Government of
Saskatchewan

2005 – 2006
Annual Report

Public Employees
Pension Board

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This annual report is available in electronic format at http://www.peba.gov.sk.ca/pepphome.htm.

Letter of Transmittal

Saskatchewan
Finance

Her Honour, The Honourable Dr. Lynda M. Haverstock
Lieutenant Governor of the Province of Saskatchewan
Government House
4607 Dewdney Avenue
REGINA, SASKATCHEWAN

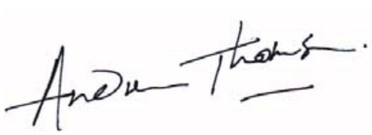
Dear Madam:

Letter of Transmittal

I have the honour to transmit herewith the 29th Annual Report of the Public Employees Pension Board for the fiscal year ended March 31, 2006.

I have the honour to be, Madam,

Your obedient servant,



Andrew Thomson
Minister Responsible
Public Employees Pension Plan

Letter of Transmittal

PEPP Public Employees Pension Plan

The Honourable Andrew Thomson
Minister Responsible
Public Employees Pension Plan
REGINA, SASKATCHEWAN

Sir:

Letter of Transmittal

On behalf of the Public Employees Pension Board, I have the honour to present herewith the 29th Annual Report of the Public Employees Pension Board for the fiscal year ended March 31, 2006.

Respectfully submitted,

Kenneth R. Horsman
Board Chair

Chair’s Comments

During the past year, the Public Employees Pension Board (PEPB) has directed its efforts to initiatives that were identified by members when they responded to the member survey in 2004-2005. These initiatives, detailed in this report, provide for the implementation of the payment of pension from PEPP (the Variable Pension (VP) Benefit), the provision of online access for members to their accounts, the provision of online retirement planning tools and the introduction of expanded investment choice.

The August 2005 conversion to a new pension administration system was the first major accomplishment in this direction and represents the platform for achieving the members’ initiatives. Over the next 12 to 18 months other new programs will be made available to members.

Early in 2006–2007 the *VP Benefit* will be introduced, which will allow members of PEPP to keep their funds in PEPP and receive a monthly pension. Later in 2006, PEPP will introduce an online tool to let members access their pension account data and use it for retirement planning. The retirement planning tools will support members’ as they plan for their retirement. Finally, expanded investment choice for members is to be introduced in 2007–2008.

These initiatives not only position PEPP to meet members’ needs, they also allow PEPP to comply with the Guidelines for Capital Accumulation Plans. These Guidelines reflect the expectations of regulators regarding the operation of capital accumulation plans such as PEPP.

Members may also notice that this Annual Report has added more detailed reporting; similar to changes that began with the 2004–2005 Report. The PEPP Annual Report now more closely aligns with Canadian Comprehensive Auditing Foundation (CCAF) reporting principles. The new format is one of the methods the Board is using to provide greater accountability to PEPP members. We will continue to work to improve our reporting to members.

I am also pleased to report that at the same time as these new programs are improving services to Plan members; the Board’s 2005–2006 investment strategy effectively balanced risk and return to provide members invested in the Balanced Fund a 14.2% gross rate of return. Further, the Short-term Bond Fund continued to preserve member’s capital with at 2.2% gross rate of return.

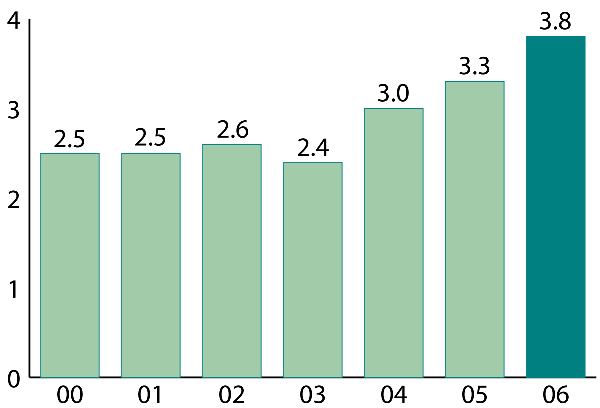
In closing, I am able to report that the investment and administration fees for 2005–2006 were 0.293% of average net assets for the Balanced Fund. While bringing on new programs and ensuring that PEPP meets member needs and industry standards, the Board monitors this indicator continually to ensure that PEPP is both effective and efficient.

