SHEPP

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN

Delivering futures by valuing today.

50

2012 ANNUAL REPORT

Table of Contents

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 2012 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 over 49,000 members.

Jim Tomkins - Chair

Andrew Huculak - Vice-Chair

Excellence in Governance

On March 1, 1962 a group of hospitals came together under the umbrella of the Saskatchewan Hospitals Association to introduce a pension plan for their few hundred employees. Fifty years later, that Plan, now operating as SHEPP, has become the largest defined benefit pension plan in Saskatchewan and the Plan of choice for both the province's healthcare employers and the unions that represent the vast majority of healthcare employees. We are extremely proud of our heritage and the good stewardship that has brought the Plan through its first 50 years.

We continue to be guided by our 2010 – 2013 strategic plan. In that plan we set out to establish a pension risk management strategy, advance our funding action plan, strengthen our technological capability and build and maintain a high-performance administrative team. In achieving these objectives we seek to ensure that the Plan is funded on an appropriate basis, that the Plan is restored to fully funded status within a reasonable period of time, that contribution rates are kept as stable as possible throughout the funding recovery, that our investment risk is appropriately adjusted as the Plan matures and its funded position changes, and that our members consistently receive high-quality service at low cost.

Good stewardship requires good processes and good processes require meaningful policies. In 2012 the Board introduced a Pension Administration Benchmarking Policy to measure our member service score and per member cost relative to other comparable pension plans as well as a Member Record Retention Policy to be clear about what a member record is and is not and the care and security we give to member records over periods that in some cases will stretch to 70 or more years. In addition to these two new policies the Board revised its Code of Conduct and Conflict of Interest Procedures and its Procurement of Goods Policy to meet evolving needs and standards.

Protecting the Plan and its Members

We continued to press hard in 2012 on addressing our funding challenge. The strong investment performance experienced by the Fund in 2009 and 2010 did not extend into 2011. A 2011 Fund return of 3.5% meant that we lost ground in covering our liabilities that were growing at the net rate of around 6.4% per year. Also, we had not yet completely cleared the hurdle of the 2008 financial market crisis. Our practice of actuarially smoothing our investment returns over five-year periods meant that it would not be until 2012 that we would realize the full effect of the 2008 negative return.

In early 2012 we asked the Plan actuary to perform an assessment of our funding situation taking a hard look at the impact of the 2011 return and rolling out the asset smoothing a further year. The Plan actuary responded with a clear recommendation that a temporary combined member and participating employer contribution rate increase of 1% effective January 2014 is required for us to get back out in front of our unfunded liability. This recommendation, which brings the total combined member and employer contribution rate to 18.3% of payroll effective January 2014, was approved by the Board and announced to members and participating employers in October 2012.

The more vexing question of solvency funding for public sector pension plans like SHEPP, the subject of a broad provincial government consultation process that started in January 2012, was still not officially resolved at year-end. Solvency funding is a regulatory requirement for special payments to be made to pay off any deficit that would occur if the Plan was wound up. In the case of solvency funding, the discount rate used is based upon current government bond rates and the deficit must be amortized over a period not exceeding five years.

SHEPP took full advantage of the invitation to speak to the provincial government about solvency funding for public sector plans. In April 2012 the SHEPP Board of Trustees submitted a written response to the consultation paper, *New Funding Regime for Public Sector Plans*, confirming that the Board does not believe that solvency funding is a meaningful measure of the Plan's financial health. Accordingly, the Board has recommended that the *Pension Benefits Act* and Regulations be amended to exempt SHEPP from solvency funding.

Although no official notice has been issued on the question of solvency funding for Saskatchewan public sector plans, SHEPP is optimistic that the provincial government will act to permanently exempt SHEPP, and likely other public sector plans, from solvency funding prior to December 31, 2013 when the next actuarial valuation of the Plan will be performed.

With over 49,000 active, inactive and retired members, where active members outnumber retired members three to one, we have significant benefit obligations that extend 70 or so years into the future. For the next decade or so we expect that the contributions we receive from active members and employers each month will be greater than the benefits that we pay out each month. This is being cash-flow positive and renders us able to invest a significant portion of new contributions each month for quite some time. What comes from all of this is that SHEPP has a very long-term investment horizon.

