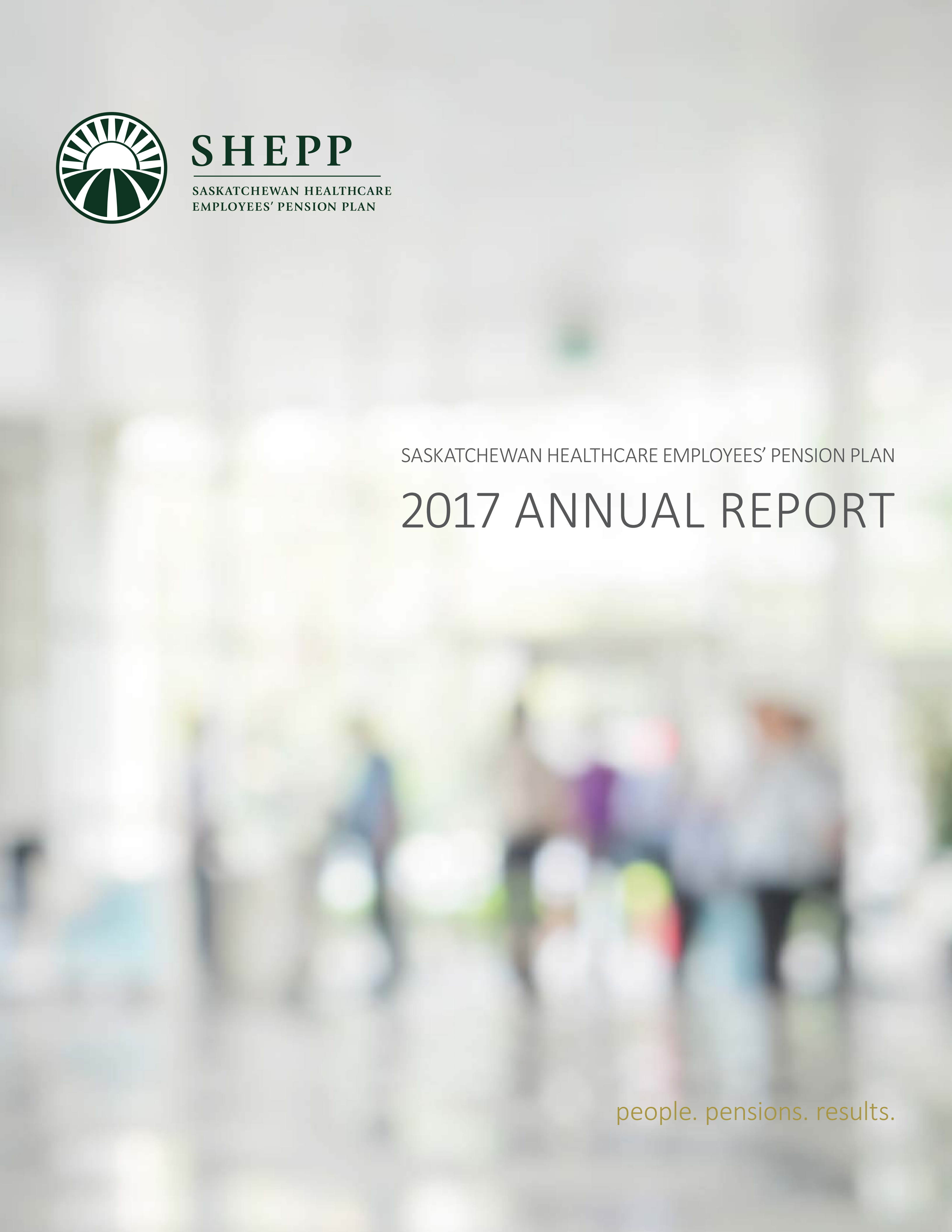


SHEPP

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN

2017 ANNUAL REPORT

people. pensions. results.

TABLE OF CONTENTS

INTRODUCTION

MESSAGE FROM THE BOARD OF TRUSTEES 2
MESSAGE FROM THE CEO 3

MANAGEMENT'S DISCUSSION & ANALYSIS

PLAN OVERVIEW 5
STATE OF THE PLAN 6
INVESTMENTS 9
ADMINISTRATION 12
SERVICE 14
GOVERNANCE 16
DIRECTORY 18
FIVE-YEAR FINANCIAL HIGHLIGHTS 19

FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT 22
STATEMENT OF FINANCIAL POSITION 23
STATEMENT OF CHANGES IN NET ASSETS 24
STATEMENT OF CHANGE IN PENSION OBLIGATIONS 25
NOTES TO FINANCIAL STATEMENTS 26

MESSAGE FROM THE BOARD OF TRUSTEES

We're pleased to report that 2017 was another positive year and the Plan continues to be well-positioned to provide secure retirement income to current and future generations of Saskatchewan healthcare employees.

The significance of this obligation should not be understated. One in every 15 people who work in the province is an active Plan member, making contributions each month and accruing service and earnings that will reward them with a secure and predictable pension in retirement. Their SHEPP pension will play an important role in their financial future as it has for more than 17,000 retired members already collecting a lifetime pension from the Plan today.

The Board of Trustees takes this responsibility, and our fiduciary duty to serve the best interests of Plan members, very seriously. Our approach is strategic, supported by good governance and prudent investment practices. It's an approach that has helped establish the stable, strong footing from which the Plan operates today.

Over the past decade the Fund has more than doubled in size and the 10-year annualised investment return exceeded the benchmark. With each valuation we continue to make progress toward eliminating the unfunded liability that followed the financial crisis of 2008.

Although we're extremely proud of the results SHEPP consistently produces, we recognise that challenges remain. While Plan assets have grown significantly since the financial crisis, pension liabilities have also increased, due to lower forward-looking returns and other factors such as increased life expectancy. And the Plan is maturing – where active members outnumbered retired members four to one just fifteen years ago, the ratio is now closer to two to one. We will continue to address these challenges as we have in the past, managing risk while pursuing investment strategies that can generate the returns necessary to pay members' benefits today and for decades to come.

We're grateful to SHEPP's administrative team, led by CEO Alison McKay, whose leadership and expertise are so effectively guiding the Plan through its current five-year planning cycle. We are tremendously proud to serve as Trustees of an organisation where employees are passionate about the work they do to provide retirement income to a large segment of Saskatchewan's population.

Let us take this moment to also recognise the members of our Partner Committees. The Board and Administration continue to work closely with them, to ensure they have the knowledge, skills and ability to fulfill their important and fundamental obligations to the Plan and its members.

Finally, we acknowledge the significant contributions made by our fellow Trustees, who continually lend their time and expertise. Entrusted to administer the largest defined benefit plan in the province, we remain firmly committed to delivering on our pension obligation today and in the future.

Andrew Huculak, Chair

Jeff Stepan, Vice-Chair

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

In 2017, the Plan experienced success on many fronts. Investment returns throughout the year were very positive, fueled by strong markets and good performance from our investment managers. The 13.4% rate of return (net of investment manager fees) exceeded the market benchmark by 3.6% and brought the total market value of net assets to $7.2 billion at December 31, 2017. While the current strategy was rewarded last year, SHEPP continues to take a longer-term view and focus on Plan sustainability. This means seeking out further diversification and risk mitigation approaches to ensure we generate sufficient returns without undue risk going forward.

As the Fund grows and our investment portfolio becomes more diversified, the management and oversight of these assets becomes increasingly more complex. In recent years, SHEPP has been building out its investments unit, adding resources and tools to support current and future growth. Our investments team continues to work closely with the Plan's investment consultant to monitor and oversee the 17 external investment managers chosen to implement the Fund's investment strategy, which included 25 mandates in 2017.

It was a successful year operationally as well, as the Administration worked diligently to plan and execute initiatives to support the strategic goals established by the Board. We're pleased with the progress already made, just one year in, toward achieving the objectives of the current strategic plan. The 2017-2021 Strategic Plan builds upon the work that has been accomplished over the past 55 years and focuses on enhancing the long-term viability of the Plan, strengthening the relationship with the Partner Committees and nurturing SHEPP's culture of excellence and resilience.

