2018 ANNUAL REPORT

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN

people. pensions. results.

SHEPP

SASKATCHEWAN HEALTHCARE
EMPLOYEES' PENSION PLAN

TABLE OF CONTENTS

MESSAGE FROM THE BOARD

Reflecting on what was a turbulent year in the financial markets, we're satisfied that the very strategic approach the Board continues to take is providing some protection in volatile markets, keeping Plan funding steady and long-term sustainability in sight. As Saskatchewan's hard-working healthcare employees head off to work every day, the Board recognises what is at stake. One in every 15 people who work in the province is contributing to a SHEPP pension and looking forward to one day retiring, re-assured by the knowledge that they will enjoy predictable monthly income for the rest of their life. It is this — the retirement security of our members and pensioners — that is at the heart of every decision we make.

Grounded by solid governance and prudent investment practices, the Board remains unwavering in its pursuit to deliver on its pension obligation at an affordable cost. While defined benefit pension plans, like SHEPP, continue to face challenges, industry experts recently shared some uplifting insight. A recent study commissioned by the Canadian Public Pension Leadership Council (CPPLC) reported that defined benefit pension plans provide broad social and economic benefits to Canadians. Not only does this model provide an efficient means of generating and delivering retirement income security, plans like SHEPP also help reduce financial stress and improve the health of employees, while aiding employers with recruitment and retention. SHEPP's Board of Trustees agrees and will continue to advocate for this model.

We're genuinely grateful to everyone who has contributed to SHEPP's successes this past year. While our roles may differ, there is a common thread that runs through each of us – a commitment to pursue excellence – so together, we can achieve the Plan's mission of serving the best interests of our members. This includes members of the Partner Committee, SHEPP's dedicated and high-performing Administration team led by CEO, Alison McKay and finally, our fellow Trustees. Together, everyone's passion and collective enthusiasm remains unparalleled.

Jeff Stepan, Chair

Andrew Huculak, Vice-Chair

THE SHEPP PROMISE

OUR MISSION
To serve the best interests of our members.

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

We embrace quality and innovation.

We are passionate about pensions.

We are people driven and member focused.

MESSAGE FROM THE CEO

While the Plan made significant investment gains in recent years, the 2018 financial markets proved challenging and SHEPP was not immune to the impact. A market decline in December erased most of the investments returns gained earlier in the year. While this left the SHEPP Fund with a 0% year-end rate of return (net of fees), it exceeded the benchmark of -0.6%, and kept the Fund's total net assets at approximately $7.2 billion.

Despite a challenging year financially, SHEPP made great strides operationally as the Administration team pursued initiatives supporting the Board's overall strategic goals. An actuarial valuation showed an improvement in the Plan's funded status and, following the completion of an asset-liability study, the Board approved a new long-term asset mix to ensure the Fund's assets continue to meet the funding needs of the Plan in the future. Service has always played a key role in day-to-day operations but received additional attention in 2018 with the implementation of a new service strategy that formalised SHEPP's expectations regarding service, both internally and externally. The three-year security roadmap, designed to strengthen overall security practices, saw its first year of initiatives completed and new projects were kicked off to build an employee intranet and business intelligence unit. Heading into the third year of the Board's five-year strategic plan, I'm confident we'll achieve our goals.

Leading an organisation like SHEPP is rewarding on many levels, but what I value above all else, are the people around me. The team's commitment to service excellence and delivering on the SHEPP Promise is second to none. I applaud the outstanding efforts of everyone – our Board of Trustees, the Partner Committees and of course, my administration team – for their ongoing commitment to providing a secure pension benefit to our members. While it's hard to predict what the year ahead will bring, it's reassuring to know we have the tools to navigate our way – from outstanding people, to a progressive strategy, and partners aligned with SHEPP's mission.

Alison McKay

Alison McKay, CEO

PLAN OVERVIEW

The Saskatchewan Healthcare Employees' Pension Plan (SHEPP) is a defined benefit pension plan providing retirement benefits to healthcare workers employed with one of 50 participating employers across Saskatchewan.

SHEPP pensions are based on a formula providing all eligible members with a lifetime pension, along with disability, death and termination benefits. The benefit formula is based on a member's four-year highest average eligible earnings, years of credited service at retirement and the accrual rate in effect during their years of service.

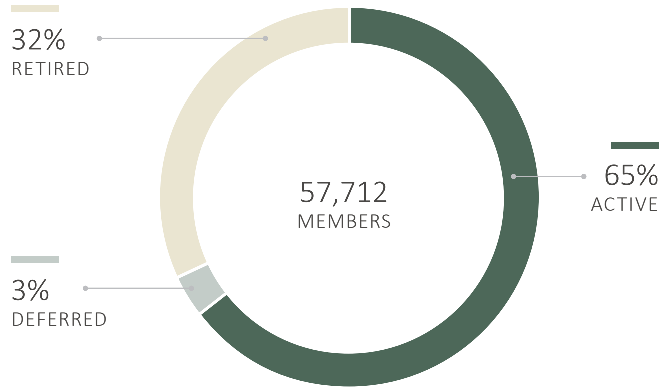
The Plan is funded by contributions from Plan members and participating employers, and by the investment earnings of the Plan's assets.

Originally established in 1962, today SHEPP is the largest defined benefit plan in the province with over 57,000 members and is the only industry-wide pension plan serving the healthcare sector.

SHEPP has been jointly sponsored and governed by a Board of Trustees and Partner Committees since 2002. Each is equally represented by employers and employees. The Plan is administered in compliance with the Plan Text, *The Pension Benefits Act, 1992* (Saskatchewan) and the *Income Tax Act* (Canada).

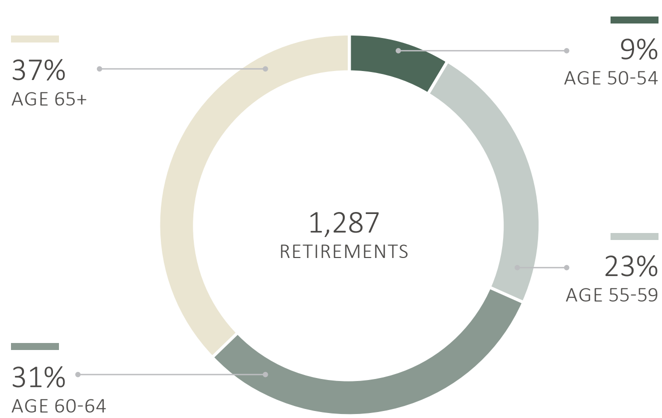
SHEPP's office and its 48 employees are located in Regina.