The SHEPP Fund is fully invested and at December 31, 2012 had a market value of $4.07 billion. We expect our invested assets to work hard for our members and the better the investment performance of the Fund the less pressure there is on contribution rates. The challenge is to get the right balance between risk and reward. In setting the Plan's investment policy the Board's first priority is to look for opportunities to reduce investment risk without sacrificing return. The Board's decision in late 2011 and action in 2012 to further diversify the Fund's portfolio by deploying an allocation to emerging market equity and preparing for an allocation to US core real estate were two important steps to manage risk without sacrificing return.

The SHEPP Fund achieved positive returns in each of the last three years and distinguished itself in 2012 with a return of 11.8% against the benchmark of 10.5%.

In Closing

The Board, with Trustees appointed by Health Shared Services Saskatchewan (3sHealth) and four unions – Canadian Union of Public Employees (CUPE), Health Sciences Association of Saskatchewan (HSAS), Saskatchewan Union of Nurses (SUN), and SEIU-West – is proud that SHEPP is available to the hardworking employees who make up Saskatchewan's healthcare industry. 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 eleventh year, 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. The Board's focus on the Plan's long-term health is supported by the day-to-day work of SHEPP employees. We would like to take this opportunity to thank them for their efforts and dedication in consistently delivering on our promise to serve the best pension interests of our members.

From the CEO

Brad Garvey - CEO

Amidst the excitement and effort of celebrating our 50th anniversary, adapting to the transformation of our settlor and partner the Saskatchewan Association of Health Organizations (SAHO) into Health Shared Services Saskatchewan (3sHealth) and relocating our company to new offices, 2012 saw us continue to strengthen our company and achieve strategic objectives. For us it all starts with teamwork.

Building a high-performance team requires us to recruit good-fit candidates and to ensure that we are organized to take full advantage of the talents and strengths of our people. 2012 was a busy recruiting year that saw us bring three new employees into our 28 permanent full-time position complement plus recruit for two temporary full-time assignments. Our 2012 success in recruiting well-qualified, good-fit candidates is a reflection of the significant effort our company's leaders have made to make effective recruiting a core competency and the constant testing and refining of our human resources policies to stay aligned with our high-performance team objective.

In spring 2012 we made the decision to bring our Finance and Investments departments together in a directorate headed by our Chief Financial Officer. This was an important and necessary step to ensure that we effectively integrate the management of our assets and liabilities. We followed this up with an external consultant review of our Investments department and by year-end had finalized the functions, duties and processes of a well-integrated Investments department that brings our best talents forward.

The Fund achieved an 11.8% rate of return in 2012 exceeding the performance benchmark set for the Fund by 130 basis points or 1.3%. This is an important measure of success and means that our active investment managers are delivering value. The return above benchmark clearly covered our 2012 investment management expense which is approximately 40 basis points or .4% of the Fund.

Our integrated asset and liability management team, which includes the investment consultant and Plan actuary, continues to work on our Pension Risk Management Strategy. This strategy is focused on introducing a dynamic investment policy that will see us reduce investment risk as the Plan's funded status improves and the Plan matures, and re-risk if and when our funded status declines. The core of this strategy is the development and introduction of a real-time funding status monitor to drive and support investment policy asset mix decisions. Testing of the monitor is progressing and we look for signoff and implementation in 2013.

We successfully deployed an equity allocation to emerging markets in 2012 to bring greater diversification to the Fund and capture gains through market inefficiencies. This further diversification of the Fund provides us with the opportunity to realize higher returns without taking on more risk.

We also successfully deployed an allocation to infrastructure in 2012 that saw us acquire, along with the other limited partners in our investment consortium, our first infrastructure asset: a major international airport. We see the ownership and operation of hard assets like seaports, airports, toll roads, electrical transmission lines, pipelines, amongst many others, providing us with inflation-linked incomes that strongly match our liabilities and our long-term investment horizon.

Our totally Canadian core real estate portfolio returned 14.4% in 2012 making a very significant contribution to our overall 2012 return. We have worked throughout the last half of 2012 to prepare for our entry into the US core real estate market in 2013 with an additional real estate allocation of approximately $80 million. This additional real estate allocation will be funded by a reduction to our publicly traded equity allocation.

From March 31, 2009 to December 31, 2012 the market value of the Fund increased by 70% from $2.39 billion to $4.07 billion. This increase is the result of strategic contribution rate increases recommended by the Plan actuary and approved by the Board of Trustees over the past four years and solid investment performance in 12 of the last 15 quarters. This means that we are making meaningful progress against our unfunded liability by effectively using the powerful tools - the funding policy and the investment policy – under the control of the Board of Trustees.

