SHEPP

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN

SHEPP ANNUAL REPORT 2013

Professionals working together to serve the best pension interests of our members.

Table of **Contents**

Introduction

Our Promise	2
Message from the Board of Trustees	4
Message from the CEO	6

Overview

Company Background	8
Our Services	10

Performance

Plan Highlights	13
Fund Performance	14
Management Discussion & Analysis	16

Financials

Auditors' Report	21
Notes to Financial Statements	25

Directory

Our External Advisors	44

Our **Promise**

Mission

To serve the best pension interests of our members

Vision

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

Values

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

Openness, respect and service: We extend consideration and appreciation to our members, stakeholders and each other to foster an environment of honesty and fairness. We are honoured to serve our members and fulfill our mission by providing our members with superior service.

Accountability, integrity and trust: We embrace our responsibilities and hold ourselves accountable to our members. We uphold a standard of reliability and transparency that makes us worthy of our members' trust.

Leadership and professionalism: We are dedicated to delivering creative and forward-looking solutions to overcome our challenges. We seek influence through engagement, cooperation, hard work and effective communication.

Message from the **Board**

We are professionals delivering futures by valuing today.

These words not only define SHEPP but also form the basis on which the organisation operates on a day-to-day basis. This statement, along with our mission statement, to serve the best pension interests of our members, forms the foundation which unites our Administration and defines our organisational goals and objectives. It is also first and foremost in the minds of the SHEPP Board of Trustees as we oversee the administration of the largest defined benefit pension plan in Saskatchewan.

Just one year after celebrating our 50th anniversary, SHEPP reached another milestone with over 50,000 of the province's healthcare employees either contributing to or receiving a retirement benefit from the Plan. This is an important indication of how far we have come in providing retirement benefits to the vast majority of healthcare employees in the province. We are extremely proud of the hard work and dedication that has brought the Plan through its first 50 years and continue to look towards the future to ensure we are well prepared for the next half century.

We firmly believe that good governance is fundamental to ensuring the Plan's effectiveness. An essential element of good governance is the establishment of a well-defined strategy. At the end of 2013, we celebrated the completion of our 2011-2013 strategic plan which identified four important strategic goals: establishment of a pension risk management strategy; advancement of our funding action plan; strengthening our technological capability; and building and maintaining a high-performance administrative team. In achieving these objectives, we are well on our way to positioning SHEPP for a strong and secure future where the Plan is funded on an appropriate basis, contribution rates are as stable as possible, our investment risk is appropriately adjusted, and our members receive high-quality service at a reasonable cost.

The **SHEPP Board of Trustees**, seated left to right: Jeff Stepan (Employer Trustee), Marg Romanow (Union Trustee), Andrew Huculak (Chair of the Board, Union Trustee), Jim Tomkins (Vice-Chair of the Board, Employer Trustee), Natalie Horejda (Union Trustee) and Russel Doell (UnionTrustee). Missing: Ted Warawa (Employer Trustee) and Leanne Ashdown (Employer Trustee).

Good governance also requires the development and implementation of good policies and procedures. In 2010, the Board participated in the Canadian Fiduciary Benchmarking Study for Public Pension Plans conducted by Cortex Applied Research. A subsequent action plan was developed to address the recommendations identified under the study and we are pleased to announce that we have successfully completed all the outstanding items, including the following tasks completed in 2013: development of a Governance Policies Review Policy; completion of the administration and investment management benchmarking studies; identification of key organisational risks as part of the Enterprise Risk Management program; and the approval of a new strategic plan setting out the objectives for the organisation for the next three-year planning cycle.

The Board of Trustees continues to work hard on addressing the Plan's funding challenge. At December 31, 2013, the SHEPP Fund had a market value of $4.77 billion, having achieved a 15.7% rate of return against the benchmark of 11.7%. With the Fund fully invested in a diversified portfolio, we expect our invested assets to deliver good returns for Plan members. The better the investment performance of the Fund, the less pressure there is on contribution rates; however, the challenge still remains maintaining the right balance between the risk and reward of those investments. Although active Plan members still outnumber retired Plan members nearly three to one, achieving this balance is extremely important to the Board of Trustees as it can ensure the Plan continues to offer attractive benefits at sustainable costs into the future.

One of the Board of Trustees' key responsibilities is to ensure that SHEPP has a solid management team in place with the talent and commitment to ensure that our Plan members are provided with efficient, accurate and high-quality service. Brad Garvey, the Plan's Chief Executive Officer (CEO) until April 2013, exemplified these qualities. As the Board looks for a new CEO to lead the organisation, we would like to take this opportunity on behalf of the Board and entire Plan Administration, to thank Brad for his unwavering dedication and commitment to SHEPP and its members.

As Trustees responsible for the oversight of the largest defined benefit plan in Saskatchewan, we can celebrate where we have been and look forward to the possibilities of the future, knowing we continue to build upon the foundation that will successfully enable us to continue to secure benefits of and deliver high-quality service to our members. The Board's focus on the Plan's long-term health is supported by the oversight of the Partner Committees and the day-to-day work of SHEPP Administration. As we continue to work together we will ensure that we successfully deliver on our pension promise: serving the best pension interests of our members.

Andrew Huculak
Chair

Jim Tomkins
Vice-Chair

Message from the **CEO**

2013 was one of both opportunity and challenge for SHEPP. One year after celebrating our 50th anniversary, we experienced another milestone in reaching over 50,000 members either contributing to or receiving a retirement benefit from the Plan. Approximately one in every 20 people employed in Saskatchewan is a member of SHEPP, a responsibility that the SHEPP team doesn't take lightly.

In 2013, we continued to develop a high-performance team through the recruitment of good-fit candidates, ensuring we are prepared to take full advantage of the knowledge and skills of our people. It was another busy year that saw us bring five new employees, plus two temporary full-time assignments into our 33 permanent full-time position complement. Our leadership team was tested in the spring with the sudden and unexpected illness of our CEO, Brad Garvey. Although it was a challenging time, I am very proud of our team members who came together to support each other and the organisation in a professional and courageous way - just another reflection of the significant impact Brad's guidance and devotion to making SHEPP the best it could be has had on our organisation.

The Fund achieved a 15.7% rate of return in 2013 exceeding the performance benchmark set for the Fund by 400 basis points or 4.0%. This above the benchmark return covered our 2013 investment management expense which was approximately 39 basis points or 0.39% of the Fund.

We continue to work closely with our investment consultant and Plan actuary on our Pension Risk Management Strategy and introduced a pension risk management dashboard in 2013. This dashboard provides the Board of Trustees and Plan Administration with a snap-shot of the Plan's funding status which will help identify and support policy asset mix decisions now and in the future.