PLAN MEMBERSHIP PROFILE
(AS AT DECEMBER 31, 2018)



1 in 15
PEOPLE EMPLOYED IN SASKATCHEWAN IS BUILDING A SHEPP PENSION

NEW RETIREMENTS IN 2018
(AGE AT RETIREMENT)



$1,616
DOLLARS PER MONTH WAS THE AVERAGE NEW LIFETIME PENSION

$508
DOLLARS PER MONTH WAS THE AVERAGE NEW BRIDGE BENEFIT

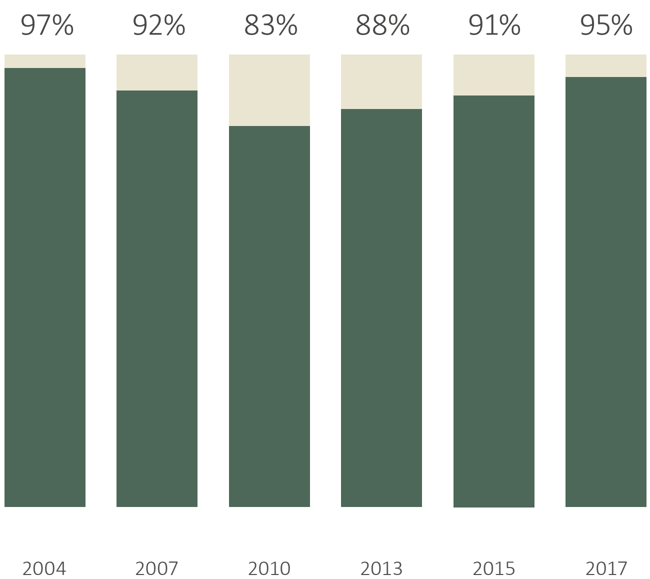
STATE OF THE PLAN

A challenging financial market in 2018 resulted in a flat return, which left the total market value of the Fund where it began the year, at approximately $7.2 billion. Net assets decreased by approximately $9.5 million while pension liabilities increased by $160.5 million, resulting in a surplus of $370.6 million on a best-estimate basis at the end of 2018. While a surplus was maintained on a best-estimate basis, the Plan is funded on a going-concern basis, which assumes the Plan continues indefinitely. For that reason, the focus must continue to be on the longer-term financial health of the Plan, rather than the financials of a specific year.

FUNDING POLICY

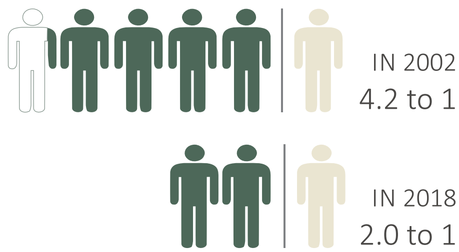
Funding a defined benefit pension plan like SHEPP, where obligations extend 70 or more years in the future, is truly a long-term and ongoing consideration that requires diligent oversight by the Board. To support its decision-making, the Board has a Funding Policy aimed at guiding the Plan through economic cycles and shifting demographics while maintaining the financial integrity of the Plan over the long-term. Within the Policy, the Board has established priorities — the first is to secure members' benefits and the second is to stabilise contribution rates.

GOING-CONCERN FUNDED STATUS
AS AT DECEMBER 31



The Board is responsible for administering the Plan and funding the prescribed benefits from contributions and investment earnings. The responsibility for Plan design lies with the Partner Committees and as such, only they have the authority to make fundamental changes to Plan design. This means, the only option available to the Board when a deficit occurs is to raise contribution rates to ensure the deficit is funded within the legislated timeframe.

ACTIVE TO RETIRED MEMBER RATIO

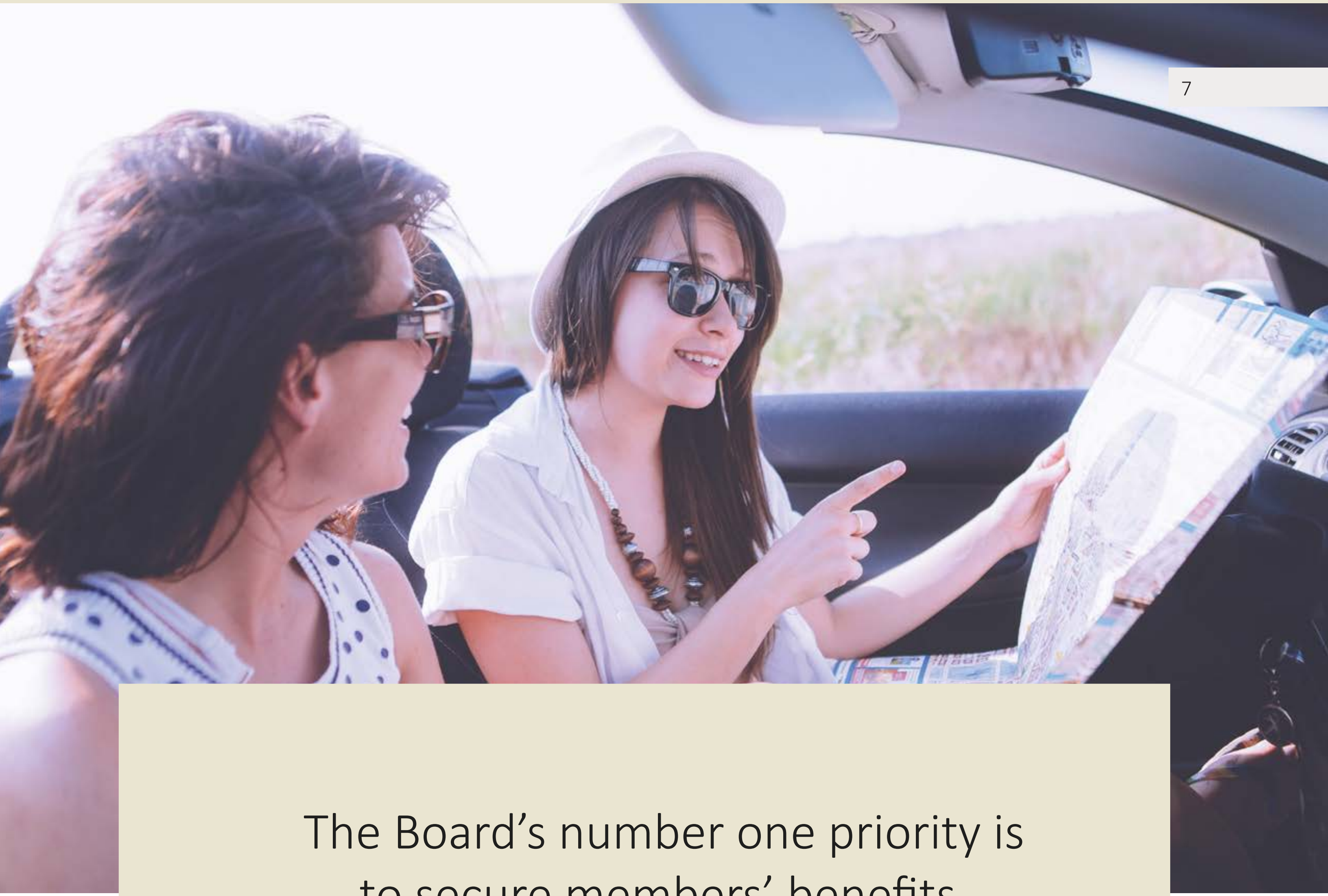


Compounding the challenge is Plan maturity. In the past 16 years, the active to retired member ratio has dropped from over four to one to just two to one. Pension plans naturally mature over time. This comes as no surprise and the expectation is that this shift will continue, making it increasingly important to pursue investment strategies that can generate a level of return sufficient to fund benefits long-term.

Recognising a certain level of investment return is required to mitigate the need for contribution rate changes, the Plan must take on some risk. SHEPP's Board and Administration work closely with the Plan actuary and investment consultant to design and implement investment and risk management strategies that address the Plan's changing demographics as well as the economic environment in which it operates.

