2011
ANNUAL REPORT

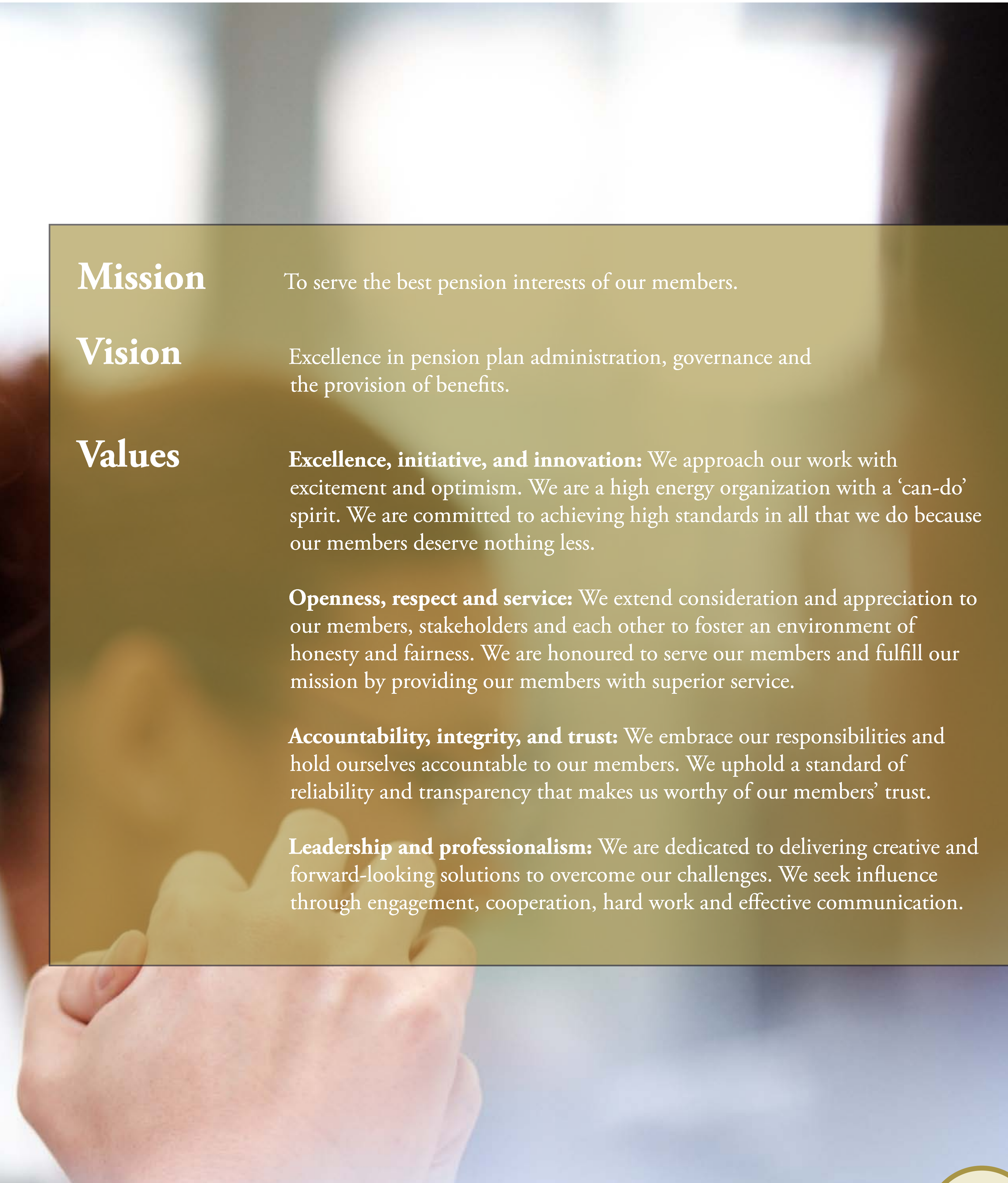
Guided by Our Strategy: Focused on Your Future

SHEPP

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN

LEADERSHIP PROFESSIONALISM EXCELLENCE INITIATIVE INNOVATION

SHEPP
SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN



Mission

To serve the best pension interests of our members.

Vision

Excellence in pension plan administration, governance and the provision of benefits.

Values

Excellence, initiative, and innovation: We approach our work with excitement and optimism. We are a high energy organization with a 'can-do' spirit. We are committed to achieving high standards in all that we do because our members deserve nothing less.

Openness, respect and service: We extend consideration and appreciation to our members, stakeholders and each other to foster an environment of honesty and fairness. We are honoured to serve our members and fulfill our mission by providing our members with superior service.

Accountability, integrity, and trust: We embrace our responsibilities and hold ourselves accountable to our members. We uphold a standard of reliability and transparency that makes us worthy of our members' trust.

Leadership and professionalism: We are dedicated to delivering creative and forward-looking solutions to overcome our challenges. We seek influence through engagement, cooperation, hard work and effective communication.

From the Chair and Vice-Chair

We are pleased to present the 2011 Annual Report for the Saskatchewan Healthcare Employees' Pension Plan (SHEPP). SHEPP remains committed to its values and strategic objectives and strives to serve the best pension interests of our members.

Andrew Huculak
Chair

Excellence in Governance

2011 was the first year of operation under our new strategic plan. That plan sets out the guiding principles from which decisions regarding risk management, Plan funding and administrative capabilities are executed. The Board is confident the decisions being made are addressing the important issues that will impact the future success of the Plan.

In 2011 we continued our work to address the recommendations set out in our 2010 governance benchmarking study. That study identified best governance practices of leading Canadian pension plans and led directly to our success in 2011 in implementing a member and beneficiary appeal policy, a service provider selection policy, a service provider evaluation policy, an annual Trustees' education day and in strengthening our code of conduct and conflict of interest procedures.

Jim Tomkins
Vice-Chair

Protecting the Plan and its Members

Securing member benefits is the first funding priority. Doing so at an affordable cost to members and employers is the challenge. In 2011 the Board directly addressed that challenge through its work with the Administration and Plan actuary in advancing our funding action plan.

We have elected to fund the Plan from January 1, 2011 to December 31, 2013 exclusively on a going-concern basis. This means that for the next three years we will not be asking members and employers to pay additional contributions as a contingency against imminent Plan wind-up.

While we see little risk of Plan wind-up, there are many other risks that we must take into account when the financial health of the Plan is measured through the actuarial valuation process. These risks include the possibilities of higher than expected early retirements, lower than expected investment returns and pensioners living longer than expected. To protect the Plan against these risks we establish funding margins in the valuation. Although the Plan made some gains against the $623 million deficit established in the December 31, 2009 actuarial valuation, on the Plan actuary's recommendation the Board implemented slightly higher funding margins to protect the Plan and its members against these real risks.

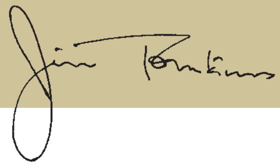
Our unfunded liability increased from $623 million at December 31, 2009 to $741 million at December 31, 2010 on the basis of increased funding margins against real risks. We were able to bring that added protection to the Plan and its members through increased funding margins while holding our contribution rates steady at a combined member and employer rate of 17.3% of payroll.

The Plan is a long-term investor with a well-diversified portfolio. We expect our invested assets to work hard for us, with the most immediate objective of making a significant contribution to our funding recovery. The SHEPP Fund achieved positive returns in each of the last three years and distinguished itself in 2011 with a return of 3.5% against the benchmark of 2.9%.

As the Plan's funded status improves we will look to reduce investment risk and reduce the funding margins put in place to address investment risk.

In Closing

As Trustees responsible for the oversight of the largest defined benefit plan in Saskatchewan, we know that good governance can result in a competitive advantage. As the Board moves into its tenth year, and prepares to celebrate the Plan's 50th Anniversary, we can celebrate where we have been and look forward to the possibilities of the future knowing we are preparing ourselves by having thoughtful strategies and strong policies in place. Without the continued support and commitment of our members and employers, this would not be possible. We look forward to serving you for another 50 years.



From the CEO

Brad Garvey
CEO

2011 marked the 49th Anniversary of SHEPP operations and the ninth year the Plan has been jointly governed by a Board of Trustees appointed in equal parts by the healthcare unions and the Saskatchewan Association of Health Organizations.

Our year started with the confirmation and implementation of our 2011-2013 Strategic Plan. In that plan we set out four key objectives aimed at achieving and sustaining an historic funding recovery and in keeping our focus on delivering low-cost, high-quality service to our members.

We succesfully completed our third actuarial valuation of the Plan in four years in September. Without having to increase member and employee contribution rates we were able to increase the funding margins in the valuation. This was a major accomplishment for a Plan that has set securing member benefits and stabilizing contribution rates as its top two funding objectives.

In a marketplace where change is perpetual, a company's vision is only as strong as its people. Supporting this belief is our continued attention to maintaining strong core capabilities and investing in the quality and knowledge of our teams. Leaders and employees are encouraged to seek out opportunities to increase their knowledge and build their tool kits in order to support each other and achieve our mission of serving the best pension interests of our members.

This past year our leaders spent time listening to both our members and employees to confirm that as an organization, we are responding appropriately to our stakeholders' needs. Our members confirmed their trust and support of the organization, but we still have work to do in order to engage members further in understanding the benefits of the Plan. We continue to travel throughout the province to meet with members in the communities where they live and work and share with them important information regarding Plan benefits and funding. These presentations along with continued enhancements to SHEPP*Web*, our secure online service, remain important vehicles for the engagement of Plan members and participating employers.