On behalf of all members of the Public Employees Pension Board, I present the 2005–2006 Annual Report of the Public Employees Pension Plan.

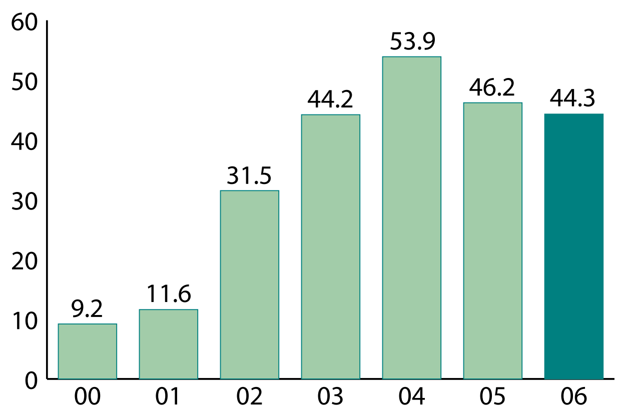
Kenneth R. Horsman
Board Chair

2005 – 2006 Financial Highlights

NET ASSETS BALANCED FUND
As at March 31
Market Value ($ Billions)



NET ASSETS SHORT-TERM BOND FUND
As at March 31
Market Value ($ Millions)



FUND PERFORMANCE (Before Fees)
Annualized Returns (%) at March 31, 2006

	1 YEAR	2 YEAR	3 YEAR	4 YEAR	5 YEAR	10 YEAR
Balanced Fund	14.2	11.1	15.7	8.2	7.7	9.8
Fund Benchmark	15.2	10.8	15.7	7.8	7.0	8.8
Short-term Bond Fund	2.2	2.6	4.3	5.0	5.0	N/A
Fund Benchmark	2.2	2.5	4.2	4.9	5.0	N/A

Annual Returns (%) at March 31

	2006	2005	2004	2003	2002	2001	2000
Balanced Fund	14.2	8.1	25.3	-11.5	5.9	-0.2	15.5
Fund Benchmark	15.2	6.5	26.2	-12.7	3.6	-5.0	16.8
Short-term Bond Fund	2.2	3.0	7.9	6.8	5.1	8.3	4.1
Fund Benchmark	2.2	2.7	7.8	6.9	5.6	8.8	3.1

INVESTMENT AND ADMINISTRATION COSTS

	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00
Balanced Fund ($ Thousands)	10,343	9,124	8,090	5,851	5,830	5,528	5,200
Fees (%)	0.293	0.289	0.300	0.234	0.229	0.223	0.226
Short-term Bond Fund ($ Thousands)	113	122	102	70	44	34	17
Fees (%)	0.249	0.244	0.208	0.185	0.204	0.326	0.192

Introduction

PEPP is governed by *The Public Employees Pension Plan Act.* That Act establishes the Public Employees Pension Board as Plan Trustee.

PEPP is a defined contribution pension plan that provides a benefit at retirement to individual members. Benefits are affected by any income or losses resulting from the Plan's investments, and by expenses associated with the administration of the pension plan.

PEPP has more than 100 participating employers and more than 43,000 members. Participating employers include the Government of Saskatchewan, some Crown corporations, agencies, boards and other institutions.

Public Employees Pension Board

The Public Employees Pension Board (the Board) consists of nine members, with four members appointed on behalf of employers and four members appointed on behalf of employees.

The Chair is chosen and appointed by the members of the Board for a three-year term through an external recruitment process.

PEPP Board Purpose, Mission and Goals

Purpose

The purpose of the Public Employees Pension Plan is to provide retirement assets to its members.

Mission

The Board's mission as the Plan Trustee is to manage the fund assets and plan expenses solely in the best interest of the members.

Goals

The Board's goal is to ensure all Plan members are well-informed about the Plan and the choices they have to make within the Plan.

