



Annual Report | 2018

Your Pension. Your Future.



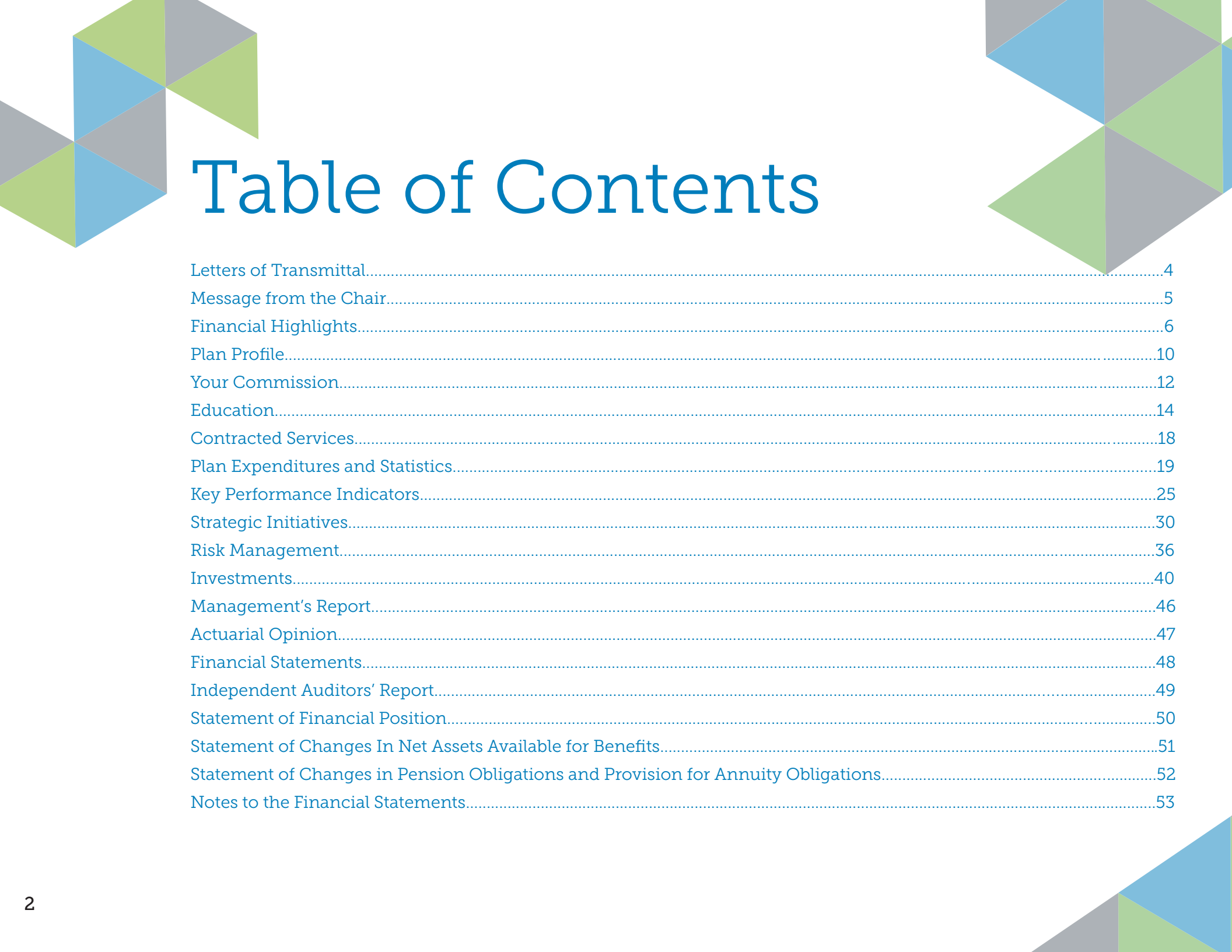


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The Municipal Employees' Pension Plan (MEPP, the Plan) provides retirement benefits to the employees of school divisions, urban and rural municipalities, regional colleges, regional public libraries and other local authorities within the province of Saskatchewan.

To provide retirement
income and
pension services
to members

Purpose

Mission

To oversee and direct the
administration of the Municipal
Employees' Pension Plan,
manage assets, and monitor
the liabilities, all in the best
interest of its members.

Accountability
Professionalism
Integrity
Fairness

Values

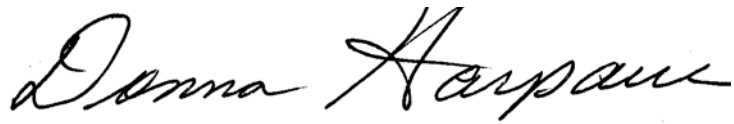


Letters of Transmittal

His Honour, The Honourable W. Thomas Molloy Lieutenant Governor of the Province of Saskatchewan

May it Please Your Honour:

I respectfully submit the Annual Report of the Municipal Employees' Pension Plan for the year ending December 31, 2018.



Donna Harpauer
Minister of Finance

The Honourable Donna Harpauer
Minister of Finance

Madam:

On behalf of the Municipal Employees' Pension Commission, I have the honour of submitting the Annual Report of the Municipal Employees' Pension Plan for the year ending December 31, 2018.



Randy Hurd
Chair





Message from the Chair

Pension plan sustainability remains the focus of the Commission. *The Municipal Employee's Pension Act* and *The Municipal Employees' Pension Regulations* were both amended in 2018 to include:

- an increase to contribution rates;
- removal of pension portability at retirement;
- required removal of excess contributions at termination; and
- deadlines for contribution remittance.

The Commission also completed a comprehensive asset liability review to safeguard the Plan's long-term sustainability. A strategic investment consultant assisted the Commission in reviewing and adjusting the investment structure for the Plan. Going forward, MEPP will focus on implementing these investment changes to support the Plan in achieving the desired results.

Planning and implementation of the new pension administration system continued throughout 2018. The member and employer interface, PLANet, will give members and employers online access to convenient and user-friendly self-service functions, providing them with improved efficiency and service experiences.

Member engagement is also important to the Commission. In 2018, MEPP embarked on new and improved ways to engage with members and other stakeholders. Member focus groups were held to garner member reaction and input surrounding the service and communication they receive, two new pension videos were added as information resources for members, and e-bulletins were implemented to enable MEPP to communicate with employers more efficiently.

As we begin a new year, the Commission is committed to strong governance practices which will enable MEPP to provide members with a sustainable pension plan and effective member and stakeholder engagement. The Commission's efforts will continue to explore long-term sustainability in order to provide retirement income to members for years to come. On behalf of MEPP, I am pleased to present the Annual Report for the year ending December 31, 2018.

A handwritten signature in dark ink, appearing to read 'R. Hurd', written in a cursive style.

Randy Hurd
Chair for 2019

I am honoured to chair the Municipal Employees' Pension Commission (MEPC, the Commission) for 2019 and 2020. I would like to take this opportunity to thank the outgoing Chair, Beverly Crossman, for her leadership and support over the past year, and the members of the 2018 Commission for their ongoing dedication. I would also like to thank the Public Employees Benefits Agency for their tenacity and hard work to not only provide the day-to-day administration of the Municipal Employees' Pension Plan (MEPP, the Plan) but to also tackle a number of large and complex projects in support of the Municipal Employees' Pension Plan (MEPP, the Plan).

MEPP was not immune to the challenges experienced in the global financial markets in 2018. While the fund returned 1.5 per cent, its lowest return in five years, it was 2.4 percentage points higher than the fund's benchmark of -0.9 per cent, exceeding most comparable pension plans for 2018. The financial position of the Plan also improved year over year as reflected in an improved funded ratio. Maintaining healthy reserves is an important part of the Plan's funding policy that focuses on prudence and long-term sustainability.



2018

Financial Highlights



Contributions to the Plan

**\$104.0
million**

**\$2.5
billion**

Plan Assets



**\$76.1
million**

Total Pension Payroll





2018 Total Fund Return

(Return Net of Fees)

1.5%

\$47.1
million

Total transfers, refunds,
and termination payments



\$32.6
million

Investment and
Administration Costs



Financial Position of the Plan

Assets	\$2,326.20
Liabilities & Reserves*	\$2,004.40
Surplus	\$321.8
Funded Ratio	116.1%

According to the Actuarial Valuation as at December 31, 2017 the financial position of the plan shows MEPP is 116.1 per cent funded. The funded ratio reflects the proposed Plan changes to MEPP in 2018 and 2019, including removal of portability and contribution rate changes.

*Reserves are established to provide protection for the Plan.

Looking back...

2017

Contributions to the Plan \$99.2 million
Total Pension Payroll \$71.6 million
Total transfers, refunds, and termination payments \$45.0 million
Investment and Administration Costs \$26.1 million
Total Fund Benchmark 9.8 per cent
Total Fund Return 9.2 per cent

2016

Contributions to the Plan \$99.5 million
Total Pension Payroll \$68.2 million
Total transfers, refunds, and termination payments \$33.3 million
Investment and Administration Costs \$25 million
Total Fund Benchmark 6.9 per cent
Total Fund Return 8.3 per cent

2015

Contributions to the Plan \$94.8 million
Total Pension Payroll \$63.7 million
Total transfers, refunds, and termination payments \$31.8 million
Investment and Administration Costs* \$16.1 million
Total Fund Benchmark 5.8 per cent
Total Fund Return 7.1 per cent

2014

Contributions to the Plan \$91.9 million
Total Pension Payroll \$59 million
Total transfers, refunds, and termination payments \$26.6 million
Investment and Administration Costs* \$14.5 million
Total Fund Benchmark 19.5 per cent
Total Fund Return 20.4 per cent

* Does not include performance fees.

Plan Profile

744

EMPLOYERS

5,890

PENSIONERS

47.3

AVERAGE AGE
OF ACTIVE
MEMBER



25,600

MEMBERS

MEPP is a defined benefit pension plan which provides retirement benefits to a number of municipal employees in Saskatchewan, including:

- Every urban and rural Saskatchewan municipality;
- The board of education of every school division and the board of trustees of every school district;
- The Conseil scolaire fransaskois;
- The board of several regional libraries and colleges; and
- Any other groups or organizations that may be designated by regulation of the Lieutenant Governor in Council.

Pensions are based on a formula that provides pension, disability, death and termination benefits for all eligible members.

The formula is based on highest average salary (HAS), pensionable service (PS) and the accrual rate (AR) in effect during the years of service. Members contribute a fixed percentage of salary. Employers match these contributions.

The amount of pension a member will receive is not directly related to investment returns. An adequate level of contributions and positive investment returns are necessary to secure the Plan's ability to pay benefits.

Under normal retirement rules, members may retire and receive a pension with no reduction if they are 65 years of age, or if their age and eligibility service equal at least 80 years. Members may retire and receive a reduced pension if they have reached age 55 and have at least 15 years of eligibility service.

Designated firefighters and police officers may receive an unreduced pension if their age and eligibility service equal at least 75, they are 55 years of age, or they have at least 25 years of eligibility service. These members may retire and receive a reduced pension if they have reached age 45 and their age and eligibility service equal at least 70.

MEPP's history begins in the 1940s. Initially, the Rural Municipal Secretary Treasurers' Superannuation Plan was established in 1941. In 1949, the Urban Employees' Superannuation Plan was established. In 1959, these two plans joined to form the Municipal Employees' Superannuation Plan, which became a defined benefit plan in 1973.

MEPP is registered under the *Income Tax Act* (Canada) and *The Pension Benefits Act, 1992* and related regulations. It is governed by *The Municipal Employees' Pension Act* and related regulations.



Your Commission

The Commission members elect a Chair and a Vice-Chair. At December 31, 2018, the Commission was composed of the members listed below.