The market value of the Fund increased to $4.77 billion, or by 17.2%, from December 31, 2012 to December 31, 2013. This increase is the result of a solid investment performance of the Fund over the past 12 months and a reflection of the work the Board of Trustees has done over the past several years in diversifying the Fund's portfolio. Specifically, in 2013 the Board approved an additional allocation of 2% of the Fund into U.S. Core Real Estate bringing our total real estate allocation to 12%, and selected two additional infrastructure managers to fully deploy the total allocation of 8% in infrastructure approved in 2012. These additional real estate and infrastructure allocations will be funded by reducing our publicly traded equity allocation and the overall risk of the Fund's total portfolio.

With the completion of our 2011—2013 strategic plan and through the development of our new plan, we continue to strengthen our company moving forward with a clear purpose and direction. Our mission to serve the best pension interests of Plan members is the core of all of our activities, whether that be in our investment decisions, how we administer the Plan or through our communications. Operational effectiveness is an important factor in this and our Administration has embarked on a major project that will further solidify our ability to meet our vision of excellence in pension plan administration. Getting out in front of our members is another factor and our member outreach has significantly increased in 2013 with meetings held across the province in locations convenient for our members to attend.

In light of the challenges and opportunities presented to the organisation this past year, I am extremely proud of the dedication and hard work of each and every SHEPP employee who consistently contribute to the Plan's overall success. It is a privilege to work with such a highly skilled and knowledgeable staff that are unified in our purpose and committed to our goals.

I thank the Board of Trustees and SHEPP's dedicated staff whose work this report represents for their support and commitment and thank Brad Garvey for his leadership, commitment and dedication to the Plan, our staff and the members we serve.

Alison McKay
Interim CEO

Company **Background**

Serving our members to the best of our ability is at the core of what we do and who we are. Whether providing pension benefit calculations, helping members through the retirement process, or discussing Plan benefits with new members, our goal is to provide the highest quality of service in everything we do.

SHEPP is a multi-employer defined benefit pension plan which was established in 1962 by the Saskatchewan Hospitals Association. As the largest defined benefit pension plan in Saskatchewan, SHEPP has grown to become the pension plan of choice for both the province's healthcare employees and the unions that represent them.

In 2002, the Plan became jointly trusteed and governed by a Board of Trustees made up of four employer-appointed and four union-appointed representatives. Health Shared Services Saskatchewan (3sHealth) appoints the employer Trustees and the four largest healthcare unions each appoint one union Trustee.

While the Board administers the Plan and the Fund, it is not responsible for fundamental Plan design changes. This responsibility falls to the Partner Committees who are responsible for the overall Plan design. Representatives of the Partner Committees are appointed by 3sHealth and the six healthcare unions including: CUPE; HSAS; RWDSU; SEIU-West; SGEU; and SUN.

The Plan is administrated under the oversight of the Board of Trustees and the leadership of the CEO who along with the other 32 hard working SHEPP employees manage the day-to-day operations of the Plan.

Since inception, SHEPP has continued to grow, serving the healthcare sector of Saskatchewan by providing the foundation for financial security for our members at retirement. Our ability to create a culture of excellence and service has made SHEPP an organisation that members trust and employees want to work for.

With a competitive pension formula, early retirement and bridge benefits, and portability transfer features, the Plan forms the foundation for financial security for our members at retirement.

Guided by our vision of excellence in pension plan administration, governance and the provision of benefits, SHEPP employees have been serving members for over 50 years.

Our **Services**

Established in 1962, today SHEPP is one of the largest pension plans in Saskatchewan, providing pension services to 65 employers and over 50,000 members.

Throughout their entire membership in the Plan, we provide a number of important services to Plan members. Our vision is excellence in pension plan administration. This means friendly, timely and accurate service designed to keep our Plan members up-to-date with the personalised information they require to make informed decisions about their retirement.

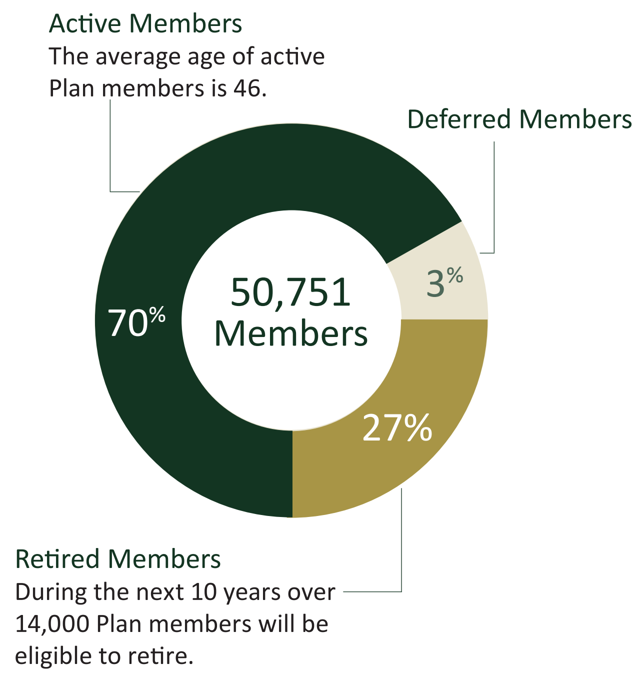
MEMBERSHIP INFORMATION

We are proud to serve over 50,000 members throughout the healthcare sector. With just over 35,500 active members, approximately one out of every 20 people working in Saskatchewan contributes to the Plan.

Breakdown in Plan membership:

35,529 active members;
13,603 retired members; and
1,619 deferred members.

50,751 total Plan membership.



"I've phoned in more than once and spoke to a few people...I felt comfortable asking any question and you never made me feel like I didn't understand. It was great to have that support and I really appreciated that."

Our mission is to serve the best pension interests of our members. We do this in part by providing friendly and efficient customer service through a variety of channels. In 2013, SHEPP handled thousands of Plan member requests including over 9,230 retirement and other benefit calculations.

Print Materials

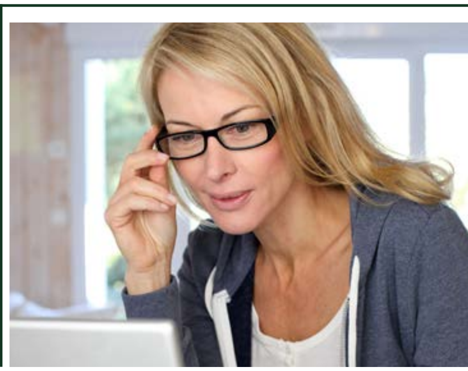
The Plan publishes a wide variety of printed materials for Plan members. The Member Plan Booklet explains Plan benefits, while information sheets explain specific Plan benefits in more detail including topics such as designating a beneficiary, portability transfers, and prior service purchases. Annually, active and deferred members receive a personalised statement of their benefits, contributions and service. These statements use a friendly format to help members better understand the key features of their SHEPP benefits.

