Saskatchewan Pension Plan

Annual Report
for the year ending
December 31, 2012

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Letters of transmittal

Her Honour
The Honourable Vaughn Solomon Schofield, S.O.M., S.V.M
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, 2012.

Respectfully submitted,

SIGNED

Ken Krawetz
Minister Responsible
Saskatchewan Pension Plan

The Honourable Ken Krawetz
Minister Responsible
Saskatchewan Pension Plan

Sir:

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, 2012.

Respectfully submitted,

SIGNED

Katherine Strutt
General Manager
Saskatchewan Pension Plan

Board of trustees' message

Strategic planning is the focus of Board discussions for the Saskatchewan Pension Plan (SPP) Board of Trustees, specifically in the areas of governance, investments and future direction of the Plan. We have a vested interest in the success of this organization and wish to see it thrive and exceed member expectations both now and in the future.

Our role as Trustees is to foster the culture which will allow the organization to achieve its mission: The Saskatchewan Pension Plan will grow through the provision of a superior investment opportunity that results in enhanced financial security at retirement. We are the fiduciaries of the fund and continue to make decisions that are in the best interests of the members.

Growth is a key issue for this organization; both in assets under management and number of members served. It is our desire to see expansion in both areas. We know investment returns and management fees impact the purchase decision for our members and prospects. We constantly balance these factors in our deliberations and while monitoring investments on a quarterly basis. The Trustees continue sound governance practices and careful monitoring of investment performance.

This report provides a summary of the statement of investment policies and goals used to administer the funds members have entrusted to us. The financial statements reflect the sound financial position of the Plan.

Federal legislation and regulations enacting PRPPs was passed late in the year paving the way for provincial legislation. SPP has a 27 year track record of providing members with a simple, affordable and consistent means to save for retirement. Many have spoken about how the SPP was the inspiration for the PRPP. The Board believes SPP could offer this new retirement solution once it is available here in Saskatchewan and countrywide.

On behalf of the Board I would like to thank Warren Wagner and Pat Weir who completed their appointments this year.

The Board is looking forward to the challenges and opportunities in the coming years.

Respectfully submitted,

SIGNED

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

General manager's message

After completing our 27th year of operations, there are a few things that stand out as unique about this organization. First, the loyalty and committed support of our members is noteworthy. As a voluntary pension plan, built on grassroots support, this plan is successful because of the people who join it and contribute to it – this truly is your pension plan. The second uniqueness is the combined years of service for our 13 staff – 159 years – each of those years mean our organization and our members are served well.

Growth in membership was strong in 2012.   We were pleased to see 1,088 new members begin to have their retirement grow here and the uptake on transfers in continues to exceed our expectations.

Returns are an important feature of any investment and 2012 was a strong year for investments. The balanced fund return in 2012 was 8.5 per cent and the short-term fund return was 0.5 per cent.

We continue to be challenged with finding innovative ways to create awareness about SPP and have embarked on different opportunities in the public relations arena this year to boost our profile. We are excited about the impact these new initiatives are creating for SPP and look forward to realizing the growth that these efforts are certain to bring.

Our core business is still pensions; creating retirement savings for our members is what we do. With the introduction of PRPPs at the federal level in 2012, SPP is exploring opportunities to offer this type of product when legislation is ready provincially.

The theme for the coming year is certain to be change as we prepare for a more competitive retirement savings environment. Amidst the changes however, we commit to a continued high standard of service to our members and the public.

Respectfully submitted,

SIGNED

Katherine Strutt
General Manager
Saskatchewan Pension Plan

Corporate philosophy

Our Mission

The Saskatchewan Pension Plan will grow through the provision of a superior investment opportunity that results in enhanced financial security at retirement.

Our Vision

The pension plan that people know and trust.

Our Values

Respect

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

Integrity

- Behaving in a consistent manner towards each other and our members, 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

- We live up to what we say by following through on commitments, agreements and promises
- Relevant information is available and openly shared

Strategic direction

Saskatchewan Pension Plan (SPP) has a 27 year track record of providing 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 grow through the provision of a superior investment opportunity that results in enhanced financial security at retirement."

The Board's strategically directs the mission of SPP. As the Plan grows, administration expenses are 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.

This program, developed ahead of its time, is the model for the national pooled registered pension plan (PRPP). Federal PRPP legislation received royal assent mid year and now Saskatchewan will focus on creating its own PRPP framework. The Board supports the introduction of PRPPs in Saskatchewan and is keen to be part of this pension solution for the province.

SPP option 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 less than 20 employees, and those who do not have access to private pension arrangements.

Goal 1: To improve SPP's competitive position

The Board is continuing its plans to enhance the program by moving to unitization and expanding the retirement options. SPP officials are continuing work with provincial law-makers to amend legislation so that the Plan can also accept funds from RPPs and so that SPP can provide PRPPs.

Goal 2: To increase SPP membership

New member growth was moderately successful in 2012 as 1,088 people joined the Plan with an average age of 44.1 years.

