

A woman with long dark hair, wearing a bright red blazer, black pants, and brown shoes, is sitting on a green lawn. She is leaning against the thick, textured trunk of a large tree on the right side of the frame. Her hands are clasped in her lap, and she is smiling slightly at the camera. The background is a soft-focus green lawn with some yellow flowers in the distance.

pepp

annual 2016-2017
report
Public Employees Pension Plan

Accountable • Competitive • Innovative
Your Plan – Your Way



Publications

PEPP Member Booklet

Pension Perspectives - newsletter for plan members

PEPP Talks - provide detail about specific Plan aspects

Investment Basics Booklet

PEPP Retirement Planning Worksheet

Fund Performance Bulletins

Market Commentary

Investment Holdings Report

Annual Report

Publications and other information about PEPP, are available online at www.peba.gov.sk.ca/pensions/pepp/home.html

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Letters of Transmittal



Kevin Doherty
Minister of Finance

Her Honour, The Honourable Vaughn Solomon Schofield
Lieutenant Governor of the Province of Saskatchewan

May it Please Your Honour:

I respectfully submit the Annual Report of the Public Employees Pension Board for the fiscal year ending March 31, 2017.

A handwritten signature in blue ink, appearing to be 'K. Doherty', written in a cursive style.

Kevin Doherty
Minister of Finance

The Honourable Kevin Doherty
Minister of Finance

Sir:

On behalf of the Public Employees Pension Board, I have the honour of submitting the Annual Report of the Public Employees Pension Board for the fiscal year ending March 31, 2017.

A handwritten signature in black ink, appearing to be 'Nola Joorisity', written in a cursive style.

Nola Joorisity
Chair

Chair's Message



Nola Joorisity, Chair
FCPA, FCA, CMA, C. Dir

“The Board remains committed in managing assets and expenses, in the best interest of members”

Over the past four years as Chair of the Public Employees Pension Board (the Board), I have had the privilege of being part of the growth of the Public Employees Pension Plan (PEPP). I have witnessed firsthand the continual efforts that help PEPP remain the largest defined contribution pension plan in the country, with over 64,000 members and over \$9.3 billion in assets. On behalf of the Board, I am honoured to present the 2016-2017 Annual Report for the Public Employees Pension Plan.

PEPP values the importance of informing Plan members while promoting conversations regarding retirement, pension investments, and financial literacy. Existing services continue to be enhanced, such as member workshops, one-on-one consultations and customer service to support members and employers.

In 2016, PEPP expanded engagement efforts and entered the social media world. Both channels, Facebook and Twitter, offer another open line of communication with members

and employers. The social media channels so far have been very effective and have allowed the Plan to connect with Plan members on a regular basis.

This year, PEPP will be performing another search to locate members who have lost touch with their pension plan. A search was conducted two years ago, and the Plan still has many missing members representing almost \$37 million in assets. We will continue working towards reuniting members with their pension plan.

Looking forward, PEPP will continue to provide more opportunities to engage with members and employers. Efforts in member engagement strategies will nurture a more active membership and will help them make informed decisions about their pension plan. In the upcoming year PEPP will consult with members which will help PEPP tailor services to meet member needs.

The Board remains committed in managing assets and expenses in the best interest of members,

with appropriate care, skill and diligence. We are proud of how far PEPP has come. We are always seeking ways to improve and to be able to continually provide members with the best service to help them manage and achieve their retirement goals.

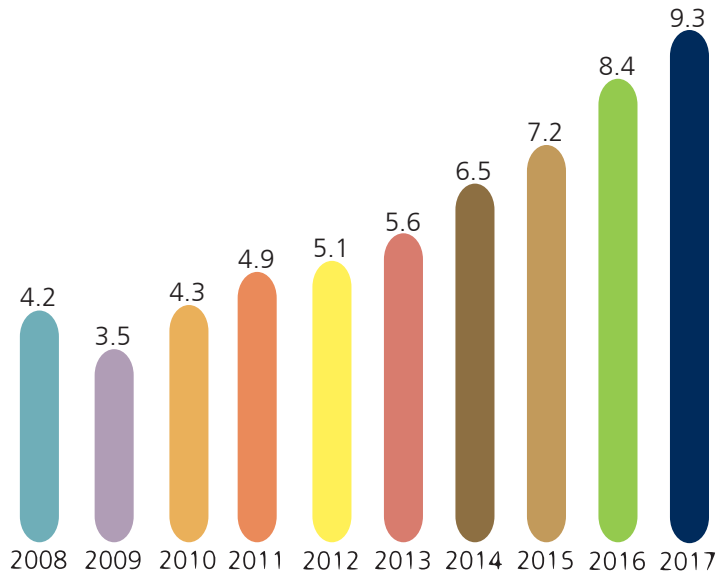
I look forward to reporting the achievements of the Public Employees Pension Plan in 2018.

A handwritten signature in black ink that reads "Nola Joorisity". The signature is written in a cursive, flowing style.

Financial Highlights

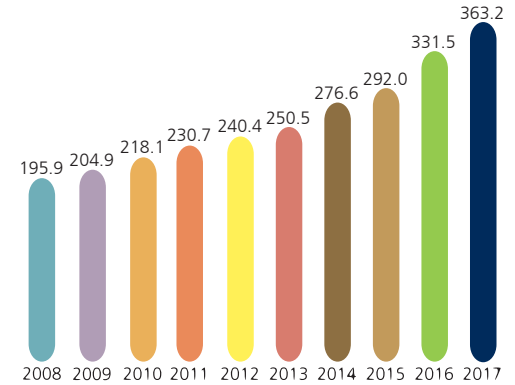
\$9.3
billion

Total Assets of the Plan



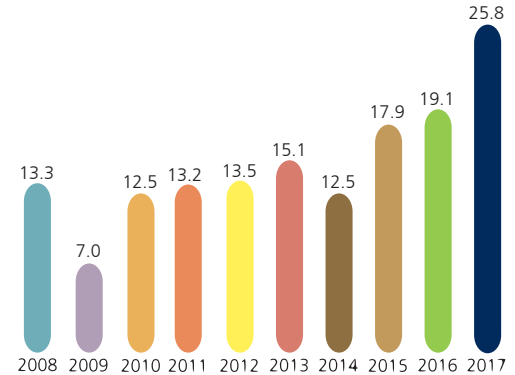
\$363.2
million

Total Contributions to the Plan



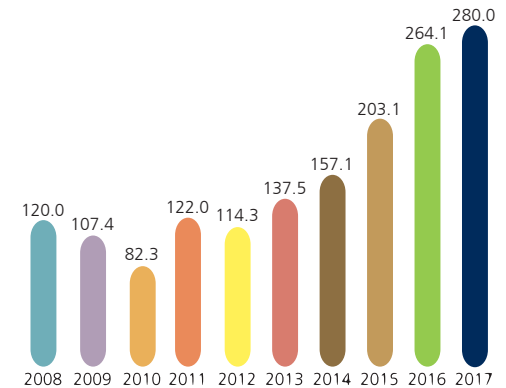
\$25.8
million

Total Transfers-in to the Plan



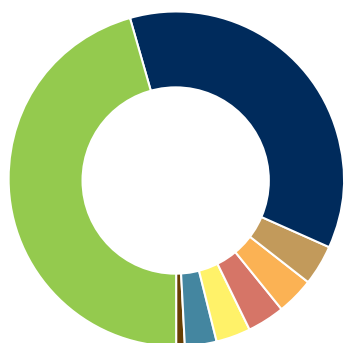
\$280.0
million

Total Transfers-out of the Plan



Investment Highlights

Assets by Investment Option (\$ millions) (as at March 31, 2017)



4,224.8	PEPP Steps Fund	330.6	Conservative Fund
3,348.5	Balanced Fund	324.8	Moderate Fund
359.6	Growth Fund	265.2	Money Market Fund
330.9	Accelerated Growth Fund	74.8	Bond Fund

Investment returns over the twelve month period ending March 31, 2017 were very positive, as the PEPP Balanced Fund appreciated by 11 per cent. Growth assets achieved strong returns, while income assets posted low-single-digit returns. The combined equity portfolio advanced nearly 18 per cent in Canadian dollar terms, as Canadian, Global large cap, and Emerging Market equities contributed solidly to the increase. PEPP's allocation to alternative investments moderated the degree of returns among growth assets, as market value gains on alternative holdings were just shy of five per cent. The income segment within the asset-allocation funds, which consists of dedicated bond and money market investments, gained close to three per cent.

PEPP Fees and Rates of Return¹ (as at March 31, 2017)

Fund	(%)				
	Benchmark Rate of Return	Gross Rate of Return	Fees PEBA & Board ²	Fees Investments ³	Net Rate of Return
Accelerated Growth	14.0	14.2	0.07	0.58	13.5
Growth	12.5	12.9	0.07	0.53	12.3
Balanced	10.9	11.6	0.07	0.48	11.0
Moderate	8.7	9.6	0.07	0.41	9.1
Conservative	5.7	6.9	0.07	0.31	6.5
Bond	1.5	1.9	0.07	0.07	1.8
Money Market	0.5	0.9	0.07	0.05	0.8

¹ The rate of return and fee data for the PEPP Steps Fund varies with each step.

² Of the 0.07% fees shown, the Board accounts for less than 0.01%.

³ Investment fees include fees for investment managers, consulting and custody.

Table 1.0

Plan Profile

PEPP was established and is governed by *The Public Employees Pension Plan Act*. It is registered as a pension plan pursuant to *The Pension Benefits Act, 1992* and the *Income Tax Act (Canada)*.

The Public Employees Pension Plan (PEPP) has 146 participating employers and 64,458 members at March 31, 2017. Participating employers include the Government of Saskatchewan, Crown Corporations, agencies, boards and other public institutions.

PEPP is a defined contribution (DC) pension plan. A member's contributions and his or her employers' contributions, plus any return on investment, are used to provide a member with income based upon the account balance he or she has built at retirement.

Enrolment in the Plan is mandatory for employees who hold a permanent position with an employer participating in the Plan. Unless otherwise specified in an agreement, non-permanent employees may choose to join the Plan at any time.

Member and employer contributions are calculated as a percentage of the member's total gross regular earnings. Unless otherwise specified in an agreement, the contribution percentage is five per cent. Member contributions are made by payroll deduction.

Contributions to PEPP are tax deductible up to a maximum set by the *Income Tax Act (Canada)*. Members do not pay taxes on contributions or the accumulated investment income until they withdraw an amount from the Plan.

Contributions are forwarded to the Plan and are used to purchase units in the PEPP investment option of the member's choice.

Units are valued daily following market close. Once a new unit value is declared, member accounts are valued using the new unit value. Return on investment is reflected in the changing unit value. The amount the member receives at payout or transfer is calculated using the unit value in effect at the date of payment.

Members may retire and begin to receive retirement income at age 50 or older.

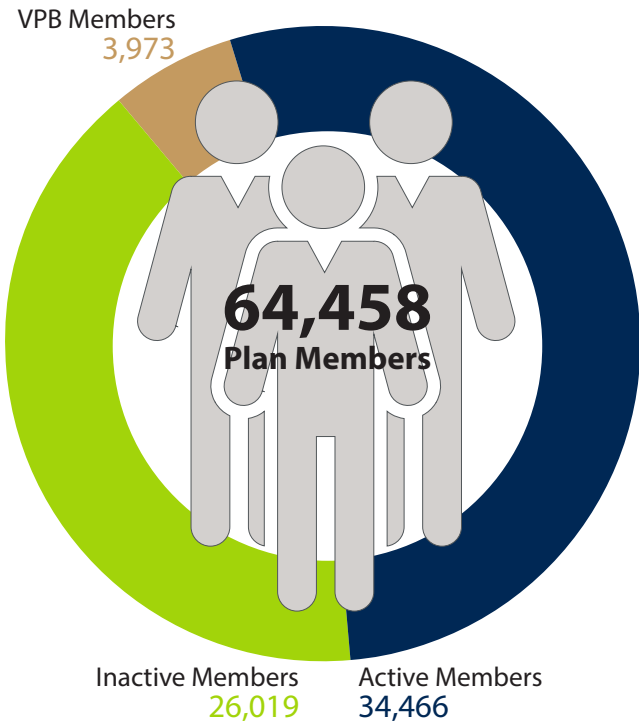
Members may defer purchasing a retirement income option after retirement. The *Income Tax Act (Canada)* states that a pension must begin by the end of the calendar year a member turns age 71.