Online Services

Our public website, offers members easy access to information regarding Plan benefits and administration. **SHEPP***Web*, our secure member portal, allows Plan members to perform unlimited pension projection calculations, unlimited prior service purchase cost estimates, view and print their most recent members' annual statement and update key portions of their SHEPP member record including designating beneficiaries and requesting pension estimates. Visit the website at **www.shepp.ca** and login to find out more.

Presentations

We continue to deliver Plan presentations to enhance our members' and participating employers' understanding of the Plan's terms and conditions and strengthen our relationships with stakeholders. In 2013 we travelled to 22 communities throughout the 12 provincial health regions, making 47 different presentations to 1,741 Plan members. That is a lot of travel, but well worth it to provide members with valuable information about our Plan and the benefits they receive.



Plan **Highlights**

MEMBERSHIP HIGHLIGHTS

12.2%
Plan members are male

87.8%
Plan members are female

Ratio of Active-to-Retired Members

3.6:1	2005
3:1	2010
2.6:1	2013

Almost 1 in every 20 people employed in Saskatchewan is a SHEPP member

FINANCIAL HIGHLIGHTS

17.3%
combined member and employer contribution rate*

Plan Contribution Rates in 2013*

Members	Pensionable earnings up to YMPE**	7.7%
	Pensionable earnings over YMPE**	10.0%
Employers	Pensionable earnings up to YMPE**	8.62%
	Pensionable earnings over YMPE**	11.2%

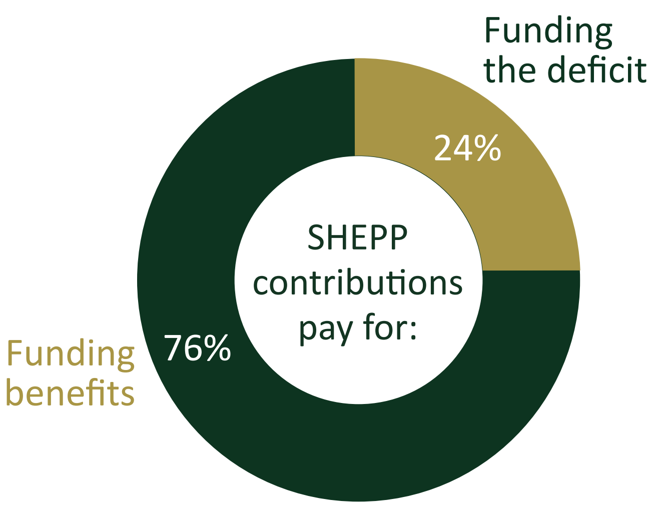
*Contribution rate in effect up to December 31, 2013
**$51,100 in 2013

$285 million received in contributions from members and employers in 2013

$228 million paid in benefits and expenses in 2013

Fund Performance

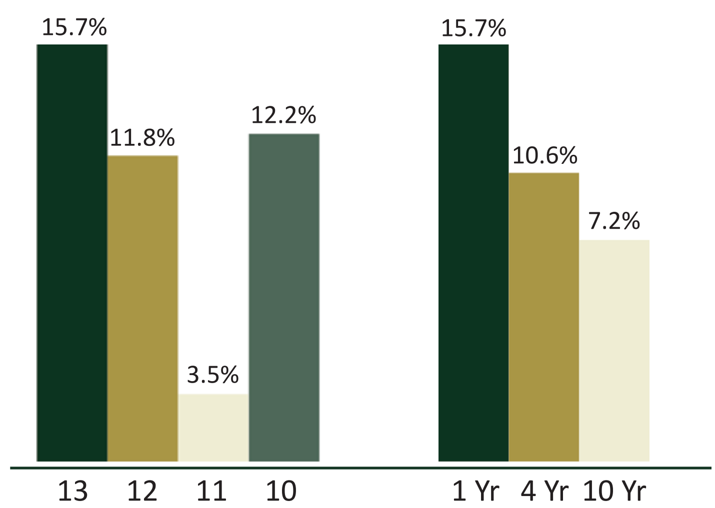
SHEPP's assets are invested in accordance with the Board of Trustees' investment philosopy and objectives. The Statement of Investment Policies and Procedures outlines what they are and is available on our public website for review at www.shepp.ca.



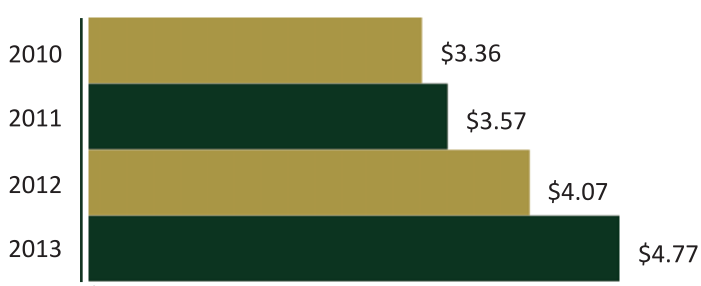
$4.77 billion net assets

15.7% rate of return

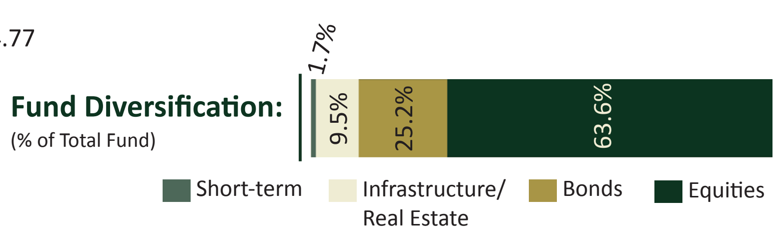
Historical Rate of Return **1, 4 & 10 Year Returns**



Net Assets Available for Benefits*



*Net Assets in billions



Financial Highlights

	2013 ($000's)	2012 ($000's)	2011 ($000's)	2010 ($000's)
Net Assets Available for Benefits	**4,767,369**	**4,068,628**	**3,565,222**	**3,355,850**
Accrued Pension Obligations	**4,694,000**	**4,390,100**	**4,089,000**	**3,765,300**
Contributions				
Member	131,637	128,724	128,810	103,672
Employer	147,433	144,171	144,267	116,112
Other	5,871	3,527	3,082	2,952
Total Contributions	**284,941**	**276,422**	**276,159**	**222,736**
Benefit Payments				
Pensions	169,215	149,544	131,064	116,037
Terminations and Deaths	34,109	28,985	34,447	27,422
Total Benefit Payments	**203,324**	**178,529**	**165,511**	**143,459**
Plan Expenses				
Administrative	5,860	4,851	4,234	4,162
Investment	18,700	15,846	14,310	12,215
Total Plan Expenses	**24,560**	**20,697**	**18,544**	**16,377**

Management Discussion & **Analysis**

OVERVIEW

SHEPP is a multi-employer defined benefit pension plan which delivers pension benefits to more than 50,000 active and retired healthcare employees at 65 different employers throughout Saskatchewan. We have one clear and overriding goal: to serve the best pension interests of our members. Our team is dedicated to meeting this objective by providing excellence in pension administration, governance and the provisions of benefits.