Goal 3: To increase SPP assets

Contributions in 2012 totaled $17.5 million, 6.5 per cent ahead of 2011 levels. This was a reflection of a positive response to the ability to transfer funds into SPP. Net assets under administration in the Contribution Fund (CF) were $219.8 million—balanced fund (BF) - $218.3 million and short-term fund (STF) - $1.5 million—and $102.5 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 an expense ratio of 1.1 per cent in the CF and 0.4 per cent in the AF. The social media initiative is intended to enhance member satisfaction by providing timely information about SPP and about financial planning and education in general.

Looking ahead

Respect, integrity and initiative are core values at SPP and we intend to continue demonstrating those values in the year ahead. As the PRPP evolves, we anticipate increased participation as SPP becomes the pension plan of choice for businesses.

Plan operations

SPP is a voluntary, capital accumulation plan for people who want an easy way to accumulate 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, 2012, SPP had 32,301 members (2011: 32,035).

Member statistics

Member status	%
Active	67
Retired	33

Sex	%
Female	69
Male	31

Occupation	%
Homemaker	19
Farmer	8
Self-Employed	11
Full-time	31
Part-time	21
Student	6
Other	4

Age distribution	%
18-25	2
26-34	9
35-49	19
50-65	34
Over 65	36

New member profile

- 1,088 people joined SPP in 2012.
- 83 per cent identified themselves as full-time, part-time or self-employed.
- Average age of new members in 2012 was 44.1 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;
- visiting SPP's blog at savewithSPP.com;
- calling the toll-free line at 1-800-667-7153; or
- e-mailing the Plan at: info@saskpension.com.

Features of SPP

The Plan is flexibile 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.

Members and the public use the toll-free inquiry line, email and the website to contact SPP. In 2012 the inquiry centre responded to more than 14,500 inquiries. Web traffic increased by 35 per cent in 2012.

Contributing to SPP

The annual maximum contribution to SPP is $2,500, subject to the contributor's available RRSP room. There is no minimum contribution. Contributions are tax deductible by the member or their spouse within RRSP guidelines. During 2012, 11,217 members contributed to SPP with an average contribution of $1,332 (2011: 11,721; $1,398).

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 $10,000 per calendar year. In 2012, 337 members transferred $2.5 million (2011:183; $1.1 million) into their SPP accounts.

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.

Plan operations

Assets of members who have not yet retired are held in the Contribution Fund (CF). Contributing members may choose between a balanced fund (BF) and short-term fund (STF) for investment. The BF is actively managed and contains bonds, equities, real estate 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 15-17. More information on the CF performance in 2012 is found in the Investment report section (page 11).

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 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 2012, pensions under $20.88 per month qualified for this option.

Retired members

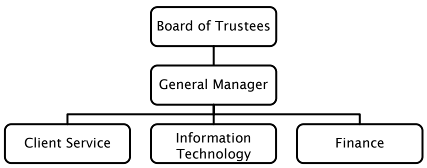
- *527* members retired in 2012.
- Average monthly pension for new retirees was $115.
- Highest monthly pension is $430.
- 11,120 members received a pension from SPP at the end of 2012.
- 191 members started a pension in 2012 at an average age of 66.5 years.
- 248 members transferred into other retirement income vehicles.
- 88 chose the small pension payout 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 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 two-year terms. Trustees for the period reviewed in this report were: Timothy Calibaba, Chairperson; Paul Jaspar; Gordon Meadows; Rodney Trayhorne; and Maureen Wilson.

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, Greystone Managed Investments Inc. and Leith Wheeler Investment Counsel Ltd., who are responsible for investing member funds according to the Board's investment policies;
- a custodian, RBC Investor Services Trust, 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): Rodney Trayhorne, Maureen Wilson, Gordon Meadows; Seated (L to R) Paul Jaspar and Timothy Calibaba*

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

2012 Market returns	
S&P/TSX Composite Index	7.2%
S&P Index (C$)	13.4%
MSCI EAFE Index (C$)	14.7%
DEX Universe Bond Index	3.6%

Looking back, the economic outlook for 2012 was very uncertain at the beginning of the year. Equity markets were expected to be volatile as events unfolded in Europe, the U.S. and China. Stories about the European debt crisis, a slowing Chinese economy and the U.S. fiscal cliff dominated headlines. The world economy appears to be stabilizing. Although 2012 continued to present challenges, it was in many ways a year of consolidation, the results of which can be seen in the strong equity returns for all markets.

One of the positive factors impacting the economy has been the current low interest rate environment – and this is expected to remain in place for some time. Low interest rates provide a challenge for pension plans but provide a significant benefit for other parts of the economy. Corporations issued record amounts of corporate bonds in 2012 and lower interest rate costs have improved corporate profit margins.

Record low rates have also filtered through to record low mortgage rates. There are encouraging signs in the U.S. housing market with some of the most affected areas showing the greatest improvement.

While encouraging signs are beginning to emerge for the U.S. domestic economy, the outlook for non-North American economies remain mixed. The European debt crisis has not been resolved but the prospect of a Euro breakup has diminished considerably. Chinese economic growth projects for 2013 have improved and China still has significant financial resources to boost economic activity through capital investment.