Membership Activity

Membership at March 31, 2016	63,677
Add:	
Enrolment during the year	3,344
Variable Pension Benefit (VPB) enrolment	807
Less:	
Exiting members*	3,370
Membership at March 31, 2016	64,458

*Includes transfers to VPB

Table 1.1



3,232

Online Inter-fund
Transfers
Processed

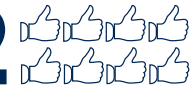


31,022
PEPP Access
Registered Users



402

Likes

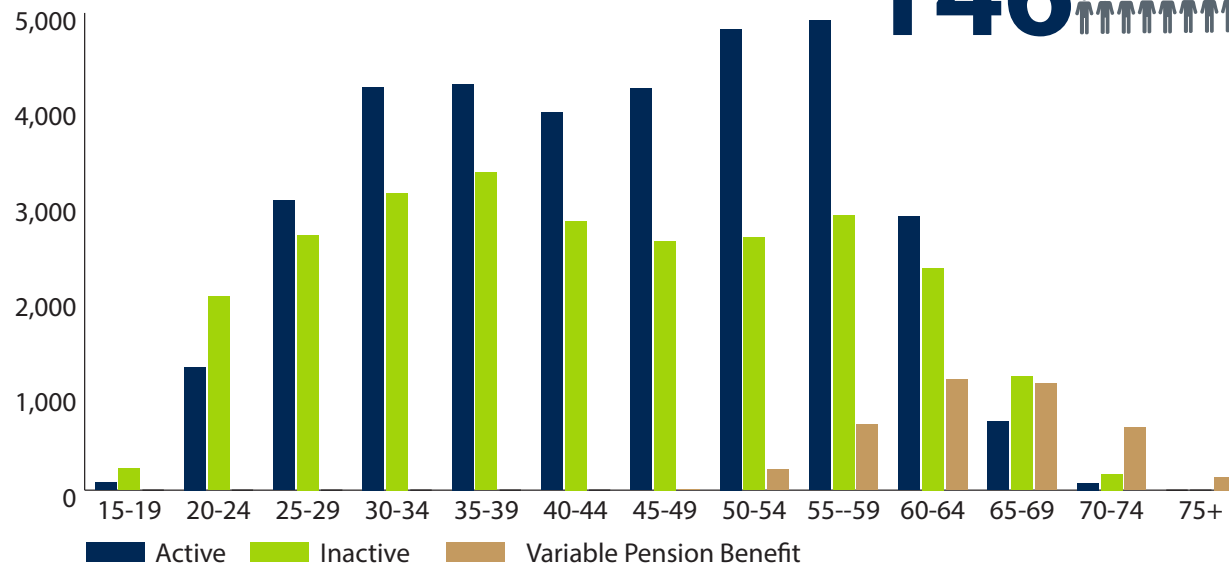


126

Followers



Membership Distribution by Age Band



146 participating employers



Average Age of Active Members

MISSION

To provide an unequalled defined contribution retirement plan and best-in-class services to members and employers

PEPP will consistently exceed the expectations of members and employers and will be a leader in the pension industry

VISION

GOALS

Investment: Earn competitive long-term investment returns for members while managing risk

Service: Deliver exceptional and innovative service to members and employers

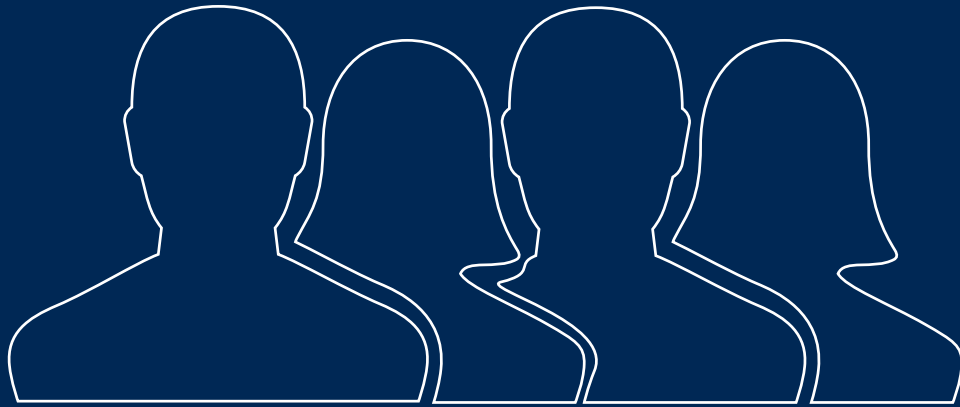
Cost-Effectiveness: Operate efficiently and cost-effectively

Stewardship: Ensure PEPP is well-governed and accountable to Plan members and employers

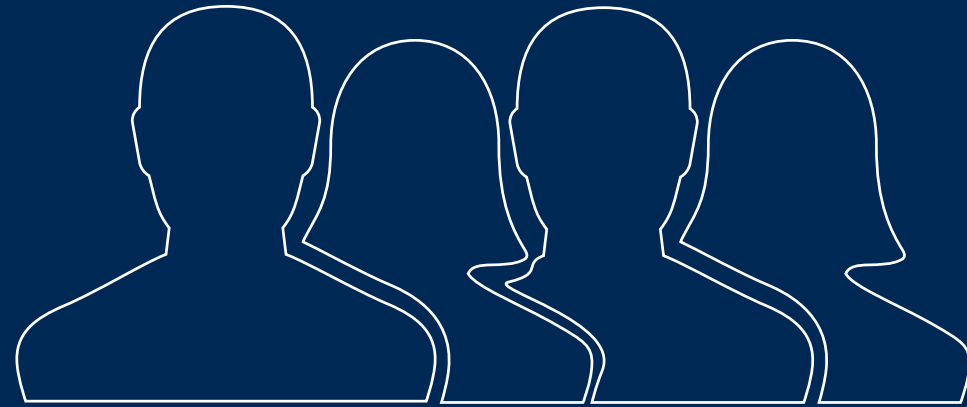
Engagement: Ensure members understand their responsibilities and have the right tools and information available

Public Employees Pension Board

The Board Consists of nine members:



FOUR MEMBERS APPOINTED ON BEHALF
OF PARTICIPATING EMPLOYERS



FOUR MEMBERS APPOINTED ON BEHALF
OF EMPLOYEES



THE BOARD RETAINS A CHAIR

Public Employees Pension Board

PUBLIC EMPLOYEES PENSION BOARD



Board Members: (left to Right) Peter Wyant, Brian Ketcheson, Andrew Zulkoski, Jocelyn Robinson, Nola Joorisity, Mac Trost, Darren Henderson
Missing: Sean Engemoen, Jacalyn Luterbach

Public Employees Pension Board Members

Name	Position	Appointing Body
Nola Joorisity	Chair	Public Employees Pension Board
Dennis Terry*	Vice-Chair	SaskEnergy, SaskPower, SaskTel
Sean Engemoen	Member	Saskatchewan Polytechnic Saskatchewan Liquor and Gaming Authority
Darren Henderson	Member	International Brotherhood of Electrical Workers Union Local 2067
Jacalyn Luterbach	Member	Canadian Union of Public Employees Local 600
Jocelyn Robinson	Member	Public Service Commission
Mac Trost	Member	Saskatchewan Government and General Employees' Union
Peter Wyant**	Member	Saskatchewan Crop Insurance Corporation Workers' Compensation Board, Saskatchewan Cancer Agency
Andrew Zulkoski‡	Member	Unifor

* Dennis Terry's appointment to the Board ended effective March 31, 2017. Brian Ketcheson was appointed to the Board effective April 17, 2017 to replace Dennis Terry.

** Peter Wyant's was appointed to the Board effective September 1, 2016 to replace Cathy Uhersky whose appointment to the Board ended effective August 31, 2016.

‡ Andrew Zulkoski was appointed to the Board effective February 1, 2017 to replace Jon Bergen whose appointment to the Board ended effective January 31, 2017.

Table 1.2

Meeting Attendance

Members of the Board receive no compensation for the performance of their roles as Board members. They are remunerated for reasonable expenses for attending Board meetings and other functions in their capacity as Board members. Most notable are travel-related expenses, which are reimbursed at rates specified by the Public Service Commission. The Chair is remunerated with a retainer set by the Board.

The Board had ten regular meetings in the 2016-2017 fiscal year. Table 1.3 shows the number of meetings each Board member attended.

Name	Meetings Attended	Expenses
Nola Joorisity	10	\$70.00
Dennis Terry	10	43.37
Jon Bergen ¹	8	1,866.31
Sean Engemoen	10	2,314.10
Darren Henderson	10	2,878.52
Jacalyn Luterbach	10	456.65
Jocelyn Robinson	10	0.00
Mac Trost	8	2,171.56
Cathy Uhersky ²	3	0.00
Peter Wyant ³	7	59.00
Andrew Zulkoski ⁴	2	0.00
Total		\$9,879.51

Table 1.3

¹ Jon Bergen's appointment ended January 31, 2017. Mr Bergen attended all applicable meetings

² Cathy Uhersky's appointment ended August 31, 2016. Ms. Uhersky attended all applicable meetings.

³ Peter Wyant's appointment commenced September 1, 2016. Mr. Wyant attended all applicable meetings.

⁴ Andrew Zulkoski's appointment commenced February 1, 2017. Mr. Zulkoski attended all applicable meetings.

Chair Remuneration	Rate	Total
Annual Retainer	\$40,000.00	\$40,000.00
Per Diem - Education		-
Total		\$40,000.00

Table 1.4

Board Education

The Board has an education program in place for Board members. The purpose of the program is to ensure the Board members possess a sound knowledge and understanding of pension, investment, and governance related issues. Yearly, the Board allocates registration fees for each Board member. Expenses related to travel and accommodation are reimbursed at rates established by the Public Service Commission.

Upon appointment to the Board, new members receive an orientation provided by the Public Employees Benefits Agency's (PEBA's) Executive Management.

Board members are required to undertake a formal education program. The program provides a list of courses and seminars that deliver specific investment and governance-related information relevant to Board members.

- Within one year of appointment, members attend the Queen's Governance Program which is now facilitated by the Smith School of Business at Queen's University.
- Within one year of appointment, members complete a course on basic investment principles facilitated by PEBA.
- Within two years of appointment, members complete the Board Effectiveness Program for Pension and Other Long-Horizon Investment Institutions, presented by the International Centre for Pension Management at the Rotman School of Management, University of Toronto.

Board members who have completed the formal education program are also required to attend one educational event annually that is facilitated by an industry-recognized pension and benefits organization. A Board member who is actively pursuing the formal education program is exempt from the obligations found in the ongoing development for all members. However, all members are strongly encouraged to attend education events.

Conferences and other events attended by Board members as part of their ongoing education provide the Board with information on the current governance, investment and legal environment affecting pension plans. They also provide opportunities for Board members to meet with pension experts and pension trustees from other pension plans to discuss common issues.

Table 1.5 lists the education events attended by Board members to March 31, 2017.

Seminars, Courses and Other Events Attended by Board Members in 2016–2017

Name	Education Events Attended	Total Expenses
Nola Joorisity, Chair	<ul style="list-style-type: none"> • IFEBP Canadian Investment Institute 	\$3,317
Dennis Terry, Vice Chair	<ul style="list-style-type: none"> • CPBI Luncheon (3) • ICD Luncheon • PEBA Risk Management Information Session 	\$172
Jonathan Bergen	<ul style="list-style-type: none"> • Queen’s Governance Program • ICD Luncheon • PEBA Risk Management Information Session 	\$8,217
Sean Engemoen	<ul style="list-style-type: none"> • ICD Luncheon • Conference Board of Canada Webinar • PEBA Risk Management Information Session 	\$134
Darren Henderson	<ul style="list-style-type: none"> • ICPM Board Effectiveness Program • CPBI Prairie Regional Council • CPBI Luncheon • ICD Luncheon • PEBA Risk Management Information Session 	\$8,581
Jacalyn Luterbach	<ul style="list-style-type: none"> • IFEBP Canadian Investment Institute • IFEBP Canadian Public Sector Pension and Benefits Conference • PEBA Risk Management Information Session 	\$5,305
Jocelyn Robinson	<ul style="list-style-type: none"> • IFEBP Advanced Trust Management Standards - Session A • IFEBP Advanced Trust Management Standards - Session B • PEBA Risk Management Information Session 	\$3,700
Mac Trost	<ul style="list-style-type: none"> • Annual Canadian Employee Benefits Conference • PEBA Risk Management Information Session 	\$3,365
Peter Wyant	<ul style="list-style-type: none"> • ICD Luncheon • PEBA Risk Management Information Session 	\$35
Total Expenditures		\$32,826

IFEBP - International Foundation of Employee Benefit Plans • CPBI - Canadian Pension and Benefits Institute • ICD - Institute of Corporate Directors

Table 1.5

The Board continues to monitor the plan to provide best possible outcomes for members.

INVESTMENTS



Investment returns over the twelve month period ending March 31, 2017 were very positive, as the PEPP Balanced Fund appreciated by 11 per cent. Growth assets achieved strong returns, while income assets posted low-single-digit returns. The combined equity portfolio advanced nearly 18 per cent in Canadian dollar terms, as Canadian, Global large cap, and Emerging Market equities contributed solidly to the increase. PEPP's allocation to alternative investments moderated the degree of returns among growth assets, as market value gains on alternative holdings were just shy of five per cent. The income segment within the asset allocation funds, which consists of dedicated bond and money market investments, gained close to three per cent.

While foreign exchange markets experienced many trading sessions marked by acute volatility, the influence of foreign currency translation gains and losses over the full Plan year ended up being quite minor on the whole. The relative strength of the U.S. dollar and Japanese Yen were largely offset by the depreciation of the Euro and British pound. As a consequence, unhedged returns in Canadian-dollar terms benefited from just a small positive currency translation effect. However, to moderate the volatile impact of foreign currency market swings, PEPP implements a passive 50 per cent currency hedge program to reduce currency risk. With the hedge program in place over the previous twelve month period, PEPP's asset allocation funds benefited from approximately half of the small but favourable currency translation effect.

Returns among the PEPP asset allocation funds were positive with the more aggressive funds achieving higher returns than conservatively structured funds as market value gains among equity exposures far exceeded those achieved by fixed income investments. The Accelerated Growth Fund appreciated by 13.5 per cent, the Conservative Fund gained 6.5 per cent, and the Bond Fund advanced 1.8 per cent.