We conducted an employee engagement survey in which our employees told us that they highly value our commitment to their professional development and in the process helped identify opportunities to further cultivate our 'can-do' spirit. It is by taking the time to listen and understand how well we are doing that we are building the high-performance administration team envisioned in our strategic plan.

2011 confirmed we are on the right path. We are well positioned with a clear strategy and a brand promise that has been confirmed by all our stakeholders. As we reach important milestones our aspirations remain ambitious; there is still much to be accomplished.

The opportunity to serve our members is a privilege for me and for our entire team. I thank the SHEPP team for their focus and hard work this year and the Board of Trustees for their continued support.

Profile

About Us

The Saskatchewan Healthcare Employees' Pension Plan (SHEPP) is a multi-employer defined benefit pension plan and is the largest defined benefit plan in Saskatchewan. Established in 1962 by the Saskatchewan Hospitals Association, the Plan has grown to become the pension plan for 34,269 provincial healthcare workers. With 11,907 retired members and their beneficiaries and 1,559 vested members with deferred entitlement, 47,735 individuals have a benefit entitlement under the Plan today.

With a competitive pension formula, enriched early retirement and bridge benefits, portability and transfer features, the Plan forms the foundation for financial security for our members at retirement.

The Board of Trustees

The Board is made up of four employer-appointed and four employee-appointed trustees. The Saskatchewan Association of Health Organizations (SAHO) appoints the employer trustees and the four largest healthcare unions each appoint one employee trustee.

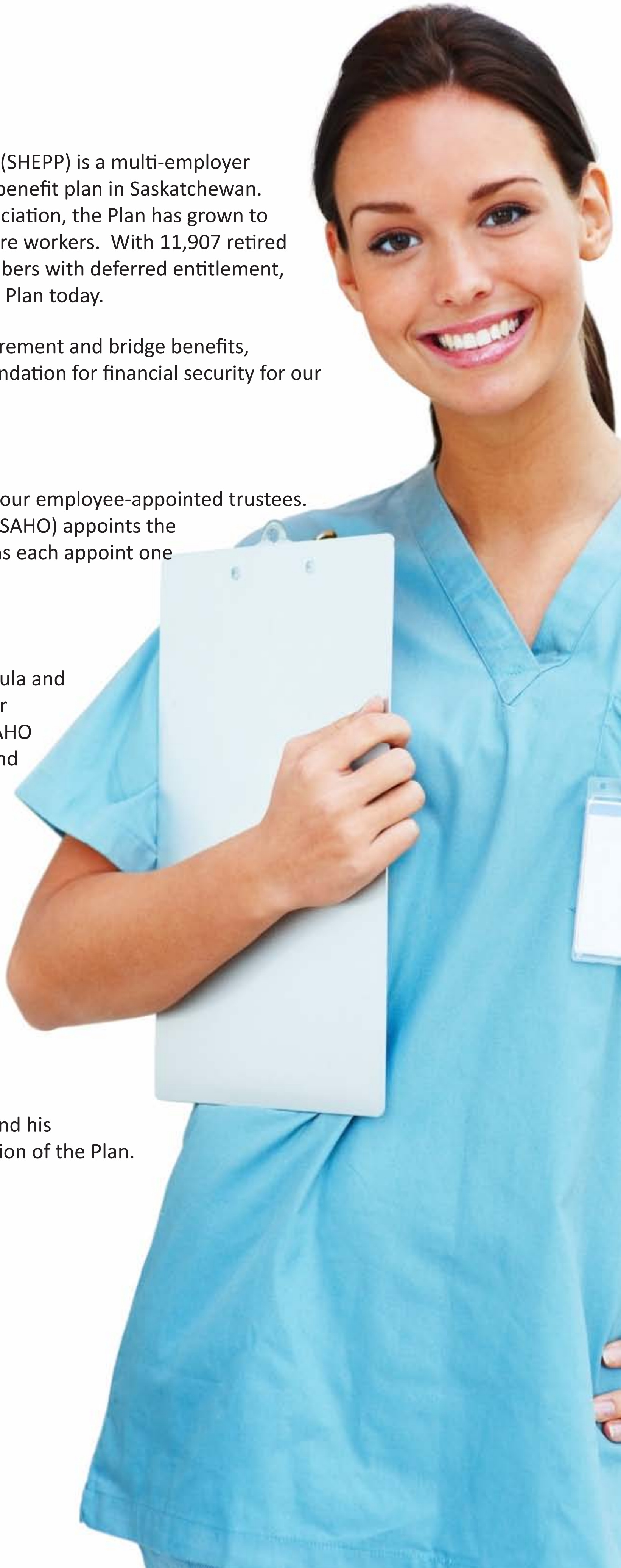
Partner Committees

Plan design issues, such as the pension calculation formula and retirement eligibility rules are negotiated by two partner committees representing employers and employees. SAHO appoints representatives to the employer committee, and six healthcare unions appoint representatives to the employee committee:

- Canadian Union of Public Employees
- Health Sciences Association of Saskatchewan
- Retail, Wholesale and Department Store Union
- Saskatchewan Government and General Employees' Union
- Saskatchewan Union of Nurses
- SEIU-West

SHEPP Employees

Under the oversight of the Board of Trustees, the CEO and his 24 employees are responsible for the day-to-day operation of the Plan.



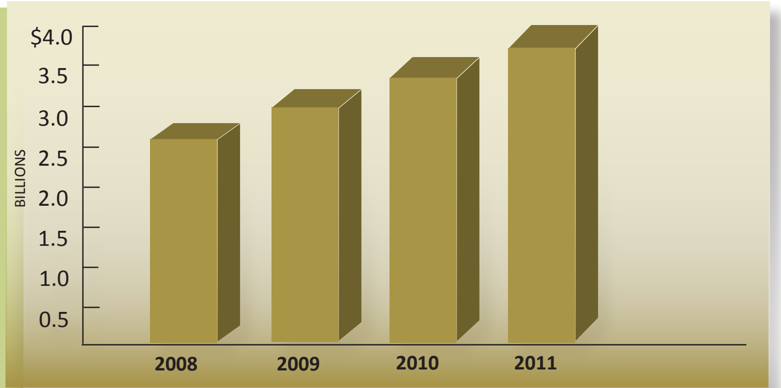
Participating Employers

There are 65 healthcare employers participating in SHEPP.

All Nations' Healing Hospital
Alzheimer Society of Saskatchewan Inc.
Angus Campbell Centre
Bethany Pioneer Village
Birch Manor
Borderline Housing Co. (1975) Inc.
Creighton Alcohol and Drug Abuse Council
Cupar & District Nursing Home
Cypress Regional Health Authority
Deer Park Villa Inc.
Dr. Noble Irwin Regional Healthcare Foundation Inc.
Eaglestone Lodge - Personal Care Home Inc.
Eatonia Oasis Living Inc.
Elmwood Residences Inc.
Extendicare Moose Jaw
Extendicare Regina
Extendicare Saskatoon
Five Hills Regional Health Authority
Foyer St. Joseph Nursing Home
Gull Lake & District Road Ambulance Board Corporation
Haven of Hope Home
Heartland Regional Health Authority
Herbert Group Home
Keewatin Yatthé Regional Health Authority
Kelsey Trail Regional Health Authority
Langham Senior Citizen's Home
Lumsden & District Heritage Home
LutherCare Communities
Mamawetan Churchill River Regional Health Authority
Métis Addictions Council of Saskatchewan Inc.
Mont St. Joseph Inc.
Moose Jaw Health Foundation
North Saskatchewan Laundry & Support Services Ltd.
Oak Trees & Acorns Child Care Centre Inc.
Pioneers Haven Co. Inc.
Prairie North Regional Health Authority
Prince Albert Parkland Regional Health Authority
Providence Place for Holistic Health Inc.
Qu'Appelle House
Radville Marian Health Centre
Regina Lutheran Care Society
Regina Lutheran Home
Regina Qu'Appelle Regional Health Authority
Regina Recovery Homes Inc.
Registered Psychiatric Nurses Association of Saskatchewan
Saint Joseph's Health Centre
Saint Joseph's Home
Saint Joseph's Hospital, Estevan
Saint Joseph's Hospital, Gravelbourg
Salvation Army William Booth Special Care Home
Santa Maria Senior Citizens Home Inc.
Saskatchewan Voice of People with Disabilities Inc.
Saskatchewan Association for Safe Workplaces in Health
Saskatchewan Association of Health Organizations
Saskatchewan Association of Licensed Practical Nurses
Saskatchewan Cancer Agency
Saskatchewan Healthcare Employees' Pension Plan
Saskatchewan Society of Medical Laboratory Technologists Inc.
Saskatoon Housing Coalition
Saskatoon Regional Health Authority
Spadina Early Learning and Childcare Co-operative
Sun Country Regional Health Authority
Sunrise Regional Health Authority
The Health Foundation of East Central Saskatchewan Inc.
Yorkton Mental Health Drop-in Centre

