SHEPP

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN

people. pensions. results.

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN

2016 ANNUAL REPORT

INTRODUCTION

MANAGEMENT'S DISCUSSION & ANALYSIS

DIRECTORY

FINANCIAL STATEMENTS

MESSAGE FROM THE

BOARD OF TRUSTEES

This past year marked the completion of a number of multi-year initiatives which provided a sense of accomplishment to the Board and Administration alike. The 2014-2016 Strategic Plan goals were achieved, the modernisation project went live, the final recommendations of the 2014 asset-liability study were implemented and an actuarial valuation was filed.

While the accomplishments of 2016 certainly provide reason to celebrate, we continue to cautiously look to the future. The Plan is maturing and member demographics are changing. Active members outnumbered pensioners more than four to one just fifteen years ago, and now the ratio has declined to just over two to one. Increasing life expectancy means the Plan will be required to pay pensions for a longer period of time. Compounding these issues is the expectation that financial markets will continue to be volatile, investment returns subdued and interest rates low.

The increasing challenge of these economic and demographic risks is not a surprise to the Board. We have been proactive and intentional in our approach to risk management and Plan sustainability. Some examples of our actions include:

- Optimising the asset mix and constructing a diversified portfolio to meet the Funding policy objectives of securing benefits and stabilising contribution rates;
- Regularly measuring the financial health of the Plan through actuarial valuations and consistently monitoring Plan funding using the Pension Risk Management Dashboard; and
- Engaging the Partner Committees to ensure they are aware of the financial pressures and demographic issues the Plan faces, as they are the governing body with responsibility for Plan design.

We are grateful to work with such prudent, thoughtful fellow Trustees, collectively dedicated to safeguarding the Plan and delivering on the pension obligation. We could not accomplish this without the day-to-day work of SHEPP's experienced administrative team, led by their CEO, Alison McKay. They have our respect and gratitude.

SHEPP's Board of Trustees has been entrusted to administer this Plan which has provided secure, predictable, lifetime retirement income to the vast majority of healthcare sector workers in the province for over 50 years; a responsibility that is not taken lightly. Our actions and choices are planned and deliberate, with our fiduciary duty to act in the best interests of Plan members at the forefront of every decision we make. We firmly believe this approach will continue to set the stage for success in the decades to come.

Jim Tomkins, Chair

Andrew Huculak, Vice-Chair

MESSAGE FROM THE

CHIEF EXECUTIVE OFFICER

Despite ongoing market turbulence, the Plan reported positive investment results in 2016. A 7.4% rate of return, which exceeded the market benchmark by 0.6%, brought the total market value of net assets available for benefits to $6.4 billion at December 31, 2016. While individual years' results are important, with pension obligations spanning seventy to eighty years into the future, focusing on a much longer time horizon remains paramount.

In 2016 the Administration continued to work closely with the Board, planning and executing strategies to secure the long-term financial health of the Plan and deliver exceptional service to members. Each of the objectives in the 2014-2016 Strategic Plan was completed and, invigorated by that success, the Board and Plan Administration formulated a new strategic plan to guide us through 2021. SHEPP's upgraded pension administration system and redeveloped secure online portals went live last fall, as the modernisation project to streamline processes and improve stakeholder experience was successfully implemented. The last few changes to the Fund's asset mix were made in 2016, completing the implementation of recommendations made in the 2014 asset-liability study.

OUR ACTIONS AND CHOICES ARE PLANNED AND DELIBERATE, WITH OUR FIDUCIARY DUTY TO ACT IN THE BEST INTERESTS OF PLAN MEMBERS AT THE FOREFRONT OF EVERY DECISION WE MAKE. WE FIRMLY BELIEVE THIS APPROACH WILL CONTINUE TO SET THE STAGE FOR SUCCESS IN THE DECADES TO COME.

Photo: (left to right) Andrew Huculak, Vice-Chair; Jim Tomkins, Chair; Alison McKay, CEO.

Expectations of continued financial market volatility coupled with changing demographics reinforce the importance of a long-term focus and diligent planning. We have experienced great success with this approach in the past and are confident it will continue to serve us well in the future.

In addition to the many projects completed in 2016, the Plan also filed an actuarial valuation as at December 31, 2015 which showed an improvement in the Fund's going-concern funded ratio and confirmed there was no need for contribution rate changes in the near future. We are continuing to reduce the deficit while at the same time stabilising contribution rates.

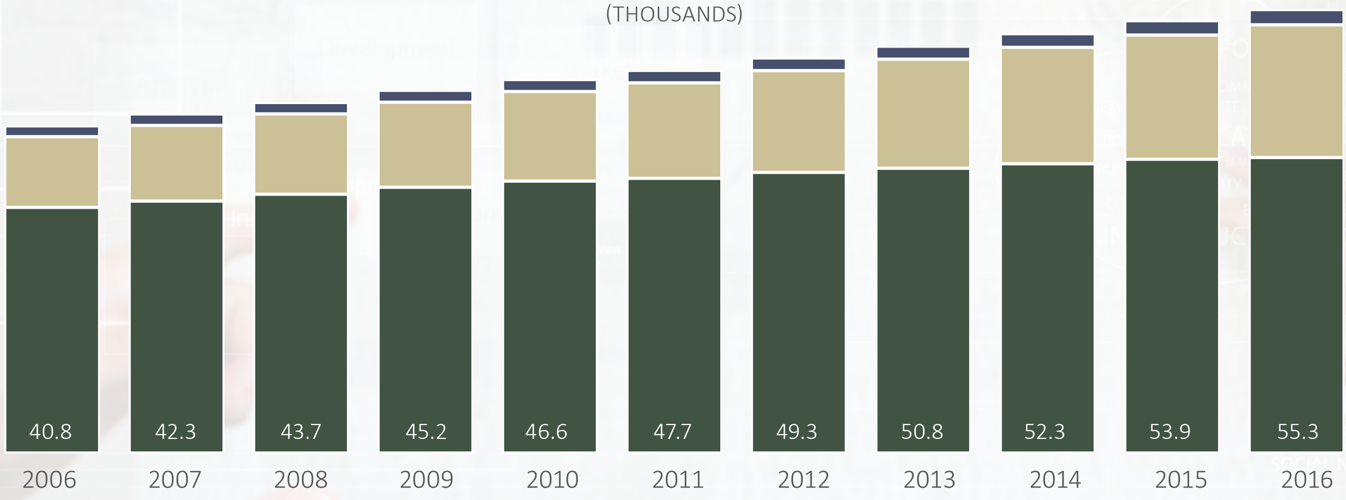
In 2016 the Board and Administration also undertook an exercise to reflect on the organisation's culture and as a result developed new value statements and a new tagline you'll see proudly displayed on all of the Plan's communication materials, including the 2016 Annual Report: people. pensions. results.

I am honoured to lead the team of dedicated and highly engaged employees who make things happen. Their knowledge, expertise and commitment remain unparalleled and have fostered the innovative, results-driven and member-focused culture we are so proud of. I'd like to thank the Board for their continued confidence in the Administration and their genuine determination to face the challenges ahead.

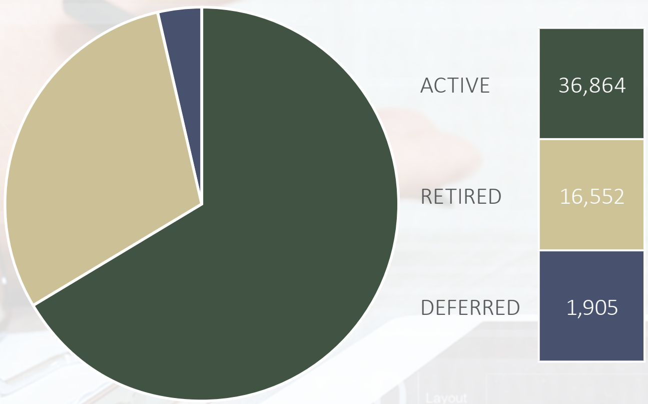
Alison McKay

Alison McKay, CEO

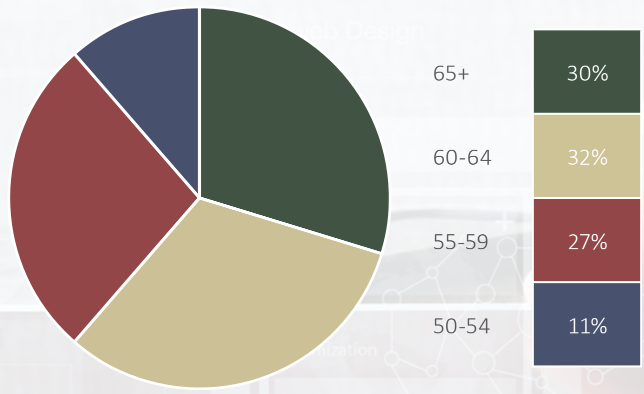
TOTAL MEMBERSHIP
(THOUSANDS)