GOING-CONCERN FUNDED STATUS

The Board regularly monitors the Plan's funded status and investment performance. At least every three years, SHEPP is required by legislation to conduct an actuarial valuation to measure the financial position of the Plan and set contribution rates to meet the funding requirement. In 2018, SHEPP conducted a valuation as at December 31, 2017, which showed the third consecutive improvement in the



The Board's number one priority is to secure members' benefits.

Plan's funded position, now at 95% on a going-concern basis. The total unfunded liability decreased from $594 million to $385 million. Implicit in this, was the net gain experienced by the Plan, sufficient to eliminate the remainder of the deficit incurred in 2007.

The valuation also revealed a significant increase in the Plan's current service cost. However, the elimination of the 2007 deficit resulted in a decrease to the temporary contributions required to amortise the unfunded liability. This, along with the effective use of the contribution stabilisation margin, negated the need for a contribution rate increase in the immediate future.

SHEPP's contribution rates have remained stable since January 1, 2014, when the combined contribution rate was set at 18.3% of payroll.

SHEPP CONTRIBUTION RATE
(AS A PERCENTAGE OF PAYROLL)

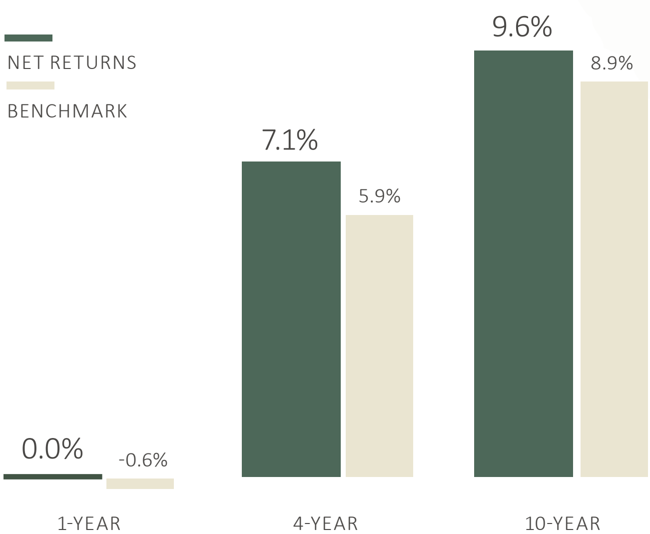
ITEM	RATE
Current service cost	15.36%
Temporary contribution to amortise the unfunded liability	2.94%
TOTAL COMBINED CONTRIBUTION RATE	18.3%

INVESTMENTS

INVESTMENT OVERVIEW

SHEPP's purpose is to pay lifetime pensions, and historically, approximately 75% of pension benefits have been paid from funds generated by investment returns. To say investments are important would be an understatement; they are essential to the Plan's funding and long-term sustainability. SHEPP's investment strategy aims to generate long-term returns sufficient to improve and maintain the Plan's funded position, securing members' benefits and stabilising contributions in support of Plan sustainability. In this pursuit, the challenge is achieving the right balance between risk and return.

TOTAL FUND RATE OF RETURN
(ANNUALISED, NET OF INVESTMENT MANAGEMENT FEES)



The Fund's asset mix is well diversified, which plays a key role in reducing risk during turbulent periods and mitigating the potential impact on the Plan's funded position and contribution levels. It has been tested over time, yielding strong returns during favourable market conditions and helping protect the Fund from significant loss during unfavourable market conditions, as experienced in 2018.

STRATEGIC INITIATIVES AND ACCOMPLISHMENTS

Significant progress has been made executing the Plan's Investment Strategic Plan, which established key investment-related goals and strategies to support the long-term viability of the Plan. In 2018, the second year of the five-year plan, the Administration completed a number of important initiatives including the implementation of new strategies in the opportunistic investments category and the completion of an asset-liability study. Asset-liability studies are undertaken periodically to examine the expected portfolio risk and return relative to the Plan's goals of sustainability and contribution stability. Following the study, a new long-term asset mix was approved by the Board and will be implemented over the next two years. The new long-term target portfolio will see a continuation of the Plan's measured shift away from public equity and traditional fixed income, adding private equities and absolute return strategies. In addition, changes in allocations within existing asset classes will be geared at enhancing diversification.

2018 PERFORMANCE

While the first three quarters of 2018 produced positive investment returns, a significant financial market collapse in the fourth quarter essentially wiped out gains made in previous months, resulting in a flat return for the year. Despite the turbulent investment climate of 2018, SHEPP's one-year total fund return of 0.0% (net of investment management fees) outpaced the benchmark of -0.6%. The benchmark return reflects SHEPP's target asset mix implemented using passive, index strategies. Therefore, the combined impact of an active management program, asset allocation, and opportunistic investing added value in the year.

EQUITIES

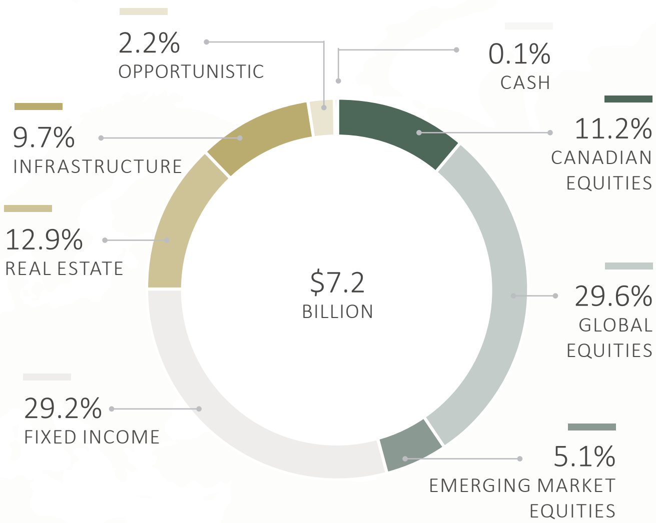
Equities anchor the growth-oriented portion of the portfolio and are expected to deliver dividend income and long-term growth in excess of inflation. Equity performance over the year was the weakest its been since 2008, with Canadian equities being the biggest detractor, dragged down by the energy sector's falling crude oil prices. Global and emerging markets equities also experienced negative returns in 2018. SHEPP's total equity portfolio posted a -4.4% return in 2018.

FIXED INCOME

The fixed income portfolio provides a more stable investment income and is designed to hedge against equity risk. Bond market returns over the year were positive across all broad sectors and maturities in 2018. The Bank of

Canada increased its interest rate three times, ending the year at 1.75% (the highest its been since December 2008), and pushing bond prices lower. SHEPP's overall fixed income allocation generated a 1.1% result in the year, led by short and medium-term bonds and mortgages.

ASSET MIX
(2018)



ALTERNATIVES

SHEPP's alternative assets include real estate, infrastructure and more recently asset classes within an opportunistic investments category. The alternatives portion of the portfolio is designed to provide additional diversification and potential for inflation sensitive income and/or longer-term growth opportunities, depending on the type of investment. SHEPP's alternatives returned a total 14.0% in 2018, led by very strong returns in infrastructure. The real estate portfolio also performed well over the year, particularly in the US. Alternative assets are an important component of the total Fund and will continue to grow over the coming years as the new long-term asset mix is implemented.