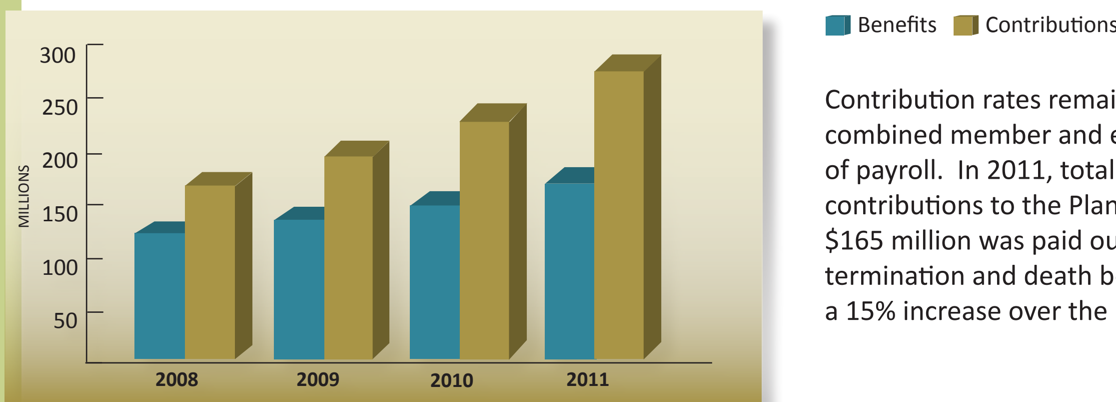
	2011 ($000's)	2010 ($000's)	2009 ($000's)	2008 ($000's)
Net Assets Available for Benefits	**3,565,222**	**3,355,850**	**2,932,800**	**2,499,878**
Accrued Pension Obligation	**4,089,000**	**3,765,300**	**3,782,400**	**3,512,971**
Contributions				
Member Required	128,810	103,672	89,879	75,415
Employer Required	144,267	116,112	100,664	84,464
Other	3,082	2,952	2,123	3,021
Total Contributions	**276,159**	**222,736**	**192,666**	**162,900**
Benefit Payments				
Pensions	131,064	116,037	104,515	93,519
Terminations and Deaths	34,447	27,422	25,460	22,820
Total Benefit Payments	**165,511**	**143,459**	**129,975**	**116,339**
Plan Expenses				
Administrative	4,234	4,162	3,680	3,469
Investment	14,310	12,215	10,611	9,450
Total Plan Expenses	**18,544**	**16,377**	**14,291**	**12,919**

Net Assets Available for Benefits



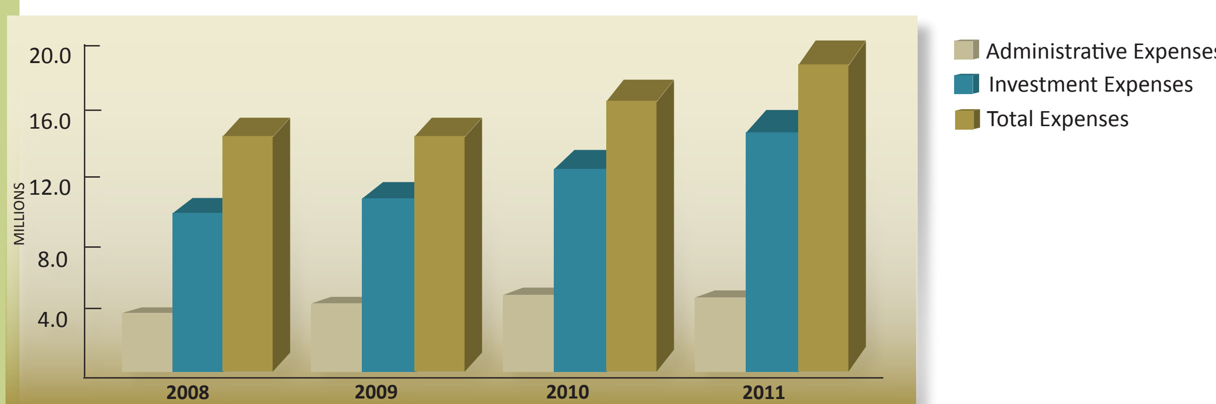
Net assets available for benefits increased by $209 million in 2011 for a total of $3.5 billion.

Benefits and Contributions

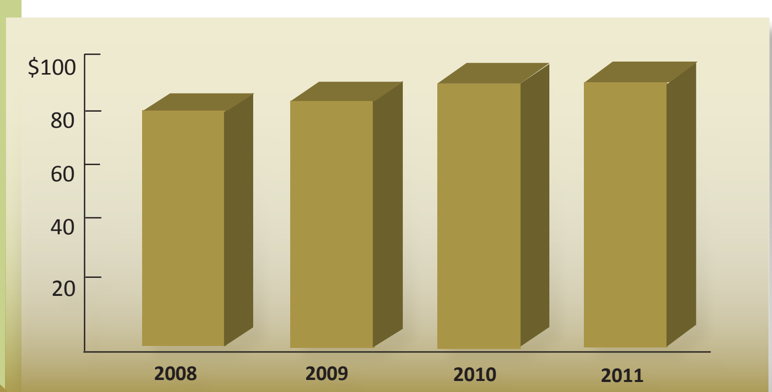


Contribution rates remained steady at a combined member and employer rate of 17.3% of payroll. In 2011, total employee and employer contributions to the Plan were $276 million. $165 million was paid out in pension, termination and death benefits during the year; a 15% increase over the previous year.

Administrative Expenses, Investment Expenses, and Total Expenses



Administrative Cost per Member



SHEPP remains committed to administering the Plan in a cost effective manner. In 2011, the cost of providing services to Plan members was $88.70. This cost remains one of the lowest among other Canadian public sector pension plans that benchmark costs.

Member Services

We provide a number of services to Plan members throughout their entire membership in the Plan. Our vision is excellence in pension plan administration and whether we are providing pension benefit calculations, helping members through the retirement planning process or discussing Plan benefits with new Members, our goal is to provide the highest quality of service.

This means friendly, timely and accurate service designed to keep members up-to-date with the personalized information they need to make informed decisions about their retirement.

Customer Service

Our mission is to serve the best pension interests of our members. One of the ways we do this is by providing friendly and efficient customer service through a variety of channels including in person, by phone, fax, regular mail and e-mail. In 2011, SHEPP handled thousands of requests for information from our members including 9,004 retirements, termination and death benefit calculations (an increase of 6% over last year) and 142 spousal relationship breakdown calculations (an increase of 3% over last year).

We continue to deliver presentations throughout the province to enhance our members' and participating employers' understanding of the Plan's terms and conditions and strengthen our relationship with our stakeholders.

Personalized information

Annually, active and deferred members receive personalized statements of their SHEPP benefits, contributions and service. These statements use a friendly format to help members better understand the key features of their SHEPP benefits.

Print and Online Materials

SHEPP publishes a full range of printed materials relating to the Plan. *A Summary for Plan Members* is our Plan booklet, and explains the Plan and its benefits in detail.

Information sheets such as beneficiary designations, purchase of prior service, spousal relationship breakdown, power of attorney and portability agreement transfers are available. We are constantly expanding our list of information sheets to ensure important plan policies and information are communicated to Plan members and participating employers.

Our website, **www.shepp.ca**, provides a wealth of information on everything from governance to investments, as well as links to other websites you might find valuable.

Member Services

SHEPP*Web*

SHEPP*Web* is the secure online pension information portal for active Plan members. Through SHEPP*Web* active Plan members can:

- perform unlimited pension projection calculations;
- perform unlimited prior service purchase cost calculations;
- view and print their most recent member's annual statement;
- view and update key portions of their SHEPP member record;
- designate a beneficiary; and
- request pension estimates, prior service purchase and spousal breakdown calculations from SHEPP.

More than 34,000 statements were mailed to members last year.

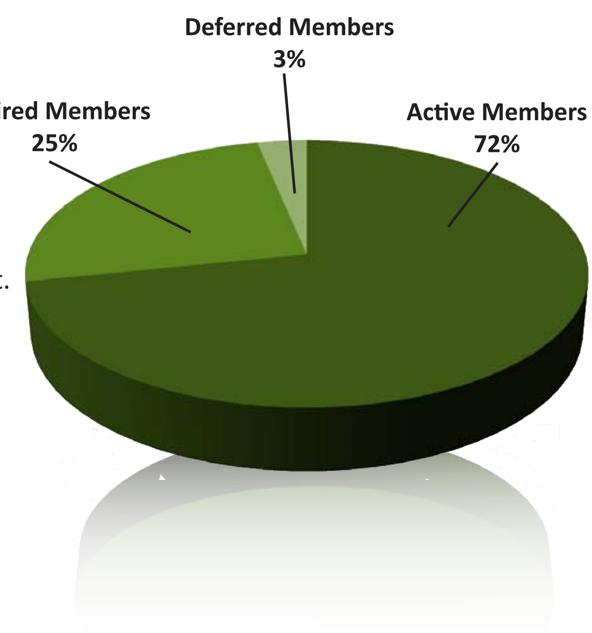
In 2011, SHEPP*Web* was accessed by 8,450 users and more than 2.2 million pages were viewed. That is almost 1.5 times more viewed pages than the previous year.

On enrollment in the Plan members receive a SHEPP*Web* username and password. This service gives members more flexibility and access to their pension information 24 hours a day, seven days a week.