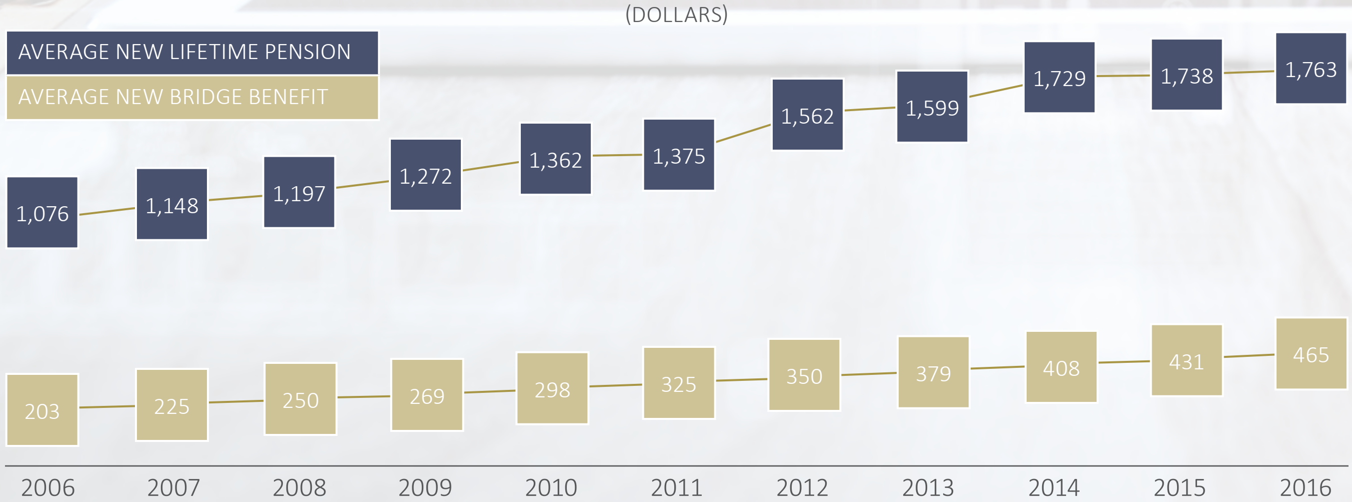
PLAN MEMBERSHIP PROFILE
(AS AT DECEMBER 31, 2016)



NEW RETIREMENTS IN 2016
(AGE AT RETIREMENT)



AVERAGE NEW MONTHLY LIFETIME PENSION AND BRIDGE BENEFIT
(DOLLARS)



PLAN
OVERVIEW

The Saskatchewan Healthcare Employees' Pension Plan (SHEPP) provides retirement income security to one of the province's largest and most valued workforces – healthcare employees. With 61 participating employers and over 55,000 members either receiving or entitled to a pension benefit under the Plan, SHEPP is the largest defined benefit Plan in Saskatchewan and the only industry-wide pension plan serving the healthcare sector.

Integral to the Plan's governance model is its jointly trusteed structure, with equal representation from employers and employees within each decision-making body, and the Agreement and Declaration of Trust which identifies the roles and responsibilities of the Board of Trustees and Partner Committees. The Plan is administered in compliance with the Plan Text, *The Pension Benefits Act, 1992* (Saskatchewan) and the *Income Tax Act* (Canada).

The defined benefit design means a SHEPP pension is predictable. It provides members with a lifetime pension, calculated using a formula based on their four-year highest average eligible earnings and years of credited service at retirement. The basic pension is paid for as long as the member lives and may continue to the member's spouse or beneficiaries after the member dies. The Plan also provides a bridge benefit upon eligible early retirement and pre-retirement death benefits.

SHEPP's office and its 42 employees are located in Regina.

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.

STATE OF THE
PLAN

BEST-ESTIMATE YEAR-END RESULTS

The Plan experienced another year of positive investment returns, bringing the total market value of the Fund to approximately $6.4 billion at the end of 2016. Net assets increased by approximately $432.8 million and pension liabilities by $590.2 million, resulting in a small surplus of $2.2 million on a best-estimate basis at the end of 2016.

While the Plan is still in a positive financial situation on a best-estimate basis, there was a slight decrease to the best-estimate funded position year-over-year.

FUNDED STATUS

The Plan's financial health is shaped by the environment in which it operates, affected by a number of factors creating challenges for defined benefit pension plans. Financial market volatility, low interest rates and increasing life expectancy have adversely affected fund assets and liabilities, making it increasingly more difficult for plans like SHEPP to meet pension obligations at reasonable costs. That said, there continues to be slow but steady progress restoring the funded status of the Plan.

The latest valuation of the Plan was completed and filed with the regulator as at December 31, 2015. That valuation showed that on a going-concern basis, SHEPP's unfunded liability decreased from $621 million in 2013 to $594 million in 2015. This means the Plan's funded ratio improved from 88% in 2013 to 91% in 2015. The improvement in the Plan's funded position can be attributed to strong investment returns offset by a declining discount rate.

The valuation also determined that current contribution rates are sufficient to fund benefits in the near term. The current combined member and employer required contribution rate is 18.3% of total payroll. This contribution rate is made up of the current service cost and the temporary contribution required to pay down the remaining funding deficit, which must be eliminated by 2025 according to legislation.

SHEPP CONTRIBUTION RATE
(AS A PERCENTAGE OF PAYROLL)

ITEM	RATE
Current service cost	14.09%
Temporary contribution to amortise the unfunded liability	4.21%
TOTAL COMBINED CONTRIBUTION RATE	18.3%

Though the Plan's funded status has improved in the last two valuations, the Board remains mindful that continued financial market volatility, prolonged low interest rates and increasing longevity makes a focus on long-term results very important. The Board will continue to carefully monitor the Plan's funded status with the Plan actuary and design investment and risk management strategies that will safely guide the Plan through the many business cycles it will experience over the coming decades.

The next valuation is required as at December 31, 2018.

FUNDING POLICY

The Board's Funding Policy is designed to guide the Plan through economic cycles and shifting demographics, keeping Plan funding healthy over the long-term, with a priority to secure members' benefits while minimising contribution rate volatility.

SHEPP's governance structure is such that pension benefits are the responsibility of the Partner Committees and the funding of these benefits is the responsibility of the Board of Trustees. Therefore the Board does not have the authority to make fundamental changes to pension benefits. Without authority over Plan design, the only option available to the Board when a funding deficit occurs is to raise contribution rates to ensure the deficit is funded within the maximum period permitted under legislation.

In order to mitigate the need for contribution rate changes, the Fund's investments need to work hard, and this means the Plan must take on some risk. SHEPP's Board and Administration work closely with the Plan actuary and investment consultant to manage investment risk and optimise the Fund's asset mix to ensure a sufficient rate of return without exposing the Plan and its members to excessive volatility.

FUNDING CONSIDERATIONS

SHEPP is a defined benefit pension plan, which means the pension benefit amount is determined by a formula based on eligible earnings and service. This defined benefit formula means members can expect a predictable monthly income for life when they retire with a SHEPP pension. As a result, SHEPP must consider how it will fund benefit obligations that exist 70 or so years in the future as today's youngest members near the end of their lives. Funding is truly a long-term and ongoing consideration that requires careful monitoring to ensure SHEPP is securing member benefits now and into the future.

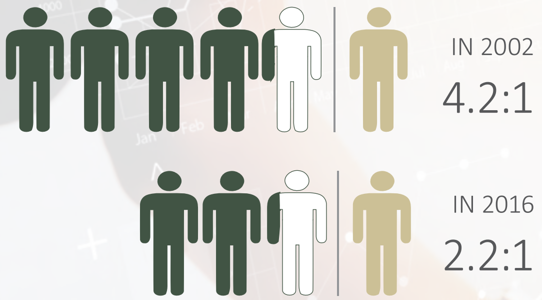
The Board of Trustees regularly monitors the funded status of the Plan as well as investment performance, using the pension risk management dashboard introduced in 2013. This dashboard provides a snapshot of the Plan's funded status at a given point in time, projections of the funded status in future years, and also tracks trends in investments. This enables the Board to make proactive and informed decisions regarding the Plan's asset mix which leads to greater return on investments within an acceptable level of risk.

The Plan is maturing, and expectations are that financial markets will remain volatile and interest rates low. The Board will continue to employ robust risk management strategies, with long-term sustainability as the goal.