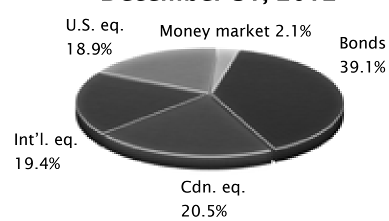
Contribution Fund – BF results

SPP balanced fund return history	
2012	8.5%
5 year return	2.1%
10 year return	5.0%
Since inception (27 years)	7.9%

The market value of the BF increased from $194.4 Million at the beginning of 2012 to $218.3 Million at the end of 2012. This represents a return of 8.5 per cent after administration costs are allocated to members' accounts at year end. The historic rates of return are shown in the table above. The fund is managed by Greystone Managed Investments Inc. of Regina and Leith Wheeler Investment Counsel of Vancouver.

The BF is structured to provide long-term capital growth and holds a mixture of equities, fixed income and Canadian real estate investments. The chart below shows the BF mix at December 31, 2012.

Balanced fund portfolio at December 31, 2012



The following is a summary of the 2012 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 9.6 per cent compared to a benchmark of 8.4 per cent.

SPP's balanced fund returned 8.5 per cent after administration costs while the short-term fund return, after administration costs, was 0.5 per cent for the year. The top ten holdings, portfolio composition and returns are summarized in the accompanying tables.

Investment report

Canadian Equities

Top 10 Canadian equity holdings in 2012	% of Portfolio		% of Portfolio
1. Toronto Dominion Bank	8.1	6. Teck Resources	3.3
2. Bank of Nova Scotia	6.2	7. Royal Bank of Canada	3.2
3. Saputo	4.6	8. Manulife Financial Corp	2.8
4. Canadian National Ralway	4.6	9. National Bank of Canada	2.8
5. TransCanada	3.9	10. Finning International Inc	2.7

The S&P/TSX Composite Index gained 7.2 per cent in 2012. Health Care was the best performing sector followed by Consumer Discretionary and Consumer Staples. SPP's Canadian equity portfolio returned 11.6 per cent. Greystone's return trailed, as value added in Consumer Discretionary and Materials weightings was more than offset by being underweight in Financials, a leading sector in the year. Leith Wheeler more than doubled the Index return hitting 15.1 per cent for the year. Sector positioning added value by being overweight in Consumer sectors and Industrials and by being underweight in Energy and Materials.

The chart below shows the sector weighting of each portion of the SPP Canadian equity portfolio at December 31, 2012. Similar information is provided for all asset classes.

	S&P/TSX Weight (%)	Portfolio Weight (%)	Index Return (%)
Health care	1.9	2.2	26.6
Consumer discretionary	4.5	9.4	22.7
Consumer staples	2.7	6.1	21.9
Financials	32.5	31.3	18.1
Industrials	6.1	12.9	16.0
Telecom services	5.1	-	12.0
SPP			**11.6**
S&P/TSX			**7.2**
Utilities	1.9	1.6	0.6
Energy	25.4	22.1	-0.5
Information technology	1.3	3.5	-2.2
Materials	18.6	10.7	-5.5
Other	-	0.2	-
Total	100.0	100.0	

U.S. Equities

Top 10 U. S. equity holdings in 2012	% of Portfolio		% of Portfolio
1. Apple	4.7	6. Praxair	2.9
2. Chevron	3.9	7. Honeywell International	2.9
3. JPMorgan Chase & Co	3.2	8. U.S. Bancorp	2.8
4. CVS Caremark	3.1	9. Union Pacific Corp	2.8
5. Aflac	3.1	10. Altria Group	2.7

The S&P 500 Index returned 16.0 per cent in US$ in 2012 with the return decreasing to 13.4 per cent in C$ as the Canadian dollar appreciated over the period. All sectors were positive for the year with the top 3 sectors being Financials, Consumer Discretionary and Telecommunications.

SPP's U.S. equity portfolio returned 11.0 per cent in C$. Neither manager kept pace with the U.S. market. Greystone subtracted 0.7 per cent and Leith's U.S. equity sub-advisor, Sprucegrove, subtracted 4.2 per cent from the Index.

	S&P 500 Weight (%)	Portfolio Weight (%)	Index Return (C$) (%)
Financials	15.6	18.0	26.0
Consumer discretionary	11.5	11.1	21.3
Telecom services	3.1	-	15.7
Health care	12.0	15.1	15.3
S&P 500			**13.4**
Industrials	10.1	9.2	12.7
Materials	3.6	4.0	12.3
Information technology	19.0	14.4	12.2
SPP			**11.0**
Consumer staples	10.6	13.5	8.2
Energy	11.0	10.4	2.6
Cash	-	0.4	1.0
Utilities	3.5	3.9	-0.8
Total	100.0	100.0	

Non-North American Equities

Top 10 Non-North American equity holdings in 2012	% of Portfolio		% of Portfolio
1. Novartis	4.1	6. Adidas	2.3
2. HSBC	2.8	7. Total	2.2
3. Royal Dutch Shell	2.3	8. CRH	1.9
4. Samsung Electronics	2.3	9. BMW	1.9
5. Nestle	2.3	10. Banco Santander SA	1.8

The MSCI EAFE Index, which measures the returns of non-North American equities, returned 17.3 per cent in local currency terms and 14.7 per cent in Canadian dollar terms for the year. All countries in the Index posted double digit returns for the year with only four countries: Spain, Greece, Ireland and Portugal having modest increases. Consumer Discretionary was the top performing sector and Telecommunications the worst.

