



**SASKATCHEWAN  
PENSION PLAN**

# 2018

## ANNUAL REPORT

# **Saskatchewan Pension Plan**

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**Annual Report  
for the year ending  
December 31, 2018**



# Table of contents

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Letters of transmittal .....	5
Board of trustees' message .....	6
General manager's message .....	7
Corporate philosophy .....	8
Strategic direction .....	9
Plan operations .....	10
Investment report .....	13
Investment policy summary .....	17
2018 Financial statements:	
Actuaries' opinion .....	20
Management's responsibility for financial reporting .....	20
Auditors' report .....	21
Statement of financial position .....	24
Statement of changes in net assets available for benefits .....	25
Statement of changes in provision for annuity obligation .....	26
Notes to the financial statements .....	27

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## Letters of transmittal

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His Honour  
The Honourable W. Thomas Molloy,  
O.C., S.O.M., Q.C., LL.D, LL.B  
Lieutenant Governor of Saskatchewan

Your Honour:

I have the honour to submit the Annual Report of the Saskatchewan Pension Plan for the year ended December 31, 2018.

Respectfully submitted,

A handwritten signature in cursive script, reading "Donna Harpauer".

Donna Harpauer  
Minister Responsible  
Saskatchewan Pension Plan



The Honourable Donna Harpauer  
Minister Responsible  
Saskatchewan Pension Plan

Madam:

On behalf of the Board of Trustees for the Saskatchewan Pension Plan, I have the honour to present the Annual Report for the Saskatchewan Pension Plan for the year ended December 31, 2018.

Respectfully submitted,

A handwritten signature in cursive script, reading "K Strutt".

Katherine Strutt  
General Manager  
Saskatchewan Pension Plan

## Board of trustees' message

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On behalf of the Trustees of the Saskatchewan Pension Plan (SPP), it is my honour to submit this annual report for 2018.

After a decade of relatively strong investment markets, 2018 was challenging for investors. Global influences on investment markets caused a few white knuckle rides during the year. A key function of the Board of Trustees for the SPP is to monitor investments and have in place a Statement of Investment Policies and Goals that protects investors during times of market volatility but also positions the portfolio to capture gains when the upswing inevitably occurs.

As Trustees, we recognize the trust placed in us each time a member makes the decision to invest in SPP. This fiduciary position elevates the Board's sensitivity to each aspect of administration oversight. The governance model adopted by SPP ensures sound and thorough oversight of all aspects of Plan operations. In this way, Plan values of transparency and accountability extend not only from management to members, but from management to the Trustees. The strategic direction provided by the Board provides management with the structure it needs to execute Plan operations

and to achieve goals set by the Board.

While some features of SPP have changed during its 33 year history, the fundamental purpose has not. SPP was created to help give everyone access to a pension plan. We believe that is still the case today and is evident in the mission and vision for the Plan.

Investing is a complex business; SPP sorts through the complexities of various investment options and offers an easy to use product with low fees and competitive returns. The balanced fund (BF) return in 2018 was -2.0 per cent while the short-term fund (STF) returned 1.5 per cent. I am pleased to report the management expense ratio (MER) for the BF was 89 bps and for the STF it was 12 bps.

Members have asked for increases to the maximum annual contribution and a significant achievement in that area occurred in 2018. The maximum moved to \$6,000 for 2018 with annual indexing to the year's maximum pensionable earnings (YMPE).

As SPP continues to mature, the Board will pursue innovations that allow member needs to be addressed during accumulation and decumulation phases of their relationship with the Plan.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Timothy Calibaba'.

Timothy W. Calibaba, ICD.D  
Chairperson, Board of Trustees  
Saskatchewan Pension Plan

## General manager's message

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As a customer focused organization, we are sensitive to needs and requests members have for policy and operational enhancements. It is important that we balance these requests with the necessity to keep fees low.

Online member access was launched in 2018. While it is an accomplishment to make this technological advancement, member subscription to it is the measure of success. I am pleased to report that at year end, 15 per cent of contributing members have set up access to the service. We look forward to future phases of MySPP which will enhance the user experience.

As General Manager, the Board of Trustees delegates day-to-day operations of the Plan to me and sets out a series of strategic goals. This report is filled with statistics and financial information on the progress toward meeting those goals in 2018. Our balanced fund (BF) return was -2.0 percent and our short-term fund (STF) return was 1.5 per cent.

Member response to the increased maximum annual contribution was rewarding. SPP is meeting a need for people who wish to grow their retirement savings with a professionally managed, easy-to-use product.

We were excited to open a satellite office in Saskatoon this year. Open on a part-time basis, the office supports development of our business plans and serves individual members in the area who wish to have in-person contact.

A primary area of development in 2018 was the variable pension benefit product. While launch of this retirement product is not expected until 2019, much of the research and planning was conducted in the year under review.

One key to organizational success is long service from its employees. In 2018, Donna Eon, Manager of Finance, retired after 28 years with SPP. I recognize Donna for her contribution to the strategic direction and administration at SPP.

As administrators, balance is often the theme of our work. We constantly seek to balance the wishes of members, the strategic goals set by Trustees and the legislative framework of our operations. At the end of each day, our purpose at SPP is to offer superior service to our members and a product to which people wish to subscribe.

Respectfully submitted,

Katherine Strutt  
General Manager  
Saskatchewan Pension Plan



# Corporate philosophy

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## **Our mission**

The Saskatchewan Pension Plan will provide a superior investment opportunity to enhance financial security at retirement.

## **Our vision**

The trusted pension plan.

## **Our values**

### **Respect**

- Listening and working to understand and meet needs
- Communication must be direct, open, honest and timely

### **Integrity**

- Behaving in a consistent manner, respecting commitments and being true to one's word
- Upholding the highest ethical standard

### **Initiative**

- Encouraging creativity, learning and self development
- Planning and executing new approaches and methods

### **Teamwork**

- Accepting diversity and difference
- Co-operating to accomplish common goals

### **Accountability**

- Following through on commitments, agreements and promises
- Openly sharing relevant information

## Strategic direction

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Saskatchewan Pension Plan (SPP) provides members with a smart and affordable means to save for retirement. SPP is a fully-funded capital accumulation plan created by the provincial government to provide supplementary income to individuals with little or no access to employer-sponsored pensions. The Plan's mission is to provide a superior investment opportunity to enhance financial security at retirement.

SPP is a Saskatchewan success story that is not replicated by any country or province. The Canadian retirement income system is often viewed as having three pillars: universal government benefits (Old Age Security), Canada Pension Plan (CPP), and employment pension plans and individual retirement savings. SPP is part of the personally funded plans or third pillar of retirement savings.

The Board strategically directs the administration of SPP. As the Plan grows, the expense ratio is affected by economies of scale and members have the potential for more services. Typically a large portion of asset growth comes from increased value of investments; however, investment climates sometimes make this challenging.

SPP is particularly beneficial for businesses that find existing pension options too expensive and too cumbersome to administer. The Plan will continue to focus on small businesses, especially those with fewer than 20 employees, and those who do not have access to private pension arrangements. Employers in Saskatchewan are looking for tools to help them recruit and retain employees. SPP's research indicates that a pension option will help employers achieve the results they desire.

The following corporate goals defined plan operations during the year under review.

### Goal 1: To improve SPP's competitive position

As a tool of public policy, the Board announced an increase to the maximum annual contribution as of January 29, 2018. The new maximum is \$6,000 with annual indexing to the YMPE. SPP's member portal, MySPP launched in 2018 and significant development of the variable pension benefit option occurred.

### Goal 2: To increase SPP membership

The 1,095 new members who joined SPP in 2018 had an average age of 40.2 years.

### Goal 3: To increase SPP assets

Contributions in 2018 totaled \$35.5 million. Net assets under administration in the Contribution Fund (CF) were \$414.8 million—balanced fund (BF) - \$411.8 million and short-term fund (STF) - \$3.0 million—and \$116.3 million in the Annuity Fund (AF).

### Goal 4: To optimize member satisfaction

One of the measures of member satisfaction is good service and competitive rates of return. The Board ensures the Plan is prudently and efficiently managed. This is reflected in a BF MER of 89 bps and an STF MER of 12 bps. The MER for the AF was 44 bps. The social media initiative is intended to enhance member satisfaction by providing timely information about SPP and about financial planning and education. Member response to these initiatives continues to be encouraging.

### Looking ahead

The continued success of the Plan depends on its ability to meet member expectations in both service and products. The Board and management work together to provide members with a solid, long-term investment at a low cost. There are still a great number of people who do not have access to a workplace pension plan. SPP strives to be the pension plan of choice for businesses and their employees.

## Plan operations

SPP is a voluntary, capital accumulation plan for people who want access to a professionally managed, low cost option to grow funds for retirement. The Plan is available to people between 18 and 71 years of age. Eligibility is not dependent on residency or membership in other plans; participants must have unused RRSP room to contribute. SPP members are full-time employees, part-time employees, self-employed people, homemakers, farmers and students. At December 31, 2018, SPP had 33,323 members (2017: 33,417).

