pepp

Public Employees Pension Plan

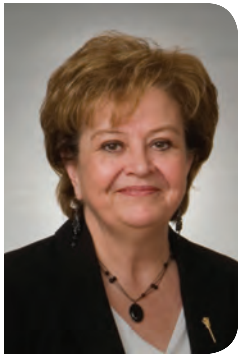
Your Plan • Your Way

ANNUAL REPORT 2018 - 2019

“My pension plan is a trusted program that works for my personal interest.”

Venkata, PEPP Member

Letters of Transmittal



Donna Harpauer
Minister of Finance

His Honour, The Honourable W. Thomas Molloy
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, 2019.

Donna Harpauer
Minister of Finance

The Honourable Donna Harpauer
Minister of Finance

Madam:

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, 2019.

Nola Joorisity
Chair

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

Message from the Chair

On behalf of the Public Employees Pension Board (the Board), I am pleased to present the Annual Report for the Public Employees Pension Plan (PEPP, the Plan) for the financial year ending March 31, 2019. This report details strategic plan activities and accomplishments as well as financial and investment information critical to PEPP.

The Plan continues to be a leader in the pension industry and is the largest defined contribution pension plan in Canada with approximately $10 billion in total assets and more than 65,000 members. The Board remains focused on making decisions in the best interest of all members and is committed to addressing members' needs by regularly reviewing the services it provides.

It has been an exciting and busy year. The Board made key decisions this year to update the investments and investment options of the Plan. These changes are intended to improve the expected outcomes for our valued members and will be completed within the next fiscal year.

PEPP continued its engagement efforts by hosting a number of member focus groups to gather feedback on topics and themes highlighted in the Member Satisfaction Survey conducted in 2017. On behalf of the Board, I thank members who participated in the focus groups for taking the time to provide feedback on the communications and services currently offered by the Plan. The information gathered has been useful in mapping out areas for improvement to enhance the Plan's delivery of communication and services to Plan members.

This coming year, the Board looks forward to the implementation of its decisions resulting from the Strategic Investment Review and hearing from members again as PEPP conducts the biennial Member Satisfaction Survey. Member feedback is important to the Board and will help with continued improvements to the communications and customer service members receive from PEPP.

In closing, I would like to thank the Public Employees Benefits Agency for its effective administration of PEPP. I am honoured to recognize the accomplishments of the past year and I look forward to reporting on the achievements of PEPP in 2019-2020.

Nola Joorisity

2018 - 2019 Financial Highlights

Total Assets

Assets by Investment Fund ($ millions) (as at March 31, 2019)

4,630.0	PEPP Steps Fund
3,367.7	Balanced Fund
418.4	Growth Fund
423.7	Accelerated Growth Fund
332.4	Conservative Fund
397.3	Moderate Fund
269.7	Money Market Fund
80.9	Bond Fund

Total Contributions to the Plan

$358.6
million

Transfers

into the plan
$25.9
million

out of the plan
$346.8
million

PEPP Fees and Rates of Return[1] (as at March 31, 2019)

	(%)				
Fund	Benchmark Rate of Return	Gross Rate of Return	Fees PEBA & Board[2]	Fees Investments[3]	Net Rate of Return
Accelerated Growth	5.2	3.9	0.08	0.46	**3.4**
Growth	5.2	4.2	0.08	0.42	**3.7**
Balanced	5.2	4.4	0.08	0.39	**3.9**
Moderate	5.1	4.5	0.08	0.33	**4.1**
Conservative	5.0	4.7	0.08	0.26	**4.4**
Bond	5.2	5.1	0.08	0.05	**5.0**
Money Market	1.5	2.1	0.08	0.05	**2.0**

Table 1.0

[1] The rate of return and fee data for the PEPP Steps Fund varies with each step.
[2] Of the 0.08% fees shown, the Board accounts for less than 0.01%.
[3] Investment fees include fees for investment managers, consulting and custody.

Highlights from previous years

2010-2011
4.9 billion

Total Contributions
230.7 million

Transfers-in
13.2 million

Transfers-out
122.0 million

2011-2012
5.1 billion

Total Contributions
240.4 million

Transfers-in
13.5 million

Transfers-out
114.3 million

2012-2013
5.6 billion

Total Contributions
250.5 million

Transfers-in
15.1 million

Transfers-out
137.5 million

2013-2014
6.5 billion

Total Contributions
276.6 million

Transfers-in
12.5 million

Transfers-out
157.1 million

2014-2015
7.2 billion

Total Contributions
292.0 million

Transfers-in
17.9 million

Transfers-out
203.1 million

2015-2016
8.4 billion

Total Contributions
331.5 million

Transfers-in
19.1 million

Transfers-out
264.1 million

2016-2017
9.3 billion

Total Contributions
363.2 million

Transfers-in
25.8 million

Transfers-out
280.0 million

2017-2018
9.7 billion

Total Contributions
348.0 million

Transfers-in
24.2 million

Transfers-out
340.6 million

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).

PEPP has 147 participating employers and 65,579 members at March 31, 2019. 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 employer's 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(s) of the member's choice.

Units are valued daily. 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, 2018	64,676
Add:	
Enrolment during the year	3,486
Variable Pension Benefit (VPB) enrolment	972
Less:	
Exiting members*	3,555
Membership at March 31, 2019	65,579

*Includes transfers to VPB

Table 1.1

Penny Fast Fact

In 2018-2019, we created three new videos to help inform PEPP members. Videos are available on the PEPP website under the *Member* tab.

2018 - 2019 Plan Highlights

Membership

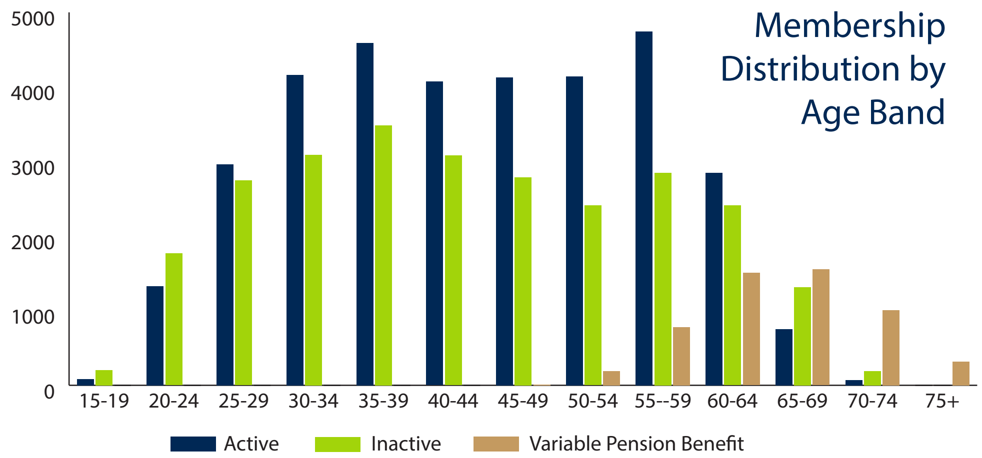
65,579

Plan Members

5,368 VPB

26,331 Inactive

33,880 Active



Average Age of Active Members

44.7 Years

86.4 Years

Age of Eldest PEPP Member

Member Activity

pepp ACCESS

36,881 members

registered for PEPP Access

4,859

Online Inter-fund Transfers Processed

8,708 Member Video Views

Employers

participating employers **147**

Connect With Us!