SPP's non-North American (NNA) equity portfolio returned 16.7 per cent. Greystone's sub-advisor, Hansberger Global Investors, outperformed the index by 3.6 per cent adding value from Financial stock selection and emerging market stocks. Leith Wheeler's sub-advisor, Sprucegrove, added 0.6 per cent in value to the Index return. Stock selection in Information Technology, Telecommunications and emerging markets added value.

	EAFE Weight (%)	Portfolio Weight (%)	Index Return (C$) (%)
Belgium	1.2	1.1	36.5
Denmark	1.2	0.7	28.4
Germany	8.8	5.9	28.0
Singapore	1.9	5.1	28.0
New Zealand	0.1	-	26.4
Hong Kong	3.1	3.8	25.4
Austria	0.3	-	23.1
Australia	8.9	3.6	19.4
Sweden	3.1	1.3	19.3
France	9.6	4.2	18.6
Netherlands	2.5	2.2	17.9
Switzerland	8.7	12.1	17.7
SPP			**16.7**
Norway	0.9	1.4	16.0
Emerging markets	-	10.8	15.6
MSCI EAFE			**14.7**
United Kingdom	22.6	22.5	12.7
Finland	0.8	-	12.0
Italy	2.3	2.6	10.0
Japan	20.0	16.8	5.8
Ireland	0.2	1.6	3.4
Greece	0.1	-	2.2
Portugal	0.2	-	1.2
Cash	-	1.6	1.0
Spain	3.0	2.0	0.7
Israel	0.5	0.7	-6.8
Total	100.0	100.0	

Investment report

Fixed Income

	DEX UBI Weight (%)	Portfolio Weight (%)	Index Return (%)
Corporate	27.8	45.6	6.2
SPP			**4.4**
DEX UBI			**3.6**
Municipal	1.7	2.9	3.5
Provincial	29.5	29.3	3.4
Federal	41.0	22.2	2.1
Total	100.0	100.0	

The DEX Universe Bond Index, which measures the Canadian Bond market returns, gained 3.6 per cent in the year. The yield on 10-year Canada bonds ended the year at 1.8 per cent, very close to where it started in 2012. Corporate bonds were the best performing sector.

The Bank of Canada's overnight rate remained unchanged at 1 per cent over the year. The overnight rate was last increased on September 8, 2010. The U.S. Federal Reserve maintained the Federal Funds Rate at a target range of 0 to 0.25 per cent. As of December 31, 2012, Canadian core inflation was 1.1 per cent, while total inflation was 0.8 per cent.

SPP's Fixed Income portfolio returned 4.4 per cent. Greystone returned 0.4 per cent above the Index. Their sector weights were positive due to an overweight in corporate bonds and an underweight in federal bonds. Leith Wheeler's return was 1.1 per cent above the Index. The portfolio added value through a large overweight in corporate bonds.

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 DEX 91-day T-Bill Index returned 1.0 per cent. The STF benchmark was 1.0 per cent and the fund returned, before administration expenses, 0.5 per cent. The return after administration expenses was 0.5 per cent.

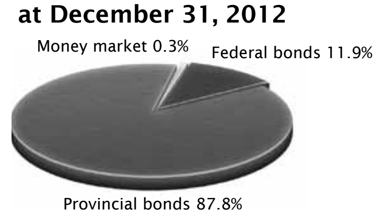
Annuity Fund

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, 2012 were $102.5 million and there was an actuarial surplus of $7.8 million at that same date.

Bond interest rates remained low throughout the year and therefore annuity rates were also low, ranging between 2.6 per cent and 2.9 per cent for the year. The fund is managed by Greystone Managed Investments Inc. of Regina and the chart below shows its composition as at December 31, 2012.

Annuity fund portfolio at December 31, 2012



Investment policy summary

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.

The Board of Trustees establishes the Statement of Investment Policies and Goals (SIP&G), reviews investment performance quarterly and reviews the policy annually. For 2012, the review took place December 13, 2011 and changes came into effect January 1, 2012. During the year, the Policy was further amended changing the benchmark and minimum allocation for Real Estate to zero. SPP's SIP&G is available at saskpension.com.

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 objective of the BF 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. The fund is not recommended as a long-term investment. This fund invests in money market instruments and is suitable for members as they approach retirement and who are willing to accept a low return in order to minimize market risk.