CURRENCY

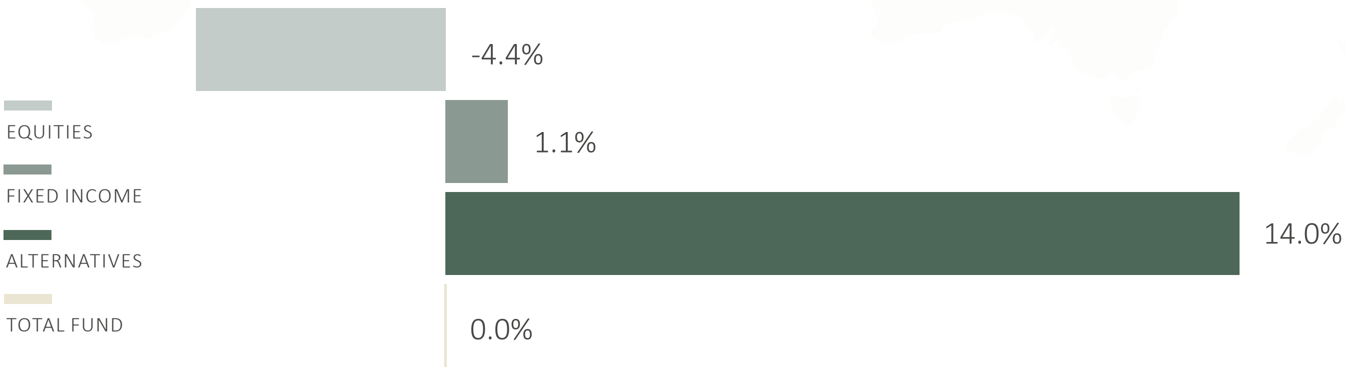
As SHEPP's investment portfolio evolves, seeking more globally diversified sources of return, the Fund becomes more exposed to currency fluctuations, while SHEPP's pension obligations continue to be paid in Canadian dollars. Despite currency acting as a source of diversification during certain market environments, a currency overlay program was put in place to dynamically mitigate some of the risk of undesirable currency fluctuations. In 2018, SHEPP's total Fund return benefited from currency exposure as the Canadian dollar depreciated against a basket of currencies. The currency overlay program partially offset these gains and slightly detracted from the total Fund performance.

LONGER-TERM RESULTS

SHEPP's investment strategy is a long-term one, and as such its success must be examined under a lens spanning more than any one year. On a longer-term basis, SHEPP assesses the effectiveness of investment strategies and activities relative to absolute return targets used in funding calculations, as well as a passive benchmark portfolio. The primary and secondary objectives, respectively, are to meet or exceed a real return of 4.0% (inflation plus 4.0%) over the very long term (10+ years) and to meet or exceed the return of the benchmark portfolio approved by the Board (over rolling four-year periods).

The Fund exceeded performance targets with a four-year annualised return of 7.1% (net of investment management fees) exceeding the benchmark of 5.9%. Over 10 years, the 9.6% return (net of investment management fees) also exceeded the 8.9% benchmark portfolio return and provided a strong rate of return net of inflation of nearly 8%.

2018 TOTAL FUND RETURNS
(NET OF INVESTMENT MANAGEMENT FEES)



ADMINISTRATION

OPERATING EXPENSES

In administering a pension plan, there is an important balance that must be struck between the desire to provide quality service and the need to remain cost efficient. In 2018, SHEPP participated in the CEM Pension Administration Benchmarking Survey to gain insight into administrative costs and service levels, relative to industry peers. According to the report, SHEPP continues to provide an effective level of service at a reasonable cost when compared to similar plans across Canada.

2017 – 2021 STRATEGIC PLAN

Enhance the long-term viability of the Plan by executing innovative strategies that protect the interests of the Plan and its members.

Strengthen the relationship with the Partner Committees by enhancing communications, striving to educate and inform while encouraging effectiveness that benefits all Plan members.

Maintain and enhance SHEPP's position as an industry leader by driving a culture of excellence and resilience.

2017 – 2021 STRATEGIC PLAN

Now two years into the five-year strategic plan, the Administration has reported progress on all three strategic goals. Major initiatives supporting strategic objectives that were underway in 2018 include:

SERVICE STRATEGY

SHEPP formalised its service expectations with a Service Strategy. Integral to the strategy's success is its implementation across all levels of service the organisation provides, not only to external customers but internal customers as well. The strategy identified four service basics, unique to SHEPP's mission and culture: accurate, timely, helpful and approachable.

BUSINESS INTELLIGENCE

In 2018, SHEPP began planning for the development of a new Business Intelligence Unit (BIU). The BIU will empower business units to tell stories with data, enhancing business and strategic decision-making processes.

EMPLOYEE INTRANET AND KNOWLEDGE BASE

The development of a new employee intranet began in 2018, with the goal to empower employees through improved internal communication, collaboration and knowledge-sharing. The new intranet is scheduled to go live in spring 2019.

SECURITY ROADMAP

SHEPP completed the first year of a three-year security roadmap designed to strengthen the organisation's security posture. Approximately one third of the initiatives identified in the roadmap were completed in year one, including: the development of an incident response plan and a password protection policy, a recommendation regarding cyber liability insurance and a resolution to chipset vulnerabilities.

COMPENSATION & BENEFITS REVIEW

As part of its employer promise, SHEPP places a great deal of importance on ensuring employees are compensated competitively and have access to a comprehensive benefits package. In 2018, both a compensation review and a benefits review were undertaken to ensure that SHEPP continues to support its employer values through employment policies and practices. Both reviews yielded very positive results in that SHEPP's compensation has remained relatively competitive with the market and employees are satisfied with their current benefits package. As a result, only minor changes were made, including an enhancement to existing benefits to provide employees with more flexibility and opportunity to successfully integrate work and life.

HEALTHY WORKPLACE

SHEPP strives to provide a safe, inclusive and healthy work environment for its employees through best practice policies and professional development of its leaders. In 2018, SHEPP's entire management group completed the Workplace Mental Health Leadership certificate program offered by its EFAP provider, Morneau Shepell. The program seeks to improve understanding of relevant legal, ethical and business concerns while supporting empathetic and solution-focused leadership skills.

Also, a condensed project management training course was offered to employees who lead and participate in projects of a smaller scale, that don't necessarily require a project manager assigned to them. The on-site learning experience provided employees with the foundations of good project management and a broad toolkit of resources to draw on in their respective roles.

INDUSTRY INFLUENCE

SHEPP continued its participation in several industry and advocacy organisations whose purpose aligns with SHEPP's vision, mission and values. These organisations include: Canadian Public Pension Leadership Council (CPPLC); The Association of Canadian Pension Management (ACPM); Pension Investment Association of Canada (PIAC); and Canadian Pension & Benefits Institute (CPBI).

