SHEPP

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN

SHEPP 2015 ANNUAL REPORT

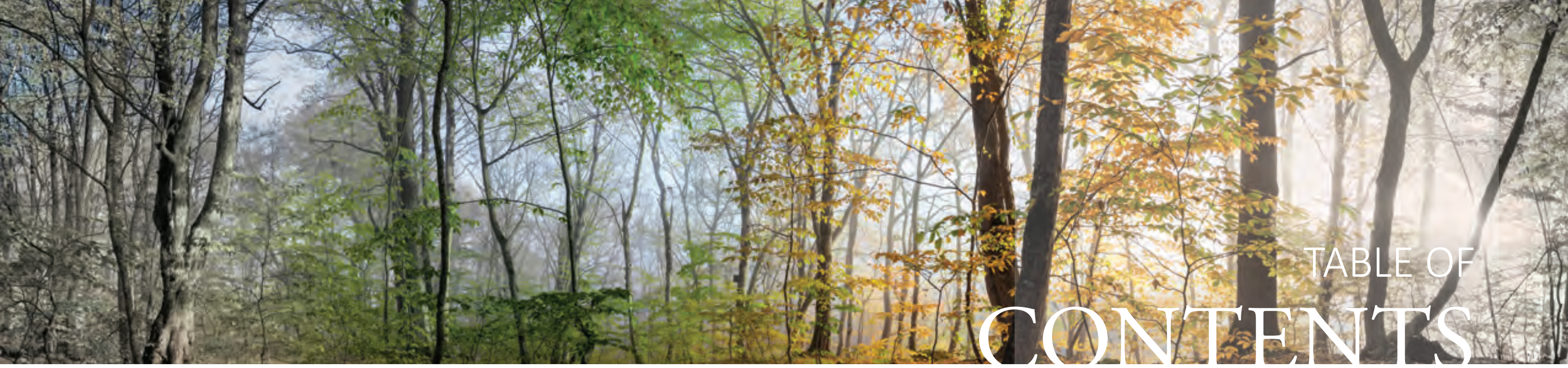


TABLE OF CONTENTS

INTRODUCTION

MANAGEMENT'S DISCUSSION & ANALYSIS

DIRECTORY

FINANCIAL STATEMENTS

DELIVERING ON OUR

PENSION PROMISE

PROVIDING RETIREMENT BENEFITS TO THE VAST MAJORITY OF HEALTHCARE EMPLOYEES IN THE PROVINCE.

The strong relationship between the Board of Trustees and Plan Administration has once again fuelled our success over the past year and positioned us well for continued success in the future. The Board's singular focus remains our pension promise; it was with this in mind that we made a number of important decisions over the past year to support the long-term funding and sustainability of the Plan.

In 2015 we further diversified the Fund's investment portfolio, optimising the asset mix and adding new mandates to help manage risk and minimise the impact of market volatility. With the value of the Fund more than double what it was just six years ago, we took steps to build internal capacity in the investment area and provide resources to support the increasing complexity of SHEPP's investments. Demonstrating our commitment to responsible investing, we amended our Statement of Investment Policies and Procedures to include Environmental, Social and Governance (ESG) criteria in the selection and monitoring of our investment managers. And finally, we supported Administration as they laid the groundwork to forge stronger relationships with important stakeholders.

The past year saw a number of changes at the Board level. We welcomed Stuart Cunningham and Marg Romanow, who were appointed to the SHEPP Board of Trustees by 3sHealth and SUN respectively, to assume the roles previously held by Leanne Ashdown and Randy Hoffman. We extend our gratitude to all Trustees, past and present, for their unwavering commitment to sound governance and careful, thoughtful oversight of the pension Fund.

On behalf of the entire Board, we would like to acknowledge the very capable and effective leadership of our CEO, Alison McKay, her senior management team and engaged group of highly professional employees who remain focused on providing excellent service. It is through their exceptional commitment and extraordinary effort that we continue to serve the best interests of Plan members.

Let us take this opportunity to celebrate where we have been and how far we have come in providing retirement benefits to the vast majority of healthcare employees in the province. We are tremendously proud of the hard work and dedication that has brought the Plan to where it is today and remain committed to providing adequate and sustainable retirement benefits to our members into the future.

Andrew Huculak, Chair

Jim Tomkins, Vice-Chair

FOCUSING ON

SUSTAINABILITY

STRIKING THE RIGHT BALANCE BETWEEN ADEQUATE RETURNS AND ACCEPTABLE RISK WILL BE OF UTMOST IMPORTANCE AS WE FORGE AHEAD.

I am pleased to report that 2015 was a good year for the Plan, not only from a financial perspective but from a governance and administration one as well.

Some very significant changes were made to the Fund's investment portfolio over the course of the year, which helped the Plan successfully navigate the uncertainty and volatility of the economic markets in 2015 to produce a strong investment return. We continued to implement the recommended changes to the investments of the Fund, as identified within the 2014 asset-liability study. This study will further integrate the pension risk management dashboard information with the objectives of achieving and maintaining full funded status, and will serve as the foundation for the development of an investment strategic plan. We also recruited the Plan's first Chief Investment Officer, who previously served as the Plan's investment consultant and brings over 25 years of experience to the Plan's Administration.

The Fund rate of return was 8.8%, exceeding the market benchmark by 0.9%, and bringing the total market value of net assets available for benefits to $5.9 billion at December 31, 2015. While recent years have provided positive returns, markets continue to be volatile. Striking the right balance between adequate returns and acceptable risk will be of utmost importance as we forge ahead.

2015 was the second year of our three-year strategic plan, and the Plan is well on its way to achieving the objectives identified. As part of our goal to foster and maintain effective and meaningful relationships with our stakeholders, we allocated significant time and resources throughout the year to engaging and solidifying the relationships between the Board, Plan Administration and the Partner Committees. Sustainability of pension plans like SHEPP continues to remain the subject of unparalleled discussion and scrutiny, despite strong investment performance. Defined benefit plans such as ours continue to search for ways to balance the volatility of the markets against other plan pressures such as increased life expectancy and its impact on plan funding. We are confident that more frequent information-sharing and meaningful dialogue among all levels of governance will strengthen the long-term funding and security of the Plan.

I feel extremely fortunate to lead a team of dedicated professionals, who are passionate about what they do and share a commitment to service excellence. With almost 54,000 members, SHEPP is the largest defined benefit pension plan in the province. It is only through the dedication and determination of our employees that we are able to deliver on our pension promise; serving the best interests of our members every day.

Alison McKay

Alison McKay, CEO

THE SHEPP PROMISE

MISSION

To serve the best interests of our members.

VISION

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

VALUES

Accountability, integrity, 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.

PLAN OVERVIEW

Established in 1962, the Saskatchewan Healthcare Employees' Pension Plan (SHEPP) has grown into the largest defined benefit pension plan in Saskatchewan and the only industry-wide pension plan serving the healthcare sector. SHEPP is a multi-employer plan with 61 participating employers and almost 54,000 members either receiving or entitled to a pension benefit under the Plan today.

The Plan is jointly trusteed, with equal representation from employers and employees. SHEPP is governed by the Agreement and Declaration of Trust and administered in compliance with the Plan Text, the *Pension Benefits Act* (Saskatchewan) and the *Income Tax Act* (Canada).

The Plan is funded by contributions from Plan members and participating employers, and by the investment earnings of the Plan's assets.

SHEPP has 42 employees in Regina.

THE LARGEST DEFINED BENEFIT PENSION PLAN IN SASKATCHEWAN.

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.

Excellence, initiative and innovation:

We approach our work with excitement and optimism. We are a high energy organisation with a "can-do" spirit. We are committed to achieving high standards in all that we do because our members deserve nothing less.

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.

STATE OF THE PENSION PLAN

ROBUST RISK MANAGEMENT IS HELPING CLOSE THE FUNDING GAP.

FINANCIAL STATUS

An investment return of 8.8% in 2015 resulted in an increase in net value of assets available for benefits of approximately $519.6 million, bringing the total value of net assets available for benefits to $5.9 billion at year-end. Pension obligations also increased, by $526.3 million, resulting in a slight decrease to the best-estimate funded position of the Plan, year-over-year.

The Plan is still in a positive financial situation on a best-estimate basis, with a surplus of $159.5 million as of December 31, 2015.

The value of the Fund has more than doubled in the last six years and, all else being equal, is on track to exceed $10 billion by 2022.