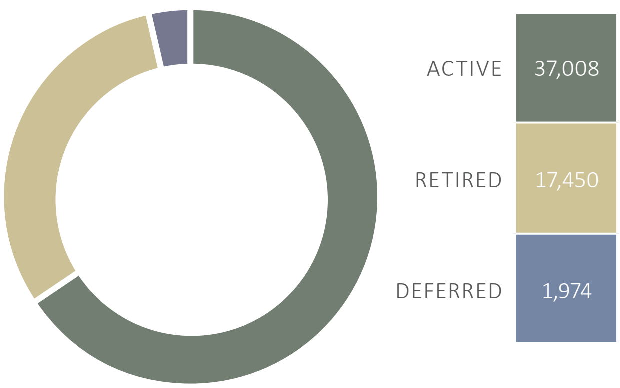
In carrying out this work, and the day-to-day administration of the Plan, we are fortunate to be operating from a solid foundation. SHEPP has been continually monitoring and adapting its strategies to the evolving demographics of the Plan, and has been relatively successful navigating the rough waters caused by volatile financial markets in recent years. The Board's commitment to strong governance and sound investment practices has contributed to this success. We appreciate the Trustees' continued support and confidence in the Administration.

Thank you to the senior leadership team and every employee at SHEPP, for consistently embracing the values that make our culture so unique. It is my privilege to lead a team of dedicated professionals whose commitment to innovation and service excellence has earned the respect of our peers and the trust of our members. It is their knowledge, expertise and determination that enable us to fulfill our mission of serving the best interests of our members.

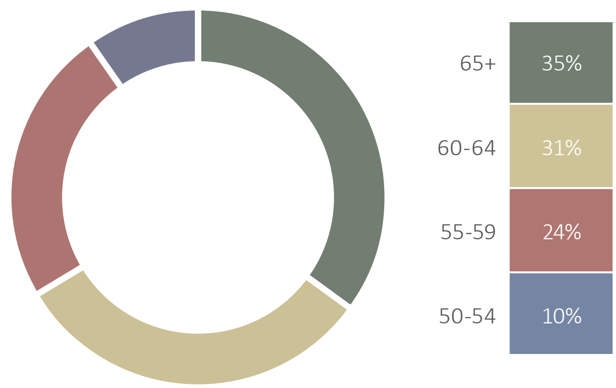
Alison McKay

Alison McKay, CEO

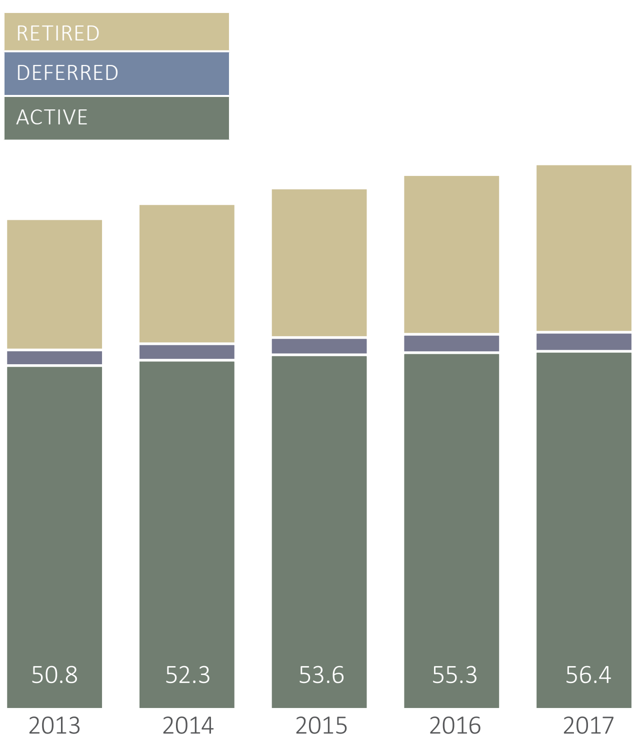
PLAN MEMBERSHIP PROFILE
(AS AT DECEMBER 31, 2017)



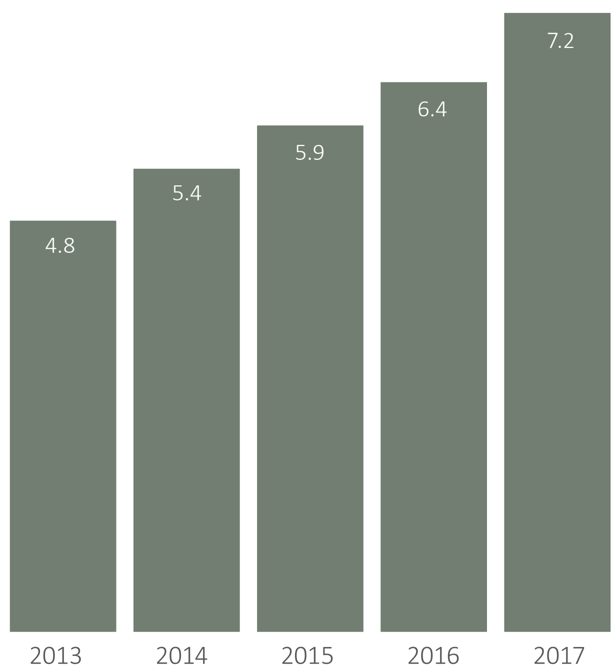
NEW RETIREMENTS IN 2017
(AGE AT RETIREMENT)



TOTAL MEMBERSHIP
(THOUSANDS)



NET ASSETS AVAILABLE FOR BENEFITS
(BILLION DOLLARS)



PLAN OVERVIEW

Established in 1962, the Saskatchewan Healthcare Employees' Pension Plan (SHEPP) has grown to become the largest defined benefit pension plan in the province, with 50 participating employers and over 56,000 members either receiving or entitled to receive a benefit from the Plan today. SHEPP is the only industry-wide pension plan serving the healthcare sector, one of Saskatchewan's largest and most valued workforces.

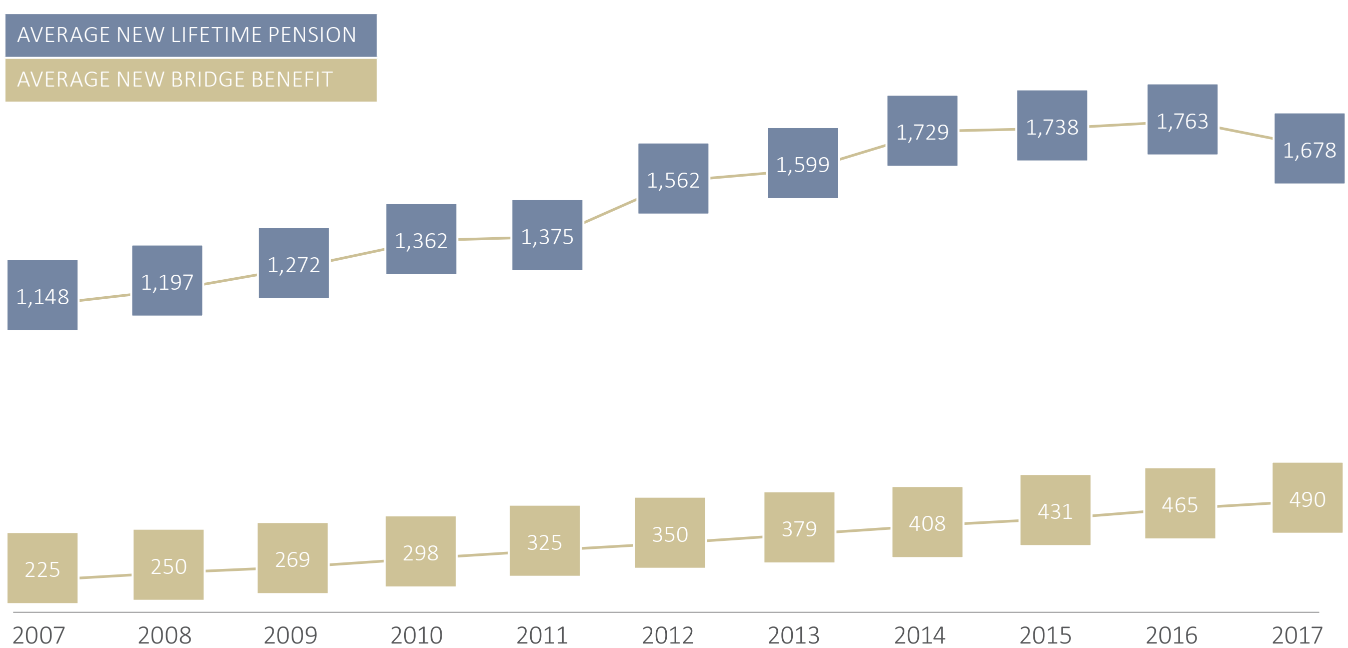
Since 2002 the Plan has been jointly sponsored and governed by a Board of Trustees and Partner Committees – each equally represented by employers and employees. The Agreement and Declaration of Trust identifies the roles and responsibilities of these decision-making bodies. The Plan is administered in compliance with the Plan Text, *The Pension Benefits Act, 1992* (Saskatchewan) and the *Income Tax Act* (Canada).