We are a company with drive not only to secure the benefits of our members but to also deliver high-quality service to our members at low cost. In 2012 we made the decision to participate in a national pension administration benchmarking study to determine where we stand in terms of service delivery and administration costs relative to comparable Canadian pension plans. Throughout 2012 we closely tracked and reported our administration activities to the company performing the study and are eager to receive and share the results when they become available in mid-2013.

This annual report is an asset to our organization, providing reliable, accurate information on how we conduct our business. I thank the Board of Trustees and SHEPP's dedicated staff whose work this report represents for their support and commitment.

Profile

About Us

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 35,013 provincial healthcare workers. With 12,691 retired members and their beneficiaries and 1,579 vested members with deferred entitlement, 49,283 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. Health Shared Services Saskatchewan (3sHealth) 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. 3sHealth 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 27 employees are responsible for the day-to-day operation of the Plan.

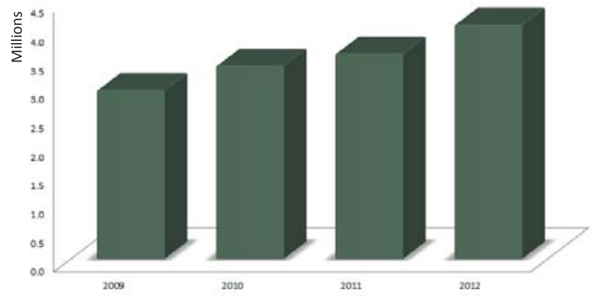
Participating Employers

There are 65 Saskatchewan healthcare employers who participate in SHEPP.

	2012 ($000's)	2011 ($000's)	2010 ($000's)	2009 ($000's)
Net Assets Available for Benefits	**4,068,628**	**3,565,222**	**3,355,850**	**2,932,800**
Accrued Pension Obligations	**4,390,100**	**4,089,000**	**3,765,300**	**3,782,400**
Contributions				
Member	128,724	128,810	103,672	89,879
Employer	144,171	144,267	116,112	100,664
Other	3,527	3,082	2,952	2,123
Total Contributions	**276,422**	**276,159**	**222,736**	**192,666**
Benefit Payments				
Pensions	149,544	131,064	116,037	104,515
Terminations and Deaths	28,985	34,447	27,422	25,460
Total Benefit Payments	**178,529**	**165,511**	**143,459**	**129,975**
Plan Expenses				
Administrative	4,851	4,234	4,162	3,680
Investment	15,846	14,310	12,215	10,611
Total Plan Expenses	**20,697**	**18,544**	**16,377**	**14,291**

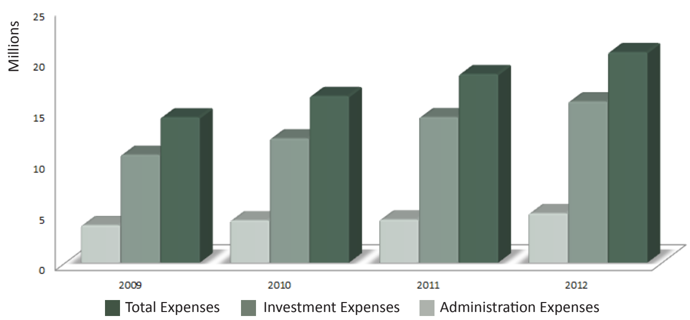
Net Assets Available for Benefits

Total net assets available for benefits were $4.07 billion as of the end of 2012. This represents an increase of over $503 million, or 14.1%.



Total Expenses

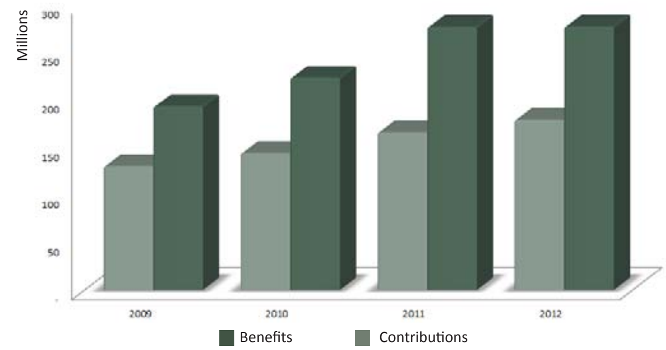
Total expenses increased by 11.6% to $20.7 million in 2012. Administrative expenses make up 23.4% of the overall total expenses with investment expenses being $15.9 million.