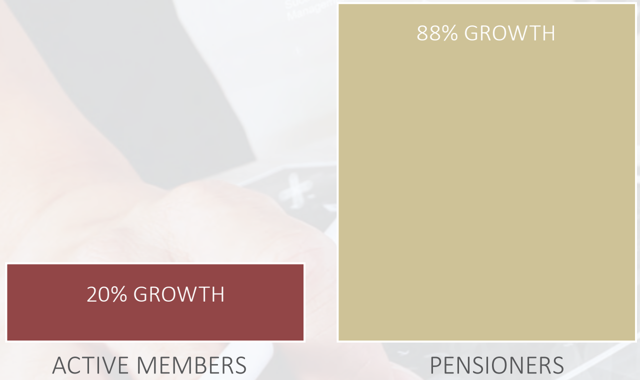
An actuarial valuation is like a report card that shows whether the Plan is on track to meet its pension obligation. It determines how much members and participating employers need to contribute to the Plan to meet the pension obligation, based on a variety of economic and demographic assumptions.

At least every three years, an independent actuary (a professional with specialised training in financial modelling, the laws of probability and risk management), in consultation with the Board and Administration, performs an actuarial valuation.

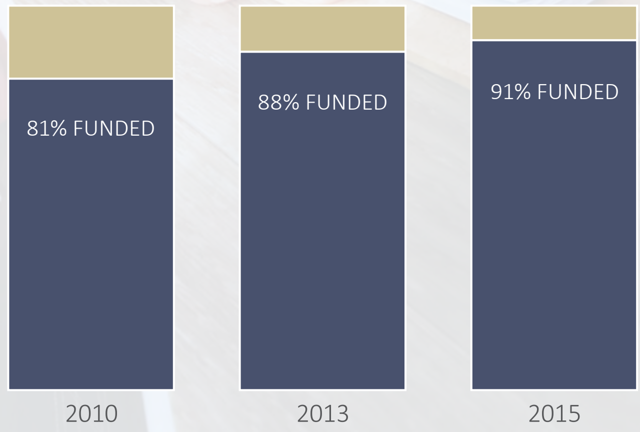
ACTIVE TO RETIRED MEMBER RATIO



MEMBERSHIP GROWTH
(BETWEEN 2006 AND 2016)



GOING-CONCERN FUNDED RATIO
(ACTUARIAL VALUATION AS AT DECEMBER 31)



DIVERSIFIED

INVESTMENTS

INVESTMENTS OVERVIEW

SHEPP invests globally, across a broad range of asset classes, in order to generate a rate of return to support the sustainability and affordability of members' pensions. In order to achieve this goal, the Plan must take on risk by investing in assets with uncertain returns. SHEPP seeks to mitigate these risks by diversifying investments by a range of characteristics, including asset class, geography, and strategy.

ASSET MIX

Over the last several years, the Board has worked to further diversify the Fund to improve the expected risk adjusted returns. The most recent asset-liability study identified a number of enhancements to the Plan's asset mix and the Board has overseen the implementation of those changes over the past two years. The asset mix of the Fund effective December 31, 2016 approximates the Board's long-term target asset mix.

2016 PERFORMANCE

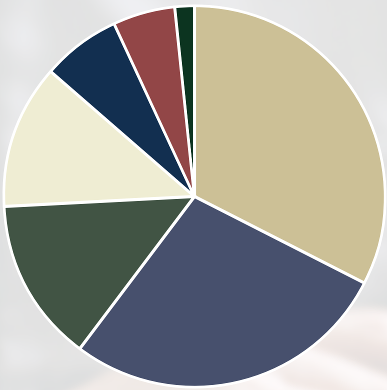
SHEPP assesses the effectiveness of investment strategies and activities relative to several measures, including comparing returns to index benchmarks, peers, and absolute return targets. The primary and secondary objectives, respectively, are to meet or exceed a real return of 4.0% (inflation plus 4.0%) and to meet or exceed the return of the benchmark portfolio approved by the Board. These targets were met on a one-year and four-year basis, with the one-year total Fund return of 7.4% outpacing the 6.8% benchmark return and the four-year return of 11.1% outpacing the 9.7% benchmark return. Both of these returns also outpaced a real return of 4.0% over the same time periods.

EQUITIES

Equities form the base of the return-seeking portion of the Fund and deliver long-term growth and dividend income. Equity performance over the year was mixed with strong returns in the Canadian and U.S. markets partially offset by weak returns for International equities. In Canada, performance was led by the materials, energy, and financial sectors, benefiting from the increase in the price of crude oil and of the other commodities. In the U.S., the strong macroeconomic data and the surprise outcome of the election resulted in a fourth quarter equity rally as the policies of the new U.S. administration were expected to result in increased economic growth, at least in the

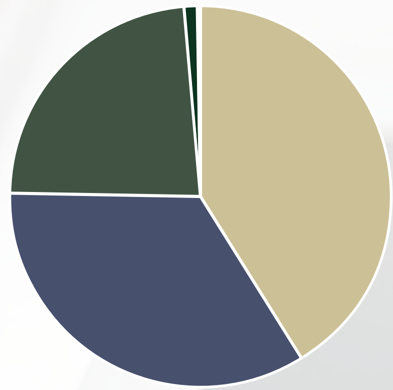
ASSET MIX — COMPARATIVE
(2016 VERSUS 2006)

2016

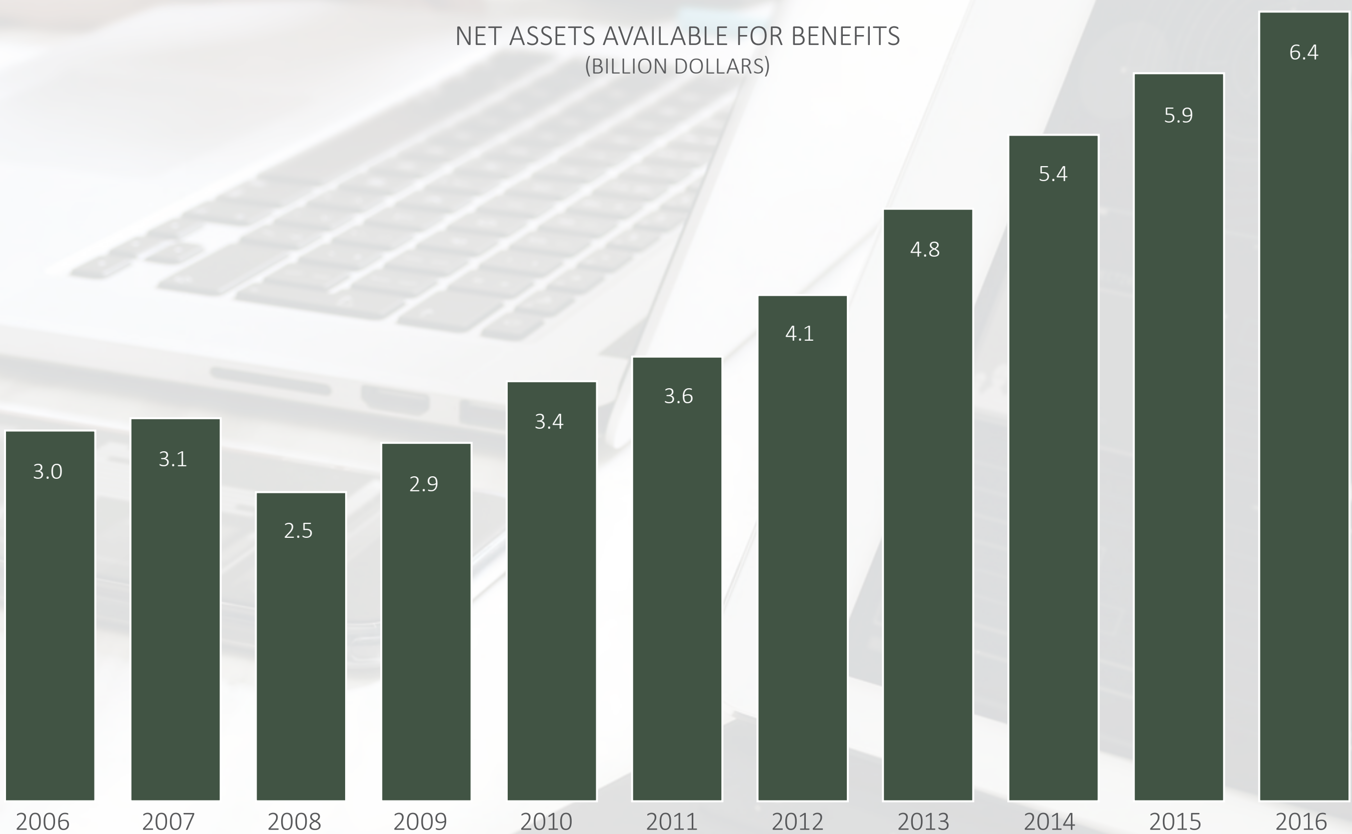


2016		2006
13.9%	CANADIAN EQUITIES	23.3%
32.8%	GLOBAL EQUITIES	41.3%
5.1%	EMERGING MARKET EQUITIES	-
27.7%	FIXED INCOME	34.2%
12.3%	REAL ESTATE	0.2%
6.7%	INFRASTRUCTURE	-
1.5%	Cash	1.0%

2006



NET ASSETS AVAILABLE FOR BENEFITS
(BILLION DOLLARS)



shorter term. International equities were positive in local currency terms with strong returns in Japanese equities, as a weakening Yen boosted exports, and European equities, as concerns over bank profitability lessened. However, the appreciation of the Canadian dollar relative to others, pulled international equity returns into negative territory in Canadian dollar terms.