SHEPP is a defined benefit pension plan, providing its members with a lifetime pension, calculated using a benefit 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.

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

SHEPP's office and its 47 employees are located in Regina.

AVERAGE NEW MONTHLY LIFETIME PENSION AND BRIDGE BENEFIT
(DOLLARS)



STATE OF THE PLAN

BEST-ESTIMATE YEAR-END RESULTS

Another year of positive investment returns brought the total market value of the Fund to approximately $7.2 billion at the end of 2017. Net assets increased by approximately $854.6 million and pension liabilities by $316.2 million, resulting in a surplus of $540.5 million on a best-estimate basis at the end of 2017.

While last year's financial results were positive on a best-estimate basis, Plan funding is measured on a going-concern basis and therefore the focus must continue to be on the longer-term financial health of the Plan.

GOING-CONCERN FUNDED STATUS

Ten years have now passed, since markets plummeted and the world was faced with a global economic crisis. Since then, slow and steady progress has been made toward restoring the funded status of the Plan. The last valuation, performed as at December 31, 2015 determined the going-concern funded status of the Plan was 91% — an improvement from the 2013 and 2010 valuations which were 88% and 81% respectively.

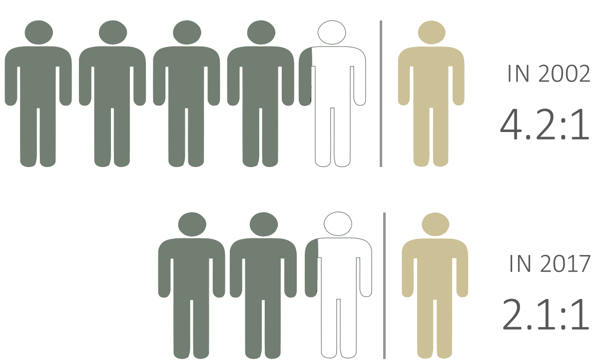
While the Plan's funded status has improved in the last two valuations, there are a number of factors influencing the financial health of any defined benefit pension plan. Continued financial market volatility, prolonged low interest rates and increasing life expectancy make it more difficult for plans like SHEPP to meet pension obligations at reasonable costs. Coupled with these factors is the fact that the Plan is maturing. It's the natural progression of any pension plan, and certainly doesn't come as any surprise. However, Plan maturity makes it increasingly critical to manage risk while pursuing investment strategies that can generate a level of return sufficient to fund benefits over the long-term.

FUNDING POLICY

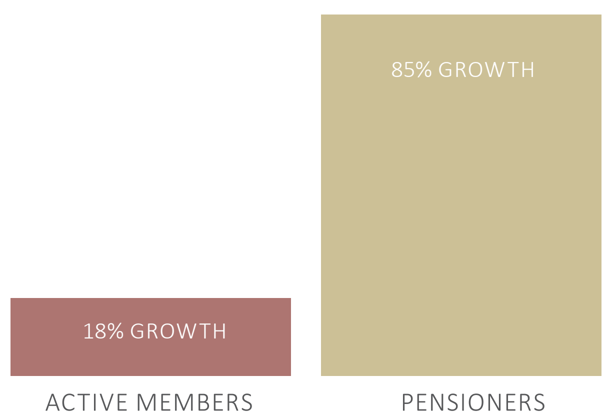
Funding is truly a long-term and ongoing consideration that requires continued oversight to ensure SHEPP is able to fulfill its pension obligation today and in the future. The purpose of the Board's Funding Policy is to support decision-making that will guide the Plan through economic cycles and shifting demographics, maintaining the financial integrity of the Plan over the long-term, with a priority to secure members' benefits while minimising contribution rate volatility.

As the governing body with responsibility for Plan design, only the Partner Committees have the authority to make fundamental changes to pension benefits. The Board of Trustees is responsible for administering the Plan in its 'as is' state and funding those benefits from contributions and investment earnings. When a funding deficit occurs, the only option available to the Board is to raise contribution rates to ensure the deficit is funded within the maximum period permitted under legislation. The Board regularly

ACTIVE TO RETIRED MEMBER RATIO



MEMBERSHIP GROWTH (BETWEEN 2007 AND 2017)



monitors the funded status of the Plan, as well as investment performance, and the Plan actuary conducts an actuarial valuation at least every three years to determine appropriate contribution levels to fund benefits today and in the future.

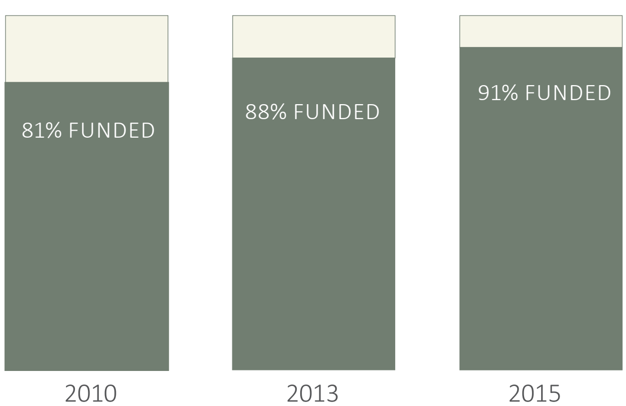
The last contribution rate increase was implemented January 1, 2014. Since then, the combined contribution rate has remained at 18.3% of payroll.

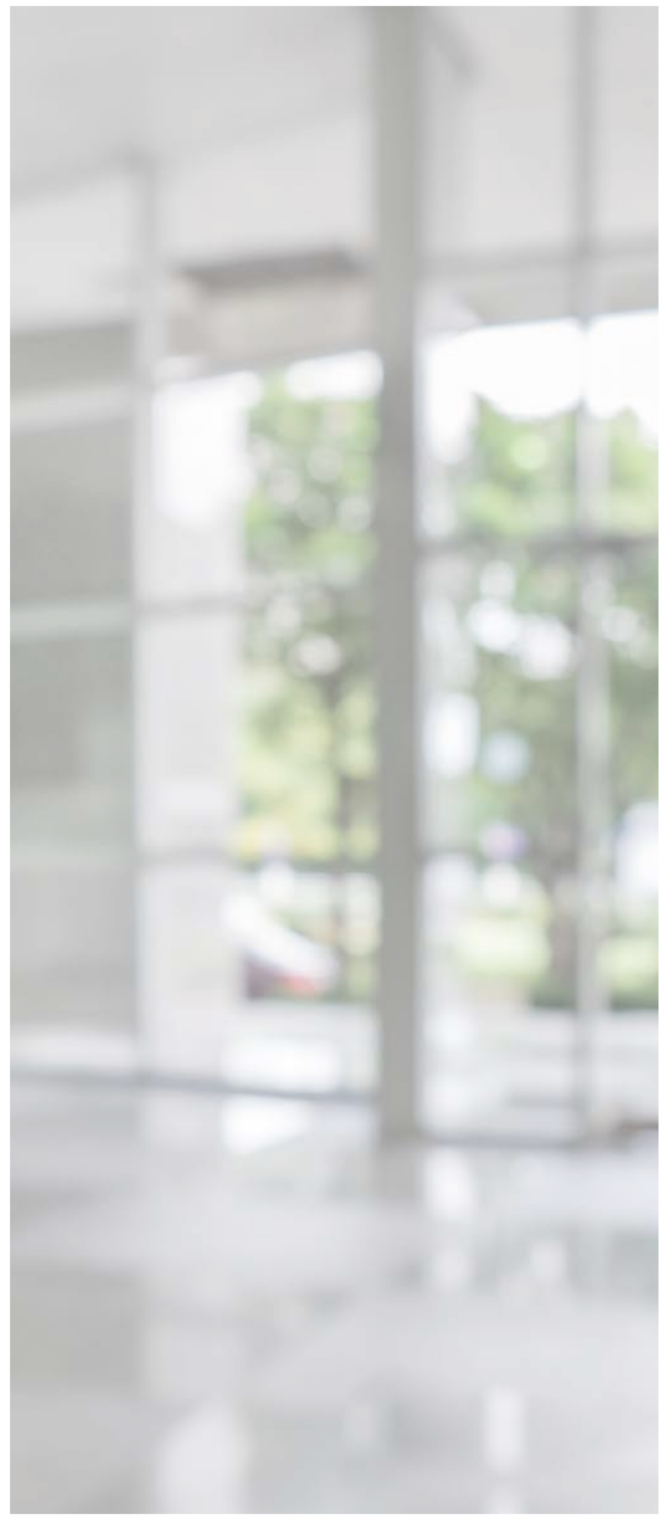
SHEPP CONTRIBUTION RATE
(AS A PERCENTAGE OF PAYROLL)