### ***New member profile***

- 1,095 people joined SPP in 2018.
- 85 per cent identified themselves as full-time, part-time or self-employed.
- Average age of new members in 2018 was 40.2 years.

SPP has promotional information available for individuals who want more detailed Plan information. This literature can be obtained by:

- visiting the Plan's website at [saskpension.com](http://saskpension.com);
- visiting SPP's blog at [savewithSPP.com](http://savewithSPP.com);
- calling the toll-free line at 1-800-667-7153; or
- e-mailing the Plan at: [info@saskpension.com](mailto:info@saskpension.com).

### **Features of SPP**

The Plan is flexible so that members can make it fit their life situation and budget. The main features of SPP are:

- Voluntary - no obligation to contribute;
- Flexible - payment at any time during the year;
- Portable - people can join and contribute to the Plan regardless of where they reside;
- Professionally managed investments; and
- Business pension option.

### ***Member statistics***

<b>Member status</b>	<b>%</b>	<b>Occupation</b>	<b>%</b>	<b>Age distribution</b>	<b>%</b>
Active	73	Homemaker	13	18-25	2
Retired	27	Farmer	7	26-34	9
		Self-Employed	11	35-49	22
		Full-time	41	50-65	33
		Part-time	18	Over 65	34
		Student	6		
		Other	4		

<b>Sex</b>	<b>%</b>
Female	65
Male	35

Members and the public use the toll-free inquiry line, email and the website to contact SPP. In 2018 the inquiry centre responded to over 19,000 inquiries. Web traffic increased by 38 per cent in 2018.

### **Contributing to SPP**

The maximum annual contribution to SPP in 2018 was \$6,000, subject to the contributor's available RRSP room. The annual maximum contribution is indexed to the YMPE and changes on January 1 each year. There is no minimum contribution. Contributions are tax deductible by the member or their spouse within RRSP guidelines. During 2018, 12,247 members contributed to SPP with an average contribution of \$2,222 (2017: 12,206; \$1,605).

Members like the easy payment options available at SPP. They can use the pre-authorized contribution system; mail contributions to the Plan; use their Visa® or Mastercard® by phone, in person or on SPP's website; use the telebanking service available at their financial institutions; or contribute, in person, at financial institutions.

Transfers from other RRSPs and unlocked RPPs are accepted up to a maximum of \$10,000 per calendar year. In 2018, 1,032 members transferred \$8.3 million (2017: 1,031; \$8.2 million) into their SPP accounts.

## Plan operations

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Contributions are locked in and vested and are used to provide the member with a pension at retirement. Contributions are creditor protected and cannot be seized, claimed or garnisheed in any way except in the event of a court order under a marital division or Enforcement of Maintenance Order.

Assets of members who have not yet retired are held in the CF. Contributing members may choose between a BF and STF for investment. The BF is actively managed and contains bonds, mortgages, equities, real estate, infrastructure and money market investments. The purpose of the BF is to provide members with long-term growth. The STF contains only money market instruments and is designed to preserve capital.

The Statement of Investment Policies and Goals is summarized on pages 17-19. More information on the CF performance in 2018 is found in the Investment report section (page 13).

### Business plans

SPP is uniquely positioned to help businesses enhance their employee benefit package by offering employers a simple, affordable and easily managed pension plan option for employees. Employers can use SPP to offer the benefit of a pension plan without incurring the costs of administration or future liability for pension payments. Employers simply deduct the contributions from their payroll or contribute on behalf of their employees on whatever schedule they choose.

### Retiring from SPP

Plan members can choose to retire from SPP between the ages of 55 and 71. At the time of retirement, members may direct all or part of their account to purchase an annuity from SPP, transfer their account to a locked-in retirement account or prescribed registered retirement income fund with another

### *Retired members*

- 774 members retired in 2018.
- Average monthly pension for new retirees was \$239.
- Highest monthly pension is \$830.
- Oldest retiree receiving payments is 97.
- 9,697 members received a pension from SPP at the end of 2018.
- 283 members started a pension in 2018 at an average age of 68.3 years.
- 395 members transferred into other retirement income vehicles.
- 96 chose the small pension payout option.

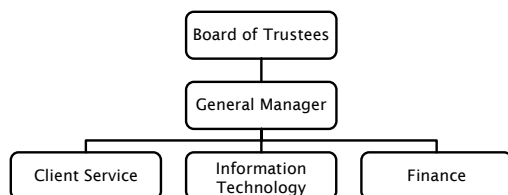
financial institution, or a combination of the annuity and transfer options. SPP also offers a small pension payout option for members whose monthly benefit is less than the prescribed amount. In 2018, pensions under \$23.29 per month qualified for this option.

Each annuity the Plan offers will pay the recipient lifetime monthly benefits with possible payments to a beneficiary or survivor after the member's death.

Annuity payments are determined by the member's account balance, age at retirement, annuity option and interest and annuity rates in effect. When members retire from SPP and choose an annuity from the Plan, their funds are transferred from the CF to the Annuity Fund (AF). The AF, a non-trading portfolio, invests in high-quality, long-term, fixed-income instruments.

# Plan operations

## Administration



SPP is administered by a Board of Trustees (Board) who act as trustee of the fund and administer the Plan in accordance with *The Saskatchewan Pension Plan Act* and Regulations and Board policies.

Board members are appointed by Order-in-Council and serve staggered three-year terms. Trustees for the period reviewed in this report were: Timothy Calibaba, Chairperson; Kimberly Enge; Paul Jaspar; Gordon Meadows; and Rodney Traythorne.

Responsibility for daily administration of the Plan is delegated to the General Manager. In addition, the Board employs a number of consultants and specialists to assist them with managing member funds. These include:

- professional money managers, TD Greystone Asset Management and Leith Wheeler Investment Counsel Ltd., who are responsible for investing member funds according to the Board's investment policies;
- a custodian, RBC Investor and Treasury Services, who holds all securities and cash in the funds and reports independently to the Board, thereby ensuring all funds are safeguarded; and
- a pension consultant, Aon Hewitt, Inc. who assists the Board in monitoring the performance of the investment managers.

Administrative expenses are paid from Plan earnings. SPP focuses on providing efficient service at a reasonable cost.



**SPP Board of Trustees:** Standing (L to R): Timothy Calibaba and Gordon Meadows. Seated (L to R) Rodney Traythorne, Kimberly Enge, and Paul Jaspar.

## Privacy

The Plan only collects the personal information necessary to run the program. The general rule of SPP's internal privacy policy stipulates that personal information can only be disclosed to the member or their authorized representative.

*The Freedom of Information and Protection of Privacy Act* was enacted in 1992 and is the major piece of provincial legislation governing privacy. In addition to complying with this legislation, SPP also complies with the Overarching Personal Information Privacy Framework for Executive Government. Questions about privacy should be directed to the Plan's Privacy Officer.

# Investment report

Financial markets were relatively unsettled in 2018, especially in the final quarter of the year. Equity markets were under significant pressure in the fourth quarter as the prospects of slower growth, higher interest rates, flat yield curves, and weakness in energy markets triggered a reassessment of equity valuations.

Global equities were rocked by rising concerns of slowing global growth and escalating trade tensions, especially in the fourth quarter. In one of the worst quarters in the past decade, several markets declined over 10 per cent in the fourth quarter. Overall, the market volatility in 2018 was likely caused by many things such as: investors anticipating the end of the long bull market, trade war talk between some of the world's largest economies, several central banks raising interest rates after a long period of low rates, risk of global conflicts rising, and any number of other global and geopolitical events that caused investor anxiety.

Canadian equities were particularly under pressure as crude oil prices fell sharply. Until November 2018, U.S. equity markets generated single high digit returns. However, all previous gains were reversed toward the end of the quarter. Most notably, technology stocks which had been such a strong driver for the U.S. market moved sharply lower by quarter end.

The Canadian dollar depreciated by year end and depreciated against most major currencies. Falling oil prices, along with a more dovish stance from the Bank of Canada, helped drive the Canadian dollar lower. The Bank of Canada raised its benchmark interest rates by 0.25 per cent to a ten-year high of 1.75 per cent by year end. The U.S. Federal Reserve hiked its federal funds rate by 0.25 per cent to a range of 2.25-2.5 per

2018 Market returns	
S&P/TSX Composite Index	-8.9%
S&P 500 Index (C\$)	4.2%
MSCI EAFE Index (C\$)	-6.0%
IPD Canada Property Index	7.0%
FTSE TMX Universe Bond Index	1.4%
FTSE TMX 91-day T-Bill	1.4%

cent. The European Central Bank kept its policy rate unchanged but finally ended its quantitative easing program at the end of 2018 which has seen trillions of euros used to purchase European debt and cheapen financing in the Euro area.

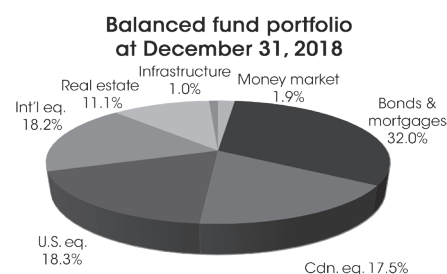
## Contribution Fund – BF results

The BF is structured to provide long-term capital growth and holds a mixture of equities, fixed income, Canadian real estate and infrastructure investments.