ALISON MCKAY

CHIEF EXECUTIVE OFFICER

CHELDON ANGUS

CHIEF TECHNOLOGY OFFICER

JANET JULÉ

CHIEF INVESTMENT OFFICER

DALE MARKEWICH

CHIEF FINANCIAL OFFICER

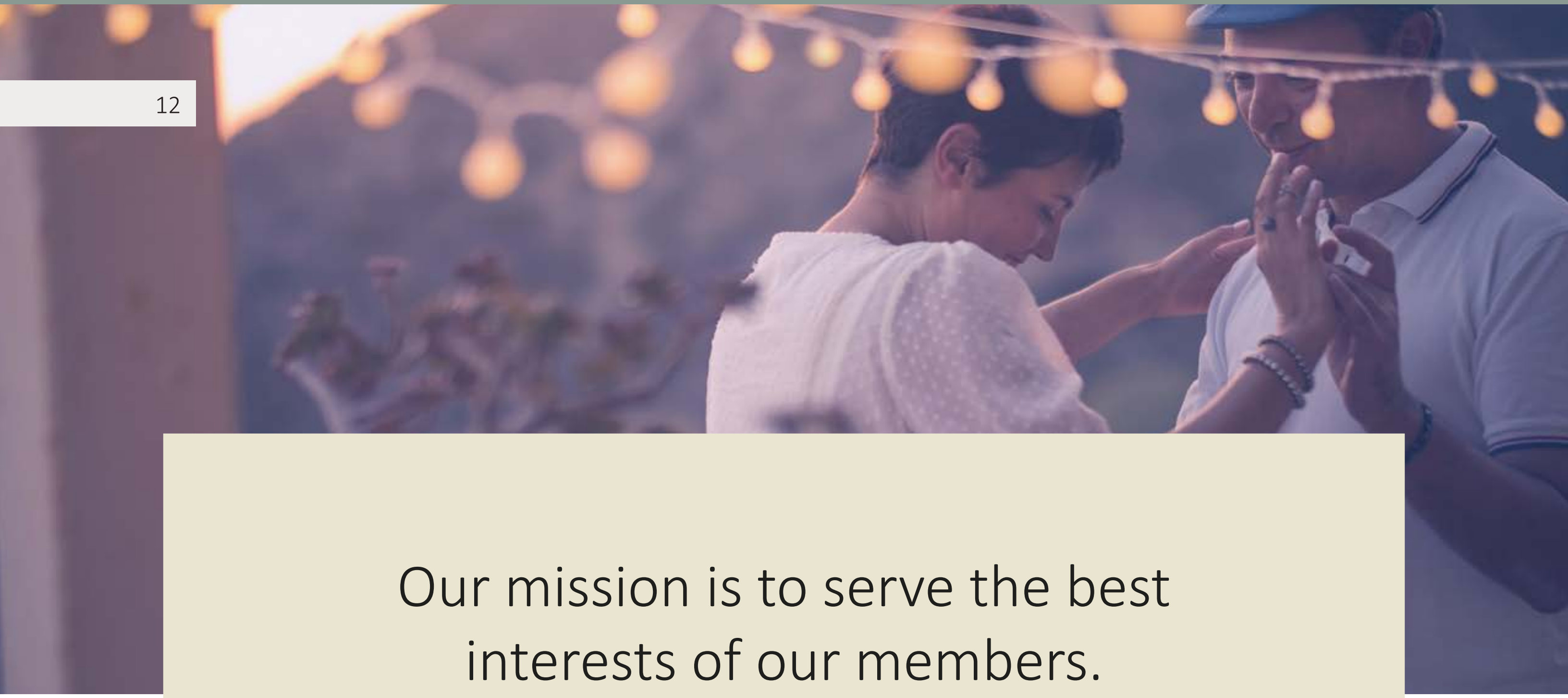
KELLEY ORBAN

CHIEF PEOPLE OFFICER

PAULA POTTER

CHIEF PENSION OFFICER

people. pensions. results.



Our mission is to serve the best interests of our members.

SERVICE

As our mission states, we are a service organisation and our primary customers, our members, are made up of a diverse group of people, from all over the province and at various stages in their career or retirement. SHEPP strives to provide the highest quality of service, and in the delivery of that service, as our new Serivce Strategy states, we aim to be accurate, timely, helpful and approachable.

KNOWLEDGEABLE EMPLOYEES

SHEPP's frontline employees receive extensive training and education in pension plan administration to ensure our members' first point of contact provides them with accurate information and the answers they need to make informed decisions about their pension.

ACCURATE INFORMATION

SHEPP publishes a full range of online and printed materials including the Member Plan Booklet, which details Plan provisions, rules regarding retirement eligibility and the pension benefit formula.

QUICK TURN-AROUND

Service times have improved significantly in recent years. The turn-around time for SHEPP to prepare, verify and deliver member information is on average just 1-2 weeks.

24-7 ONLINE ACCESS

For those who want immediate access to information, tools and resources, SHEPP*Web* is a secure online portal available 24 hours a day, seven days a week, to members and participating employers.

ANNUAL STATEMENTS

Active, deferred and retired members receive personalised statements of their SHEPP benefits each year. For active members, their annual statement includes a pension projection at their early and normal retirement dates to assist them with their retirement planning.

PERSONALISED TOOLS

Active members have several online planning tools available through SHEPP*Web*. The online pension projection and service purchase calculators are connected to the member's record. So, rather than requiring the member to enter the data, members can simply choose the scenario (e.g. retirement date or buyback period) and the calculator will provide an estimate using the member's earnings and service on record.

IN-FIELD EXPERTISE

SHEPP representatives travel around the province to make presentations to members at employer-hosted information sessions each year. In 2018, the member presentation was redesigned to focus more on the needs of those members less than five years from retirement.

ON-SITE MEETINGS

While telephone remains the primary method of contact, in 2018, SHEPP welcomed 695 visitors to its office in Regina where Member Services' representatives were available to discuss their pension.

VIRTUAL TRAINING

In 2018, SHEPP began offering virtual training to benefits administrators at participating employers with great success.

7,992

CALCULATIONS BY SHEPP

SHEPP performed 5,254 retirement, 1,630 termination & death, 836 service purchase and 272 spousal relationship breakdown calculations.

48,776

WEBSITE VISITORS

www.shepp.ca provides SHEPP's stakeholders with important Plan information as well as entry to the secure portal, SHEPP*Web*.

31

RETIREMENT SEMINARS

SHEPP's new retirement-focused seminar was presented to 807 members in 26 locations. throughout Saskatchewan.

50

PARTICIPATING EMPLOYERS

SHEPP supports its participating employers through a variety of channels including publications, virtual training webinars and a secure online mailbox.

16,746

ONLINE CALCULATOR ESTIMATES BY MEMBERS

SHEPP*Web* provides members with a number of online planning tools and resources including the Pension Projection Calculator which helps members estimate their pension under various retirement scenarios, and service purchase calculators to estimate the cost to buy back service or to continue contributing during a leave of absence.

13,320

INCOMING CALLS

Telephone communications continue to be an effective way to communicate complex information with members who reside in every corner of the province and beyond. SHEPP's toll-free number puts members directly in touch with pension experts who are educated, trained and eager to provide exceptional service.

2,746

VIDEO VIEWS

Video tutorials help members make the most of SHEPP's online planning tools by demonstrating how to use them and what the results mean.

GOVERNANCE

ROLES & RESPONSIBILITIES

Though the pension plan known today as SHEPP has been in existence since 1962, it didn't become jointly trusteed until forty years later. After several years of negotiations, the Trust Agreement was signed on December 31, 2002, establishing SHEPP's current structure whereby Plan obligations are shared between employers and employees.