FIXED INCOME

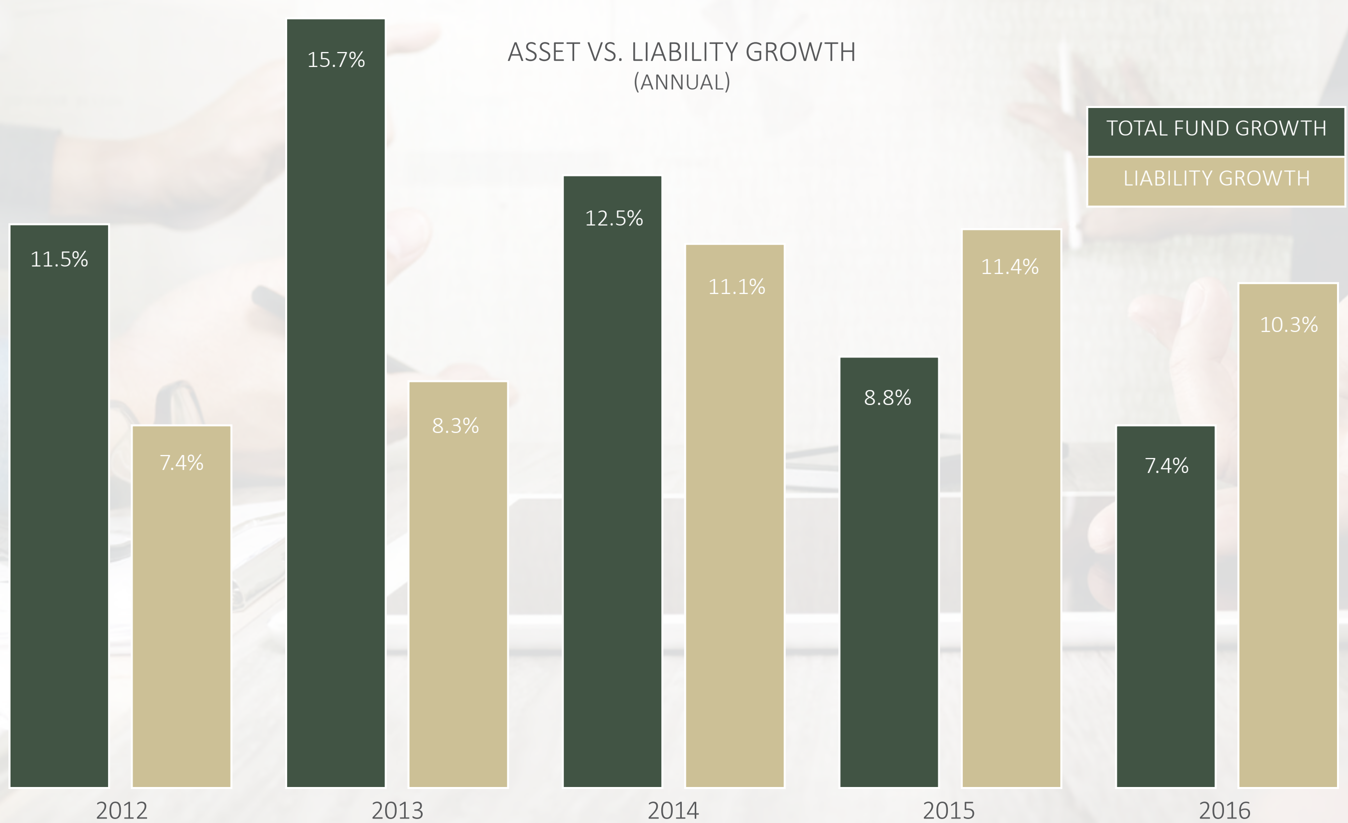
The fixed income portfolio provides more stable investment income and acts as hedge against equity volatility. Bond market returns over the year were modestly positive despite the increase in yields across the curve in the fourth quarter, as better than expected global economic data and rising commodity prices increased inflation expectations. SHEPP continues to increase the diversification in the fixed income portfolio, with the goal of providing better risk adjusted returns across different market environments. The most recent asset-liability study resulted in significant changes to the fixed income portfolio in order to take advantage of a broader set of fixed income opportunities which puts the Fund in a better position to generate returns in the current very low interest rate environment. These changes have largely been implemented with the Canadian mortgage portfolio continuing to be funded over 2016.

ALTERNATIVES

Alternative assets, including real estate and infrastructure, provide additional diversification as well as either additional exposure to long-term growth or an additional hedge against equity volatility, depending on the type of investment. SHEPP's real estate portfolio had strong performance over the year, with the Canadian and U.S. real estate portfolios returning of 8.1% and 5.4%, respectively. Infrastructure returns also remain strong as the program continues to be built out and is approaching the target allocation of 8.0%. Alternative assets continue to be an important component of the total Fund and the portfolio will continue to grow as SHEPP progresses towards full implementation.

ANNUAL RETURNS

Fund returns have been strong over the last several years following the global financial crisis, with a total Fund four-year annualised return of 11.1%. However, over that same period, Fund liabilities have grown annually by 10.3%, as bond yields and expected future returns have declined

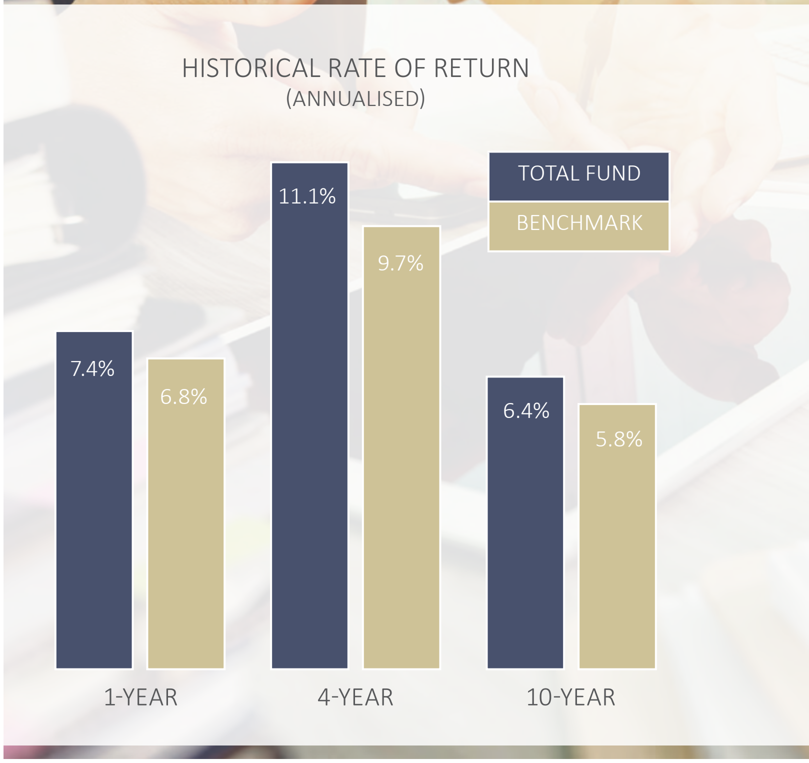


substantially. As such, it remains very important to continue to invest the Plan's assets effectively to meet return targets.

INVESTMENT STRATEGIC PLAN

Investment returns are critical to Plan sustainability; historically approximately 75% of pension benefits have been paid from funds generated from investment returns.

With this in mind, in 2016 the Board approved the Plan's first ever five-year Investment Strategic Plan which sets out key investment-related goals and strategies that will support the long-term viability of the Plan.



While investment returns over the past five years have been strong, pension liabilities are also increasing and in some years outpacing net asset growth. Pension liabilities are largely driven by interest rates, to which they have an inverse relationship: when interest rates are low, liabilities are higher, and when interest rates are high, liabilities are lower.

All investment return figures in the MD&A are gross of investment management fees.

EFFECTIVE

ADMINISTRATION

OPERATING EXPENSES

The Administration remains focused on providing pension benefits at a reasonable cost. As the membership grows and the value of the Fund increases so does the cost to invest and administer the Plan. Ensuring there is value in the expenses incurred to effectively operate the Plan continues to be extremely important.

In 2016 total operating expenses increased to $34.6 million. The following breakdown provides a snapshot of the expenses in each category compared to the previous year:

- Administrative expenses were $7.2 million, up from $6.3 million;
- Professional fees were $1.1 million, up from $1.0 million;
- Fund management fees were $22.5 million, up from $18.3 million;
- Custodian fees were $585 thousand, up from $577 thousand;
- Investment consulting fees were $360 thousand, down from $473 thousand; and
- Investment transaction fees were $2.9 million, up from $1.2 million.