777 followers

likes, comments, shares & clicks **5,665**

257 followers

likes, comments, shares & clicks **1,338**

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.

pepp

Our Vision, Mission and Goals guide all we do for you.

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 efficently 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.

"Being a member of PEPP gives me access to a wealth of knowledge and flexibility with how I manage my retirement funds. The retirement planning tool they provide allows me to see how my PEPP investments can work together with my personal investments to ensure I will have what I need to retire when I am ready."

Frederick – Plan member

"I have a long way until retirement, but I'm grateful that I've got a head start. I can plan for my future and knowing that my hard work will one day pay off puts my mind at ease."

Brianna – Plan member

"I am happy to know that PEPP is working to ensure my retirement life is joyful."

Haris – Plan member

Public Employees Pension Board

The Board consists of nine members; four are appointed on behalf of participating employers, four on behalf of employees. The Board retains a Chair who is appointed for a three-year term.

Nola Joorisity, Chair
Public Employees Pension Board

Jocelyn Robinson, Vice-Chair
Public Service Commission

Sean Engemoen[1], Member
Saskatchewan Polytechnic, Saskatchewan Liquor and Gaming Authority

Charlene Gavel, Member
SaskEnergy, SaskPower and SaskTel

Darren Henderson, Member
International Brotherhood of Electrical Workers Union Local 2067

Jim Engel[2], Member
Saskatchewan Polytechnic, Saskatchewan Liquor and Gaming Authority

Jacalyn Luterbach, Member
Canadian Union of Public Employees Local 600

Mac Trost, Member
Saskatchewan Government and General Employees' Union

Peter Wyant, Member
Saskatchewan Crop Insurance Corporation, Saskatchewan Workers' Compensation Board, Saskatchewan Cancer Agency

Andrew Zulkoski, Member
Unifor

[1] Sean Engemoen's appointment ended on August 31, 2018.
[2] Jim Engel's appointment commenced September 1, 2018.

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 (PSC). The Chair is remunerated with a retainer set by the Board.

The Board had ten regular meetings in the 2018-2019 fiscal year. Table 1.3 shows the number of meetings each Board member attended.

Name	Meetings Attended	Expenses
Nola Joorisity	10	$114.00
Jocelyn Robinson	9	0.00
Jim Engel[2]	5	0.00
Sean Engemoen[1]	4	1,192.95
Charlene Gavel	8	0.00
Darren Henderson	10	3,846.58
Jacalyn Luterbach	8	585.99
Mac Trost	7	2,163.05
Peter Wyant	9	102.00
Andrew Zulkoski	10	0.00
Total		**$8,004.57**

Table 1.3

[1] Sean Engemoen's appointment ended on August 31, 2018.
[2] Jim Engel's appointment commenced on September 1, 2018.

Chair Remuneration	Rate	Total
Annual Retainer	$40,000.00	$40,000.00
Per Diem - Education		2,250.00
Total		**$42,250.00**

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 PSC.

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 complete a basic trustee development course facilitated by an industry-recognized pension and benefits organization.

Within three 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 required annually to attend one educational event 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, 2019.

Seminars, Courses and Other Events Attended by Board Members in 2018–2019

Name	Education Events Attended	Total Expenses
Nola Joorisity, Chair	• IFEBP – Alternative Investment Strategies	$7,752.14
Jocelyn Robinson, Vice Chair	• 2018 ACPM National Conference	$3,422.85
Jacalyn Luterbach	• ACPM - The Future Isn't What It Used To Be	$100.00
Peter Wyant	• ACPM - The Future Isn't What It Used To Be	$100.00
Andrew Zulkoski	• Rotman - ICPM Board Effectiveness Program	$9,564.01
	Total Expenditures	**$20,939.00**

Table 1.5

IFEBP - International Foundation of Employee Benefit Plans • ACPM - The Association of Canadian Pension Management • ICPM - International Centre for Pension Management

Penny Fast Fact

PEPP staff responded to over 11,500 email inquiries this past year.

"When I think of retirement, I want to be able to do so at an age that I can enjoy it to the fullest extent. PEPP gives me that ease of mind knowing that my money is being managed responsibly by a great team of people that have my best interest in mind."

Frederick - Plan member

What comes to mind when I think of PEPP?

“Peace of mind, simplicity, and great customer service. My experience has been very positive with everything that PEPP has offered. Great customer service, useful information on the regular newsletters, convenient website, etc.”

Hun – Plan member

Investments

Investment returns over the 12 month period ending March 31, 2019 among the PEPP asset allocation funds were positive, with the more conservative funds achieving higher returns than aggressively structured funds. The Accelerated Growth Fund appreciated by 3.4 per cent, the Conservative Fund gained 4.4 per cent, the Bond Fund advanced five per cent, and the Money Market Fund returned two per cent. Equity market returns were quite mixed. Positive returns were led by U.S. domiciled companies while market declines were led by small cap European stocks and Emerging Market equities. Alternative investments posted small positive gains while fixed income investments posted mid-single-digit returns and was top performing among the major asset class groups.

The combined equity portfolio advanced over 3.5 per cent in Canadian dollar terms. In the foreign equity segment, portfolio returns lagged the benchmark as it was a challenging period for active management. In the recent 12-month period, investments that exhibit value style characteristics underperformed growth stocks, particularly in the large cap space. However, over the long term, the foreign equity portfolio is expected to outperform when the market is driven by strong company fundamentals. Regarding foreign currency exposure, while foreign exchange markets experienced volatility, currency gains and losses over the full Plan year were relatively modest. The relative strength of the U.S. dollar (the Plan's largest foreign currency exposure) was partially offset by the depreciation of the Euro, the British Pound, and the Japanese Yen versus the Canadian Dollar. As a consequence, unhedged returns in Canadian-dollar terms benefitted from a small positive currency translation effect. However, in order to moderate the volatility of foreign currency market swings, the Plan implements a passive 50 per cent currency hedge program to reduce currency risk. With the hedge program in place, the Plan's asset allocation funds benefitted from approximately half of the currency translation effect.

Within the Canadian equity portfolio, large cap equities achieved mid-to-high single-digit gains, while small cap equities were out of favour and declined in market value over this period. In terms of excess returns, it was a difficult period for active management in Canada as expensive, more speculative type companies had outsized influence on index performance. The Canadian equity portfolio is underrepresented in these areas of the market. In addition, having below-benchmark exposure to the major pipeline companies detracted from performance while favourable allocation and stock selection within Communication Services sectors and in gold companies were positive drivers of relative performance.

The Plan's allocation to alternative investments generated low single-digit returns as gains in the real estate segment was largely offset by near-flat returns in the liquid alternatives portfolio. Real estate returns were driven by a stable income stream and capital appreciation. The portfolio's high-quality assets and broad diversification across location, property type and risk strategy resulted in strong performance over the 12-month period. Conversely, this period was more challenging for liquid alternatives strategies. While the liquid alternatives portfolio helped moderate Plan volatility, the group as a whole underperformed. This allocation is structured to protect capital when equities enter a period of severe losses.