12
MEMBERS

10
2018 MEETINGS

*Appointed to Commission
in September 2018



Beverly Crossman, Chair

Regional Colleges/
Regional Libraries

9



Randy Hurd, Vice-Chair

Associations representing
Designated Police Officers
and Firefighters

10



Jeff McNaughton

Saskatchewan School
Boards Association

5



Mark Fedak

Saskatchewan School
Boards Association

10



Randy Goulden

The Saskatchewan Urban
Municipalities Association

9



Harvey Malanowich

The Saskatchewan
Association of Rural
Municipalities

9



Ashley Stradeski

Employers that employ
designated members

3*



Rory Griffith

The Saskatchewan
Association of School
Business Officials

9



Brad Hvidston

The Urban Municipal
Administrators Association
of Saskatchewan

10



Tim Leurer

The Rural Municipal
Administrators' Association
of Saskatchewan

9



Janice Wolfmueller

Canada Union of Public
Employees (CUPE)

9



Marney Robinson

Trade Unions other than
CUPE, Police and Fire

2*

of Meetings
Attended



Administers MEPP

The Commission administers MEPP. The Commission has the fiduciary responsibility for administering MEPP and managing the investment activities in the best interests of all MEPP members.

Customer Service Excellence

The Commission is determined to identify, assess, and implement opportunities where appropriate, that add value to the communication and service provided to Plan members.

Plan Integrity

The Commission is committed to achieving the needs of Plan members and employers through affordable, sustainable Plan benefits and services.

Governance Leadership

The Commission strives to demonstrate leading practices of pension plan governance.

Transparent Accountability

The Commission informs the Plan's members and stakeholders about its strategy, operations and values, as well as how Plan performance is measured, managed and reported.



Goals

Best interest of members

The Commission has 12 members, six appointed by organizations representing participating employers and six by employee groups. The full term of office for Commission members is four years. A member may be appointed for two terms.



Mission

The Commission's mission is to oversee and direct the administration of the Plan, manage the assets, and monitor the liabilities all in the best interests of its members.

Accountability

We are accountable to the members and stakeholders for our administration of the Plan. We operate in a transparent manner.

Professionalism

We strive for excellence in the administration of the Plan by being diligent and making informed decisions.

Integrity

As trustees of the Municipal Employees' Pension Fund (the Fund), we hold ourselves to the highest standards of integrity. We strive to act always with honesty and in a manner worthy of the trust our members have placed in us.

Fairness

We administer the Plan in the best interests of all members of the Plan. We strive to ensure that our decisions are equitable for all Plan members by adhering to decision making that is fair and open-minded. Our actions are courteous, considerate and responsive.



Values

Education

There is an education program for Commission members. The purpose of this program is to ensure Commission members possess a sound knowledge and understanding of pension, investment and governance issues. The Commission budgets \$5,000 per year for each Commission member for educational registration fees.

Upon appointment new Commission members receive information outlining the documents that come before the Commission, the MEPP member booklet, the Annual Report, information on the budget, the funding policy, the Statement of Investment Policies and Procedures (SIP&P), the Strategic Business Plan and updates, the Risk Management Plan and review of the previous year's Risk Management Plan, as well as the meeting minutes for the past year.

Within three months of appointment, members will receive an orientation provided by PEBA.

Commission members have a formal education program that they are required to attend. The program provides courses and seminars that deliver content specific to investment, funding, and governance-related information.

Within one year, members must attend education sessions on basic investment and actuarial principles, as well as a five day basic or introductory level course on board governance, trust management, administration and/or fund investment provided by a recognized school or industry expert.

Within two years of being appointed to the Commission, members are to complete a more advanced course on board governance, trust management and administration, and/or fund

investment provided by a recognized school or an industry expert.

Commission members who have completed the formal education program are required to attend one educational event annually that is facilitated by an industry-recognized pension and benefits organization.

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

As part of a comprehensive education program, education sessions delivered by industry professionals were provided throughout the year as agenda items during Commission meetings. Commission members were provided education on investment related topics to assist the Commission in its strategic review of its investment program.

Table 1.2 lists education events attended by Commission members in 2018.

2018 | Events Attended

Beverly Crossman, Chair

CPBI – Global Economic Outlook

CPBI – Regional Conference

ACPM – National Conference

Randy Hurd, Vice-Chair

IFEBP – Advanced Trust Management Standards (Session A)

ACPM – National Conference

Mark Fedak

CPBI – Global Economic Outlook

IFEBP – Advanced Trust Management Standards (Session A)

Rory Griffith

CPBI – Global Economic Outlook

IFEBP – Canadian Legal & Legislative Update

ACPM – National Conference

Brad Hvidston

CPBI – Global Economic Outlook

Tim Leurer

IFEBP – Advanced Trust Management Standards (Session B)

Harvey Malanowich

IFEBP – Foundations of Trust Management Standards

Janice Wolfmueller

ICPM Rotman – Board Effectiveness Program

Saskatchewan Federation of Labour Pension Conference

Marney Robinson

IFEBP – Foundations of Trust Management Standards

School of Pension Investment Management

Jeff McNaughton

ACPM – National Conference

Commission members are reimbursed for expenses incurred while on Commission business, for education costs, and they receive remuneration compensating them for the time necessary to prepare for and to conduct Commission business.

Remuneration is made according to *Table 1.3*.

Table 1.4 lists total Commission expenses for 2018.

Table 1.2

Table of Renumeration

	Commission Chair	Commission Member
Per Diem - Meetings	\$450	\$250
Preparation for meetings attended	\$450	\$250
Per Diem - Education	\$250	\$250
Preparation for education attended	\$250	\$250
Education - Exam	\$125	\$125
Travel time	\$0.30/km	\$0.30/km
Course registrations - maximum per year [†]	\$5,000	\$5,000
Expenses	reimbursement	reimbursement

Table 1.3

[†] If a Commission member attends Rotman's Board Effectiveness Program as a required course in the second year, the member may exceed the maximum as the course fees are greater than the annual maximum. However, the member is not eligible to attend any other education event that are not complementary in that year.

\$59,726

**2018 Commission
Education
Costs**

Commission Expenses

	Course Registrations	Education Honorariums & Travel Time	Education Expenses	Meeting Honorariums & Travel Time	Meeting Expenses	Total
Beverly Crossman, Chair	\$1,898.09	\$1,276.40	\$2,081.16	\$8,840.40	\$1,361.77	\$15,457.82
Randy Hurd, Vice-Chair	\$3,125.00	\$2,329.20	\$4,078.44	\$7,752.00	\$5,894.97	\$23,179.61
Mark Fedak	\$1,958.09	\$1,825.60	\$1,530.24	\$5,700.60	\$2,921.51	\$13,936.04
Randy Goulden	\$0.00	\$0.00	\$0.00	\$5,194.40	\$3,188.41	\$8,382.81
Rory Griffith	\$3,736.71	\$2,000.00	\$3,586.71	\$4,250.00	\$855.00	\$14,428.42
Brad Hvidston	\$38.09	\$0.00	\$0.00	\$6,795.00	\$5,473.64	\$12,306.73
Tim Leurer	\$1,775.00	\$869.00	\$1,681.65	\$5,455.00	\$3,332.88	\$13,113.53
Harvey Malanowich	\$2,105.00	\$750.00	\$1,076.26	\$4,758.00	\$2,647.30	\$11,336.56
Jeff McNaughton	\$1,350.00	\$1,250.00	\$2,282.65	\$2,750.00	\$295.00	\$7,927.65
Marney Robinson	\$2,700.00	\$500.00	\$1,019.94	\$1,000.00	\$264.98	\$5,484.92
Ashley Stradeski	\$0.00	\$487.80	\$323.35	\$1,599.40	\$2,111.05	\$4,521.60
Janice Wolfmueller	\$6,950.00	\$2,000.00	\$3,141.48	\$4,552.40	\$808.24	\$17,452.12
Total	\$25,636	\$13,288	\$20,802	\$58,647	\$29,155	\$147,528

Table 1.4



Contracted Services

The Commission is ultimately responsible for the Plan's administration, communication and investment activities. To discharge these responsibilities, the Commission uses the services of various organizations.

The Commission contracts with PEBA to provide executive management and administrative services for the Plan. PEBA is part of the Ministry of Finance, Government of Saskatchewan, and administers a wide range of pension and benefit plans.

Under contract with the Commission, PEBA:

- Maintains all member and accounting records;
- Collects and deposits contributions to the Fund;
- Transfers contributions to the custodian of the Fund for investment;
- Monitors, administers and assists in the execution of the Plan's investment program in accordance with the investment policy;

- Calculates and pays all pension benefits;
- Communicates with members and participating employers;
- Recommends an actuary as an advisor to PEBA and the Commission, and retains an actuary selected on behalf of the Commission;
- Recommends policy regarding calculating rates of interest and implements and calculates the rates of return for the Plan; and
- Prepares the annual report.

PEBA is responsible for ensuring that all transactions are made in accordance with the Act, *The Pension Benefits Act, 1992*, and their related regulations.

The Commission retains RBC Investor & Treasury Services (RBC) as the Plan custodian, KPMG as Plan auditor, Aon Hewitt Inc.

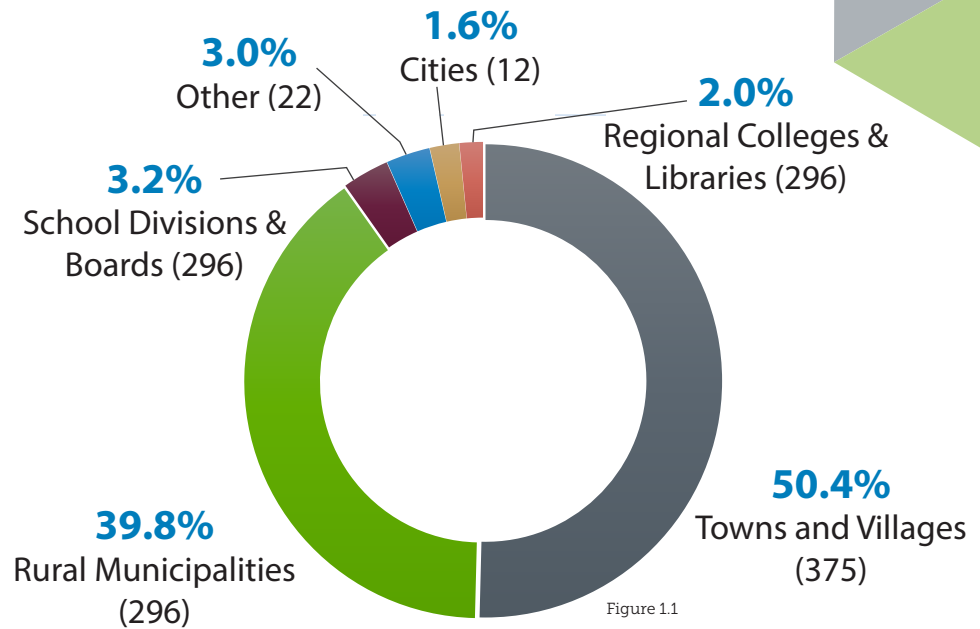
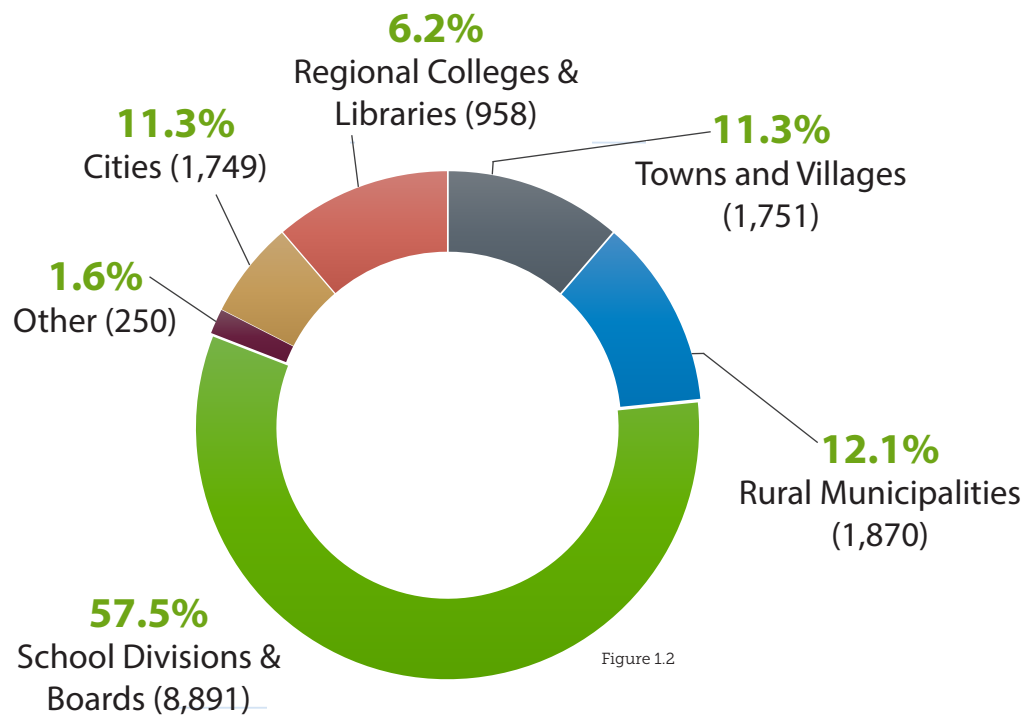
as Plan actuary and Aon Hewitt Consulting as strategic investment consultant.