FUNDED STATUS

In recent years, many defined benefit pension plans, including SHEPP, have faced funding challenges. The growth of Plan assets relative to the growth of pension liabilities is the fundamental driver of funding volatility in a defined benefit pension plan. Declining long-term interest rates and increasing retirement longevity have adversely affected both fund assets and liabilities, making it increasingly more difficult for plans like SHEPP to provide adequate benefits at reasonable costs.

FUNDING REQUIREMENT

SHEPP's most recent valuation as at December 31, 2013 determined that the Plan has made progress in its recovery. No new unfunded liability has incurred since 2010. In fact, the deficit was reduced from $741 million in 2010 to $621 million in 2013. The going-concern funded status of the Plan improved in the same time frame from 82% to 88%.

The 2013 valuation also determined that no additional contribution rate increase was required to fund the deficit over the required time frame. The current combined member and employer required contribution rate is 18.3%, measured as a percentage of total payroll. This contribution rate is made up of two parts: the current service cost (including contribution stabilisation margin); and a temporary contribution to pay down the remaining deficit, which must be eliminated by 2025 according to legislation.

The next actuarial valuation is required as at December 31, 2016.

FUNDING POLICY

The Board's top priority is to secure members' benefits and second priority is to stabilise contribution rates, as articulated in the Funding Policy. The Board regularly monitors the funded status of the Plan, as well as investment performance, and the Plan actuary conducts an actuarial valuation at least every three years. The valuation makes calculated assumptions regarding a number of factors such as life expectancy and investment returns to establish expectations of how SHEPP's assets and liabilities may appear decades down the road. With that information, our actuary is able to determine appropriate contribution levels to fund future benefits.

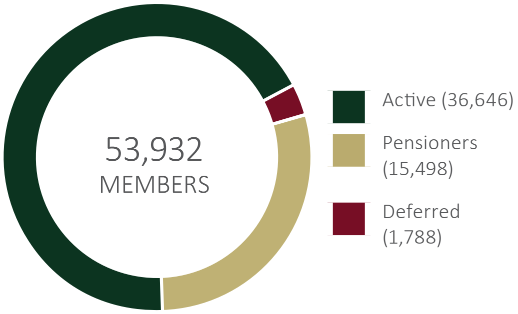
FUNDING CONSIDERATIONS

The primary risks facing the Plan are prolonged low interest rates, market volatility, increasing longevity and Plan maturity. Defined benefit plans, like SHEPP require robust risk management strategies – balancing variable financial risk factors and evolving demographic risk factors – with the goal to minimise risk without sacrificing investment returns.

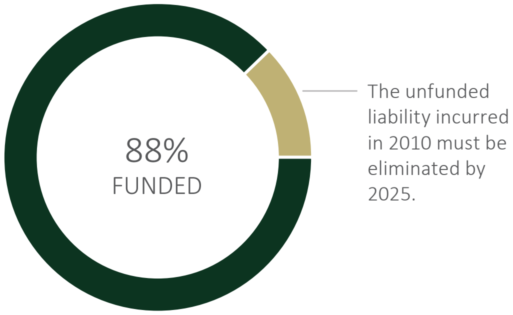
The Board regularly monitors the funded status of the Plan as well as investment performance. Using the pension risk management dashboard introduced in 2013, the Board is able to see a snapshot of the Plan's funded status at a given point in time, as well as projections of the funded status in future years, and also track trends in investments. This assists the Board in making educated and proactive—rather than reactionary— decisions regarding the Plan's asset mix which helps to ensure the greatest return on investments within an acceptable level of risk.

The Board also periodically conducts asset-liability studies to ensure the appropriateness of the asset mix in relation to pension liability with a view to reduce the overall volatility of the investment portfolio.

PLAN MEMBERSHIP
(AS AT DECEMBER 31, 2015)



GOING-CONCERN FUNDED RATIO
(AS AT DECEMBER 31, 2013)



SHEPP CONTRIBUTION RATE
(AS A PERCENTAGE OF PAYROLL)

ITEM	RATE
Current service cost	11.62%
Contribution stabilisation margin	2.47%
TOTAL CURRENT SERVICE COST	14.09%
Temporary contribution to amortise the unfunded liability	4.21%
TOTAL COMBINED CONTRIBUTION RATE	18.3%

COST-EFFECTIVE

ADMINISTRATION

SHEPP IS ONE OF THE LOWEST-COST PENSION PLAN ADMINISTRATORS IN THE COUNTRY.

2014-2016 STRATEGIC PLAN

2015 was the second year of the three-year strategic plan which had identified four over arching goals, with progress throughout the year as follows:

IMPROVE THE PLAN'S FUNDED POSITION

In 2015, most of the work related to this goal involved the implementation of the asset-liability study. With the hiring of SHEPP's first CIO in August, it is expected that the remainder of the initiatives, which focused on investment strategy, will be completed in 2016.

STRENGTHEN OUR TECHNOLOGICAL CAPABILITY

The Administration is well on its way to accomplishing the initiatives identified within this goal, with over 75% of the work completed. Work in 2015 focused primarily on systems upgrades and development related to the modernisation project.

BUILD AND MAINTAIN A HIGH PERFORMING TEAM

A significant amount of work took place in 2015 toward achieving this goal, with many initiatives completed ahead of schedule. Among these was the development and implementation of SHEPP*Ed*, a customisable training program aimed at ensuring all SHEPP employees have the skills and abilities to be successful.

FOSTER AND MAINTAIN EFFECTIVE AND MEANINGFUL RELATIONSHIPS WITH STAKEHOLDERS

All initiatives under this goal were completed in 2015, including the development of both a Stakeholder Relations Strategy and a Member Communications Strategy. Though the initiatives identified within the strategic plan have been completed, work will continue long-term to ensure the meaningful relationships with our Partner Committees and other stakeholders that have been developed continue to be fostered.

OPERATING EXPENSES

Providing secure pension benefits at an appropriate cost continues to be the priority of SHEPP Administration. As Plan membership grows and the value of the Fund increases, so too does the cost to invest and administer benefits. However, ensuring there is value in these expenses remains a priority of the organisation.

In 2015, total operating expenses increased by 2% to $27.8 million from $27.2 million in 2014. The following breakdown provides a snapshot of expenses in each category compared to the previous year:

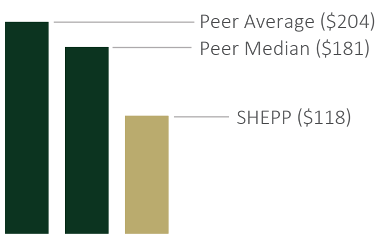
- Administrative expenses were $6.3 million, up from $5.4 million;
- Professional fees were $1.0 million, down from $1.4 million;
- Fund management fees were unchanged at approximately $18.3 million;
- Custodian fees were $577 thousand, up from $547 thousand;
- Investment counselling fees were $473 thousand, up from $377 thousand; and
- Investment transaction (brokerage) fees were unchanged at approximately $1.2 million.

Though total operating expenses increased, SHEPP maintains one of the lowest administrative cost-per-

SHEPP's Senior Leadership Team (from left to right): Dale Markewich, Janet Julé, Kelley Orban, Alison McKay, Cheldon Angus, Paula Potter.

member ratios in the country when compared to other pension plans. In 2015 SHEPP participated in a national benchmarking survey, which among other things, compares costs. When compared to a peer group of 10 other Canadian plans, SHEPP's cost per active member was $118, which was 42% lower than the average cost of $204 and 35% lower than the median cost of $181.

ADMINISTRATIVE COST
PER ACTIVE MEMBER



MODERNISATION

SHEPP's multi-year project to upgrade its pension administration system, PENFAX, gained significant momentum in 2015 as a number of project phases were completed or neared completion. Specifically, in 2015:

- The last release of PENFAX version 5 was delivered;
- Development on the secure mail, report generator and form generator applications was completed;
- Development on the enrolment and termination data feed for 3sHealth-subscribed employers was completed; and
- Data conversion was completed.

SHEPP will be one of the first plans to upgrade to PENFAX verson 5, when the system goes live in 2016. Significant resources have been allocated to this system upgrade which will enable the Plan to better serve both members and employers through more efficient and automated processes. Enhancements include:

- Additional capability including workflow and member communication tracking;
- Automation of many pension administration processes, including Plan member enrolments and terminations, through the payroll system;
- More secure communication and data transfer between participating employers and SHEPP;
- Flexibility to manage future changes in the business environment.