STATE OF THE PLAN

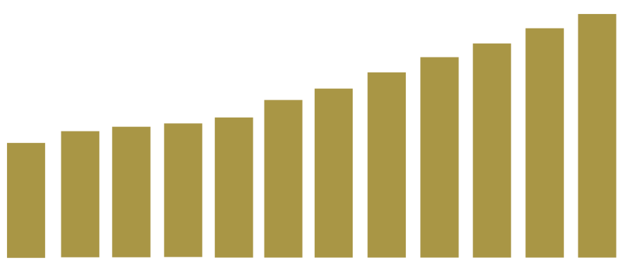
Operational efficiency continues to remain an important focus for the Board of Trustees and the Administration. Investing in our technological capabilities in order to increase efficiencies, reduce risk and improve service is the main driver for a major project which will continue through the next few years. This project will include a major upgrade to our pension administration system, imaging of our corporate and member records and expanding online self-service capabilities for all Plan members. Each one of these initiatives will help the Administration ensure it continues to operate efficiently while preparing the Plan for the future.

In 2013, we participated in a national administrative cost benchmarking study which showed that despite our size and without compromising on our service, Plan administrative costs continue to be one of the lowest in the country. Although we are proud of our ability to operate efficiently, we understand that it can have some added risks. As of December 31, 2013, one out of almost 20 employees in Saskatchewan worked in the healthcare industry. This means

The **SHEPP Senior Management Team**, seated left to right: Kelley Orban (Director of Corporate Services), Dale Markewich (Director of Special Projects & Research), Renee Boyd (Director of Finance), Alison McKay (Interim CEO and Chief Financial Officer), Cheldon Angus (Director of Information Technology & Chief Privacy Officer) and Paula Potter (Director of Operations).

SHEPP has an increased share of the Saskatchewan pension industry which can result in increased scrutiny and attention.

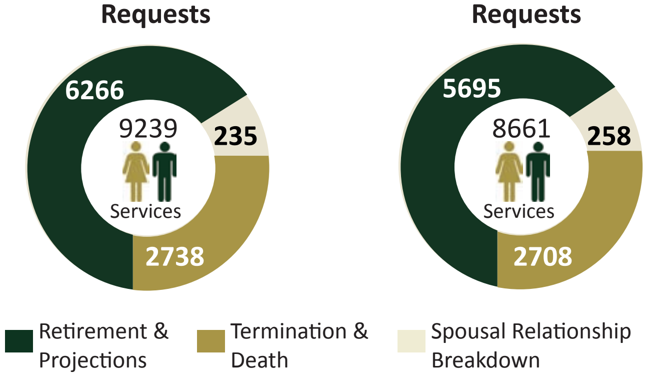
Between 2012 and 2013, our membership grew by 3.0%. In fact, since 2002 SHEPP membership has increased by 35.7%, or from 37,395 to 50,751 total members. This is a significant increase in the total number of members requiring service from the Plan.



Growth in SHEPP Membership from 2002 to 2013

Not only has there been an increase in the service demands, member circumstances are also becoming more complicated and require additional time and attention. This puts pressure on the Administration and SHEPP employees to make sure they have the necessary knowledge and skills to deal with an increasingly complex member need.

2013 Member Service Requests **2012 Member Service Requests**



Both of these situations require management to ensure resource levels are adequate and well equipped to maintain our high standard for serving our members. Creating the balance between both of these factors and their associated risks is something the management team continues to focus on.

In 2012, the Administration was reorganised to take advantage of operational synergies by merging the finance and investment teams and by providing support to human resources through building capacity at the administrative level. These moves have provided a positive impact on efficiencies and interdepartmental relations, and have well situated the organisation for continued success in the future.

STRATEGIC DIRECTION

One of the top external risks facing the Plan is the failure of the asset mix of the Fund to deliver required returns. Markets continue to be volatile; this coupled with the fact that Canadians are living longer and retiring earlier has a significant impact on the funded position of the Plan.

The majority of Plan members are women, 87.8% as of December 31, 2013. Although that percentage is declining, it is declining at a very slow rate. This is another important factor for the Administration as women on average live longer than males by almost 5 years.

Life Expectancy from Birth of Females and Males

	Female	Male
Canada	83.60	79.33
Saskatchewan	82.20	77.20

Source: Statistics Canada, Demography Division.

With the majority of Plan members having a longer life expectancy and members on average retiring earlier and living longer, it is critical to ensure the Plan is looking out into the future and planning accordingly. The Strategic Plan Monitor, available on the SHEPP website, provides an update on how well we are achieving our future goals and objectives and is updated quarterly for all stakeholders to review.

As a young pension plan, where active members outnumber retired members almost 3 to 1, we have significant benefit obligations that extend 70 or so years into the future. For the next decade we expect the contributions we receive will be greater than the benefits we pay out on a monthly basis. Being cash-flow positive allows us to invest a significant portion of those monthly contributions for quite some time. With the Fund fully invested in a diversified portfolio, combining both risk and return-seeking assets, we expect our invested assets to work for the benefit of our members.

As the Board of Trustees searches for a new CEO to lead the organisation, the management team is well prepared. Our strategic plan guides our operations and in 2013 we successfully completed our 2011-2013 strategic objectives which included: establishing a pension risk management strategy, advancing our funding action plan, strengthening our technological capability and building and maintaining a high-performance administrative team. Although we have set a new direction for the next three years, these strategic objectives will continue to provide direction to the entire organisation and help us deliver results now and in the future.

RISK MANAGEMENT

SHEPP's enterprise risk management program (ERM) is designed to strategically identify, assess and manage organisational risk. The better we collectively understand how risks affect the Plan, the more we can turn our resources and in-house tools towards improving long-term results. The program is designed to make ERM an integral part of our management practices and an essential component in our corporate governance. Annually risks are reviewed and assessed to ensure we reflect current and emerging risks and manage these risks to provide reasonable assurances regarding the achievement of the Plan's objectives. The program is managed through the Board of Trustees and senior management who continue to develop and streamline operational processes to ensure we are providing the best pension administration to our stakeholders.

SHEPP also has a business continuity program to ensure in an event of disruption such as a disaster, SHEPP's core operations can be recovered and continued. This program enables SHEPP to continue to deliver efficient, accurate and high-quality services to our stakeholders at any given time.

The relationship between SHEPP employees and SHEPP is built on trust, with a commitment to honesty and integrity. SHEPP's Code of Conduct and Conflict of Interest Policy emphasises to all staff the importance of their roles, duties and responsibilities. In serving the Plan, employees must act with loyalty and support SHEPP's objectives.