SPP balanced fund return history	
2018	-2.0%
5 year return	5.8%
10 year return	7.4%
Since inception (33 years)	8.0%

The market value of the BF increased from \$411.1 M at the beginning of 2018 to \$411.8 M at the end of 2018 and the annual return after administration costs was -2.0 per cent. The historic rates of return are shown in the table above. The fund is managed by TD Greystone Asset Management (TD Greystone) of Regina and Leith Wheeler Investment Counsel (Leith Wheeler) of Vancouver.

The chart below shows the BF asset mix at December 31, 2018 and the other charts show the sector weighting of all asset class portfolios.



The following is a summary of the 2018 BF performance by asset class. The rates of return used exclude administration fees which allows for a valid comparison to benchmarks. SPP's year-end return, before administration expenses, was -1.2 per cent compared to a benchmark of -0.5 per cent.

# Investment report

## Canadian Equities

Top 10 Canadian equity holdings			
	% of Portfolio		% of Portfolio
1. Toronto Dominion Bank	7.1	6. Waste Connections	4.0
2. Royal Bank of Canada	7.1	7. Open Text	3.5
3. Bank of Nova Scotia	6.0	8. Manulife Financial	3.4
4. Canadian National Rwy.	5.0	9. Toromont Industries	3.3
5. Brookfield Asset Mgmt.	4.7	10. Canadian Natural Res.	2.9

The S&P/TSX Composite Index returned -8.9 per cent in 2018. The best performing sectors were Information Technology, Consumer Staples and Real Estate. Energy was the worst performer. Growth stocks outperformed value stocks in the year and large cap stocks outperformed small cap stocks. SPP's Canadian equity portfolio returned -9.9 per cent in the year with TD Greystone returning -8.8 per cent and Leith Wheeler -11.0 per cent.

	S&P/TSX Weight (%)	Portfolio Weight (%)	Index Return (%)
Information technology	3.8	8.0	13.4
Consumer staples	3.5	3.5	2.3
Real estate	3.0	1.0	2.3
Communication services	5.5	2.5	-1.8
Industrials	10.1	15.9	-2.5
Utilities	3.7	5.0	-8.4
<b>S&amp;P/TSX</b>			<b>-8.9</b>
Financials	34.3	36.7	-8.9
Materials	11.1	7.1	-9.2
<b>SPP</b>			<b>-9.9</b>
Health care	1.3	-	-13.4
Consumer discretionary	4.6	3.6	-14.1
Energy	19.1	16.6	-18.1
Cash	-	0.1	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	

## U.S. Equities

Top 10 U. S. equity holdings			
	% of Portfolio		% of Portfolio
1. Microsoft	3.4	6. Merck & Co	2.1
2. UnitedHealth Group	2.7	7. Broadcom	2.0
3. JPMorgan Chase	2.4	8. Apple	1.9
4. Pfizer	2.4	9. Medtronic	1.8
5. Chevron	2.3	10. Alphabet	1.7

The S&P 500 Index (C\$) returned 4.2 per cent in the year. The best performing sectors were Health Care and Utilities while Energy was the worst performer. Value stocks lagged growth stocks in the year and large cap stocks outperformed small cap stocks. SPP's U.S. equity portfolio returned 2.3 per cent in C\$. TD Greystone returned 6.8 per cent and Leith Wheeler's sub-advisor, Barrow Hanley, returned -2.6 per cent.

	S&P 500 Weight (%)	Portfolio Weight (%)	Index Return (C\$) (%)
Health care	14.4	14.3	15.9
Utilities	2.9	1.8	13.4
Information technology	20.1	16.2	12.6
Consumer discretionary	10.0	11.6	11.1
Real estate	2.8	2.2	6.4
<b>S&amp;P 500</b>			<b>4.2</b>
<b>SPP</b>			<b>2.3</b>
Communication services	10.0	5.9	1.5
Consumer staples	7.2	6.0	-0.3
Financials	14.2	18.6	-5.3
Industrials	9.8	11.6	-5.5
Materials	2.7	3.1	-6.8
Energy	5.9	8.4	-10.5
Cash	-	0.3	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	

# Investment report

## Non-North American Equities

Top 10 Non-North American equity holdings			
	% of Portfolio		% of Portfolio
1. Cash	3.0	6. Compass Group	1.7
2. Total	2.7	7. GlaxoSmithKline	1.5
3. BMW	2.1	8. Statoil	1.5
4. Banco Santander	1.9	9. Anta Sports	1.5
5. Roche	1.8	10. AXA	1.5

The MSCI EAFE Index (C\$), returned -6.0 per cent in Canadian dollar terms. The best performing sector was Utilities while the worst was Financials. SPP's non-North American (NNA) equity portfolio returned -7.3 per cent. TD Greystone returned -7.9 per cent and Leith Wheeler's sub-advisor, Sprucegrove, returned -6.6 per cent.

## Fixed Income

	FTSE TMX UBI Weight (%)	Portfolio Weight (%)	Index Return (%)
Federal	36.3	19.5	2.4
<b>SPP</b>			<b>1.6</b>
<b>FTSE TMX UBI</b>			<b>1.4</b>
Corporate	27.7	44.8	1.1
Municipal	2.0	1.8	0.9
Provincial	34.0	22.8	0.7
Mortgages	-	8.1	-
High yield	-	3.0	-
Total	100.0	100.0	

The FTSE TMX Universe Bond Index, which measures the Canadian Bond market returns, gained 1.4 per cent in the year. Medium and short duration outperformed long duration bonds during the year and Federal bonds outperformed both corporate and provincial bonds. SPP's Fixed Income portfolio returned 1.6 per cent. TD Greystone returned 2.3 per cent and Leith Wheeler returned 1.2 per cent.

	EAFE Weight (%)	Portfolio Weight (%)	Index Return (C\$) (%)
Finland	1.0	1.3	6.6
New Zealand	0.2	-	6.1
Luxembourg	0.1	1.0	4.8
Israel	0.5	1.0	2.6
Hong Kong	3.9	3.5	0.3
Switzerland	8.7	7.3	0.2
Norway	0.7	4.8	-0.4
Singapore	1.4	2.8	-1.2
Portugal	0.2	-	-1.9
France	11.1	7.3	-4.0
Australia	6.9	3.1	-4.8
Japan	24.6	17.0	-5.0
Netherlands	3.4	3.4	-5.7
Sweden	2.7	1.5	-6.0
<b>MCSI EAFE</b>			<b>-6.0</b>
Denmark	1.8	-	-7.2
<b>SPP</b>			<b>-7.3</b>
United Kingdom	16.9	19.1	-7.6
Spain	3.1	1.9	-8.1
Italy	2.3	1.3	-9.2
Germany	8.8	4.4	-14.9
Ireland	0.6	3.5	-18.6
Belgium	0.9	-	-19.5
Austria	0.2	-	-22.1
Emerging markets	-	12.8	-
Cash	-	3.0	-
Other	-	0.3	-
Total	100.0	100.0	

## Real Estate

The Investment Property Databank Index, which measures Real Estate market returns, rose 7.0 per cent in the year. The Canadian commercial real estate market remained highly active, with transactions focused on larger, high-quality assets across all property types. The SPP real estate portfolio, managed exclusively by TD Greystone, returned 8.7 per cent in the year.



# Investment report

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## Infrastructure

The benchmark for the Infrastructure portfolio is the Consumer Price Index (CPI) + 5 per cent, 7.1 per cent in 2018. The year marked the most active investment period to date for the asset class, managed exclusively by TD Greystone. It returned 13.8 per cent in the year.

## Contribution Fund – STF Results

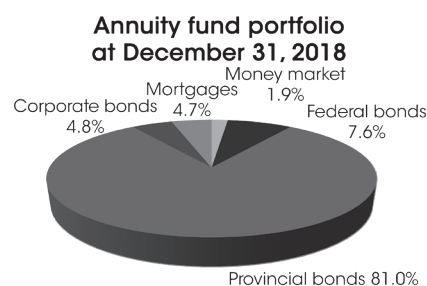
The objective of the STF is capital preservation and invests only in Canadian money market instruments such as T-bills and commercial paper. The value of the STF at December 31, 2018 was \$3.0 M. The FTSE TMX 91-day T-Bill Index returned 1.4 per cent. The STF returned 1.6 per cent. The STF return to members after administration costs was 1.5 per cent in 2018.

## Annuity Fund

The Annuity Fund's (AF) purpose is to provide lifetime retirement annuities to members. The fund is structured in such a way to provide adequate cash to meet pension payments in the early years and to immunize the portfolio beyond. Immunization is a strategy that matches the duration of assets and liabilities to minimize the impact of changes in interest rates.

The AF consists of high quality bonds and short term investments, no equities. Total assets of the fund at December 31, 2018 were \$116.3 M and there was an actuarial surplus of \$5.1 M at that same date.