In addition to upgrading the pension administration system, the Plan's secure online portal, SHEPP*Web*, will be revamped, as part of the larger effort to modernise the organisation. Not only will it become accessible to retired and deferred Plan members, new tools and resources will be added and improved, making it easier than ever for members and employers to transact online.

The modernisation project remains on time and on budget.

OFFICE EXPANSION

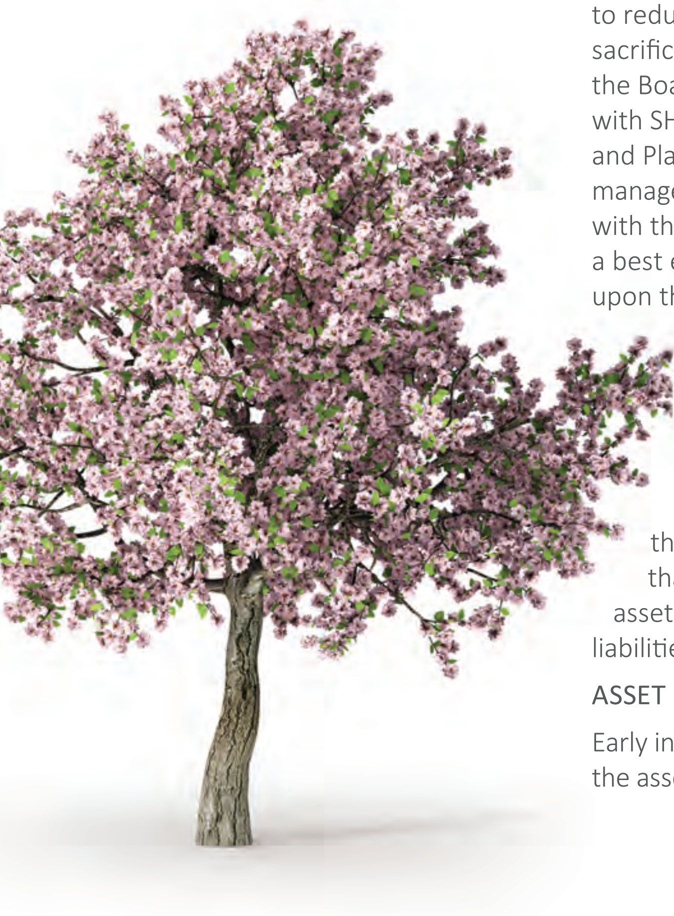
In 2015, SHEPP expanded its office space in Regina to accommodate the growing number of employees. When the organisation moved to its current location in 2013, just two thirds of the second floor were developed for and leased by SHEPP. The office expansion involved the development of the remaining space on the second floor.

SHEPP's office is located in Harbour Landing Business Park, just south of the Regina International Airport, making it a convenient meeting place for the Fund's investment managers, and offering plenty of free parking for members who choose to drop in.

MANAGEMENT'S DISCUSSION & ANALYSIS

DIVERSIFIED INVESTMENTS

SIGNIFICANT DIVERSIFICATION IS HELPING THE FUND EXCEED THE BENCHMARK LONG-TERM.



INVESTMENTS OVERVIEW

The challenge in investing the Fund is achieving the right balance between risk and reward. The goal is to create a portfolio with risk and return characteristics that support benefit security and contribution rate stability. The Board's policy is to look first for opportunities to reduce investment risk without sacrificing return. In order to do this, the Board continues to work closely with SHEPP's investment consultant and Plan actuary on the pension risk management strategy. In consultation with the Plan actuary, the Board sets a best estimate discount rate based upon the asset mix of the Fund. With all else being equal, when the Fund's rate of return is at or above this amount, the Fund's assets will keep pace with or outpace our liabilities. Again, all else being equal, if the Fund's rate of return is less than the discount rate then our assets will not keep pace with our liabilities.

ASSET MIX

Early in 2015, the Board completed the asset-liability study that was initiated in 2014. The purpose of this study was to help optimise the Plan's asset mix by analysing the risk and reward of investments in terms of overall impact on the Plan. The study identified several areas where the asset mix could be improved. These changes included increased exposure to small cap equities, increased exposure to emerging market equities, greater diversification in fixed income, and further capital deployment in alternatives. Throughout 2015, the Board worked diligently to implement the changes which, when completed, will result in the addition of seven new mandates and the termination of six legacy mandates.

Despite the market collapse in 2008, the Fund's ten-year annualised rate of investment return has exceeded the actuarial target of 6.5% which can be attributed, at least in part, to the significant diversification of the Fund's asset mix.

2015 PERFORMANCE

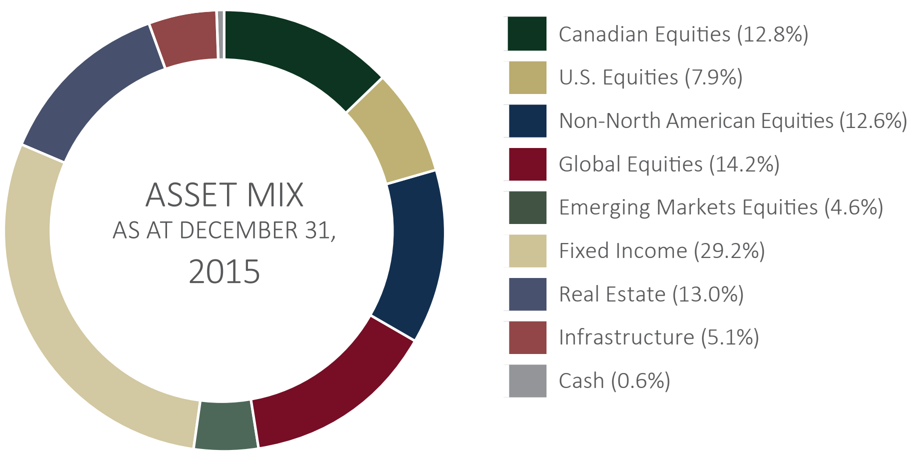
SHEPP measures the effectiveness of investment strategies and activities relative to the risks taken by comparing returns to benchmarks established by the Board. The

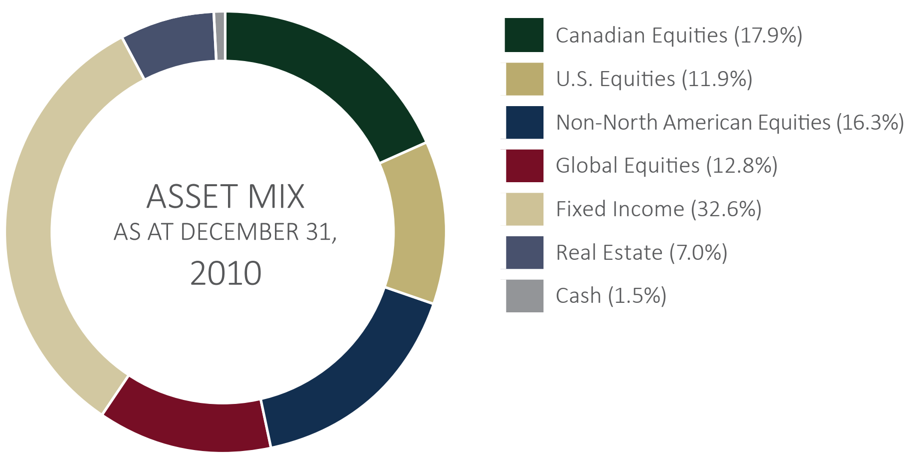
Plan seeks to meet or exceed the benchmark rate of return for each asset class and for the Fund as a whole. At December 31, 2015, the Fund had a net value of $5.9 billion with the one-year return of 8.8% outpacing the 7.9% benchmark return. The strong performance of the Fund over 2015 was driven by foreign equity returns where the depreciating Canadian dollar provided a significant boost to mediocre returns in local dollar terms. Active management also added value in the year.

EQUITIES

This return-seeking asset class is used to help deliver long-term growth and investment income. Strong equity performance over the year was once again led by the US market which returned 21.6%. International equities were also strong with the market returning 19.0% over 2015. However, performance in Canadian equities was a substantial detractor to the total Fund performance, with the main Canadian index declining by 8.3% over the year, due in part to the continued weakness in the energy sector. Emerging market equities were relatively flat over the year with

ASSET MIX — COMPARATIVE
(2015 VERSUS 2010)





INVESTMENTS

the market returning 2.3%. Slowing growth in China and the approaching monetary policy tightening in the U.S. weighed on the emerging markets in 2015. Changes from the asset-liability study included a shift from regional mandates to more broad mandates which will allow the Fund's investment managers to more efficiently express their investment view.