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

A certain level of investment return is required in order to mitigate the need for contribution rate changes, and this means the Plan must take on some risk. SHEPP's Board and Administration continue to work closely with the Plan actuary and investment consultant to implement investment and risk management strategies that achieve a sufficient rate of return within an acceptable level of risk.

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





DIVERSIFIED INVESTMENTS

INVESTMENTS OVERVIEW

SHEPP's investments are central to the Plan's sustainability. The focus of the Plan's investment strategy is to generate returns sufficient to improve funded position, helping to secure members' pensions into the future. Contribution stability is a secondary goal in support of Plan sustainability. Diversification of the Plan assets plays a key role in mitigating the potential negative impact of volatile capital markets on the Plan's funded position and contribution levels.

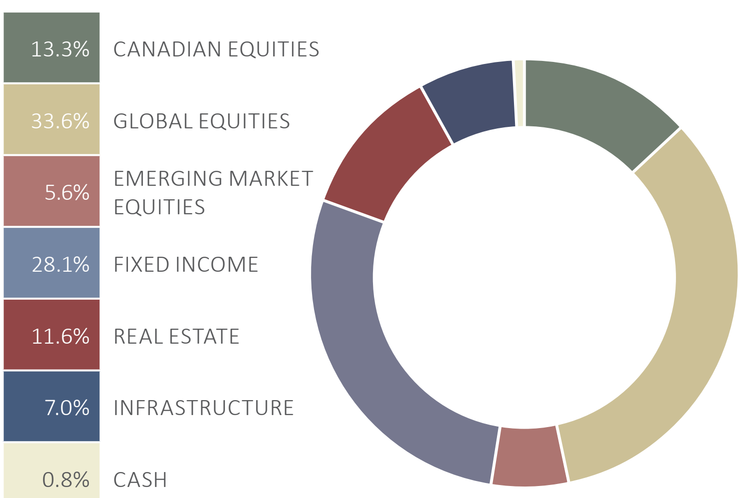
These dual demands have shaped the long-term target mix, set by the Board as part of the last asset liability study. The equity allocation (targeted at 50%) anchors the growth-oriented portion of the portfolio, delivering both dividend income and long-term growth in excess of inflation. Fixed income strategies (30% target) provide more stable investment income and are expected to hedge against equity volatility. Alternative assets, including real estate (12%) and infrastructure (8%), provide additional diversification as well as the potential for inflation sensitive income and/or longer term growth opportunities, depending on the strategy. Within each of the major asset categories, diversification by style and manager seeks to improve risk-adjusted returns.

STRATEGIC INITIATIVES AND ACCOMPLISHMENTS

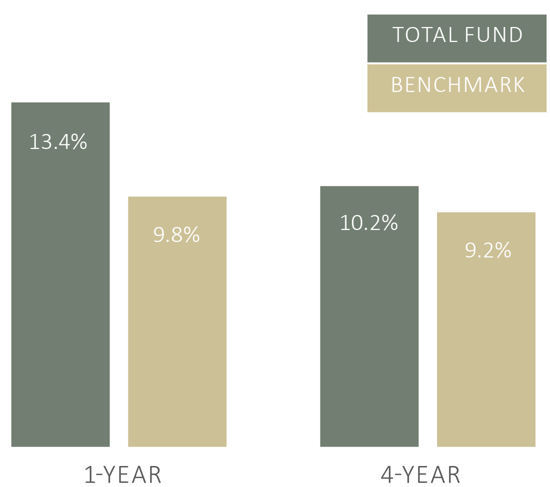
Over the last several years, the Board has overseen the implementation of the long-term target asset mix. As of December 31, 2017, the actual asset mix was close to target, with work ongoing to fill the infrastructure allocation.

While efforts to improve returns and manage risk have been rewarded over the past several years, the Board and Administration remain focused on the future, particularly given the expectation that low interest rates and high valuations will provide a challenging environment going forward. In 2016, a five-year investment strategic plan was approved, setting out initiatives including undertaking an asset liability study to revisit asset mix, building risk management and monitoring capabilities, and exploring an opportunistic investments category. In 2017, steps were taken to expand risk modeling and management capabilities of the Fund with the selection and implementation launch of a comprehensive investment risk reporting system. The Board also added an opportunistic category to the Plan investment policy. In 2018, an asset liability study will be undertaken to examine expected portfolio risk and return relative to the Plan's goals of sustainability and contribution stability.

ASSET MIX
(2017)



HISTORICAL RATE OF RETURN
(ANNUALISED, NET OF INVESTMENT MANAGER FEES)



2017 PERFORMANCE

Key performance indicators for the Plan are funded position changes and related contribution rate impacts. SHEPP assesses the contribution of the Plan assets along with the effectiveness of investment strategies and activities against 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.

During 2017, the SHEPP portfolio generated a strong 13.4% return, net of investment management fees. Synchronised global growth provided a backdrop for these strong returns, and investment managers engaged to implement SHEPP's investment strategy further contributed, resulting in outperformance relative to the 9.8% benchmark return. Performance targets were also met on a four-year basis, with a 10.2% four-year net result outpacing the 9.2% benchmark return and the real return target of 4.0%.

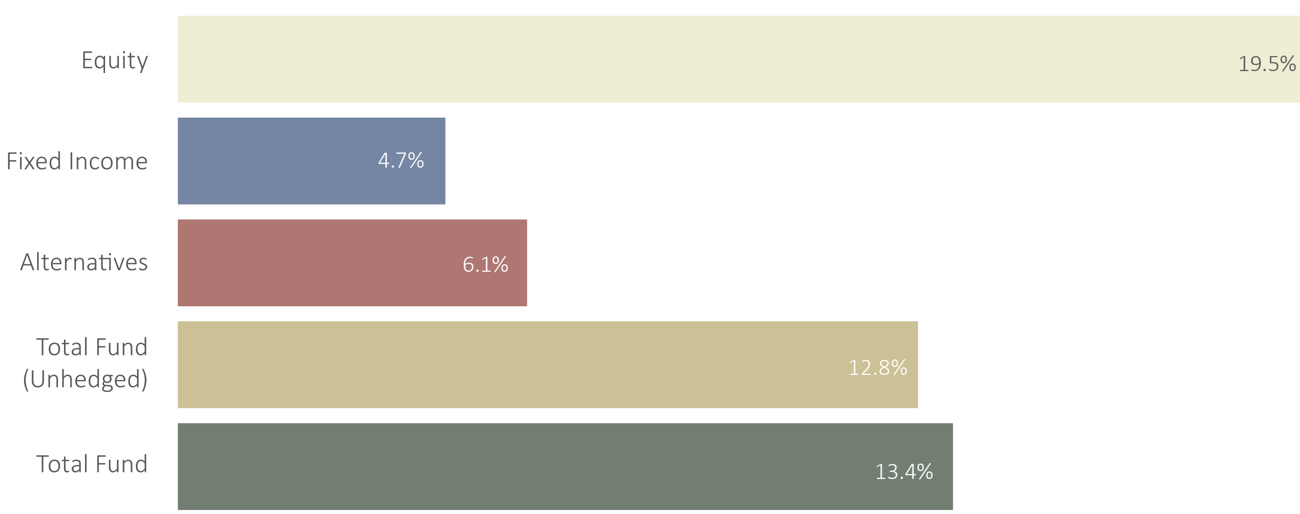
EQUITIES

Global equity markets generated strong returns with surprisingly low volatility in the year. Markets appeared to shrug off geopolitical uncertainty and were driven instead by synchronised global growth, improved corporate earnings and, despite central bank rate increases, accommodative monetary policy that helped support asset valuations. SHEPP's broadly diversified equity portfolio experienced strong returns across regions (Canadian, global and emerging markets), providing a 19.5% result. By region, global equities outperformed Canadian equities, despite a rising Canadian dollar which muted unhedged foreign equity returns. Within Global equities, emerging markets led the way and SHEPP's active global manager program added significantly to market index returns.