Public Employees Pension Board Members at March 31, 2006

Kenneth R. Horsman — Chair

Appointed on behalf of Employers

Name	Position	Appointed By
Grant Ring	Vice-Chair	SaskEnergy, SaskPower & SaskTel
Dennis Karakochuk	Member	Saskatchewan Crop Insurance Corporation, Workers' Compensation Board & Saskatchewan Cancer Foundation
Denise Macza	Member	Public Service Commission
William (Bill) Marr	Member	Saskatchewan Institute of Applied Science and Technology & Saskatchewan Liquor and Gaming Authority

Appointed on behalf of Employees

Name	Position	Appointed By
Pat Field	Member	Communications, Energy and Paperworkers Union of Canada
Michael Friebe	Member	Canadian Union of Public Employees Local 600
Dan MacKay	Member	Saskatchewan Government and General Employees' Union
Kirby Sanden	Member	International Brotherhood of Electrical Workers Local 2067

Strategic Initiatives

In 2003-2004, the Board adopted a multi-year strategic plan outlining the PEPP Board's strategic initiatives through fiscal 2005–2006. That strategic plan set out initiatives and activities for the planning period within five major categories: communications, plan governance, accountability, value-added services, and responsiveness.

A 2005-2006 Board strategic plan review outlined the PEPP Board's strategic initiatives through fiscal 2008–2009. That plan sets out initiatives and activities for the planning period within four major categories: communications; plan governance; accountability; and service design and delivery.

Communications

In 2004, the PEPP Board informed members about forthcoming PEPP *Access* initiatives such as conversion to a new pension administration system, introduction of a new variable pension benefit option, as well as the introduction of additional investment choices for members.

PEPP *Access* is the project to replace the pension administration system and review administration processes. Members were also informed that PEPP would strive to provide more timely information to members on the value of their accounts. The Board's comprehensive communications plan, supporting those initiatives, is being completed in phases throughout the 2006-2007 planning period.

Planning for communications includes exploring other methods to increase member awareness and to make the best use of available communication tools.

Communications Activities 2005–2006

- The communications plan is being followed on a phased-in basis. The Board has approved the plan; progress is reported. The plan details implementation of PEPP *Access*, analysis and evaluation of communications tools, analysis of members' needs, identification of resources and costs of implementation.

- Continue to implement the communications plan.

  A number of activities spoke to the 2004 communications audit conducted by Watson Wyatt Worldwide. Member statements were provided to members at the time of conversion to the new pension administration system. Member statements were re-designed in 2005-2006 for conversion. That design will be carried forward for semi-annual statements.

  In May 2005 the Public Employees Benefits Agency (PEBA) created a refreshed website. The website has a new design. PEPP information is now more logically placed.

  There is now a more distinctive PEPP visual identity. Branding for PEPP and for various communication tools is now more strongly established.

  A communications strategy highlighted conversion to a new pension administration system. The strategy had an external communications component (members) and an internal component (PEBA staff).

Communications Strategic Initiatives 2006–2007

In 2006-2007, the Board will conduct the first annual assessment of progress made in implementing the plan. An assessment will be carried out building on the analysis and actions arising from the Watson Wyatt Worldwide communications audit. The assessment will determine if PEPP communications materials now better meet needs and support objectives. The assessment will consider measures taken to improve readability, tone, and clarity of messages, and image and visual aspects.

Strategic Initiatives

Plan Governance

An effective governance system is a good method of overall risk management. Controlling legal and other risks facing the Board is one of the benefits of good practices.

For the fiscal year ending March 31, 2006, the Board completed a self-assessment in accordance with the Canadian Association of Pension Supervisory Authorities' Pension Plan Governance Guidelines. The self-assessment assists Board members in assessing their oversight of the Plan. The Board recognizes it needs to take steps to address issues in access to information and in transparency and accountability. The Board self-assessment questionnaire is available through the PEPP home page on the PEBA website.

The Board continued with its education programs ensuring Board members have opportunities to enhance their qualifications and knowledge in managing the Plan in the best interests of Plan members. This includes an orientation program for new Board members, an on-going developmental program and a continuing education program based on legislative and pension issues. The Board budgets $5,000 per year per Board member to cover the registration fees for education events (*refer to Table 1.1 on page 9*).