The Commission also retains the investment managers listed in *Table 1.12* on page 43 of this report.

A woman with long, wavy brown hair and glasses is smiling. She is wearing a bright pink top. The background is a soft-focus indoor setting with a window. There are decorative geometric shapes in the corners: a cluster of green, blue, and grey triangles in the top left, and a larger cluster of green, blue, and grey triangles in the bottom right.

Plan Expenditures & Statistics

ACTIVE EMPLOYERS



ACTIVE MEMBERS BY EMPLOYER

Income Allocation

In 2018, the Commission allocated interest to members' accounts at the rate of 1.19 per cent for the year.

Supplemental Increases for Pensioners

No supplemental increases were applied in 2018.

Operating Expenses

Table 1.7 shows plan operating expenditures for the year ended December 31, 2018.

PENSION PAYMENTS

2018	2017
Normal Retirement 81 Members	Normal Retirement 79 Members
Early Retirement 164 Members	Early Retirement 158 Members
Postponed Retirement 86 Members	Postponed Retirement 72 Members
Temporary Retirement 38 Members	Temporary Retirement 25 Members
Total 369 Members	Total 334 Members

Table 1.5

PLAN MEMBERSHIP

2018	2017
Active Members 15,131	Active Members 15,066
Inactive 4,606	Inactive 4,597
Pensioners 5,890	Pensioners 5,624
Total Members 25,627	Total Members 25,287

Table 1.6

227
Followers



120
Followers



Expenses

	Total Cost (thousands)	%
Administration Costs/Investment Consultant Fees	7,037	21.56
Custodial Fees	181	0.55
Investment Management Fees		
Infrastructure	3,915	11.99
TD Greystone Asset Management Inc.	580	1.78
Foyston, Gordon & Payne Inc.	409	1.25
Brandes Investment Partners, LP	573	1.76
BlackRock Asset Management Canada Ltd.	488	1.50
Snyder Capital Management, LP	951	2.91
Insight Investment Management Ltd.	77	0.24
Investec Asset Management	1,224	3.75
Canso Investment Council Ltd.	577	1.77
PIMCO Canada Corp.	676	2.07
Fiera Capital Corp.	659	2.02
Vontobel Asset Management, Inc.	1,175	3.60
Private Equity	2,175	6.66
Performance Fees		
Infrastructure	5,110	15.65
Private Equity	6,834	20.94
	32,641	100.0

Table 1.7

PEBA Service Standards January 1, 2018 to December 31, 2018

Task	Completed	Number that meet or exceed standard	% that meet or exceed standard	Business Days	Target (%)
Statement on Termination (Option Letter)	1,525	1,109	72.7%	20	75%
Statement on Death (Active/Deferred) (Option letter)	33	10	30.3%	10	80%
Statement on Death (Pensioners) (Option Letter)	195	191	97.9%	10	80%
Payments (includes termination and death)	1,598	1,400	87.6%	10	80%
Payment of New Retirements	334	286	85.6%	15	80%
Pension Estimate (Retirement Option Letter)	625	337	53.9%	10	90%
Marriage Breakdown Calculations	31	15	48.4%	10	75%
Purchase of Service	11	10	90.9%	20	80%
Portability Transfer Values	30	25	83.3%	30	80%
Total	4,382	3,383	77.2%		

Table 1.8



Key Performance Indicators

Critical Success Factors



The Plan measures these critical success factors in four categories:

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

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

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

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

Establishing targets ensures that the Commission is able to review the Plan's performance of key administrative tasks against a standard of practice, to track any changes in performance over time, and to be

aware of the areas of strength and weakness in the Plan's administration.

The Commission reviews these key performance indicators semi-annually. A review of the Plan's performance in 2018 is provided in the following.

Summary

The Plan met or exceeded 9 of 14 key performance indicators in 2018.

There was an insufficient response to member surveys in 2018 to provide measurement of our member satisfaction with regards to quality of customer service and quality of materials. As a result, these two indicators are N/A for 2018.

All measures in the Financial and Innovation quadrants met or exceeded target. The fund rate of return continues to exceed benchmark and administrative costs are projected to fall within the budget.

The performance of member transactions within

service standards was slightly below target for the year due to operational pressures. Member satisfaction with information sessions exceeded the target for the year.

Most of the Commission's key service providers were rated as "satisfactory" during 2018, but one of the Plan's service providers received an "unsatisfactory" evaluation, meaning that the target of 100 per cent satisfactory service was not met.

Performance of Strategic Initiatives within budget was not met in 2018. This was due to higher than anticipated investment consulting costs related to the Plan's asset review.



CUSTOMER MEASURES

	Measure	Target	Result
Provide service within service standards	Member transactions within service standards	More than 80 per cent of transactions meet service standards.	Not Met
Effective Communication (Member)	Member satisfaction with information sessions	More than 90 per cent of member responses indicate satisfaction with information sessions.	Met
Quality of Customer Service (Member)	Member satisfaction with quality of customer service	More than 80 per cent of member responses indicate satisfaction with customer service.	N/A
Effective Communication (Employer)	Member satisfaction with quality of materials	More than 80 per cent of employer responses indicate satisfaction with Plan materials.	N/A
Quality of Customer Service (Employer)	Employer satisfaction with quality of customer service	More than 90 per cent of employer responses indicate satisfaction with customer service.	Met

*There was insufficient response to efforts to measure satisfaction in 2018.

FINANCIAL MEASURES

	Measure	Target	Result
Returns greater than benchmarks	Measure of the value add in relation to the benchmark for the Fund	Rolling four-year rate of return is greater than the Fund benchmark.	Met
Plan Sustainability	Management valuation target funding ratio	Management valuation target funding ratio ensures sufficient assets to pay for future benefits.	Met
Performance to Budget	Administration costs are less than budgeted	Administration costs are within budgeted amount.	Met ¹

¹ The Commission's budget cycle is April 1, 2018 to March 31, 2019. Administrative expenses are anticipated to fall within the approved budget.

INNOVATION & LEARNING

	Measure	Target	Result
Commission Leadership	Commission engages in ongoing education	At least 80 per cent of Commission undertakes a course.	Met

INTERNAL MEASURES

	Measure	Target	Result
Performance to Budget	Strategic initiatives are within budget	Expenditures within budgeted amount.	Not Met ¹
Governance Excellence	Compliance with the CAPSA guidelines	Board demonstrates 100 per cent compliance with CAPSA guidelines.	Met
PEBA Leadership	Satisfactory rating for Executive Management Services	Commission's evaluation of its administrator shows satisfaction with the executive management services provided.	Met
Supplier Management	Investment Manager compliance reporting, annually	All required compliance reports are submitted.	Met
Supplier Management	Service provider performance is satisfactory	Performance of all service providers is satisfactory.	Not Met ²

¹ The Commission's budget cycle is April 1, 2019 to March 31, 2019. Strategic initiatives are not anticipated to fall within the approved budget.

² Not all service providers met satisfactory standards.



Strategic Initiatives

The Commission conducts periodic strategic planning sessions and reviews the strategic plan at least annually. The Strategic Plan for 2017-2019 and the associated initiatives were reviewed in April 2018.

The strategic business plan is developed as part of the Commission's comprehensive governance process, which includes regular strategic business planning and risk management planning. It is developed within the context of the Plan's purpose, mission and goals, and the Commission's values of accountability, professionalism, integrity and fairness.

The updated strategic business plan considers a number of internal and external factors and a summary of the strategic business plan for 2017-2019 is available on the Plan website.





Customer Service Excellence

The Commission is determined to identify, assess, and implement opportunities where appropriate that add value to the communication and service provided to Plan members.

The Commission's objectives:

- Provide members with information about the Plan, including individual member benefits and responsibilities, that is easy to understand, relevant, accurate, and timely.
- Support participating employers in their responsibilities.
- Maintain an up-to-date suite of services that meet evolving member needs.

Activities in 2018

- *Replacement of the existing pension administration system continued in 2018.*
- *Member focus groups were conducted and the results were reported to the Commission in 2018.*
- *Two member videos were created and posted to the website in 2018.*



Transparent Accountability

The Commission informs the Plan's members and stakeholders about its strategy, operations and values, as well as how Plan performance is measured, managed and reported.

The Commission's objectives:

- Members, employees and other stakeholders receive relevant and timely reporting on the performance of the Plan, the Commission and service providers.
- The membership, employers and other stakeholders are informed about how the Commission's strategy, operations and values impact the operation of the Plan.

Activities in 2018

- *Key Performance Indicators were refined and a report on the activities is being made available within this report.*



Governance Leadership

The Commission strives to demonstrate leading practices in pension plan governance.

The Commission's objectives:

- The Plan's business model, including roles and responsibilities of both the Commission and the contracted service providers, is consistent with the Plan's strategy and operations.
- Continuous improvement in the Commission's oversight of the Plan.
- Organizations that appoint people to the Commission understand the Commission's needs when making their appointments.

Activities in 2018

- *The Commission conducted a formal evaluation of all service providers and discussed the results.*
- *The Commission conducted a review of Private Market Governance and implemented changes to its Private Markets and Acquisition & Retention of Services policies.*
- *The PEBA Joint Governance Committee including representatives from the Commission met on January 12, 2018 and June 22, 2018.*
- *The Commission reviewed and amended its Risk Management program.*
- *The Commission reviewed and amended its Risk Management Plan.*
- *The Commission reviewed its governance budget at its April planning meeting.*
- *The Commission reviewed and approved changes to its Governance Manual.*



Plan Integrity

The Commission is committed to achieving the needs of Plan members and employers through affordable, sustainable Plan benefits and services.

The Commission's objectives:

- Assess, manage, and monitor risk in the context of the interdependence that exists between the Plan's assets and liabilities.
- Preserve the accrued benefits for active and retired members and their beneficiaries.
- Provide sustainable benefits that are supported by the contributions required to meet the funding needs of the Plan.