Bond interest rates remained low throughout the year and therefore annuity rates were also low, ranging between 2.2 per cent and 2.8 per cent for the year. The fund is managed by TD Greystone Asset Management of Regina and the chart below shows its composition as at December 31, 2018.



## Investment policy summary

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The Saskatchewan Pension Plan's aim is to create portfolios with risk/return characteristics suitable for members to grow their retirement savings. The Plan has developed and implemented investment policies that communicate the investment philosophy to the pension plan investment managers. Each fund has its own Statement of Investment Policies and Goals (SIP&G) which describe the objectives and the overall risk philosophy of the fund.

The asset mix policy, or the Fund's allocation to different asset classes, is a key component of the SIP&G. It is through the asset allocation decision that SPP diversifies its investments across asset classes and attempts to balance the level of risk in each portfolio. The Board monitors, on an ongoing basis, the performance of the Funds, the investment managers and reviews the SIP&G for each fund at least once annually. The SIP&Gs are available on the SPP website at [saskpension.com](http://saskpension.com) under Investments.

SPP has established two funds to hold the assets of the Plan: the CF and AF. The investments must be eligible investments as outlined in *The Pension Benefits Act* and Regulations, the *Income Tax Act* and Regulations, and all subsequent amendments.

### Contribution fund

The CF holds assets of members who have not yet retired. The assets are accumulated under a defined contribution or capital accumulation arrangement. Non-retired members have two options in which to invest their money, the BF and the STF.

The BF is the default investment fund. The objective of this fund is to accumulate the assets of members and invest these assets in a prudent, risk-controlled manner to provide for long-term growth. The fund balances the need for capital growth of younger members with the desire for capital preservation of older members by targeting a well-diversified portfolio with a slight bias to equities over fixed income investments.

The STF is designed for members whose primary objective is capital preservation. It is subject to minimal capital risk and invests in money market instruments. Typically, members who have a shorter-term horizon and who are willing to accept a lower return in order to minimize financial risk may choose this fund.

### Risk management

The Plan is exposed to a variety of financial risks as a result of its investment activities. In the BF, these risks include market risk, credit risk and liquidity risk. The STF fund is subject to interest rate risk, inflation risk and credit risk. The Plan has implemented strategies to mitigate financial risks through its investment policy. This policy contains risk management provisions that govern investment decisions and is designed to achieve the objectives of the Board.

These risks are closely monitored and managed by:

- diversifying the asset classes, diversifying within each individual asset class and diversifying by manager style;
- establishing quality, quantity and diversification guidelines;
- setting performance goals and objectives and establishing benchmark performance expectations to measure progress towards the attainment of these goals;
- retaining an investment consultant who monitors the investment performance of the fund on a quarterly basis and reports to the Board on investment manager-related issues that may have an impact on fund performance;
- having management conduct monthly reviews of compliance of each investment manager with the quality and quantity guidelines contained in the policy; and

## Investment policy summary

- reviewing quarterly reports from investment managers on compliance with the Investment Policy.

### Asset mix

The BF has adopted an asset mix that has a slight bias to equity investments as shown in the table below.

Asset Mix			
Asset Class (% of fair value)	Minimum %	Benchmark %	Maximum %
<b>Equities</b>			
Canadian	10	18	23
U.S.	13	18	23
Non-North American	13	18	23
Foreign	26	36	46
<b>Total equities</b>	<b>40</b>	<b>54</b>	<b>65</b>
<b>Alternatives</b>			
Real estate	0	10	15
Infrastructure	0	2.5	10
<b>Total Alternatives</b>	<b>0</b>	<b>12.5</b>	<b>20</b>
<b>Fixed income</b>			
Bonds & mortgages	15	32	45
Short term	0	1.5	10
<b>Total Fund</b>		<b>100</b>	

An investment management structure has been implemented, consisting of two active balanced managers with offsetting management styles. The fund holds a diversified portfolio of publicly traded equities, real estate, infrastructure, fixed income and mortgages which increases the opportunity to add value.

The STF invests in a Canadian pooled fund containing high quality money market instruments issued by governments, corporations, trusts and other commercial entities. All securities in the fund have a term to maturity of 365 days or less.

### Performance measurement

The primary investment performance objective of each fund is to earn a rate of return that exceeds the rate of return earned on the benchmark portfolio. A second objective is to exceed the benchmark index in each of

the asset classes in which the manager invests. Finally, the BF's long-term investment goal is to achieve a minimum annualized rate of return of three per cent in excess of the Canadian Consumer Price Index assessed over annualized rolling four-year periods. The STF's long-term investment goal is to preserve capital over the short term and to earn a rate of return competitive with other money market funds.

### Annuity fund

The AF holds assets of retired members transferred from the CF. Assets in the fund are used to provide annuity payments for the life of a retired member. Overall, the risk tolerance of the fund is low as the fund cannot tolerate loss of principal.

### Risk management

The objectives of the AF are:

- to structure the investment portfolio so that the Fund's net assets are immune to changes in the level of interest rates;
- to provide sufficient liquidity to ensure payments to retired members when due; and
- to ensure long-term solvency of the Fund.

The ability to meet this objective is affected by two factors:

- fluctuations in the value of the investment portfolio, which are caused by changes in financial markets (primarily credit, market and liquidity risks); and
- changes in the value of the Plan's accrued benefit obligation, which is driven by both economic and demographic factors.

To achieve its objectives, the fund invests in high-quality fixed income and short-term investments all denominated and payable in Canadian dollars. Interest rate risk is addressed by matching estimated future cash payments with interest and principal payments

## Investment policy summary

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from the portfolio. As such, the AF is immunized against changes in interest rates that may cause temporary differences between the asset and liability values. The duration of the investment portfolio at cost is matched with the duration of the liabilities at cost on an annual basis. The matching should fall within a band of -0.5 to +0.5 years of the duration target.

The Board of Trustees retains an independent actuary to value the accrued annuity obligation annually based on economic and demographic assumptions. Each year, the Board and management monitor the validity of assumptions against actual experience and update as required.

### **Asset mix**

Subject to requirements and restrictions imposed by both *The Pension Benefits Act* and Regulations and the *Income Tax Act* and Regulations, the Fund must include sufficient short-term investments to meet liquidity needs. Government of Canada, Provincial Government and Corporate bond issues, strip bonds, mortgages, mortgage-backed securities and short-term investments are permissible investments. Equities and derivatives are not permitted.

### **Performance measurement**

Investment performance is monitored and evaluated on a regular basis. The portfolio risk is monitored annually by measuring the duration gap between the assets and liabilities. Long-term solvency is also monitored annually by comparing the present value of the asset cash flow stream to the present value of the estimated liability payments.

## Actuaries' opinion

Aon Hewitt Inc. was retained by the Saskatchewan Pension Plan (the Plan) to perform an actuarial valuation of the assets and liabilities of the Saskatchewan Pension Plan on a funding basis as at December 31, 2018. The valuation of the Plans' actuarial assets and liabilities were based on:

- Membership and asset data compiled by the Saskatchewan Pension Plan as at December 31, 2018; and
- Assumptions about future events (economic and demographic) which were developed by Aon Hewitt Inc.

While the actuarial assumptions used to estimate liabilities for the Plan are, in our opinion, appropriate, the Plans' future experience will differ from the actuarial assumptions. Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the Plan.

We have tested the data for reasonableness and consistency with prior valuations and in our opinion the data is sufficient and reliable for the purposes of the valuation. We are also of the opinion that the methods employed in the valuation and assumptions used are appropriate. Our opinions have been given and our valuation has been performed in accordance with accepted actuarial practice in Canada.



Paul Hebert, FSA, FCIA

Fellow, Canadian Institute of Actuaries

February 22, 2019

## Management's responsibility for financial reporting

The financial statements of the Saskatchewan Pension Plan, and all information in this annual report, have been prepared by Plan management which is responsible for the reliability, integrity and objectivity of the information provided. The statements have been prepared in accordance with Canadian accounting standards for pension plans and necessarily include some estimates based on management's judgment. Other financial information in this annual report is consistent with that provided in the financial statements.

The Plan's accounting system and related system of internal controls are designed to provide reasonable assurance that transactions are properly authorized and recorded, assets are safeguarded and financial records are properly maintained to provide reliable information for use in the preparation of financial statements.

The Board of the Plan is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board reviews and approves the financial statements.

These financial statements have been audited by the Plan's independent external auditor, KPMG LLP, in accordance with Canadian generally accepted auditing standards, on behalf of the Members of the Legislative Assembly of Saskatchewan.



Katherine Strutt

General Manager

February 22, 2019



Cheryl Andreas CPA, CGA

Manager of Finance



## Independent auditors' report

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To the Members of the Legislative Assembly, Province of Saskatchewan

### Opinion

We have audited the financial statements of Saskatchewan Pension Plan (the Plan), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of changes in net assets available for benefits for the year then ended
- the statement of changes in provision for annuity 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 Saskatchewan Pension Plan as at December 31, 2018, 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 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:

- 2018 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.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the 2018 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.