THE SHEPP PROMISE

In 2016 the Board and Administration undertook an exercise to reflect on the organisation's culture and as a result developed a new tagline and value statements. While SHEPP's mission and vision remain the same, three statements were developed to capture the essence of the organisation's culture:

- We embrace quality and innovation;
- We are passionate about pensions; and
- We are people driven and member focused.

These value statements are summarised by the tagline you will see proudly displayed on all of the Plan's communication materials: people. pensions. results.

MODERNISATION

We are committed to better utilising our people and expertise, supporting them through improved technology and processes. Last year the modernisation project, which included an upgrade to the pension administration system and redevelopment of the SHEPP*Web* portals, went live; on time and under budget. This multi-year project required meticulous planning and testing, and involved many components including process mapping, data conversion, file imaging, report and statement development and security enhancements.

The system upgrade significantly increased our capacity to serve members and employers over the long-term, streamlined processes and created efficiencies by automating the most common tasks (enrolments, terminations and leaves of absence), integrating workflow and shifting from physical files to electronic member records. When the redesigned SHEPP*Web* was launched,

SHEPP's Senior Leadership Team: (back row: left to right) Cheldon Angus, Alison McKay, Paula Potter, Janet Julé; (front row: left to right) Kelley Orban, Dale Markewich and Verna Marcyniuk.

SHEPP employers and active members gained access to new and improved tools in a more user friendly platform.

A number of other information technology projects took place in 2016, aimed at strengthening security and reducing risk, including:

- Improvements to cyber security controls and network defences;
- Redevelopment of the disaster recovery and business continuity plan; and
- Email software upgrade.

DEVELOPING TALENT

SHEPP is known for its talented hardworking employees. Our accomplishments are attributed to their dedication to the organisation and commitment to serving the best interests of our members.

In 2016, the Administration continued to allocate resources to develop internal capacity and strengthen recruitment and retention activities. Specifically:

- The management team completed 360s and participated in a facilitated change management training session;
- A customised core competency assessment tool was implemented to assist with recruitment and employee development;
- The new employee orientation program was revamped;
- A succession plan for senior leaders was developed and presented to the Board;
- An employee protection policy was developed;
- SHEPP's employment policy and manual underwent a legal review to ensure compliance and adherence to best practice; and
- Five employees obtained professional designations.

THE BOARD IS CONFIDENT THAT THIS VERY THOUGHTFUL AND TARGETED APPROACH, ESTABLISHING REALISTIC GOALS AND OBJECTIVES CONSISTENT WITH SHEPP'S MISSION, WILL CONTINUE TO SUCCESSFULLY GUIDE OUR EFFORTS AND ULTIMATELY RESULT IN A STRONGER PLAN.

2014-2016 STRATEGIC PLAN

By the end of 2016 Administration completed all of the initiatives identified to support the objectives in the 2014-2016 Strategic Plan, achieving each and every one of the goals set for the Plan:

1. Improve the Plan's Funded Position.
2. Strengthen our Technological Capability.
3. Build and Maintain a High-Performing Team.
4. Foster and Maintain Effective and Meaningful Relationships with our Stakeholders.

Initiatives completed in 2016, to support the strategic plan, included:

- Developing and implementing an investment strategic plan;
- Upgrading the pension administration system (PENFAX);
- Implementing workflow and imaging member records;
- Redevelopment of SHEPP*Web* secure online portals;
- Implementing a core competency assessment tool;
- Rebranding SHEPP's culture and value statements; and
- Developing and implementing a succession plan.

The successful completion of another strategic plan reinforced the Board and Administration's belief in the

44
Years old is the average age of active members

14,322
Members are eligible to retire in the next 10 years

87
Percent of members are female

9
Pensioners are over the age of 100

process and highlighted the importance of taking the time to develop strategies and long-term action plans.

2017-2021 STRATEGIC PLAN

Late in 2016 the Board of Trustees along with Plan Administration engaged in the strategic planning process again, with a singular focus: successfully fulfilling the pension obligation. The 2017-2021 Strategic Plan builds upon the work that has been accomplished over the last 50 plus years to secure members' retirement benefits while providing high-quality member-focused service. The following goals have been identified as priorities for the Plan over the next five-year planning cycle:

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

We are operating in an environment where financial market volatility is high and economic climates are uncertain. Seeking efficiencies and balancing both risk and reward, in our decision making and implementation plans, will enable the Plan to persevere in ways that help secure members' benefits.

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

The Partner Committees have an integral role to play in the overall governance of the Plan. Nurturing and building this relationship is extremely important to ensuring the Plan's success in supporting and fulfilling the pension obligation.

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

As the largest defined benefit pension plan in the province, SHEPP has a distinct voice that is well respected in the industry. Fostering an environment where employees develop both personally and professionally through shared goals and unique opportunities contributes to the overall success of the Plan.

Throughout this planning cycle, Administration in conjunction with the Board, will develop annual business plans that support successfully achieving the strategic direction of the Plan. A strategic plan monitor will be updated and available at www.shepp.ca for stakeholder review.

The Board is confident that this very thoughtful and targeted approach, establishing realistic goals and objectives consistent with SHEPP's mission, will continue to successfully guide our efforts and ultimately result in a stronger Plan.

1,256

Members retired throughout the year

6.4

Billion dollars in net assets

21,155

Dollars was the average new annual pension

7.4

Percent return on investment

EXCEPTIONAL

SERVICE

SHEPP's membership is comprised of over 55,000 retired and hardworking individuals, including nurses, medical technicians, food services employees and many others, who have dedicated their careers to providing healthcare services to Saskatchewan citizens.

As evidenced by our new tagline, 'people' are a top priority for SHEPP, and focusing on our most important group of people, our members, has become an integral part of our culture. We try to connect with our members regularly through telephone calls, emails, onsite presentations, one-on-one meetings and more.

PUBLICATIONS

SHEPP's primary publication is the Plan Booklet, which is published annually and provides a summary of the pension benefit. Detailed explanations of more complex Plan provisions are provided in Information Sheets which cover topics such as spousal relationship breakdown, termination of employment and service purchases. SHEPP also publishes and distributes newsletters to participating employers, active and deferred members, and pensioners. All publications are posted to www.shepp.ca.

STATEMENTS

Each spring, SHEPP provides an annual pension statement to active and deferred members. In 2016, as part of SHEPP's modernisation project, the statements members receive upon termination and retirement were redesigned. The new statements have a similar look and feel to the annual pension statement, providing members a consistent experience. Their dynamic nature also created administrative efficiencies by eliminating the need for cover letters.

Pensioners also receive a statement each January, which provides confirmation of their monthly pension benefit amount, income tax being withheld and Group Life insurance premiums being deducted, if applicable.

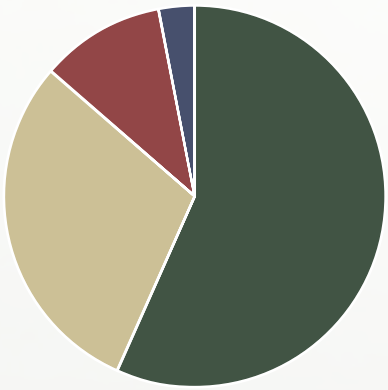
WEBSITES

In 2016 SHEPP launched a redesigned SHEPP*Web* to active members, providing new and improved tools and resources for members to access their pension information and self-serve online. In addition to a new look, the Pension Projection Calculator and Prior Service Purchase Calculator were revamped, and a new Current Service (LOA) Purchase Calculator was added. The Employer, Trustee and SHEPP Employee portals were also redesigned and a new secure portal for Partner Committee members was developed and launched in fall 2016.

SHEPP's public website, www.shepp.ca, continues to provide all stakeholders with information regarding Plan provisions and benefits, updates regarding investment performance and other resources such as publications and forms.

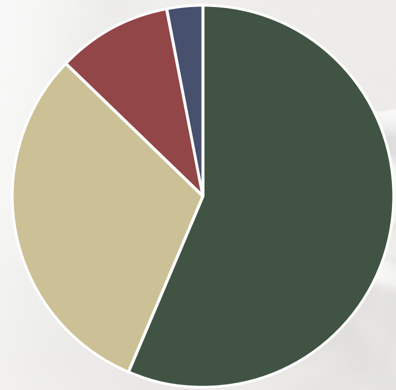
MEMBER SERVICE CALCULATIONS
(2016 VERSUS 2015)

2016



2016		2015
5,830	RETIREMENT	5,972
3,040	TERMINATION & DEATH	3,253
1,028	PORTABILITY & SERVICE PURCHASE	1,021
293	SPOUSAL RELATIONSHIP BREAKDOWN	315

2015



CORRESPONDENCE

Each year, thousands of requests from members are fulfilled by our member services and data services areas who work to meet, and often exceed, the expectations of Plan members and participating employers. These requests are primarily by phone, but also by letter, fax and email. In 2016 over 10,000 calculations were performed to assist members in determining their benefit entitlement and understanding their options.