Risk management

The Plan is exposed to a variety of investment risks as a result of its investment activities. In the BF, these risks include market risk (consisting of interest rate risk, foreign currency exchange risk and equity price 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 investment risks by establishing investment policies which are reviewed and approved by the Board of Trustees at least annually. The policy contains risk limits and risk management provisions that govern investment decisions and are 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
- reviewing quarterly reports from investment managers on compliance with the Investment Policy throughout the reporting period.

Investment policy summary

Asset mix

The SPP's Investment Policy for the CF is based on investment considerations and expectations of the Board for the two investment options available to members. The BF asset mix, shown in the table below, provides a long term targeted weight of 55 per cent for equities and 45 per cent for fixed income and mortgages. The goal is to manage an asset mix that balances risks and rewards and avoids excessive volatility in the investment portfolio.

Asset Mix

Asset Class (% of fair value)	Minimum	Maximum	Current Benchmark	Actual
Equities				
Canadian	14	24	19	21
U.S.	13	23	18	19
Non-North American	13	23	18	19
Total equities	**40**	**65**	**55**	**59**
Real estate	**0**	**15**	**0**	**0**
Fixed income				
Bonds & mortgages	30	45	42	39
Short term	0	10	3	2
Total Fixed income	**30**	**55**	**45**	**41**
Total fund			100	100

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. The fund's benchmark is the DEX 91 Day T-bill Index.

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 return. The benchmark portfolio uses the following indices to measure performance:

- Canadian equities: S&P/TSX Capped Composite Index;
- U.S. equities: S&P 500 Index (Cdn $);
- Real Estate: Investment Property Data Bank;
- Non-North American equities: MSCI EAFE Index (Cdn $);
- Bonds and Mortgages: DEX Universe Bond Index; and
- Short-term investments: DEX 91 Day Treasury Bills.

A second objective is to exceed the benchmark index in each of the asset classes in which the manager invests. And finally, the fund'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.

Annuity fund

The AF holds assets transferred from the CF at retirement. Assets in the fund are used to provide annuity payments for life to retired members. 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.

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

- fluctuations in the value of the investment portfolio, which are caused by changes in investment 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 our objectives, the Fund is invested in high quality fixed income instruments and short-term investments all denominated and payable in Canadian dollars. Interest rate risk is addressed by matching

Investment policy summary

estimated future cash payments with interest and principal payments 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 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 -.5 to +.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 periodically.

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 actuarial valuations of the assets and liabilities of the Saskatchewan Pension Plan on a funding basis as at December 31, 2012. The valuation of the Plans' actuarial assets and liabilities were based on:

- Membership and asset data provided by the Saskatchewan Pension Plan as at December 31, 2012; 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, reasonable, 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, in aggregate, appropriate. Our opinions have been given, and our valuation has been given, and our valuation has been performed in accordance with accepted actuarial practice.

SIGNED

Donald L. Ireland
Fellow, Canadian Institute of Actuaries

February 27, 2013

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 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 Trustees 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 external auditor, Deloitte & Touche LLP, in accordance with Canadian generally accepted auditing standards, on behalf of the Members of the Legislative Assembly of Saskatchewan.

SIGNED

Katherine Strutt

General Manager

SIGNED

Donna Eon

Manager of Finance

February 27, 2013

Independent auditor's report

To the Members of the Legislative Assembly of Saskatchewan:

We have audited the accompanying financial statements of the Saskatchewan Pension Plan, which comprise the statement of financial position as at December 31, 2012, and the statement of changes in net assets available for benefits and the statement of changes in the provision for annuity obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Saskatchewan Pension Plan as at December 31, 2012, and the changes in its net assets available for benefits and changes in its annuity obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

SIGNED

Chartered Accountants
Regina, Saskatchewan

February 27, 2013

Statement of financial position

as at ($ thousands)

	Dec 31, 2012			Dec 31, 2011		
	Contribution Fund	Annuity Fund	Total	Contribution Fund	Annuity Fund	Total
ASSETS						
Investments (Notes 3 and 4)	$ 218,147	$ 101,528	$ 319,675	$ 194,203	$ 102,794	$ 296,997
Cash	785	190	975	669	138	807
Accrued investment income	525	815	1,340	412	913	1,325
Prepaid (deferred) retirement transfers	614	(614)	-	707	(707)	-
Prepaid annuity benefits	-	675	675	-	670	670
Total assets	220,071	102,594	322,665	195,991	103,808	299,799
LIABILITIES						
Administrative expenses payable	196	70	266	201	74	275
Death and other benefits payable	92	30	122	126	34	160
Deferred member contributions	3	-	3	2	-	2
Total liabilities	291	100	391	329	108	437
NET ASSETS AVAILABLE FOR BENEFITS	219,780	102,494	322,274	195,662	103,700	299,362
Accrued obligation (Note 5)	219,780	94,716	314,496	195,662	97,127	292,789
SURPLUS	$ -	$ 7,778	$ 7,778	$ -	$ 6,573	$ 6,573

ON BEHALF OF THE TRUSTEES:

SIGNED

Timothy C. Calibaba, ICD.D

SIGNED

Paul Jaspar, FCA

(See Accompanying Notes)

Statement of changes in net assets available for benefits

For the year ended ($ thousands)