During the year the Board reviewed and approved its investment policies for the Balanced Fund and Short-term Bond Fund. The policy for late processing of member transactions was updated to reflect the proper unit value in order to process the transactions in light of the introduction of unitized investment funds. The Board approved a prioritization plan for the development of written Board and administrative policies. Development of the policies will be carried out in upcoming years.

Governance Activities 2005–2006

In 2005-2006, the Board reviewed its strategic business plan and approved these broad strategic initiatives for 2005-2006 through 2008-2009:

- development of a communications strategy that supports the Plan's members' needs and the Board's strategic objectives;
- continuing to implement and maintain its governance program;
- maintaining a strong focus on accountability, the basis of which is the establishment of measurable objectives and the monitoring of progress against these objectives; and
- identifying, assessing and, where appropriate, finding opportunities to add value to the services the Plan provides to its members.

Annual assessment of the plan governance program was conducted.

The Board adopted, as applicable to the Public Employees Pension Plan, the finalized Saskatchewan Finance Privacy Code. The Board approved an outline and prioritization for the development of written board and administrative policies.

Governance Strategic Initiatives 2006–2007

- Perform annual internal review of Plan's compliance with Capital Accumulation Plan (CAP) Guidelines.
- Performance reviews of service providers are to be reported to the Board.
- Policy development and progress reporting.

Seminars, Courses and Other Events Attended by Board Members in 2005 – 2006		
Board Member	**Education Events Attended**	**Registration Fees**
Pat Field	– Investment Basics (James P. Marshall) – Pension Investment Management School (Mercer/Russell) – Capital Accumulation Plan Guidelines (CPBI[1]) – Basic Trustee Development Program (Humber College) – Pension Basics (CPBI) – Annual Pension Information Session (PEBA)	$2,925
Michael Friebe	– Investment Basics (James P. Marshall) – Sharing of Knowledge Learning Series: Income Trusts and Overlay Strategies (TD Asset Management) – Pension Investment Management School (Mercer/Russell) – Capital Accumulation Plan Guidelines (CPBI) – Basic Trustee Development Program (Humber College) – Annual Pension Information Session (PEBA)	$3,260
Kenneth R. Horsman	– Pension Investment Management School (Mercer/Russell) – Capital Accumulation Plan Guidelines (CPBI) – Annual Pension Information Session (PEBA)	$2,740
Dennis Karakochuk	– Investment Basics (James P. Marshall) – Pensions Summit: New Thinking, New Strategies (Conference Board of Canada) – Pension Investment Management School (Mercer/Russell) – Annual Pension Information Session (PEBA)	$4,175
Dan MacKay	– Pension Investment Management School (Mercer/Russell) – Capital Accumulation Plan Guidelines (CPBI)	$2,740
Denise Macza	– Pensions Summit: New Thinking, New Strategies (Conference Board of Canada) – Annual Pension Information Session (PEBA)	$1,675
William (Bill) Marr	– Investment Basics (James P. Marshall) – Western Conference (CPBI) – Adverse Experiences with WCB (Canadian Pension and Benefits Institute) – Pension Tension: Shrinking Workforce, Long-lived Retirees, Modest Returns (CPBI)	$1,415
Grant Ring	– 2nd Annual Asset Allocation Strategy Summit (Federated Press) – Pension Investment Management School (Mercer/Russell) – Annual Pension Information Session (PEBA) – Marcus Evans Conference (Marcus Evans)	$2,700
Kirby Sanden	– Annual Pension Information Session (PEBA)	

[1] Canadian Pension and Benefits Institute

Table 1.1

Accountability

During the past year, the Board continued to work with its service providers to develop plan management standards, to put mechanisms in place to enable the Board to monitor those standards, and to identify and implement ways to improve the transparency of plan operations.

Meyers Norris Penny LLP conducted an audit upon completion of the pension administration system conversion. In summary:

- The controls in place around the conversion of data from the old administration system to the new system were appropriate and complete;
- The planned conversion controls conducted during the actual conversion process were effective and successful in ensuring a complete and accurate conversion; and
- The conversion process resulted in an accurate conversion of data from the old system to the new system.