The Trust agreement stipulates that both employees and employers contribute toward funding the pension, at a ratio of 1:1.12, and outlines the governance structure which consists of two appointed bodies, equally represented by employees and employers. The Partner Committees, including a Union Partner Committee and an Employer Partner Committee, have authority over Plan design. The Board, comprised of four employer-appointed individuals and four union-appointed individuals, is responsible for administering the Plan and investing the assets held in trust on behalf of members.

As the Plan's administrator, the Board has a fiduciary duty to act in the best interests of Plan members and their beneficiaries. This duty pervades every decision made in the fulfillment of the Board's responsibilities which include setting the strategic direction of the Plan, establishing policies for investing the Fund and administering pension benefits in accordance with the Plan Text, the Trust Agreement and all governing legislation. The Board is responsible for implementing contribution rate changes to meet the funding requirements established by the Plan actuary.

2018 HIGHLIGHTS

Good governance has provided a very solid foundation from which the Board has successfully navigated uncertain markets and the challenging circumstances facing defined benefit plans. Building on this and recognising the significant growth the Plan is likely to experience in the coming decades, the Board undertook an exercise to examine its current practices with the goal of preparing for the future. In 2018, they participated in a governance workshop, following which they established a governance action plan which will be implemented over the coming years.

In 2018, the Board completed and filed a valuation as at December 31, 2017. The results facilitated the elimination of one unfunded liability (an unfunded liability of $385 million remains and must be amortised by 2025), indicated no immediate requirement for contribution rate changes and showed an improvement in the Plan's funded status (now 95% on a going-concern basis).

Aimed at balancing portfolio risk and return relative to the Plan's goals of sustainability and contribution stability, an asset-liability study was conducted which resulted in the Board's approval of a new long-term asset mix in December, 2018. As the changes are implemented, the Fund's portfolio will see a portion of equities shifted into liquid alternatives.

One year after the Board formalised its shared Environmental, Social and Governance (ESG) beliefs with the adoption of a new Responsible Investment Policy, the Administration presented the inaugural Responsible Investment Report. The report, which will be presented to the Board annually, summarised the actions taken by the Plan's investment managers to integrate ESG in their processes and engage with underlying companies through proxy voting and/or direct engagement.

JEFF STEPAN
CHAIR

ANDREW HUCULAK
VICE-CHAIR

RUSSELL DOELL
TRUSTEE

NATALIE HOREJDA
TRUSTEE

EXTERNAL ADVISORS

ACTUARY

Aon

AUDITOR

KPMG LLP

CUSTODIAN

CIBC Mellon Global Securities Services Company

INVESTMENT CONSULTANT

Aon

LEGAL COUNSEL

Lawson Lundell LLP

Miller Thomson LLP

INVESTMENT MANAGERS

Aeolus Capital Management
Baillie Gifford
Bentall Kennedy
BlackRock
Brookfield Asset Management
Causeway Capital Management
Connor Clark & Lunn
Foyston Gordon & Payne
Global Infrastructure Partners
IFM Investors
Invesco Core Real Estate
I Squared Capital
JP Morgan Asset Management
Meridiam
MFS Investment Management
Nephila Holdings
Pantheon
Phillips, Hager & North
TD Greystone Asset Management
Unigestion Asset Management
Wellington Management

More than 16 years after the Trust Agreement was first signed, the Partner Committees signed the First Amending Agreement to the Trust Agreement, updating the list of potential mediators and arbitrators they could engage should they require mediation/arbitration to resolve an issue. Though the change was minor, the process served to strengthen the Board and Administration's relationship with the Partner Committees and lay the ground work for continued cooperation in the future.

MEETING ACTIVITIES

At the beginning of each year, the Board approves a work plan that guides its meeting activities throughout the year to ensure legislative requirements are met and best practice is followed. In 2018, activities were scheduled during six meetings held over a total of 10 days. In addition to activities highlighted in the previous section, the Board:

- Met with eight investment managers;
- Reviewed and approved ten policies in accordance with the Governance Review Policy;
- Received reports confirming compliance with legislation and policy, including code of conduct, conflict of interest and the Funding Policy;
- Identified key organisational risks as part of the enterprise risk management program;
- Completed the Pension Plan Governance and Prudent Investment Practices Self-Assessment Questionnaires developed by the Canadian Association of Pension Supervisory Authorities (CAPSA);
- Received the CEM Pension Investment and Administration Benchmarking reports; and
- Held its annual meeting, during which Trustees met with members of the Partner Committees.

Individual Trustees also devoted time to enhancing their knowledge and effectiveness on the Board by attending industry conferences and workshops.

There was no change to Board composition in 2018.

MIKE NORTHCOTT

TRUSTEE

MARG ROMANOW

TRUSTEE

DR JIM TOMKINS

TRUSTEE

TED WARAWA

TRUSTEE

FIVE-YEAR FINANCIAL HIGHLIGHTS

	2018 (000's)	2017 (000's)	2016 (000's)	2015 (000's)	2014 (000's)
NET ASSETS AVAILABLE FOR BENEFITS	$ 7,214,270	$ 7,223,728	$ 6,369,159	$ 5,936,342	$ 5,416,739
ACCRUED PENSION OBLIGATIONS	6,843,700	6,683,200	6,367,000	5,776,800	5,250,500
CONTRIBUTIONS					
Member	158,177	155,200	152,160	155,346	146,917
Employer	177,158	173,824	170,419	173,987	164,547
Other	3,466	4,964	5,127	4,320	4,213
TOTAL CONTRIBUTIONS	338,801	333,988	327,706	333,653	315,677
BENEFIT PAYMENTS					
Pensions	293,236	269,005	243,299	217,526	192,525
Terminations, Death Benefits and Holdbacks	46,561	56,141	50,987	43,558	39,682
TOTAL BENEFIT PAYMENTS	339,797	325,146	294,286	261,084	232,207
PLAN EXPENSES					
Administrative	9,730	9,042	8,264	7,368	6,779
Investment	33,097	28,770	26,365	20,477	20,415
TOTAL PLAN EXPENSES	$ 42,827	$ 37,812	$ 34,629	$ 27,845	$ 27,194

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of the Saskatchewan Healthcare Employees' Pension Plan (the Plan), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of changes in net assets available for benefits for the year then ended
- the statement of changes in pension obligations for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Saskatchewan Healthcare Employees' Pension Plan as at December 31, 2018, and its changes in net assets available for benefits and its changes in pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- 2018 Annual Report

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statement or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

KPMG

We obtained the information, other than the financial statements and the auditors' report thereon, included in the 2018 Annual Report document as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Plan's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Plan or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Plan's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Plan's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Plan to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Regina, Canada
May 22, 2019

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	2018 (000's)	2017 (000's)
ASSETS		
Investments (Note 5)	$ 6,858,244	$ 6,849,112
Investments under security lending program (Note 5)	363,297	376,845
Members' contributions receivable	13,188	12,994
Employers' contributions receivable	14,771	14,553
Dividends receivable	5,742	4,538
Property and equipment	1,477	1,441
Intangible assets	4,183	4,732
Other receivables	720	520
Prepaid expenses	144	148
	7,261,766	7,264,883
LIABILITIES		
Securities transactions payable	1,633	375
Accounts payable	7,225	6,927
Transfer deficiency holdback	38,638	33,853
	47,496	41,155
NET ASSETS AVAILABLE FOR BENEFITS	7,214,270	7,223,728
PENSION OBLIGATIONS (Note 7)	6,843,700	6,683,200
SURPLUS	$ 370,570	$ 540,528

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 22, 2019.