## Independent auditors' report

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### **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.

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.



## Independent auditors' report

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- 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

February 22, 2019



# Saskatchewan Pension Plan

## Statement of financial position

as at December 31 (\$ thousands)

	2018			2017		
	Contribution Fund	Annuity Fund	Total	Contribution Fund	Annuity Fund	Total
<b>ASSETS</b>						
Investments (Notes 4 and 5)	\$ 410,545	\$ 116,934	\$ 527,479	\$ 410,139	\$ 112,524	\$ 522,663
Cash	2,114	230	2,344	1,816	173	1,989
Accrued investment income	351	752	1,103	341	708	1,049
Prepaid (deferred)						
retirement transfers	2,282	(2,282)	-	1,816	(1,816)	-
Prepaid annuity benefits	-	822	822	-	778	778
Total assets	415,292	116,456	531,748	414,112	112,367	526,479
<b>LIABILITIES</b>						
Administrative expenses payable	217	71	288	266	52	318
Death and other benefits payable	274	100	374	205	118	323
Deferred member contributions	10	-	10	22	-	22
Total liabilities	501	171	672	493	170	663
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	414,791	116,285	531,076	413,619	112,197	525,816
Accrued obligations (Note 6)	414,791	111,183	525,974	413,619	102,595	516,214
<b>SURPLUS</b>	\$ -	\$ 5,102	\$ 5,102	\$ -	\$ 9,602	\$ 9,602

Commitment (Note 11)

(See accompanying notes to the financial statements)

ON BEHALF OF THE TRUSTEES:



Timothy W. Calibaba, ICD.D



Paul Jaspar, SVM, FCPA, FCA

# Saskatchewan Pension Plan

## Statement of changes in net assets available for benefits

for the year ended December 31 (\$ thousands)

	2018			2017		
	Contribution Fund	Annuity Fund	Total	Contribution Fund	Annuity Fund	Total
<b>INCREASE IN ASSETS</b>						
Investment income						
Interest and other income	\$ 1,599	\$ 4,247	\$ 5,846	\$ 1,348	\$ 4,160	\$ 5,508
Dividends	2,767	-	2,767	2,274	-	2,274
Pooled funds	14,410	-	14,410	12,792	-	12,792
	18,776	4,247	23,023	16,414	4,160	20,574
Change in fair value of investments						
Realized	5,583	781	6,364	5,455	371	5,826
Unrealized	(29,184)	(3,246)	(32,430)	17,738	(726)	17,012
Contributions	35,609	-	35,609	27,846	-	27,846
Transfers from Contribution Fund	-	12,979	12,979	-	10,272	10,272
Total increase in assets	30,784	14,761	45,545	67,453	14,077	81,530
<b>DECREASE IN ASSETS</b>						
Annuities to pensioners	-	9,469	9,469	-	9,015	9,015
Administrative expenses (Note 9)	3,672	507	4,179	3,231	438	3,669
Transfers to other plans	11,665	-	11,665	10,675	-	10,675
Transfers to Annuity Fund	12,979	-	12,979	10,272	-	10,272
Deaths and other benefits	1,296	697	1,993	753	807	1,560
Total decrease in assets	29,612	10,673	40,285	24,931	10,260	35,191
Increase in net assets	1,172	4,088	5,260	42,522	3,817	46,339
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>						
BEGINNING OF YEAR	413,619	112,197	525,816	371,097	108,380	479,477
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>						
END OF YEAR	\$ 414,791	\$ 116,285	\$ 531,076	\$ 413,619	\$ 112,197	\$ 525,816

(See accompanying notes to the financial statements)

# Saskatchewan Pension Plan

## Statement of changes in provision for annuity obligations

for the year ended December 31 (\$ thousands)

	2018	2017
<b>PROVISION FOR ANNUITY OBLIGATIONS, BEGINNING OF YEAR</b>	\$ 102,595	\$ 99,327
<b>INCREASE IN PROVISION FOR ANNUITY OBLIGATIONS</b>		
Interest on annuity obligations	2,329	2,234
Liability due to new annuities	13,342	10,239
Mortality experience	250	239
Change in mortality table assumption	5,955	-
	<u>21,876</u>	<u>12,712</u>
<b>DECREASE IN PROVISION FOR ANNUITY OBLIGATIONS</b>		
Change in interest rate assumption	3,699	164
Annuities paid with interest	9,589	9,280
	<u>13,288</u>	<u>9,444</u>
Net increase in provision for annuity obligations	<u>8,588</u>	<u>3,268</u>
<b>PROVISION FOR ANNUITY OBLIGATIONS, END OF YEAR</b>	<u>\$ 111,183</u>	<u>\$ 102,595</u>

(See accompanying notes to the financial statements)

# Saskatchewan Pension Plan

## Notes to the financial statements

for the year ended December 31, 2018

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### 1. Description of Plan

#### (a) General

The Saskatchewan Pension Plan ("SPP" or the "Plan") was established by the Government of Saskatchewan to provide an opportunity for individuals with little or no access to private pensions or other retirement savings arrangements to save for their retirement. Details of the Plan are contained in *The Saskatchewan Pension Plan Act* (the "Act") and Regulations.

#### (b) Funds established

The Plan is comprised of a Contribution Fund (CF) and an Annuity Fund (AF). These funds are managed by professional investment managers whose investment performance is measured against objectives established by the Saskatchewan Pension Plan Board of Trustees (Board) as outlined in the Statement of Investment Policies and Goals.

##### **Contribution Fund (CF)**

The CF is a defined contribution fund established to accumulate all contributions and earnings for members who have not yet retired under the Plan. There are two investment options available to CF members, the Balanced Fund (BF) and the Short Term Fund (STF). The asset mix of each fund is established based on the expected volatility of the underlying securities. The BF portfolio includes equities, bonds, mortgages, real estate, infrastructure and money market investments. The STF only holds money market investments and is the least volatile. Members of SPP have the option to invest in the BF, the STF or a combination of both. Members who do not make a choice are invested in the Plan's default option which is the BF. Members bear the risk of investment losses and are the beneficiaries of investment gains.

##### **Annuity Fund (AF)**

The AF was established to provide Plan members with the option of purchasing a life annuity at retirement. If a member elects to purchase an annuity from the AF, the individual account balance is transferred from the CF to the AF and a pension contract is established. The AF holds investments in high quality long-term bonds and mortgages. The AF also holds money market investments for current pension needs and to pay administration costs. Equity investments are not permitted. The investment portfolio is structured to limit the effect on the AF due to changes in the level of interest rates, to provide sufficient liquidity for payments to retirees when due and to ensure long-term solvency.

#### (c) Contributions

Participation in the CF is voluntary and members can contribute a maximum of \$6,000 for each plan year. The maximum contribution is indexed annually to the change in the Year's Maximum Pensionable Earnings (YMPE). Members may also transfer \$10,000 annually from an RRSP, RRIF or unlocked RPP to SPP. Contributions are vested immediately in the member's name and are locked into the Plan until retirement.

#### (d) Retirement

Members may retire under the Plan as early as age 55 or delay retirement as late as age 71. A member's accumulated account balance at retirement consists of member's contributions to the Plan together with the investment income and changes to the fair value of the Plan's investments allocable to the member as of that date under the terms of the Plan. Upon retirement, members may purchase an annuity through the AF or they may transfer all or part of their account to a locked-in pension option with another financial institution.

#### (e) Income tax

The Plan is a specified pension plan under the *Income Tax Act* and is not subject to income tax.

#### (f) Death benefits

Should a member die prior to retirement, the funds in his or her account will be paid to the named beneficiary or estate in accordance with the member's designation and are subject to the *Income Tax Act* and applicable legislation. If the beneficiary is the member's spouse, the funds may be transferred to the spouse's SPP account or to their own registered retirement savings plan.

Should a member die after retirement, death benefits are payable according to the type of annuity the member selected at retirement.

# Saskatchewan Pension Plan

## Notes to the financial statements

for the year ended December 31, 2018

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### 1. Description of plan, continued

#### (g) Withdrawal provisions

Members whose monthly pensions are less than the prescribed amount can withdraw their total pension in one lump sum instead of receiving monthly benefits. In 2018, the prescribed amount was \$23.29 (2017: \$23.04).

### 2. Basis of presentation

#### (a) Statement of compliance

The financial statements for the year ended December 31, 2018 have been prepared in accordance with Canadian accounting standards for pension plans as defined in the CPA Handbook, Section 4600, Pension Plans. For matters not addressed in Section 4600, International Financial Reporting Standards (IFRS) have been followed.

The financial statements were authorized and issued by the Board on February 22, 2019.

#### (b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for investments, which are stated at fair value.

#### (c) Functional and presentation currency

These financial statements are presented in Canadian Dollars, which is the Plan's functional currency, and are rounded to the nearest thousand as noted.

### 3. Summary of significant accounting policies

#### (a) Valuation of investments

Investments are stated at fair value in the Statement of financial position. The change in the fair value of investments from the beginning to end of each year is reflected in the Statement of changes in net assets available for benefits.