FIXED INCOME

Bond market returns over the year were positive despite central bank activity that resulted in higher shorter-term yields. Longer term interest rates were down slightly over the year in Canada, pushing bond prices higher. The premium on yield demanded in the market for credit risk also narrowed, providing additional return. SHEPP's overall fixed income allocation generated a 5% result in the year, led by longer-term bonds. Also contributing were the more diversified bond mandates which were added to the portfolio a few years ago with the goal of providing better risk adjusted returns in low rate environments.

2017 TOTAL FUND NET RETURNS
(NET OF INVESTMENT MANAGER FEES)



ALTERNATIVES

SHEPP's real estate portfolio had strong performance over the year, led by the Canadian real estate portfolios that benefited from rising valuations, in addition to rental income. The US real estate result was muted by a rising Canadian dollar. Infrastructure continues to be a strong return contributor and diversifier as the program builds out and is approaching the target allocation of 8.0%.

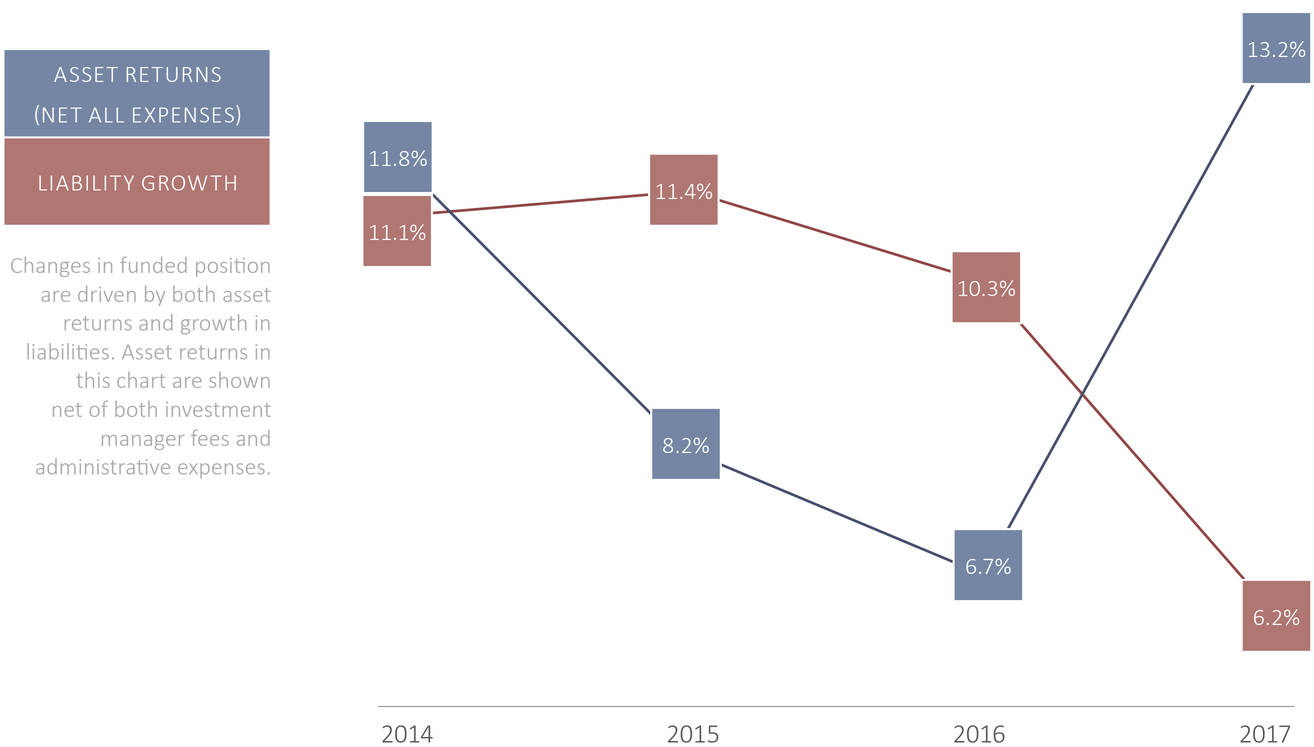
CURRENCY

In seeking out globally diversified sources of return, the SHEPP portfolio is exposed to currency fluctuations. As SHEPP's pension obligations are paid in Canadian dollars, a currency overlay program seeks to dynamically mitigate some of this risk, taking into account relative valuations of the Canadian dollar. The currency hedging program seeks to reduce, but not eliminate currency exposure, which is seen as a source of diversification, particularly during market volatility when the Canadian dollar often declines relative to 'safe haven' currencies. In 2017, the currency overlay program added to the Fund return, partially offsetting the negative impact of a higher Canadian dollar on unhedged foreign investments.

LONGER-TERM RESULTS

Fund returns have been strong over the last several years following the global financial crisis, with a total Fund four-year annualised return of 10.2%. However, over that same period, Fund liabilities have grown annually by 9.7%, 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.

FUNDED POSITION DRIVERS:
ASSET RETURNS VS. LIABILITY GROWTH



Changes in funded position are driven by both asset returns and growth in liabilities. Asset returns in this chart are shown net of both investment manager fees and administrative expenses.

EFFECTIVE ADMINISTRATION

OPERATING EXPENSES

Administration remains diligent in their efforts to ensure the expenses incurred are reasonable and necessary to effectively operate the Plan.

Total operating expenses were $38.6 million in 2017. With the exception of investment consulting fees, which decreased year-over-year, there was a slight increase in expenses in each category compared to the previous year:

- Administrative expenses were $7.8 million, up from $7.2 million;
- Professional fees were $1.2 million, up from $1.1 million;
- Fund management fees were $25.6 million, up from $22.5 million;
- Custodian fees were $610 thousand, up from $585 thousand;
- Investment consulting fees were $355 thousand, down from $360 thousand; and
- Investment transaction fees were $3.1 million, up from $2.9 million.

2017-2021 STRATEGIC PLAN

In the first year of SHEPP's 2017-2021 Strategic Plan, Administration reported progress under each of the three overarching objectives:

- 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.

Major initiatives completed in 2017 to support this five-year strategic plan included:

- Completion of a mortality experience study;
- Assessment of cyber maturity;
- Development and implementation of a project management framework;
- Development and approval of a 2018-2022 HR strategy;
- Creation of a talent management program; and
- Development of an employee experience philosophy.

Administration's priorities continue to be strongly aligned with the Board's and ultimately SHEPP's mission to serve the best interests of Plan members. The Plan continues to benefit from this alignment – creating stability, consistency and a strong foundation to build upon.

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.

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

We embrace quality and innovation.

We are passionate about pensions.

We are people driven and member focused.

EXCEPTIONAL
SERVICE

We are passionate about pensions and recognise the significance of the service we provide to current and former nurses, medical technicians, food services employees and many others, who have dedicated their careers to providing healthcare services to Saskatchewan citizens. We strive to engage our members in a variety of ways that meet their individual needs and help them make informed decisions about their pensions.