The income segment, consisting of dedicated fixed-income and money market investments, achieved market value gains of approximately five per cent. Of the major asset class groupings within the Plan, the fixed income investments produced the highest returns in the period. Canadian fixed-income markets enjoyed strong returns over the latter half of the Plan year as more accommodative monetary policy expectations resulted in a significant bond market rally. Yields on the short end of the bond curve ended the 12-month period modestly higher while yields across the bulk of the maturity spectrum declined leading to a fairly flat yield curve. Longer-dated securities therefore outperformed short duration bonds while widening credit spreads resulted in government bonds outperforming corporate issues. Positive excess returns were driven by the group's absolute return fixed income strategy as interest rate, currency, and spread strategies contributed to performance.

In summary, all major asset classes (fixed income, foreign equities, Canadian equities, and alternatives) appreciated in market value, resulting in positive returns for the PEPP asset mix funds, the Money Market Fund, and the Bond Fund. Unfortunately, while all PEPP Funds delivered positive returns, they underperformed their benchmarks for the year.

Overview

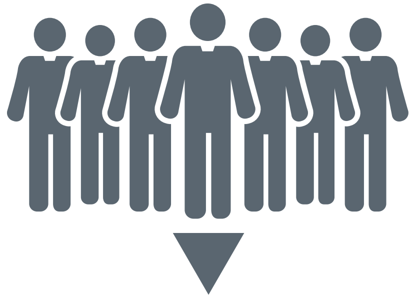
The Plan has eight investment fund options. These funds offer a mix of asset classes, which are made up of fixed income, real estate and equities.

The PEPP investment options:

- PEPP Steps Fund;
- Accelerated Growth Fund;
- Growth Fund;
- Balanced Fund;
- Moderate Fund;
- Conservative Fund;
- Money Market Fund; and
- 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.

PEPP MEMBERS



CHOOSE

INVESTMENT OPTIONS

PEPP Steps Fund
Accelerated Growth Fund
Growth Fund
Balanced Fund
Moderate Fund
Conservative Fund
Money Market Fund
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 Greystone Managed Investments 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 Greystone Managed Investments 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 Campbell & Company, LP Grantham, Mayo, Van Otterloo & Co. Rokos Capital Management LLP Winton Capital Management
Bonds	AllianceBernstein Canada, Inc. PIMCO Canada Corp. TD Greystone Managed Investments Inc.
Cash & Equivalents	TD Greystone Managed Investments 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.

Penny Fast Fact

There were 33 employer-hosted workshops/events held during the 2018-2019 year.

Investment Options

(The pie charts for all of the investment options list the actual asset mix for each fund as at March 31, 2019.)

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 27.0 per cent (foreign exposure of 45.7 per cent, less hedged exposure of 18.7 per cent)

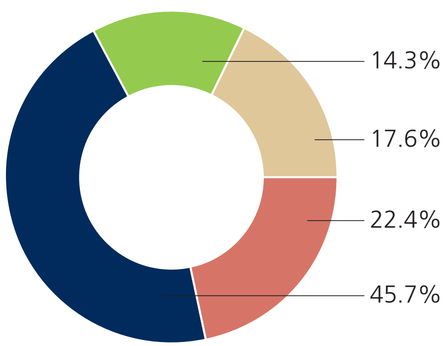
RATE OF RETURN

Net Rate of Return

3.4%

One year rate of return	Less Fund Fees
3.9%	0.54%

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 24.0 per cent (foreign exposure of 40.7 per cent, less hedged exposure of 16.7 per cent).

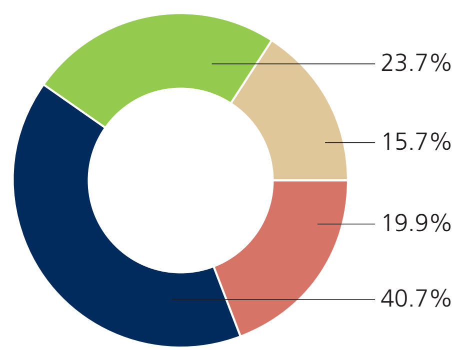
RATE OF RETURN

Net Rate of Return

3.7%

One year rate of return	Less Fund Fees
4.2%	0.50%

ASSET MIX



Fixed Income Alternatives Canadian Equity Foreign Equity

Balanced Fund

DESCRIPTION

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 20.9 per cent (foreign exposure of 35.5 per cent, less hedged exposure of 14.6 per cent).

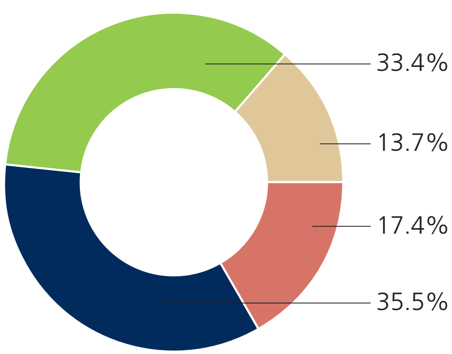
RATE OF RETURN

Net Rate of Return

3.9%

One year rate of return	Less Fund Fees
4.4%	0.47%

ASSET MIX



Moderate Fund

DESCRIPTION

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 16.0 per cent (foreign exposure of 27.2 per cent, less hedged exposure of 11.2 per cent).

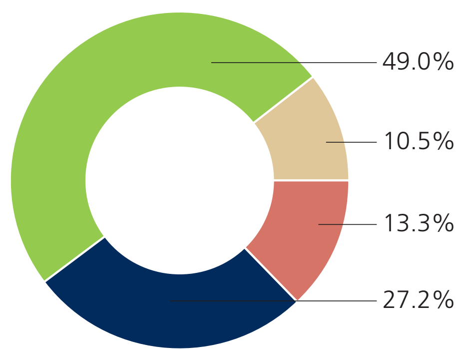
RATE OF RETURN

Net Rate of Return

4.1%

One year rate of return	Less Fund Fees
4.5%	0.41%

ASSET MIX



Fixed Income | Alternatives | Canadian Equity | Foreign Equity

Conservative Fund

DESCRIPTION

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 9.6 per cent (foreign exposure of 16.2 per cent, less hedged exposure of 6.6 per cent).

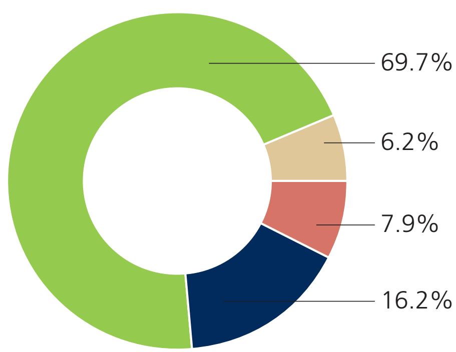
RATE OF RETURN

Net Rate of Return

4.4%

One year rate of return	Less Fund Fees
4.7%	0.34%

ASSET MIX



Bond Fund

DESCRIPTION

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.

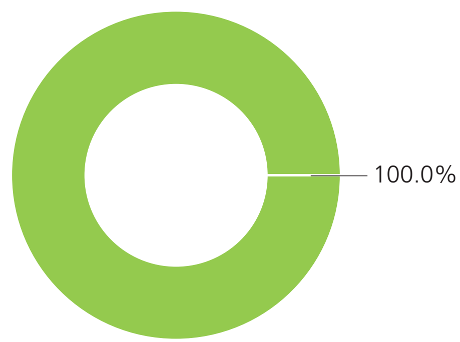
RATE OF RETURN

Net Rate of Return

5.0%

One year rate of return	Less Fund Fees
5.1%	0.13%

ASSET MIX



Fixed Income | Alternatives | Canadian Equity | Foreign Equity

Money Market Fund

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.