While PEPP funds with a heavy equity component appreciated the most among PEPP's asset-allocation options, the most aggressively structure funds were unable to fully capture gains achieved by the market. This lack of maximum bull-market participation is not surprising given the defensive structure of the Plan. The investment structure emphasizes downside protection rather than being geared to outperform in frothy markets where low-quality companies lead indices. Indeed, equity market returns were very strong and characterized by rallies in distressed assets and industries. Cyclical value stocks sharply outperformed the broader market while defensive sectors, companies with formidable quality attributes, and stocks that have above-average growth profiles tended to underperform. PEPP's active equity mandates produced solid returns but the group lagged the benchmark in this environment.

Conversely, the income portfolio within the asset allocation funds, produced modest returns but the segment solidly outperformed the benchmark. From an interest-rate risk perspective, the income portfolio was more defensively positioned to minimize losses

from rising bond yields. Government bond yields ended the year higher which was a negative influence on the market value of bond holdings. PEPP's defensive rate posture meant that the portfolio was less geared to rising yields, leading to relative outperformance. Moreover, the income portfolio was overweight spread sectors which delivered superior returns as credit spreads narrowed significantly over the twelve month period. Corporate bonds compensate investors for credit risk by offering a yield advantage (credit spread) over and above benchmark sovereign bond yields. The favourable influence of narrowing credit spreads among investment grade holdings more than offset the negative impact of higher benchmark bond yields such that corporate bond returns outperformed Government of Canada issues by a generous margin.

In summary, the performance of growth and income exposures had a predictable impact on excess returns delivered by the PEPP asset allocation funds. The Accelerated Growth Fund delivered strong returns but it underperformed its benchmark as its asset mix is heavily weighted in equity mandates that follow a conservative approach to investing. The Conservative Fund delivered moderate returns but it outperformed its benchmark as active fixed income mandates outpaced the broader Canadian debt market. The Balanced Fund, which has a sizable allocation to both equities and debt, achieved returns slightly ahead of its benchmark.

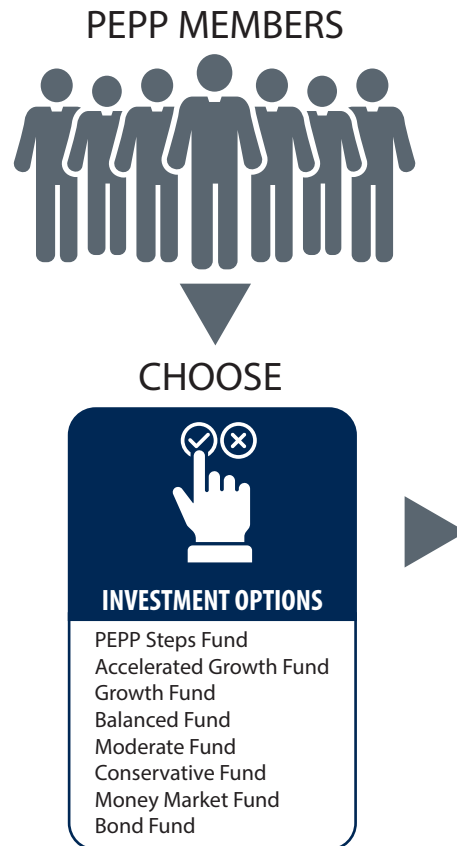
Overview

The Plan has eight investment options. These funds offer a mix of asset classes, which are made up of fixed income, real estate and equities.

The PEPP investment options:

- PEPP Steps Fund
- Accelerated Growth Fund
- Growth Fund
- Balanced Fund
- Moderate Fund
- Conservative Fund
- Money Market Fund
- Bond Fund

Members can invest in any one of the listed funds. The only funds eligible to be added as a specialty fund are the Money Market Fund and/or Bond Fund.



INVEST IN

Asset Class	Investment Managers
Canadian Equities	Beutel, Goodman & Company Ltd. GlobeFlex Capital, L.P. J Zechner Associates Inc. QV Investors Inc. State Street Global Advisors TD Asset Management Inc.
Foreign Equities	AQR Capital Management, LLC Burgundy Asset Management Ltd. Franklin Templeton Institutional, LLC Gannett Welsh & Kotler, LLC Investec Asset Management Ltd. Oberweis Asset Management, Inc. SouthernSun Asset Management LLC T. Rowe Price (Canada), Inc. TD Asset Management Inc. Thompson, Siegel & Walmsley LLC Tweedy, Browne Company LLC
Real Estate	Greystone Managed Investments Inc.
Liquid Alternatives	AQR Capital Management LLC Arrowgrass Capital Partners LLP Brevan Howard US LLC Campbell & Company Grantham, Mayo, Van Otterloo & Co. Winton Capital Management
Bonds	AllianceBernstein Canada, Inc. Greystone Managed Investments Inc. PIMCO Canada Corp. TD Asset Management Inc.
Cash & Equivalents	TD Asset Management Inc.
Currency Management	Insight Investment Management Ltd.

Asset allocation funds invest in a mix of asset classes, including equities (Canadian and foreign), real estate, liquid alternatives, fixed income, and cash equivalents. The mix depends on the fund; more conservative funds are weighted more heavily toward fixed-income investments where more aggressive funds are weighted more heavily toward equities. The Bond Fund is invested solely in fixed income investments and the Money Market Fund is invested solely in highly liquid short-term debt securities.

Equities offer the greatest potential return, but are exposed to a high level of market volatility, meaning that they are susceptible to losses over the short-term. As such, equities are best suited for long-term investors who are able to ride out short-term volatility in return for long-term growth potential.

Fixed-income investments, such as bonds and cash equivalents, are lower-volatility investments, meaning they are much better suited to capital preservation. For this reason, members with less tolerance for short-term volatility may prefer funds with a greater percentage of fixed income.

Members are encouraged to make an investment choice that fits their risk tolerance and investment profile. PEPP's eight investment options offer members a range from the Accelerated Growth Fund, an equity-heavy fund, to the Conservative Fund while also offering the Bond Fund (invested solely in fixed-income investments) and the Money Market Fund (invested solely in money market securities).

The PEPP Steps Fund, is the default investment fund for the Plan. Members who have not made an investment choice on their own are automatically invested in the PEPP Steps Fund by default. PEPP Steps is an asset allocation fund that automatically moves members to more conservative exposures over time. Equity and alternatives' holdings decrease and bond holdings increase by increments of approximately five per cent for each of the 12 steps.



“By contributing to my pension under the PEPP Steps fund, I have taken a hands-off approach to investing in my retirement.”

– Chelsie, Plan member

Investment Options*

Accelerated Growth Fund

DESCRIPTION

The Accelerated Growth Fund offers the highest risk and highest potential return. The goal of this fund is to provide capital growth over the long term. It invests primarily in equities. Foreign currency exposure for this fund is 22.9 per cent (foreign exposure of 45.8 per cent, less hedged exposure of 22.9 per cent)

RATE OF RETURN

Net Rate of Return

13.5%

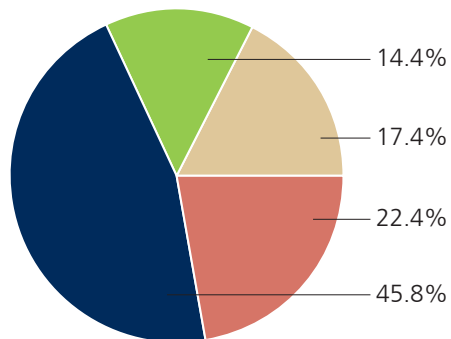
One year rate of return

14.2%

Less Fund Fees

0.65%

ASSET MIX



Growth Fund

DESCRIPTION

The Growth Fund is an aggressive fund offering relatively high risk and high potential return. Its goal is to provide capital growth over the long term by investing largely in equities. Foreign currency exposure for this fund is 20.3 per cent (foreign exposure of 40.5 per cent, less hedged exposure of 20.3 per cent).

RATE OF RETURN

Net Rate of Return

12.3%

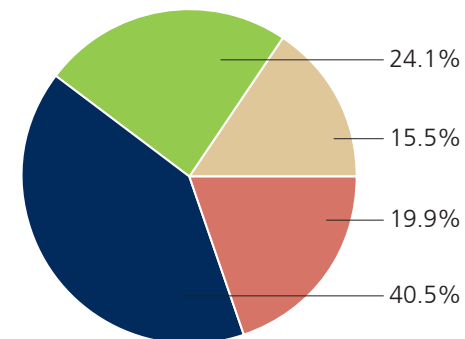
One year rate of return

12.9%

Less Fund Fees

0.60%

ASSET MIX



■ Fixed Income
 ■ Alternatives
 ■ Canadian Equity
 ■ Foreign Equity

* The pie charts for all of the investment options list the actual asset mix for each fund as at March 31, 2017.

DESCRIPTION

Balanced Fund

The Balanced Fund offers relatively balanced potential risk and return. Its goal is to provide long-term capital growth. The Balanced Fund provides target weight of 52 per cent for equities. Foreign currency exposure for this fund is 17.6 per cent (foreign exposure of 35.2 per cent, less hedged exposure of 17.6 per cent).

RATE OF RETURN

Net Rate of Return

11.0%

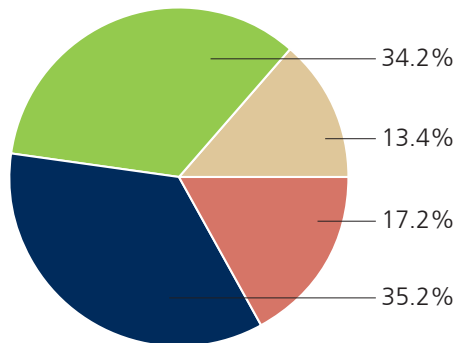
One year rate of return

11.6%

Less Fund Fees

0.55%

ASSET MIX



DESCRIPTION

Moderate Fund

The Moderate Fund is designated to provide a balance of security and long-term growth by balancing the risk and potential returns of the major asset classes. The Moderate Fund provides target weight of 49 per cent for fixed-income. Foreign currency exposure for this fund is 13.5 per cent (foreign exposure of 27.0 per cent, less hedged exposure of 13.5 per cent).

RATE OF RETURN

Net Rate of Return

9.1%

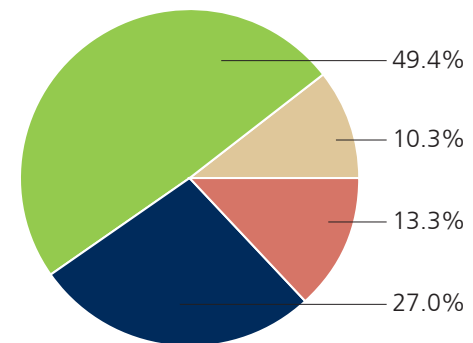
One year rate of return

9.6%

Less Fund Fees

0.48%

ASSET MIX



DESCRIPTION

Conservative Fund

The Conservative Fund is designated to provide returns with little fluctuation. By focusing mainly on fixed-income investments, it offers lower risk and lower potential for return than other PEPP asset allocation funds. Foreign currency exposure for this fund is 8.1 per cent (foreign exposure of 16.2 per cent, less hedged exposure of 8.1 per cent).

RATE OF RETURN

Net Rate of Return

6.5%

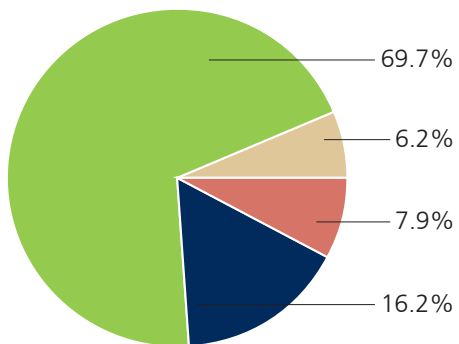
One year rate of return

6.9%

Less Fund Fees

0.38%

ASSET MIX



DESCRIPTION

Bond Fund

The Bond Fund is one of the most conservative investment options within PEPP and offers low potential risk and return. Because its goal is to provide broad exposure to the Canadian Bond Market, earn interest income and preserve Capital, it invests strictly in bonds. There is no foreign currency exposure for this fund.

RATE OF RETURN

Net Rate of Return

1.8%

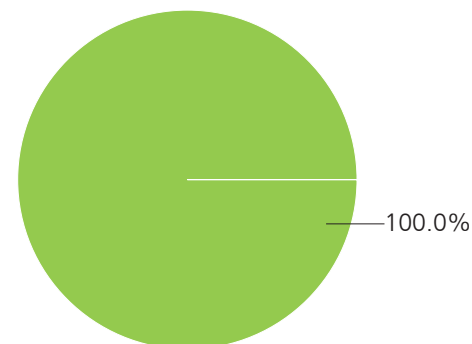
One year rate of return

1.9%

Less Fund Fees

0.14%

ASSET MIX



Fixed Income Alternatives Canadian Equity Foreign Equity

DESCRIPTION

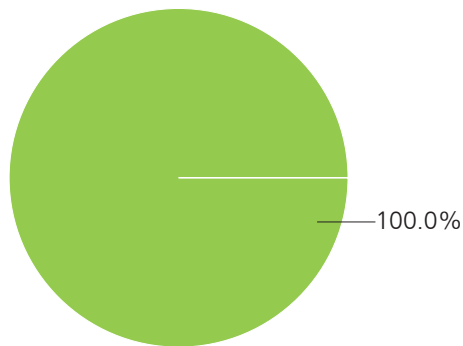
Money Market Fund

The Money Market Fund is the most conservative investment choice within PEPP and offers the lowest potential risks and returns. This fund is designed for members who have a very short time horizon and are looking for the ultimate capital preservation option. There is no foreign currency exposure for this fund.