Benefits and Contributions

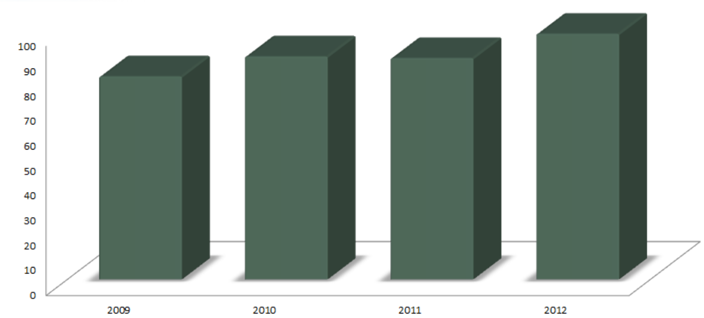
In 2012, total employee and employer contributions to the Plan were $276.4 million. As of December 31, 2012 there were 12,691 retired members who received a total of $149.5 million in pension benefits.

The combined member and employer contribution rates remained steady at a total rate of 17.3% of payroll.



Administrative Cost per Member

SHEPP is committed to serving the best pension interests of its members. This means administering the Plan in the most cost effective manner. In 2012, the per capita cost of providing services to Plan members was $98.43. SHEPP remains one of the lowest Plan administrators amongst Canadian public pension plans for which per capita administration costs is publicly available.



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 2012, SHEPP handled thousands of requests for information from our members including 8,403 retirements, termination and death benefit calculations and 258 spousal relationship breakdown calculations.

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. The *Member Plan Booklet* is our Plan handbook, and explains the Plan and its benefits in detail.

Information sheets on topics such as designating a beneficiary, purchasing prior service, entitlement subject to division on spousal relationship breakdown, granting power of attorney in respect of SHEPP benefit options, rights and entitlement and portability agreement transfers are also 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:

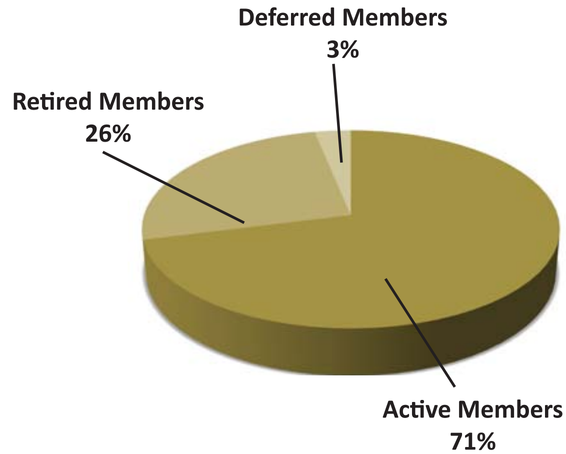
- perform unlimited pension projection calculations;
- perform unlimited prior service purchase cost calculations;
- view and print their most recent member's annual statement;
- view and update key portions of their SHEPP member record;
- designate a beneficiary; and
- request pension estimates, prior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

On enrolment 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 49,283 Members

We are proud to serve:

- 35,013 active members including members absent from employment due to approved disability.
- 12,691 retired members, surviving spouses and beneficiaries
- 1,579 deferred members, or former members who left their funds in SHEPP to collect a pension at retirement.



Historical Profile

2,846 new members joined SHEPP in 2012. Although the Plan is made up of predominately female members, 87.95% in 2012, that number has been slowly declining over the past 7 years. The average age of an active Plan members is 45 years old.

2,797 Plan members were absent from employment for all or part of 2012 due to approved disability. Members receive service credit under the Plan for periods of approved disability even though they are not required to contribute to the Plan during these periods.

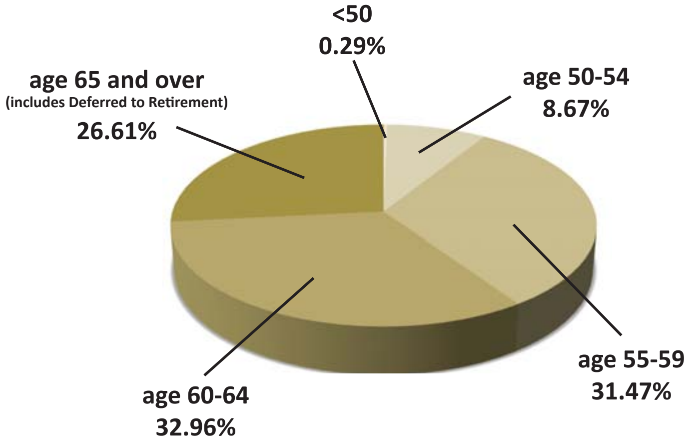
Retired Members, Spouses and Beneficiaries.