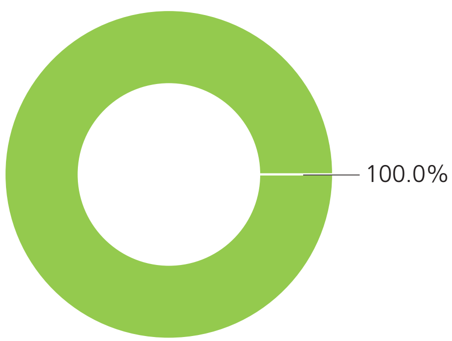
RATE OF RETURN

Net Rate of Return

2.0%

One year rate of return	Less Fund Fees
2.1%	0.13%

ASSET MIX



PEPP Steps Fund

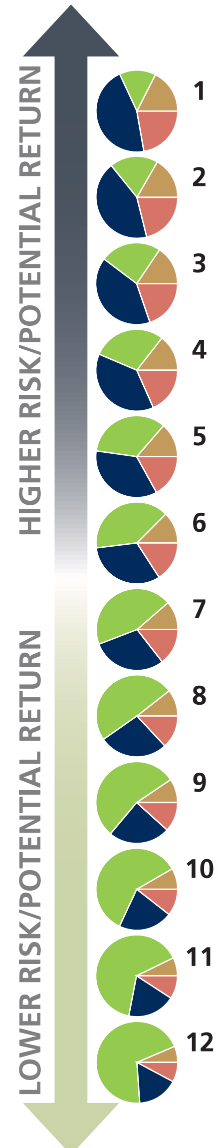
DESCRIPTION

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 0.75 per cent for PEPP Step 1 to 0.42 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	3.9	0.54	3.4
Step 2	4.1	0.52	3.6
Step 3	4.2	0.5	3.7
Step 4	4.3	0.48	3.8
Step 5	4.4	0.47	3.9
Step 6	4.4	0.45	3.9
Step 7	4.4	0.43	4.0
Step 8	4.5	0.41	4.1
Step 9	4.6	0.39	4.2
Step 10	4.7	0.37	4.3
Step 11	4.7	0.35	4.3
Step 12	4.7	0.34	4.4



Fixed Income | Alternatives | 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.

Investment Manager Mandates (as at March 31, 2019)

Investment Manager	Asset Class	Mandate
Beutel, Goodman & Company Ltd. (Beutel)	• Canadian Equities	Actively manage Canadian equities
State Street Global Advisors (State Street)	• Canadian Equities	Actively manage Canadian equities
QV Investors Inc. (QV)	• Canadian Equities	Actively manage small and mid cap Canadian equities
GlobeFlex Capital, L.P. (GlobeFlex)	• Canadian Equities	Actively manage small cap Canadian equities
J. Zechner Associates Inc. (Zechner)	• Canadian Equities	Actively manage small cap Canadian equities
TD Greystone Managed Investments Inc. (TD Greystone)	• Real Estate	Actively manage real estate
AllianceBernstein Canada, Inc. (AB)	• Fixed Income	Actively manage fixed income
PIMCO Canada Corp. (PIMCO)	• Fixed Income	Actively manage fixed income
TD Asset Management Inc. (TDAM)	• Canadian Equities • U.S. Equities • Fixed Income • Money Market	Passively manage Canadian equities Passively manage U.S. equities Passively manage fixed income Actively manage money market
Franklin Templeton Institutional, LLC (Franklin)	• Global Equities	Actively manage global equities
Burgundy Asset Management Ltd. (Burgundy)	• Global Equities	Actively manage global equities
Investec Asset Management Ltd. (Investec)	• Global Equities	Actively manage global equities
Tweedy, Browne Company LLC (Tweedy)	• Non-North American Equities	Actively manage non-North American equities
Gannett Welsh & Kotler, LLC (GWK)	• U.S. Equities	Actively manage small cap U.S. equities

Investment Manager	Asset Class	Mandate
SouthernSun Asset Management LLC (SouthernSun)	• U.S. Equities	Actively manage small and mid cap U.S. equities
Oberweis Asset Management, Inc. (Oberweis)	• EAFE Equities	Actively manage small cap EAFE equities
Thompson, Siegel & Walmsley LLC (TSW)	• EAFE Equities	Actively manage small cap EAFE equities
AQR Capital Management, LLC (AQR)	• Emerging Markets Equities • Liquid Alternative	Actively manage emerging markets equities Actively manage a multi-strategy mandate
T. Rowe Price (Canada), Inc. (T. Rowe)	• Emerging Markets Equities	Actively manage emerging markets equities
Arrowgrass Capital Partners LLP (Arrowgrass)	• Liquid Alternative	Actively manage a multi-strategy mandate
Campbell & Company, LP (Campbell)	• Liquid Alternative	Actively manage a managed futures mandate
Grantham, Mayo, Van Otterloo & Co. (GMO)	• Liquid Alternative	Actively manage a managed futures/global macro mandate
Rokos Capital Management (Rokos)	• Liquid Alternative	Actively manage a global macro mandate
Winton Capital Management (Winton)	• Liquid Alternative	Actively manage a managed futures mandate
Insight Investment Management Ltd. (Insight)	• Hedge 50 per cent of foreign currency exposure	Passively manage currency hedging

Table 1.6

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	Net Rate of Return 4-Year
Canadian Equity Managers		
TDAM (passive manager)	8.1	5.0
Beutel (active manager)	7.0	6.7
State Street (active manager)	5.5	4.2
Benchmark (S&P/TSX Capped Composite Index)	8.1	5.1
Canadian SMID Cap Equity Manager		
QV (active manager)	0.9	2.8
Benchmark (S&P/TSX Completion Index)	5.4	3.2
Canadian Small Cap Equity Managers		
GlobeFlex (active manager)	(9.0)	2.0
Zechner (active manager)	(10.9)	2.4
Benchmark (S&P/TSX Small Cap Index)	(1.8)	2.9

Table 1.7

US Equities

	Net Rate of Return 1-Year	Net Rate of Return 4-Year
U.S. Equity Manager		
TDAM (passive manager)	13.4	11.9
Benchmark (S&P 500 Index - $Cdn)	13.5	11.9
U.S. Small/Mid Cap Equity Manager		
SouthernSun (active manager)	(2.5)	0.9
Benchmark (Russell 2500 Index - $Cdn)	8.3	8.7
U.S. Small Cap Equity Manager		
GWK (active manager)	3.2	9.5
Benchmark (Russell 2000 Index - $Cdn)	5.7	8.2

Table 1.8

Non-North American/Global, Emerging Market Equities

	Net Rate of Return 1-Year	Net Rate of Return 4-Year
Non-North American Equity Manager		
Tweedy (active manager)	1.2	5.2
Benchmark (MSCI EAFE Index - $Cdn)	(0.2)	4.5
Global Equity Managers		
Investec (active manager)	6.4	6.5
Benchmark (MSCI AC World Index - $Cdn)	6.9	8.7
Burgundy (active manager)	7.7	n/a
Franklin (active manager)	9.1	11.3
Benchmark (MSCI World Index - $Cdn)	8.4	9.0
EAFE Small Cap Equity Managers		
Oberweis	(10.6)	7.9
Benchmark (MSCI World ex US Small Cap index - $Cdn)	(5.0)	7.8
TSW	(6.8)	5.9
Benchmark (MSCI EAFE Small Cap Index - $Cdn)	(5.7)	8.2
Emerging Market Managers		
AQR	(12.1)	4.6
T. Rowe	(2.9)	8.6
Benchmark (MSCI Emerging Market Index - $Cdn)	(3.7)	6.3