PRESENTATIONS

SHEPP had the privilege of presenting our pension information session to over a thousand Plan members in 2016, reaching healthcare employees in 11 out of 12 of the province's health regions. These sessions are primarily organised by participating employers and unions. SHEPP appreciates this opportunity as it is the primary means through which we are able to communicate with our members face-to-face.

EMPLOYER SERVICES

The employer services team helped SHEPP's 61 participating employers to administer pension benefits, by providing training in person, by phone and online, and responding to the inquiries of payroll and benefits officers across the province. The new SHEPP*Web* for employers was launched with new tools to assist with pension benefits administration including a secure mailbox for the exchange of confidential information between participating employers and SHEPP, a report generator and form generator.

2016 PENSION INFORMATION SESSIONS
(LOCATIONS)

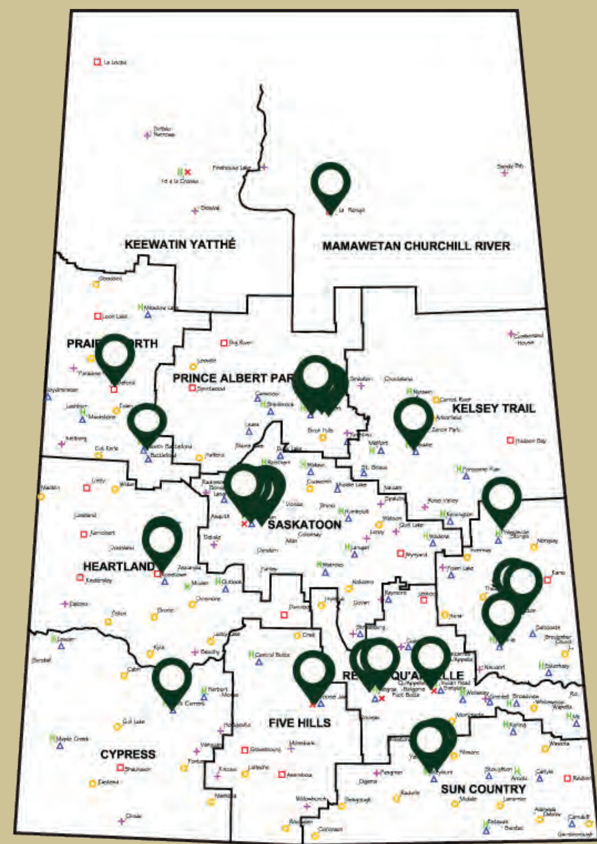


Image used with the permission of the Saskatchewan Ministry of Health.

UNIQUE WEBSITE VISITORS
(THOUSANDS)

STRONG

GOVERNANCE

ROLES AND RESPONSIBILITIES

Since December 31, 2002, when the Agreement and Declaration of Trust was signed, the Plan has been jointly governed by a Union Partner Committee and an Employer Partner Committee and administered by a Board of Trustees, equally represented by employees and employers. Plan obligations are shared: Partner Committees have authority over Plan design and the 8-member Board of Trustees is responsible for administering the Plan and investing the assets held in trust on behalf of members.

The Trust Agreement sets out the parameters within which the Board and Administration must operate. The Board establishes policies for investing contributions and administering pension benefits. They approve strategic plans and budgets and set the levels of investment and funding risk that are appropriate to meet the Plan's pension obligations. They monitor the Plan's investments and enterprise risk management program, and review and approve the audited financial statements. The Board may make changes to contribution rates, in order to meet the funding requirements established by the Plan actuary, but any other changes by the Board are only permitted if they remain cost neutral to the Plan.

As fiduciaries, Trustees have a legal obligation to act in the best interests of the Plan and its members.

Joint trusteeship means both employers and employees contribute to funding the pension, at the established ratio of 1:1.12, and share the risks and responsibilities for managing deficits and surpluses in accordance with the Board's Funding Policy and relevant legislation.

The Board conducts actuarial valuations at least every three years to assess the long-term financial health of the Plan,

and the results of the valuations are reported to the Partner Committees. The most recent valuation, as at December 31, 2015 was filed with the pension regulator in 2016. The valuation showed a reduction in the funding deficit and determined a contribution rate change was not required in the immediate future.

2016 HIGHLIGHTS

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

Specifically in 2016 the Board:

- Completed the Pension Plan Governance Self-Assessment Questionnaire developed by the Canadian Association of Pension Supervisory Authorities (CAPSA);
- Completed the CEM investment management benchmarking study;
- Identified key organisational risks (both inherent and residual) as part of the enterprise risk management program which was enhanced in 2016;
- Reviewed and approved seven Board policies in accordance with the Governance Review Policy;
- Updated its Investment Manager Selection & Monitoring Policy to strengthen the consideration of Environmental, Social and Governance (ESG) factors;
- Amended the Plan Text to include a provision to allow a member or former member to receive the commuted value of their pension benefit in the unfortunate event they face shortened life expectancy;
- Held its annual meeting where the Board met with members of the Partner Committees; and
- Continued to work closely with the Partner Committees to ensure they have the knowledge, skills and ability to fulfill their important and fundamental obligations to the Plan and its members.

SHEPP's Board of Trustees: (back row: left to right) Natalie Horejda, Russell Doell, Jeff Stepan, Marg Romanow; (front row: left to right) Ted Warawa, Andrew Huculak, Jim Tomkins and Mike Northcott.

SHEPP's governance model continues to provide the organisation with the autonomy to operate as a business, with decisions made in the best interests of Plan members.

TRUSTEE ACTIVITIES

Throughout 2016, the Board met six times over nine days. Trustees also participated in an education day and individual Trustees attended a number of conferences to expand their knowledge and increase their effectiveness on the Board.

Having fulfilled the alternating role of Chair/Vice-Chair for 14 years, Jim Tomkins announced that while he would remain a Trustee, a new employer representative would need to be chosen to replace him to fulfill this important responsibility after 2016. He received recognition and gratitude from his fellow Trustees for his leadership through some of the Plan's toughest times and for his continued service as a Trustee, dedicated to acting in the best interests of SHEPP members.

Jeff Stepan will take on the role of Vice-Chair in 2017 and Chair in 2018.

In addition, Mike Northcott was appointed to the SHEPP Board of Trustees to assume the role previously held by Stuart Cunningham.

CORPORATE

DIRECTORY

BOARD OF TRUSTEES

SENIOR LEADERSHIP TEAM

Alison McKay
Chief Executive Officer (CEO)

Cheldon Angus
Chief Technology Officer (CTO)

Janet Julé
Chief Investment Officer (CIO)

Verna Marcyniuk
Manager of Office Administration

Dale Markewich
Chief Financial Officer (CFO)

Kelley Orban
Senior Director of Stakeholder Relations

Paula Potter
Senior Director of Pension Services

EXTERNAL ADVISORS

Actuary
Aon Hewitt

Auditor
KPMG LLP

Custodian
CIBC Mellon Global Securities Services Company

Investment Consultant
Aon Hewitt

Legal Counsel
Lawson Lundell LLP
Miller Thomson LLP

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

Performance Measurement Service
BNY Mellon Asset Servicing

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

FIVE-YEAR FINANCIAL

HIGHLIGHTS

	2016 (000's)	2015 (000's)	2014 (000's)	2013 (000's)	2012 (000's)
NET ASSETS AVAILABLE FOR BENEFITS	$ 6,369,159	$ 5,936,342	$ 5,416,739	$ 4,767,369	$ 4,068,628
ACCRUED PENSION OBLIGATIONS	6,367,000	5,776,800	5,250,500	4,694,000	4,390,100
CONTRIBUTIONS					
Member	152,160	155,346	146,917	131,637	128,724
Employer	170,419	173,987	164,547	147,433	144,171
Other	5,127	4,320	4,213	5,871	3,527
TOTAL CONTRIBUTIONS	327,706	333,653	315,677	284,941	276,422
BENEFIT PAYMENTS					
Pensions	243,299	217,526	192,525	169,215	149,544
Terminations, Death Benefits and Holdbacks	50,987	43,558	39,682	34,109	28,985
TOTAL BENEFIT PAYMENTS	294,286	261,084	232,207	203,324	178,529
PLAN EXPENSES					
Administrative	8,264	7,368	6,779	5,860	4,851
Investment	26,365	20,477	20,415	18,700	15,846
TOTAL PLAN EXPENSES	$ 34,629	$ 27,845	$ 27,194	$ 24,560	$ 20,697

KPMG LLP
Hill Centre Tower II
1881 Scarth Street, 20th Floor
Regina Saskatchewan S4P 4K9
Canada
Telephone (306) 791-1200
Fax (306) 757-4703

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Saskatchewan Healthcare Employees' Pension Plan, which comprise the statement of financial position as at December 31, 2016, 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 the Saskatchewan Healthcare Employees' Pension Plan as at December 31, 2016, and the changes in its net assets available for benefits and the change in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

KPMG LLP

Chartered Professional Accountants

May 31, 2017
Regina, Canada

STATEMENT OF

FINANCIAL POSITION

AS AT DECEMBER 31

	2016 (000's)	2015 (000's)
ASSETS		
Investments (Note 5)	$ 6,043,403	$ 5,519,322
Investments under security lending program (Note 5)	319,584	404,658
Accrued interest receivable	137	146
Members' contributions receivable	12,682	12,808
Employers' contributions receivable	14,204	14,345
Dividends receivable	4,658	4,294
Property and equipment (Note 6)	1,618	1,743
Intangible assets (Note 7)	5,294	4,690
Other receivables	640	767
Prepaid expenses	173	130
	6,402,393	5,962,903
LIABILITIES		
Securities transactions payable	651	645
Accounts payable	6,219	7,483
Transfer deficiency holdback	26,364	18,433
	33,234	26,561
NET ASSETS AVAILABLE FOR BENEFITS	6,369,159	5,936,342
PENSION OBLIGATIONS (Note 9)	6,367,000	5,776,800
SURPLUS	$ 2,159	$ 159,542

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

Approved by the Board of Trustees and signed on their behalf on May 31, 2017.