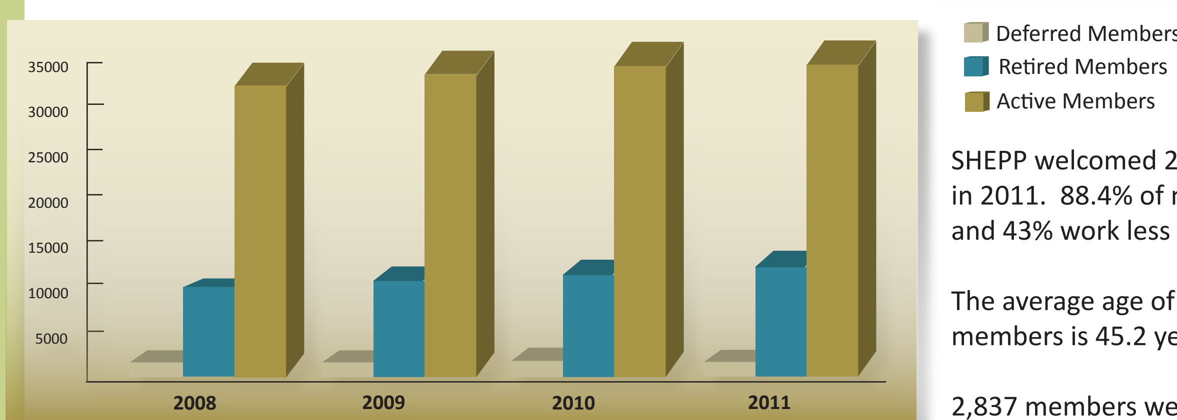
SHEPP Serves 47,735 Members

We are proud to serve:

- 34,269 active members including members absent from employment due to approved disability.
- 11,907 retired members, surviving spouses and beneficiaries
- 1,559 deferred members, or former members who left their funds in SHEPP to collect a pension at retirement.



Historical Profile



SHEPP welcomed 2,654 new members in 2011. 88.4% of members are female and 43% work less than full-time.

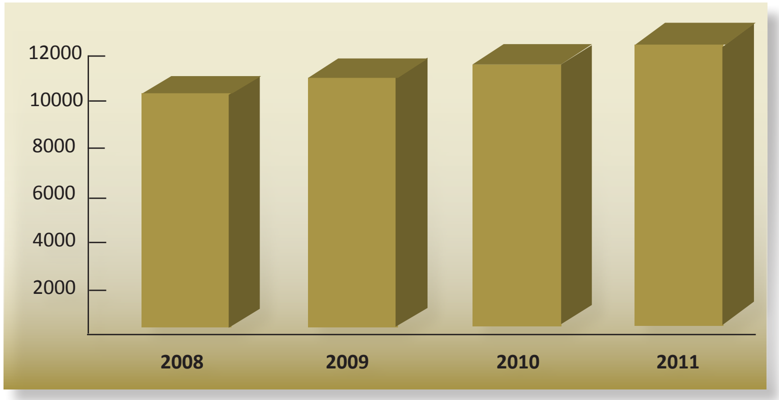
The average age of active Plan members is 45.2 years old.

2,837 members were absent from employment for all or part of 2011 due to approved disability. These members received service credit under the Plan for the period of approved disability.

Retired Members, Spouses and Beneficiaries.

In 2011, we provided accurate and timely pension payments to 11,907 retired members, surviving spouses and beneficiaries of retired members including 733 newly retired members.

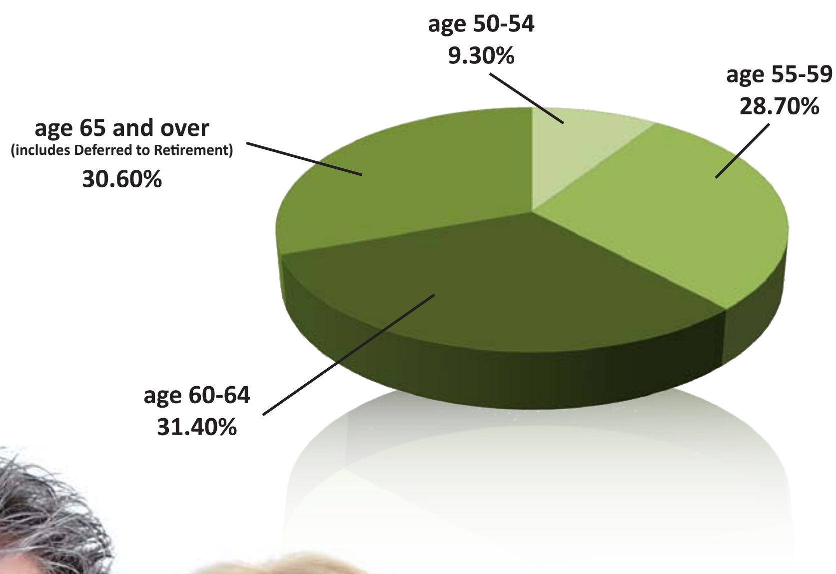
Number of Retired Members, Spouses and Beneficiaries



During the next 10 years, 12,239 members will be eligible to retire with an unreduced pension.

The average new lifetime pension in 2011 was $1,375.20 per month. In addition, the average bridge benefit was $324.51 per month for members who met the rule of 80 (age plus credited service).

Age of New Retired Members



Fund Performance

How the Fund is Invested

SHEPP's assets are invested in accordance with the Board of Trustees' investment philosophy and objectives, which are outlined in the Statement of Investment Policies and Procedures.

The Board's goal is to ensure there will be sufficient funds available to pay the benefits promised under the Plan. The investment goal is one of prudence, with a view to earning the best possible returns within an acceptable level of risk.

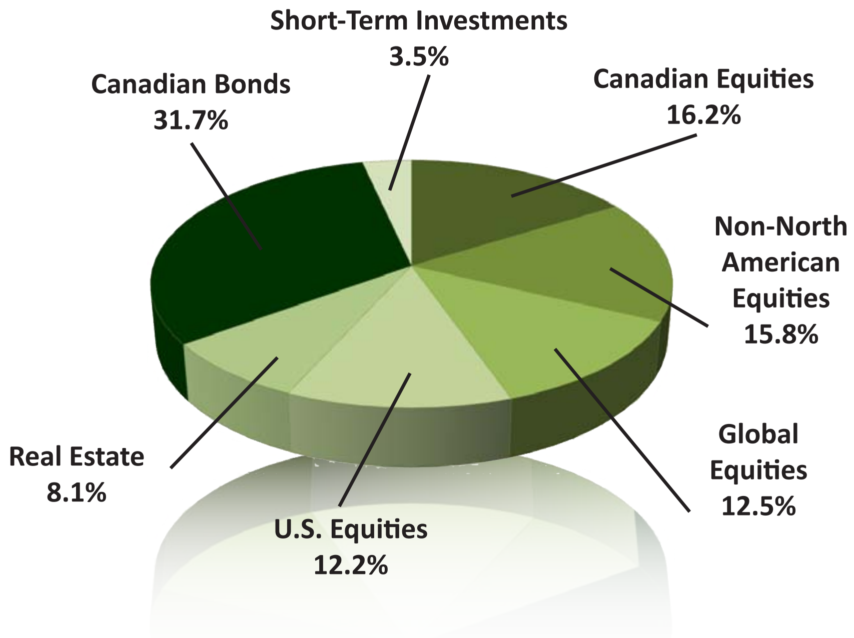
What the Fund is Invested in

The following charts show the Fund's investment by asset class.

Historical Asset Mix (%)

	2008	2009	2010	2011
Canadian Equities	15.5	17.8	17.9	16.2
Non-North American Equities	14.9	16.0	16.3	15.8
Global Equities	12.2	13.2	12.8	12.5
U.S. Equities	10.6	12.2	11.9	12.2
Real Estate	1.7	4.2	7.0	8.1
Canadian Bonds	42.9	35.5	32.6	31.7
Short-Term Investments	2.2	1.1	1.5	3.5
	100	100	100	100

Asset Mix



2011 Investment Performance

The long-term performance objectives of the Fund's investments are to outperform the benchmark set for the total Fund and for each asset class. The benchmark reflects the performance of the markets in which the Fund is invested.

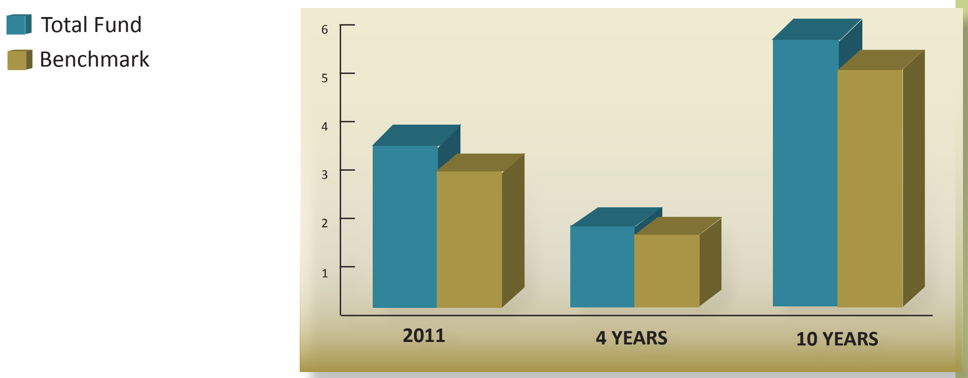
In 2011, the Fund achieved a 3.5 percent rate of return. The total Fund return outperformed the total Fund benchmark return by 0.6 percent for the year, due mainly to active management led by above index foreign equities and real estate.