SHEPP's vision is excellence in pension plan administration, governance and the provision of benefits. As a management team, we take the responsibility of achieving this vision very seriously and are committed to ensuring our employees have the necessary tools and skills to effectively administer the Plan and provide service to our members. We are successful in achieving this because of the hard work and commitment of our Board of Trustees, fellow SHEPP employees and our Plan settlors. Together we are delivering futures by focusing on what we need to do today; serving the best pension interests of our members.

Auditors' **Report**

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Chartered Accountants
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Regina Saskatchewan S4P 4K9
Canada

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Saskatchewan Healthcare Employees' Pension Plan, which comprise the statement of financial position as at December 31, 2013, the statements of changes in net assets available for benefits and change in pension obligations for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Saskatchewan Healthcare Employees' Pension Plan as at December 31, 2013, and the changes in its net assets available for benefits and the changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

KPMG LLP

Chartered Accountants

June 3, 2014
Regina, Canada

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

	2013 (000's)	2012 (000's)
ASSETS		
Investments (Note 5)	**$ 4,160,449**	$ 3,655,518
Investments under security lending program (Note 5)	**596,452**	392,264
Accrued interest receivable	**635**	402
Members' contributions receivable	**8,171**	10,465
Employers' contributions receivable	**9,152**	11,721
Dividends receivable	**2,700**	2,691
Securities transactions receivable	**-**	630
Property and equipment (Note 6)	**1,531**	1,958
Intangible assets (Note 7)	**641**	526
Other receivables	**357**	332
Prepaid expenses	**76**	103
	4,780,164	4,076,610
LIABILITIES		
Accounts payable	**4,638**	4,229
Securities transactions payable	**189**	-
Transfer deficiency holdback	**7,968**	3,753
	12,795	7,982
NET ASSETS AVAILABLE FOR BENEFITS	**4,767,369**	4,068,628
PENSION OBLIGATIONS (Note 9)	**4,694,000**	4,390,100
SURPLUS (DEFICIT)	**$ 73,369**	$ (321,472)

See accompanying notes

Approved by the Board of Trustees and signed on their behalf on June 2, 2014.

Chair

Vice-Chair

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

	2013 (000's)	2012 (000's)
INCREASE IN NET ASSETS		
Contributions - Members	$ 131,637	$ 128,724
Contributions - Employers	147,433	144,171
Contributions - Other	5,871	3,527
Investment income (Note 8)	75,790	72,278
Net realized gain on investments	213,779	47,507
Realized gain on foreign exchange	-	49,505
	574,510	445,712
DECREASE IN NET ASSETS		
Pension benefits	169,215	149,544
Terminations and death benefits	29,895	25,500
Transfer deficiency holdback	4,214	3,485
Change in provision for accrued pension benefits	303,900	301,100
Realized loss on foreign exchange	47,269	-
	554,493	479,629
EXPENSES		
Administrative expenses	4,794	3,859
Custodian fees	480	439
Fund management fees	16,799	13,757
Investment consulting fees	455	322
Investment transaction fees	966	1,328
Professional fees	1,066	992
	24,560	20,697
	579,053	500,326
UNREALIZED GAINS (LOSSES)		
Unrealized market value gain	380,434	286,636
Unrealized gain (loss) on foreign exchange	18,950	(29,716)
	399,384	256,920
NET INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS	394,841	202,306
DEFICIT, BEGINNING OF YEAR	(321,472)	(523,778)
SURPLUS (DEFICIT), END OF YEAR	$ 73,369	$ (321,472)

See accompanying notes

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

	2013 (000's)	2012 (000's)
PENSION OBLIGATIONS, BEGINNING OF YEAR	**$ 4,390,100**	$ 4,089,000
Current service costs	**189,400**	183,000
Benefits paid by the plan	**(203,300)**	(178,500)
Interest expense	**317,800**	296,600
PENSION OBLIGATIONS, END OF YEAR (Note 9)	**$ 4,694,000**	$ 4,390,100

See accompanying notes

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
Notes to the Financial Statements
December 31, 2013

1. Saskatchewan Healthcare Employees' Pension Plan

The Saskatchewan Healthcare Employees' Pension Plan (SHEPP) is a multi-employer defined benefit pension plan registered under *The Pension Benefits Act, 1992* (Saskatchewan) and the *Income Tax Act* (Canada). The Plan is governed by a Board of Trustees pursuant to an Agreement and Declaration of Trust dated December 31, 2002. Four trustees are appointed by Health Shared Services Saskatchewan (3sHealth) and four healthcare unions each appoint one trustee. The Chief Executive Officer and SHEPP staff are responsible for the administration of the Plan, subject to Board monitoring and review.

2. Basis of Preparation

a) Statement of compliance

The financial statements for the year ended December 31, 2013 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).

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
Notes to the Financial Statements
December 31, 2013

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 SHEPP employers must participate.

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

c) Member contributions

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

For the year ending December 31, 2013 members are required to contribute 7.7 per cent of their pensionable earnings up to the Year's Maximum Pensionable Earnings (YMPE) and 10 per cent of pensionable earnings above the YMPE. As of January 1, 2014 members will be required to contribute 8.1 per cent of their pensionable earnings up to the Year's Maximum Pensionable Earnings (YMPE) and 10.7 per cent of pensionable earnings above the YMPE.

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

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

d) Employer contributions

Employers contribute 112 per cent of a member's required contributions.

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
Notes to the Financial Statements
December 31, 2013

3. Description of Plan (continued)

e) Amount of pension

Subject to the maximum pension limits set out in the Plan Text the basic lifetime pension is equal to the sum of:

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

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

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

f) Retirement dates

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

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

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

(i) Three per cent multiplied by the number of years, and portions thereof, that the member is short of age 65, and

(ii) Three per cent multiplied by the number of years, and portions thereof, that the member's age plus credited service is short of 80 years, and

(iii) the greater of:

(a) Three per cent multiplied by the number of years, and portions thereof, that the member is short of age 62, and

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

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
Notes to the Financial Statements
December 31, 2013

3. Description of Plan (continued)

(b) Three per cent multiplied by the number of years, and portions thereof, that the member's credited service is short of 20 years.

A member may delay receipt of pension payments until December 1 of the year in which they attain age 71. In this event, pension accruals will continue in the normal manner.

g) Transfer deficiency holdbacks

The valuation performed at December 31, 2010 revealed a solvency deficit of 19.72 per cent. SHEPP is required to apply a transfer deficiency holdback of 19.72 per cent to certain termination and death benefits. The transfer deficiency holdback plus applicable interest is paid within five years of the initial payment or when the Plan becomes fully funded on a solvency basis (whichever occurs first).

h) Death in service

On the death of a member before retirement, the member's surviving spouse receives the greater of:

(i) the sum of:

(a) the commuted value of the member's pension earned to the date of death in respect of all core credited service, plus excess contributions, if any, and

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

(ii) the sum of:

(a) the commuted value of the member's core credited service pension earned from January 1, 1992 to the date of the member's death, plus excess contributions, if any, and

(b) twice the member's required contributions, with respect to pre-1992 core credited service, plus interest, plus the member's additional purchased service contributions and portability transfer contributions, plus interest.