The Board recognizes protection of personal information is a concern for the Plan's members. The Board's contract with PEBA, the Board's day-to-day service provider, includes provisions for the protection of privacy and, in 2005-2006, the Board adopted as applicable to PEPP, the finalized Saskatchewan Finance Privacy Code.

Accountability Activities 2005–2006

- Meyers Norris Penny conducted an audit upon completion of the PEPP *Access* system conversion.
- The PEPP Annual Report format was revised to more comprehensively reflect the PEPP Board accountability initiatives and Canadian Comprehensive Auditing Foundation (CCAF) reporting principles.

Accountability Strategic Initiatives 2006–2007

- Develop framework and reporting mechanisms for evaluation of key plan activities.
- Reporting on performance objectives and benchmarks specified in the Statement of Investment Policies and Goals (SIP&G).
- Ensure audit of the Plan is carried out in a timely manner.

Value-Added Services

Plan members told the Board, through the survey and focus groups conducted during 2004-2005, they would welcome additional services.

A majority of survey respondents indicated they would like to see fees for administering the PEPP remain low. Some members indicated they would not support an overall fee increase but would prefer a fee-for-service structure. The survey revealed many members are confused about fees. The Board has made a commitment to clarify this issue by providing additional fee information to PEPP members.

The previous pension administration system was limited in its ability to accommodate changes such as the addition of new services. In 2004, the Board launched PEPP *Access*, its plan to replace the existing pension administration system and to review PEPP's administration processes in a phased approach. The first phase of PEPP *Access* was the conversion of the system to express account balances as a number of units. This transition occurred in August 2005.

Online, web-based tools will be introduced in 2006-2007 allowing members to access current balances, complete their own transfers between funds and conduct retirement planning for themselves.

Strategic Initiatives

In 2005 the Board undertook introduction of retirement planning tools. The focus of this initiative is the provision of online services to support retirement planning and investment information. Provision of online investment information is an important step in complying with the Capital Accumulation Plan (CAP) Guidelines.

Another major Board value-added initiative is the payment of pension benefits from the Fund. This variable pension benefit is similar to a Prescribed Registered Retirement Income Fund. Members will benefit from an additional retirement income option. The Board approved the design of the Variable Pension (VP) Benefit as presented at its September 2005 meeting. The Board requested *The Public Employees Pension Plan Regulations* be amended to include the *VP Benefit* as a prescribed pension benefit.

Value-Added Activities 2005–2006

- The Board approved the design of the *VP Benefit* and consulted with the Saskatchewan Superintendent of Pensions and with the Canada Revenue Agency to ensure the design was consistent with all applicable legislation and regulations.
- The Board retained a service provider through a Request for Proposal process for the provision of web-based retirement planning tools.

Responsiveness

The Board is committed to ensuring PEPP provides choices that meet member needs. The Board wants PEPP to be responsive to employers' human resource policies and priorities.

Almost half the participants in the 2004-2005 survey and focus groups stated they would like to be able to invest their contributions in more than two funds. The Board decided to add additional investment choices to the Plan.

Current choice allows members to increase the bond portion of their portfolio but members do not have the opportunity to increase the equity portion of their portfolio or to otherwise adjust their investment mixes. The Board is confident the introduction of additional investment choices will accommodate those opportunities.

Responsiveness Activities 2005–2006

- In May 2005 the Board approved an initiative to add investment options for members of the Plan.
- In December 2005 the Board approved an implementation plan pending budget approval which was given in March 2006.
- In February 2006 the Board approved an appropriate asset mix for each of the various proposed investment options.

Strategic Initiatives

Service Design and Delivery

Starting April 1, 2006, the Value-Added Services and Responsiveness categories will be combined into the single category of Service Design and Delivery to reflect the Board's revised Strategic Business Plan.

The Board is determined to identify, assess and where appropriate, implement opportunities to add value to the services the plan provides to its members. The Board recognizes the importance of ensuring that plan design and delivery provide enough choice to meet plan member needs and are responsive to human resources policies of employers.