	Dec 31, 2012			Dec 31, 2011		
	Contribution Fund	Annuity Fund	Total	Contribution Fund	Annuity Fund	Total
INCREASE IN ASSETS						
Investment income						
Interest and other income	$ 1,693	$ 4,390	$ 6,083	$ 2,040	$ 4,690	$ 6,730
Dividends	1,407	-	1,407	1,205	-	1,205
Pooled funds	2,565	-	2,565	2,472	-	2,472
	5,665	4,390	10,055	5,717	4,690	10,407
Change in fair value of investments	13,287	(1,011)	12,276	(5,611)	6,737	1,126
Contributions	17,462	-	17,462	16,402	-	16,402
Transfers from Contribution Fund	-	4,427	4,427	-	5,655	5,655
	36,414	7,806	44,220	16,508	17,082	33,590
DECREASE IN ASSETS						
Annuities to pensioners	-	8,028	8,028	-	7,879	7,879
Administrative expenses (Note 8)	2,231	452	2,683	2,223	457	2,680
Transfers to other plans	5,178	-	5,178	4,822	-	4,822
Transfers to Annuity Fund	4,427	-	4,427	5,655	-	5,655
Deaths and other benefits	460	532	992	612	387	999
	12,296	9,012	21,308	13,312	8,723	22,035
Change in net assets	24,118	(1,206)	22,912	3,196	8,359	11,555
NET ASSETS AVAILABLE FOR BENEFITS BEGINNING OF YEAR	195,662	103,700	299,362	192,466	95,341	287,807
NET ASSETS AVAILABLE FOR BENEFITS END OF YEAR	$ 219,780	$ 102,494	$ 322,274	$ 195,662	$ 103,700	$ 299,362

(See Accompanying Notes)

Statement of changes in provision for annuity obligation

For the year ended ($ thousands)

	Dec 31, 2012	Dec 31, 2011
PROVISION FOR ANNUITY OBLIGATION, BEGINNING OF YEAR	$ 97,127	$ 89,757
INCREASE IN PROVISION FOR ANNUITY OBLIGATION		
Interest on liabilities	1,845	2,513
Liability due to new annuities	4,637	5,764
Mortality experience	256	177
Change in mortality assumption	1,369	-
Change in interest rate assumption	-	6,931
	8,107	15,385
DECREASE IN PROVISION FOR ANNUITY OBLIGATION		
Change in interest rate assumption	2,230	-
Annuities paid with interest	8,288	8,015
	10,518	8,015
Net (decrease) increase in provision for annuity obligation	(2,411)	7,370
PROVISION FOR ANNUITY OBLIGATION, END OF YEAR	$ 94,716	$ 97,127

(See Accompanying Notes)

Notes to the financial statements

For the year ended December 31, 2012

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 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 and money market investments to maximize earnings while minimizing risk to members. The STF only holds money market investments and is the least volatile.

   The Plan introduced the STF investment option March 1, 2010 and members of SPP have the option to invest in the BF, the STF or a combination of both.

   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. 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 $2,500 for each plan year. On December 7, 2010 the maximum contribution limit was increased from $600 to $2,500 and members may also transfer $10,000 annually from an RRSP or RRIF 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 market 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 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.

   (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 2012, the prescribed amount was $20.88 (2011: $20.13).

2. Significant Accounting Policies

(a) Basis of presentation

The financial statements for the year ended December 31, 2012 have been prepared in accordance with Canadian accounting standards for pension plans as outlined in the CICA Handbook, Section 4600, Pension Plans. For matters not addressed in Section 4600, IFRS (International Financial Reporting Standards) have been followed. These financial statements are presented in the Plan's functional currency, Canadian Dollars. The financial statements were authorized and issued by the Board of Trustees on February 27, 2013.

(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 market value.

(c) Valuation of investments

Investments are stated at fair value through profit and loss and are classified as held for trading. The fair value of investments are determined as follows:

(i) Money market investments, comprising of treasury bills and bankers acceptances, are recorded at cost, which together with accrued investment income approximates fair value.

(ii) Bonds are valued at year end quoted market prices from recognized security dealers.

(iii) Equities are valued at quoted market price obtained from recognized stock exchanges on which securities are principally traded.

(iv) Pooled funds are valued based on the quoted market price of the underlying investments.

(v) Real Estate and mortgage pooled funds are valued using market values from independent appraisals.

(d) Foreign currency translation

Assets and liabilities denominated in foreign currency 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. Gains and losses arising on translation are included in the current period change in market value of investments.

(e) Fair value

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

(f) Use of estimates and judgements

The preparation of financial statements in accordance with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses, and related disclosures. Actual results could differ from these estimates. Significant estimates included in the financial statements relate to the valuation of investments and the provision for annuity obligations.

(g) Future accounting changes

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2012 and have not been applied in preparing these financial statements. IFRS 9, Financial Instruments and IFRS 13, Fair Value Measurement will be mandatory for the Plan's financial statements in 2015 and 2013 respectively. The extent of the impact on adoption of these standards is not known at this time, but is not expected to be material.