FIXED INCOME

The fixed income portfolio provides more stable investment income and acts as hedge against equity risk. Bond market returns were positive across all broad sectors and maturities in 2015. The yield curve shifted downward slightly as the Bank of Canada cut rates twice in 2015 in an attempt to stimulate growth in the sluggish Canadian economy. SHEPP's fixed income portfolio returned 4.3% in 2015, but was also in transition throughout the year as the changes from the asset-liability study were implemented. Significant changes were implemented to both enable the Fund's investment managers to take advantage of a broader set of fixed income opportunities as well as shortening the duration of the portfolio. This puts the Fund in a better position to generate returns in the very low current interest rate environment and as rates begin to revert to a more typical historical level.

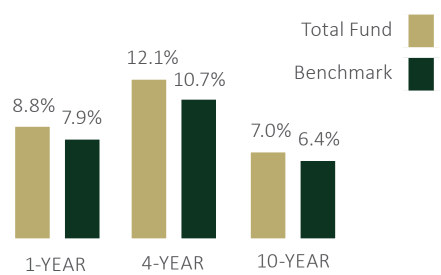
ALTERNATIVES

Alternatives such as real estate and infrastructure investments offer significant diversification as well as protection against inflation. SHEPP's real estate portfolio had strong performance over the year, with the U.S. real estate returns of 37.2% significantly outpacing the Canadian real estate return of 8.5%, helped by the Canadian dollar depreciation against the U.S. dollar. Infrastructure returns also benefited from an attractive environment and the weakening Canadian dollar in 2015. The recent asset-liability study confirmed the Fund's direction in the alternative investments program. Progress was made in implementing the alternative investments with real estate now fully implemented and infrastructure at 5.1% out of a long-term target of 8.0% of the total fund.

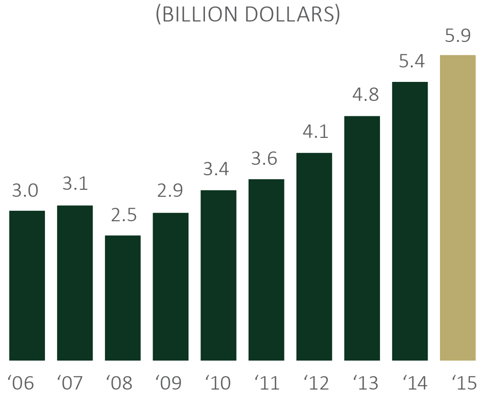
ANNUAL RETURNS

Fund returns have been strong over the last seven years, following the global financial crisis, with double-digit returns in five out of seven years. On a four-year annualised basis, the return was 12.1%, outperforming the benchmark of 10.7% and easily outpacing the actuarial target. Over the past 10 years, the Fund has realised an annualised rate of return of 7.0% versus the total Fund benchmark of 6.4%.

HISTORICAL RATE OF RETURN
(ANNUALISED)



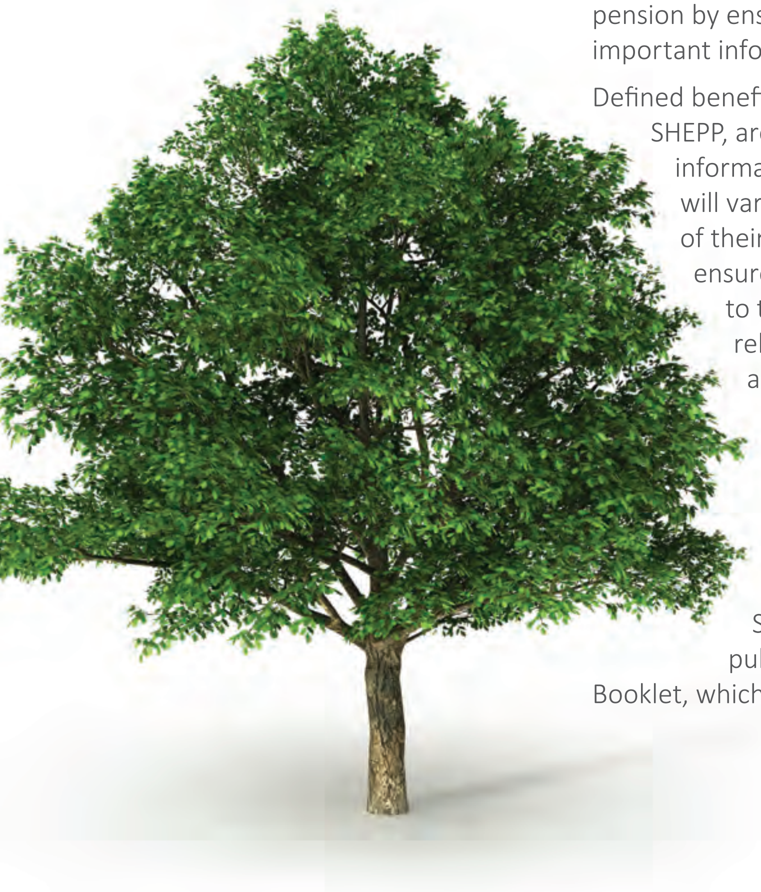
NET ASSETS AVAILABLE FOR BENEFITS
(BILLION DOLLARS)



EXCEPTIONAL

SERVICE

DEDICATED TO PROVIDING EXCEPTIONAL SERVICE TO SHEPP MEMBERS AND PARTICIPATING EMPLOYERS.



Central to SHEPP's mission, vision and values is the provision of high-quality, accessible and consistent service. In fact, nearly two thirds of the Plan's employees are in a position dedicated to providing SHEPP's members and participating employers with exceptional service. Our members trust us to keep them informed about the financial health of the Plan and count on us to help them make informed decisions regarding their pension by ensuring they have the important information they need.

Defined benefit pension plans, like SHEPP, are complex and the information members require will vary at different stages of their career. Our effort to ensure members have access to the information most relevant to them, involves a number of different communication channels: in print, online, by phone, by email and in person.

PUBLICATIONS

SHEPP's primary publication is the Plan Booklet, which summarises the pension benefit and other important provisions under the Plan. It is published annually and provided by participating employers to each employee upon enrolment or eligibility. For the more complex Plan provisions, SHEPP has developed a number of Information Sheets which provide greater detail on topics such as spousal relationship breakdown, termination of employment and service purchases. To ensure stakeholders stay informed, newsletters are published and mailed annually to pensioners and semi-annually to active members. Participating employers receive an electronic newsletter by email each quarter. All Plan publications are posted to www.shepp.ca.

STATEMENTS

Each spring, SHEPP provides an annual pension statement to active and deferred members. In 2015, active members received a redesigned statement which is intended to be easier to read and understand. Pensioners also receive a statement each January, which provides confirmation of their gross monthly pension benefit amount, income tax being withheld and Group Life insurance premiums being deducted, if applicable.

WEBSITES

In 2015 SHEPP introduced four instructional videos to assist members with our online secure portal, SHEPP*Web*. The video tutorials provide members with step-by-step instructions on how to log in, update personal information including beneficiaries, estimate the cost to purchase prior service and perform a pension projection estimate. This enhancement to our member communications program was well-received by those members who prefer the convenience of transacting online.

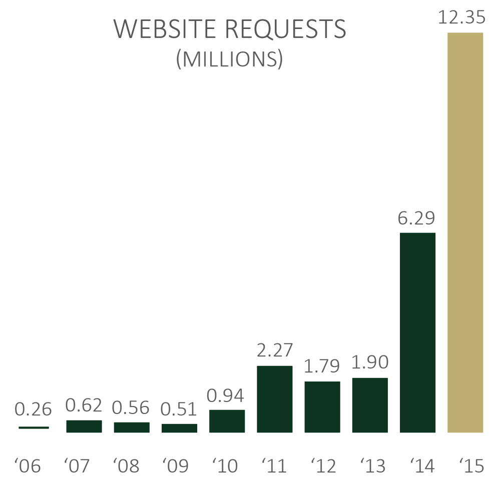
SHEPP's public website, www.shepp.ca, continues to provide all stakeholders with information regarding the Plan provisions and benefits, updates regarding investment performance and other resources such as publications and forms. SHEPP has been working hard in recent years to ensure website visitors are finding value in the information provided and strongly believe we are achieving our goal. Visits to www.shepp.ca have increased dramatically in recent years, from fewer than one million in 2010 to over 12 million in 2015.