Table 1.9

Alternatives

	Net Rate of Return 1-Year	Net Rate of Return 4-Year
Real Estate Manager		
TD Greystone (active manager)	7.3	8.1
Benchmark (Investment Property Databank)	8.1	7.2
Liquid Alternative Managers		
AQR	(10.9)	n/a
Rokos	2.3	n/a
Winton	4.5	1.4
Benchmark (3-Month US Treasury Bills - $Cdn)	5.8	2.3
Arrowgrass	1.0	n/a
Campbell	2.7	n/a
GMO	(2.4)	2.4
Benchmark (FTSE TMX Cda 91-Day T-Bill Index)	1.5	0.8

Table 1.10

Fixed Income

	Net Rate of Return 1-Year	Net Rate of Return 4-Year
Canadian Bond Managers		
TDAM (passive manager)	5.2	2.2
AB (active CorePlus manager)	4.7	2.8
PIMCO (active CorePlus manager)	5.5	2.4
Benchmark (FTSE TMX Universe Bond Index)	5.3	2.2
PIMCO (active absolute return manager)	2.9	2.4
Benchmark (FTSE TMX Cda 91-day T-Bill Index)	1.5	0.8

Table 1.11

Cash and Equivalents

	Net Rate of Return 1-Year	Net Rate of Return 4-Year
Money Market Manager		
TDAM (active manager)	2.1	1.3
Benchmark (FTSE TMX Cda 91-day T-Bill Index)	1.5	0.8

Table 1.12

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 Plan's Strategic Investment Consultant is Aon Hewitt Inc. (Aon). In 2018-2019, Aon provided strategic investment guidance and education to the Board.

PEBA's General Investment Consultant is Mercer (Canada) Ltd. (Mercer). In 2018-2019, Mercer collaborated with PEBA and provided regular investment consulting services including performance monitoring.

Mercer was paid $620,000 and Aon $309,000 in fees for the year ended March 31, 2019.

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 $1,185,000 for the year ended March 31, 2019.

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.

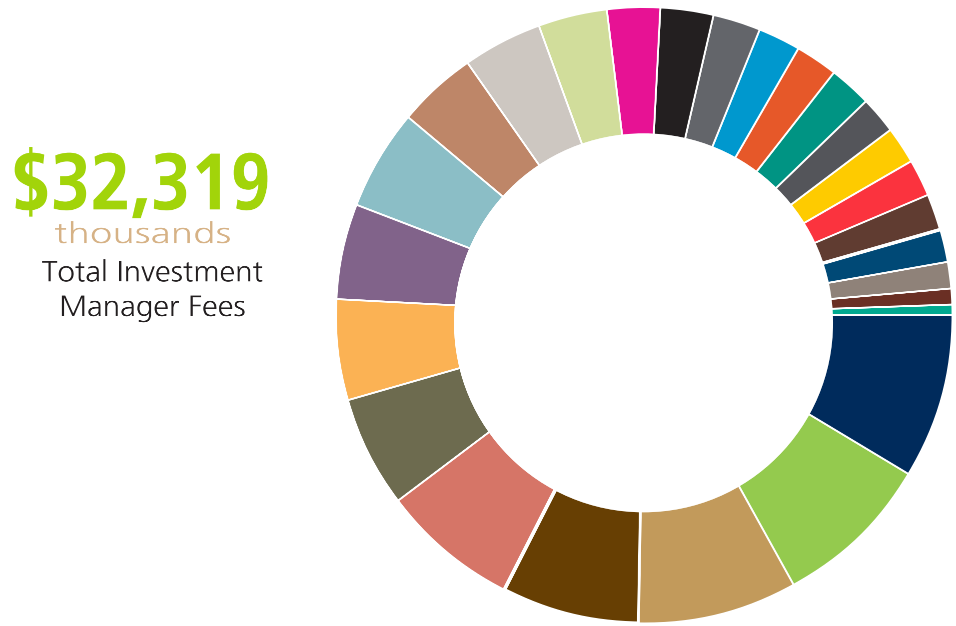
The Board retains Rondeau Capital Inc. as a Special Aide to the Board. The Special Aide assists the Board in its oversight of the Board's investment service providers.

Special Aide Remuneration	Total
Annual Retainer	$25,000.00
Total	$25,000.00

Table 1.13

Investment Manager Fees ($ thousands) (for the 2018-2019 fiscal year)

2,813	Burgundy Asset Management Ltd.
2,639	AQR Capital Management, LLC
2,418	PIMCO Canada Corp.
2,261	Franklin Templeton Institutional, LLC
2,247	Tweedy, Browne Company LLC
2,010	Investec Asset Management Ltd.
1,979	TD Greystone Managed Investments Inc.
1,423	Arrowgrass Capital Partners LLP
1,359	AllianceBernstein Canada, Inc.
1,318	T. Rowe Price (Canada), Inc.
1,271	Winton Capital Management
1,219	Oberweis Asset Management, Inc.
1,156	Thompson, Siegel & Walmsley LLC
997	State Street Global Advisors
980	GlobeFlex Capital, L.P.
968	Gannett Welsh & Kotler, LLC
956	SouthernSun Asset Management LLC
852	Campbell & Company, LP
809	Beutel, Goodman & Company Ltd.
800	TD Asset Management Inc.
792	QV Investors Inc.
410	Rokos Capital Management LLP
380	J. Zechner Associates Inc.
253	Insight Investment Management Ltd.
9	Grantham, Mayo, Van Otterloo & Co.



Retirement

“You never realize what retirement means until you think of what it will cost. PEPP can help make retirement easier!”

Deborah – Plan member

Plan Administration

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

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 (member accounts);
- transfers contributions to the custodian of the Fund for investment;
- handles all questions regarding plan provisions 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 2018-2019, the Board paid PEBA $8,196,000 for administrative services.

The Board and PEBA engage other service providers as required.

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 2018-2019 year.

Penny Fast Fact

Nearly 26,000 phone inquiries were answered by PEPP staff.

PEBA Service Standards April 1, 2018 to March 31, 2019

Task	Completed	Met or Exceeded Standard Number	Met or Exceeded Standard %	Standard (Days)*	Statutory Requirement (Days)**
Statement on Termination of Membership (option letter)	3,531	3,149	89.2	4	90
Payment of Termination Benefits	1,679	1,547	92.1	4	-
Statement on Retirement (option letter)	1,300	1,079	83.0	4	90
Retirement Payments	2,605	2,330	89.4	4	-
Statement on Death (option letter)	169	134	79.3	5	90
Payment of Death Benefits	135	122	90.4	4	-
Pension Estimates	396	283	71.5	4	-
Marriage Breakdown Estimates	95	75	78.9	5	-
Portability Transfer Values	79	66	83.5	5	-
Written Correspondence†	11,557	11,557	100.0	5	-
Total	**21,546**	**20,342**	**94.4**		

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, 2018 to March 31, 2019

Task	Completed	Met or Exceeded Standard Number	Met or Exceeded Standard %	Standard (Days)*	Statutory Requirement (Days)**
Member Statement	3	3	100.0	75	180
Reporting on Budget Variances	4	4	100.0	Quarterly	-
Proposed Annual Budget	1	1	100.0	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	**16**	**16**	**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*.