Chair

Vice-Chair

STATEMENT OF

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR YEAR ENDED DECEMBER 31

	2016 (000's)	2015 (000's)
INCREASE IN NET ASSETS		
Contributions - Members	$ 152,160	$ 155,346
Contributions - Employers	170,419	173,987
Contributions - Other	5,127	4,320
Investment income (Note 8)	110,433	121,722
Net realised gain on investments	367,286	444,379
Realised gain on foreign exchange	34,201	-
	839,626	899,754
DECREASE IN NET ASSETS		
Pension benefits	243,299	217,526
Realised loss on foreign exchange	-	30,354
Terminations and death benefits	43,056	37,531
Transfer deficiency holdback	7,931	6,027
	294,286	291,438
EXPENSES		
Administrative expenses	7,172	6,340
Custodian fees	585	577
Fund management fees	22,473	18,266
Investment consulting fees	360	473
Investment transaction fees	2,947	1,161
Professional fees	1,092	1,028
	34,629	27,845
	328,915	319,283
UNREALISED (LOSSES)/GAINS		
Unrealised market value loss	(57,037)	(77,602)
Unrealised (loss) gain on foreign exchange	(20,857)	16,734
	(77,894)	(60,868)
NET INCREASE FOR THE YEAR	432,817	519,603
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	5,936,342	5,416,739
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$ 6,369,159	$ 5,936,342

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

	2016 (000's)	2015 (000's)
PENSION OBLIGATIONS, BEGINNING OF YEAR	$ 5,776,800	$ 5,250,500
Current service costs	241,800	233,500
Benefits paid by the plan	(294,300)	(261,000)
Interest expense	373,900	353,800
Change in actuarial assumption	268,800	200,000
PENSION OBLIGATIONS, END OF YEAR (NOTE 9)	$ 6,367,000	$ 5,776,800

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

NOTES TO THE

FINANCIAL STATEMENTS

DECEMBER 31, 2016

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, 2016 have been prepared in accordance with Canadian Accounting Standards for Pension Plans (CPA Handbook Section 4600). For matters not addressed in Section 4600, International Financial Reporting Standards (IFRS) guidance has been implemented.

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

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

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

NOTE 3 - DESCRIPTION OF PLAN

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

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

B. ELIGIBILITY
Eligible permanent full-time and permanent part-time employees of the Plan employers must participate.

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

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

NOTE 3 - DESCRIPTION OF PLAN (CONTINUED)

For the year ending December 31, 2016 members are required to contribute 8.1 percent of their pensionable earnings up to the Year's Maximum Pensionable Earnings (YMPE) and 10.7 percent of pensionable earnings above the YMPE.

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

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

D. EMPLOYER CONTRIBUTIONS
Employers contribute 112 percent of a member's required contributions.

E. AMOUNT OF PENSION
Subject to the maximum pension limits set out in the Plan Text the basic lifetime pension is equal to the sum of:

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

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

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

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

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

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

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

ii. Three percent multiplied by the number of years, and portions thereof, that the member's age plus credited service is short of 80 years, and

iii. the greater of:

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

  b. Three percent multiplied by 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, 2015 revealed a solvency deficit of 35 percent. The Plan is required to apply a transfer deficiency holdback of 35 percent to certain termination benefits. This was effective September 30, 2016. The previous transfer deficiency holdbacks were 19.72 percent and 27 percent, based on the valuations performed at December 31, 2010 and December 31, 2013 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

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

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

NOTE 3 - DESCRIPTION OF PLAN (CONTINUED)

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

Leasehold improvements	15 years
Furniture and equipment	4 - 10 years
Computer equipment	2 - 4 years

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

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

Amortisation is recognised in the Statement of Change 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

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

as a revenue or expense in the Statement of Changes in Net Assets Available for Benefits.

G. FOREIGN CURRENCIES

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

H. INCOME TAXES

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

I. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

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

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 these new recommendations.

NOTE 5 - INVESTMENTS

The objective of the Plan is to maintain sufficient assets to discharge future pension obligations and to generate cash flow required for pension plan payments. The Plan's investment portfolio ("the Fund") has the following holdings:

SUMMARY OF INVESTMENT HOLDINGS:		2016		2015	
TYPE	YEARS TO MATURITY	FAIR VALUE (000's)	YIELD (%)	FAIR VALUE (000's)	YIELD (%)
BONDS					
Provincial	Less than 1	$ 12,706	0.7	$ 18,004	0.6 – 0.7
	1 – 5	8,802	1.0	20,406	1.1
		21,508		38,410	
Corporate	6-10	83,814	2.8	-	-
	10+	-	-	219,958	2.4
TOTAL BONDS		105,322		258,368	
BOND POOLED FUNDS		1,450,192	2.7 – 3.4	1,444,785	2.5 – 3.1
MORTGAGE POOLED FUND		205,008	3.8	26,003	3.5
EQUITIES AND EQUITY POOLED FUNDS					
Canadian		593,778		390,337	
Global		719,537		-	
Non-North American		-		324,450	
Non-North American pooled funds		-		380,436	
Emerging markets		326,748		271,953	
United States pooled funds		-		466,937	
Global pooled funds		1,337,665		843,296	
TOTAL EQUITIES AND EQUITY POOLED FUNDS		2,977,728		2,677,409	
OTHER					
Short-term investments		14,817		17,972	
Real estate pooled funds		568,569		569,223	
Real estate equity investments		211,665		200,522	
Infrastructure		424,345		302,307	
Cash		81,254		41,476	
Currency forward contracts		4,503		(18,743)	
TOTAL OTHER		1,305,153		1,112,757	
TOTAL INVESTMENTS		$ 6,043,403		$ 5,519,322	

NOTE 5 - INVESTMENTS (CONTINUED)

TYPE	2016 FAIR VALUE (000's)	2015 FAIR VALUE (000's)
INVESTMENTS UNDER SECURITIES LENDING PROGRAM		
Canadian equities	$ 291,503	$ 365,116
Global equities	28,081	-
Non-North American equities	-	39,542
TOTAL INVESTMENTS UNDER SECURITIES LENDING PROGRAM	$ 319,584	$ 404,658

BONDS, BOND POOLED FUNDS AND MORTGAGE POOLED FUNDS

Bonds are subject to a minimum quality standard of BBB or equivalent unless otherwise specified in an investment manager's mandate. In the active bond mandate, BBB bonds or lower may not be purchased if they comprise more than 15 percent of the book value of the total portfolio of any individual manager. No single issuer is to exceed 10 percent of the carrying value of the 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 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, 2016 stock shorting was permitted in one investment mandate with a carrying value of $494,622,000 (2015 - $499,585,000).

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. These properties are located in Ontario, Quebec, Alberta, and British Columbia. The fair value of this investment is shown as a real estate equity investment.

DERIVATIVE FINANCIAL INSTRUMENTS – CURRENCY FORWARD CONTRACTS

Currency forward contracts are financial contracts, the value of which is derived from underlying assets or indices. Derivative transactions are conducted in the over-the-counter market directly between two counterparties or on regulated exchanges. Derivatives are permitted in the Statement of Investment Policy & Procedures (SIP&P). However, unless permission is specifically granted, managers are prohibited from using derivatives.

FAIR VALUE HIERARCHY

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily

NOTE 5 - INVESTMENTS (CONTINUED)

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.