ACCESSIBLE INFORMATION

SHEPP's primary publication is the Plan Booklet, which is published annually and provides an explanation of the pension benefit. In 2017, SHEPP created a new Plan Summary brochure (a condensed version of the Plan Booklet) for participating employers to provide to eligible employees. Detailed information regarding the 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.

SHEPP also provides an annual pension statement to active and deferred members. The statement summarises the members' benefit entitlement and, for active members, provides pension projections on milestone dates. 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.

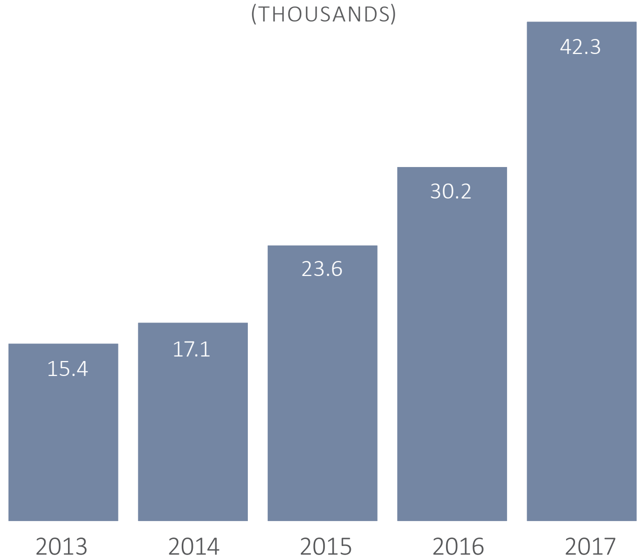
SHEPP's public website, www.shepp.ca, continues to provide all stakeholders with information regarding Plan provisions and benefits, updates regarding Plan funding and investment performance, as well as publications and forms.

TOOLS AND RESOURCES

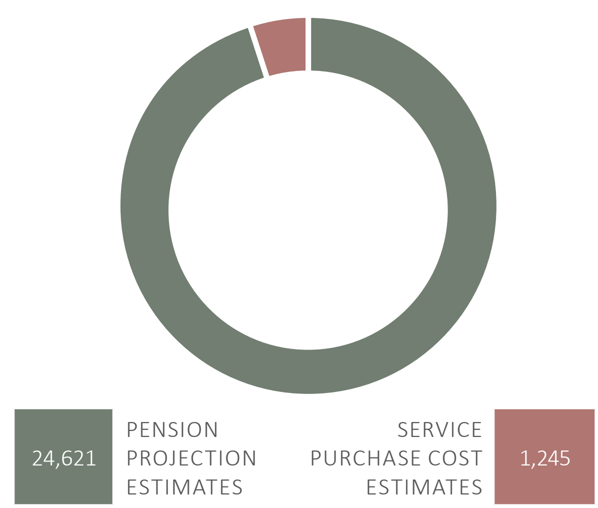
SHEPP*Web* continues to be an important avenue of secure communication with key stakeholders including members, employers, Trustees, Partner Committees and SHEPP employees. The secure portals also provide users with self-serve options through online tools and resources.

SHEPP*Web* for Active Members provides individuals with access to their pension information, including their contribution and service history, and the ability to update their personal information and beneficiaries. Active members can also use the online pension calculators for retirement planning purposes, including service purchase estimates and pension projections under an endless number of scenarios.

UNIQUE WEBSITE VISITORS
(THOUSANDS)



SHEPP*Web* ONLINE CALCULATOR USAGE
(CALCULATIONS BY MEMBERS IN 2017)



In 2017, SHEPP launched two new portals, expanding its tools and resources to all 56,000 members. The new Pensioner portal provides retired members with the ability to update their personal information, access statements and view their pension details. The new Deferred Member portal provides inactive members, who have a deferred pension, the ability to update their personal information and beneficiaries, access their annual pension statement and request a pension estimate.

SHEPP has a suite of video tutorials available at www.shepp.ca to help new SHEPP*Web* users get acquainted with the tools and resources available to them.

PERSONAL CONNECTION

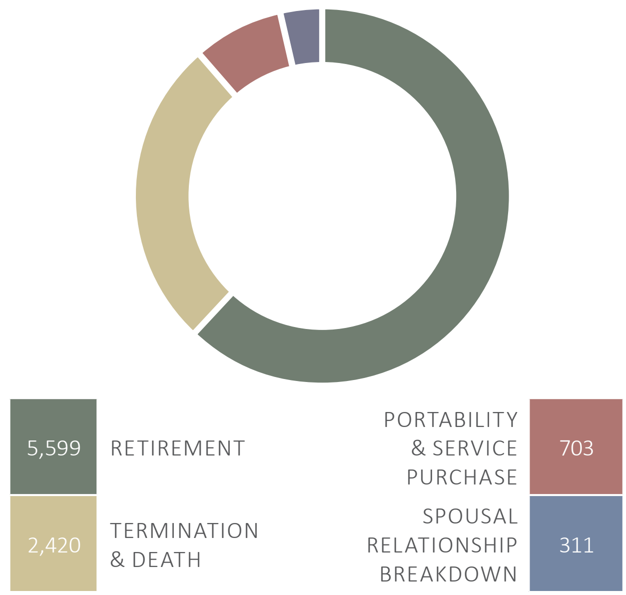
While we believe embracing new and changing technology is an important part of providing excellent service, we also recognise that sometimes our members just want to hear a friendly voice. Maintaining a personal connection with our members, by phone and in person, continues to be an important aspect of the service we provide.

Each year, thousands of requests from members are fulfilled by our member services and data services teams who work to meet, and often exceed, the expectations of Plan members and participating employers. These member requests are primarily received by phone, but also in person, by letter, fax and email. In 2017 almost 10,000 calculations were performed to assist members in determining their benefit entitlement and understanding their options.

Last year, approximately 750 members visited our office to discuss their pension with a representative from our member services team. The other means through which we communicate with members face-to-face is at pension information sessions hosted by participating employers and unions. In 2017, SHEPP had the privilege of presenting to approximately 1,000 Plan members in 24 locations throughout the province.

SHEPP's data services team also stays connected with SHEPP's 50 participating employers by providing training and assistance in person, by phone and online.

CALCULATIONS PERFORMED BY SHEPP MEMBER SERVICES IN 2017



2017 MEMBER PRESENTATIONS (LOCATIONS)

STRONG GOVERNANCE

ROLES AND RESPONSIBILITIES

Since December 31, 2002, the Plan has been jointly sponsored, governed by a Union Partner Committee and an Employer Partner Committee and administered by a Board of Trustees, equally represented by employees and employers. This governance structure sees Plan obligations shared. The Partner Committees have authority over Plan design while the eight-member Board of Trustees 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 obligation and as such Trustees must act in the best interests of Plan members and beneficiaries while fulfilling their role on the Board. The Board's responsibilities involve establishing the Plan's strategic objectives, values, governing principles, mission and vision statements. They develop policies for investing contributions and administering pension benefits in accordance with the Plan Text, the Trust Agreement and relevant legislation. They review and approve budgets and the audited financial statements. They monitor the Plan's investments and enterprise risk management program and set the levels of investment and funding risk that are appropriate to meet the Plan's pension obligations. They are responsible for implementing contribution rate changes to meet the funding requirements established by the Plan actuary. The Board's authority does not extend beyond changes which are cost neutral to the Plan.

The Trust Agreement outlines SHEPP's structure which requires that both employees and employers contribute toward funding the pension, at the ratio of 1:1.12. The risks and responsibilities for managing deficits and surpluses are

also shared, in accordance with the Board's Funding Policy and relevant legislation.

To comply with legislation, the Board must conduct an actuarial valuation at least every three years to assess the long-term financial health of the Plan and establish the required contribution rate. The most recent valuation, as at December 31, 2015, was filed with the pension regulator in 2016. The valuation showed an improvement in the Plan's funded status and determined a contribution rate change was not required in the immediate future. The next valuation is required as at December 31, 2018.

2017 HIGHLIGHTS

The Board strives to follow best practice and places a high priority on strong governance as it fulfills its fiduciary duty to members.