The Fund's four-year annualized rate of return was 1.7 per cent versus the comparative benchmark return of 1.5 percent and the 10 year annualized rate of return was 5.6 percent versus 5.0 per cent for the benchmark.

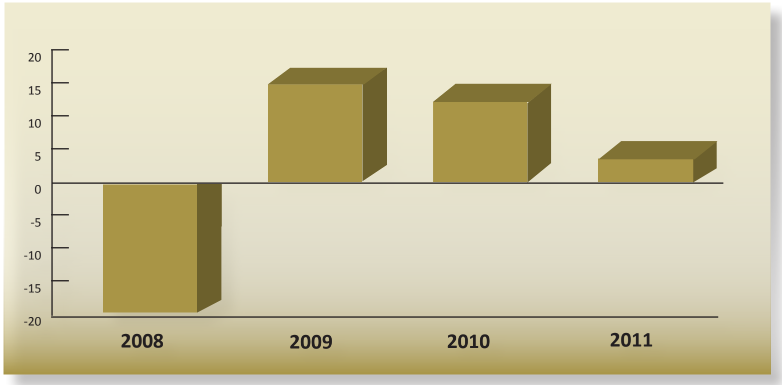
Total Fund Return

	2009	2010	2011
Annual Return	15.1	12.2	3.5
Annual Benchmark	16.9	12.0	2.9
Four Year Annualized Return	1.9	1.5	1.7
Four Year Annualized Benchmark	1.7	1.4	1.5

Total Fund vs. Benchmark Return (%)



Historical Fund Return (%)



SHEPP's Statement of Investment Policies and Procedures is available online at **www.shepp.ca**.

SHEPP's long-term target asset mix is about 60 percent equities, 25 percent fixed-income (bonds), 10 percent real estate and five percent infrastructure.

Management's Responsibility for Financial Reporting

The SHEPP consolidated financial statements and all the information in the Annual Report are the responsibility of management and have been approved by the Board of Trustees.

The consolidated financial statements have been prepared in accordance with Canadian Institute of Chartered Accountants (CICA) Handbook, section 4600 Pension Plans. For matters not addressed in section 4600, International Financial Reporting Standards (IFRS) guidance has been implemented.

The consolidated financial statements include some amounts that are necessarily based on management's best estimate and judgments. Financial and operating information presented in the Annual Report are consistent with the consolidated financial statements. Systems of internal control and practices are maintained to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records maintained.

KPMG LLP, the external auditor appointed by the Board of Trustees, has conducted an independent examination of the consolidated financial statements in accordance with generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion in the Auditor's Report. The external auditor has unrestricted access to management and the Board of Trustees to discuss any findings related to the integrity of the Plan's financial reporting and adequacy of the internal control system.

Brad Garvey

Brad Garvey
CEO

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Regina Saskatchewan S4P 4K9
Canada

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the Saskatchewan Healthcare Employees' Pension Plan

We have audited the accompanying financial statements of Saskatchewan Healthcare Employees' Pension Plan, which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the statements of changes in net assets available for benefits and change in pension obligations for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Saskatchewan Healthcare Employees' Pension Plan as at December 31, 2011, December 31, 2010 and January 1, 2010, and the changes in its net assets available for benefits and pension obligations for the years ended December 31, 2011 and December 31, 2010 in accordance with Canadian accounting standards for pension plans.

KPMG LLP

Chartered Accountants

Regina, Canada
May 23, 2012

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
Statement of Financial Position
As at December 31

	2011 (000's)	2010 (000's)	January 1, 2010 (000's)
ASSETS			
Investments (Note 5)	$ 3,190,389	$ 3,172,882	$ 2,743,491
Investments under security lending program (Note 5)	350,413	157,982	170,451
Accrued interest receivable	176	489	444
Members' contributions receivable	10,675	9,222	7,967
Employers' contributions receivable	11,956	10,329	8,923
Dividends receivable	3,847	2,196	2,600
Securities transactions receivable	244	4,716	-
Property and equipment (Note 6)	149	132	103
Intangible assets (Note 7)	771	1,017	1,263
Other receivables	237	209	178
Prepaid expenses	76	60	73
	3,568,933	3,359,234	2,935,493
LIABILITIES			
Accounts payable	3,711	3,384	2,173
Securities transactions payable	-	-	520
	3,711	3,384	2,693
NET ASSETS AVAILABLE FOR BENEFITS	3,565,222	3,355,850	2,932,800
PENSION OBLIGATIONS (Note 9)	4,089,000	3,765,300	3,782,400
DEFICIT	$ (523,778)	$ (409,450)	$ (849,600)

See accompanying notes

Approved by the Board of Trustees and signed on their behalf on May 23, 2012

Chair

Vice-Chair

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
Statement of Changes in Net Assets Available for Benefits
For the Year Ended December 31

	2011 (000's)	2010 (000's)
INCREASE IN NET ASSETS		
Contributions - Members	$ **128,810**	$ 103,672
- Employers	**144,267**	116,112
- Other	**3,082**	2,952
Investment income (Note 8)	**59,748**	52,177
Net realized gain on investments	**77,914**	95,880
Realized gain on foreign exchange	**-**	42,895
	413,821	413,688
DECREASE IN NET ASSETS		
Pension benefits	**131,064**	116,037
Terminations and death benefits	**34,447**	27,422
Change in provision for accrued pension benefits	**323,700**	(17,100)
Realized loss on foreign exchange	**31,299**	-
	520,510	126,359
EXPENSES		
Administrative expenses (Schedule 1)	**3,297**	3,042
Custodian fees	**455**	362
Fund management fees (Schedule 2)	**12,424**	10,967
Investment consulting fees	**349**	290
Investment transaction fees	**1,082**	596
Professional fees	**937**	1,120
	18,544	16,377
	539,054	142,736
UNREALIZED GAINS (LOSSES)		
Unrealized market value gain (loss)	**(10,019)**	193,634
Unrealized gain (loss) on foreign exchange	**20,924**	(24,436)
	10,905	169,198
NET INCREASE (DECREASE) IN NET ASSETS AVAILABLE FOR BENEFITS	**(114,328)**	440,150
DEFICIT, BEGINNING OF YEAR	**(409,450)**	(849,600)
DEFICIT, END OF YEAR	$ **(523,778)**	$ (409,450)

See accompanying notes

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
Statement of Change in Pension Obligations
For the Year Ended December 31

		2011 (000's)		2010 (000's)
PENSION OBLIGATIONS, BEGINNING OF YEAR	**$**	**3,765,300**	$	3,782,400
Current service costs		**175,721**		175,150
Benefits paid by the plan		**(165,511)**		(143,486)
Interest expense		**273,354**		246,885
Change in actuarial assumption		**-**		(310,000)
Experience losses		**40,136**		14,351
PENSION OBLIGATIONS, END OF YEAR (Note 9)	**$**	**4,089,000**	$	3,765,300

See accompanying notes

1. Saskatchewan Healthcare Employees' Pension Plan

The Saskatchewan Healthcare Employees' Pension Plan (SHEPP) is a multi-employer defined benefit pension plan registered under *The Pension Benefits Act, 1992* (Saskatchewan) and the *Income Tax Act* (Canada). The Plan is governed by a Board of Trustees pursuant to an Agreement and Declaration of Trust dated December 31, 2002. Four trustees are appointed by the Saskatchewan Association of Health Organizations (SAHO) and four healthcare unions each appoint one trustee. The Chief Executive Officer and SHEPP staff are responsible for the administration of the Plan, subject to Board monitoring and review.

2. Basis of Preparation

a) Statement of compliance

The financial statements for the year ended December 31, 2011 have been prepared in accordance with Canadian Institute of Chartered Accountants (CICA) Handbook section 4600, Pension Plans. For matters not addressed in section 4600, International Financial Reporting Standards (IFRS) guidance has been implemented.

The Plan's financial statements were previously in accordance with Canadian Generally Accepted Accounting Principles (GAAP). While previous Canadian GAAP differs in some areas from section 4600 and IFRS, there were no differences that affected the financial statements of the Plan.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for financial instruments which have been measured at fair value.

c) Functional and presentation currency

These financial statements are presented in Canadian Dollars, which is the Plan's functional currency and are rounded to the nearest thousand unless otherwise noted.

d) Use of estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of pension obligations (note 9).

3. Description of Plan

The following description of the Plan is a summary only. For more complete information reference should be made to the Plan text.

a) Effective date

The effective date of the Plan was March 1, 1962.

3. Description of Plan (continued)

b) *Eligibility*

Eligible permanent full-time and permanent part-time employees of SHEPP employers must participate.

Membership is optional for eligible casual and temporary employees who work at least 780 hours in the immediately preceding calendar year or at least 700 hours in each of the two immediately preceding calendar years.

c) *Member contributions*

SHEPP employers are responsible for the accuracy and completeness of the payroll information on which contributions are remitted and benefits determined under the Plan. Contributions are made by both members and SHEPP employers in accordance with the provisions of the Plan.

For the period from January 1 to March 31, 2011 members were required to contribute 7.2 per cent of their pensionable earnings up to the Year's Maximum Pensionable Earnings (YMPE) and 9.6 per cent of pensionable earnings above the YMPE. For the period from April 1 to December 31, 2011 members are required to contribute 7.7 per cent of their pensionable earnings up to the Year's Maximum Pensionable Earnings (YMPE) and 10 per cent of pensionable earnings above the YMPE.