RATE OF RETURN

Net Rate of Return	
One year rate of return	Less Fund Fees
0.9%	0.12%

ASSET MIX



Fixed Income Alternatives

DESCRIPTION

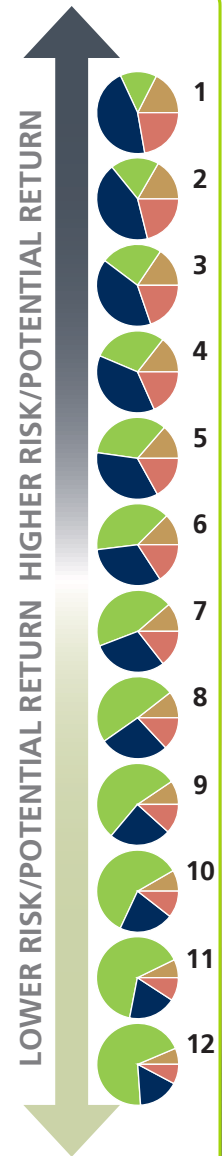
PEPP Steps Fund

The PEPP Steps Fund is the default investment option for the Plan. It is made up of a diversified investment portfolio which automatically moves members to more conservative investments over time. Equity and Alternative exposures decrease and bond holdings increase by increments of about five per cent for each step. Because of its unique structure, the PEPP Steps Fund does not have a single rate of return or fee level. Fees range from 0.65 per cent for PEPP Step 1 to 0.38 per cent for PEPP Step 12.

RATES OF RETURN

PEPP Step Fund	One year (%)		
	Rate of Return	Less Fund Fees	Net Rate of Return
Step 1	14.2	0.65	13.5
Step 2	13.5	0.63	12.9
Step 3	12.9	0.60	12.3
Step 4	12.3	0.58	11.7
Step 5	11.6	0.55	11.0
Step 6	10.9	0.53	10.4
Step 7	10.2	0.50	9.7
Step 8	9.6	0.48	9.1
Step 9	8.9	0.45	8.4
Step 10	8.1	0.43	7.7
Step 11	7.5	0.40	7.1
Step 12	6.9	0.38	6.5

ASSET MIX



Canadian Equity Foreign Equity

Investment Managers

Within each asset class, one or more investment managers are used for each investment option. The use of different managers allows for further diversification of the investments within each investment option. The use of different investment managers allows the Plan to employ different investment styles that can focus on different regions or sectors for investment, reducing the risk that any one region sector or style may suffer during any economic cycle or event.

Changes to Investment Managers In 2016-2017

Three new managers commenced the management of investments in 2016-17:

- AQR Capital Management, LLC (AQR) is managing a liquid alternative mandate through the AQR Delta XN Offshore Fund, L.P.
- Arrowgrass Capital Partners LLP (Arrowgrass) is managing a liquid alternative mandate through the Arrowgrass International Fund Ltd.
- Campbell & Company (Campbell) is managing a liquid alternative mandate through the Campbell Managed Futures Offshore Fund.

Investment Manager Mandates (as at March 31, 2017)

Investment Manager	Mandate	Description
Beutel, Goodman & Company Ltd. (Beutel)	• Canadian Equities	Actively manages Canadian equities
State Street Global Advisors (State Street)	• Canadian Equities	Actively manages Canadian equities
QV Investors Inc. (QV)	• Canadian Equities	Actively manages small and mid cap Canadian equities
GlobeFlex Capital, L.P. (GlobeFlex)	• Canadian Equities	Actively manages small cap Canadian equities
J. Zechner Associates Inc. (Zechner)	• Canadian Equities	Actively manages small cap Canadian equities
Greystone Managed Investments Inc. (Greystone)	• Real Estate • Fixed Income	Actively manages real estate Actively manages fixed income
AllianceBernstein Canada, Inc. (AB)	• Fixed Income	Actively manages fixed income
PIMCO Canada Corp. (PIMCO)	• Fixed Income	Actively manages fixed income
TD Asset Management Inc. (TDAM)	• Canadian Equities • U.S. Equities • Fixed Income • Money Market	Passively manages Canadian equities Passively manages U.S. equities Passively manages fixed income Actively manages money market

Investment Manager	Mandate	Description
Franklin Templeton Institutional, LLC (Franklin)	• Global Equities	Actively manages global equities
Burgundy Asset Management Ltd. (Burgundy)	• Global Equities	Actively manages global equities
Investec Asset Management Ltd. (Investec)	• Global Equities	Actively manages global equities
Tweedy, Browne Company LLC (Tweedy)	• Non-North American Equities	Actively manages non-North American equities
Gannett Welsh & Kotler, LLC (GWK)	• U.S. Equities	Actively manages small cap U.S. equities
SouthernSun Asset Management LLC (SouthernSun)	• U.S. Equities	Actively manages small and mid cap U.S. equities
Oberweis Asset Management, Inc. (Oberweis)	• EAFE Equities	Actively manages small cap EAFE equities
Thompson, Siegel & Walmsley LLC (TSW)	• EAFE Equities	Actively manages small cap EAFE equities
AQR Capital Management, LLC (AQR)	• Emerging Markets Equities • Liquid Alternative	Actively manages EM equities Actively manages a multi-strategy mandate
T. Rowe Price (Canada), Inc. (T. Rowe)	• Emerging Markets Equities	Actively manages EM equities
Arrowgrass Capital Partners LLP (Arrowgrass)	• Liquid Alternative	Actively manages a multi-strategy mandate
Brevan Howard US LLC (Brevan)	• Liquid Alternative	Actively manages a multi-strategy mandate
Campbell & Company (Campbell)	• Liquid Alternative	Actively manages a managed futures mandate
Grantham, Mayo, Van Otterloo & Co. (GMO)	• Liquid Alternative	Actively manages a managed futures/global macro mandate
Winton Capital Management (Winton)	• Liquid Alternative	Actively manages a managed futures mandate
Insight Investment Management Ltd. (Insight)	• Hedge 50 per cent of foreign currency exposure	Passively manages currency hedging

Table 1.7

Investment Performance

The Board retains 24 investment managers through 30 investment mandates to invest the assets of the Plan as well as one passive currency hedge manager. Those managers employing an “active” investment management style are given the objective of out-performing the market index or benchmark selected for their mandate. Managers employing a “passive” investment management style are given the objective of equalling the market index or benchmark selected for their mandate.

Canadian Equities		Net Rate of Return	
		1-Year	4-Year
	Canadian Equity Managers		
	TDAM (passive manager)	18.5	8.2
	Beutel (active manager)	17.6	11.5
	State Street (active manager)	17.7	8.3
	Benchmark (S&P/TSX Capped Composite Index)	18.6	8.3
	Canadian SMID Cap Equity Manager		
	QV (active manager)	19.6	10.8
	Benchmark (S&P/TSX Completion Index)	16.9	6.2
	Canadian Small Cap Equity Managers		
	GlobeFlex (active manager)	20.0	10.1
	Zechner (active manager)	32.4	8.3
	Benchmark (S&P/TSX Small Cap Index)	29.5	6.2

Table 1.8

US Equities		Net Rate of Return	
		1-Year	4-Year
	U.S. Equity Manager		
	TDAM (passive manager)	20.7	21.0
	Benchmark (S&P 500 Index - \$Cdn)	20.8	21.1
	U.S. Small/Mid Cap Equity Manager		
	SouthernSun (active manager)	17.6	n/a
	Benchmark (Russell 2500 Index - \$Cdn)	25.3	19.2
	U.S. Small Cap Equity Manager		
	GWK (active manager)	24.4	n/a
	Benchmark (Russell 2000 Index - \$Cdn)	30.1	19.2

Table 1.9

Non-North
American/Global,
Emerging Market
Equities

	Net Rate of Return	
	1-Year	4-Year
Non-North American Equity Manager		
Tweedy (active manager)	15.0	10.1
Benchmark (MSCI EAFE Index - \$Cdn)	15.1	11.1
Global Equity Managers		
Investec (active manager)	16.2	n/a
Benchmark (MSCI AC World Index - \$Cdn)	19.3	16.1
Burgundy (active manager)	14.2	n/a
Franklin (active manager)	18.4	n/a
Benchmark (MSCI World Index - \$Cdn)	19.0	17.1
EAFE Small Cap Equity Managers		
Oberweis	10.0	n/a
Benchmark (MSCI World ex US Small Cap index - \$Cdn)	15.1	16.0
TSW	10.1	n/a
Benchmark (MSCI EAFE Small Cap Index - \$Cdn)	14.9	16.2
Emerging Market Managers		
AQR	27.1	n/a
T. Rowe	23.2	n/a
Benchmark (MSCI Emerging Market Index - \$Cdn)	21.3	8.0

Table 1.10

Alternatives	Net Rate of Return	
	1-Year	4-Year
Real Estate Manager		
Greystone (active manager)	7.8	7.2
Benchmark (Investment Property Databank)	6.6	8.0
Liquid Alternative Managers		
AQR	n/a	n/a
Brevan	8.7	n/a
Winton	1.3	n/a
Benchmark (3-Month US Treasury Bills - \$Cdn)	3.5	7.2
Arrowgrass	n/a	n/a
Campbell	n/a	n/a
GMO	9.3	n/a
Benchmark (FTSE TMX Cda 91-Day T-Bill Index)	0.5	0.7

Table 1.11

Fixed Income	Net Rate of Return	
	1-Year	4-Year
Canadian Bond Managers		
Greystone (active manager)	2.3	3.1
TDAM (passive manager)	1.5	3.2
AB (active CorePlus manager)	4.3	n/a
PIMCO (active CorePlus manager)	2.3	n/a
Benchmark (FTSE TMX Universe Bond Index)	1.5	3.3
PIMCO (active absolute return manager)	7.2	n/a
Benchmark (FTSE TMX Cda 91-day T-Bill Index)	0.5	0.7

Table 1.12

Cash and Equivalents

	Net Rate of Return	
	1-Year	4-Year
Money Market Manager		
TDAM (active manager)	0.9	1.1
Benchmark (FTSE TMX Cda 91-day T-Bill Index)	0.5	0.7

Table 1.13

Notes:

In December 2015 BlueCrest began a process of divesting its investment portfolio, returning capital managed by BlueCrest to all investors as soon as practical. This process is ongoing, with a less liquid portion of this mandate still held by the Plan.

During 2009, the Board terminated the U.S. equity mandate managed by Northwater Capital Management Inc. (Northwater). A less liquid portion of this mandate, consisting of a fund of hedge funds, is still held by the Plan and is being redeemed. Subsequent to termination, Northwater sold its fund of hedge funds operations to Crestline Investors Inc.

Mandates with inception dates that do not extend back one year and/or four years are denoted with "n/a" in the 1-Year Return and/or 4-Year Return column as full performance history has not yet accrued.

Investment Consulting

The Board retains Mercer (Canada) Limited for investment consulting services that include research and analysis of financial markets, market trends, investment managers, and investment performance, but also global trends in investments and pension plan design. Mercer (Canada) Limited was paid \$665,000 and AON Consulting \$7,000 in fees for the year ended March 31, 2017.

Investment Custody and Valuation

The Board retains RBC Investor & Treasury Services as the custodian of the Plan. The custodian is responsible for custody of all financial assets for PEPP, settles all investment transactions and ensures all investment income (dividends and interest) is collected. The custodian also reports all investment transactions and conducts valuation for the Plan. The custodian was paid \$1,164,000 for the year ended March 31, 2017.

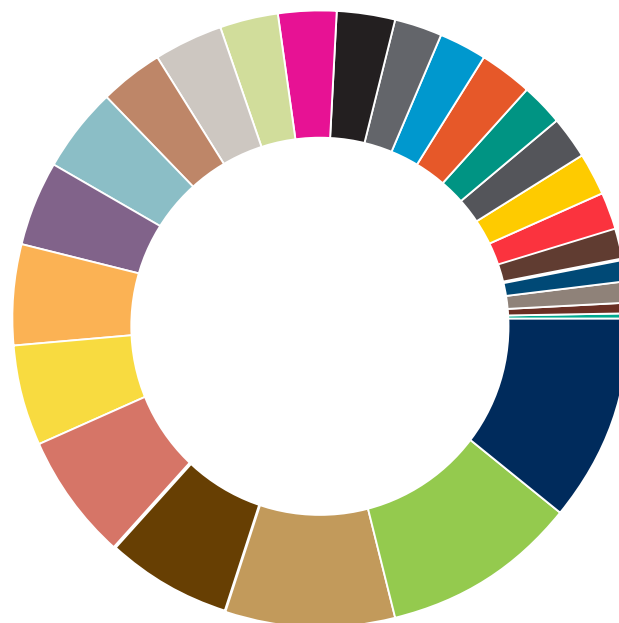
Investment Administration

This includes declaring unit values for all investment options, monitoring of investment performance, communicating with external investment managers and the investment consultant, research, compliance monitoring and managing asset mix and cash flows.