Activities in 2018

- *The Commission reviewed the Fund's asset mix and the oversight of investments.*
- *The Commission worked with its Strategic Investment Consultant, Aon Hewitt Consulting to review its investment program and approve changes to its asset mix.*
- *Amendments to legislation were completed in 2018. These amendments implemented the changes to the Plan that were approved in 2017 in the interest of Plan sustainability.*



Risk Management

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

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

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

Risk Management Philosophy

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

BROAD-BASED RISKS

	Definition	Key Risks
Strategic Risk	Encompasses the potential risks as they relate to communication and service delivery, plan design suitability, plan reputation, plan governance and accountability.	Uninformed decisions by members Governance Plan structure
Financial Risk	Relates to the investment, funding, and benefit policies, plan design costs, and demographic considerations.	Investment structure Cost constraints affecting performance Risk of losses
Regulatory Risk	Is associated with non-compliance with legislation, fiduciary obligations and the legal requirements of pension plan management.	Non-compliance
Operational Risk	Includes operational emergencies and non-compliance with governance policies.	Investment manager performance Service provider performance Adverse deviations

Table 1.9

The Commission has developed and implemented these strategies and business practices to manage the identified risks:

- The Commission consults with stakeholders periodically. A stakeholder consultation process provides employers and Plan members with the opportunity to consider the affordability of the benefits provided and the contributions needed to fund these benefits.
- The Commission regularly reviews plan design. A formal funding policy as a part of the design enables the Commission to be proactive in managing the financial status of the Plan.

The Commission is committed to communications that inform members and employers on the Plan.

The Commission's administrator provides retirement information seminars and individual information to Plan members.

Information tools include member and employer seminars, employer bulletins and guides, written materials, and online resources such as the Plan website, the Electronic Remittance System and the *MORE* retirement calculator.

- The Commission receives reports on administrative activities including service standards and a report on key performance indicators semi-annually. The Periodic Checklist is a list of major items identified by the Commission that are necessary for the administration of a pension plan. The checklist allows verification that an activity has been carried out.

- The completed Periodic Checklist is provided to the Commission on a semi-annual basis.
- The Commission strives to demonstrate leading practices in pension plan governance. This includes regular review of its Governance Manual to ensure it is comprehensive and effective.
- The Commission compares its governance against industry benchmarks and various other pension plan governing bodies from across Canada.
- The Commission formally reviews its Strategic Business Plan on a periodic basis.
- The Commission has an Acquisition and Retention of Services policy that details how the Commission is to retain and evaluate service providers.

The Commission retains service providers who are experts in the responsibilities to which they are assigned with respect to the Plan.

- The Commission evaluates the performance of the executive management services provided by its administrator, investment consultant, actuary, investment managers, and custodian at least annually.
- The Commission has a SIP&P that outlines the Commission's investment beliefs and provides for risk management through diversification of asset classes, capital markets and investment managers.

The SIP&P defines the benchmark to which investment performance is measured. The Commission annually reviews the SIP&P and communicates investment performance.

The Commission ensures initiatives and Plan-related activities are adequately funded through its budgeting process.

- The Commission's administrator has internal controls in place which are reported on annually by the Office of the Provincial Auditor of Saskatchewan.
- Commission members are required to review and sign the Commission's Code of Conduct and Conflict of Interest Procedures annually.
- The Commission requires that service providers confirm that they maintain business continuity plans and adhere to a code of conduct.
- In order to identify and mitigate risks that affect the Plan, the Commission undertakes an annual risk management process.
- The Commission consults with legal counsel and other expert advisors regarding issues on which it is deliberating.
- On a periodic basis, the Commission reviews existing products, services and practices the Plan offers to its members.



2018 | Activities Completed

Beyond the required activities, the following risk management activities were completed in 2018:

- The Commission reviewed and amended its risk management process.
- The Commission amended its Risk Management Plan.
- The Commission conducted a review of its investment program.
- The Commission conducted a review of and implemented changes to its Private Markets Governance process.
- The Commission reviewed and amended its Governance Manual.
- Within regular meetings, the Commission received education on topics to assist the Commission in a strategic review of its investment program.
- Within regular meetings, the Commission received education on risk budgeting and examining the risk metrics around investments.



Investments

INVESTMENT CONSULTANT

The Plan's Strategic Investment Consultant is Aon. In 2018, Aon provided strategic investment guidance and education to the Commission.

PEBA's General Investment Consultant is Mercer (Canada) Ltd. (Mercer). In 2018, Mercer collaborated with PEBA and provided regular investment consulting services including performance monitoring, as outlined in *Table 1.11*.

CUSTODIAN

The Commission retains RBC as the custodian of the Plan. The custodian is responsible for:

- Safekeeping of assets;
- Collection of income;
- Settlement of investment transactions; and
- Recording and verifying investment transactions.

RBC received \$181,000 custodian in fees in 2018. (*Table 1.10*)

INVESTMENT MANAGERS

The Commission delegates responsibility for investing the Fund assets to professional investment managers. Each manager invests within a specific mandate, as outlined in *Table 1.12*.

TRUSTEES

As trustees, the Commission is responsible for prudently investing the Fund's assets.

INVESTMENT POLICY

The investment policy is set out in the SIP&P, which the Commission reviews annually.

The SIP&P contains guidelines for investment of Plan assets, and includes:

- Investment and risk philosophy;
- Asset mix and diversification policy, including portfolio return expectations;
- Benchmarks for each investment manager and for the Fund;
- Permitted investments and quality guidelines;
- Monitoring and control responsibilities, including performance targets;
- Compliance reporting and monitoring requirements; and
- Conflict of interest guidelines.

Assets by Investment Managers

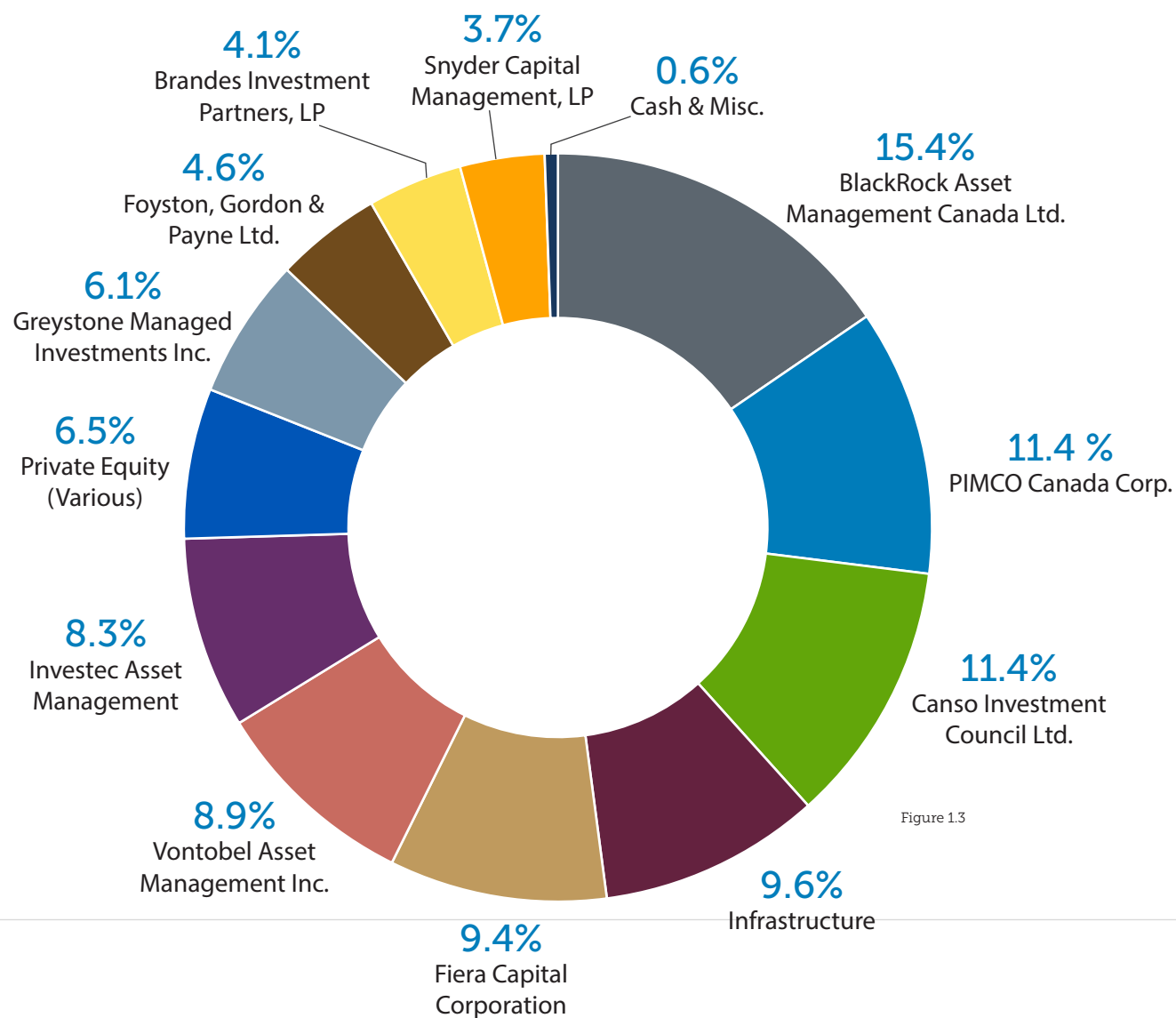


Figure 1.3

[illegible]

Category	Value
Category 1	Value 1
Category 2	Value 2
Category 3	Value 3
Category 4	Value 4
Category 5	Value 5
Category 6	Value 6
Category 7	Value 7
Category 8	Value 8
Category 9	Value 9
Category 10	Value 10
Category 11	Value 11
Category 12	Value 12
Category 13	Value 13
Category 14	Value 14
Category 15	Value 15
Category 16	Value 16
Category 17	Value 17
Category 18	Value 18
Category 19	Value 19
Category 20	Value 20
Category 21	Value 21
Category 22	Value 22
Category 23	Value 23
Category 24	Value 24
Category 25	Value 25
Category 26	Value 26
Category 27	Value 27
Category 28	Value 28
Category 29	Value 29
Category 30	Value 30
Category 31	Value 31
Category 32	Value 32
Category 33	Value 33
Category 34	Value 34
Category 35	Value 35
Category 36	Value 36
Category 37	Value 37
Category 38	Value 38
Category 39	Value 39
Category 40	Value 40
Category 41	Value 41
Category 42	Value 42
Category 43	Value 43
Category 44	Value 44
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Category 84	Value 84
Category 85	Value 85
Category 86	Value 86
Category 87	Value 87
Category 88	Value 88
Category 89	Value 89
Category 90	Value 90
Category 91	Value 91
Category 92	Value 92
Category 93	Value 93
Category 94	Value 94
Category 95	Value 95
Category 96	Value 96
Category 97	Value 97
Category 98	Value 98
Category 99	Value 99
Category 100	Value 100

Table 1.11



43

Investment Objectives

The Fund's primary objective is to grow at a rate which exceeds the growth of the Plan's liabilities.

To achieve its goal, the Commission has established:

- A long term strategic asset mix that is reflected by the Plan's benchmark (a standard against which performance is measured);
- An investment management structure consisting of one or more investment managers in each major asset class; and
- A liability benchmark to approximate the growth of the Plan's going-concern pension liabilities.