Specifically, in 2017 the Board:

- Completed the Pension Plan Governance and Prudent Investment Practices Self-Assessment Questionnaires developed by the Canadian Association of Pension Supervisory Authorities (CAPSA);
- Identified key organisational risks (both inherent and residual) as part of the enterprise risk management program;
- Reviewed and approved 14 Board policies in accordance with the Governance Review Policy;
- Adopted a new Responsible Investment Policy that articulates the Board's Environmental, Social and Governance (ESG) investment belief and the practices Plan Administration will adopt in applying this belief;
- Adopted a new Ninth Trustee Appointment Policy that articulates the roles and responsibilities of the Board as it relates to the appointment and monitoring of a ninth Trustee, should the Board ever reach a deadlock on a decision;
- Met with 10 investment managers; and
- Held its annual meeting where the Board met with members of the Partner Committees.

TRUSTEE ACTIVITIES

In 2017, the Board held six meetings over a total of 10 days throughout the year. 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.

Good governance continues to provide a solid foundation to operate from.

RESPONSIBLE INVESTING

In recent years, SHEPP's Board of Trustees has taken steps to integrate ESG considerations into the investment process, including enhancements to the Statement of Investment Policies and Procedures and the Investment Manager Selection and Monitoring Policy. In 2017, the Board formalised its belief with the adoption of a new Responsible Investment Policy. The policy clearly articulates the Board's ESG investment belief and identifies the administrative practices that will be adopted in applying this belief.

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

CORPORATE DIRECTORY

BOARD OF TRUSTEES

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

Jeff Stepan (Vice-Chair)
Employer Trustee
SGI

Russell Doell
Employee Trustee
SEIU-West

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

Mike Northcott
Employer Trustee
Saskatchewan Health Authority

Marg Romanow
Employee Trustee
Saskatchewan Union of Nurses (SUN)

Dr. Jim Tomkins
Employer Trustee - Retired
University of Regina

Ted Warawa
Employer Trustee
3sHealth

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
Chief People Officer (CPO)

Paula Potter
Chief Operating Officer (COO)

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
Baillie Gifford
Bentall Kennedy
BlackRock
Brookfield Asset Management
Causeway Capital Management
Connor, Clark & Lunn Investment Management
Foyston, Gordon & Payne
Global Infrastructure Partners
Greystone Managed Investments
IFM Investors
Invesco
Meridiam
MFS Investment Management
JPMorgan Asset Management
Phillips, Hager & North Investment Management
Unigestion Asset Management
Wellington Management

FIVE-YEAR FINANCIAL HIGHLIGHTS

	2017 (000's)	2016 (000's)	2015 (000's)	2014 (000's)	2013 (000's)
NET ASSETS AVAILABLE FOR BENEFITS	$ 7,223,728	$ 6,369,159	$ 5,936,342	$ 5,416,739	$ 4,767,369
ACCRUED PENSION OBLIGATIONS	6,683,200	6,367,000	5,776,800	5,250,500	4,694,000
CONTRIBUTIONS					
Member	155,200	152,160	155,346	146,917	131,637
Employer	173,824	170,419	173,987	164,547	147,433
Other	4,964	5,127	4,320	4,213	5,871
TOTAL CONTRIBUTIONS	333,988	327,706	333,653	315,677	284,941
BENEFIT PAYMENTS					
Pensions	269,005	243,299	217,526	192,525	169,215
Terminations, Death Benefits and Holdbacks	56,141	50,987	43,558	39,682	34,109
TOTAL BENEFIT PAYMENTS	325,146	294,286	261,084	232,207	203,324
PLAN EXPENSES					
Administrative	9,042	8,264	7,368	6,779	5,860
Investment	29,600	26,365	20,477	20,415	18,700
TOTAL PLAN EXPENSES	$ 38,642	$ 34,629	$ 27,845	$ 27,194	$ 24,560

people. pens

1

Year of initiatives were completed to support the 2017-2021 Strategic Plan which aims to:

- Enhance the long-term viability of the Plan
- Strengthen the relationship with the Partner Committees
- Maintain and enhance SHEPP's position as an industry leader

7.2

Billion dollars in net assets

13.4

Percent return on investment

325.1 million dollars paid out in pensions and benefits

65

Percent of members who retired in 2017, retired early (under the age of 65)

6

Pensioners are over the age of 100

1,355

Members retired throughout the year

1,678

Dollars per month was the average new lifetime pension

490

Dollars per month was the average new bridge benefit

sions. results.

56,432 members collecting or entitled to a pension

973
Members attended a Pension Information Session

1 in 15
People who work in Saskatchewan is an active member of SHEPP

44
Years old is the average age of active members

14,175
Members are eligible to retire in the next 10 years

87
Percent of members are female

55 years providing retirement income to healthcare workers

2
New policies were approved by the Board:

- The Responsible Investment Policy
- The Ninth Trustee Appointment Policy

6
Meetings were held by the Board of Trustees over 10 days

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, 2017, the statements of changes in net assets available for benefits and changes 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, 2017, and the changes in its net assets available for benefits and the changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

KPMG LLP

Chartered Professional Accountants

May 23, 2018
Regina, Canada

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	2017 (000's)	2016 (000's)
ASSETS		
Investments (Note 5)	$ 6,849,174	$ 6,043,403
Investments under security lending program (Note 5)	376,845	319,584
Accrued interest receivable	4	137
Members' contributions receivable	12,994	12,682
Employers' contributions receivable	14,553	14,204
Dividends receivable	4,538	4,658
Property and equipment (Note 6)	1,441	1,618
Intangible assets (Note 7)	4,732	5,294
Other receivables	525	640
Prepaid expenses	148	173
	7,264,954	6,402,393
LIABILITIES		
Securities transactions payable	375	651
Accounts payable	6,998	6,219
Transfer deficiency holdback	33,853	26,364
	41,226	33,234
NET ASSETS AVAILABLE FOR BENEFITS	7,223,728	6,369,159
PENSION OBLIGATIONS (Note 9)	6,683,200	6,367,000
SURPLUS	$ 540,528	$ 2,159

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 23, 2018.

Chair

Vice-Chair

STATEMENT OF
CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR YEAR ENDED DECEMBER 31

	2017 (000's)	2016 (000's)
INCREASE IN NET ASSETS		
Contributions - Members	$ 155,200	$ 152,160
Contributions - Employers	173,824	170,419
Contributions - Other	4,964	5,127
Investment income (Note 8)	110,550	110,433
Net realised gain on investments	296,102	367,286
Realised gain on foreign exchange	34,683	34,201
	775,323	839,626
DECREASE IN NET ASSETS		
Pension benefits	269,005	243,299
Terminations and death benefits	48,652	43,056
Transfer deficiency holdback	7,489	7,931
	325,146	294,286
EXPENSES		
Administrative expenses	7,801	7,172
Custodian fees	610	585
Fund management fees	25,566	22,473
Investment consulting fees	355	360
Investment transaction fees	3,069	2,947
Professional fees	1,241	1,092
	38,642	34,629
	363,788	328,915
UNREALISED GAINS (LOSSES)		
Unrealised market value gain (loss)	472,702	(57,037)
Unrealised loss on foreign exchange	(29,668)	(20,857)
	443,034	(77,894)
NET INCREASE FOR THE YEAR	854,569	432,817
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	6,369,159	5,936,342
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$ 7,223,728	$ 6,369,159

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

	2017 (000's)	2016 (000's)
PENSION OBLIGATIONS, BEGINNING OF YEAR	$ 6,367,000	$ 5,776,800
Current service costs	249,900	241,800
Benefits paid by the plan	(325,200)	(294,300)
Interest expense	392,000	373,900
Change in actuarial assumption	(500)	268,800
PENSION OBLIGATIONS, END OF YEAR (NOTE 9)	$ 6,683,200	$ 6,367,000

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

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

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, 2017 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 9).

NOTE 3 - DESCRIPTION OF PLAN

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

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

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

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

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

For the year ending December 31, 2017 members are required to contribute 8.1 percent of their pensionable

NOTE 3 - DESCRIPTION OF PLAN (CONTINUED)

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, 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]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)

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 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 recognized in the Statement of Change 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.

Amortisation is recognised in the Statement of Change in Net Assets Available for Benefits on a straight-line

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

basis over the estimated useful lives of intangible assets of between 5 and 10 years.