Investment Manager Fees (\$ thousands) (for the 2016-2017 fiscal year)

4,267	Brevan Howard US LLC	1,135	Oberweis Asset Management, Inc.
4,035	Grantham, Mayo, Van Otterloo & Co.	1,036	State Street Global Advisors
3,443	Tweedy, Browne Company LLC	1,012	GlobeFlex Capital, L.P.
2,624	Burgundy Asset Management Ltd.	1,010	Thompson, Siegel & Walmsley LLC
2,518	Greystone Managed Investments Inc.	931	SouthernSun Asset Management LLC
2,106	PIMCO Canada Corp.	834	Gannett Welsh & Kotler, LLC
2,009	Franklin Templeton Institutional, LLC	822	Beutel, Goodman & Company Ltd.
1,740	Investec Asset Management Ltd.	789	QV Investors Inc.
1,726	AQR Capital Management, LLC	673	TD Asset Management Inc.
1,363	Winton Capital Management	448	J. Zechner Associates Inc.
1,322	T. Rowe Price (Canada), Inc.	414	Campbell & Company
1,236	AllianceBernstein Canada, Inc.	226	Insight Investment Management Ltd.
1,179	Arrowgrass Capital Partners LLP	21	Crestline Investors, Inc.

\$38,919
 thousands
 Total Investment
 Manager Fees





Plan Administration

Participating employers include the Government of Saskatchewan, crown corporations, agencies, boards and other public institutions.

FOCUSING ON OUR MEMBERS

“I want to thank you for your help in transitioning me from an employee to a retiree. Your friendly approach and willingness to provide information made the process much easier.” – Plan member

The Board has delegated the day-to-day administration of the Plan and management of its assets to PEBA. The cost for this is charged to the Fund. PEBA is a branch of the Ministry of Finance and administers a wide range of pension and benefit plans.

Under contract with the Board, PEBA provides all services required to operate, administer and manage the Plan in a manner consistent with and according to all statutory provisions and regulations that apply to the Plan.

To administer the Plan, PEBA:

- maintains all member and accounting records;
- collects and deposits contributions to the Fund;
- transfers contributions to the custodian of the Fund for investment;
- determines all questions of coverage, eligibility and methods of providing or arranging for the provision of pension benefits;

- calculates and pays all pension benefits;
- communicates with members and participating employers; and
- prepares the annual report.

PEBA also provides Senior Executive Officer services and Executive Secretary services to the Board. In 2016-2017, the Board paid PEBA \$7,198,000 for administrative services.

Administration Service Standards

PEBA reports performance measurement against standards to the Board quarterly. *Table 1.14* and *Table 1.15* provide measurement results for the 2016-2017 year.



“ I’ve only had to get in touch with PEPP a couple of times recently, as part of my own financial planning, but the service provided was excellent. I was missing my number, and couldn’t access online services – so I picked up the phone, and someone helped me out right away. ” – Brennan, Plan member

PEBA Service Standards April 1, 2016 to March 31, 2017

Task	Completed	Met or Exceeded Standard		Standard (Days)*	Statutory Requirement (Days)**
		Number	%		
Statement on Termination of Membership (option letter)	3,411	3,202	93.9	4	90
Payment of Termination Benefits	1,752	1,656	94.5	4	-
Statement on Retirement (option letter)	883	632	71.6	4	90
Retirement Payments	1,835	1,693	92.3	4	-
Statement on Death (option letter)	96	80	83.3	5	90
Payment of Death Benefits	99	93	93.9	4	-
Pension Estimates	527	456	86.5	4	-
Marriage Breakdown Estimates	106	103	97.2	5	-
Portability Transfer Values	36	34	94.4	5	-
Written Correspondence†	10,039	10,039	100.0	5	-
Total	18,784	17,988	95.8		

Table 1.14

* Standard is set within the contract between the Board and PEBA.

** Statutory Requirement is a compliance standard within *The Pension Benefits Act, 1992* and *The Pension Benefits Regulations, 1993*.

† The majority of written correspondence is received by PEPP Inquiry email. The PEPP Inquiry email receipts and responses are monitored by the PEPP Supervisors.

PEBA Periodic Requirements April 1, 2016 to March 31, 2017

Task	Completed	Met or Exceeded Standard		Standard (Days)*	Statutory Requirement (Days)**
		Number	%		
Member Statement	3	3	100.0	75	180
Reporting on Budget Variances	4	4	100.0	Quarterly	-
Proposed Annual Budget	0	0	0.0	By March 31	-
Performance Measurement	4	4	100.0	Quarterly	-
Board Decision Affecting Individual Clients	0	n/a	n/a	1 Month	-
Newsletter (Pension Perspectives)	4	4	100.0	Quarterly	-
Total	15	15	100.0		

Table 1.15

* Standard is set within the contract between the Board and PEBA.

** Statutory Requirement is a compliance standard within *The Pension Benefits Act, 1992* and *The Pension Benefits Regulations, 1993*.

† Proposed Annual Budget standard was not met due to the timing of the Provincial Budget.

KEY PERFORMANCE INDICATORS

Key performance indicators allow the Board to monitor the services delivered to Plan members and the tasks that are critical for the Plan's ongoing success.



Kim – Plan member

The Plan needs to measure its performance in areas that are critical for success, if it is to deliver the services that members expect from the Plan. The Plan measures these critical success factors in four categories:

Customer measures track the performance of key customer-related tasks and how well members tell the Plan it is doing in terms of the information and services it provides members.

Financial measures track the Plan's performance in the areas of administration costs and investment performance;

Internal measures track the Plan's performance in the area of internal administration and governance processes; and

Innovation and Learning measures track the Board's performance of educational activities supporting its oversight of the Plan's administration and investment activities.

Establishing targets ensures that the Board is able to review the Plan's performance of key administrative tasks against a standard of practice, to track any changes in performance over time, and to be aware of the areas of strength and weakness in the Plan's administration.

The Board reviews these key performance indicators on a bi-annual basis throughout the year. A review of the Plan's performance during the year ended March 31, 2017 is provided in the following pages.

Summary

The Plan met a majority of its performance targets in 2016-2017. Consistently high performance in several areas paints an overall picture of timely, efficient, and satisfactory service to Plan members within the approved administration budget.

While the measure documenting the performance of the investment options remains below target, relative performance has improved significantly over the previous year. At year end, 11 of 12 investment options met or exceeded their benchmarks.

Service provider performance remains a concern. Most of the Board's key service providers were rated as "satisfactory" during 2016-2017, but one of the Plan's service providers received an "unsatisfactory" evaluation. However, improvement in the service provider's performance continued through the year.

As in the past, member satisfaction with the information sessions provided by the Plan was well above target and demonstrates the value that members find in the education provided.

Customer

Critical success factor	Measure	Target	Result
Quality of service satisfaction	Member satisfaction with information sessions	More than 80 per cent of member survey responses indicate satisfaction with information sessions	Met
Member retention	Member fund retention	More than 95 per cent of funds available for withdrawal are left in the Plan	Met
Provide service within service standard	Member transactions within service standards	More than 80 per cent of transactions meet the service standard	Met

Financial

Critical success factor	Measure	Target	Result
Returns greater than benchmarks	Investment fund rate of return compared to benchmark	All funds perform better than their respective benchmarks	Not met ¹
Performance to budget	Administration cost	Administration cost within budgeted amount	Met
Supplier management	Breakage as a percentage of total financial transactions	Fewer than one per cent of financial transactions incur breakage	Met

¹ Nine investment options outperformed their four-year benchmarks as at March 31, 2017, two matched, while one option underperformed. The option that trailed its four-year benchmark was within 0.1 percentage points (10 basis points) of its benchmark. Performance has improved significantly since the previous reporting period, but remains below the target of 100 per cent.

Internal

Critical success factor	Measure	Target	
Supplier management	Service provider performance is satisfactory	Performance of all service providers is satisfactory	Not met ²
PEBA leadership	Satisfactory rating for Executive Management Services	Board's evaluation of its administrator shows satisfaction with the executive management services provided	Met
Governance	Compliance with Governance Self-Assessment and CAP Guidelines	Board demonstrates 100 per cent compliance with CAPSA governance and CAP guidelines	Met
Supplier management	Investment manager compliance reporting is 100 per cent annually	All required compliance reports are submitted	Met
Performance to budget	Actual expenditures on budgeted strategic initiatives compared to budget	Expenditures within budgeted amount	Met
Performance to schedule	Budgeted strategic initiatives are completed on schedule	All budgeted initiatives completed on schedule	Met

²The performance of one of the Plan's key service providers was documented as "unsatisfactory" during the year. As a result, performance in this area did not meet the Board's target of satisfactory performance of 100 per cent from the Board's key service providers. Additional steps have been taken on the part of the service provider to increase service levels and performance has improved.

Innovation and Learning

Critical success factor	Measure	Target	Result
Board leadership capacity	Board training requirements	Board as a whole has completed at least 80 per cent of individual training requirements	Met ³

³ Three Board members are progressing through the Board's new Board member orientation program at year end: Two new Board members were appointed in 2016 and one member appointed in 2017.

In 2016-2017, the Board approved its Strategic Business Plan for 2016-2017 to 2018-2019. The Strategic Business Plan is built on the following vision and mission:

Vision

PEPP will consistently exceed the expectations of members and employers and will be a leader in the pension industry.

Mission

To provide an unequalled defined contribution retirement plan and best-in-class services to members and employers.

The Board identified the following five strategic goals and accompanying objectives as part of its Strategic Business Plan:

Investment • Service • Cost-effectiveness • Stewardship • Engagement

Investment

Earn competitive long-term investment returns for members while managing risk.

PEPP members need their retirement savings to grow. They also need the risk of investing their retirement savings to be in-line with the return expectations they adopt when they choose an investment option.

PEPP recognizes the fundamental need for competitive long-term returns for members to achieve their desired retirement outcomes. Because members are responsible for their investment choices, PEPP ensures that the options members can choose from are appropriate and offer something for members of every investment preference and risk appetite.

To that end, PEPP engages in a periodic review of its investment options to ensure they meet member needs. Changes resulting from the most recent review were implemented in 2014. The Board will commence a review of the Plan's investment options in 2017-2018.

Objectives

- Ensure effective processes for selecting and monitoring investment managers.
- Provide a range of investment solutions to meet the diverse needs of individual members including controlling their individual risk.

Activities planned and accomplished in 2016-2017

- PEPP began preparations for the next investment option review, scheduled to begin 2017-2018.

Activities planned for 2017-2018

- PEPP will initiate a review of the Plan's investment strategy and investment options.

Service

Deliver exceptional and innovative service to members and employers.

PEPP is committed to ensuring that Plan members have access to pension services and information which meet their needs.

PEPP is determined to maintain its position as an industry leader in the value-added services it offers its members. The Plan is continually exploring leading industry practices, but its primary benchmark in service delivery is the satisfaction of Plan members.

PEPP members are responsible for making very important choices that play a large part in whether they achieve the retirement outcomes they desire. This means that PEPP must provide the information and services that can help members make those crucial decisions.

The only way that PEPP can know whether the service it provides is meeting member needs is to ask members. PEPP is committed to facilitating two-way communication with members to gather their feedback.

Objectives

- Maintain an up-to-date suite of products and services that meet evolving member needs, that provide members with a reason to remain in the Plan, that attract voluntary contributions from members, and that attract other public-sector employers to join the Plan to maintain economies of scale.

Activities planned and accomplished in 2016-2017

- The Board examined the information, tools and products offered to members for the management of their draw-down phase.

Activities planned for 2017-2018

- An initiative to help members manage and achieve their retirement goals is scheduled to commence in September 2018.

Cost-effectiveness

Operate efficiently and cost-effectively.

PEPP members participate in a pension plan that provides excellent value through economies of scale. It is crucial to ensure that members receive the full benefit of this value.

Efficiency of service minimizes costs and maximizes value for Plan members.

Objectives

- Allocate resources to maximize effectiveness and efficiency of services provided to Plan members and employers.

Activities planned and accomplished in 2016-2017

- PEBA engaged a benchmarking service to assess administration and investment services against those of peer pension plans.

Activities Planned for 2017-2018

- Examine the findings of benchmarking efforts and explore opportunities for incremental improvement.

Stewardship

Ensure PEPP is well-governed and accountable to Plan members and employers.

The Board recognizes that good governance is crucial to the long-term success of the Plan. Good governance requires appropriate control mechanisms that encourage good decision-making, proper and timely execution, and regular review and assessment. The Board strives to be an industry leader in its pension plan governance practices.

The Board believes that good governance requires a strong focus on accountability, the basis of which is the establishment of measurable objectives, the monitoring of progress against these objectives, and the communication of the results to Plan stakeholders.

Objectives

- The Board demonstrates that it governs the Plan responsibly.
- The Board provides appropriate oversight of service providers.

Activities planned and accomplished in 2016-2017

- The Board established a committee to explore possible means of enhancing its oversight of investment service providers and provide the Board with a recommendation.

Activities planned for 2017-2018

- The Board will examine the recommendation of its committee to enhance its oversight on investment service providers.

Engagement

Ensure members understand their responsibilities and have the right tools and information available.

PEPP members are responsible for making decisions while they participate in the Plan. Members may not understand this responsibility, and may be unaware of the ways in which PEPP can help them make the decisions they are responsible for making.

PEPP provides the tools and information that members need. PEPP strives to ensure that members are aware of their responsibilities and ways in which PEPP can help. PEPP also makes every effort to ensure that its provision of information and services is responsive to the needs of the Plan's members.