MEPP Asset Mix

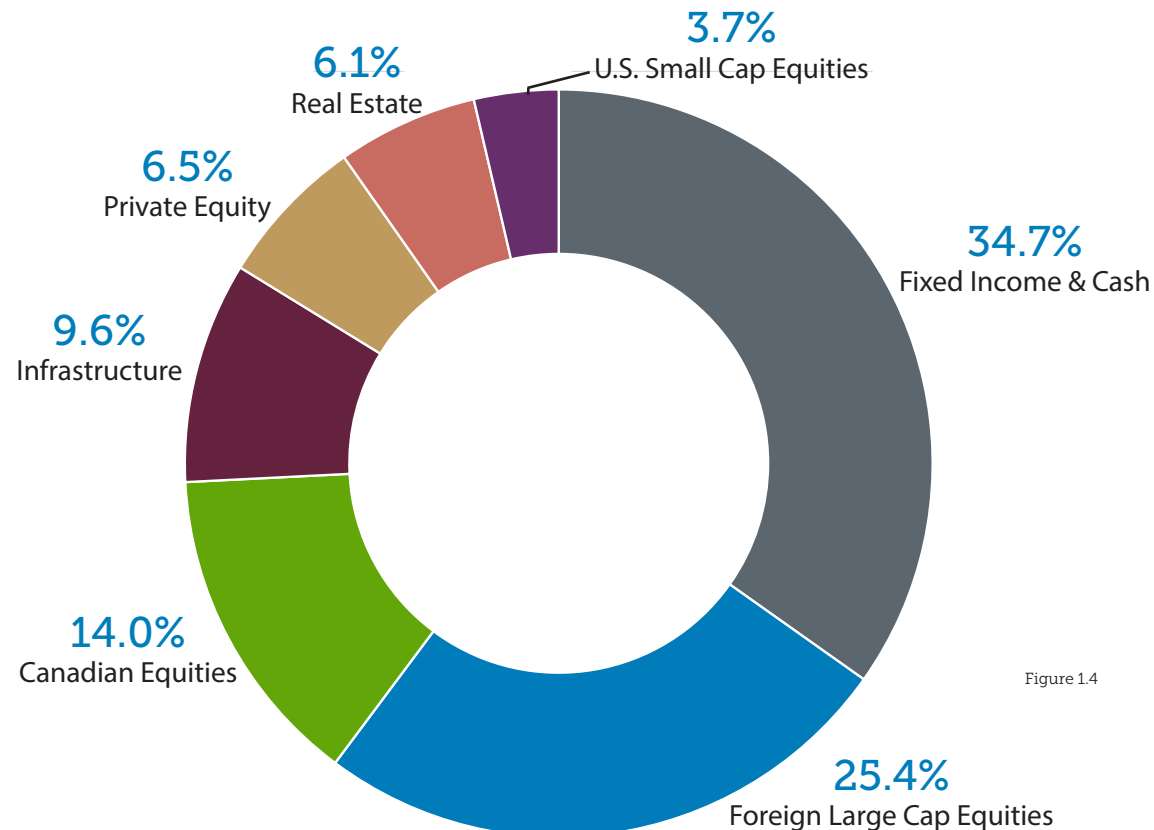


Figure 1.4

Performance by Asset Class

Asset Class	One-year Return	One-year Benchmark
Fixed Income	0.2%	0.6%
Canadian Equities	-8.9%	-8.9%
Foreign Large Cap Equities	0.1%	-0.9%
U.S. Small Cap Equities	2.9%	-3.0%
Real Estate	8.4%	7.1%
Infrastructure	15.3%	7.4%
Private Equity	34.3%	25.2%

* as of September 2018
* gross returns

Asset Class	Four-year Return	Four-year Benchmark
Fixed Income	2.3%	3.1%
Canadian Equities	2.8%	2.5%
Foreign Large Cap Equities	9.6%	9.3%
U.S. Small Cap Equities	12.3%	8.7%
Real Estate	8.0%	6.9%
Infrastructure	21.8%	6.7%
Private Equity	24.9%	20.1%

* as of September 2018
* gross returns

FOREIGN CURRENCY INVESTMENT MANAGER

Insight Investment Management Ltd. passively hedges 50 per cent of the Plan's foreign currency exposure within its foreign equities allocation against changes in value of various developed market currencies relative to the Canadian dollar. In 2018 this strategy had an impact of -3.8 per cent on foreign equities exposure, consistent with its benchmark.



Management's Report



To the Members of the Legislative Assembly of Saskatchewan:

Administration of MEPP is presently assigned to PEBA of the Ministry of Finance. Management is responsible for financial administration, administration of funds and managing of assets.

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

The Commission reviews and approves the financial statements. In doing so, the Commission has had the opportunity to discuss the statements with management throughout the year.

The provision for annuity benefits and the accrued pension benefits are determined by an actuarial valuation. Actuarial valuation reports require best estimate assumptions about future events and require approval by management.

The financial statements have been audited by KPMG whose report follows.

Dave Wild
Associate Deputy Minister
Public Employees Benefits Agency

Regina, Saskatchewan
March 15, 2019





Actuarial Opinion

With respect to the Municipal Employees' Pension Plan, we have prepared an actuarial valuation as at December 31, 2017 with the results subsequently extrapolated to December 31, 2018, for the purpose of determining the necessary actuarial information for financial statement reporting purposes in accordance with Section 4600 of the CPA Canada Handbook.

In our opinion, for the purposes of this actuarial valuation and extrapolation:

- The data on which this valuation and subsequent extrapolation are based are sufficient and reliable.
- The assumptions are appropriate.
- The actuarial cost methods, extrapolation methods and valuation methods employed are appropriate.
- The actuarial valuation and extrapolation conform to the requirements of Section 4600 of the CPA Canada Handbook.

Nonetheless, emerging experience differing from the assumptions will result in gains or losses which will be revealed in subsequent valuations.

This report has been prepared and this actuarial opinion has been given in accordance with accepted actuarial practice in Canada.



David R. Larsen
Fellow, Society of Actuaries
Fellow, Canadian Institute of Actuaries



Johanan Schmuecker
Fellow, Society of Actuaries
Fellow, Canadian Institute of Actuaries

February 7, 2019



Financial Statements

Year ended December 31, 2018





KPMG LLP
Hill Centre Tower II
1881 Scarth Street, 20th Floor
Regina Saskatchewan S4P 4K9
Canada

Telephone (306) 791-1200

Fax (306) 757-4703

INDEPENDENT AUDITORS' REPORT

To the Members of the Legislative Assembly of Saskatchewan

Opinion

We have audited the financial statements of the Municipal Employees' Pension Plan (the Entity), 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 pension obligations and 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 the Municipal Employees' Pension Plan as at December 31, 2018, and its changes in net assets available for benefits and its changes in pension obligations and provision for annuity 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 Entity 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:

- The 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.

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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 Entity'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 Entity'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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

March 15, 2019
Regina, Canada

Municipal Employees' Pension Plan Statement of Financial Position

Statement 1

(in thousands)

	2018			2017				
Year Ended December 31	Defined Benefit		Retirement Annuities	Total	Total			
ASSETS								
Investments (Note 4)	\$	2,199,365	\$	14,552	\$	2,213,917	\$	2,102,061
Investments under securities lending program (Note 4)		227,618		1,506		229,124		278,289
		2,426,983		16,058		2,443,041		2,380,350
Accounts receivable								
Employees' contributions		3,079		-		3,079		2,960
Employers' contributions		3,079		-		3,079		2,960
Accrued investment income		4,042		27		4,069		3,328
Other receivables		112		1		113		401
		10,312		28		10,340		9,649
Due from General Revenue Fund (Note 6)		3,850		25		3,875		4,985
Cash		30,050		199		30,249		75,011
Total assets		2,471,195		16,310		2,487,505		2,469,995
LIABILITIES								
Accounts payable		4,309		29		4,338		3,718
Derivative liability (Note 5)		12,864		85		12,949		-
Provision for annuity obligations (Statement 3, Note 9)		-		12,697		12,697		14,318
Total liabilities		17,173		12,811		29,984		18,036
NET ASSETS AVAILABLE FOR BENEFITS (Statement 2)		2,454,022		3,499		2,457,521		2,451,959
Pension Obligations (Statement 3, Note 10)		1,994,285		-		1,994,285		1,997,782
SURPLUS								
	\$	459,737	\$	3,499	\$	463,236	\$	454,177

(See accompanying notes to financial statements)

Municipal Employees' Pension Plan Statement of Changes in Net Assets Available for Benefits

Statement 2

(in thousands)

Year Ended December 31	2018			2017
	Defined Benefit	Retirement Annuities	Total	Total
INCREASE IN ASSETS				
Investment income (Note 4)	\$ 87,737	\$ 616	\$ 88,353	\$ 75,892
Security lending income	176	1	177	418
	87,913	617	88,530	76,310
Change in fair value of investments	-	-	-	158,481
Contributions				
Employee contributions	51,603	-	51,603	48,555
Employer contributions	51,584	-	51,584	48,506
Reciprocal transfers in	735	-	735	1,972
Arrears contributions and interest	46	-	46	199
Inter-fund transfer	30	(30)	-	-
	103,998	(30)	103,968	99,232
Net decrease in provision for annuity benefits (Statement 3, Note 9)	-	1,621	1,621	1,506
Total increase in assets	191,911	2,208	194,119	335,529
DECREASE IN ASSETS				
Transfers and refunds (Note 8)	47,147	-	47,147	44,979
Benefit payments (Note 8)	8,557	-	8,557	17,350
Pension obligation payments	73,862	-	73,862	69,164
Annuities	-	2,216	2,216	2,422
Investment transaction costs	124	1	125	134
Administrative expenses (Note 12)	32,378	227	32,605	26,056
Change in fair value of investments	23,855	167	24,022	-
Other	23	-	23	1
Total decrease in assets	185,946	2,611	188,557	160,106
INCREASE (DECREASE) IN NET ASSETS	5,965	(403)	5,562	175,423
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	2,448,057	3,902	2,451,959	2,276,536
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	\$ 2,454,022	\$ 3,499	\$ 2,457,521	\$ 2,451,959

(See accompanying notes to financial statements)

Municipal Employees' Pension Plan Statement of Changes in Pension Obligations and Provision for Annuity Obligations

Statement 3

(in thousands)

Year Ended December 31	2018	2017
PENSION OBLIGATIONS, BEGINNING OF YEAR	\$ 1,997,782	\$ 1,932,052
Increase in pension obligations		
Interest on pension obligations	113,988	110,177
Pension obligations accrued	98,062	97,672
Transfers-in	735	1,972
	212,785	209,821
Decrease in pension obligations		
Transfers, refunds and defined pension obligations paid	129,567	131,493
Experience gain	24,337	6,698
Change in assumptions	62,378	5,900
	216,282	144,091
PENSION OBLIGATIONS, END OF YEAR (Note 10)	\$ 1,994,285	\$ 1,997,782
PROVISION FOR ANNUITY OBLIGATIONS, BEGINNING OF YEAR	\$ 14,318	\$ 15,824
Increase in provision for annuity obligations		
Interest on annuity obligations	760	840
Experience loss	6	76
	766	916
Decrease in provision for annuity obligations		
Annuities paid	2,216	2,422
Change in assumption	171	-
	2,387	2,422
PROVISION FOR ANNUITY OBLIGATIONS, END OF YEAR (Note 9)	\$ 12,697	\$ 14,318

Municipal Employees' Pension Plan Notes to the Financial Statements

December 31, 2018

1. Description of the Municipal Employees' Pension Plan

General

The Municipal Employees' Pension Plan (the "Plan") which is domiciled in Regina, Saskatchewan, is comprised of three components: defined benefit, defined contribution benefit and retirement annuities. The following description of the Plan is a summary only. For more complete information, reference should be made to *The Municipal Employees' Pension Act* (the "Act").