If the member is not survived by a spouse, or the spouse has completed and submitted the pre-retirement death benefit waiver form prescribed under The Pension Benefits Act, 1992 (Saskatchewan), the death benefit is payable in a lump sum to the member's designated beneficiary or estate. Any payment that is not paid to the spouse is subject to a transfer deficiency holdback of 19.72 per cent of the death benefit. This transfer deficiency holdback is paid within five years of the initial death benefit payment.

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
Notes to the Financial Statements
December 31, 2013

3. Description of Plan (continued)

i) Normal form of pension

The normal form of pension provides for monthly payments for life, with a minimum of 60 monthly payments being guaranteed in any event. Optional forms of pension are available on an actuarial equivalent basis. If the retiring member has a spouse, a joint life optional pension reduced by not more than 40 per cent on the member's death must be elected unless the spouse has waived this option.

j) Termination of employment

Benefit entitlement to members who are terminated depends upon whether or not the member is vested.

A member is vested if on termination, the member has:

- more than two years of credited service in which case the benefit is not locked in, or
- more than two years of continuous service in which case the benefit is locked in.

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.

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
Notes to the Financial Statements
December 31, 2013

3. Description of Plan (continued)

k) Disability benefit

Members who become disabled under the terms of the Plan will continue to earn credited service under the Plan. Their pension at retirement is based on all years of credited service including those on approved disability, and their highest average contributory earnings are calculated assuming they had made contributions during disability based on their salary when the disability commenced.

l) Maximum employee cost

At least 50 per cent of the cost of the benefit payable at retirement or termination of employment to a member who is vested and locked-in must be provided by employer contributions. Any "excess" contributions on termination or retirement are refundable to the member.

m) Interest

For the purpose of calculating accumulated member contributions, interest rates are applied in respect of required contributions at the rates of interest determined by SHEPP from time to time, but in no event are lower than the minimum rate required by The Pension Benefits Act, 1992 (Saskatchewan).

4. Significant Accounting Policies

The financial statements are prepared in accordance with Canadian Accounting Standards for pension plans (ASPP). These standards provide guidance in the measurement of the Plan's pension obligations and any investments held by the Plan. ASPP also provides the Plan with the ability to select and follow International Financial Reporting Standards (IFRS) or Accounting Standards for Private Enterprises for all other accounting policies. The Plan has chosen to adopt the relevant sections in IFRS.

The following policies are considered to be significant:

a) Revenue recognition

Interest on bonds, debentures, mortgages and short term investments is 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.

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
Notes to the Financial Statements
December 31, 2013

4. Significant Accounting Policies (continued)

b) Financial instruments

All financial instruments are carried at fair value. The fair value of short term instruments is based on cost, which approximates fair value due to the immediate or short term nature of these financial instruments. The fair value of equities is based on year-end market quotations. The fair value of bonds is based on model pricing techniques that effectively discount prospective cash flows to present value taking into consideration duration, credit quality and liquidity. The fair value of bond, mortgage and equity pooled funds is based on the quoted market values of the underlying investments, based on the latest bid prices. Unlisted bonds are valued at fair value reflecting current market yields of similar debt obligations. The fair value of currency forward contracts is determined using appropriate valuation techniques. The fair value of real estate funds is based on the most recent appraisal and earnings results. The fair value of real estate equity investments is based on the most recent appraisal. Infrastructure investments are valued by using market comparable and discounted cash flow valuation models.

c) Investments under securities lending program

Securities lending transactions are entered into on a collateralised basis. The securities lent are not derecognised on the statements of financial position given that the risks and rewards of ownership are not transferred from the Plan to the counterparties in the course of such transactions. The securities are reported separately on the statement of financial position on the basis that the counterparties may resell or re-pledge the securities during the time that the securities are in their possession.

Securities and cash received from counterparties as collateral are not recorded on the statement of financial position given that the risks and rewards of ownership are not transferred from the counterparties to the Plan in the course of such transactions.

d) Property and equipment

Items of property and equipment are measured at cost less accumulated amortisation and accumulated impairment losses. The amortisation method, the useful lives and the residual value of the assets are reviewed at each reporting date. Repairs and maintenance are recorded as administrative expenses in the period in which they have been incurred.

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

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

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
Notes to the Financial Statements
December 31, 2013

4. Significant Accounting Policies (continued)

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

e) Intangible assets

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

Amortisation is recognised in net increase (decrease) in net assets on a straight-line basis over the estimated useful lives of intangible assets of between 5 and 10 years.

f) Provision for accrued pension benefits

The provision for accrued pension benefits represents the most recent actuarial present value of accrued pension benefits extrapolated to the year-end reporting date. Any resulting change in this provision is recognised as a revenue or expense in the statement of changes in net assets available for benefits.

g) Foreign currencies

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

h) Income taxes

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

i) New standards and interpretations not yet adopted

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

IFRS 9, Financial Instruments, was issued in 2009 and amended in 2010. The Standard was further amended on November 13, 2013 but no implementation date has been announced. The Plan does not expect to be materially affected by the new recommendations.

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
Notes to the Financial Statements
December 31, 2013

5. Investments

The objective of the Plan is to maintain sufficient assets to discharge future pension obligations and to generate cash flow required for pension plan payments. The fund has the following investments:

Summary of Investment Holdings:

Type	Years to Maturity	2013 Fair Value (000's)	2013 Yield (%)	2012 Fair Value (000's)	2012 Yield (%)
Bonds					
Government of Canada	1 - 5	**$ 1,117**	**2.4**	$ -	-
	6 – 10	**-**	**-**	38,067	2.3
	10+	**3,853**	**3.8**	-	-
		4,970		38,067	
Provincial	6 - 10	-	**-**	6,696	2.7
	10+	**296,001**	**4.0 – 4.5**	341,028	3.4 – 3.8
		296,001		347,028	
Corporate		**228,161**	**2.9 – 4.9**	216,446	2.5 – 4.8
Total bonds		**529,132**		602,237	
Bond pooled funds		**469,779**	**2.7 – 4.0**	499,002	2.3 – 3.1
Mortgage pooled fund		**47,567**	**4.6**	44,206	4.6
Equities and equity pooled funds					
Canadian equities		**328,455**		352,848	
Non-North American equities		**360,237**		325,429	
Non-North American pooled funds		**361,856**		286,700	
Emerging markets equities		**245,108**		198,546	
United States pooled funds		**566,459**		400,513	
Global pooled funds		**728,530**		520,576	
Total equities and equity pooled funds		**2,590,645**		2,084,612	
Other					
Short term investments		**26,822**		22,384	
Real estate pooled fund		**240,913**		215,705	
Real estate equity investments		**172,091**		137,132	
Infrastructure		**41,177**		15,152	
Cash		**56,647**		42,582	
Currency forward contracts		**(14,324)**		(7,494)	
Total other		**523,326**		425,461	
Total Investments		**$ 4,160,449**		$ 3,655,518	