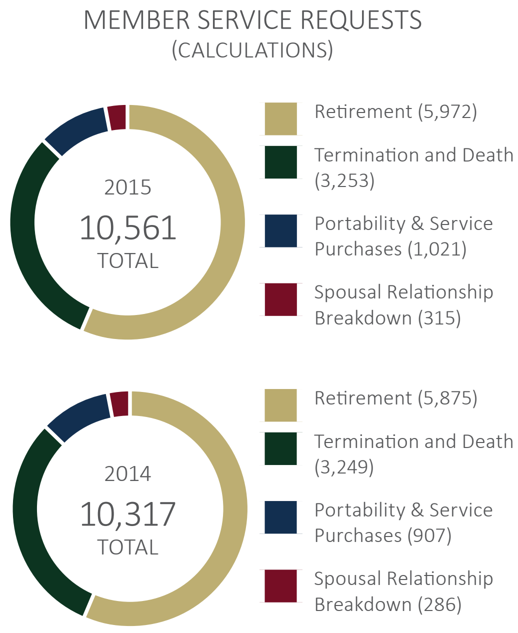
CORRESPONDENCE

SHEPP's pension services team works to meet, and often exceed, the expectations of Plan members and participating employers. Each year, thousands of requests from members are fulfilled by our member services and data services areas, primarily by phone, but also by letter, fax and email. In 2015 over 10,000 calculations were performed to assist members in determining their benefit entitlement and understand their options, which remain a priority for SHEPP.

The employer services team helped SHEPP's 61 participating employers to administer pension benefits, by providing training, both in person and by phone, and responding to the inquiries of payroll and benefits officers across the province.

Both the member services and employer services teams were expanded in 2015 to serve SHEPP's growing membership which swelled to almost 54,000 in 2015.





PRESENTATIONS

SHEPP was invited to present our pension information session to over a thousand Plan members in 2015, reaching healthcare employees in 10 out of 12 of the province's health regions. Most of these sessions are organised by participating employers or provided as part of union conferences. SHEPP appreciates this opportunity provided them by the employers and unions as it is the primary means through which we are able to communicate with our members face-to-face.

2015 MEMBER PRESENTATIONS
(LOCATIONS)

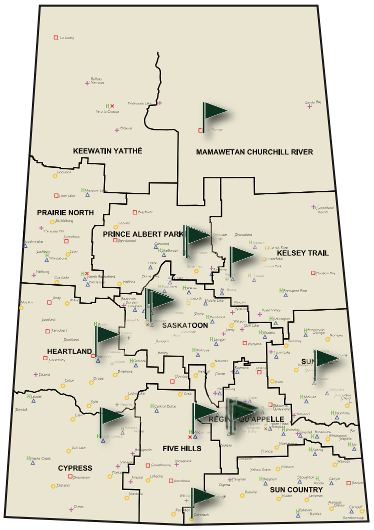
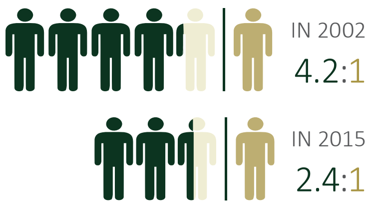


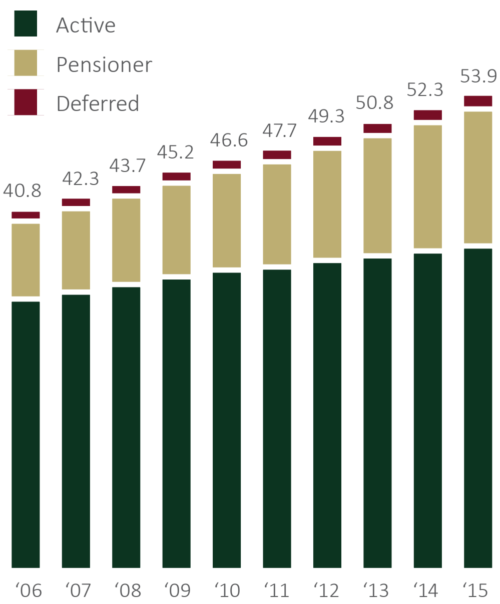
Image used with the permission of Saskatchewan Ministry of Health.

ACTIVE TO RETIRED MEMBERS
(RATIO)

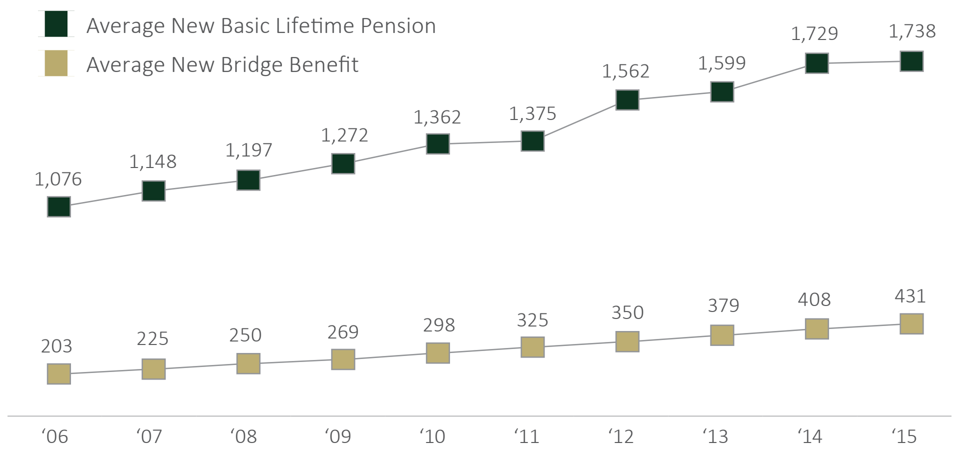


1 IN EVERY 16 PEOPLE
EMPLOYED IN SASKATCHEWAN IS A MEMBER OF SHEPP

TOTAL MEMBERSHIP
(THOUSANDS)



AVERAGE NEW MONTHLY LIFETIME PENSION AND BRIDGE BENEFIT
(DOLLARS)



STRONG
GOVERNANCE

THIS REPRESENTATIVE GOVERNANCE STRUCTURE HAS SERVED THE PLAN WELL FOR OVER A DECADE.

SHEPP's mission, vision and values are born out of over 50 years of pension administration in Saskatchewan. What started as a modest retirement plan in 1962—just months before Saskatchewan signed Medicare into law—has grown into the largest defined benefit pension plan and the only industry-wide pension plan for healthcare employees in the province.

Since December 31, 2002, when the Declaration of Trust was signed, the Plan has been jointly governed by a Union Partner Committee and an Employer Partner Committee and administered by a Board of Trustees, equally represented by employees and employers. This representative governance structure, at both decision-making levels, has served the Plan well for over a decade, encouraging cooperation, mutual respect and a unified purpose.

Under the oversight of the Board of Trustees, the CEO leads a team of 42 employees who bring to life the mission, vision and values of the organisation as they manage Plan operations day-to-day.

2015 HIGHLIGHTS

Strong governance remained a priority throughout the year, as the Board fulfilled its fiduciary duty.

Specifically in 2015 the Board:

- Completed the Pension Plan Governance Self-Assessment Questionnaire developed by the Canadian Association of Pension Supervisory Authorities (CAPSA);
- Completed the administration and investment management benchmarking studies;
- Identified key organisational risks as part of the enterprise risk management program;
- Reviewed and approved seven Board policies in accordance with the Governance Review Policy;
- Reviewed and approved two employer withdrawal requests in accordance with the Board's Employer Withdrawal Policy;
- Updated its Statement of Investment Policies and Procedures to include ESG criteria in the selection and monitoring of investment managers;
- Held its annual meeting where the Board appointed a member to the Human Resources Committee and met with members of the Partner Committees; and
- Participated in an education session on private equity.

SHEPP's Board of Trustees (from left to right): Andrew Huculak, Jeff Stepan, Russell Doell, Natalie Horejda, Marg Romanow, Ted Warawa, Stuart Cunningham, Jim Tomkins.