3. 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)	2012	2011
Bonds and bond pooled fund		
Federal	$ 17,270	$ 13,079
Provincial	18,767	10,852
Municipal	2,035	794
Corporate	25,843	19,067
Leith Wheeler Total Return Bond fund	20,803	18,361
	84,718	62,153
Equities and equity pooled funds		
Canadian equities	42,223	35,927
Leith Wheeler Special Canadian Equity fund	2,133	1,609
United States equities	19,472	18,745
Leith Wheeler US Equity pooled fund	21,497	19,084
Non North American equities	616	772
Leith Wheeler International Equity fund	20,802	17,458
Greystone EAFE Plus fund	20,605	15,989
	127,348	109,584
Other		
Money market	4,610	5,307
Greystone Real Estate pooled fund	-	11,132
Greystone Mortgage pooled fund	-	4,824
Greystone Money Market fund	1,471	1,203
	6,081	22,466
Total CF Investments	$ 218,147	$ 194,203

Bonds and bond pooled funds

The portfolio contains bonds that the CF holds directly or in pooled funds, including private placement bonds and bonds issued by foreign entities, 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. 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 Leith Wheeler Total Return Bond 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 capital 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 Greystone EAFE Plus Fund uses derivatives for hedging currency and to replicate indexes.

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.

Real Estate pooled fund

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

Mortgage pooled fund

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

(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.

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

($ thousands)	2012			
	Level 1	Level 2	Level 3	Total
Money Market	$ -	$ 6,081	$ -	$ 6,081
Bonds & bond pooled fund	-	84,718	-	84,718
Equities & equity pooled fund	106,743	20,605	-	127,348
	$ 106,743	$ 111,404	$ -	$ 218,147

($ thousands)	2011			
	Level 1	Level 2	Level 3	Total
Money Market	$ -	$ 6,510	$ -	$ 6,510
Bonds & bond pooled fund	-	62,153	-	62,153
Equities & equity pooled fund	93,595	15,989	-	109,584
Mortgage pooled fund	-	-	4,824	4,824
Real Estate pooled fund	-	-	11,132	11,132
	$ 93,595	$ 84,652	$ 15,956	$ 194,203

The following is a reconciliation of the level 3 fair value measurements from December 31, 2011 to December 31, 2012.

($ thousands)

	Mortgage pooled fund	Real Estate pooled fund	Total
Balance at December 31, 2011	$ 4,824	$ 11,132	$ 15,956
Purchases	-	2,963	2,963
Sales	(4,950)	(15,501)	(20,451)
Gains (losses)			
Realized	126	1,406	1,532
Unrealized	-	-	-
Balance at December 31, 2012	$ -	$ -	$ -

(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 of Trustees 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 regular compliance reports from its investment managers and custodian as to their compliance with the investment policies.

(i) Credit risk

Credit risk is the risk of loss arising from the failure of a counterpart to fully honor 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)	2012	2011
Accrued interest income	$ 368	$ 281
Money market	6,081	6,510
Bonds and bond pooled fund	84,718	62,153
Mortgages	-	4,824
	$ 91,167	$ 73,768

At year end 9.5% of the bonds of the CF were rated as BBB (2011: 9.0%) and all other bonds were rated higher. Other than the Government of Canada, no single issuer represents more than 8.3% (2011: 7.3%) of the overall bond portfolio. Fixed rate bonds have effective interest rates ranging between 0.8% and 5.9% (2011: 1.0% and 6.4%) and coupon rates ranging between 0.8% and 11.2% (2011: 1.3% and 11.0%).

(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 other 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

Investments denominated in currencies other than the Canadian dollar expose the Plan to fluctuations in foreign exchange rates. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. 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.

The use of derivatives may be used as a strategy to mitigate the risk of foreign currency fluctuations. No derivatives can be used for speculative trading or to create a portfolio with leverage.

In Canadian dollars, the CF's foreign currency exposure at December 31 is as follows:

Currency *($ thousands)*	2012	2011
United States dollar	$ 41,585	$ 38,601
British sterling	9,303	6,828
Euro	8,085	6,477
Japanese yen	6,940	5,935
Emerging market currencies	4,478	4,280
Swiss franc	5,026	3,684
Hong Kong dollar	1,589	1,706
Australian dollar	1,492	1,304
Singapore dollar	2,122	978
Other	2,372	2,256
	$ 82,992	$ 72,049

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 41.6% (2011: 37.9%) of its investments in fixed income securities, 0.0% in real estate (2011: 5.7%) and 58.4% (2011: 56.4%) in equities at December 31, 2012. As of December 31, 2012, a 1.0% increase in nominal interest rates would result in a decline in the fair market value of bonds of 6.0% (2011: 5.5%).