The Act provides authority for the Plan. The Act directs that all allowances, payments and refunds under the Act shall be payable out of the Plan in the manner provided in the Act together with all benefits granted under a former Act. The Municipal Employees' Pension Commission (the "Commission") is responsible for holding in trust and investing the monies of the Plan. The Commission's composition and authority to administer the Plan are provided in Section 7 of the Act.

The Plan is registered under *The Pension Benefits Act, 1992* and is required to provide valuations every three years as to whether the Plan has sufficient assets to meet its pension obligations on an on-going basis as well as on a hypothetical wind-up basis. These valuations are filed with the Superintendent of Pensions (the "Superintendent"). If the Plan has insufficient assets, the Act outlines the steps to address the shortfall of assets. The Commission filed its December 31, 2017 valuation with the Superintendent. The Plan is required to file the next actuarial valuation no later than December 31, 2020.

Defined Benefit Component

The Defined Benefit Component became effective July 1, 1973. This Defined Benefit Component is mandatory for permanent employees and optional for some non-permanent employees.

A. Funding

As of January 1, 2018, employee contributions were 8.15 per cent of salary for general members and 11.35 per cent for emergency members. Effective July 1, 2018 employee contributions were 9.00 per cent of salary for general members and 12.50 per cent for emergency

B. Pensions

Employees receive a pension at age 65 for general members and at age 60 for police officers and firefighters, for each year and fractional year of contributory service in the Plan prior to retirement that is determined as:

For service earned before 1990 and service earned after 2000 but before 2006, the number of years of contributory service during these periods times the greater of:

- a) 1.8 per cent times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (two per cent for police officers and firefighters); or
- b)
  - i) 1.3 per cent of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and
  - ii) 2.0 per cent of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

For all other service, the number of years of contributory service for the period times the greater of:

- a) 1.5 per cent times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (1.7 per cent for police officers and firefighters); or
- b)
  - i) 1.3 per cent of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and
  - ii) 2.0 per cent of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

Members who commenced employment on or after January 1, 1993:

For service earned after 2000 but before 2006, the number of years of contributory service during this period times 1.8 per cent times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (two per cent for police officers and firefighters).

For all other service, the number of years of contributory service for the period times 1.5 per cent times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (1.7 per cent for police officers and firefighters).

C. Retirement

Normal retirement is at age 65 for general members and age 60 for police officers and firefighters. Members may retire earlier under certain conditions.

The Plan also provides benefits in the event of termination of employment, death or disability.

D. Surplus

Any surpluses arising in the Plan can be utilized at the discretion of the Commission.

E. Transfers

Subject to lock in provisions of the Plan, transfer of a member's commuted value is payable when a member ceases to be employed.

As the December 31, 2017 actuarial valuation for filing purposes stated a solvency ratio of 90.7 per cent, commuted value transfers out of the Plan are limited to 90.7 per cent of the commuted value calculation. Payment of the remaining transfer deficiency shall occur over the following five-year period.

Defined Contribution Component

The Defined Contribution Component consists of members who made contributions to the Defined Contribution Component in effect prior to July 1, 1973. Members may retire and purchase an annuity at age 65. Members may retire earlier under certain conditions. Upon retirement a member can purchase an annuity from a private insurer based on employee and employer contributions together with the interest thereon. In the event of death prior to retirement, the member's spouse may receive a life annuity or elect to receive a lump-sum payment of employee and employer contributions plus interest. If the member's beneficiary is other than the spouse, a lump-sum payment of employee and employer contributions plus interest is made.

Retirement Annuities Component

The present value of these annuities are reflected as a liability of the Plan.

Supplementary Benefits

In accordance with the Act, the Commission may grant supplementary benefits to those members receiving pensions and annuities to compensate them for lost purchasing power. The Commission may grant the supplementary benefits as long as the solvency of the entire Plan is not impaired.

Income Taxes

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

2. Basis of Preparation

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 Canada Handbook section 4600, *Pension Plans*. For matters not addressed in Section 4600, International Financial Reporting Standards (IFRSs) have been followed.

b. Functional and Presentation Currency

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

c. Basis of Measurement

These financial statements have been prepared using the historical cost basis except for the following:

- Investments, which are measured at fair value; and
- Pension obligations and provision for annuity obligations, which are measured at the present value of their respective accrued benefit obligations.

The fair values of investments are considered to be market value with all gains and losses being recognized through change in fair value. The calculation of fair value is detailed in Note 4.

3. Significant Accounting Policies

The significant accounting policies are as follows:

a. Basis of Presentation

The Plan has disclosed financial results for its Defined Benefit and Retirement Annuities components separately. The Plan maintains a single investment portfolio and assets were allocated to the retirement annuities component at January 1, 2002 based upon the provision for annuity obligations as at that date. Investment income is split so that it matches the rate of return and operating expenses and the change in fair value have been allocated relative to the assets. These financial statements were authorized and issued by the Commission on March 15, 2019.

b. Investments

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

Fair value of investments is determined as follows:

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

Bonds 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 the appropriate market interest rates.

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

Private equity investments are valued at market values supplied by the private equity investment manager. These market values are based on the latest available private equity manager capital account statements and are adjusted for subsequent cash flows and changes in exchange rates for investments outside Canada.

Infrastructure investments are valued at market values supplied by the infrastructure investment manager. These market values are based on the latest available infrastructure manager capital account statements and are adjusted for subsequent cash flows and changes in exchange rates for investments outside Canada.

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

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

Investment transactions are recorded on the trade date.

c. Other Financial Instruments

Accounts receivable, Due from General Revenue Fund and accounts payable are classified and measured at amortized cost. Due to their short-term nature, the amortized cost of these instruments approximates their fair value.

d. Investment Income and Transaction Costs

Investment income, which is recorded on the accrual basis, includes interest income, dividends, pooled-fund income, infrastructure income, private equity income, and security lending income.

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

e. Foreign Currency Translation

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

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

f. Provision for Annuity Obligations

Provision for annuity obligations represents the present value of the retirement annuities underwritten by the Plan and is determined pursuant to an actuarial valuation or extrapolation. Any change in the liability pursuant to the valuation or extrapolation is recognized as an increase or decrease in that year's Statement of Changes in Pension Obligations and Provision for Annuity Obligations.

g. Pension Obligations

Pension obligations represents the present value of the obligations for the Defined Benefit Component of the Plan. The pension obligation is determined pursuant to an actuarial valuation or extrapolation. Any change in the liability pursuant to the valuation or extrapolation is recognized as an increase or decrease in that year's Statement of Changes in Pension Obligations and Provision for Annuity Obligations.

h. Use of Estimates

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

i. Accounting Policy Changes

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

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

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

4. Investments

Details of significant terms and conditions, exposure to interest rate and credit risks of investments are as follows:

Investments

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

(in thousands)						
	2018			2017		
	Defined Benefit	Retirement Annuities	Total	Defined Benefit	Retirement Annuities	Total
Investments						
Short-term	\$ 29,571	\$ 195	\$ 29,766	\$ 8,214	\$ 61	\$ 8,275
Bonds	270,452	1,789	272,241	265,154	1,979	267,133
Equities	589,055	3,898	592,953	628,848	4,693	633,541
Private equity	155,527	1,029	156,556	99,255	741	99,996
Infrastructure	227,853	1,508	229,361	182,628	1,362	183,990
Pooled funds	926,907	6,133	933,040	902,393	6,733	909,126
	2,199,365	14,552	2,213,917	\$2,086,492	15,569	2,102,061
Investments under securities lending program						
Short-term	\$ 2,408	\$ 16	\$ 2,424	\$ 12,838	\$ 96	\$ 12,934
Bonds	5,281	35	5,316	2,192	16	2,208
Equities	219,929	1,455	221,384	261,200	1,947	263,147
	\$ 227,618	\$ 1,506	\$ 229,124	\$ 276,230	\$ 2,059	\$ 278,289
	\$2,426,983	\$ 16,058	\$ 2,443,041	\$2,362,722	\$ 17,628	\$2,380,350

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

(in thousands)						
	2018			2017		
	Defined Benefit	Retirement Annuities	Total	Defined Benefit	Retirement Annuities	Total
Investment income						
Interest	\$ 10,582	\$ 74	\$ 10,656	\$ 9,671	\$ 76	\$ 9,747
Pooled funds	25,715	181	25,896	34,329	271	34,600
Dividends	23,660	166	23,826	19,006	150	19,156
Infrastructure	11,806	83	11,889	6,130	48	6,178
Private equity	15,974	112	16,086	6,162	49	6,211
	<u>\$ 87,737</u>	<u>\$ 616</u>	<u>\$ 88,353</u>	<u>\$ 75,298</u>	<u>\$ 594</u>	<u>\$ 75,892</u>

Security Lending Program

Through its custodian, the Plan participates in an investment security lending program for the purpose of generating fee income. Non-cash collateral of at least 102 per cent of the market value of the loaned securities is retained by the Plan until the loaned securities have been returned (see Securities lending in Note 11). The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. In addition, the custodian provides indemnification against any potential losses in the securities lending program. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

Short-Term Investments

These investments may comprise of treasury bills, notes and commercial papers. The cash equivalent component of short-term investments held as of December 31, 2018 had an effective interest rate of 1.7 per cent (2017 - 1.1 per cent) and an average term to maturity of 64 days (2017 – 39 days). The Plan's investment policy states that investments must meet a minimum investment standard of "A2/P2" or equivalent rating as rated by a recognized bond rating service which the Plan is in compliance with. At December 31, 2018, the Government of Canada, held 23.92 per cent of the total Plan's short-term investment. As at December 31, 2018 forward contracts are included in derivatives liability and in 2017 were included in short-term investments (See Note 5).

Bonds

The Plan's investment policy states that bonds must meet a minimum quality standard of BBB as rated by a recognized bond rating service unless otherwise permitted within a specific investment manager mandate. In addition, not more than 10 per cent of its total bond market value may be invested in lower than BBB rated bonds. In 2017 and 2018, there were no segregated bonds invested in that are lower than BBB Bonds.

The market value, coupon rates and effective interest rate to maturity are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

2018 (in thousands)

Years to Maturity	Federal	Foreign Government	Municipal	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 5	\$ 8,153	\$ -	\$ -	\$ 122,266	\$130,419	0.00% - 7.18%	3.17%
5 to 10	899	4,720	-	68,547	74,166	0.00% - 8.85%	3.92%
Over 10	-	337	1,126	71,509	72,972	0.00% - 7.13%	5.24%
Market Value	\$ 9,052	\$ 5,057	\$ 1,126	\$262,322	\$277,557		

2017 (in thousands)

Years to Maturity	Federal	Foreign Government	Municipal	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 5	\$10,081	\$ -	\$ -	\$ 118,573	\$128,654	0.00% - 6.90%	1.67%
5 to 10	990	4,745	-	71,561	77,296	2.15% - 8.29%	3.59%
Over 10		342	1,181	61,868	63,391	4.24% - 9.70%	4.93%
Market Value	\$ 11,071	\$ 5,087	\$ 1,181	\$252,002	\$269,341		

All foreign bonds are reported in Canadian dollars.

Equities

The Plan's investment policy states that an investment in a single corporation shall not exceed 10 per cent of the total market value of the Plan assets at time of purchase.

In addition, the investment policy allows between 19 per cent and 41 per cent of the Plan to be invested in foreign public equities, including those held in pooled funds. As at December 31, 2018 the Plan held 19.17 per cent (2017 – 22.05 per cent) of the Plan's total investments in segregated foreign equities and 8.98 per cent (2017 – 9.74 per cent) of the Plan's total investments in pooled foreign equity funds. Segregated foreign equities are comprised of 59.91 per cent (2017 – 58.89 per cent) in U.S. equities and 40.09 per cent (2017 – 41.11 per cent) in Non-North American equities.