The total number of retired members, surviving spouses and beneficiaries increased in 2012 by 7.0% to a total of 12,691 retired members.

During the next 10 years, over 14,500 members will be eligible to retire with an unreduced pension.

The average new lifetime pension in 2012 was $1,565.22 gross per month. The average bridge benefit, for members who meet the rule of 80 (age plus credited service) was $350.07 gross per month.

Age Breakdown of 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. A copy of this policy is available online at **www.shepp.ca.**

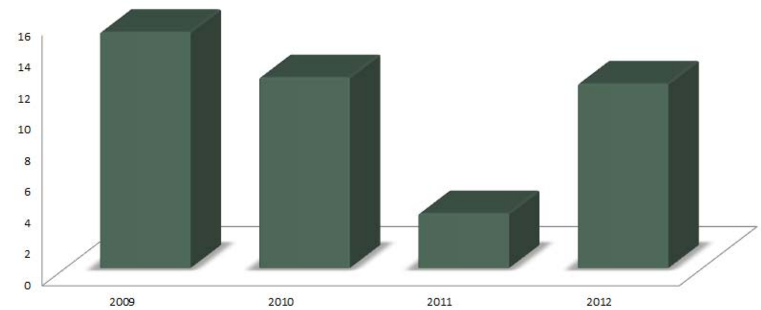
	2009	2010	2011	2012
Canadian Equities	17.8%	17.9%	16.2%	15.8%
Non-North American Equities	16.0%	16.3%	15.8%	15.6%
Gobal Equities	13.2%	12.8%	12.5%	12.9%
U.S. Equities	12.2%	11.9%	12.2%	9.9%
Emerging Markets	0.0%	0.0%	0.0%	4.9%
Real Estate	4.2%	7.0%	8.1%	8.7%
Canadian Bonds	35.5%	32.6%	31.7%	29.5%
Infrastructure	0.0%	0.0%	0.0%	0.4%
Short-Term Investments	1.1%	1.5%	3.5%	2.3%
	100.0%	100.0%	100.0%	100.0%

The long-term target asset mix for the Fund is about 50% equities, 29% fixed-income, 12% real estate, 8% infrastructure and 1% cash.

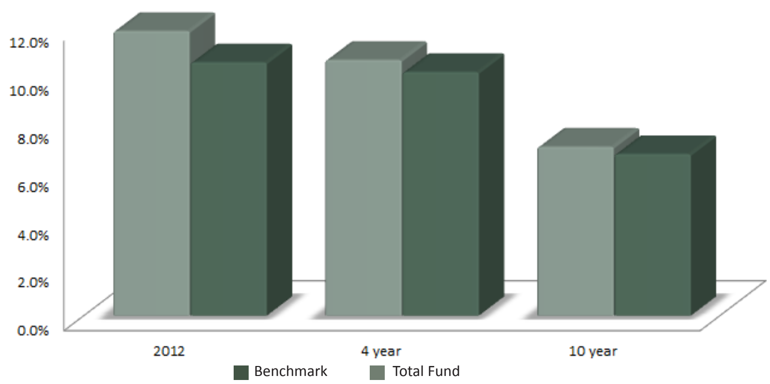
As of December 31, 2012, the Fund had a market value of $4.07 billion. The goal of the Board of Trustees is to ensure there will be sufficient funds available to pay the benefits earned under the Plan. The investment goal is one of prudence, with a view to earning the best possible returns within an acceptable level of risk.

2012 Investment Performance

In 2012, the Fund achieved an 11.8% rate of return, outperforming the benchmark set for the total Fund by 1.3%. 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.



The Fund's four-year annualized rate of return was 10.6% versus the comparative benchmark return of 10.1% and the 10 year annualized rate of return was 7.0% versus 6.7% for the benchmark.