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
Notes to the Financial Statements
December 31, 2013

5. Investments (continued)

Type	Years to Maturity	2013 Fair Value (000's)	2013 Yield (%)	2012 Fair Value (000's)	2012 Yield (%)
Investments under securities lending program					
Bonds					
Government of Canada	1 - 5	**$ 17,944**	**2.4 – 3.8**	$ -	
	6 – 10	**31,488**	**2.7**	1,388	2.3
	10+	**-**		566	2.3
Provincial	6 - 10	11,110	**3.5**	9,631	2.7
	10+	91,765	**4.1 – 4.5**	36,377	3.3 – 3.9
Canadian equities		**418,852**		287,079	
Non-North American equities		**14,307**		17,624	
Short term investments		**10,986**		39,599	
Total investments under securities lending program		**$ 596,452**		$ 392,264	

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 per cent of the book value of the total portfolio of any individual manager. No single issuer is to exceed 10 per cent of the carrying value of the fund except for securities issued or guaranteed by the provincial or federal governments. No more than 20 per cent of the carrying value of the bond portfolio may be held in foreign issuer bonds. Pooled funds have no fixed distribution rate and returns are based on the success of the investment managers.

Equities and equity pooled funds

Pooled funds have no fixed distribution rates and returns are based on the success of the investment managers. No one holding of an individual stock may represent more than 10 per cent of the carrying value of the specific equity mandate. Stock shorting is permitted and limited at the investment manager level to a band of 25 to 35 per cent of the carrying value, with a target of 30 per cent. At December 31, 2013 stock shorting was permitted in one investment mandate with a carrying value of $441,324,000 (2012 - $315,701,000).

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.

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
Notes to the Financial Statements
December 31, 2013

5. Investments (continued)

Infrastructure

The Plan invests in investments through its 100 per cent owned subsidiary, Horizon Alternative Investments SHEPP Holdings Ltd. The fair value of this investment is shown as an infrastructure investment.

Real estate pooled fund

The real estate pooled fund portfolio is diversified by property type and geographic location.

Real estate equity investments

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

Derivative financial instruments – currency forward contracts

Currency forward contracts are financial contracts, the value of which is derived from underlying assets or indices. Derivative transactions are conducted in the over-the-counter market directly between two counterparties or on regulated exchanges. Derivatives are permitted in the Statement of Investment Policy & Procedures (SIP&P) and may not be used for speculative purposes or to create net leverage of the Plan.

Fair value hierarchy

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. The determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are 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.

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
Notes to the Financial Statements
December 31, 2013

5. Investments (continued)

	2013 (000's)			
	Level 1	**Level 2**	**Level 3**	**Total**
Short-term investments	$ 56,647	$ 37,808	$ -	$ 94,455
Bonds, bond pooled funds and mortgage pooled funds	-	1,198,785	-	1,198,785
Canadian equities	747,307	-	-	747,307
Non-North American equities	374,544	-	-	374,544
United States pooled funds	-	566,459	-	566,459
Non-North America pooled funds	-	361,856	-	361,856
Global pooled funds	-	728,530	-	728,530
Emerging market equities	-	245,108	-	245,108
Infrastructure	-	-	41,177	41,177
Real estate pooled fund	-	-	240,913	240,913
Real estate equity investments	-	172,091	-	172,091
Currency forward contracts	-	(14,324)	-	(14,324)
	$ 1,178,498	**$ 3,296,313**	**$ 282,090**	**$ 4,756,901**

	2012 (000's)			
	Level 1	**Level 2**	**Level 3**	**Total**
Short-term investments	$ 42,582	$ 61,983	$ -	$ 104,565
Bonds, bond pooled funds and mortgage pooled funds	-	1,193,407	-	1,193,407
Canadian equities	639,927	-	-	639,927
Non-North American equities	343,053	-	-	343,053
United States pooled funds	-	400,513	-	400,513
Non-North America pooled funds	-	286,700	-	286,700
Global pooled funds	-	520,576	-	520,576
Emerging market equities	-	198,546	-	198,546
Infrastructure	-	-	15,152	15,152
Real estate pooled fund	-	-	215,705	215,705
Real estate equity investments	-	137,132	-	137,132
Currency forward contracts	-	(7,494)	-	(7,494)
	$ 1,025,562	**$ 2,791,363**	**$ 230,857**	**$ 4,047,782**

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
Notes to the Financial Statements
December 31, 2013

5. Investments (continued)

Level 3 Reconciliation

	2013 (000's) Pooled Real Estate and Infrastructure	2012 (000's) Pooled Real Estate and Infrastructure
Opening balance	**$ 230,857**	$ 182,137
Acquisitions	**17,661**	26,897
Dispositions	**(1,641)**	(1,202)
Realised gain	**931**	-
Change in unrealised gain	**34,282**	23,025
	$ 282,090	$ 230,857

During the current year no investments were transferred between levels.

6. Property and Equipment

	Furniture and Equipment (000's)	Computer Equipment (000's)	Leasehold Improvements (000's)	Total (000's)
Cost or deemed cost				
Balance at January 1, 2012	$ 152	$ 143	$ 34	$ 329
Additions	9	17	1,824	1,850
Balance at December 31, 2012	$ 161	$ 160	$ 1,858	$ 2,179
Balance at January 1, 2013	**$ 161**	**$ 160**	**$ 1,858**	**$ 2,179**
Additions	-	5	4	9
Disposals	(1)	-	(7)	(8)
Tenant rebate	-	-	(289)	(289)
Balance at December 31, 2013	**$ 160**	**$ 165**	**$ 1,566**	**$ 1,891**
Amortisation				
Balance at January 1, 2012	$ 77	$ 79	$ 24	$ 180
Amortisation for the year	13	24	4	41
Balance at December 31, 2012	$ 90	$ 103	$ 28	$ 221
Balance at January 1, 2013	**$ 90**	**$ 103**	**$ 28**	**$ 221**
Amortisation for the year	12	25	102	139
Balance at December 31, 2013	**$ 102**	**$ 128**	**$ 130**	**$ 360**
Carrying amounts				
Balance at January 1, 2012	$ 75	$ 64	$ 10	$ 149
Balance at December 31, 2012	$ 71	$ 57	$ 1,830	$ 1,958
Balance at January 1, 2013	**$ 71**	**$ 57**	**$ 1,830**	**$ 1,958**
Balance at December 31, 2013	**$ 58**	**$ 37**	**$ 1,436**	**$ 1,531**

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
Notes to the Financial Statements
December 31, 2013

7. Intangible Assets

Intangible assets consist of a pension administration system.