Objectives

- Support member understanding of the Plan, including individual member benefits and responsibilities for making decisions pursuant to the Plan.
- Support member understanding that they are responsible for planning their own retirement.
- Provide relevant, timely and accurate information which is easy to understand.

Activities planned and accomplished in 2016-2017

- Implemented Social Media channels – Facebook and Twitter.
- Introduced a Digital Communications Strategy designed to enhance member engagement with the introduction of new communication mediums and tools.

Activities planned for 2017-2018

- Develop a Stakeholder Communication Strategy.
- Conduct a member satisfaction survey and focus groups.
- Continue to work on the Member Engagement Strategy to build long-term two-way relationships with members.

RISK MANAGEMENT

A hand is pointing at a digital interface. The interface features a grid of hexagons, each containing a risk management strategy: Avoid, Accept, Reduce, Transfer, and Control. A large blue hexagon in the center contains the text 'RISK MANAGEMENT' in white, bold, uppercase letters.

RISK MANAGEMENT

The Board is responsible for managing risks that could affect the Plan's members, the operation of PEPP and other stakeholders.

Within its mandate, the Board is responsible for managing risks that could affect the Plan's members, the operation of PEPP and other stakeholders.

Annually, the Board will conduct a risk-management review. This annual review is designed to identify potential events and trends that may positively or negatively affect the Board's ability to achieve its strategic goals or maintain its operations. These events and trends are defined as risks.

Risk: The potential events and trends that may positively or negatively affect the operation of the Plan, the members or other stakeholders of the Plan or the attainment of strategic goals.

The risk-management process and review ensures that the Board, along with its administrator, identifies and evaluates risks, ensures appropriate strategies are in place to manage these risks and reviews the performance of the risk-management strategies for the previous year.

The Risk Management Plan and its annual review ensure that a regular, documented process is in place for the management of the Plan's foreseeable risks. Documenting the rationale for arriving at decisions strengthens accountability and demonstrates due diligence.

The Board's Risk Management Philosophy Statement:

The Board is committed to creating and maintaining value for the members of the Plan. The Plan faces risks as the Board fulfills this commitment. Therefore, the Board is responsible for managing all foreseeable risks that could affect the operation of the Plan and the Plan's stakeholders. Through its risk-management process, the Board identifies, measures, monitors and manages these risks in a manner that is consistent with the Board's governance model.



“ I appreciate the investment fund flexibility PEPP provides, and I'm very satisfied with the performance of the fund I've selected to serve my retirement needs. While I acknowledge market conditions play a significant role, I also feel comfortable my pension savings are being well managed. ”

– Blaine, Plan member

Key Risks

In order to assist in the identification and assessment of all foreseeable risks in the Plan, the Board has identified the following key broad-based risks to the Plan:

Broad-based Risks

Strategic Risk

Strategic Risk is the risk of failing to meet objectives. Strategic risk is further categorized into governance, reputation, plan design and communication considerations.

Financial Risk

In order to meet the long-term needs of members and employers, sustainable pension products responsive to and valued by members, employers, unions and the sponsor must be maintained. This must be achieved in a way that considers the affordability and adequacy of the Plan's services.

Regulatory Risk

Regulatory risk is the risk of not meeting objectives due to non-compliance with legislation or regulation, or due to changes in legislation or regulations, or precedent-setting court decisions.

Operational Risk

Operational risk is the risk of failing to meet objectives due to inadequate or failed internal processes, human performance, or technology, or due to external events. Operational risks includes service-provider risk, which is the risk of failing to meet objectives due to the inability or unwillingness of a service provider to fulfill its obligations.

Key Risks

- Failure to meet plan members' or participating employers' needs.
- Lack of member understanding of the role of the pension plan in the attainment of their retirement objectives.

- Investment of assets.
- Excessive costs/expenses.
- Fraudulent activities of service providers, the administrator or the Board.

- Non-compliance with legislative and common-law requirements.
- Failure to meet fiduciary obligations to Plan members and their beneficiaries or obligations to other stakeholders.

- Errors and omissions by administrative agent or professional advisors.
- Service provider unable to carry on business.
- Poor performance of service providers.

The Board believes that the broad-based risks are integrated with each other and with the processes of the Plan. Therefore, the Board has resolved to retain a balanced approach in the management of all four types of risks.

The Board has developed and implemented these strategies and ongoing business practices to manage the key risks facing the plan:

- The Board implemented a Statement of Investment Policies and Goals (SIP&G) that outlines the Board's investment beliefs and provides for risk management through diversification of asset classes, capital markets and investment managers.

The SIP&G defines the benchmark to which investment performance is measured. The Board annually reviews the SIP&G.

The Board communicates investment performance.

Independent monitoring is carried out by:

- PEBA;
- Mercer (Canada) Ltd.;
- RBC Dexia Investor Services; and
- custodians of pooled funds used by the Board.
- The Board ensures initiatives and Plan-related activities are adequately funded through its budgeting process.
- The Board receives a report comparing the administrative costs for public-sector pension plans, including other public-sector defined contribution pension plans, annually.

- The Board reviews the performance standards for the Board's administrator quarterly, investment consultant annually, investment managers quarterly, and custodian semi-annually.
- The Board annually evaluates the performance of the executive management services provided by its administrator.
- The Board requires that service providers confirm that they maintain disaster recovery plans and adhere to a code of conduct.
- There are two levels of audit:
 - The Board retains KPMG LLP to conduct an audit of the Plan.
 - The Provincial Auditor reports to the Legislative Assembly regarding the audit of the Plan.
- The Board has an Acquisition and Retention of Services policy that details how the Board is to retain and evaluate service providers.
- The Board's administrator reviews and reports compliance with legislative requirements annually.
- The Periodic Checklist is a list of major items identified by the Board that are necessary for the administration of a pension plan. The checklist allows verification that an activity has been carried out. The completed Periodic Checklist is provided to the Board on a semi-annual basis.
- Board members are required to review and sign the Board's Code of Conduct and Conflict of Interest Procedures at least annually.
- The Board has outlined the education required to aid Board members in executing their fiduciary and governance duties.
- The Board formally reviews its Strategic Business Plan on a periodic basis.
- The Board regularly consults with legal counsel and outside advisors regarding issues on which it is deliberating.
- The Board retains service providers who are experts in the responsibilities to which they are assigned with respect to the Plan.
- PEBA staff provides retirement information seminars and individual information to Plan members.
- Information tools include member and employer seminars, employer bulletins and guides, written materials, and online resources such as the Plan website, PEPP Access and Retire@Ease.
- The Board consults with Plan members and participating employers on a regular basis to determine their needs.

Activities planned and accomplished in 2016-2017

The Board continued its oversight of the implementation of strategic initiatives.

- The Board approved a new Strategic Business Plan for 2016-2017 to 2018-2019.

Periodic evaluation by the Board's administrator of the performance of the auditor, investment consultant and custodian. The Board:

- reviewed the performance of its auditor in September 2015;
- reviewed the performance of its custodian in June 2015; and
- is scheduled to review the performance of its investment consultant in April 2017.

Quarterly updates comparing actual expenditures versus budgeted amounts.

- The Board received quarterly updates on expenditures for the periods ending June, September, and December 2016, and March 2017.

Semi-annual completion of the Periodic Checklist.

- PEBA provided the Board with the final Periodic Checklist for 2015-2016 in May 2016 and the interim Periodic Checklist for the first six months of 2016-2017 in November 2016. No significant exceptions were noted.

Activities planned for 2017-2018

- The Board will continue to periodically evaluate the performance of its auditor, investment consultant, custodian, and administrator.
- The Board will continue to receive quarterly updates comparing actual expenditures to budgeted amounts.
- The completed Periodic Checklist will be provided to the Board on a semi-annual basis.

Management's Report

To the Members of the Legislative Assembly of Saskatchewan

The Public Employees Pension Board is composed of four members appointed on behalf of participating employers, four members appointed on behalf of employees, and a Chairperson selected through a formal recruitment process. The Board is responsible for financial administration, administration of the funds and management of assets.

The financial statements, which follow, have been prepared by management in conformity with Canadian accounting standards for pension plans and have been approved by the Board. Management uses internal controls and exercises its best judgment in order that the financial statements reflect fairly the financial position of the Plan.

The financial statements were examined by KPMG LLP. Their report follows.



Dave Wild
Associate Deputy Minister
Public Employees Benefits Agency

Regina, Saskatchewan
June 22, 2017

Financial Statements

(as at March 31, 2017)

Public Employees Pension Board
Public Employees Pension Plan

FINANCIAL STATEMENTS



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INDEPENDENT AUDITORS' REPORT

To Members of the Legislative Assembly of Saskatchewan

We have audited the accompanying financial statements of the Public Employees Pension Plan, which comprise the statement of financial position as at March 31, 2017, the statement of changes in net assets available for benefits and 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 Public Employees Pension Plan as at March 31, 2017, and the changes in its net assets available for benefits and pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

KPMG LLP

Chartered Professional Accountants
June 22, 2017
Regina, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

Public Employees Pension Plan Statement of Financial Position

Statement 1

As at March 31	(in thousands)	
	2017	2016
ASSETS		
Investments (Note 4)	\$ 7,934,493	\$ 7,042,659
Investments Under Securities Lending Program (Note 4)	1,201,133	1,242,350
	9,135,626	8,285,009
Receivables		
Employee Contributions	4,386	1,195
Employee Contributions - Voluntary	1,445	315
	5,831	1,510
Employer Contributions	5,764	1,327
Accrued Investment Income	13,304	12,389
Other Receivables	25,283	12,957
	50,182	28,183
Cash	123,411	126,876
Due from General Revenue Fund (Note 7)	12,577	11,870
Total Assets	9,321,796	8,451,938
LIABILITIES		
Administrative Expenses Payable	7,714	7,902
Refunds, Transfers And Other Payables	26,644	15,181
Total Liabilities	34,358	23,083
NET ASSETS AVAILABLE FOR BENEFITS	9,287,438	8,428,855
PENSION OBLIGATIONS	9,287,438	8,428,855
SURPLUS	\$ -	\$ -

(See accompanying notes to the financial statements)

Public Employees Pension Plan

Statement of Changes in Net Assets Available for Benefits and Pension Obligations

Statement 2

	(in thousands)	
For the Year Ended March 31	2017	2016
INCREASE IN ASSETS AND PENSION OBLIGATIONS		
Investment Income (Note 4)	\$ 256,163	\$ 245,885
Security Lending Income (Note 4)	1,166	867
	257,329	246,752
Increase in Fair Value of Investments	655,753	-
Contributions		
Employee Contributions	148,792	136,468
Employee Contributions - Voluntary	35,970	31,617
	184,762	168,085
Employer Contributions	178,473	163,413
External Transfers In	25,839	19,117
	389,074	350,615
Transfer from Capital Pension Plan (Note 13)	-	1,343,614
Total Increase In Assets and Pension Obligations	1,302,156	1,940,981
DECREASE IN ASSETS AND PENSION OBLIGATIONS		
Transfers, Refunds and Benefits (Note 6)	386,935	350,545
Transfers to Saskatchewan Pension Annuity Fund	5,894	7,312
Investment Transaction Costs	4,015	3,439
Administrative Expenses (Note 8)	46,330	45,225
Other Expenses	399	613
Decrease in Fair Value of Investments	-	262,457
Total Decrease In Assets and Pension Obligations	443,573	669,591
Net Increase In Net Assets and Pension Obligations	858,583	1,271,390
NET ASSETS AVAILABLE FOR BENEFITS AND PENSION OBLIGATIONS, BEGINNING OF YEAR	8,428,855	7,157,465
NET ASSETS AVAILABLE FOR BENEFITS AND PENSION OBLIGATIONS, END OF YEAR	\$ 9,287,438	\$ 8,428,855

(See accompanying notes to the financial statements)

Public Employees Pension Plan Notes to the Financial Statements

March 31, 2017

1. Description of Plan

The following description of the Public Employees Pension Plan (the “Plan”) is a summary only. For more complete information, reference should be made to *The Public Employees Pension Plan Act*.

a) General

The Public Employees Pension Plan Act (the “Act”) is the legislative authority and plan text for the Plan which is domiciled in Regina, Saskatchewan, and which is a defined contribution plan that covers the employees of the employers prescribed by *The Public Employees Pension Plan Regulations*, 2015. Effective September 1, 2002, the Plan also covers the Members of the Legislative Assembly. Members who are employed outside of Saskatchewan, and monies earned outside of Saskatchewan, are subject to the minimum standards of the jurisdiction in which the income was earned. The Plan’s policy with respect to those members and monies subject to extra-provincial jurisdiction is documented in the Plan’s *Policy for the Extra-Jurisdictional Application of the Act (Saskatchewan) and Regulations thereunder*.

The Act established the Plan to accumulate all contributions and earnings for plan members. The Plan consists of five asset allocation Funds: the Accelerated Growth Fund, the Growth Fund, the Balanced Fund, the Moderate Fund and the Conservative Fund; one Lifecycle Fund: the PEPP Steps Fund; and two other stand-alone funds: the Bond Fund and the Money Market Fund. Members of the Plan may choose either one of the five asset allocation funds or the PEPP Steps Fund. In addition, each member may also choose the Bond Fund and/or Money Market Fund.

All Funds receive and hold, in trust for members, contributions from the members and employers (collectively “Participants”) and investment income derived from the Plan’s investments.