Management's Responsibility for Financial Reporting

The SHEPP 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 financial statements have been prepared in accordance with Canadian Accounting Standards for pension plans (ASPP), section 4600 Pension Plans. For matters not addressed in section 4600, International Financial Reporting Standards (IFRS) guidance has been implemented.

The 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 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 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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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, 2012, 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, 2012, 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 Accountants

Regina, Canada
May 29, 2013

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

	2012 (000's)	2011 (000's)
ASSETS		
Investments (Note 5)	**$ 3,655,518**	$ 3,190,389
Investments under security lending program (Note 5)	**392,264**	350,413
Accrued interest receivable	**402**	176
Members' contributions receivable	**10,465**	10,675
Employers' contributions receivable	**11,721**	11,956
Dividends receivable	**2,691**	3,847
Securities transactions receivable	**630**	244
Property and equipment (Note 6)	**1,958**	149
Intangible assets (Note 7)	**526**	771
Other receivables	**332**	237
Prepaid expenses	**103**	76
	4,076,610	3,568,933
LIABILITIES		
Accounts payable	**7,982**	3,711
	7,982	3,711
NET ASSETS AVAILABLE FOR BENEFITS	**4,068,628**	3,565,222
PENSION OBLIGATIONS (Note 9)	**4,390,100**	4,089,000
DEFICIT	**$ (321,472)**	$ (523,778)

See accompanying notes

Approved by the Board of Trustees and signed on their behalf on May 29, 2013.

Chair

Vice-Chair

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

	2012 (000's)	2011 (000's)
INCREASE IN NET ASSETS		
Contributions - Members	**$ 128,724**	$ 128,810
Contributions - Employers	**144,171**	144,267
Contributions - Other	**3,527**	3,082
Investment income (Note 8)	**72,278**	59,748
Net realized gain on investments	**47,507**	77,914
Realized gain on foreign exchange	**49,505**	-
	445,712	413,821
DECREASE IN NET ASSETS		
Pension benefits	**149,544**	131,064
Terminations and death benefits	**28,985**	34,447
Change in provision for accrued pension benefits	**301,100**	323,700
Realized loss on foreign exchange	**-**	31,299
	479,629	520,510
EXPENSES		
Administrative expenses (Schedule 1)	**3,859**	3,297
Custodian fees	**439**	455
Fund management fees (Schedule 2)	**13,757**	12,424
Investment consulting fees	**322**	349
Investment transaction fees	**1,328**	1,082
Professional fees	**992**	937
	20,697	18,544
	500,326	539,054
UNREALIZED GAINS (LOSSES)		
Unrealized market value gain (loss)	**286,636**	(10,019)
Unrealized gain (loss) on foreign exchange	**(29,716)**	20,924
	256,920	10,905
NET INCREASE (DECREASE) IN NET ASSETS AVAILABLE FOR BENEFITS	**202,306**	(114,328)
DEFICIT, BEGINNING OF YEAR	**(523,778)**	(409,450)
DEFICIT, END OF YEAR	**$ (321,472)**	$ (523,778)

See accompanying notes

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

	2012 (000's)	2011 (000's)
PENSION OBLIGATIONS, BEGINNING OF YEAR	**$ 4,089,000**	$ 3,765,300
Current service costs	**183,000**	175,721
Benefits paid by the plan	**(178,500)**	(165,511)
Interest expense	**296,600**	273,354
Experience losses	**-**	40,136
PENSION OBLIGATIONS, END OF YEAR (Note 9)	**$ 4,390,100**	$ 4,089,000

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 Health Shared Services Saskatchewan (3sHealth) 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, 2012 have been prepared in accordance with Canadian accounting standards for pension plans (CICA 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).

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 year ending December 31, 2012 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

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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.

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3. Description of Plan (continued)

(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.

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).

3. Description of Plan (continued)

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. 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.

3. Description of Plan (continued)

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 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.

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

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, 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

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.

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 - 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 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).