Cost or deemed cost		**(000's)**
Balance at January 1, 2012	$	2,415
Balance at December 31, 2012	$	2,415
Balance at January 1, 2013	**$**	**2,415**
Additions for the year		360
Balance at December 31, 2013	**$**	**2,775**
Amortisation		
Balance at January 1, 2012	$	1,644
Amortisation for the year		245
Balance at December 31, 2012	$	1,889
Balance at January 1, 2013	**$**	**1,889**
Amortisation for the year		245
Balance at December 31, 2013	**$**	**2,134**
Carrying amounts		
Balance at January 1, 2012	$	771
Balance at December 31, 2012	$	526
Balance at January 1, 2013	**$**	**526**
Balance at December 31, 2013	**$**	**641**

8. Investment Income

		2013 (000's)		**2012 (000's)**
Bond interest	$	13,887	$	12,662
Dividends		59,978		57,452
Interest on short term investments and cash balances		1,100		1,236
Other income		825		928
	$	**75,790**	**$**	**72,278**

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
Notes to the Financial Statements
December 31, 2013

9. Pension Obligations

The pension obligations are the actuarial present value of the future expected pension benefit obligation to members as determined by the actuarial valuation done by Aon Hewitt, an independent actuarial consulting firm, at least every three years. The last actuarial valuation was performed as of December 31, 2010. The present value of accrued pension benefits was then extrapolated to December 31, 2013 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	**2013**	**2012**
Discount rate	7.25%	7.25%
Inflation rate	2.50%	2.50%
Mortality table	UP1994 projected to 2020	UP1994 projected to 2020
Remaining service life	11.4 years	11.4 years
Salary Projection		
▪ SUN Members	3.50% plus 2.0% for any member who attains 20 years of service	3.50% plus 2.0% for any member who attains 20 years of service
▪ All Other Members	3.50% per year	3.50% per year

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

- A one per cent change in the discount rate results in approximately a 13 per cent change in the pension obligations;

- A one per cent change in the salary scale and the pensionable earnings levels results in approximately a 4 per cent change in the pension obligations.

10. Financial Risk Management

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

Significant financial risks are related to the Plan's investments. These financial risks are managed by having a Statement of Investment Policies and Procedures (SIP&P), which is subject to review and approval by the Board of Trustees not less than annually.

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
Notes to the Financial Statements
December 31, 2013

10. Financial Risk Management (continued)

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

The SIP&P sets out a minimum quality requirement of "BBB" for bonds and debentures at the time of purchase 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 per cent of the carrying value of the total fund. The fund may not invest directly or indirectly in the securities of a corporation representing more than 30 per cent of the votes that may be cast to elect the directors of the corporation.

Maximum quantity restrictions are also applied at the investment manager level. Each investment manager engaged by the Plan is responsible for investing the assets of the fund in accordance with the SIP&P, the mandate prescribed by SHEPP for the manager and the agreement under which SHEPP has contracted the manager's services.

Credit risk

Credit risk is the risk that one party does not pay funds owed to another party. The Plan's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which the Plan is exposed at December 31, 2013 is limited to the carrying value of the financial assets summarised as follows:

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
Notes to the Financial Statements
December 31, 2013

10. Financial Risk Management (continued)

		2013 (000's)		2012 (000's)
Cash	$	56,647	$	42,582
Accrued interest receivable		635		402
Members' contributions receivable		8,171		10,465
Employers' contributions receivable		9,152		11,721
Dividends receivable		2,700		2,691
Security transactions receivable		-		630
Other receivables		357		332
Short-term investments		37,808		61,983
Fixed income *		1,198,785		1,193,407
	$	**1,314,255**	**$**	**1,324,213**

*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:

	2013		2012	
Credit rating	**Fair Value (000's)**	**Makeup of Portfolio**	**Fair Value (000's)**	**Makeup of Portfolio**
AAA	$ 284,281	23.7%	$ 259,217	21.7%
AA	396,338	33.1%	366,858	30.7%
A	370,318	30.9%	459,003	38.5%
BBB	147,848	12.3%	108,329	9.1%
	$ 1,198,785	**100.0%**	**$ 1,193,407**	**100.0%**

The Plan is also subject to credit risk through its use of forward currency contracts. The contracts are entered into between the Plan and approved counterparties. The credit risk is mitigated by limiting counterparties to specific entities approved by the Board of Trustees.

As part of the Plan's securities lending strategy, collateral has been pledged to the Plan by various counterparties for securities out on loan to the counterparties. At December 31, 2013, the Plan's investments included loaned securities with a market value of $596,452,000 (2012 - $392,264,000) and the fair value of securities and cash collateral received in respect of these loans was $619,355,000 (2012 - $406,134,000).

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
Notes to the Financial Statements
December 31, 2013

10. Financial Risk Management (continued)

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 $183,101,000 at December 31, 2013 (2012 - $176,071,000); representing 14.2 per cent (2012 – 13.6 per cent) of the $1,293,205,000 (2012 - $1,297,972,000) fair value of these investments.

Foreign exchange risk

The Plan is subject to changes in the United States/Canadian dollar exchange rate on its United States denominated investments. Also, the Plan is exposed to other non-North American currencies through its investment in non-North American and global equities. At December 31, 2013, the Plan's exposure to United States equities was 21 per cent (2012 – 17 per cent) and its exposure to non-North American equities was 22 per cent (2012 – 20 per cent).

The Plan manages this risk through the use of currency futures or forwards. At December 31, 2013 the fair value of currency forward contracts payable was $2,199,238,000 (2012 - $1,962,257,000) and the fair value of currency fund contracts receivable was $2,184,891,000 (2012 - $1,954,761,000).

Equity price risk

The Plan is exposed to changes in equity prices in Canadian, United States and other markets. Equities comprise 63.5 per cent (2012 – 59.0 per cent) of the carrying value of the Plan's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. A 10 per cent change in equity prices would result in a $302,380,000 (2012 - $238,932,000) 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.

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
Notes to the Financial Statements
December 31, 2013

10. Financial Risk Management (continued)

Liquidity risk

Liquidity risk is the risk that the Plan is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows.

11. Related Party Transactions

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

	2013 (000's)	2012 (000's)
Expenses	**$ 83**	$ 77

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:

	2013 (000's)	2012 (000's)
Short-term employee benefits	$ 941	$ 701
Post-employment benefits		
Defined benefit retirement allowance	78	64
Total benefits	**$ 1,019**	$ 765

12. Comparative Figures

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

Our External **Advisors**

Actuary
Aon Hewitt Consulting

Auditor
KPMG LLP

Custodian
CIBC Mellon Global Securities Services Company

Investment Consultant
Aon Hewitt Consulting

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

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

SHEPP
SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN

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