Service Design and Delivery Strategic Initiatives 2006–2007

- Develop methods and measures for "take-up" rate of new and existing services being offered under the Plan:
  - variable pension benefit
  - retirement planning tools
  - investor profile questionnaire
  - investment choice
  - return of funds to the Plan by former members
- Monitor and report attendance at Plan member information sessions.
- Develop method(s) for collecting Plan member feedback on selected service events and information and decision-making tools.
- Introduce investment choice.

Risk Management

The Board is responsible for managing risks that could negatively affect the operation of the pension plan, the Plan's members and other stakeholders. Through its strategic planning and risk management process, the Board identifies and evaluates such risks and ensures appropriate strategies are in place to manage risk.

Annually the Board conducts a risk assessment review. To complete this review the Board will:

- Review the risk management performance for the previous year and progress made with respect to annual goals;
- Identify and assess the impact and probability of key plan risks;
- Establish the risk management strategies for the current year and identify any specific goals for the year.
- The outcomes of this review will be included as necessary in revisions to the Board's risk management processes.

Following are significant risks the pension plan faces and strategies and initiatives in place to manage these risks.

Risk: Financial

Identified Risks

- Inadequate performance of assets
- Excessive costs/expenses

Risk Management Strategies

- Development/implementation of the Statement of Investment Policies & Goals (SIP&G)
- Annual review of the SIP&G
- Communicate investment performance
- Independent monitoring
- Benchmarking
- Annual budgeting

Activities 2005–2006

- The Board approved the SIP&G for both the Balanced Fund and the Short-term Bond Fund in April 2005.
- The Board received quarterly reports from the custodian and its investment consultant about investment manager compliance with each fund's SIP&G.
- Posting of the rates of return for both the Balanced Fund and the Short-term Bond Fund to the PEPP website based on year-to date, one-year, two-year, three-year, four-year, five-year and 10 year time frames . This more closely reflects industry-wide practices.
- The Board received a report comparing the administrative costs for public sector pension plans including other public sector defined contribution pension plans in January 2006.
- The Board approved its operating budget for 2006–2007 in March 2006.

Initiatives 2006–2007

The Board is introducing additional investment choices for members of the Plan. Progress on introducing this initiative will continue through 2006-2007.

Risk Management

Risk: Service Provider Failures

Identified Risks

- Inadequate performance of service providers
- Service provider failures

Risk Management Strategies

- Annual budget setting and monitoring
- Establishment of performance measures and annual review
- Two levels of audit
- Selection process and criteria
- Key service providers are to have disaster recovery plans

Activities 2005–2006

- The Board received quarterly administration reports outlining year to date expenditures.
- The Board received quarterly reports from its investment consultant regarding the performance of the funds managed by the investment managers retained by the Board.
- In April 2005, the Board approved the evaluation of its investment consultant.
- The Board reviewed PEBA's semi-annual evaluation of the fund custodian in April and September 2005.
- The Board received the PEPP System Conversion Audit Findings Report provided by Meyers Norris Penny in January 2006.
- In June 2005 the Board received a report regarding the disaster recovery plans of its service providers. There will be follow up with the service providers who do not have recovery plans.

Initiatives 2006–2007

The Board will be reviewing alternative methods of obtaining an independent evaluation of the services PEBA is providing to the Board.

Risk: Compliance with Legislative and Common-Law Requirements

Identified Risks

- Non-compliance with legislative requirements
- Failure to meet fiduciary obligations

Risk Management Strategies

- Independent investment monitoring
- Board's administrator (PEBA) annually reviews and reports compliance with legislative requirements
- Two levels of audit
- Board Charter and Code of Conduct
- Training and development policy for Board members
- Annual strategic planning and business planning process
- Periodic Checklist
- Practice of accessing legal advice
- Practice of retaining service providers who are experts in their areas of responsibility
- Ensuring initiatives and Plan related activities are adequately funded through the budgeting process