Plan members may purchase eligible prior service provided they satisfy the full purchase cost. These contributions are referred to as additional purchased service contributions and may be purchased on a current service or prior service basis.

Plan members may transfer in service and contributions from the pension plan of a prior employer. These contributions are referred to as portability transfer contributions.

d) *Employer contributions*

Employers contribute 112 per cent of a member's required contributions.

e) *Amount of pension*

Subject to the maximum pension limits set out in the Plan Text the basic lifetime pension is equal to the sum of:

(i) 2 per cent of highest average contributory earnings (HACE)[1] multiplied by years of credited service up to December 31, 1989, plus

(ii) 1.65 per cent of highest average base contributory earnings (HABCE)[2] plus two per cent of highest average excess contributory earnings (HAECE)[3] multiplied by years of credited service between January 1, 1990 and December 31, 2000, plus

(iii) 1.4 per cent of highest average base contributory earnings (HABCE) plus two per cent of highest average excess contributory earnings (HAECE) multiplied by years of credited service after January 1, 2001.

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[1] HACE – is the average of a member's four highest years of contributory earnings.
[2] HABCE – is the average of a member's contributory earnings up to the Year's Maximum Pensionable Earnings during the five highest calendar years of contributory earnings.
[3] HAECE – is the difference between a member's HACE and HABCE.

3. Description of Plan (continued)

f) Retirement dates

The normal retirement date of a member is the first day of the month coincident with or next following the member's 65th birthday.

Members can retire early with an unreduced pension as soon as their age and years of credited service add up to 80 years.

Members can retire with a reduced pension any time after age 55 with at least two years of service. The reduction applied to the member's pension depends on how long the member has worked for his or her employer. If the member has worked for at least 10 years, the pension is reduced by the lesser of:

(i) Three per cent multiplied by the number of years, and portions thereof, that the member is short of age 65, and

(ii) Three per cent multiplied by the number of years, and portions thereof, that the member's age plus credited service is short of 80 years, and

(iii) the greater of:

(a) Three per cent multiplied by the number of years, and portions thereof, that the member is short of age 62, and

(b) Three per cent multiplied by the number of years, and portions thereof, that the member's credited service is short of 20 years.

A member may delay receipt of pension payments until December 1 of the year in which they attain age 71. In this event, pension accruals will continue in the normal manner.

g) Transfer deficiency holdbacks

The valuation performed at December 31, 2010 revealed a solvency deficit of 19.72 per cent. SHEPP is required to apply a transfer deficiency holdback of 19.72 per cent to certain termination and death benefits. The transfer deficiency holdback plus applicable interest is paid within five years of the initial payment or when the Plan becomes fully funded on a solvency basis (whichever occurs first).

h) Death in service

On the death of a member before retirement, the member's surviving spouse receives the greater of:

(i) the sum of:

(a) the commuted value of the member's pension earned to the date of death in respect of all core credited service, plus excess contributions, if any, and

(b) the member's accumulated additional purchased service and portability transfer contributions, plus interest, and

(ii) the sum of:

(a) the commuted value of the member's core credited service pension earned from January 1, 1992 to the date of the member's death, plus excess contributions, if any, and

(b) twice the member's required contributions, with respect to pre-1992 core credited service, plus interest, plus the member's additional purchased service contributions and portability transfer contributions, plus interest.

3. Description of Plan (continued)

If the member is not survived by a spouse, or the spouse has completed and submitted the pre-retirement death benefit waiver form prescribed under *The Pension Benefits Act, 1992* (Saskatchewan), the death benefit is payable in a lump sum to the member's designated beneficiary or estate. Any payment that is not paid to the spouse is subject to a transfer deficiency holdback of 19.72 per cent of the death benefit. This transfer deficiency holdback is paid within five years of the initial death benefit payment.

i) Normal form of pension

The normal form of pension provides for monthly payments for life, with a minimum of 60 monthly payments being guaranteed in any event. Optional forms of pension are available on an actuarial equivalent basis. If the retiring member has a spouse, a joint life optional pension reduced by not more than 40 per cent on the member's death must be elected unless the spouse has waived this option.

j) Termination of employment

Benefit entitlement to members who are terminated depends upon whether or not the member is vested.

A member is vested if on termination, the member has:

- more than two years of credited service in which case the benefit is not locked in, or
- more than two years of continuous service in which case the benefit is locked in.

A non-vested member is entitled to a refund of his or her own required and additional purchased service contributions, plus interest as either:

- a taxable payment issued directly to the member, or
- a tax exempt transfer directly to the member's personal registered retirement savings plan or other qualifying vehicle.

A vested member may discharge his or her non-locked in deferred pension and receive a refund of his or her own required and additional purchased service contribution as either:

- a taxable payment issued to the member, or
- a tax-exempt transfer directly to the member's personal RRSP or other qualifying vehicle.

A vested member is entitled to a deferred pension payable at age 65. The member's deferred pension is calculated based on the member's credited service and contributory earnings at the date of termination.

A vested member may discharge his or her locked-in deferred pension and transfer the present value of the deferred pension to a personal registered retirement savings plan or another registered pension plan, providing the funds transferred are administered on a locked-in basis.

k) Disability benefit

Members who become disabled under the terms of the Plan will continue to earn credited service under the Plan. Their pension at retirement is based on all years of credited service including those on approved disability, and their highest average contributory earnings are calculated assuming they had made contributions during disability based on their salary when the disability commenced.

l) Maximum employee cost

At least 50 per cent of the cost of the benefit payable at retirement or termination of employment to a member who is vested and locked-in must be provided by employer contributions. Any "excess" contributions on termination or retirement are refundable to the member.

3. Description of Plan (continued)

m) Interest

For the purpose of calculating accumulated member contributions, interest rates are applied in respect of required contributions at the rates of interest determined by SHEPP from time to time, but in no event are lower than the minimum rate required by *The Pension Benefits Act, 1992* (Saskatchewan).

4. Significant Accounting Policies

Effective January 1, 2011 the Plan adopted section 4600 of the CICA Handbook which replaces section 4100. This section provides guidance in the measurement of the Plan's pension obligations and any investments held by the Plan. This section also provides the Plan with the ability to select and follow International Financial Reporting Standards (IFRS) or Accounting Standards for Private Enterprises for all other accounting policies. The Plan has chosen to adopt the relevant sections in IFRS. The new recommendations have been implemented retroactively and have no material impact on the financial statements.

The financial statements are prepared in accordance with Canadian Accounting Standards for pension plans. The following policies are considered to be significant.

a) Revenue recognition

Interest on bonds, debentures, mortgages and short term investments is recognized as it accrues. Income from real estate equity investments is recognized on the accrual basis as earned. Dividend income and pooled fund distributions are recognized as of the date of record. Investment transactions are accounted for on the trade date. Realized gains and losses on currency forward contracts are recognized on the settlement date and unrealized gains and losses are recognized with reference to the fair value determined using appropriate valuation techniques. The Plan follows the accrual method for the recording of income and expenses.

b) Financial instruments

Bonds, equities and short term investments are valued at fair value based on year-end market quotations. Bond, mortgage and equity pooled funds are valued at fair value based on the quoted market values of the underlying investments, based on the latest bid prices. Unlisted bonds are valued at fair value reflecting current market yields of similar debt obligations. Currency forward contracts are valued at fair value determined using appropriate valuation techniques. Real estate funds are valued at fair value based on the most recent appraisal and earnings results. Real estate equity investments are valued at fair value based on the most recent appraisal.

c) Investments under securities lending program

Securities lending transactions are entered into on a collateralized basis. The securities lent are not derecognized on the statements of financial position given that the risks and rewards of ownership are not transferred from the Plan to the counterparties in the course of such transactions. The securities are reported separately on the statement of financial position on the basis that the counterparties may resell or re-pledge the securities during the time that the securities are in their possession.

Securities and cash received from counterparties as collateral are not recorded on the statement of financial position given that the risks and rewards of ownership are not transferred from the counterparties to the Plan in the course of such transactions.

4. Significant Accounting Policies (continued)

d) Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The depreciation method, the useful lives and the residual value of the assets are reviewed at each reporting date. Repairs and maintenance are recorded as administrative expenses in the period in which they have been incurred.

Depreciation is recorded on a straight-line basis, commencing in the year the asset is available to be placed in service, over the estimated useful lives as follows:

Leasehold improvements	10	years
Furniture and equipment	4 – 10	years
Computer equipment	2 – 4	years

Cost includes expenditures that are directly attributable to the acquisition of the asset. The Plan has not incurred borrowing costs attributable to property and equipment and therefore no borrowing costs have been capitalized.

e) Intangible assets

Intangible assets that are acquired by the Plan and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Amortization is recognized in net increase (decrease) in net assets on a straight-line basis over the estimated useful lives of intangible assets of between 5 and 10 years.

f) Provision for accrued pension benefits

The provision for accrued pension benefits represents the most recent actuarial present value of accrued pension benefits extrapolated to the year end reporting date. Any resulting change in this provision is recognized as a revenue or expense in the statement of changes in net assets available for benefits.

g) Foreign currencies

Foreign currency transactions are translated into Canadian dollars using the transaction date exchange rate. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect exchange rates at the balance sheet date. Exchange gains or losses arising on the translation of monetary assets and liabilities or sales of investments are included in the statement of changes in net assets in the year incurred. Future changes in the fair value of foreign currency derivative financial instruments are recognized as gains or losses in the period of change.

h) Income taxes

The Plan is not subject to income tax since it is a Registered Pension Plan as defined by the *Income Tax Act* (Canada).

i) New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Plan.

