Fund and consciously diversifying its investments over the last ten years to help protect the Fund during these volatile periods. It's a positive sign that our asset allocation strategies are working, that the active management of the Fund is providing value, and that we will continue to be able to keep pension benefits secure and contributions stable going forward.

SHEPP
SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN

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people. pensions. results.

The Defined Benefit Advantage

Defined benefit (DB) workplace pensions positively impact recruitment, retention and employee well-being

For your employees, the benefit of a having a DB pension plan is clear: a predictable, lifetime monthly pension with no complicated investment decisions. Perhaps what's less clear is what's in it for you as the employer. What benefits does an employer receive by offering its employees a DB pension plan?

As it turns out, the DB pension model provides you many advantages:

Easier to recruit & retain

In 2017, a global survey conducted by Willis Towers Watson found that 72% of new hires at companies with DB plans said the retirement program gave a compelling reason to stay on the job. In fact, some studies suggest offering a DB pension plan can increase average employee tenure by up to four years versus no pension plan at all, or 1.3 years versus other plan types.

Better well-being

Employees with health challenges and financial worries show the highest rates of absence and stress, and are the least engaged. In a 2016 Canadian Public Pension Leadership Council survey, DB plan members expressed less concern than members of other plan types about the impact of retirement planning on their health and work lives.

Increased productivity

In comparing productivity between organisations that have switched from DB to a different form of pension plan, studies have shown noticeable decreases in productivity. Because DB plan members are more likely to view their workplace pension as a main source of retirement income, they have shown to be more committed to and invested in their work.

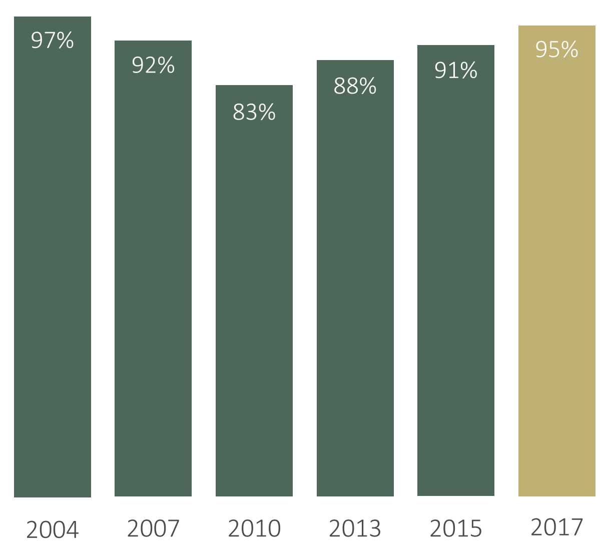
SHEPP's Funded Status Improves Again

No changes to contribution rates necessary; Plan's financial health continues to improve

In 2018, SHEPP received the results from its latest actuarial valuation that showed, as at December 31, 2017, the Plan was 95% funded on a going-concern basis. This is a four percent increase from the previous valuation performed as at December 31, 2015, and the third consecutive increase in funded status since 2010. This is good news as it signals the financial health of the Plan continues to improve without the need to increase contribution rates.

Like many DB pension plans, SHEPP has faced funding challenges in recent years. Low interest rates and longer life expectancies have made restoring the Plan to fully funded status a challenge. But it's a challenge SHEPP and its Board continue to meet while also maintaining stable contribution rates. The Board continues to monitor the Plan's funded position and is working hard to address the Plan's remaining funding deficit.

GOING-CONCERN FUNDED STATUS
(as at Dec. 31)



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