The fair value of investments is determined as follows:

- (i) Money market investments, comprising of treasury bills and bankers acceptances, are valued at cost, which together with accrued investment income, approximates fair value given the short-term nature of these investments.
- (ii) Bonds and the multi credit pooled fund are valued at year-end quoted market 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 appropriate market interest rates.
- (iii) Equities are valued at year-end quoted prices from accredited stock exchanges on which the security is principally traded.
- (iv) Pooled fund investments are valued at the unit price supplied by the pooled fund administrator, which represents the underlying net assets of the pooled fund at fair values determined using closing prices.
- (v) Real estate pooled fund is valued using market values from independent appraisals.
- (vi) Mortgage pooled fund is valued using spread-based pricing, over Government of Canada bonds, with a similar term to maturity.
- (vii) Infrastructure pooled fund is valued using discounted cash flow method by an independent third party valuation firm.

# Saskatchewan Pension Plan

## Notes to the financial statements

for the year ended December 31, 2018

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### 3. Summary of significant accounting policies, continued

#### (b) Investment transaction and income recognition

Investment transactions are recorded as of the trade date (the date upon which the substantial risks and rewards are transferred). The Plan follows the accrual method for the recording of income and expenses. All transaction costs in respect of purchases and sales of investments are recorded as part of administrative expenses in the statement of changes in net assets available for benefits. Dividend income is recognized based on the date of record. Realized gains and losses and unrealized appreciation or depreciation of investments are reflected in the change in fair value of investments.

#### (c) Fair value of other liabilities

Administrative expenses payable and death and other benefits payable are all short term in nature and, as such, their carrying value approximates fair value.

#### (d) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at year-end. Investments, revenues and expenses are translated at the exchange rate in effect at the transaction date. The realized and unrealized gains and losses arising on translation are included in the change in fair value of investments.

#### (e) Accrued obligations

The accrued obligation for the AF is determined based on an actuarial valuation prepared by Aon Hewitt Inc., an independent firm of actuaries. The valuation is prepared annually at December 31. Any change in the liability pursuant to the valuation is recognized as an increase or decrease in that year's Statement of changes in provision for annuity obligations.

#### (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 reported amounts of assets and liabilities, income and expenses, and related disclosures of contingent assets and liabilities. Actual results could differ from these estimates. Significant estimates included in the financial statements relate to the valuation of investments (see Note 4 and Note 5) and the provision for annuity obligations (see Note 6).

#### (g) Adoption of new standards

IFRS 9, Financial Instruments was adopted for the Plan's financial statements effective January 1, 2018. The standard sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. It also has modified the hedge accounting model to better link the economics of risk management with the accounting treatment of hedges. There were no material impacts due to this change.

#### (h) Future accounting changes

IFRS 16, Leases will be mandatory for the Plan's financial statements for the year beginning January 1, 2019. Under the new standard all leases will be treated as finance leases and will be shown on the Plan's balance sheet. This standard may affect the classification, measurement and valuation of leases. The Plan is currently evaluating the impact of IFRS 16 on the financial statements, but it is not expected to be material.

# Saskatchewan Pension Plan

## Notes to the financial statements

for the year ended December 31, 2018

### 4. Contribution fund investments

#### (a) Investments

The CF invests directly or through pooled funds in accordance with the Board's policy of asset diversification. The CF investments consist of the following:

(\$ thousands)	2018	2017
<b>Bonds and bond pooled funds</b>		
Federal	\$ 13,585	\$ 11,863
Provincial	10,010	10,794
Municipal	-	389
Corporate	9,271	7,571
Multi credit pooled fund	4,060	-
Bond pooled fund	83,032	84,456
	119,958	115,073
<b>Equities and equity pooled funds</b>		
Canadian equities	68,935	75,125
Canadian equity pooled fund	2,333	3,067
United States equities	39,729	39,557
US equity pooled fund	34,965	37,006
International equity pooled funds	74,205	78,759
	220,167	233,514
<b>Other</b>		
Money market	6,086	4,301
Money market pooled funds	4,546	5,746
Infrastructure pooled fund	4,185	-
Real estate pooled fund	45,145	41,547
Mortgage pooled fund	10,458	9,958
	70,420	61,552
<b>Total CF Investments</b>	<b>\$ 410,545</b>	<b>\$ 410,139</b>

#### ***Bonds and bond pooled funds***

The portfolio contains bonds that the CF holds directly or in pooled funds, including multi credit bonds, private placement bonds and bonds issued by foreign entities, all denominated and paid in Canadian dollars. Except for the multi credit pooled bond fund, bonds are subject to a minimum quality standard of "BBB" or equivalent, as rated by a recognized credit rating service at the time of purchase. No more than 20% of the market value of the bond portfolio may be held in "BBB" issues. An investment in a pooled fund cannot exceed 10% of the market value of that fund. The Bond pooled fund has bond future exchange contracts in place to manage interest rate risk.

#### ***Equities and equity pooled funds***

Equity holdings are made directly or through pooled funds. No one holding of an individual stock may represent more than 10% of the market value of the equity portfolio or more than 10% of the voting stock of the issuer. Pooled funds have no fixed distribution rates and returns are based on the investment performance attained by the fund manager. The International equity pooled fund may use derivatives for hedging currency and to replicate indices.

#### ***Money market and money market pooled funds***

Money market investments are defined as securities purchased with a maturity of one year or less. Only securities with an "R-1" rating, as rated by a recognized bond rating agency at the time of purchase, are permissible.

#### ***Real estate pooled fund***

The real estate pooled fund consists of Canadian real estate and is diversified by property type and geographic location.

**Saskatchewan Pension Plan**  
**Notes to the financial statements**  
for the year ended December 31, 2018

**4. Contribution fund investments, continued**

***Mortgage pooled fund***

The assets of the mortgage pooled fund include first and subsequent priority mortgages in Canadian real estate.

***Infrastructure pooled fund***

The assets of the infrastructure pooled fund investments are global infrastructure investments diversified by geographic location with a core risk strategy.

**(b) Fair value measurements**

The Plan has classified its investments using the 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 or 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. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The following table illustrates the classification of the CF's financial instruments within the fair value hierarchy as of December 31:

(\$ thousands)		2018			
		Level 1	Level 2	Level 3	Total
Money market and money market pooled funds	\$	-	\$ 10,632	\$ -	\$ 10,632
Bonds & bond pooled fund		-	115,898	-	115,898
Multi credit pooled bond fund			4,060		4,060
Equities & equity pooled funds		108,664	111,503	-	220,167
Infrastructure pooled fund				4,185	4,185
Mortgage pooled fund		-	-	10,458	10,458
Real estate pooled fund		-	-	45,145	45,145
	\$	108,664	\$ 242,093	\$ 59,788	\$ 410,545

(\$ thousands)		2017			
		Level 1	Level 2	Level 3	Total
Money market and money market pooled funds	\$	-	\$ 10,047	\$ -	\$ 10,047
Bonds & bond pooled fund		-	115,073	-	115,073
Equities & equity pooled funds		114,682	118,832	-	233,514
Mortgage pooled fund		-	-	9,958	9,958
Real estate pooled fund		-	-	41,547	41,547
	\$	114,682	\$ 243,952	\$ 51,505	\$ 410,139



**Saskatchewan Pension Plan**  
**Notes to the financial statements**  
for the year ended December 31, 2018

**4. Contribution fund investments, continued**

Below is a reconciliation of the level 3 fair value measurements for the year ended December 31:

(\$ thousands)		2018			
		Infrastructure pooled fund	Mortgage pooled fund	Real estate pooled fund	Total
Balance at December 31, 2017	\$	-	\$ 9,958	\$ 41,547	\$ 51,505
Purchases		3,860	446	-	4,306
Unrealized gains		325	54	3,598	3,977
Balance at December 31, 2018	\$	4,185	\$ 10,458	\$ 45,145	\$ 59,788

(\$ thousands)		2017			
		Infrastructure pooled fund	Mortgage pooled fund	Real estate pooled fund	Total
Balance at December 31, 2016	\$	-	\$ 7,028	\$ 37,553	\$ 44,581
Purchases		-	2,970	-	2,970
Unrealized gains (losses)		-	(40)	3,994	3,954
Balance at December 31, 2017	\$	-	\$ 9,958	\$ 41,547	\$ 51,505

**(c) 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 currency risk and equity price risk) and liquidity risk.

These risks are managed by having an investment policy which is subject to review and approval by the Board annually. The investment policies provide guidelines to the Plan's investment managers for the asset mix of the portfolio regarding quality and quantity of permitted investments in order to achieve sufficient asset growth on a risk controlled basis. The minimum, maximum and target weighting for each class is clearly established in the policy. The Board reviews compliance reports from its investment managers as to their compliance with the investment policies.