The Plan holds varying percentages of bonds and debentures, equities, pooled funds, short-term investments and derivative financial instruments. The asset mix of each fund is established based on the expected volatility of the underlying securities and assets. The Accelerated Growth Fund is considered the most volatile and contains the highest percentage of equities relative to fixed-income investments of all the funds.

The Plan uses a unitized method of plan participation whereby each member has a certain number of units of ownership in the net assets of the investment funds. Investment income including changes in the market value of the investments and expenses is reflected in the market value of the net asset value per unit of participation. The total available to a member upon termination or retirement is equal to the particular member's account balance at that date, subject to certain vesting and other specific rules governing the Plan.

The Plan introduced a Variable Pension Benefit option (“VPB”) in May 2006 whereby retired members could elect to withdraw all or some of their pension funds either through lump-sum withdrawals or scheduled monthly payments. Members who participate in the VPB may choose to invest in any of the funds which are offered by the Plan. A VPB is a periodic payment made from a registered plan to a member of that plan and which must conform to certain minimum payment requirements but not to any maximum payment requirements according to Saskatchewan legislation. Members subject to extra-provincial jurisdiction may be subject to a maximum payment requirement.

b) **Administration**

The Act established the Public Employees Pension Board (“Pension Board”) to administer the Plan. The Pension Board is composed of nine members: four are appointed on behalf of participating employers, four on behalf of employees. The Board conducts an external recruitment process to choose a Chair, who is appointed for a three-year term. The Public Employees Benefits Agency (“PEBA”) is under contract with the Board to provide day-to-day administration.

c) **Retirement**

Members may retire as early as age 50.

Upon retirement a member may choose to receive a VPB from the Plan and/or to purchase an annuity from the Saskatchewan Pension Annuity Fund (“SPAF”) or from a private company that issues annuities.

Alternatively, the funds may be left in the Plan to continue to accumulate earnings to provide retirement income beginning no later than the end of the calendar year in which the member reaches age 71, be transferred to a Locked-in Retirement Account or, after age 50, to a Locked-in Retirement Income Fund, Life Income Fund or a Life Annuity from the SPAF or be transferred to another pension plan which has a reciprocal agreement with the Plan.

Members who elect to receive a VPB retain their account balances within the Plan. Those members who purchase their annuities from the SPAF have their accumulated balance, or any portion of their balance, in the Plan at the date of retirement transferred to the SPAF.

d) **Completeness of Contributions**

Participants are responsible for the accuracy and completeness of member contributions remitted to the Plan. Accordingly, these financial statements presume the accuracy and completeness of the Participants' contributions.

2. Basis of Preparation

a) Statement of Compliance

The financial statements for the year ended March 31, 2017 have been prepared in accordance with Canadian accounting standards for pension plans as defined in the CPA Canada Handbook section 4600, *Pension Plans*. For matters not addressed in Section 4600, International Financial Reporting Standards (“IFRS”) have been followed.

These financial statements were authorized and issued by the Pension Board on June 22, 2017.

b) 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.

3. Significant Accounting Policies

The significant accounting policies are as follows:

a) Investments

Investments are stated at their fair value in the Statement of Financial Position. The change in the fair value of investments from the beginning to the end of each year is reflected in the Statement of Changes in Net Assets Available for Benefits and Pension Obligations.

Fair value of investments is determined as follows:

Short-term investments are valued at cost which, together with accrued investment income, approximates fair value given the short-term nature of these investments.

Bonds and debentures are valued at year-end quoted prices in an active market when available. When quoted market prices are not available, the fair value is based on a valuation technique, being the present value of the principal and interest receivable discounted at the appropriate market interest rates.

Equities are valued at year-end quoted prices from accredited stock exchanges on which the security is principally traded.

Pooled-fund investments are valued at the unit value supplied by the pooled-fund administrator, which represent the underlying net assets of the pooled fund at fair values determined using closing prices. Real estate pooled-fund underlying assets are valued by third-party appraisals.

Investments in derivative financial instruments, including futures, repurchase agreements, forwards and option contracts, are valued at year-end quoted market prices where available. Where quoted market prices are not available, values are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the position.

Investment transactions are recorded on the trade date.

b) **Other Assets and Financial Liabilities**

Accounts receivable are classified as loans and receivables and accounts payable are classified as other financial liabilities and are measured at amortized cost. Due to their short-term nature, the amortized cost of these instruments approximates their fair value.

c) **Investment Income and Transaction Costs**

Investment income, which is recorded on the accrual basis, includes interest income, dividends, pooled-fund income, and other income.

Brokers' commissions and other transaction costs are recognized in the Statement of Changes in Net Assets Available for Benefits and Pension Obligations in the period incurred.

d) **Foreign Currency Translation**

The fair values of foreign currency denominated investments included in the Statement of Financial Position are translated into Canadian dollars at year-end rates of exchange. Gains and losses from translations are included in the change in fair value of investments.

Foreign currency-denomination transactions are translated into Canadian dollars at the rates of exchange on the trade dates of the related transactions. Realized gains and losses on the sale of investments are included in the change in fair value of investments.

e) **Income Taxes**

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

f) **Use of Estimates and Judgments**

The preparation of financial statements in accordance with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the recorded amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the valuation of investments. Actual results could differ from these estimates.

g) **Future Accounting Policy Changes**

Certain new standards, amendments to standards and interpretations, are not yet effective for the year ended March 31, 2017, and have not been applied in preparing these financial statements. In particular, IFRS 9, Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement, and includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and a new general hedge accounting model. The standard is effective for annual periods beginning on or after January 1, 2018. The extent of the impact of adoption of this standard is not known at this time, but is not expected to be material.

4. **Investments**

The fair values of the Plan's investments are as follows:

	(in thousands)	
	2017	2016
Investments		
Short-term	\$ 33,151	\$ 45,983
Bonds and Debentures	675,000	675,177
Equities	2,722,161	2,331,002
Pooled Funds	4,504,181	3,990,497
	<u>7,934,493</u>	<u>7,042,659</u>
Investments Under Securities Lending:		
Short-term	10,453	9,897
Bonds and Debentures	287,653	265,096
Equities	903,027	967,357
	<u>1,201,133</u>	<u>1,242,350</u>
	<u>\$ 9,135,626</u>	<u>\$ 8,285,009</u>

The Plan's investment income is comprised of the following:

	(in thousands)	
	2017	2016
Investment Income		
Interest	\$ 27,012	\$ 24,755
Pooled Funds	135,744	130,962
Dividends	89,879	86,596
Other	3,528	3,572
	\$ 256,163	\$ 245,885

Security Lending Program

Through its custodian, the Plan participates in an investment security lending program for the purpose of generating fee income. Non-cash collateral of at least 105 per cent of the market value of the loaned securities is retained by the Plan until the loaned securities have been returned (see Securities Lending Program in Note 9). The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. In addition, the custodian provides indemnification against any potential losses in the securities lending program. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties. As at March 31, 2017, income generated from security lending program was \$1.2 million (2016 - \$0.9 million).

Short-term Investments

Short-term investments are comprised of treasury bills, notes, commercial paper, repurchase agreements, foreign exchange forward contracts, equity futures, swaps, and short-term investment funds. Directly held treasury bills held at March 31, 2017 had effective rates of 0.40 per cent to 0.90 per cent (2016 - 0.40 per cent to 1.70 per cent), and an average remaining term to maturity of 81 days (2016 - 56 days). The repurchase agreements and foreign exchange forward contracts are discussed further in Note 5.

Other than the Government of Canada, no single issue represents more than 7.25 per cent (2016 - 14.90 per cent) of the market value of the short-term investment portfolio.

Bonds and Debentures

2017 (in thousands)							
Years to Maturity	Federal	Provincial	Municipal	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 5	\$ 163,531	\$ 72,612	\$ 10,471	\$ 224,498	\$ 471,112	0.00% - 4.53%	2.10%
5 to 10	65,649	36,034	13,953	72,995	188,631	1.75% - 8.29%	3.04%
Over 10	44,311	175,606	2,497	80,496	302,910	2.75% - 6.67%	3.88%
Market Value	\$ 273,491	\$ 284,252	\$ 26,921	\$ 377,989	\$ 962,653		

2016 (in thousands)							
Years to Maturity	Federal	Provincial	Municipal	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 5	\$ 218,035	\$ 15,718	\$ -	\$ 247,071	\$ 480,824	0.00% - 5.26%	2.01%
5 to 10	1,378	63,716	4,447	91,840	161,381	1.88% - 8.29%	3.11%
Over 10	33,134	182,831	2,548	79,555	298,068	2.90% - 6.67%	3.48%
Market Value	\$ 252,547	\$ 262,265	\$ 6,995	\$ 418,466	\$ 940,273		

Included in the above amounts of corporate bonds are foreign bonds, issued by foreign entities in Canadian currency, with a market value of \$6.9 million (2016 - \$11.5 million). Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties. As at March 31, 2017, approximately \$0.01 million (2016 - \$0.02 million) in asset-backed securities is included in bonds.

Equities

As at March 31, 2017, the market value of the Plan's directly held foreign equity investments in Canadian dollars amounted to \$2,537 million (2016 - \$2,261 million) and foreign equities represent 70.0 per cent (2016 - 68.5 per cent) of the market value of the directly-held equity portfolio.

The Plan's equities include common shares that have no fixed maturity date and are generally not exposed to interest rate risk. The average dividend rate is 2.60 per cent (2016 - 4.13 per cent).

Real Estate

Investments in real estate consist of Canadian commercial property held through an investment in Greystone Real Estate Fund. The market appraisals used in valuing the real estate involves various assumptions. Changes in the underlying assumptions will have an impact on the market value of the investments.

Liquid Alternatives

Investments in liquid alternative investment strategies provide diverse exposure across multiple asset classes and employ a range of global macro and relative value trading strategies. These mandates invest in liquid financial instruments within various markets such as fixed income, foreign currency, commodities, and equities. The Plan holds investments in liquid alternatives through pooled funds.

Pooled Funds

Pooled-fund investment vehicles provide exposure to a diverse range of asset classes such as money market, fixed income, large cap equities, real estate, and liquid alternative strategies without directly holding underlying securities. The Plan holds investments in both passive and actively managed pooled funds.

The Plan's pooled funds are comprised of:

Pooled Funds	Market Value (in thousands)	
	2017	2016
Canadian Equity	\$ 360,192	\$ 327,815
U.S. Equity	290,402	243,070
Global Equity	3,818	4,715
Fixed Income Bond Fund	2,258,310	2,019,842
Liquid Alternative Investments	679,836	524,979
Short-Term Investment Fund	448,831	441,967
Real Estate Fund	462,792	428,109
	<u>\$ 4,504,181</u>	<u>\$ 3,990,497</u>

Fair Value

The Plan has classified its investments using a hierarchy that reflects the significance of the inputs used in determining their measurements.

Under the classification structure, financial instruments recorded at unadjusted quoted prices in active markets for identical assets and liabilities are classified as Level 1. Instruments valued using inputs other than quoted prices that are observable for the asset or liability either directly or indirectly are classified as Level 2. Instruments values using inputs that are not based on observable market data are classified as Level 3.

The following table classifies the Plan's financial instruments within a fair value hierarchy:

2017 (in thousands)				
	Level 1	Level 2	Level 3	Total
Bonds and Debentures	\$ -	\$ 962,641	\$ 12	\$ 962,653
Pooled Funds	-	4,041,389	462,792	4,504,181
Short-term	-	43,604	-	43,604
Equities	3,625,188	-	-	3,625,188
Total	\$ 3,625,188	\$ 5,047,634	\$ 462,804	\$ 9,135,626

2017 Fair Value measurement using level 3 inputs

	Real Estate Fund	Asset - Backed	Total
Balance at April 1, 2016	\$ 428,109	\$ 20	\$ 428,129
Purchases	-	-	-
Sales	-	(18)	(18)
Gains			
Realized	-	-	-
Unrealized	34,683	10	34,693
Balance at March 31, 2017	\$ 462,792	\$ 12	\$ 462,804

2016 (in thousands)				
	Level 1	Level 2	Level 3	Total
Bonds and Debentures	\$ -	\$ 940,253	\$ 20	\$ 940,273
Pooled Funds	-	3,562,388	428,109	3,990,497
Short-term	-	55,880	-	55,880
Equities	3,298,359	-	-	3,298,359
Total	<u>\$ 3,298,359</u>	<u>\$ 4,558,521</u>	<u>\$ 428,129</u>	<u>\$ 8,285,009</u>

2016 Fair Value measurement using level 3 inputs			
	Real Estate Fund	Asset - Backed	Total
Balance at April 1, 2015	\$ 344,737	\$ 21	\$ 344,758
Purchases	-	-	-
Sales	-	(1)	(1)
Gains			
Realized	-	-	-
Unrealized	83,372	-	83,372
Balance at March 31, 2016	<u>\$ 428,109</u>	<u>\$ 20</u>	<u>\$ 428,129</u>

There were no investments transferred between levels during the current year.

5. Derivatives

Derivative financial instruments are financial contracts whose values are derived from changes in underlying assets, interest or currency exchange rates.

At March 31, 2017 the Plan held the following derivatives:

Future / Forward Contracts

The Plan has entered into foreign exchange forward contracts to passively hedge some of its foreign currency exposure in foreign equities. Foreign exchange forward contracts are obligations in which two counterparties agree to exchange one currency for another at a specified price for settlement on a predetermined date in the future.