CORPORATE

DIRECTORY

BOARD OF TRUSTEES

Andrew Huculak (Chair)
Employee Trustee - Retired
Canadian Union of Public Employees (CUPE)

Dr. Jim Tomkins (Vice-Chair)
Employer Trustee - Retired
University of Regina

Stuart Cunningham
Employer Trustee
Five Hills Health Region

Russell Doell
Employee Trustee
SEIU-West

Natalie Horejda
Employee Trustee
Health Sciences Association of Saskatchewan (HSAS)

Marg Romanow
Employee Trustee
Saskatchewan Union of Nurses (SUN)

Jeff Stepan
Employer Trustee
SGI

Ted Warawa
Employer Trustee
3sHealth

SENIOR LEADERSHIP TEAM

Alison McKay
Chief Executive Officer (CEO)

Cheldon Angus
Chief Technology Officer (CTO)

Dale Markewich
Chief Financial Officer (CFO)

Janet Julé
Chief Investment Officer (CIO)

Kelley Orban
Senior Director of Stakeholder Relations

Paula Potter
Senior Director of Pension Services

EXTERNAL ADVISORS

Actuary
Aon Hewitt

Auditor
KPMG LLP

Custodian
CIBC Mellon Global Securities Services Company

Investment Consultant
Aon Hewitt

Legal Counsel
Lawson Lundell LLP
Miller Thomson LLP

Pension Administration System Supply & Support
James Evans & Associates
cfactor Works Inc.

Performance Measurement Service
BNY Mellon Asset Servicing

Investment Managers
Bentall Kennedy (Canada) LP
BlackRock Asset Management Canada Limited
BlackRock Global Funds
Brookfield Asset Management
Connor, Clark & Lunn Investment Management Ltd.
Foyston, Gordon, Payne Inc.
Franklin Templeton Investment Corp.
Global Infrastructure Partners
Greystone Managed Investment Inc.
IFM Investors (US) LLC
Invesco Core Real Estate U.S.A.,LP
MFS Investment Management (Canada)
JPMorgan Asset Management (Canada) Inc.
Phillips, Hager & North Investment Management Ltd.
Wellington Management Company, LLP

KPMG LLP
Hill Centre Tower II
1881 Scarth Street, 20th Floor
Regina Saskatchewan S4P 4K9
Canada

Telephone (306) 791-1200
Fax (306) 757-4703
Internet www.kpmg.ca

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 statement of financial position as at December 31, 2015, the statements of changes in net assets available for benefits and change in pension obligations for the year then ended, 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 audit. We conducted our audit 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 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, 2015, and the changes in its net assets available for benefits and the changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

KPMG LLP

Chartered Professional Accountants

May 31, 2016
Regina, Canada

FIVE-YEAR FINANCIAL

HIGHLIGHTS

	2015 (000's)	2014 (000's)	2013 (000's)	2012 (000's)	2011 (000's)
NET ASSETS AVAILABLE FOR BENEFITS	$ 5,936,342	$ 5,416,739	$ 4,767,369	$ 4,068,628	$ 3,565,222
ACCRUED PENSION OBLIGATIONS	5,776,800	5,250,500	4,694,000	4,390,100	4,089,000
CONTRIBUTIONS					
Member	155,346	146,917	131,637	128,724	128,810
Employer	173,987	164,547	147,433	144,171	144,267
Other	4,320	4,213	5,871	3,527	3,082
TOTAL CONTRIBUTIONS	**333,653**	**315,677**	**284,941**	**276,422**	**276,159**
BENEFIT PAYMENTS					
Pensions	217,526	192,525	169,215	149,544	131,064
Terminations, Death Benefits and Holdbacks	43,558	39,682	34,109	28,985	34,447
TOTAL BENEFIT PAYMENTS	**261,084**	**232,207**	**203,324**	**178,529**	**165,511**
PLAN EXPENSES					
Administrative	7,368	6,779	5,860	4,851	4,234
Investment	20,477	20,415	18,700	15,846	14,310
TOTAL PLAN EXPENSES	**$ 27,845**	**$ 27,194**	**$ 24,560**	**$ 20,697**	**$ 18,544**

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	2015 (000's)	2014 (000's)
ASSETS		
Investments (Note 5)	$ 5,519,322	$ 4,726,625
Investments under security lending program (Note 5)	404,658	684,128
Accrued interest receivable	146	572
Members' contributions receivable	12,808	7,183
Employers' contributions receivable	14,345	8,044
Dividends receivable	4,294	3,343
Securities transactions receivable	-	1,558
Property and equipment (Note 6)	1,743	1,466
Intangible assets (Note 7)	4,690	1,371
Other receivables	767	409
Prepaid expenses	130	122
	5,962,903	5,434,821
LIABILITIES		
Accounts payable	7,483	5,677
Securities transactions payable	645	-
Transfer deficiency holdback	18,433	12,405
	26,561	18,082
NET ASSETS AVAILABLE FOR BENEFITS	5,936,342	5,416,739
PENSION OBLIGATIONS (Note 9)	5,776,800	5,250,500
SURPLUS	$ 159,542	$ 166,239

The accompanying notes to the financial statements are an integral part of this financial statement.

Approved by the Board of Trustees and signed on their behalf on May 31, 2016.

Chair

Vice-Chair

STATEMENT OF

CHANGE IN NET ASSETS AVAILABLE FOR BENEFITS

FOR YEAR ENDED DECEMBER 31

	2015 (000's)	2014 (000's)
INCREASE IN NET ASSETS		
Contributions - Members	$ 155,346	$ 146,917
Contributions - Employers	173,987	164,547
Contributions - Other	4,320	4,213
Investment income (Note 8)	121,722	119,778
Net realised gain on investments	444,379	327,822
	899,754	763,277
DECREASE IN NET ASSETS		
Pension benefits	217,526	192,525
Realised loss on foreign exchange	30,354	31,615
Terminations and death benefits	37,531	35,244
Transfer deficiency holdback	6,027	4,438
	291,438	263,822
EXPENSES		
Administrative expenses	6,340	5,409
Custodian fees	577	547
Fund management fees	18,266	18,332
Investment consulting fees	473	377
Investment transaction fees	1,161	1,159
Professional fees	1,028	1,370
	27,845	27,194
	319,283	291,016
UNREALISED (LOSSES)/GAINS		
Unrealised market value (losses)/gains	(77,602)	167,324
Unrealised gain on foreign exchange	16,734	9,785
	(60,868)	177,109
NET INCREASE FOR THE YEAR	519,603	649,370
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	5,416,739	4,767,369
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$ 5,936,342	$ 5,416,739

The accompanying notes to the financial statements are an integral part of this financial statement.

STATEMENT OF

CHANGE IN PENSION OBLIGATIONS

FOR YEAR ENDED DECEMBER 31

	2015 (000's)	2014 (000's)
PENSION OBLIGATIONS, BEGINNING OF YEAR	$ 5,250,500	$ 4,694,000
Current service costs	233,500	202,000
Benefits paid by the plan	(261,000)	(232,200)
Interest expense	353,800	336,800
Change in actuarial assumption	200,000	249,900
PENSION OBLIGATIONS, END OF YEAR (NOTE 9)	$ 5,776,800	$ 5,250,500

The accompanying notes to the financial statements are an integral part of this financial statement.

NOTES TO

FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 1 - SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN

The Saskatchewan Healthcare Employees' Pension Plan ("the Plan") 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 Health Shared Services Saskatchewan (3sHealth) and four healthcare unions each appoint one trustee. The Chief Executive Officer and the Plan's staff are responsible for the administration of the Plan, subject to Board monitoring and review.

NOTE 2 - BASIS OF PREPARATION

A. STATEMENT OF COMPLIANCE
The financial statements for the year ended December 31, 2015 have been prepared in accordance with Canadian Accounting Standards for Pension Plans (CPA Handbook Section 4600). For matters not addressed in section 4600, International Financial Reporting Standards (IFRS) guidance has been implemented.

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 Canadian accounting standards for pension plans 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).

NOTE 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.

B. ELIGIBILITY
Eligible permanent full-time and permanent part-time employees of the Plan 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
The Plan 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 the Plan employers in accordance with the provisions of the Plan.

For the year ending December 31, 2015 members are required to contribute 8.1 percent of their pensionable earnings up to the Year's Maximum Pensionable Earnings (YMPE) and 10.7 percent of pensionable earnings above the YMPE.

Plan members may purchase eligible prior and current 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 percent 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 percent of highest average contributory earnings (HACE[1]) multiplied by years of credited service up to December 31, 1989, plus

ii. 1.65 percent of highest average base contributory earnings (HABCE[2]) plus two percent 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 percent of highest average base contributory earnings (HABCE) plus two percent of highest average excess contributory earnings (HAECE) multiplied by years of credited service after January 1, 2001.