**(i) Credit risk**

Credit risk is the risk of loss arising from the failure of a counter party to fully honour its financial obligation with the Plan, including its inability or unwillingness to pay borrowed principal and interest when they come due. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies, usually leading to a fall in the market value of the debtor's obligation. The Plan has put in place investment policies and procedures with established investment criteria designed to manage credit risk by setting limits to credit exposure through quality, quantity and diversification guidelines set out in the Investment Policy and by monitoring compliance to those guidelines. The credit quality of financial assets is generally assessed by reference to external credit rating.

The Plan's most significant credit risk exposure arises from its investments in interest bearing investments. At December 31 the maximum credit risk from interest bearing investments to which the CF is exposed is summarized as follows:

(\$ thousands)		2018	2017
Cash	\$	2,114	\$ 1,816
Accrued interest income		159	157
Money market and money market pooled funds		10,632	10,047
Bonds and bond pooled funds		119,958	115,073
Mortgage pooled fund		10,458	9,958
	\$	143,321	\$ 137,051

# Saskatchewan Pension Plan

## Notes to the financial statements

for the year ended December 31, 2018

### 4. Contribution fund investments, continued

The credit ratings of the bond portfolio as of December 31 are summarized as follows:

(\$ thousands)		2018		2017	
Credit rating		Fair value	% of Portfolio	Fair value	% of Portfolio
AAA	\$	14,373	43.7%	\$ 12,512	40.9%
AA		12,120	36.9%	10,137	33.1%
A		3,043	9.3%	4,922	16.1%
BBB		3,330	10.1%	3,046	9.9%
	\$	32,866	100.0%	\$ 30,617	100.0%

Other than the Government of Canada, no single issuer represents more than 10.1% (2017: 18.1%) of the overall bond portfolio. Fixed rate bonds have effective interest rates ranging between 1.9% and 6.5% (2017: 1.7% and 4.7%) and coupon rates ranging between 1.0% and 7.2% (2017: 1.0% and 7.2%).

#### (ii) Market risk

Market risk is the risk that fair value of an investment will fluctuate as a result of changes in market prices. Market risk is comprised of three types of risk which include foreign currency risk, interest rate risk and equity price risk. Significant volatility in interest rates, equity values and the value of the Canadian dollar against the currencies in which the Plan's investments are held can impact the value of the Plan's investments.

#### *Foreign currency risk*

The Plan is exposed to currency risk through the holdings of foreign equities and foreign equity pooled funds where investment values may fluctuate due to changes in foreign exchange rates. The Plan manages foreign currency risk by limiting investment in foreign funds through the asset mix guidelines set out in the Plan's Investment Policy and by investing in securities that are strategically distributed over several geographic areas to limit exposure to any one foreign currency.

At December 31, 2018, the Plan's foreign currency exposure in U.S. equities was \$39.7 million (2017: \$39.6 million). If the Canadian dollar had strengthened or weakened by 10% in relation to the U.S. dollar exchange rate, with all other variables held constant, the net assets would have decreased or increased respectively, by approximately \$4.0 million (2017: \$4.0 million). In practice, the actual trading results may differ from this approximate sensitivity analysis.

#### *Interest rate risk*

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of a change in market interest rates. The Plan manages interest rate risk by establishing a target asset mix of interest-sensitive investments and investments subject to other risks. Investments are actively managed to mitigate or take advantage of changes in interest rates.

The CF holds approximately 32.0% (2017: 32.9%) of its investments in fixed income securities. As of December 31, 2018, a 1.0% increase in nominal interest rates (all else being equal) would result in a decline in the fair market value of bonds of 8.4% (2017: 6.8%).

# Saskatchewan Pension Plan

## Notes to the financial statements

for the year ended December 31, 2018

### 4. Contribution fund investments, continued

The table below summarizes the Fund's exposure to interest rate risk by the remaining term to maturity:

(\$ thousands)		2018				
Years to maturity		Federal	Provincial	Municipal	Corporate	Fair value
Within 1	\$	-	\$	-	\$	501
1 to 5		5,512	1,831	-	4,177	11,520
6 to 10		5,715	1,135	-	1,676	8,526
Over 10		2,358	7,044	-	2,917	12,319
	\$	13,585	\$	10,010	\$	9,271
						\$ 32,866

(\$ thousands)		2017				
Years to maturity		Federal	Provincial	Municipal	Corporate	Fair value
Within 1	\$	-	\$	-	\$	1,484
1 to 5		6,310	2,172	389	1,261	10,132
6 to 10		3,739	685	-	2,048	6,472
Over 10		1,814	7,937	-	2,778	12,529
	\$	11,863	\$	10,794	\$	7,571
						\$ 30,617

#### Equity price risk

The Plan is exposed to changes in equity prices in global markets. The Board's policy is to invest in a diversified portfolio of investments. No one investee or related group of investees represents greater than 10% of the total book value of the assets of the Plan.

Equities and equity pooled funds comprise 53.6% (2017: 56.9%) of the Plan's total investments. At December 31, 2018, if the market prices, as measured by the benchmark indices, increased or decreased by 10%, with all other variables held constant, the Plan's net assets would have increased or decreased by approximately:

(\$ thousands)		2018 Impact	2017 Impact
S&P/TSX Capped Composite Index	\$	7,127	\$ 7,819
S&P 500 Index (CAD)		7,469	7,656
MSCI EAFE Index (CAD)		7,421	7,876

#### (iii) Liquidity risk

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity requirements are managed through income generated from investments, monthly contributions made by members and by investing in publicly traded liquid assets that are easily sold and converted to cash. These sources are used to pay benefits, fund operating expenses and make transfers at retirement.

#### d) Investment performance

The following is a summary of the CF investment performance before administration expenses:

	Annual Return		Rolling Four Year Return	
	2018	2017	2018	2017
Portfolio return	-1.2%	10.6%	5.9%	8.8%
Benchmark return	-0.5%	8.6%	5.4%	8.2%

# Saskatchewan Pension Plan

## Notes to the financial statements

for the year ended December 31, 2018

### 4. Contribution fund investments, continued

The portfolio return is a time-weighted rate of return calculation. The benchmark return aggregates the actual market index returns according to the weightings specified in the Investment Policy. The indices used to measure performance are Canadian equities: S&P/TSX Capped Composite Index; U.S. equities: S&P 500 Index (Cdn \$); Non-North American equities: MSCI EAFE Index (Cdn \$); Bonds: FTSE TMX Canadian Universe Bond Index, FTSE TMX Short-term bond index and FTSE TMX 91-day T-Bill Index.

### 5. Annuity fund investments

#### (a) Investments

The AF investments consist of the following:

(\$ thousands)	2018	2017
<b>Bonds</b>		
Federal	\$ 8,920	\$ 9,060
Provincial	94,713	91,024
Corporate	5,596	3,527
	109,229	103,611
<b>Other</b>		
Money market	2,246	3,715
Mortgage pooled fund	5,459	5,198
	7,705	8,913
<b>Total AF Investments</b>	<b>\$ 116,934</b>	<b>\$ 112,524</b>

#### ***Bonds***

The portfolio contains bonds that the Plan holds directly, all denominated and paid in Canadian dollars. Bonds are subject to a minimum quality standard of "BBB" or equivalent as rated by a recognized credit rating service at the time of purchase and no more than 15% of the market value of the total bond portfolio may be held in "BBB" issues. Corporate bonds must meet a minimum quality standard of "A" at the time of purchase. The combined market value of corporate bonds and mortgage holdings shall not exceed 10% of the fund's market value, with the limit reviewed annually relative to the fund's funding position.

#### ***Mortgage pooled fund***

The assets of the mortgage pooled fund include first and subsequent priority mortgages in Canadian real estate.

#### ***Money market***

Money market investments are defined as securities purchased with a maturity of one year or less. Only securities with an "R-1" rating, as rated by a recognized bond rating agency at the time of purchase, are permissible.

#### (b) Fair value measurements

The Plan has classified its fair valued financial instrument holdings using the 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 or 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. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

**Saskatchewan Pension Plan**  
**Notes to the financial statements**  
for the year ended December 31, 2018

**5. Annuity fund investments, continued**

The following table illustrates the classification of the AF's financial instruments within the fair value hierarchy as of December 31:

(\$ thousands)		2018			
		Level 1	Level 2	Level 3	Total
Money market	\$	-	\$ 2,246	\$ -	\$ 2,246
Bonds		-	109,229	-	109,229
Mortgage pooled fund		-	-	5,459	5,459
	\$	-	\$ 111,475	\$ 5,459	\$ 116,934

(\$ thousands)		2017			
		Level 1	Level 2	Level 3	Total
Money market	\$	-	\$ 3,715	\$ -	\$ 3,715
Bonds		-	103,611	-	103,611
Mortgage pooled fund		-	-	5,198	5,198
	\$	-	\$ 107,326	\$ 5,198	\$ 112,524

Below is a reconciliation of the level 3 fair value measurements for the year ended December 31:

(\$ thousands)		2018	
		Mortgage pooled fund	Total
Balance at December 31, 2017	\$	5,198	\$ 5,198
Purchases		233	233
Unrealized gains		28	28
Balance at December 31, 2018	\$	5,459	\$ 5,459

(\$ thousands)		2017	
		Mortgage pooled fund	Total
Balance at December 31, 2016	\$	4,995	\$ 4,995
Purchases		206	206
Unrealized losses		(3)	(3)
Balance at December 31, 2017	\$	5,198	\$ 5,198

**(c) Financial risk management**

The investment objectives of the AF are to maximize retirement wealth, ensure sufficient assets to meet future pension obligations and to generate enough cash flow to meet pension obligations. The AF is exposed to a variety of financial risks as a result of its investment activities and has formal policies and procedures that govern the management of credit, market and liquidity risk.