F. PROVISION FOR ACCRUED PENSION BENEFITS
The provision for accrued pension benefits represents the most recent actuarial present value of accrued pension benefits extrapolated to the year-end reporting date. Any resulting change in this provision is recognised as a revenue or expense in the Statement of Changes in Net Assets Available for Benefits.

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

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

I. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED
The following future changes to accounting standards will have applicability to the Plan:

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

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:		2017		2016	
TYPE	YEARS TO MATURITY	FAIR VALUE (000's)	YIELD (%)	FAIR VALUE (000's)	YIELD (%)
BONDS					
Provincial	Less than 1	$ -	-	$ 12,706	0.7
	1 – 5	-	-	8,802	1.0
		-		21,508	
Corporate	6-10	-	-	83,814	2.8
TOTAL BONDS		-		105,322	
BOND POOLED FUNDS		1,676,823	2.7 – 3.1	1,450,192	2.7 – 3.4
MORTGAGE POOLED FUND		350,665	4.2	205,008	3.8
EQUITIES AND EQUITY POOLED FUNDS					
Canadian		633,904		593,778	
Global		836,455		719,537	
Emerging markets		406,664		326,748	
Global pooled funds		1,538,400		1,337,665	
TOTAL EQUITIES AND EQUITY POOLED FUNDS		3,415,423		2,977,728	
OTHER					
Short-term investments		16,714		14,817	
Real estate pooled funds		600,900		568,569	
Real estate equity investments		238,971		211,665	
Infrastructure		504,981		424,345	
Cash		39,787		81,254	
Currency forward contracts		4,910		4,503	
TOTAL OTHER		1,406,263		1,305,153	
TOTAL INVESTMENTS		$ 6,849,174		$ 6,043,403	

NOTE 5 - INVESTMENTS (CONTINUED)

TYPE	2017 FAIR VALUE (000's)	2016 FAIR VALUE (000's)
INVESTMENTS UNDER SECURITIES LENDING PROGRAM		
Canadian equities	$ 327,238	$ 291,503
Global equities	49,607	28,081
TOTAL INVESTMENTS UNDER SECURITIES LENDING PROGRAM	$ 376,845	$ 319,584

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, 2017 stock shorting was permitted in one investment mandate with a carrying value of $575,184,000 (2016 - $494,622,000).

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.

	2017 (000's)			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and short-term investments	$ 39,787	$ 16,714	$ -	$ 56,501
Bonds, 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
	$ 1,866,991	$ 3,994,176	$ 1,344,852	$ 7,226,019

	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

NOTE 5 - INVESTMENTS (CONTINUED)

LEVEL 3 RECONCILIATION	2017 (000's) REAL ESTATE/ POOLED REAL ESTATE AND INFRASTRUCTURE	2016 (000's) REAL ESTATE/ POOLED REAL ESTATE AND INFRASTRUCTURE
Opening balance	$ 1,204,579	$ 1,072,052
Acquisitions	97,616	120,241
Dispositions	(35,436)	(44,131)
Realised gain (loss)	2,768	(10,008)
Change in unrealised gain	75,325	66,425
	$ 1,344,852	$ 1,204,579

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, 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
BALANCE AT JANUARY 1, 2017	$ 255	$ 336	$ 1,843	$ 2,434
Additions	-	11	1	12
Disposals	-	(51)	-	(51)
BALANCE AT DECEMBER 31, 2017	$ 255	$ 296	$ 1,844	$ 2,395
AMORTISATION				
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
BALANCE AT JANUARY 1, 2017	$ 149	$ 219	$ 448	$ 816
Amortisation for the year	17	46	126	189
Disposals for the year	-	(51)	-	(51)
BALANCE AT DECEMBER 31, 2017	$ 166	$ 214	$ 574	$ 954
CARRYING AMOUNTS				
BALANCE AT JANUARY 1, 2016	$ 124	$ 100	$ 1,519	$ 1,743
BALANCE AT DECEMBER 31, 2016	$ 106	$ 117	$ 1,395	$ 1,618
BALANCE AT JANUARY 1, 2017	$ 106	$ 117	$ 1,395	$ 1,618
BALANCE AT DECEMBER 31, 2017	$ 89	$ 82	$ 1,270	$ 1,441

NOTE 7 - INTANGIBLE ASSETS

Intangible assets consist of a pension administration system.

COST OR DEEMED COST		(000's)
Balance at January 1, 2016	$	7,115
Additions for the year		801
Balance at December 31, 2016	$	7,916
BALANCE AT JANUARY 1, 2017	$	7,916
BALANCE AT DECEMBER 31, 2017	$	7,916
AMORTISATION		
Balance at January 1, 2016	$	2,425
Amortisation for the year		197
Balance at December 31, 2016	$	2,622
BALANCE AT JANUARY 1, 2017	$	2,622
Amortisation for the year		562
BALANCE AT DECEMBER 31, 2017	$	3,184
CARRYING AMOUNTS		
Balance at January 1, 2016	$	4,690
Balance at December 31, 2016	$	5,294
BALANCE AT JANUARY 1, 2017	$	5,294
BALANCE AT DECEMBER 31, 2017	$	4,732

NOTE 8 - INVESTMENT INCOME

		2017 (000's)		2016 (000's)
Bond interest	$	19,343	$	27,182
Dividends		87,326		81,194
Interest on short-term investments and cash balances		756		596
Other income		3,125		1,461
	$	110,550	$	110,433

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, 2017 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	2017	2016
Discount rate	6.20%	6.20%
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	11.8 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 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, 2017 is limited to the carrying value of the financial assets summarised as follows:

	2017 (000's)	2016 (000's)
Cash	$ 39,787	$ 81,254
Accrued interest receivable	4	137
Employers' contributions receivable	14,553	14,204
Members' contributions receivable	12,994	12,682
Dividends receivable	4,538	4,658
Other receivables	525	640
Short-term investments	16,714	14,817
Fixed income *	2,027,488	1,760,522
	$ 2,116,603	$ 1,888,914

*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:

	2017		2016	
CREDIT RATING	FAIR VALUE (000's)	MAKEUP OF PORTFOLIO	FAIR VALUE (000's)	MAKEUP OF PORTFOLIO
AAA	603,919	29.8%	$ 413,562	23.5%
AA	448,918	22.1%	433,161	24.6%
A	262,125	12.9%	297,447	16.9%
BBB	191,799	9.5%	219,102	12.4%
Less than BBB	105,495	5.2%	105,997	6.0%
Other*	415,232	20.5%	291,253	16.6%
	$ 2,027,488	100%	$ 1,760,522	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, 2017, the Plan's investments included loaned securities with a market value of $376,845,000 (2016 - $319,584,000) and the fair value of securities and cash collateral received in respect of these loans was $393,017,296 (2016 - $340,584,000).

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, 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 $155,545,000 at December 31, 2017 (2016 - $136,638,000); representing 7.5 percent (2016 - 7.4 percent) of the $2,083,989,000 (2016 - $1,856,593,000) 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, 2017, the Plan's exposure to United States equities was 25.9 percent (2016 - 26.9 percent) and its exposure to non-North American equities was 20.1 percent (2016 - 18.7 percent).

The Plan manages this risk through the use of currency futures or forwards. At December 31, 2017 the fair value of currency forward contracts payable was $1,733,029,000 (2016 - $1,912,307,000) and the fair value of currency fund contracts receivable was $1,737,954,000 (2016 - $1,916,810,000).

EQUITY PRICE RISK

The Plan is exposed to changes in equity prices in Canadian, United States and other markets. Equities comprise 52.5 percent (2016 - 51.8 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 $379,227,000 (2016 - $329,731,000) 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.

	2017 (000's)	2016 (000's)
EXPENSES	$ 84	$ 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:

	2017 (000's)	2016 (000's)
Short-term employee benefits	$ 1,320	$ 1,239
Post-employment benefits		
Defined benefit retirement allowance	107	106
TOTAL BENEFITS	$ 1,427	$ 1,345

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:

	2017 (000's)	2016 (000's)
Incurred directly by the Plan	$ 25,566	$ 22,473
Incurred through Horizon	9,356	9,170
TOTAL MANAGEMENT FEES	$ 34,922	$ 31,643

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