	2016 (000's)			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and short-term investments	$ 81,254	$ 14,817	$ -	$ 96,071
Bonds, bond pooled funds and mortgage pooled fund	-	1,760,522	-	1,760,522
Canadian equities	885,281	-	-	885,281
Global equities	747,618	-	-	747,618
Global pooled funds	-	1,337,665	-	1,337,665
Emerging market equities	-	326,748	-	326,748
Infrastructure	-	-	424,345	424,345
Real estate pooled funds	-	-	568,569	568,569
Real estate equity investments	-	-	211,665	211,665
Currency forward contracts	-	4,503	-	4,503
	$ 1,714,153	$ 3,444,255	$ 1,204,579	$ 6,362,987

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

NOTE 5 - INVESTMENTS (CONTINUED)

LEVEL 3 RECONCILIATION	2016 (000's)	2015 (000's)
	POOLED REAL ESTATE AND INFRASTRUCTURE	POOLED REAL ESTATE AND INFRASTRUCTURE
Opening balance	$ 1,072,052	$ 612,834
Acquisitions	120,241	333,970
Dispositions	(44,131)	(16,492)
Realised gain	(10,008)	2,236
Change in unrealised gain	66,425	139,504
	$ 1,204,579	$ 1,072,052

During the current year no investments were transferred between levels.

NOTE 6 - PROPERTY AND EQUIPMENT

	FURNITURE AND EQUIPMENT (000's)	COMPUTER EQUIPMENT (000's)	LEASEHOLD IMPROVEMENTS (000's)	TOTAL (000's)
COST OR DEEMED COST				
Balance at January 1, 2015	$ 195	$ 230	$ 1,518	$ 1,943
Additions	60	55	323	438
Balance at December 31, 2015	$ 255	$ 285	$ 1,841	$ 2,381
BALANCE AT JANUARY 1, 2016	$ 255	$ 285	$ 1,841	$ 2,381
Additions	-	65	2	67
Disposals	-	(14)	-	(14)
BALANCE AT DECEMBER 31, 2016	$ 255	$ 336	$ 1,843	$ 2,434
AMORTISATION				
Balance at January 1, 2015	$ 116	$ 154	$ 207	$ 477
Amortisation for the year	15	31	115	161
BALANCE AT DECEMBER 31, 2015	$ 131	$ 185	$ 322	$ 638
BALANCE AT JANUARY 1, 2016	$ 131	$ 185	$ 322	$ 638
Amortisation for the year	18	46	126	190
Disposals for the year	-	(12)	-	(12)
BALANCE AT DECEMBER 31, 2016	$ 149	$ 219	$ 448	$ 816
CARRYING AMOUNTS				
Balance at January 1, 2015	$ 79	$ 76	$ 1,311	$ 1,466
Balance at December 31, 2015	$ 124	$ 100	$ 1,519	$ 1,743
BALANCE AT JANUARY 1, 2016	$ 124	$ 100	$ 1,519	$ 1,743
BALANCE AT DECEMBER 31, 2016	$ 106	$ 117	$ 1,395	$ 1,618

NOTE 7 - INTANGIBLE ASSETS

Intangible assets consist of a pension administration system.

COST OR DEEMED COST	(000's)
Balance at January 1, 2015	$ 3,748
Additions for the year	3,367
Balance at December 31, 2015	$ 7,115
BALANCE AT JANUARY 1, 2016	**$ 7,115**
Additions for the year	801
BALANCE AT DECEMBER 31, 2016	**$ 7,916**
AMORTISATION	
Balance at January 1, 2015	$ 2,377
Amortisation for the year	48
Balance at December 31, 2015	$ 2,425
BALANCE AT JANUARY 1, 2016	**$ 2,425**
Amortisation for the year	197
BALANCE AT DECEMBER 31, 2016	**$ 2,622**
CARRYING AMOUNTS	
Balance at January 1, 2015	$ 1,371
Balance at December 31, 2015	$ 4,690
BALANCE AT JANUARY 1, 2016	**$ 4,690**
BALANCE AT DECEMBER 31, 2016	**$ 5,294**

NOTE 8 - INVESTMENT INCOME

	2016 (000's)	2015 (000's)
Bond interest	$ 27,182	$ 30,271
Dividends	81,194	88,545
Interest on short-term investments and cash balances	596	1,891
Other income	1,461	1,015
	$ 110,433	$ 121,722

NOTE 9 - PENSION OBLIGATIONS

The pension obligations are the actuarial present value of the future expected pension benefit obligation to members as determined by the actuarial valuation done by Aon Hewitt, an independent actuarial consulting firm, at least every three years. The last actuarial valuation was performed as of December 31, 2015. The present value of accrued pension benefits was then extrapolated to December 31, 2016 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	2016	2015
Discount rate	6.20%	6.50%
Inflation rate	2.25%	2.25%
Mortality table	SHEPP Mortality Table projected generationally with scale CPM-B	SHEPP Mortality Table projected generationally with scale CPM-B
Remaining service life	11.8 years	11.7 years
Salary projection	3.00% per year	3.00% per year

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

- A one percent change in the discount rate results in approximately a 13 percent change in the pension obligations;
- A one percent change in the salary scale and the pensionable earnings levels results in approximately a 3 percent change in the pension obligations.

NOTE 10 - FINANCIAL RISK MANAGEMENT

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

Significant financial risks are related to the Plan's investments. These financial risks are managed through policies within the SIP&P, which is subject to review and approval by the Board of Trustees not less than annually.

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

The SIP&P sets out a minimum quality requirement of "BBB" for bonds and debentures at the time of purchase unless otherwise specified in an investment manager's mandate; a minimum rating of "R-1" for short-term investments at the time of purchase and a minimum quality standard of "A" at the time of transaction for counterparties in a derivative transaction. Downgrades in qualities of an asset below the established purchased standards require immediate disclosure to the Board and require the affected 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 10 - FINANCIAL RISK MANAGEMENT (CONTINUED)

CREDIT RISK

Credit risk is the risk that one party does not pay funds owed to another party. The Plan's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which the Plan is exposed at December 31, 2016 is limited to the carrying value of the financial assets summarised as follows:

	2016 (000's)	2015 (000's)
Cash	$ 81,254	$ 41,476
Accrued interest receivable	137	146
Employers' contributions receivable	14,204	14,345
Members' contributions receivable	12,682	12,808
Dividends receivable	4,658	4,294
Other receivables	640	767
Short-term investments	14,817	17,972
Fixed income *	1,760,522	1,729,156
	$ 1,888,914	$ 1,820,964

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

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

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

Credit ratings for fixed income investments are as follows:

	2016		2015	
CREDIT RATING	FAIR VALUE (000's)	MAKEUP OF PORTFOLIO	FAIR VALUE (000's)	MAKEUP OF PORTFOLIO
AAA	$ 413,562	23.5%	$ 451,699	26.1%
AA	433,161	24.6%	570,772	33.0%
A	297,447	16.9%	292,724	17.0%
BBB	219,102	12.4%	214,627	12.4%
Less than BBB	105,997	6.0%	102,760	5.9%
Other*	291,253	16.6%	96,574	5.6%
	$ 1,760,522	100%	$ 1,729,156	100%

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

NOTE 10 - 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, 2016, the Plan's investments included loaned securities with a market value of $319,584,000 (2015 - $404,658,000) and the fair value of securities and cash collateral received in respect of these loans was $340,584,000 (2015 - $434,195,000).

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 $136,638,000 at December 31, 2016 (2015 - $140,673,000); representing 7.4 percent (2015 - 7.9 percent) of the $1,856,593,000 (2015 - $1,788,604,000) 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-Canadian equities, foreign infrastructure and foreign real estate. At December 31, 2016, the Plan's exposure to United States equities was 26.9 percent (2015 - 24.6 percent) and its exposure to non-North American equities was 18.7 percent (2015 - 24.4 percent).

The Plan manages this risk through the use of currency futures or forwards. At December 31, 2016 the fair value of currency forward contracts payable was $1,912,307,000 (2015 - $1,323,901,000) and the fair value of currency fund contracts receivable was $1,916,810,000 (2015 - $1,305,144,000).

EQUITY PRICE RISK

The Plan is exposed to changes in equity prices in Canadian, United States and other markets. Equities comprise 51.8 percent (2015 - 52.1 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 $329,731,000 (2015 - 308,207,000) 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 11 - RELATED PARTY TRANSACTIONS

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

	2016 (000's)	2015 (000's)
EXPENSES	$ 85	$ 85

NOTE 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:

	2016 (000's)	2015 (000's)
Short-term employee benefits	$ 1,239	$ 1,196
Post-employment benefits		
Defined benefit retirement allowance	106	111
TOTAL BENEFITS	$ 1,345	$ 1,307

NOTE 12 - MANAGEMENT FEES

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

Total investment fees incurred by the Plan are:

	2016 (000's)	2015 (000's)
Incurred directly by the Plan	$ 22,473	$ 18,266
Incurred through Horizon	9,170	8,027
TOTAL MANAGEMENT FEES	$ 31,643	$ 26,293

NOTE 13 - COMPARATIVE FIGURES

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

SHEPP
SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN

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