Jeff Stepan, Chair

Andrew Huculak, Vice-Chair

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR YEAR ENDED DECEMBER 31

	2018 (000's)	2017 (000's)
INCREASE IN NET ASSETS		
Contributions - Members	$ 158,177	$ 155,200
Contributions - Employers	177,158	173,824
Contributions - Other	3,466	4,964
Investment income (Note 6)	110,288	107,629
Net realised gain on investments	321,873	296,051
Realised gain on foreign exchange	-	34,683
	770,962	772,351
DECREASE IN NET ASSETS		
Pension benefits	293,236	269,005
Realised loss on foreign exchange	34,983	-
Terminations and death benefits	41,776	48,652
Transfer deficiency holdback	4,785	7,489
	374,780	325,146
EXPENSES		
Administrative expenses	8,111	7,801
Custodian fees	605	610
Investment fees (Note 10)	32,492	28,160
Professional fees	1,619	1,241
	42,827	37,812
	417,607	362,958
UNREALISED (LOSSES) GAINS		
Unrealised market value (loss) gain	(388,313)	474,844
Unrealised gain (loss) on foreign exchange	25,500	(29,668)
	(362,813)	445,176
NET (DECREASE) INCREASE FOR THE YEAR	(9,458)	854,569
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	7,223,728	6,369,159
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$ 7,214,270	$ 7,223,728

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

	2018 (000's)	2017 (000's)
PENSION OBLIGATIONS, BEGINNING OF YEAR	$ 6,683,200	$ 6,367,000
Current service costs	256,800	249,900
Benefits paid by the plan	(339,700)	(325,200)
Interest expense	422,900	392,000
Change in actuarial assumption	(215,700)	(500)
Experience loss	36,200	-
PENSION OBLIGATIONS, END OF YEAR (NOTE 7)	$ 6,843,700	$ 6,683,200

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

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

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 employees 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, 2018 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 valuation of investments (note 5) and actuarial determination of pension obligations (note 7).

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, 2018 members are

NOTE 3 - DESCRIPTION OF PLAN (CONTINUED)

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 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[1] multiplied by years of credited service up to December 31, 1989, plus

ii. 1.65 percent of highest average base contributory earnings[2] plus two percent of highest average excess contributory earnings[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 plus two percent of highest average excess contributory earnings 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 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, 2017 revealed a solvency deficit of 28 percent. The Plan is required to apply a transfer deficiency holdback of 28 percent to certain termination benefits. This was effective September 30, 2018. The previous transfer deficiency holdbacks were 19.72 percent, 27 percent and 35 percent, based on the valuations performed at December 31, 2010, December 31, 2013 and December 31, 2015 respectively. 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 began to be repaid 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

[1] The average of a member's four highest years of contributory earnings.
[2] 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] The difference between a member's highest average contributory earnings and highest average base contributory earnings.

NOTE 3 - DESCRIPTION OF PLAN (CONTINUED)

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 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 cash and short-term investments 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, insurance linked securities and equity pooled funds is based on the market values of the underlying investments. 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 pooled 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 collateralised basis. The securities lent are not derecognised on the Statement 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 recognised in the Statement of Changes in Net Assets Available for Benefits 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.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amortisation is recognised in the Statement of Changes in Net Assets Available for Benefits 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

i. Adoption of new standards:

IFRS 9, Financial Instruments was adopted for the Plan's financial statements effective January 1, 2018. The standard sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. It also has modified the hedge accounting model to better link the economics of risk management with the accounting treatment of hedges.

The adoption of this standard had no material impact on the Plan's financial statements.

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

IFRS 16, Leases, was issued on January 13, 2016 and is effective for periods beginning on or after January 1, 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer (lessee) and supplier (lessor).

The Plan does not expect to be materially affected by this new recommendation.

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 Plan's investment portfolio (the Fund) has the following holdings:

SUMMARY OF INVESTMENT HOLDINGS:	2018		2017	
TYPE	FAIR VALUE (000's)	YIELD (%)	FAIR VALUE (000's)	YIELD (%)
BOND POOLED FUNDS	1,720,846	3.0 – 4.3	1,676,823	2.7 – 3.1
MORTGAGE POOLED FUND	389,557	4.4	350,665	4.2
EQUITIES AND EQUITY POOLED FUNDS				
Canadian	486,743		633,904	
Global	718,697		836,455	
Emerging markets	370,407		406,664	
Global pooled funds	1,376,985		1,538,400	
TOTAL EQUITIES AND EQUITY POOLED FUNDS	2,952,832		3,415,423	
OTHER				
Short-term investments	4,769		16,714	
Real estate pooled funds	677,997		600,900	
Real estate equity investments	252,473		238,971	
Infrastructure	697,489		504,919	
Insurance linked securities	157,225		-	
Cash	48,568		39,787	
Currency forward contracts	(43,512)		4,910	
TOTAL OTHER	1,795,009		1,406,201	
TOTAL INVESTMENTS	$ 6,858,244		$ 6,849,112	

TYPE	2018 FAIR VALUE (000's)	2017 FAIR VALUE (000's)
INVESTMENTS UNDER SECURITIES LENDING PROGRAM		
Canadian equities	$ 321,534	$ 327,238
Global equities	41,763	49,607
TOTAL INVESTMENTS UNDER SECURITIES LENDING PROGRAM	$ 363,297	$ 376,845

BOND POOLED FUNDS AND MORTGAGE POOLED FUND

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 Plan except for securities issued or guaranteed by the provincial or federal governments.

No more than 20 percent of the carrying value of the bond

NOTE 5 - INVESTMENTS (CONTINUED)

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 capital market trends and the success of the investment managers. No one holding of an individual stock may represent more than 10 percent of the market 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, 2018 stock shorting was permitted in one investment mandate with a carrying value of $489,477,000 (2017 - $575,184,000).

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 infrastructure investments within SHEPP as well as through its 100 percent owned subsidiary, Horizon Alternative Investments SHEPP Holdings Ltd (Horizon). The fair value of these investments is shown as an infrastructure investment.

MORTGAGE POOLED FUND

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 funds 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. (Sunrise). 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.

INSURANCE LINKED SECURITIES

An insurance-linked security is a financial instrument whose value is mainly driven by insurance and/or reinsurance loss events. This security is based on the cash flows that arise from the transfer of insurable risks. These cash flows are similar to premium and loss payments under an insurance policy.

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.