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 percent multiplied by the number of years, and portions thereof, that the member is short of age 65, and

ii. Three percent 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 percent multiplied by the number of years, and portions thereof, that the member is short of age 62, and

b. Three percent multiplied by

[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.

NOTE 3 - DESCRIPTION OF PLAN (CONTINUED)

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, 2013 revealed a solvency deficit of 27 percent. The Plan is required to apply a transfer deficiency holdback of 27 percent to certain termination benefits. This was effective September 30, 2014. The previous transfer deficiency holdback was 19.72 percent, based on the valuation performed at December 31, 2010. Transfer deficiency holdbacks 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). Transfer deficiency holdbacks will begin to be repaid starting in 2016.

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.

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.

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 percent 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 (RRSP) 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

NOTE 3 - DESCRIPTION OF PLAN (CONTINUED)

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 percent 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.

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 the Plan from time to time, but in no event are lower than the minimum rate required by *The Pension Benefits Act, 1992* (Saskatchewan).

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with Canadian Accounting Standards for Pension Plans (ASPP). These standards provide guidance in the measurement of the Plan's pension obligations and any investments held by the Plan. ASPP 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 following policies are considered to be significant:

A. REVENUE RECOGNITION
Interest on bonds and short term investments is recognised as it accrues. Income from real estate equity investments is recognised on the accrual basis as earned. Dividend income and pooled fund distributions are recognised as of the date of record. Investment transactions are accounted for on the trade date. Realised gains and losses on currency forward contracts are recognised on the settlement date and unrealised gains and losses are recognised 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
All financial instruments are carried at fair value. The fair value of short term instruments is based on cost, which approximates fair value due to the immediate or short term nature of these financial instruments. The fair value of equities is based on year-end market quotations. The fair value of bonds is based on model pricing techniques that effectively discount prospective cash flows to present value taking into consideration duration, credit quality and liquidity. The fair value of bond, mortgage and equity pooled funds is 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. The fair value of currency forward contracts is determined using appropriate valuation techniques. The fair value of real estate funds is based on the most recent appraisal and earnings results. The fair value of real estate equity investments is based on the most recent appraisal. Infrastructure investments are valued by using market comparable and discounted cash flow valuation models.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. INVESTMENTS UNDER SECURITIES LENDING PROGRAM

Securities lending transactions are entered into on a collateralised basis. The securities lent are not derecognised 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.

D. PROPERTY AND EQUIPMENT

Items of property and equipment are measured at cost less accumulated amortisation and accumulated impairment losses. The amortisation 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.

Amortisation 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	15 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 capitalised.

E. INTANGIBLE ASSETS

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

Amortisation is recognised 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 recognised 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 recognised 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

The following future changes to accounting standards will have applicability to the Plan:

IFRS 9, Financial Instruments, was issued in 2009 and amended in 2010 and 2013. The fourth and final version of the Standard was issued on July 24, 2014. The standard is effective for annual periods beginning on or after January 1, 2018 and is applied retrospectively with some exemptions. Restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. The Plan does not expect to be materially affected by the new recommendations.

NOTE 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:		2015		2014	
TYPE	YEARS TO MATURITY	FAIR VALUE (000's)	YIELD (%)	FAIR VALUE (000's)	YIELD (%)
BONDS					
Provincial	Less than 1	$ 18,004	0.6 – 0.7	$ -	-
	1 – 5	20,406	1.1	62,838	3.2 – 3.4
		38,410		62,838	
Corporate	10+	219,958	2.4	772,761	2.4 – 3.6
TOTAL BONDS		258,368		835,599	
BOND POOLED FUNDS		1,444,785	2.5 – 3.1	629,296	2.2 – 3.1
MORTGAGE POOLED FUND		26,003	3.5	60,621	3.6
EQUITIES AND EQUITY POOLED FUNDS					
Canadian		390,337		274,106	
Non-North American		324,450		322,681	
Non-North American pooled funds		380,436		375,670	
Emerging markets		271,953		265,736	
United States pooled funds		466,937		524,647	
Global pooled funds		843,296		743,719	
TOTAL EQUITIES AND EQUITY POOLED FUNDS		2,677,409		2,506,559	
OTHER					
Short term investments		17,972		24,920	
Real estate pooled funds		569,223		366,348	
Real estate equity investments		200,522		170,309	
Infrastructure		302,307		76,177	
Cash		41,476		57,625	
Currency forward contracts		(18,743)		(829)	
TOTAL OTHER		1,112,757		694,550	
TOTAL INVESTMENTS		$ 5,519,322		$ 4,726,625	

NOTE 5 - INVESTMENTS (CONTINUED)

TYPE	YEARS TO MATURITY	2015 FAIR VALUE (000's)	2015 YIELD (%)	2014 FAIR VALUE (000's)	2014 YIELD (%)
INVESTMENTS UNDER SECURITIES LENDING PROGRAM					
Bonds					
Government of Canada	1 - 5	$ -	-	$ 29,395	1.3 – 1.5
	6 – 10	-	-	24,713	1.8 – 2.0
	10+	-	-	4,601	2.3
Provincial	10+	-	-	38,101	3.3
Canadian equities		$ 365,116		534,570	
Non-North American equities		39,542		33,677	
Short term investments				19,071	
TOTAL INVESTMENTS UNDER SECURITIES LENDING PROGRAM		$ 404,658		$ 684,128	

BONDS, BOND POOLED FUNDS AND MORTGAGE POOLED FUNDS

Bonds are subject to a minimum quality standard of BBB or equivalent unless otherwise specified in an investment manager's mandate. In the active bond mandate, BBB bonds or lower may not be purchased if they comprise more than 15 percent of the book value of the total portfolio of any individual manager. No single issuer is to exceed 10 percent of the carrying value of the fund except for securities issued or guaranteed by the provincial or federal governments. No more than 20 percent 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 investment managers.

Financial derivative instruments including futures, options and swap contracts are permitted to both increase returns and reduce currency, credit and interest rate risks. These instruments are allowed to be used by one investment manager and the use of these instruments is restricted by the investment mandate.

EQUITIES AND EQUITY POOLED FUNDS

Pooled funds have no fixed distribution rates and returns are based on the success of the investment managers. No one holding of an individual stock may represent more than 10 percent of the carrying value of the specific equity mandate. Stock shorting is permitted and limited at the investment manager level to a band of 25 to 35 percent of the carrying value, with a target of 30 percent. At December 31, 2015 stock shorting was permitted in one investment mandate with a carrying value of $499,585,000 (2014 - $446,042,000).

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.

INFRASTRUCTURE

The Plan invests in investments through its 100 percent owned

NOTE 5 - INVESTMENTS (CONTINUED)

subsidiary, Horizon Alternative Investments SHEPP Holdings Ltd (Horizon). The fair value of this investment is shown as an infrastructure investment.

MORTGAGES

The mortgage pooled fund portfolio is owned within Horizon and diversified by property type and geographic location throughout Canada.

REAL ESTATE POOLED FUNDS

The real estate pooled fund's portfolio is owned within Horizon and diversified by property type and geographic location in Canada and the United States.

REAL ESTATE EQUITY INVESTMENTS

The Plan invests in real estate equity investments through its 100 percent owned subsidiary, Sunrise Properties Ltd. These properties are located in Ontario, Quebec, Alberta, and British Columbia. The fair value of this investment is shown as a real estate equity investment.

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). However, unless permission is specifically granted, managers are prohibited from using derivatives.

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 categorised 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.