The Plan's equities have no fixed maturity date and are not exposed directly to interest rate risk. The average effective dividend rate is 2.78 per cent (2017 – 2.17 per cent).

Private Equities

Private equity investments are made through limited partnership arrangements. The investments represent partial equity ownership in entities that are not traded and priced in stock exchanges. Future commitments are due on demand and are based on the needs of the various partnerships the Plan has entered into. Liquidity requirements of meeting the future commitments are met through income generated from investments, holdings in pooled funds and investments in liquid assets traded on an active market which can be easily sold and converted into cash.

The Plan's private equity investments consist of the following:

	(in thousands)	
	2018	2017
Falcon Strategic Partners Fund IV	\$ 5,977	\$ 5,745
Neuberger Berman Secondary Opportunities Fund III	8,156	7,637
Silver Lake Partners Fund IV	4,484	3,330
Vista Equity Partners Fund V	7,489	6,395
New Mountain Partners Fund IV	13,044	12,506
Great Hill Equity Partners Fund V	17,326	10,244
Stirling Square Partners Fund III	11,576	8,491
Lovell Minnick Equity Partners Fund IV	12,301	6,558
Lexington Capital Partners Fund VIII	9,284	5,873
Falcon Strategic Partners Fund V	9,935	6,711
Vista Equity Partners Fund VI	12,317	9,068
K3 Investment Management, LLC	8,351	5,284
Thompson Street Capital Partners IV	10,998	8,437
Neuberger Berman Secondary Opportunities Fund IV	2,858	1,148
Genstar Capital Partners VIII	7,157	879
Great Hill Equity Partners Fund VI	5,450	1,048
New Mountain Partners Fund V	3,458	673
H.I.G. Advantage Buyout Fund	646	14
Clayton, Dublier & Rice Fund X	2,170	(45)
Silver Lake Partners Fund V	2,579	-
K4 Private Investors L.P.	548	-
Thompson Street Capital Partners V	452	-
	<u>\$ 156,556</u>	<u>\$ 99,996</u>

Private equity managers form limited partnerships to facilitate investments in private companies in various markets across the globe. As at December 31, 2018 the Plan was committed to further investment in private equity limited partnerships up to \$113.8 million in Canadian funds (2017 - \$116.0 million).

The Plan's investment policy limits private equity investments from a minimum of one per cent to a maximum of eight per cent of the Plan's assets. As of December 31, 2018 the Plan's private equity investments were 6.41 per cent (2017 – 4.20 per cent) of the Plan investments.

Private equity managers utilize an internal valuation policy to establish a market value for the underlying assets within their portfolios. This policy outlines that any marketable assets within the portfolio will be valued at the price on the relevant securities exchange. Non-marketable securities will be subject to professional judgment and may take into account several factors such as:

- Market conditions
- Purchase price
- Estimated liquidation value
- Third-party transactions in the private market
- Present value of expected future cash flows
- Present value of anticipated sale or flotation when asset is soon to be divested

The above factors involve various assumptions. Changes in the underlying assumptions will have an impact on the market value of the investments.

Infrastructure Investments

Infrastructure investments are made through limited partnership arrangements. Advances are made to the limited partnerships, some of which are used to select and provide management support to the invested companies. The investments represent ownership in entities that invest in infrastructure assets. Future commitments are due on demand and are based on the needs of the various partnerships the Plan has entered into. Liquidity requirements of meeting the future commitments are met through income generated from investment, holdings in pooled funds and investments in liquid assets traded on an active market which can be easily sold and converted into cash.

The Plan's infrastructure investments consist of the following:

	(in thousands)	
	2018	2017
Global Infrastructure Partners Fund I	\$ 27,227	\$ 24,840
Global Infrastructure Partners Fund II	47,057	38,554
Antin Infrastructure Partners Fund II	48,332	37,547
Kohlberg Kravis Roberts Global Infrastructure Fund II	49,081	37,461
Macquarie Asia Infrastructure Fund	30,483	27,178
Global Infrastructure Partners Capital Solutions	14,346	18,410
Starwood Energy Infrastructure Fund III	240	-
DIF Infrastructure V	12,595	-
	<u>\$ 229,361</u>	<u>\$ 183,990</u>

Infrastructure managers form limited partnerships to facilitate investments in infrastructure projects in various markets across the globe. As at December 31, 2018 the Plan was committed to further investment in infrastructure limited partnerships up to \$124.2 million in Canadian funds (2017 - \$46.7 million).

The Plan's investment policy limits infrastructure investments from a minimum of 4 per cent to a maximum of 13 per cent of the Plan's assets. As of December 31, 2018 the Plan's infrastructure investments were 9.39 per cent (2017 – 7.73 per cent) of the Plan investments.

Infrastructure managers utilize an internal valuation policy to establish a market value for the underlying assets within their portfolios. This policy outlines that any marketable assets within the portfolio will be valued at the price on the relevant securities exchange. Non-marketable securities will be subject to professional judgment and may take into account several factors such as:

- Market conditions
- Purchase price
- Estimated liquidation value
- Third-party transactions in the private market
- Present value of expected future cash flows
- Present value of anticipated sale or flotation when asset is soon to be divested

The factors involve various assumptions. Changes in the underlying assumptions will have an impact on the market value of the investments.

Pooled Funds

The Plan's investment policy limits pooled fund holdings to not more than 10 per cent of the market value of the individual pooled fund. Exceptions to the 10 per cent limit are allowed if provision has been made to transfer securities in kind when units of the pooled fund are sold with the exception of real estate. At December 31, 2018, there were provisions in place for all the Plan's pooled funds.

The Plan's pooled funds are comprised of:

Pooled Fund	Market Value (in thousands)	
	2018	2017
U.S. Equity Fund	\$ 101,140	\$ 114,462
Non-North American Equity	118,287	117,461
Bonds	563,961	539,479
Real Estate	149,652	137,724
	<u>\$ 933,040</u>	<u>\$ 909,126</u>

Fair Value

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

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

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

2018				
(in thousands)				
	Level 1	Level 2	Level 3	Total
Bonds	\$ -	\$ 277,557	\$ -	\$ 277,557
Pooled funds	-	783,387	149,653	933,040
Short-term	32,190	-	-	32,190
Equities	814,337	-	-	814,337
Private Equity	-	-	156,556	156,556
Infrastructure	-	-	229,361	229,361
Total	\$ 846,527	\$ 1,060,944	\$ 535,570	\$ 2,443,041

No investments were transferred between levels during the year.

2017				
(in thousands)				
	Level 1	Level 2	Level 3	Total
Bonds	\$ -	\$ 269,341	\$ -	\$ 269,341
Pooled funds	-	771,402	137,724	909,126
Short-term	21,209	-	-	21,209
Equities	896,688	-	-	896,688
Private Equity	-	-	99,996	99,996
Infrastructure	-	-	183,990	183,990
Total	\$ 917,897	\$ 1,040,743	\$ 421,710	\$ 2,380,350

Fair Value measurements using level 3 inputs					
	2018				2017
	Infrastructure	Real Estate Pooled Fund	Private Equities	Total	Total
Balance at December 31, 2017	\$ 183,990	\$ 137,724	\$ 99,996	\$ 421,710	\$ 387,127
Purchases	25,299	-	36,457	61,756	75,744
Sales/ return of capital	(11,503)	-	(8,231)	(19,734)	(63,482)
Gains (losses)					
Realized	195	-	131	326	24,820
Unrealized	31,380	11,929	28,203	71,512	(2,499)
Balance at December 31, 2018	\$ 229,361	\$ 149,653	\$ 156,556	\$ 535,570	\$ 421,710

5. Derivatives

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

At December 31, 2018 the Plan held the following derivatives:

Forward Contracts

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

The Plan uses a passive hedging strategy with an applied hedge ratio of 50 per cent of the underlying portfolio. The objective of the passive currency hedge is to provide partial protection of the base currency value of foreign equities against a decline in value of the applicable non-base currencies. The following summarizes the Plan's use of foreign currency forward exchange contracts within the passive currency hedging strategy:

FOREIGN EXCHANGE FORWARD CURRENCY CONTRACTS

(in thousands)

Currency	2018			2017		
	Notional Value*	Gain (Loss)	Net Exposure	Notional Value*	Gain (Loss)	Net Exposure
AUD	\$ 3,093	\$ (8)	50.1%	\$ 38	-	49.7%
CHF	6,223	(319)	49.9%	7,576	(46)	49.9%
DKK	-	-	0.0%	(36)	(36)	0.0%
EUR	45,402	(1,793)	49.9%	47,370	(881)	49.9%
HKD	9,319	(319)	50.0%	11,940	154	50.0%
JPY	14,690	(1,021)	49.9%	15,851	126	49.9%
MXN	2,646	(190)	50.1%	2,625	74	50.0%
GPB	23,140	(251)	50.0%	21,414	(311)	50.0%
SEK	(4)	(4)	0.0%	806	(6)	49.8%
USD	248,676	(9,044)	50.0%	255,425	2,721	50.0%
ZAR	-	-		1,982	(313)	49.3%
		\$ (12,949)			\$ 1,482	

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

Based on the rates of exchange as of December 31, 2018, the forward contracts are in a net loss position of \$12.9 million (2017 – gain of \$1.5 million). The foreign currency forward exchange contracts are short-term in duration and all current contracts as of December 31, 2018 have a maturity date of less than one year. As at December 31, 2018 forward contracts are included in derivatives liability and in 2017 were included in short-term investments.

6. Due from General Revenue Fund

The Plan's bank account is included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

Earned interest is calculated and paid by the General Revenue Fund on a quarterly basis using the Government's thirty-day borrowing rate and the Plan's average daily bank account balance. The Government's thirty-day borrowing rate for 2018 was 1.41 per cent (2017 – 0.70 per cent).

7. Earnings Allocation to Members

Interest is allocated annually to the individual member's account balances in accordance with the provisions of the governing legislation. The 2018 interest rate of 1.19 per cent (2017 – 1.05 per cent) was applied

8. Transfers, Refunds and Benefit Payments

(in thousands)

	2018	2017
Transfers to other retirement plans	\$ 394	\$ 326
Transfer to other retirement vehicles	34,932	31,228
Withdrawals with interest	11,821	13,425
Total Transfers and Refunds	\$ 47,147	\$ 44,979
Lump sum payments to estates	3,030	4,716
Payments in lieu of annuities	5,527	12,634
Total Benefit Payments	8,557	17,350
Total Transfers, Refunds and Benefit Payments	\$ 55,704	\$ 62,329

9. Provision for Annuity Obligations

The actuarial present value of the provision for annuity obligations was determined using management's best estimate of future investment performance and future pension indexing.

Aon Hewitt performed an actuarial valuation for management purposes as at December 31, 2017 and they have extrapolated the results of that valuation to December 31, 2018 with interest and actual benefit payments. Actuarial valuations for management purposes are performed annually.

An actuarial valuation for filing purposes was performed as at December 31, 2017 by Aon Hewitt and filed with the regulatory authorities. The next valuation to be filed will be required effective December 31, 2020.

The actuarial valuation was based on a number of assumptions about future events including interest rates, pension indexing (for members who elected indexed annuities), and mortality as follows:

	2018	2017
Interest Rate	6.00%	5.75%
Indexation of Pensions	2.25%	2.25%
Mortality	CPM 2014 Private at 115% for males and 100% for females (projected generationally)	CPM 2014 Private at 115% for males and 100% for females (projected generationally)

The actual rates may vary significantly from the assumptions used. The following illustrates the effect of changing certain assumptions from the assumed interest rate of 6.00 per cent and pension indexing of 2.25 per cent. The changes in assumptions are independent of one another.