5. Investments

The objective of the Plan is to maintain sufficient assets to discharge future pension obligations and to generate cash flow required for pension plan payments. The fund has the following investments:

Summary of Investment Holdings:

Type	Years to Maturity	2011 Fair Value (000's)	2011 Yield (%)	2010 Fair Value (000's)	2010 Yield (%)	January 1, 2010 Fair Value (000's)	January 1, 2010 Yield (%)
Bonds							
Government of Canada	1 - 5	$ -		$ 65,542	2.3	$ -	
	6 - 10	-		14,761	3.0	-	
	10+	**998**	**2.5**	-		8,353	4.3
		998		80,303		8,353	
Provincial	6 - 10	**14,804**	**3.1**	-		-	
	10+	**368,581**	**3.4 – 3.8**	307,733	4.3 - 4.7	281,932	4.7 – 5.4
		383,385		307,733		281,932	
Corporate		**182,145**	**3.1 – 4.8**	130,467	3.4 - 4.8	133,277	4.4 - 5.5
Total bonds		**566,528**		518,503		423,562	
Bond pooled funds		**476,931**	**2.4 – 3.2**	493,857	3.1 - 4.2	483,812	3.4 - 4.7
Mortgage pooled fund		**41,798**	**4.6**	36,578	4.6	41,243	9.5
Equities and equity pooled funds							
Canadian equities		**312,652**		497,483		443,501	
Non-North American equities		**307,746**		299,474		274,432	
Non-North American pooled funds		**238,670**		227,931		174,422	
United States pooled funds		**432,435**		396,970		354,810	
Global pooled funds		**442,396**		428,693		385,830	
Total equities and equity pooled funds		**1,733,899**		1,850,551		1,632,995	
Other							
Short term investments		**24,479**		19,948		13,700	
Real estate pooled fund		**182,137**		166,310		80,122	
Real estate equity investments		**104,893**		65,407		37,819	
Cash		**40,070**		19,470		21,588	
Currency forward contracts		**19,654**		2,258		8,650	
Total other		**371,233**		273,393		161,879	
Total Investments		**$ 3,190,389**		$ 3,172,882		$ 2,743,491	
Investments under securities lending program							
Government of Canada	6 - 10	**10,057**	**1.9**	-		70,101	4.1 – 4.2
	10+	**9,451**	**2.5**	-		-	
Provincial bonds	10+	**16,006**	**3.5 – 3.8**	37,454	4.3 – 4.7	16,385	4.7 – 5.4
Canadian equities		**257,961**		100,262		75,185	
Non-North American equities		**14,659**		15,209		8,520	
Short term investments		**42,279**		5,057		260	
Total investments under securities lending program		**$ 350,413**		$ 157,982		$ 170,451	

Bonds, bond pooled funds and mortgage pooled funds

Bonds are subject to a minimum quality standard of BBB or equivalent. In the active bond mandate, BBB bonds or lower may not be purchased if they comprise more than 15 per cent of the book value of the total portfolio of any individual manager. No single issuer is to exceed 10 per cent of the carrying value of the fund except for securities issued or guaranteed by the provincial or federal governments. No more than 20 per cent of the carrying value of the bond portfolio may be held in foreign issuer bonds. Pooled funds have no fixed distribution rate and returns are based on the success of the fund managers.

5. Investments (continued)

Equities and equity pooled funds

Pooled funds have no fixed distribution rates and returns are based on the success of the fund managers. No one holding of an individual stock may represent more than 10 per cent of the carrying value of the specific equity mandate. Stock shorting is permitted and limited to a band of 25 to 35 per cent of the carrying value, with a target of 30 per cent. At December 31, 2011 stock shorting was permitted in one investment mandate with a carrying value of $266,000,000 (2010 - $248,000,000).

Short-term investments

Short-term investments are comprised of investments with less than one year to maturity. The Plan requires a minimum R-1 or equivalent rating.

Real estate pooled fund

The real estate pooled fund portfolio is diversified by property type and geographic location.

Real estate equity investments

The Plan invests in real estate equity investments through its 100 per cent owned subsidiary, Sunrise Properties Ltd. These properties are located in Ontario, Quebec, Alberta, and British Columbia.

Derivative financial instruments – currency forward contracts

Currency forward contracts are financial contracts, the value of which is derived from underlying assets or indices. Derivative transactions are conducted in the over-the-counter market directly between two counterparties or on regulated exchanges. Derivatives are permitted in the Statement of Investment Policy & Procedures (SIP&P) and may not be used for speculative purposes or to create net leverage of the Plan.

Fair value hierarchy

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. The determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

Level 1 – Where quoted prices are readily available from an active market.

Level 2 – Valuation model not using quoted prices, but still using predominantly observable market inputs such as interest rates.

Level 3 – Models using inputs that are not based on observable market data.

5. Investments (continued)

2011
(000's)

	Level 1	Level 2	Level 3	Total
Short-term investments	$ -	$ 66,758	$ -	$ 66,758
Bonds, bond pooled funds and mortgage pooled funds	-	1,120,771	-	1,120,771
Canadian equities	570,492	-	121	570,613
Non-North American equities	322,405	-	-	322,405
United States pooled funds	-	432,435	-	432,435
Non-North America pooled funds	-	238,670	-	238,670
Global pooled funds	-	442,396	-	442,396
Real estate pooled fund	-	-	182,137	182,137
Real estate equity investments	-	104,893	-	104,893
Currency forward contracts	-	19,654	-	19,654
	$ 892,897	**$ 2,425,577**	**$ 182,258**	**$ 3,500,732**

2010
(000's)

	Level 1	Level 2	Level 3	Total
Short-term investments	$ -	$ 25,005	$ -	$ 25,005
Bonds, bond pooled funds and mortgage pooled funds	-	1,086,392	-	1,086,392
Canadian equities	597,745	-	-	597,745
Non-North American equities	314,683	-	-	314,683
United States pooled funds	-	396,970	-	396,970
Non-North America pooled funds	-	227,931	-	227,931
Global pooled funds	-	428,693	-	428,693
Real estate pooled fund	-	-	166,310	166,310
Real estate equity investments	-	65,407	-	65,407
Currency forward contracts	-	2,258	-	2,258
	$ 912,428	$ 2,232,656	$ 166,310	$ 3,311,394

January 1, 2010
(000's)

	Level 1	Level 2	Level 3	Total
Short-term investments	$ -	$ 13,960	$ -	$ 13,960
Bonds, bond pooled funds and mortgage pooled funds	-	1,035,103	-	1,035,103
Canadian equities	518,686	-	-	518,686
Non-North American equities	282,952	-	-	282,952
United States pooled funds	-	354,810	-	354,810
Non-North America pooled funds	-	174,422	-	174,422
Global pooled funds	-	385,830	-	385,830
Real estate pooled fund	-	-	80,122	80,122
Real estate equity investments	-	37,819	-	37,819
Currency forward contracts	-	8,650	-	8,650
	$ 801,638	$ 2,010,594	$ 80,122	$ 2,892,354

5. Investments (continued)

Level 3 Reconciliation

	2011 (000's) Pooled Real Estate	2010 (000's) Pooled Real Estate
Opening balance	$ 166,310	$ 80,122
Acquisitions	-	75,351
Dispositions	(6,385)	-
Realized gain (loss)	2,752	-
Change in unrealized gain (loss)	19,460	10,837
	$ 182,137	$ 166,310

During the financial years ended December 31, 2011 and December 31, 2010 no investments were transferred between levels.

6. Property and Equipment

	Furniture and Equipment (000)'s	Computer Equipment (000)'s	Leasehold Improvements (000)'s	Total (000)'s
Cost or deemed cost				
Balance at January 1, 2010	$ 109	$ 86	$ 34	$ 229
Additions	43	7	-	50
Balance at December 31, 2010	$ 152	$ 93	$ 34	$ 279
Balance at January 1, 2011	$ 152	$ 93	$ 34	$ 279
Additions	-	50	-	50
Balance at December 31, 2011	$ 152	$ 143	$ 34	$ 329
Amortization				
Balance at January 1, 2010	$ 56	$ 54	$ 16	$ 126
Depreciation for the year	8	9	4	21
Balance at December 31, 2010	$ 64	$ 63	$ 20	$ 147
Balance at January 1, 2011	$ 64	$ 63	$ 20	$ 147
Depreciation for the year	13	16	4	33
Balance at December 31, 2011	$ 77	$ 79	$ 24	$ 180
Carrying amounts				
Balance at January 1, 2010	$ 53	$ 32	$ 18	$ 103
Balance at December 31, 2010	$ 88	$ 30	$ 14	$ 132
Balance at January 1, 2011	$ 88	$ 30	$ 14	$ 132
Balance at December 31, 2011	$ 75	$ 64	$ 10	$ 149

7. Intangible Assets

	Pension Administration system (000)'s	Total (000)'s
Cost or deemed cost		
Balance at January 1, 2010	$ 2,415	$ 2,415
Balance at December 31, 2010	$ 2,415	$ 2,415
Balance at January 1, 2011	$ 2,415	$ 2,415
Balance at December 31, 2011	$ 2,415	$ 2,415
Amortization		
Balance at January 1, 2010	$ 1,152	$ 1,152
Amortization for the year	246	246
Balance at December 31, 2010	$ 1,398	$ 1,398
Balance at January 1, 2011	$ 1,398	$ 1,398
Amortization for the year	246	246
Balance at December 31, 2011	$ 1,644	$ 1,644
Carrying amounts		
Balance at January 1, 2010	$ 1,263	$ 1,263
Balance at December 31, 2010	$ 1,017	$ 1,017
Balance at January 1, 2011	$ 1,017	$ 1,017
Balance at December 31, 2011	$ 771	$ 771

8. Investment Income

	2011 (000's)	2010 (000's)
Bond interest	**$ 14,471**	$ 12,084
Dividends	**44,035**	39,422
Interest on short term investments and cash balances	**778**	285
Other income	**464**	386
	$ 59,748	$ 52,177

9. Pension Obligations

The pension obligations are the actuarial present value of the future expected pension benefit obligation to members as determined by the actuarial valuation done by Aon Hewitt, an independent actuarial consulting firm, at least every three years. The last actuarial valuation was performed as of December 31, 2010. The present value of accrued pension benefits was then extrapolated to December 31, 2011 using the funding valuation cost method with the expectation that the Plan will continue on an ongoing basis.