	2015 (000's)			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and short-term investments	$ 41,476	$ 17,972	$ -	$ 59,448
Bonds, bond pooled funds and mortgage pooled funds	-	1,729,156	-	1,729,156
Canadian equities	755,453	-	-	755,453
Non-North American equities	363,992	-	-	363,992
United States pooled funds	-	466,937	-	466,937
Non-North America pooled funds	-	380,436	-	380,436
Global pooled funds	-	843,296	-	843,296
Emerging market equities	-	271,953	-	271,953
Infrastructure	-	-	302,307	302,307
Real estate pooled funds	-	-	569,223	569,223
Real estate equity investments	-	-	200,522	200,522
Currency forward contracts	-	(18,743)	-	(18,743)
	$ 1,160,921	$ 3,691,007	$ 1,072,052	$ 5,923,980

NOTE 5 - INVESTMENTS (CONTINUED)

	2014 (000's)			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and short-term investments	$ 57,625	$ 43,991	$ -	$ 101,616
Bonds, bond pooled funds and mortgage pooled funds	-	1,622,326	-	1,622,326
Canadian equities	808,676	-	-	808,676
Non-North American equities	356,358	-	-	356,358
United States pooled funds	-	524,647	-	524,647
Non-North America pooled funds	-	375,670	-	375,670
Global pooled funds	-	743,719	-	743,719
Emerging market equities	-	265,736	-	265,736
Infrastructure	-	-	76,177	76,177
Real estate pooled funds	-	-	366,348	366,348
Real estate equity investments	-	-	170,309	170,309
Currency forward contracts	-	(829)	-	(829)
	$ 1,222,659	$ 3,575,260	$ 612,834	$ 5,410,753

LEVEL 3 RECONCILIATION	2015 (000's)	2014 (000's)
	POOLED REAL ESTATE AND INFRASTRUCTURE	POOLED REAL ESTATE AND INFRASTRUCTURE
Opening balance	$ 612,834	$ 454,181
Acquisitions	333,970	156,178
Dispositions	(16,492)	(33,793)
Realised gain	2,236	23,442
Change in unrealised gain	139,504	12,826
	$ 1,072,052	$ 612,834

During the current year no investments were transferred between levels.

NOTE 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, 2014	$ 161	$ 165	$ 1,538	$ 1,864
Additions	34	65	36	135
Tenant Rebate	-	-	(56)	(56)
Balance at December 31, 2014	$ 195	$ 230	$ 1,518	$ 1,943
BALANCE AT JANUARY 1, 2015	$ 195	$ 230	$ 1,518	$ 1,943
Additions	60	55	323	438
BALANCE AT DECEMBER 31, 2015	$ 255	$ 285	$ 1,841	$ 2,381
AMORTISATION				
Balance at January 1, 2014	$ 102	$ 128	$ 103	$ 333
Amortisation for the year	14	26	104	144
BALANCE AT DECEMBER 31, 2014	$ 116	$ 154	$ 207	$ 477
BALANCE AT JANUARY 1, 2015	$ 116	$ 154	$ 207	$ 477
Amortisation for the year	15	31	115	161
BALANCE AT DECEMBER 31, 2015	$ 131	$ 185	$ 322	$ 638
CARRYING AMOUNTS				
Balance at January 1, 2014	$ 59	$ 37	$ 1,435	$ 1,531
Balance at December 31, 2014	$ 79	$ 76	$ 1,311	$ 1,466
BALANCE AT JANUARY 1, 2015	$ 79	$ 76	$ 1,311	$ 1,466
BALANCE AT DECEMBER 31, 2015	$ 124	$ 100	$ 1,519	$ 1,743

NOTE 7 -INTANGIBLE ASSETS

Intangible assets consist of a pension administration system.

		(000's)
COST OR DEEMED COST		
Balance at January 1, 2014	$	2,775
Additions for the year		973
Balance at December 31, 2014	$	3,748
BALANCE AT JANUARY 1, 2015	**$**	**3,748**
Additions for the year		3,367
BALANCE AT DECEMBER 31, 2015	**$**	**7,115**
AMORTISATION		
Balance at January 1, 2014	$	2,134
Amortisation for the year		243
Balance at December 31, 2014	$	2,377
BALANCE AT JANUARY 1, 2015	**$**	**2,377**
Amortisation for the year		48
BALANCE AT DECEMBER 31, 2015	**$**	**2,425**
CARRYING AMOUNTS		
Balance at January 1, 2014	$	641
Balance at December 31, 2014	$	1,371
BALANCE AT JANUARY 1, 2015	**$**	**1,371**
BALANCE AT DECEMBER 31, 2015	**$**	**4,690**

NOTE 8 - INVESTMENT INCOME

	2015 (000's)	2014 (000's)
Bond interest	$ 30,271	$ 26,493
Dividends	88,545	91,391
Interest on short term investments and cash balances	1,891	974
Other income	1,015	920
	$ 121,722	$ 119,778

NOTE 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, 2013. The present value of accrued pension benefits was then extrapolated to December 31, 2015 using the funding valuation cost method with the expectation that the Plan will continue on an ongoing basis.

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	2015	2014
Discount rate	6.50%	6.80%
Inflation rate	2.25%	2.25%
Mortality table	SHEPP Mortality Table projected generationally with scale CPM-B	SHEPP Mortality Table projected generationally with scale CPM-B
Remaining service life	11.7 years	11.7 years
Salary projection	3.00% per year	3.00% per year

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

- A one percent change in the discount rate results in approximately a 13 percent change in the pension obligations;
- A one percent change in the salary scale and the pensionable earnings levels results in approximately a 2 percent change in the pension obligations.

NOTE 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 key 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 through policies within the 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 unless otherwise specified in an investment manager's mandate; 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

NOTE 10 - FINANCIAL RISK MANAGEMENT (CONTINUED)

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 percent 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 percent 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 the Plan for the manager or the agreement under which the Plan has contracted the manager's services.

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, 2015 is limited to the carrying value of the financial assets summarised as follows:

	2015 (000's)	2014 (000's)
Cash	$ 41,476	$ 57,625
Accrued interest receivable	146	572
Members' contributions receivable	14,345	7,183
Employers' contributions receivable	12,808	8,044
Dividends receivable	4,294	3,343
Security transactions (payable)/receivable	(645)	1,558
Other receivables	767	409
Short-term investments	17,972	43,991
Fixed income *	1,729,156	1,622,326
	$ 1,820,319	$ 1,745,051

*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.

NOTE 10 - FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit ratings for fixed income investments are as follows:

	2015		2014	
CREDIT RATING	FAIR VALUE (000's)	MAKEUP OF PORTFOLIO	FAIR VALUE (000's)	MAKEUP OF PORTFOLIO
AAA	$ 451,699	26.1%	$ 359,074	22.1%
AA	570,772	33.0%	508,445	31.4%
A	292,724	17.0%	559,177	34.5%
BBB	272,948	15.8%	191,737	11.8%
Less than BBB	141,013	8.1%	3,893	0.2%
	$ 1,729,156	**100%**	**$ 1,622,326**	**100%**

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, 2015, the Plan's investments included loaned securities with a market value of $404,658,000 (2014 - $684,128,000) and the fair value of securities and cash collateral received in respect of these loans was $434,195,000 (2014 - $716,419,000).

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 $140,673,000 at December 31, 2015 (2014 - $259,514,000); representing 7.9 percent (2014 - 15.1 percent) of the $1,788,604,000 (2014 - $1,723,940,000) 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, 2015, the Plan's exposure to United States equities was 25 percent (2014 - 21 percent) and its exposure to non-North American equities was 24 percent (2014 - 24 percent).

The Plan manages this risk through the use of currency futures or forwards. At December 31, 2015 the fair value of currency forward contracts payable was $1,323,901,000 (2014 - $993,046,000) and the fair value of currency fund contracts receivable was $1,305,144,000 (2014 - $992,229,000).

EQUITY PRICE RISK

The Plan is exposed to changes in equity prices in Canadian, United States and other markets. Equities comprise 52.1 percent (2014 - 56.9 percent) of the market value of the Plan's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. A 10 percent change in equity prices would result in a $308,207,000 (2014 - $307,481,000) change in the Plan's net assets.

NOTE 10 - FINANCIAL RISK MANAGEMENT (CONTINUED)

REAL ESTATE AND INFRASTRUCTURE RISK

Real estate and infrastructure assets are valued based on estimated fair values determined by using appropriate techniques and best estimates. An independent auditor performs an annual assessment on these estimated fair values to ensure the assets are fairly stated in all material aspects. Risk in the real estate portfolio is further managed through diversification across types and locations. Adverse impacts in any one segment of the market or geographic location are minimised 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.

NOTE 11 - RELATED PARTY TRANSACTIONS

These financial statements include transactions for the Plan's administrative expenses paid to 3sHealth. All transactions are recorded at the exchange amounts agreed by the two parties.

	2015 (000's)	2014 (000's)
EXPENSES	$ 85	$ 83

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:

	2015 (000's)	2014 (000's)
Short-term employee benefits	$ 1,196	$ 971
Post-employment benefits		
Defined benefit retirement allowance	111	93
TOTAL BENEFITS	$ 1,307	$ 1,064

NOTE 12 - COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

SHEPP

SASKATCHEWAN HEALTHCARE
EMPLOYEES' PENSION PLAN

201 - 4581 Parliament Avenue
Regina, SK S4W 0G3
Phone 1.866.394.4440
Email sheppinfo@shepp.ca
www.shepp.ca