Effect on Provision for Annuity Obligations				
	Interest Rate		Pension Indexing	
Assumptions	5.00%	7.00%	1.25%	3.25%
(Decrease) Increase	5.6%	(5.0%)	(0.7%)	0.8%

The cash outflow to pay the required annuity obligation is calculated using the above assumptions. The cash outflows in the next five years would be \$8.3 million, in the next 10 years \$13.3 million and in the next 30 years \$18.5 million.

10. Pension Obligations

The actuarial present value of pension obligations for the Defined Benefit Component of the Plan was determined using the projected benefit method prorated on service and management's best estimate assumptions of future investment performance, salary escalation, inflation, and future pension indexing.

An actuarial valuation for management purposes was performed as at December 31, 2017 by Aon Hewitt and they have extrapolated the results of that valuation to December 31, 2018 with interest, estimated service accruals and actual obligation payments for the purposes of these financial statements. Actuarial valuations for management purposes are performed annually.

An actuarial valuation for filing purposes was performed as at December 31, 2017 by Aon Hewitt and filed with the regulatory authorities. The next valuation to be filed will be required effective December 31, 2020.

The pension liability is based on a number of assumptions about future events including interest rates, rate of salary increases, inflation, mortality, retirement rates and termination rates. The major assumptions used in determining the actuarial present value of pension obligations for the Defined Benefit Component of the Plan are:

	2018	2017
Interest rate	6.00%	5.75%
Salary escalation	3.00%	3.00%
Inflation	2.25%	2.25%
Indexation of pensions	none assumed	none assumed
Mortality	CPM 2014 Private at 115% for males and 100% for females (projected generationally)	CPM 2014 Private at 115% for males and 100% for females (projected generationally)

Actual rates may vary significantly from the long-term assumptions used. The following illustrates the effect of changing certain assumptions from the assumed rates of salary of three per cent, interest rate of six per cent, indexing on pre-1999 benefits of zero per cent, and indexing on post-1998 benefits of zero per cent. The changes in assumptions are independent of one another.

Effect on Pension Obligation Liability						
	Salary		Interest Rate		Pension Indexing (pre 1999)	Pension Indexing (post 1999)
Assumptions	2.0%	4.0%	5.0%	7.0%	1.0%	1.0%
(Decrease) Increase	(2.7%)	3.0%	13.5%	(10.9%)	2.5%	7.3%

Because the Plan has a solvency deficiency, there is a requirement for a solvency deficiency holdback to be withheld from payouts of commuted value for a period of five years. Solvency deficiency holdbacks owing as of December 31, 2018 are a total of \$31.1 million (2017 - \$26.2 million).

11. Financial Risk Management

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

Significant financial risks are related to the Plan's investments. These financial risks are managed by having an investment policy, which is approved annually by the Commission. The investment policy provides guidelines to the Plan's investment managers for the asset mix of the portfolio regarding quality and quantity. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. Derivatives are allowed within the Plan to hedge against losses and substitute for direct investment. Public Employees Benefits Agency monitors compliance and reports on exceptions to the Commission through the quarterly Investment Monitoring Report.

Credit risk

Credit risk is the risk that one party does not pay funds owed to another party. The Plan's credit risk arises primarily from cash, accounts receivable and certain investments. The maximum credit risk to which it is exposed at December 31, 2018 is limited to the carrying value of the financial assets summarized as follows:

	(in thousands)	
	2018	2017
Cash	\$ 30,249	\$ 75,011
Accounts receivable	10,340	9,649
Fixed income investments ¹	309,747	290,550
Due from the General Revenue Fund	3,875	4,985
Equities under security lending	221,384	263,147

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

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

Accounts receivable are made up of employee and employer contributions receivable, accrued investment income, and other receivables. Employee and employer contributions receivable are generally received in less than 30 days. Accrued investment income is received on the next scheduled payment date, generally either annually or semi-annually. Proceeds from the sale of an investment will normally be received two days after the trade date.

Credit risk within investments is primarily related to short-term investments and bonds. It is managed through the investment policy that limits fixed term investments to those of high credit quality (minimum rating for bonds, BBB unless otherwise permitted within specific investment manager mandate, and for short-term investments is A2/P2) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit ratings for bonds are as follows:

	(In thousands)			
	2018		2017	
Credit Rating	Fair Value	Makeup of Portfolio (%)	Fair Value	Makeup of Portfolio (%)
AAA	\$63,090	22.73	\$43,156	16.02
AA	60,748	21.89	67,186	24.95
A	59,156	21.31	84,325	31.31
BBB	94,563	34.07	74,674	27.72
Total	\$ 277,557	100.00	\$ 269,341	100.00

Within bond investments, there are no holdings from any one issuer (other than the Government of Canada or a Canadian province) over 8.95 per cent (2017 – 9.43 per cent) of the market value of the combined bond and short-term investment portfolios. There are no provincial bonds as of December 31, 2017 and December 31, 2018.

The Plan is also subject to credit risk through its use of derivative contracts. Credit risk is limited to the positive replacement cost (fair value) of the instruments as this represents the cost to replace these contracts at prevailing market rates if a default occurred. The contracts are entered into between the Plan and approved counterparties. Derivative instruments, other than those regularly traded on public exchanges, must be arranged with counterparties that have a minimum credit rating of two of the following ratings: A3 from Moody's or A- from Standard & Poor's or A- from Fitch.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Plan is exposed to changes in interest rates in its fixed income investments, including short-term investments and bonds. Duration is a measure used to estimate the extent market values of fixed-income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point increase in interest rates would decrease net assets available for benefits and surplus by \$76 million at December 31, 2018 (2017 - \$73 million); representing nine per cent of the \$844 million fair value of fixed-income investments. Conversely, a decrease in interest rates of 100 basis points would increase net assets available for benefits and surplus by \$76 million at December 31, 2018 (2017 - \$73 million); representing nine per cent of the \$844 million fair value of fixed income investments.

Foreign exchange

The Plan is exposed to changes in the U.S./Canadian dollar exchange rate through its U.S. denominated investments and investment in private markets (includes private equity and infrastructure). Also, the Plan is exposed to non-North American currencies through its investment in non-North American equity pooled funds and investment in private markets.

The exposure to both U.S. public equities and non-North American public equities, including the pooled equity funds, is limited from a minimum of 19 per cent to a maximum of 41 per cent of the market value of the total investment portfolio. At December 31, 2018, the Plan's exposure to U.S. equities was 16.7 per cent (2017 – 18.4 per cent) and its exposure to Non-North American equities was 11.2 per cent (2017 – 12.3 per cent).

In addition, at December 31, 2018 the Plan's exposure to private markets was 15.80 per cent (2017 – 11.5 per cent).

At December 31, 2018, a 10 per cent change in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a \$52.40 million (2017 - \$43.8 million) change in the net assets available for benefits. A 10 per cent change in the Canadian dollar versus the Non- North American currencies would result in approximately a \$20.9 million (2017 - \$19.9 million) change in net assets available for benefits.

The Plan's exposure to exchange rate risk resulting from the purchase of goods and services is not considered material to the operations of the Plan. The Plan has mitigated its exposure to foreign exchange through the use of derivatives as explained in Note 5. As at December 31, 2018, the Plan's exposure net of derivatives is \$720 million (2017 – \$632 million). A 10 per cent change in the exchange rate would equate to a net change of \$72 million (2017 – \$63.2 million).

Equity prices

The Plan is exposed to changes in equity prices in Canadian, U.S. and non-North American markets. Equities comprise 41.9 per cent (2017 – 45.8 per cent) of the carrying value of the Plan's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee represents greater than 10 per cent of the market value of the Plan. As well, no one holding represents more than 30 per cent of the outstanding share issue of any corporation.

The following table indicates the approximate change that could be anticipated for both the increase and decrease in net assets available for benefits based on changes in the Plan's benchmark indices at December 31, 2018:

	(in thousands)	
	10% increase	10% decrease
Canadian Equities	\$34,610	\$(34,610)
U.S. Equities	41,199	(41,199)
Other Foreign Equities	27,566	(27,566)

Securities lending

At December 31, 2018, no Plan assets have been deposited or pledged as collateral as part of the securities lending strategy. As part of the Plan's securities lending strategy, collateral has been pledged to the Plan by various counterparties for securities out on loan to the counterparties. At December 31, 2018, the total amount of collateral pledged to the Plan amounted to \$241 million (2017– \$292 million). Security lending obtains collateral of at least 102 per cent of the market value of the securities lent. Such loans must be secured by readily marketable government bonds, treasury bills and/or letters of credit, discount notes and banker's acceptances of Canadian chartered banks (See Note 4).

Private Equity Risk

Risk in private equity investments is managed through diversification across sectors and geographic regions. Adverse impacts in any one sector of the market or geographic location are minimized by having holdings diversified across sectors, geographic location and investment size.

Infrastructure Investment Risk

Risk in infrastructure investments is managed through diversification across sectors and geographic regions. Adverse impacts in any one sector of the market or geographic location are minimized by having holdings diversified across property type, geographic location and investment size.

Real Estate Risk

Risk in real estate investments is managed through diversification across geographic location within Canada and property type. Adverse impacts in any one geographic location are minimized by having holdings in other locations and property types.

Liquidity risk

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

The Plan's future obligations include the Plan's accrued pension obligation and other contracts the Plan may enter that give rise to commitments of future outflows of cash. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions and by investing in liquid assets that are easily sold and converted into cash.

12. Administrative Expenses

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

	(in thousands)	
	2018	2017
Audit fees	\$ 64	\$ 35
Actuarial fees	150	156
Administration costs	6,823	6,078
Custodial fees	181	186
Investment base fees	13,443 *	10,835
Performance fees	11,944	8,766
	<u>\$ 32,605</u>	<u>\$ 26,056</u>

* Included in the investment manager fees is a negative \$0.04 million which is a previous year accrual reversal from a closed investment manager account (TD Asset Management, Inc.). Total investment manager fees and total administrative expenses, excluding this accrual reversal, is \$13.48 million and \$32.64 million respectively.

13. Related Party Transactions

All Government of Saskatchewan agencies such as ministries, corporations, boards and commissions are related to the Plan by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control or significant influence by the Government of Saskatchewan are collectively referred to as "related parties". Costs charged by the Public Employees Benefits Agency Revolving Fund in administering the Plan are reflected in these financial statements.

The Plan has an accounts payable balance as at December 31, 2018 of \$0.8 million (2017 – \$0.9 million) due to the Public Employees Benefits Agency Revolving Fund.

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

Account balances resulting from the above transactions are included in the Statement of Financial Position and are settled at agreed upon exchange rates.

14. Capital Management

The Plan receives new capital from employee and employer contributions. The plan also benefits from income and market value increases on its invested capital. The Plan's capital is invested in a number of asset classes including equities, fixed-income, infrastructure, private equity and short-term investments. The Commission has delegated the operational investment decisions to a number of different investment management firms through a number of different investment mandates as defined in the Plan's Statement of Investment Policy and Procedures.

15. Investment Performance

The investment managers make day-to-day decisions on whether to buy or sell investments in order to achieve the long-term performance objectives set by the Commission. The Commission reviews the investment performance of the Plan in terms of the performance of the benchmark portfolio over four-year rolling periods. The Plan's primary objective is to grow at a rate which exceeds the growth of the Plan's liabilities

The following is a summary of the Plan's investment performance:

	2018	
	Annual Return	Rolling Four Year Average
Plan's actual rate of return before deducting investment and administration expenses	1.4%	6.5%
Benchmark	-1.0%	5.3%

16. Contingencies

A union representing participating employees has applied by Notice of Motion, which also names several participating employers, for an order quashing purported decisions of the Commission relating to the application of actuarial surplus in the fund, as well as other relief. It is not possible to estimate the potential effect of the claim at this stage in the proceedings.

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