NOTE 5 - INVESTMENTS (CONTINUED)

	2018 (000's)			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and short-term investments	$ 48,568	$ 4,769	$ -	$ 53,337
Bond pooled funds and mortgage pooled fund	-	2,110,403	-	2,110,403
Canadian equities	808,277	-	-	808,277
Global equities	760,460	-	-	760,460
Global pooled funds	-	1,376,985	-	1,376,985
Emerging market equities	-	370,407	-	370,407
Infrastructure	-	-	697,489	697,489
Real estate pooled funds	-	-	677,997	677,997
Real estate equity investments	-	-	252,473	252,473
Insurance linked securities	-	-	157,225	157,225
Currency forward contracts	-	(43,512)	-	(43,512)
	$ 1,617,305	$ 3,819,052	$ 1,785,184	$ 7,221,541

	2017 (000's)			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and short-term investments	$ 39,787	$ 16,714	$ -	$ 56,501
Bond pooled funds and mortgage pooled fund	-	2,027,488	-	2,027,488
Canadian equities	961,142	-	-	961,142
Global equities	886,062	-	-	886,062
Global pooled funds	-	1,538,400	-	1,538,400
Emerging market equities	-	406,664	-	406,664
Infrastructure	-	-	504,981	504,981
Real estate pooled funds	-	-	600,900	600,900
Real estate equity investments	-	-	238,971	238,971
Currency forward contracts	-	4,910	-	4,910
	$ 1,886,991	$ 3,994,176	$ 1,344,852	$ 7,226,019

NOTE 5 - INVESTMENTS (CONTINUED)

LEVEL 3 RECONCILIATION	2018 (000's) REAL ESTATE/ POOLED REAL ESTATE AND INFRASTRUCTURE	2017 (000's) REAL ESTATE/ POOLED REAL ESTATE AND INFRASTRUCTURE
Opening balance	$ 1,344,852	$ 1,204,579
Acquisitions	278,369	97,616
Dispositions	(22,500)	(35,436)
Realised gain	26,247	2,768
Change in unrealised gain	158,216	75,325
	$ 1,785,184	$ 1,344,852

During the current year no investments were transferred between levels.

NOTE 6 - INVESTMENT INCOME

	2018 (000's)	2017 (000's)
Bond interest	$ 20,703	$ 19,343
Dividends	87,511	87,326
Interest on short-term investments and cash balances	1,292	756
Other income	782	204
	$ 110,288	$ 107,629

NOTE 7 - 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, 2017. The present value of accrued pension benefits was then extrapolated to December 31, 2018 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	2018	2017
Discount rate	6.60%	6.20%
Inflation rate	2.25%	2.25%
Mortality table	SHEPP Mortality Table projected generationally with scale MI-2017	SHEPP Mortality Table projected generationally with scale CPM-B
Remaining service life	12.7 years	11.8 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 12 percent change in the pension obligations;
- A one percent change in the salary scale and the pensionable earnings levels results in approximately a 3 percent change in the pension obligations.

NOTE 8 - 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 no less than annually.

Permitted investments under the SIP&P include equities; fixed income; cash and short-term investments; mortgages; derivatives; real estate; infrastructure; pooled funds and insurance linked securities. 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 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 Plan 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 Plan 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.

NOTE 8 - FINANCIAL RISK MANAGEMENT (CONTINUED)

CREDIT RISK

Credit risk is the risk that one party does not pay funds owed to another party. The Plan's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which the Plan is exposed at December 31, 2018 is limited to the carrying value of the financial assets summarised as follows:

	2018 (000's)	2017 (000's)
Cash	$ 48,568	$ 39,787
Accrued interest receivable	4	4
Employers' contributions receivable	14,771	14,553
Members' contributions receivable	13,188	12,994
Dividends receivable	5,742	4,538
Other receivables	716	525
Short-term investments	4,769	16,714
Fixed income *	2,110,403	2,027,488
	$ 2,198,161	$ 2,116,603

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

Members' and employers' contributions receivable and dividends 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:

	2018		2017	
CREDIT RATING	FAIR VALUE (000's)	MAKEUP OF PORTFOLIO	FAIR VALUE (000's)	MAKEUP OF PORTFOLIO
AAA	$ 561,476	26.6%	$ 603,919	29.8%
AA	535,269	25.4%	448,918	22.1%
A	263,397	12.5%	262,125	12.9%
BBB	185,335	8.8%	191,799	9.5%
Less than BBB	93,278	4.4%	105,495	5.2%
Other*	471,648	22.3%	415,232	20.5%
	$ 2,110,403	100%	$ 2,027,488	100%

*Other includes: mortgages, unrated fixed income securities, and net fixed income derivative exposure.

NOTE 8 - FINANCIAL RISK MANAGEMENT (CONTINUED)

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, 2018, the Plan's investments included loaned securities with a market value of $363,297,000 (2017 - $376,845,000) and the fair value of securities and cash collateral received in respect of these loans was $375,230,354 (2017 - $393,017,296).

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, bond pooled funds and mortgage pooled funds. Duration is a measure used to estimate the extent market values of these investments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point increase/decrease in interest rates would decrease/increase net assets by $164,035,000 at December 31, 2018 (2017 - $155,544,000); representing 7.6 percent (2017 – 7.5 percent) of the $2,163,740,000 (2017 - $2,083,989,000) 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-Canadian equities, foreign infrastructure and foreign real estate. At December 31, 2018, the Plan's exposure to United States equities was 28.8 percent (2017 – 25.9 percent) and its exposure to non-North American equities was 18.1 percent (2017 – 20.1 percent).

The Plan manages this risk through the use of currency futures or forwards. At December 31, 2018 the fair value of currency forward contracts payable was $3,369,389,000 (2017 - $1,733,029,000) and the fair value of currency fund contracts receivable was $3,325,819,000 (2017 - $1,737,954,000).

EQUITY PRICE RISK

The Plan is exposed to changes in equity prices in Canadian, United States and other markets. Equities comprise 46.0 percent (2017 – 52.5 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 $331,613,000 (2017 - $379,227,000) change in the Plan's net assets.

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 9 - 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.

	2018 (000's)	2017 (000's)
EXPENSES	$ 83	$ 84

NOTE 9 - 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:

	2018 (000's)	2017 (000's)
Short-term employee benefits	$ 1,371	$ 1,320
Post-employment benefits		
Defined benefit retirement allowance	108	107
TOTAL BENEFITS	$ 1,479	$ 1,427

NOTE 10 - INVESTMENT FEES

Investment fees incurred by the Plan and reported in the Statement of Changes in Net Assets Available for Benefits are:

	2018 (000's)	2017 (000's)
Investment management fees	29,355	25,459
Investment performance fees	1,024	1,017
Investment consulting fees	936	355
Investment transaction fees	1,177	1,329
TOTAL INVESTMENT FEES	$ 32,492	$ 28,160

The Plan incurs Management fees which are base fees incurred for investment managers to manage the Plan's investments. Performance fees are incurred when certain returns are exceeded.

In addition to the fund management fees and performance fees incurred directly by the Plan, and reported separately on the Statement of Changes in Net Assets Available for Benefits, the Plan also incurs fund management and performance fees in Horizon and Sunrise. The fund management and performance fees recorded in Horizon and Sunrise are included within the unrealised market value loss on the Statement of Changes in Net Assets Available for Benefits.

NOTE 10 - INVESTMENT FEES (CONTINUED)

Total investment management fees incurred by the Plan are:

	2018 (000's)	2017 (000's)
Incurred directly by the Plan	$ 29,355	$ 25,459
Incurred through Sunrise	685	678
Incurred through Horizon	10,283	9,356
TOTAL INVESTMENT MANAGEMENT FEES	$ 40,323	$ 35,493

Total performance fees incurred by the Plan are:

	2018 (000's)	2017 (000's)
Incurred directly by the Plan	$ 1,024	$ 1,017
Incurred through Sunrise	1,996	2,855
Incurred through Horizon	11,355	5,846
TOTAL PERFORMANCE FEES	$ 14,375	$ 9,718

NOTE 11 - COMPARATIVE INFORMATION

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

SHEPP

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