The Plan has also entered in future contracts. Future contracts are obligations in which two counterparties agree to exchange one asset for another at a specified price for settlement on a predetermined date in the future. Through one of its emerging capital mandates, the Plan directly holds index futures, swaps and forward contracts to enhance the risk/return characteristics of the portfolio. The market value of the portfolio is currently is \$187.2 million (2016 - \$161.0 million) and the market value of their derivatives is \$2.1 million (2016 - \$3.0 million).

The following summarizes the Plan's use of foreign currency forward exchange contracts within the passive currency hedging strategy:

FOREIGN EXCHANGE FORWARD CURRENCY CONTRACTS				
(in thousands)				
2017			2016	
Currency	*Notional Value	Gain (Loss)	*Notional Value	Gain (Loss)
AUD	(19,932)	\$ 73	(16,622)	\$ 26
CHF	(69,223)	313	(62,218)	219
DKK	(12,471)	39	(6,268)	41
EUR	(173,928)	491	(135,839)	1,047
GBP	(109,003)	(1,349)	(107,733)	2,027
HKD	(21,000)	(3)	(17,459)	565
JPY	(72,542)	(1,136)	(69,123)	2,010
MXN	(129)	(3)	(332)	(4)
NOK	(3,955)	30	(1,353)	(1)
NZD	(850)	(3)	(834)	(10)
SEK	(5,032)	55	(4,296)	29
SGD	(11,804)	(55)	(7,969)	62
USD	(726,315)	(926)	(649,295)	21,428
		\$ (2,474)		\$ 27,439

*Notional value represents the contractual amount to which a rate or price is applied in order to calculate the exchange rate of cash flows, and is therefore not recorded on the financial statements.

Based on the current rate of exchange as of March 31, 2017, the forward contracts are in a net loss position of \$2.5 million (2016 – net gain position of \$27.4 million). The foreign currency forward exchange contracts are short-term in duration and all contracts as of March 31, 2017 have a maturity date of less than one year. This amount is included in short-term investments on the Statement of Financial Position.

Repurchase Agreements

A repurchase agreement is a contract entered into between two counterparties to sell securities together with an agreement for the seller to buy back the securities at a later date. At March 31, 2017, the Plan has entered into repurchase agreements with a notional value of \$107.7 million (2016 - \$108.7 million) and a fair value of \$1.0 million (2016 - \$(0.99) million). This amount is included in short-term investments on the Statement of Financial Position. The repurchase agreements have a term to maturity of less than one year. The amount held for collateral is \$11.1 million (2016 - \$11.3 million).

Repurchase agreements require a fraction of their market value to be available as collateral to back the market exposure provided. PEPP has invested \$11.1 million (2016 - \$11.3 million) in physical bonds which serve as a backing asset for the repurchase agreements with TD Asset Management. There is a \$107.7 million (2016 - \$108.7 million) investment in the TD Emerald Canadian Short-term Investment Fund which is available as additional margin. No specific collateral is pledged for the repurchase agreement exposure as the investment is not leveraged. Collateral may be pledged to the Plan if the market value of the repurchase agreements changes significantly.

6. Transfers, Refunds and Benefits

	(in thousands)	
	<u>2017</u>	<u>2016</u>
Termination Refunds	\$ 7,785	\$ 7,097
Death and Lump Sum Benefits	27,525	22,753
Variable Pension Benefits	106,935	86,430
Marital Transfers	3,653	3,224
Transfers to Registered Retirement Savings Plans and to Private Companies Providing Annuities	235,159	227,867
Transfers Out	5,878	3,174
	<u>\$ 386,935</u>	<u>\$ 350,545</u>

7. Due from General Revenue Fund

The Plan's bank accounts are included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan. The Plan's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis to the Plan's bank accounts using the Government's 30-day borrowing rate and the Plan's average bank account balance. The Government's average 30-day borrowing rate in 2017 was 0.54 per cent (2016 - 0.60 per cent).

8. Administrative Expenses

The annual operating expenditures associated with the Plan's administration are paid to the Public Employees Benefits Agency Revolving Fund except for custodial fees and investment management fees, which are paid directly.

(in thousands)

	2017		2016	
	Budget (unaudited)	Actual	Budget (unaudited)	Actual
Audit Fees	\$ 125	\$ 57	\$ 133	\$ 94
Administration Costs	7,579	7,141	7,283	6,958
Custodial Fees	1,037	1,164	643	1,140
Investment Manager Fees	40,634	37,968 *	35,887	37,033
Total	<u>\$ 49,375</u>	<u>\$ 46,330</u>	<u>\$ 43,946</u>	<u>\$ 45,225</u>

* Included in the investment manager fees is a negative \$0.95 million which is a previous year accrual reversal from a closed investment manager account (Schroder Investment Management North America Inc.). Total investment manager fee, excluding this accrual reversal, is \$38.92 million.

9. 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 an investment policy, which is approved annually by the Pension Board. The investment policy provides guidelines to the Plan's investment managers for the asset mix of the portfolio regarding quality and quantity. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. Derivatives are allowed within the Plan to hedge against losses and substitute for direct investment. The Pension Board reviews and reports on regular compliance reports from its investment managers and custodian as to their compliance with the investment policy. The Pension Board also reviews and reports on regular compliance reports from its custodian as to the investment managers' compliance with the investment policy.

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 it is exposed at March 31, 2017 is limited to the carrying value of the financial assets summarized as follows:

	(in thousands)	
	<u>2017</u>	<u>2016</u>
Cash	\$ 123,411	\$ 126,876
Accounts Receivable	50,182	28,183
Fixed Income Investments ¹	1,455,088	1,438,120
Due from The General Revenue Fund	12,577	11,870
Equities Under Security Lending	903,027	967,357

¹ Includes short-term investments, bonds, bonds under security lending, and derivatives

Accounts receivable are primarily made up of employee and employer contributions receivable and accrued investment income. Employee and employer contributions receivable are generally received in less than 30 days. Accrued investment income is received on the next scheduled payment date, generally either annually or semi-annually.

Credit risk within investments is primarily related to short-term investments, bonds and debentures, and the fixed income pooled funds. It is managed at the mandate level as each portfolio must comply with various quality, issuer, and sector constraints appropriate and unique to the mandate.

Credit ratings for bonds and debentures are as follows:

	(In thousands)			
	<u>2017</u>		<u>2016</u>	
<u>Credit Rating</u>	<u>Fair Value</u>	<u>Makeup of Portfolio (%)</u>	<u>Fair Value</u>	<u>Makeup of Portfolio (%)</u>
AAA	\$ 308,886	32.09	\$ 287,140	30.54
AA	357,804	37.17	336,958	35.84
A	203,659	21.15	223,116	23.73
BBB	92,292	9.59	93,039	9.89
Unrated	12	-	20	-
Total	<u>\$ 962,653</u>	<u>100.00</u>	<u>\$ 940,273</u>	<u>100.00</u>

Within directly held bonds and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 4.43 per cent (2016 - 4.54 per cent) of the market value of the combined portfolio. No one holding of a province is over 2.94 per cent (2016 - 3.37 per cent) of the market value of the bond and debentures portfolio.

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 currency manager must receive approval from the Board prior to engaging a new counterparty.

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 investment in bonds, debentures and fixed income pooled funds. Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point increase in interest rates would decrease net assets available for benefits by \$221.5 million at March 31, 2017 (2016 - \$193.4 million); representing 6.64 per cent of the \$3,334 million fair value of bonds, debentures and fixed income pooled funds. Conversely, a decrease in interest rates of 100 basis points would increase net assets available for benefits by \$221.5 million at March 31, 2017 (2016 - \$193.4 million); representing 6.64 per cent of the \$3,334 million fair value of bonds, debentures and fixed income pooled funds.

Foreign Exchange

The Plan is subject to changes in the U.S./Canadian dollar exchange rate for U.S. denominated investments. Also, the Plan is exposed to changes in Non-North American exchange rates through its investment denominated in other foreign currencies. At March 31, 2017, the Plan's exposure to U.S. equities was 13.55 per cent of total investments (2016 – 13.82 per cent) and its exposure to Non-North American equities was 16.54 per cent of total investments (2016 – 15.44 per cent).

At March 31, 2017, a 10 per cent change in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a \$96.3 million (2016 - \$102.8 million) change in net assets available for benefits. A 10 per cent change in the Canadian dollar versus the Non-North American currencies would result in approximately a \$109.9 million (2016 - \$80.6 million) change in the net assets available for benefits.

The Plan's exposure to exchange rate risk resulting from the purchase of goods and services are not considered material to the operations of the Plan. The Plan has mitigated its exposure to foreign exchange through the use of derivatives as described in Note 5. As at March 31, 2017, the Plan's foreign exchange exposure that is hedged is \$1,227 million (2016 - \$1,119 million). A 10 per cent change in the aggregate exchange exposure would equate to a net change of \$122.7 million (2016 - \$111.9 million).

Equity Prices

The Plan is exposed to changes in equity prices in Canadian, U.S. and International markets. Equities, including equities invested in pooled funds, comprise 45.62 per cent (2016 - 45.36 per cent) of the carrying value of the Plan's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee represents greater than 10 per cent of the market value of the Plan.

The following table indicates the approximate change that could be anticipated to the net assets available for benefits based on the following equity categories as of March 31, 2017:

	(Change in thousands of \$)	
	<u>10% increase</u>	<u>10% decrease</u>
Canadian Equities	\$145,773	\$(145,773)
U.S. Equities	127,066	(127,066)
Other Foreign Equities	155,108	(155,108)

Securities Lending Program

At March 31, 2017, no Plan assets have been deposited or pledged as collateral as part of the securities lending strategy. 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 March 31, 2017, the total amount of collateral pledged to the Plan amounted to \$1,263.4 million (2016 - \$1,304.5 million). The Plan obtains collateral of at least 105 per cent of the market value of the securities lent. Such loans must be secured by readily marketable government bonds, treasury bills and /or letters of credit, discount notes and banker's acceptances of Canadian chartered banks.

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. The Plan invests in repurchase agreements in order to increase Plan liquidity while maintaining fixed income exposure. Repurchase agreements provide \$107.7 million (2016 - \$108.7 million) in fixed income exposure with a margin of \$11.1 million (2016 - \$11.3 million) in physical bond investments which take three days to liquidate, but also \$107.7 million (2016 - \$108.7 million) invested in money market investments which can be liquidated for cash in a single day.

10. Related Party Transactions

All Government of Saskatchewan agencies such as ministries, corporations, boards and commissions are related since all are controlled by the Government. Also, the Plan is related to non-crown enterprises that the Government jointly owns or significantly influences. Costs charged by the Public Employees Benefits Agency Revolving Fund in administering the Plan are reflected in these financial statements.

The Plan directly holds \$13.0 million (2016 - \$12.0 million) Province of Saskatchewan Bonds and Debentures with a yield of 4.45 per cent (2016 - 4.50 per cent). Investment gains on these bonds including the current period change in market value of investments was \$0.6 million (2016 - \$0.5 million).

The Plan has an accounts payable balance as at March 31, 2017 of \$1.1 million (2016 - \$0.8 million) due to the Public Employees Benefits Agency Revolving Fund.

Other related party transactions are disclosed separately in these financial statements.

Account balances resulting from the above transactions are included in the statement of changes in net assets available for benefits and pension obligations and are settled at agreed upon exchange rates.

11. Capital Management

The Plan receives new capital from participant contributions. The Plan also benefits from income and market value increases on its invested capital. The Plan's capital is invested in a number of asset classes including equities, bonds and debentures, pooled funds, and short-term investments. The Pension Board has delegated the operational investment decisions to a number of different investment management firms through a number of different investment mandates as defined in the Plan's Statement of Investment Policy and Procedures.

12. Fair Value of Financial Assets and Liabilities

For the following financial assets and liabilities the carrying amount approximates fair value due to their immediate or short-term maturity:

- a) Contributions receivable;
- b) Accrued investment income;
- c) Other receivables;
- d) Due from General Revenue Fund;
- e) Administrative expenses payable; and
- f) Refunds, transfers and other payables.

The fair value of investments is disclosed in Note 4.

13. Capital Pension Plan Transfer

All participating employers and Plan members of the Capital Pension Plan ("CPP") Defined Contribution Fund transitioned to PEPP with an effective date of June 25, 2015. Member assets of \$1,343 million were transferred from CPP to PEPP at the effective date of June 25, 2015.

14. Value and Performance of Members' Accounts

In accordance with Canadian accounting standards for pension plans, various accruals are included in the Statement of Financial Position. However, only transactions that were processed and unitized during the fiscal year ending March 31, 2017 are reflected in the unitized account balances of members at year-end. The total value of members' unitized accounts at March 31, 2017 was \$9,259 million (2016 - \$8,417 million).

Investment income including changes in the market value of the investments (investment performance) and expenses is reflected in the market value of the net asset value per unit of participation and is determined daily. Investment and administration expenses relating to each Fund are accrued to or paid from the Fund prior to establishing its daily unit price. The Funds' unit price will increase or decrease according to the Funds' investment performance after expenses.

Fund transactions are processed using forward pricing. This means they are processed at the next unit price set after the Plan receives contributions or requests for transfers, refunds and benefits.

Fund transactions may be suspended temporarily at management's discretion where an accurate unit price for a Fund cannot be determined due to the unavailability of reliable market pricing or other asset valuations.


15. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.



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