Confidence

“When thinking of PEPP, I have confidence in the people who run my pension plan to do what is best for me.”

Teddi – Plan member

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.

PEPP 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 semi-annual basis. A review of the Plan's performance during the year ended March 31, 2019 is provided in the following pages.

Summary

The Plan met the majority of its performance targets in 2018-2019. Consistently high performance in several areas paints an overall picture of timely, efficient, and satisfactory service to Plan members within the approved administration budget.

Performance of one service provider remains a concern. Most of the Board's key service providers were rated as "satisfactory" during 2018-2019, but one of the Plan's service providers received an evaluation of "requires improvement".

The performance of the investment options in comparison to their benchmarks during the year is below target. At year end, seven of 14 investment options met or exceeded their benchmarks.

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
Provide service within service standard	Member transactions within service standards	More than 80 per cent of transactions meet the service standard.	Met
Quality of service satisfaction	Member satisfaction with information sessions	More than 80 per cent of member survey responses indicate satisfaction with information sessions.	Met
Quality of service satisfaction	Member satisfaction with quality of service	More than 80 per cent of member survey responses indicate satisfaction with the quality of service provided by the Plan.	n/a[1]
Quality of service satisfaction	Member satisfaction with quality of communication materials	More than 80 per cent of member survey responses indicate satisfaction with the quality of communication materials provided by the Plan.	n/a[1]
Member retention	Member fund retention	More than 95 per cent of funds available for withdrawal remain in the Plan.	Met

[1] There was insufficient response to the focus groups in 2018 to provide constructive measurement of member satisfaction with quality of communication materials, and quality of customer service. PEBA continues to refine processes to ensure an accurate measure of member satisfaction levels.

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[2]
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

[2] The four-year annualized returns for seven of 14 investment options (50 per cent) met or outperformed their benchmarks at March 31, 2019. As a result, performance in this area did not meet the Board's target of 100 per cent of investment options meeting or exceeding their four-year annualized benchmarks.

Internal

Critical success factor	Measure	Target	Result
Supplier management	Service provider performance is satisfactory	Performance of all service providers is satisfactory.	Not met[3]
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.	Not met[4]

[3] The performance of one of the Plan's key service providers was documented as requiring improvement 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.

[4] One initiative was deferred to coordinate with the implementation of the new enterprise pension administration system.

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 for the year.	Not met[5]

[5] Board members did not complete all required training during the year. Three Board members were progressing through the Board's new Board member orientation program at year end.

The Board's Strategic Business Plan for 2018-2019 to 2020-2021 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.

Knowledge

“Being a member of PEPP provides me with the ability to plan for the future and know I will be OK and with the knowledge that I’m cared about by my employer.”

Jodi-Leigh – Plan member

Strategic Goals

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 sound 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. In 2018-2019, the Board completed a review of the Plan's investment options, decided on changes, and began implementing them.

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 2018-2019

- PEPP completed a review of the Plan's investment strategy and investment options.
- PEPP developed plans to implement changes to the Plan's investment strategy and investment options and commenced implementation in 2018-2019. These changes will include:
    - o changes to the PEPP Steps Fund to alter the age bands and asset mix at each age band;
    - o amending the Bond Fund;
    - o adding a third portfolio – alternative investments – to the equity and fixed income portfolios underlying each asset allocation fund; and
    - o amending the asset mix underlying the investment options.

Activities planned for 2019-2020

- Implementation of changes to the Plan's investment strategy and investment options will continue.

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 2018-2019

- PEPP began exploring options for monitoring member retirement outcomes.

Activities planned for 2019-2020

- Develop a structure for monitoring PEPP member retirement outcomes.

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 2018-2019

- Development of an additional measure of administrative performance was deferred until 2019-2020.

Activities Planned for 2019-2020

- Complete and implement one additional measure of administrative performance.

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 2018-2019

- The Board examined models for the governance of private market investments and elected to establish a committee.
- The Board monitored best practices and potential improvements to its governance program.

Activities planned for 2019-2020

- The Board will develop the governance framework for its private investments committee, which will commence operation in 2019-2020.
- The Board will continue monitoring best practices and for potential improvements to its governance program.

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 2018-2019

- PEPP carried out member focus groups at various locations throughout Saskatchewan.
- PEPP developed a communications plan that prioritizes target audiences and key messages.

Activities planned for 2019-2020

- PEPP will continue to implement a formal member and stakeholder engagement strategy. Activities will include new member workshops, and continued development of videos on topics that are important to members.

Gratitude

“When I think of PEPP, I think of a crucial piece of my retirement plan. I have an immense sense of gratitude knowing that I do not have to worry about my future.”

Olivia – Plan member

Risk Management

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.

Penny Fast Fact

PEPP provided over 2,200 one-on-one member consultations.

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		Key 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.	• **Uninformed decisions by members** - Members may make uninformed decisions related to their pension account if they are not provided sufficient, timely, or appropriate information. • **Governance** - The composition of the appointed Board and its governance practices and policies may not be, or remain, sufficient to effectively govern the Plan and meet stakeholder expectations. • **Plan structure** - The Plan structure may not meet the needs of all members or employers into the future as demographics and employment patterns change.
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.	• **Investment structure** - The investment policy may not be designed or executed appropriately to achieve the expected longer-term returns and mitigate the market risks of the Plan attack. • **High Plan costs** - The Plan's costs may become, or be perceived to be, too high as a percentage of assets or return, resulting in members becoming dissatisfied and leaving the Plan when able, as it is seen to be uncompetitive. • **Risk of losses** - There is the risk of financial, legal or reputational loss to the Plan including, but not limited to, errors, fraud, ethical or privacy breaches, information loss, or a hacking attack.
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.	• **Non-compliance** - There is a risk of non-compliance with an extensive and evolving set of authorities and court decisions in multiple jurisdictions which could result in loss or damage to members, or additional costs or fines.
Operational Risk	Operational risk is the risk of failing to meet objectives due to inadequate or failed internal processes, human performance, 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.	• **Investment Manager performance** - There is a risk of investment manager performance deviating from expectations sufficiently to impair overall returns. • **Service provider performance (PEBA)** - Poor performance by, or disruption of service from PEBA may result in delays of services or loss or damage to members or reputational damage to the Plan. • **Service provider performance (Others)** - Poor performance by, or disruption of service from a service provider other than PEBA, may result in delays of services or loss or damage to members, or reputational damage to the Plan.

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;
  - RBC Investor & Treasury 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 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 2018-2019

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

- reviewed the performance of its auditor in September 2018; and
- reviewed the performance of its custodian in June 2018.

Quarterly updates comparing actual expenditures versus budgeted amounts.

- The Board received quarterly updates on expenditures for the periods ending June, September, and December 2018, and March 2019.

Semi-annual completion of the Periodic Checklist.

- PEBA provided the Board with the final Periodic Checklist for 2017-2018 in May 2018 and the interim Periodic Checklist for the first six months of 2018-2019 in November 2018. No significant exceptions were noted.

Activities planned for 2019-2020

- The Board will continue to periodically evaluate the performance of its auditor, 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.

Penny Fast Fact

85 workshops/presentations were held throughout the province in 2018-2019.