# Saskatchewan Pension Plan

## Notes to the financial statements

for the year ended December 31, 2018

### 5. Annuity fund investments, continued

These risks are managed by having an investment policy, which is reviewed and approved annually by the Board. The investment policy provides guidelines to the AF's investment manager for the asset mix of the portfolio regarding quality and quantity of permitted investments. Funds transferred from the CF to the AF are used to purchase long-term bonds. The combined duration of the bonds purchased is matched to the duration of the annuities purchased from the AF. Under the policy of the Plan such bonds are generally held to maturity.

#### (i) Credit risk

Credit risk arises from the potential for issuers of securities to default on their contractual obligation to the AF. The Plan limits credit risk through quality, quantity and diversification guidelines set out in the Investment Policy and by monitoring compliance to those guidelines. At December 31, 2018 the Fund's maximum credit risk exposure relates to cash, bonds, accrued interest income and money market investments totaling \$117,916,138 (2017: \$113,405,818). At year end the AF held no bonds with a BBB rating. Other than the Government of Canada, no single issuer represents more than 28.1% (2017: 27.9%) of the overall bond portfolio. Fixed rate bonds have effective interest rates ranging between 1.7% and 3.3% (2017: 1.1% and 3.2%).

The table below summarizes the Fund's exposure to interest rate risk by the remaining term to maturity:

(\$ thousands)		2018		2017	
Credit rating		Fair value	% of Portfolio	Fair value	% of Portfolio
AAA	\$	27,492	25.2%	\$ 22,903	22.1%
AA		74,547	68.2%	61,914	59.8%
A		7,190	6.6%	18,794	18.1%
	\$	109,229	100.0%	\$ 103,611	100.0%

#### (ii) Market risk

Market risk is the risk that the fair value of an investment will fluctuate as a result of changes in market prices. Market risk is comprised of three types of risk which include foreign exchange risk, interest rate risk and equity price risk. The investment policy addresses risk through an investment approach that allows investments solely in high quality fixed income instruments denominated in Canadian dollars. This mitigates the foreign exchange risk and equity price risk.

#### Interest rate risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Fund's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Fund's assets and liabilities. Interest rate risk is managed by investing in fixed income investments that provide cash flows that match payments to annuitants.

The AF holds 100.0% (2017: 100.0%) of its investments in fixed income securities. As of December 31, 2018, a 1.0% increase in nominal interest rates (all else being equal) would result in a decline in the fair market value of bonds of 7.6% (2017: 7.7%).

The table below summarizes the Fund's exposure to interest rate risk by the remaining term to maturity:

(\$ thousands)		2018			
Years to maturity		Federal	Provincial	Corporate	Fair value
Within 1	\$	572	\$ 7,986	\$ 576	\$ 9,134
1 to 5		3,001	19,434	2,534	24,969
6 to 10		2,251	27,677	1,909	31,837
Over 10		3,096	39,616	577	43,289
	\$	8,920	\$ 94,713	\$ 5,596	\$ 109,229

# Saskatchewan Pension Plan

## Notes to the financial statements

for the year ended December 31, 2018

### 5. Annuity fund investments, continued

(\$ thousands)		2017			
Years to maturity		Federal	Provincial	Corporate	Fair value
Within 1	\$	-	\$ 3,827	\$ 1,197	\$ 5,024
1 to 5		3,634	18,758	1,700	24,092
6 to 10		2,314	25,152	630	28,096
Over 10		3,112	43,287	-	46,399
	\$	9,060	\$ 91,024	\$ 3,527	\$ 103,611

#### (iii) Liquidity risk

The AF is exposed to liquidity risk through its responsibility to pay annuities on a timely basis.

The AF manages liquidity risk by maintaining adequate cash and cash equivalent balances. It ensures there is sufficient cash to meet its obligations by continuously monitoring and reviewing actual and forecasted cash flows, and by matching the maturity profile of investment assets to operating needs.

### 6. Provision for annuity obligations

The provision for annuity obligations is the actuarial present value of the future expected annuity benefit obligation to pensioners as determined by Aon Hewitt Inc., an independent actuary. The actuarial valuation is a complex process requiring professional judgment on the part of the actuary and must ensure consistency with the asset valuation methodology. Measurement of this amount involves uncertainty, as estimates must be made of future interest rates and mortality rates.

The valuation method used to calculate the basic pension liability of retired members was the single premium actuarial cost method. An interest rate of 2.66% (2017: 2.27%) was used to determine the liabilities as of December 31, 2018. The mortality table assumption was changed from the UP94 mortality table projected to 2040 to the 2014 CPM Combined table with the MI-2017 improvement scale for the actuarial valuation as it closely reflects actual experience of the Plan. The duration of annuity payments is 8.0 years.

Pension annuities are issued based on the prevailing interest rates at the dates of retirement of the annuitants. The duration of the investments purchased are matched with the duration of the liabilities. As such, the risk to the Plan relates to:

- (i) any differences, which may be material, between the estimated and actual life expectancy of the annuitant group which may cause the Plan to have insufficient funds to meet the liability or more funds than required; and
- (ii) reinvestment of assets at maturity at rates greater than or less than rates used in determining the annuities.

To manage this risk, the Plan uses investment managers and actuaries to assist in determining the investment strategy.

Further, subsection 7(3.2) of the Act requires any amount by which the liabilities of the AF exceeds the assets of the AF to be a charge on and payable from the General Revenue Fund of the Province of Saskatchewan. At December 31, 2018 the AF was in a surplus position.

Actual results may vary from the assumptions used. If the interest rate used increases by 1.0%, the provision for annuity benefits decreases by \$8,580,000 (2017: \$7,659,000) or if the interest rate decreases by 1.0%, the provision for annuity obligation increases by \$9,937,000 (2017: \$8,827,000). If the average mortality age increases by 1 year, the provision for annuity benefits increases by \$6,729,000 (2017: \$7,256,000).

The expected cash inflows from investment income and maturity payments and the expected outflows to pay annuity benefits are based on actual dollar forecasts without any provision for inflation. The total estimated cash outflows for the next five years are \$45.1 million and for the next ten years \$81.7 million.

The next actuarial valuation is required as of December 31, 2019.

### 7. Earnings allocation to members

Investment income plus the change in the market value of investments less administration expenses are allocated monthly to members in the CF.

# Saskatchewan Pension Plan

## Notes to the financial statements

for the year ended December 31, 2018

### 8. Related party transactions

The Plan conducts a portion of its transactions with Saskatchewan Crown-controlled agencies, ministries and corporations. These transactions are at the agreed upon exchange rates and are settled on normal trade terms. During the year, the Plan incurred operating expenses of approximately \$295,793 (2017: \$275,633) and at year end had \$5,484 (2017: \$5,122) in accounts payable with these related parties.

At December 31, 2018, the Plan has \$2,847,934 (2017: \$2,991,996) invested in Province of Saskatchewan bonds with varying maturity dates and interest rates. Interest income during the year was approximately \$194,197 (2017: \$182,661) and change in the market value of these bonds was approximately a decrease of \$144,063 (2017: \$107,373).

### 9. Administrative expenses

Administrative expenses are allocated to the Funds as prescribed by Board policy.

(\$ thousands)	2018	2017
Other administration expenses	\$ 1,737	\$ 1,368
Investment management fees	1,312	1,229
Salaries and benefits	995	975
Custodial fees	47	46
Audit fees	42	42
Actuarial fee	46	9
Total administrative expenses	\$ 4,179	\$ 3,669
Allocated as follows:		
Contribution fund	\$ 3,672	\$ 3,231
Annuity fund	507	438
	\$ 4,179	\$ 3,669

### 10. Compensation of key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Plan. The compensation to directors and other members of key management personnel are included in the administrative expenses of the Plan and are summarized below.

(\$ thousands)	2018	2017
Short-term employee benefits	\$ 155	\$ 168
Post-employment retirement benefits	8	8
	\$ 163	\$ 176

### 11. Lease commitment

The Plan is committed to an operating lease for office space to January 31, 2023 with minimum monthly lease payments of \$11,629 due to a related party.

### 12. Capital management

The Plan receives new capital from member contributions. The Plan also benefits from income and market value increases on invested capital. The Plan's capital is invested in a number of asset classes including equities, fixed income, pooled funds and short-term investments. The Board of Trustee has delegated the operational investment decisions to our investment managers based on investment mandates as defined in the Plan's Statement of Investment Policy and Procedures.







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