The terms to maturity are summarized in the table below:

($ thousands)	2012				
	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total
Federal	$ -	$ 12,267	$ 2,010	$ 2,993	$ 17,270
Provincial	-	1,349	6,705	10,713	18,767
Municipal	-	661	1,209	165	2,035
Corporate	1,317	13,027	6,667	4,832	25,843
	$ 1,317	$ 27,304	$ 16,591	$ 18,703	$ 63,915

($ thousands)	2011				
	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total
Federal	$ 47	$ 9,742	$ 1,244	$ 2,046	$ 13,079
Provincial	-	403	4,176	6,273	10,852
Municipal	-	-	794	-	794
Corporate	1,211	7,030	6,367	4,459	19,067
	$ 1,258	$ 17,175	$ 12,581	$ 12,778	$ 43,792

Other price risk

Other price risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all financial instruments traded in the market. The CF is subject to price risk through its public equity investments and uses strategies such as target weighting and diversification by geography, industry sectors and corporate entity to manage this risk.

(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	
	2012	2011	2012	2011
Portfolio return	9.6%	0.0%	8.3%	1.5%
Benchmark return	8.4%	1.4%	7.7%	1.7%

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: DEX Universe Bond Index; and Short-term investments: 91 day Canadian Treasury Bills.

4. Annuity Fund investments

(a) Investments

The AF investments consist of the following:

($ thousands)	2012	2011
Bonds		
Federal	$ 12,072	$ 12,150
Provincial	89,187	89,447
	101,259	101,597
Other		
Money market	269	1,197
Total AF Investments	$ 101,528	$ 102,794

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 and no more than 10% of the market value of the bond portfolio may be held in corporate bonds.

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.

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

($ thousands)	2012			
	Level 1	Level 2	Level 3	Total
Money market	$ -	$ 269	$ -	$ 269
Bonds	-	101,259	-	101,259
	$ -	$ 101,528	$ -	$ 101,528

($ thousands)	2011			
	Level 1	Level 2	Level 3	Total
Money market	$ -	$ 1,197	$ -	$ 1,197
Bonds	-	101,597	-	101,597
	$ -	$ 102,794	$ -	$ 102,794

(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.

These risks are managed by having an investment policy, which is reviewed and approved annually by the Board of Trustees. 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, 2012 the Fund's maximum credit risk exposure relates to bonds, accrued income and short-term investments totaling $102,343,218 (2011: $103,707,275). At year end the AF held no bonds with a BBB rating. Other than the Government of Canada, no single issuer represents more than 21.6% (2011: 20.4%) of the overall bond portfolio. Fixed rate bonds have effective interest rates ranging between 1.1% and 3.7% (2011: 1.0% and 6.6%).

(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 other price risk. The investment policy addresses risk though an investment approach that allows investments solely in high quality fixed income instruments denominated in Canadian dollars. This mitigates the foreign exchange risk and other 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 terms to maturity are summarized in the table below:

($ thousands)	2012				
	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total
Federal	$ -	$ 2,031	$ 4,131	$ 5,910	$ 12,072
Provincial	3,878	18,446	24,738	42,125	89,187
	$ 3,878	$ 20,477	$ 28,869	$ 48,035	$ 101,259

($ thousands)	2011				
	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total
Federal	$ -	$ 2,125	$ 4,131	$ 5,894	$ 12,150
Provincial	3,292	17,086	22,877	46,192	89,447
	$ 3,292	$ 19,211	$ 27,008	$ 52,086	$ 101,597

(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.

5. Provision for annuity obligations

The provision for annuity obligations is the actuarial present value of the future expected annuity benefit obligation to pensioners as annually 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 2.18% (2011: 1.9%) was used to determine the liabilities as of December 31, 2012. The UP94 Mortality table rates projected to 2040 were used for actuarial valuation. At December 31, 2011 the 1994 GAMB Group Annuity Mortality table rates projected to 2022 with a 5 % margin. The duration of annuity payments is 7.3 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 Annuity Fund to be a charge on and payable from the General Revenue Fund of the Province of Saskatchewan. At December 31, 2012 the Annuity Fund 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 $5,013,000 or if the interest rate decreases by 1.0%, the Provision for annuity obligation increases by $5,694,000.

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 net cash inflows for the next five years are $0.2 million and for the next ten years $11.2 million.

The next actuarial valuation is required as of December 31, 2015.

6. 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.

7. 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 $170,678 (2011: $146,006) and at year end had $15,188 (2011: $4,936) in accounts payable with these related parties.

At December 31, 2012, the Plan has $4,470,806 (2011: $4,362,552) invested in Province of Saskatchewan bonds with varying maturity dates and interest rates. Interest income during the year was approximately $184,714 (2011: $186,591) and change in the market value of these bonds was approximately $108,254 (2011: $139,965).

8. Administrative expenses

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

($ thousands)	2012	2011
Professional and consulting services	$ 970	$ 983
Salaries and benefits	864	830
Advertising and promotional	348	382
General administration	266	245
Information expense	183	191
Board expenses	52	49
Total Administrative Expenses	$ 2,683	$ 2,680
Allocated as Follows:		
Contribution fund	$ 2,231	$ 2,223
Annuity fund	452	457
	$ 2,683	$ 2,680

9. Lease commitment

The Plan is committed to an operating lease for office space to January 31, 2015 with minimum monthly lease payments of $9,993 due to a related party.