4. Significant Accounting Policies (continued)

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, 2012, 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	2012 Fair Value (000's)	2012 Yield (%)	2011 Fair Value (000's)	2011 Yield (%)
Bonds					
Government of Canada	6 - 10	**$ 38,067**	**2.3**	$ -	
	10+	**-**		998	2.5
		38,067		998	
Provincial	6 - 10	**6,696**	**2.7**	14,804	3.1
	10+	**341,028**	**3.4 – 3.8**	368,581	3.4 – 3.8
		347,724		383,385	
Corporate		**216,446**	**2.5 – 4.8**	182,145	3.1 – 4.8
Total bonds		**602,237**		566,528	
Bond pooled funds		**499,002**	**2.3 – 3.1**	476,931	2.4 – 3.2
Mortgage pooled fund		**44,206**	**4.6**	41,798	4.6
Equities and equity pooled funds					
Canadian equities		**352,848**		312,652	
Non-North American equities		**325,429**		307,746	
Non-North American pooled funds		**286,700**		238,670	
Emerging markets equities		**198,546**		-	
United States pooled funds		**400,513**		432,435	
Global pooled funds		**520,576**		442,396	
Total equities and equity pooled funds		**2,084,612**		1,733,899	
Other					
Short term investments		**22,384**		24,479	
Real estate pooled fund		**215,705**		182,137	
Real estate equity investments		**137,132**		104,893	
Infrastructure		**15,152**		-	
Cash		**42,582**		40,070	
Currency forward contracts		**(7,494)**		19,654	
Total other		**425,461**		371,233	
Total Investments		**$ 3,655,518**		$ 3,190,389	

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5. Investments (continued)

		2012		2011	
Type	Years to Maturity	Fair Value (000's)	Yield (%)	Fair Value (000's)	Yield (%)
Investments under securities lending program					
Bonds					
Government of Canada	6 - 10	**1,388**	**2.3**	10,057	1.9
	10+	**566**	**2.3**	9,451	2.5
Provincial	6 - 10	**9,631**	**2.7**	-	
	10+	**36,377**	**3.3 – 3.9**	16,006	3.5 – 3.8
Canadian equities		**287,079**		257,961	
Non-North American equities		**17,624**		14,659	
Short term investments		**39,599**		42,279	
Total investments under securities lending program		**$ 392,264**		$ 350,413	

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.

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, 2012 stock shorting was permitted in one investment mandate with a carrying value of $315,701,000 (2011 - $266,000,000).

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. The fair value of this investment is shown as a real estate equity investment.

5. Investments (continued)

Infrastructure

The Plan invests in infrastructure through its 100 per cent owned subsidiary, Horizon Infrastructure SHEPP Holdings Ltd (Horizon). The fair value of this investment is shown as an infrastructure investment. The purpose of Horizon is to own units of infrastructure in a pooled fund.

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.

	2012 (000's)			
	Level 1	**Level 2**	**Level 3**	**Total**
Short-term investments	$ -	$ 61,983	$ -	$ 61,983
Bonds, bond pooled funds and mortgage pooled funds	-	1,193,407	-	1,193,407
Canadian equities	639,927	-	-	639,927
Non-North American equities	343,053	-	-	343,053
United States pooled funds	-	400,513	-	400,513
Non-North America pooled funds	-	286,700	-	286,700
Global pooled funds	-	520,576	-	520,576
Emerging market equities	-	198,546	-	198,546
Infrastructure	-	-	15,152	15,152
Real estate pooled fund	-	-	215,705	215,705
Real estate equity investments	-	137,132	-	137,132
Currency forward contracts	-	(7,494)	-	(7,494)
	$ 982,980	**$ 2,791,363**	**$ 230,857**	**$ 4,005,200**

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

Level 3 Reconciliation

	2012 (000's)	2011 (000's)
	Pooled Real Estate and Infrastructure	**Pooled Real Estate**
Opening balance	$ 182,137	$ 166,310
Acquisitions	26,897	-
Dispositions	(1,202)	(6,835)
Realized gain	-	2,752
Change in unrealized gain	23,025	19,460
	$ 230,857	$ 182,137

During the current year 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, 2011	$ 152	$ 93	$ 34	$ 279
Additions	-	50	-	50
Balance at December 31, 2011	$ 152	$ 143	$ 34	$ 329
Balance at January 1, 2012	$ 152	$ 143	$ 34	$ 329
Additions	9	17	1,824	1850
Balance at December 31, 2012	$ 161	$ 160	$ 1,858	$ 2,179
Amortization				
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
Balance at January 1, 2012	$ 77	$ 79	$ 24	$ 180
Depreciation for the year	13	24	4	41
Balance at December 31, 2012	$ 90	$ 103	$ 28	$ 221
Carrying amounts				
Balance at January 1, 2011	$ 88	$ 30	$ 14	$ 132
Balance at December 31, 2011	$ 75	$ 64	$ 10	$ 149
Balance at January 1, 2012	$ 75	$ 64	$ 10	$ 149
Balance at December 31, 2012	$ 71	$ 57	$ 1,830	$ 1,958

7. Intangible Assets

Intangible assets consist of a pension administration system.