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 27, 2019

FINANCIAL STATEMENTS

(as at March 31, 2019)

Public Employees Pension Board

Public Employees Pension Plan

"When I think of PEPP, I think security, the future and saving for retirement."

Deborah – Plan member

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INDEPENDENT AUDITORS' REPORT

To Members of the Legislative Assembly of Saskatchewan

Opinion

We have audited the financial statements of the Public Employees Pension Plan (the "Plan"), which comprise:

- the statement of financial position as at March 31, 2019
- the statement of changes in net assets available for benefits and pension obligations for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Public Employees Pension Plan as at March 31, 2019, and its changes in net assets available for benefits and its changes in pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for Opinion

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

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

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

Other Information

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

- 2019 Annual Report

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

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

KPMG 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.

KPMG

We obtained the information, other than the financial statements and the auditors' report thereon, included in the 2019 Annual Report document as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

KPMG

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control.

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

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

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

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

KPMG LLP

Chartered Professional Accountants

Regina, Canada
June 27, 2019

Public Employees Pension Plan
Statement of Financial Position

Statement 1

As at March 31	2019 (in thousands)	2018 (in thousands)
ASSETS		
Investments (Note 4)	$ 8,877,352	$ 8,754,582
Investments Under Securities Lending Program (Note 4)	915,292	803,753
	9,792,644	9,558,335
Receivables		
Employee Contributions	2,816	2,654
Employee Contributions - Voluntary	158	70
	2,974	2,724
Employer Contributions	3,077	3,064
Accrued Investment Income	3,965	5,056
Other Receivables	8,695	7,547
	18,711	18,391
Cash	123,844	115,373
Due from General Revenue Fund (Note 7)	12,044	14,796
Total Assets	9,947,243	9,706,895
LIABILITIES		
Administrative Expenses Payable	7,343	7,870
Refunds, Transfers and Other Payables	4,695	6,010
Total Liabilities	12,038	13,880
NET ASSETS AVAILABLE FOR BENEFITS	9,935,205	9,693,015
PENSION OBLIGATIONS	9,935,205	9,693,015
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	**2019**	**2018**
INCREASE IN ASSETS AND PENSION OBLIGATIONS		
Investment Income (Note 4)	$ 263,277	$ 272,107
Security Lending Income (Note 4)	826	1,272
	264,103	273,379
Increase in Fair Value of Investments	146,777	306,428
Contributions		
Employee Contributions	145,991	140,847
Employee Contributions - Voluntary	38,738	38,079
	184,729	178,926
Employer Contributions	173,864	169,074
External Transfers In	25,885	24,180
	384,478	372,180
Total Increase In Assets and Pension Obligations	795,358	951,987
DECREASE IN ASSETS AND PENSION OBLIGATIONS		
Transfers, Refunds and Benefits (Note 6)	502,388	473,524
Transfers to Saskatchewan Pension Annuity Fund	6,000	7,286
Investment Transaction Costs	2,773	2,496
Administrative Expenses (Note 8)	41,700	56,307
Other Expenses	307	6,797
Total Decrease In Assets and Pension Obligations	553,168	546,410
Net Increase In Net Assets and Pension Obligations	242,190	405,577
NET ASSETS AVAILABLE FOR BENEFITS AND PENSION OBLIGATIONS, BEGINNING OF YEAR	9,693,015	9,287,438
NET ASSETS AVAILABLE FOR BENEFITS AND PENSION OBLIGATIONS, END OF YEAR	$ 9,935,205	$ 9,693,015

(See accompanying notes to the financial statements)

Public Employees Pension Plan
Notes to the Financial Statements

March 31, 2019

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, purchase a prescribed Registered Retirement Income Fund (PRRIF) or transfer to a LIRA purchased from an outside financial institution 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, or be transferred to another registered pension plan by means of a portability agreement.

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

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, 2019 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 27, 2019.

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 Financial Instruments

Accounts receivable, Due from General Revenue Fund and accounts payable are classified and 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 an 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) Accounting Policy Changes

Effective for the period beginning on or after January 1, 2018, the Plan adopted the new standard, IFRS 9, Financial Instruments, replacing IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 includes guidance on the classification and measurement of financial instrument, impairment of financial assets, and a new general hedge accounting model.

The adoption of this new standard did not result in any significant financial impact or change in the financial statement presentation.

Upon transition to IFRS 9 from IAS 39, the Plan's investments classified as fair value through profit or loss (FVTPL) continue to be FVTPL. Other financial assets and liabilities previously classified as loans and receivables or other liabilities are now classified as amortized cost. There were no changes to the measurement attributes for any of the financial assets or liabilities upon transition to IFRS 9. The Plan has deferred the adoption of the hedge accounting under IFRS 9 and continues to apply the hedge accounting requirement of IAS 39.

4. Investments

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

	(in thousands) 2019	2018
Investments		
Short-term	$ 69,910	$ 28,487
Bonds and Debentures	11,592	11,212
Equities	2,967,024	3,013,516
Pooled Funds	5,828,826	5,701,367
	8,877,352	8,754,582
Investments Under Securities Lending:		
Short-term	24,177	17,283
Equities	891,115	786,470
	915,292	803,753
	$ 9,792,644	**$ 9,558,335**

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

	(in thousands) 2019	2018
Investment Income		
Interest	$ 1,549	$ 27,929
Pooled Funds	163,962	152,493
Dividends	96,821	89,676
Other	945	2,009
	$ 263,277	**$ 272,107**

Securities Lending Program

Through its custodian, the Plan participates in an investment securities lending program for the purpose of generating fee income. Non-cash collateral of at least 102 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, 2019, income generated from security lending program was $0.8 million (2018 - $1.3 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 and discount notes held at March 31, 2019 had effective rates of 1.7 per cent to 2.5 per cent (2018 – 1.1 per cent to 3.1 per cent), and an average remaining term to maturity of 50 days (2018 - 35 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 3.96 per cent (2018 – 8.63 per cent) of the market value of the directly held treasury bills and discount notes.

Bonds and Debentures

The Plan's segregated bonds and debentures are comprised of the following:

2019 (in thousands)

Years to Maturity	Federal	Provincial	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 5	$ 6,490	$ 310	$ -	$ 6,800	0.75% - 4.50%	1.38%
5 to 10	1,359	203	-	1,562	1.90% - 6.50%	2.32%
Over 10	543	2,687	-	3,230	2.75% - 6.00%	3.89%
Market Value	$ 8,392	$ 3,200	$ -	$ 11,592		

2018 (in thousands)

Years to Maturity	Federal	Provincial	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 5	$ 2,783	$ 1,527	$ 12	$ 4,322	0.50% - 3.50%	2.28%
5 to 10	598	1,072	-	1,670	1.90% - 2.60%	2.39%
Over 10	651	4,569	-	5,220	2.00% - 6.50%	3.58%
Market Value	$ 4,032	$ 7,168	$ 12	$ 11,212		

As at March 31, 2018 and 2019 the Plan did not hold any foreign bonds, issued by foreign entities in Canadian currency. 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, 2019, there were no asset-backed securities included in bonds (2018 - $0.01 million).

Equities

As at March 31, 2019, the market value of the Plan's directly held foreign equity investments in Canadian dollars amounted to $2,690 million (2018 - $2,694 million) and foreign equities represent 69.7 per cent (2018 – 70.9 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 2.53 per cent (2018 – 2.42 per cent).