9. Pension Obligations (continued)

The assumptions used in determining the provision for accrued pension benefits may change from year to year depending upon current and long-term market conditions. The following is a summary of the significant actuarial assumptions:

Assumptions	2011	2010
Discount rate	7.25%	7.25%
Inflation rate	2.50%	2.50%
Mortality table	UP1994 projected to 2020	UP1994 projected to 2020
Remaining service life	11.4 years	11.5 years
Salary Projection		
• SUN Members	3.50% for 2012 plus 2.0% for any member who attains 20 years of service	5.00% for 2011 and 3.50% thereafter plus 2.0% for any member who attains 20 years of service
• All Other Members	3.50% for 2012 and thereafter	2.00% for 2011, 3.75% for 2012 and 3.50% thereafter

The following illustrates the effect of changes in the interest rate and the salary and pensionable earnings assumptions:

- A one per cent change in the discount rate results in approximately a 15 per cent change in the provision;
- A one per cent change in the salary scale and the pensionable earnings levels results in approximately a 3 per cent change in the provision.

10. Financial Risk Management

The nature of the Plan's operations results in a statement of financial position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk), and liquidity risk.

Significant financial risks are related to the Plan's investments. These financial risks are managed by having a Statement of Investment Policies and Procedures (SIP&P), which is subject to review and approval by the Board of Trustees not less than annually.

Permitted investments under the SIP&P include equities; fixed income; cash and short-term investments; mortgages; derivatives; real estate; infrastructure and pooled funds. By investing in a well diversified portfolio of asset classes and further diversifying within each asset class, risk is reduced. The SIP&P sets out the asset mix to achieve sufficient asset growth on a risk controlled basis. The minimum, maximum and target weightings for each asset class, and sub-class, are clearly established within the total fund policy asset mix.

The SIP&P sets out a minimum quality requirement of "BBB" for bonds and debentures at the time of purchase; a minimum rating of "R-1" for short-term investments at the time of purchase and a minimum quality standard of "A" at the time of transaction for counterparties in a derivative transaction. Downgrades in qualities of an asset below the established purchased standards require immediate disclosure to the Board and require the affected investment manager to set out a course of action to resolve the deviation.

In addition the SIP&P includes maximum quantity restrictions. With limited specific exceptions, debt and equity holdings in a single company are limited to 10 per cent of the carrying value of the total fund. The fund may not invest directly or indirectly in the securities of a corporation representing more than 30 per cent of the votes that may be cast to elect the directors of the corporation.

Maximum quantity restrictions are also applied at the investment manager level. Each investment manager engaged by the Plan is responsible for investing the assets of the fund in accordance with the SIP&P, the mandate prescribed by SHEPP for the manager and the agreement under which SHEPP has contracted the manager's services.

10. Financial Risk Management (continued)

Credit risk

Credit risk is the risk that one party does not pay funds owed to another party. The Plan's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which the Plan is exposed at December 31, 2011 is limited to the carrying value of the financial assets summarized as follows:

	2011 (000's)	2010 (000's)	January 1, 2010 (000's)
Cash	**$ 40,070**	$ 19,470	$ 21,588
Accrued interest receivable	**176**	489	444
Members' contributions receivable	**10,675**	9,222	7,967
Employers' contributions receivable	**11,956**	10,329	8,923
Dividends receivable	**3,847**	2,196	2,600
Security transactions receivable	**244**	4,716	-
Other receivables	**237**	209	178
Short-term investments	**66,758**	25,005	13,960
Fixed income *	**1,120,771**	1,086,392	1,035,103
	$ 1,254,734	$ 1,158,028	$ 1,090,763

*Fixed income is comprised of bonds, bond pooled funds, and mortgage pooled funds.

Members' and employers' contributions receivable, dividends receivable and security transactions receivable are generally received in less than 30 days. Accrued interest receivable is received on the next scheduled payment date, generally either annually or semi-annually.

Credit risk within short-term and fixed income investments is managed through the investment policy that establishes a minimum credit quality for issuers and spreads the risk amongst several issuers. The investment policy requires a minimum credit quality for individual bonds of BBB for issuers at the time of issue unless otherwise specified in an investment manager's mandate and R-1 for short-term investments.

Credit ratings for fixed income investments are as follows:

	2011		2010		January 1, 2010	
Credit rating	**Fair Value (000's)**	**Makeup of Portfolio**	**Fair Value (000's)**	**Makeup of Portfolio**	**Fair Value (000's)**	**Makeup of Portfolio**
AAA	**$ 227,946**	**20.3%**	$ 299,861	27.6%	$ 293,445	28.3%
AA	**386,067**	**34.5%**	335,764	30.9%	305,989	29.6%
A	**416,800**	**37.2%**	381,982	35.2%	360,653	34.8%
BBB	**89,958**	**8.0%**	68,785	6.3%	75,016	7.3%
	$ 1,120,771	**100.0%**	$ 1,086,392	100.0%	$ 1,035,103	100.0%

The Plan is also subject to credit risk through its use of forward currency contracts. The contracts are entered into between the Plan and approved counterparties. The credit risk is mitigated by limiting counterparties to specific entities approved by the Board of Trustees.

As part of the Plan's securities lending strategy, collateral has been pledged to the Plan by various counterparties for securities out on loan to the counterparties. At December 31, 2011, the Plan's investments included loaned securities with a market value of $350,413,000 (2010 - $157,982,000) and the fair value of securities and cash collateral received in respect of these loans was $358,758,000 (2010 - $219,534,000).

10. Financial Risk Management (continued)

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Plan is exposed to changes in interest rates in its cash, short-term investments, bonds, bond pooled funds and mortgage pooled funds. Duration is a measure used to estimate the extent market values of these investments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point increase/decrease in interest rates would decrease/increase net assets by $164,880,000 at December 31, 2011 (2010 - $156,312,000); representing 13.4 per cent (2010 – 13.8 per cent) of the $1,227,599,000 (2010 - $1,130,847,000) fair value of these investments.

Foreign exchange risk

The Plan is subject to changes in the United States/Canadian dollar exchange rate on its United States denominated investments. Also, the Plan is exposed to other non-North American currencies through its investment in non-North American and global equities. At December 31, 2011, the Plan's exposure to United States equities was 19 per cent (2010 – 19 per cent) and its exposure to non-North American equities was 21 per cent (2010 – 20 per cent).

The Plan manages this risk through the use of currency futures or forwards. At December 31, 2011 the fair value of currency forward contracts payable was $2,368,144,000 (2010 - $1,126,481,000) and the fair value of currency fund contracts receivable was $2,387,834,000 (2010 - $1,128,743,000).

Equity price risk

The Plan is exposed to changes in equity prices in Canadian, United States and other markets. Equities comprise 56.7 per cent (2010 – 59.0 per cent) of the carrying value of the Plan's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. A 10 per cent change in equity prices would result in a $200,652,000 (2010 - $196,602,000) change in the Plan's net assets.

Real estate risk

Risk in the real estate portfolio is managed through diversification across types and locations. Adverse impacts in any one segment of the market or geographic location are minimized by having holdings diversified across property type, geographic location and investment size.

Liquidity risk

Liquidity risk is the risk that the Plan is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows.

11. Related Party Transactions

These financial statements include transactions for the Plan's administrative expenses paid to Saskatchewan Association of Health Organizations. All transactions are recorded at the exchange amounts agreed by the two parties.

	2011 (000's)	2010 (000's)
Expenses	**$ 74**	$ 70

Key management personnel compensation

Key management personnel are those persons having authority over the planning, directing, and controlling activities of the Plan, which include directors and executive officers.

Key management personnel compensation is comprised of:

	2011 (000's)	2010 (000's)
Short-term employee benefits	**$ 529**	$ 564
Post-employment benefits		
Defined benefit retirement allowance	**48**	50
	$ 577	$ 614

12. Comparative Figures

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

2011 SHEPP Board of Trustees

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Chief Executive Officer

Alison McKay
Chief Financial Officer

Cheldon Angus
Director of Information Systems
& Chief Privacy Officer

Liz Kutarna
Director of Investments

External Advisors and Agents

Actuary
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Performance Measurement Service
BNY Mellon Asset Servicing

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