		Total (000)'s
Cost or deemed cost		
Balance at January 1, 2011	$	2,415
Balance at December 31, 2011	$	2,415
Balance at January 1, 2012	$	2,415
Balance at December 31, 2012	$	2,415
Amortization		
Balance at January 1, 2011	$	1,398
Amortization for the year		246
Balance at December 31, 2011	$	1,644
Balance at January 1, 2012	$	1,644
Amortization for the year		245
Balance at December 31, 2012	$	1,889
Carrying amounts		
Balance at January 1, 2011	$	1,017
Balance at December 31, 2011	$	771
Balance at January 1, 2012	$	771
Balance at December 31, 2012	$	526

8. Investment Income

	2012 (000's)	2011 (000's)
Bond interest	**$ 12,662**	$ 14,471
Dividends	**57,452**	44,035
Interest on short term investments and cash balances	**1,236**	778
Other income	**928**	464
	$ 72,278	$ 59,748

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, 2012 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	**2012**	**2011**
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	11.4 years
Salary Projection		
• SUN Members	3.50% for 2012 plus 2.0% for any member who attains 20 years of service	3.50% for 2012 plus 2.0% for any member who attains 20 years of service
• All Other Members	3.50% for 2012 and thereafter	3.50% for 2012 and 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 13 per cent change in the pension obligations;
- A one per cent change in the salary scale and the pensionable earnings levels results in approximately a 4 per cent change in the pensions obligations.

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.

10. Financial Risk Management (continued)

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.

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, 2012 is limited to the carrying value of the financial assets summarized as follows:

	2012 (000's)	2011 (000's)
Cash	**$ 42,582**	$ 40,070
Accrued interest receivable	**402**	176
Members' contributions receivable	**10,465**	10,675
Employers' contributions receivable	**11,721**	11,956
Dividends receivable	**2,691**	3,847
Security transactions receivable	**630**	244
Other receivables	**332**	237
Short-term investments	**61,983**	66,758
Fixed income *	**1,193,407**	1,120,771
	$ 1,324,213	$ 1,254,734

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

10. Financial Risk Management (continued)

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:

	2012		2011	
Credit rating	**Fair Value (000's)**	**Makeup of Portfolio**	**Fair Value (000's)**	**Makeup of Portfolio**
AAA	**$ 259,217**	**21.7%**	$ 227,946	20.3%
AA	**366,858**	**30.7%**	386,067	34.5%
A	**459,003**	**38.5%**	416,800	37.2%
BBB	**108,329**	**9.1%**	89,958	8.0%
	$ 1,193,407	**100.0%**	$ 1,120,771	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, 2012, the Plan's investments included loaned securities with a market value of $392,264,000 (2011 - $350,413,000) and the fair value of securities and cash collateral received in respect of these loans was $406,134,000 (2011 - $358,758,000).

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 $176,071,000 at December 31, 2012 (2011 - $164,880,000); representing 13.6 per cent (2011 – 13.4 per cent) of the $1,297,972,000 (2011 - $1,227,599,000) fair value of these investments.

10. Financial Risk Management (continued)

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, 2012, the Plan's exposure to United States equities was 17 per cent (2011 – 19 per cent) and its exposure to non-North American equities was 20 per cent (2011 – 21 per cent).

The Plan manages this risk through the use of currency futures or forwards. At December 31, 2012 the fair value of currency forward contracts payable was $1,962,257,000 (2011 - $2,368,144,000) and the fair value of currency fund contracts receivable was $1,954,761,000 (2011 - $2,387,834,000).

Equity price risk

The Plan is exposed to changes in equity prices in Canadian, United States and other markets. Equities comprise 59.0 per cent (2011 – 56.7 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 $238,932,000 (2011 - $200,652,000) 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 3sHealth, formerly Saskatchewan Association of Health Organizations. All transactions are recorded at the exchange amounts agreed by the two parties.

	2012 (000's)	**2011 (000's)**
Expenses	**$ 77**	$ 74

11. Related Party Transactions (continued)

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:

	2012 (000's)	2011 (000's)
Short-term employee benefits	**$ 701**	$ 529
Post-employment benefits		
Defined benefit retirement allowance	**64**	48
	$ 765	$ 577

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