Real Estate

Investments in real estate consist of Canadian commercial property held through an investment in TD 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:

	Market Value (in thousands)	
Pooled Funds	**2019**	**2018**
Canadian Equity	$ 389,546	$ 360,214
U.S. Equity	313,843	290,164
Global Equity	2,259	2,737
Fixed Income Bond	3,430,740	3,395,095
Liquid Alternative Investments	733,693	740,770
Short-Term Investment	449,120	438,998
Real Estate	509,625	473,389
	$ 5,828,826	$ 5,701,367

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 valued 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:

2019 (in thousands)

	Level 1	Level 2	Level 3	Total
Bonds and Debentures	$ -	$ 11,592	$ -	$ 11,592
Pooled Funds	-	5,319,201	509,625	5,828,826
Short-term	-	94,087	-	94,087
Equities	3,858,139	-	-	3,858,139
Total	$ 3,858,139	$ 5,424,880	$ 509,625	$ 9,792,644

2019 Fair Value measurement using level 3 inputs

	Real Estate Fund	Asset - Backed	Total
Balance at April 1, 2018	$ 473,389	$ 12	$ 473,401
Purchases	-	-	-
Sales	-	(12)	(12)
Gains			
Realized	-	-	-
Unrealized	36,236	-	36,236
Balance at March 31, 2019	$ 509,625	$ -	$ 509,625

2018 (in thousands)

	Level 1	Level 2	Level 3	Total
Bonds and Debentures	$ -	$ 11,200	$ 12	$ 11,212
Pooled Funds	-	5,227,978	473,389	5,701,367
Short-term	-	45,770	-	45,770
Equities	3,799,986	-	-	3,799,986
Total	$ 3,799,986	$ 5,284,948	$ 473,401	$ 9,558,335

2018 Fair Value measurement using level 3 inputs

	Real Estate Fund	Asset - Backed	Total
Balance at April 1, 2017	$ 462,792	$ 12	$ 462,804
Purchases	-	-	-
Sales	(40,000)	-	(40,000)
Gains			
Realized	16,889	-	16,889
Unrealized	33,708	-	33,708
Balance at March 31, 2018	$ 473,389	$ 12	$ 473,401

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, 2019 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 into 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 $201.7 million (2018 - $209.1 million) and the market value of their derivatives is $2.8 million (2018 - $2.6 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)

	2019		2018	
Currency	*Notional Value	Gain (Loss)	*Notional Value	Gain (Loss)
AUD	(27,747)	$ (158)	(24,517)	$ 570
CHF	(64,023)	(589)	(65,429)	516
DKK	(15,679)	112	(16,306)	18
EUR	(154,626)	1,018	(191,831)	53
GBP	(101,015)	860	(130,651)	(1,591)
HKD	(28,884)	(17)	(29,427)	(50)
JPY	(77,513)	(426)	(90,102)	(913)
NOK	(1,459)	(2)	(2,598)	23
NZD	(1,089)	3	(1,384)	19
SEK	(5,280)	(44)	(4,340)	61
SGD	(8,906)	(13)	(12,322)	(53)
USD	(812,378)	(618)	(753,188)	(2,444)
		$ 126		$ (3,791)

**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, 2019, the forward contracts are in a net gain position of $0.1 million (2018 – net loss position of $3.8 million). The foreign currency forward exchange contracts are short-term in duration and all contracts as of March 31, 2019 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, 2019, the Plan has entered into repurchase agreements with a notional value of $114.1 million (2018 - $108.6 million) and a fair value of $2.2 million (2018 - $1.3 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.

Repurchase agreements require a fraction of their market value to be available as collateral to back the market exposure provided. PEPP has invested $11.6 million (2018 - $11.2 million) in physical bonds which serve as a backing asset for the repurchase agreements with TD Asset Management. There is a $114.1 million (2018 - $108.6 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) 2019	2018
Termination Refunds	$ 6,688	$ 8,226
Death and Lump Sum Benefits	36,301	29,441
Variable Pension Benefits	155,622	132,956
Marital Transfers	2,530	4,397
Transfers to Registered Retirement Savings Plans and to Private Companies Providing Annuities	293,090	289,611
Transfers Out	8,157	8,893
	$ 502,388	$ 473,524

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 2019 was 1.54 per cent (2018 – 0.87 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)

	2019		2018	
	Budget (unaudited)	Actual	Budget (unaudited)	Actual
Audit Fees	$ 76	$ 64	$ 58	$ 58
Administration Costs	8,557	8,132	8,476	8,001
Custodial Fees	1,267	1,185	1,192	1,281
Investment Manager Fees	44,471	32,319	42,946	46,967
Total	$ 54,371	$ 41,700	$ 52,672	$ 56,307

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), securities lending program 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, 2019 is limited to the carrying value of the financial assets summarized as follows:

	(in thousands) 2019	2018
Cash	$ 123,844	$ 115,373
Accounts Receivable	18,711	18,391
Fixed Income Investments[1]	105,679	56,982
Due from The General Revenue Fund	12,044	14,796
Equities Under Security Lending	891,115	786,470

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

Credit risk related to cash is limited because the counterparties are chartered banks with high credit ratings assigned by national credit rating agencies.

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)

	2019		2018	
Credit Rating	**Fair Value**	**Makeup of Portfolio (%)**	**Fair Value**	**Makeup of Portfolio (%)**
AAA	$ 8,587	74.08	$ 4,362	38.91
AA	2,006	17.30	5,857	52.24
A	999	8.62	981	8.75
Unrated	-	-	12	0.10
Total	$ 11,592	100.00	$ 11,212	100.00

As of March 31, 2019, all directly held bonds and debentures are held with the Government of Canada or a Canadian province. In the prior year, there were no holdings from one issuer, other than the Government of Canada or a Canadian province over 0.10 per cent of the market value of the combined portfolio. No one holding of a province is over 8.62 per cent (2018 – 13.36 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 $245.4 million at March 31, 2019 (2018 - $240.0 million); representing 6.90 per cent of the $3,558 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 $245.4 million at March 31, 2019 (2018 - $240.0 million); representing 6.90 per cent of the $3,558 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, 2019, the Plan's exposure to U.S. equities was 14.47 per cent of total investments (2018 – 13.72 per cent) and its exposure to Non-North American equities was 15.48 per cent of total investments (2018 – 16.79 per cent).

At March 31, 2019, a 10 per cent change in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $106.5 million (2018 - $99.3 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 $111.9 million (2018 - $115.4 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, 2019, the Plan's foreign exchange exposure that is hedged is $1,293 million (2018 - $1,322 million). A 10 per cent change in the aggregate exchange exposure would equate to a net change of $129.3 million (2018 - $132.2 million).

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 did not directly hold Province of Saskatchewan Bonds throughout the year. In the 2017-2018 fiscal year the Plan sold the Province of Saskatchewan Bonds prior to year end. Investment gains on those bonds held in the prior year was $0.6 million.

The Plan has an accounts payable balance as at March 31, 2019 of $0.5 million (2018 - $1.1 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. 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, 2019 are reflected in the unitized account balances of members at year-end. The total value of members' unitized accounts at March 31, 2019 was $9,920 million (2018 - $9,681 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.

13. Comparative Figures

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

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 are available online at
http://www.peba.gov.sk.ca/pensions/pepp/home.html

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

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This report provides general information about the Public Employees Pension Plan and its operation. It does not replace or supercede the legislation governing the Plan.

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