Risk Management

Activities 2005–2006

- The Board received quarterly reports from the fund custodian and its investment consultant about investment manager compliance with its SIP&G.
- In June 2005 the Board received a comprehensive update (periodic checklist) respecting the Plan's compliance with legislative and common-law requirements for the year ending March 31, 2005.
- The Board received the PEPP System Conversion Audit Findings Report from Meyers Norris Penny in January 2006.
- In February 2006 the Board approved the audit plan for the Plan's financial statements for the year ending March 31, 2006.
- The Board reviewed and approved its Code of Conduct and Conflict of Interest Procedures document in September 2005. It was amended to require the document to be reviewed and updated or affirmed on at least an annual basis.
- The Board amended its annual per member education allowance to be exclusive of travel and other expenses against the limit so the limit now only includes registration/ enrolment fees.
- Throughout the year, the Board received notification of education events and other relevant sessions that were taking place.
- In January 2006 the Board adopted a new strategic business plan to continue through fiscal 2008-2009.

Initiatives 2006–2007

The Board will continue to receive updates with respect to the Plan's compliance with all legislative and common-law requirements on a semi-annual basis. Implementation of the new strategic business plan will commence.

Risk: Communications

Identified Risks

- Members do not understand the role of the pension plan in the attainment of their retirement objectives
- Members and employers unaware of rights and obligations

Risk Management Strategies

- Development/implementation/review of the Strategic Communications Plan
- Enhanced information services (e.g., retirement planning)
- *Pension Perspectives* and web-based retirement planning tools
- Member and employer seminars
- Employer Bulletins
- Employer Administration Guide
- Presentation of information on website
- Member booklet and other written material

Risk Management

Activities 2005–2006

- Four overview information sessions were conducted with Plan members.
- Three issues of *Pension Perspectives* were issued in 2005-2006 (May 2005, September 2005 and February 2006).
- An Employer Administration Guide was completed in early 2006. PEBA conducted *Lunch and Learn* roll-out sessions in Regina, Saskatoon and Prince Albert with employers in March 2006 and provided the guides. The guides were then mailed to remaining employers.
- In May 2005 a re-designed website for PEPP was posted. The website has a new look; a more logical flow for placement of documents and reduced content repetition.

Initiatives 2006–2007

During 2006-2007, the Board will create communications strategies for unveiling retirement planning tools and additional investment choices. These strategies will include adding information to the Plan's website.

The Board will continue to follow its strategic communications plan in 2006-2007 and will obtain a third party evaluation of its communications activities.

Risk: Plan Design

Identified Risks

- Failure to meet Plan members' needs
- Failure to meet employers' needs

Risk Management Strategies

- Consult with Plan members on a regular basis to determine needs
- Consult with employers on a regular basis to determine needs

Activities 2005–2006

- In 2005-2006 the Board approved the procurement of retirement planning tools and the appointment of a service provider for the implementation and integration of those tools with the Plan's pension administration system.
- In May 2005 the Board approved the additional investment choices to be offered to members of the Plan. The Board began taking steps to introduce these choices including the subsequent approval of:
  - o an implementation plan for the project;
  - o a budget for the project; and
  - o an asset mix for the proposed investment options and a valuation approach.

Initiatives 2006–2007

Online retirement planning tools will be made available to Plan members. Work on the introduction of additional investment choices will continue in 2006-2007.

Investments

Overview

One of the critical aspects of the Public Employees Pension Plan is the investment of the Plan assets. To facilitate this, the Board has adopted a Statement of Investment Policies and Goals (investment policy) for the Balanced Fund and the Short-term Bond Fund. These policies, which can be found on the PEBA website under PEPP, outline:

- Investment and Risk Philosophy
- Asset Mix and Diversification Policy
- Permitted and Prohibited Investments
- Monitoring and Controls
- Selecting and Terminating Investment Managers
- Rate of Return Benchmarks for each fund
- Rate of Return Benchmarks for each investment manager by asset class
- Conflict of Interest Guidelines

These policies guide the Board in carrying out their duties as it pertains to investment of the Plan assets for both funds.

This section outlines some of the investment highlights for the two investment options available to Plan members, the Balanced Fund and the Short-term Bond Fund.

The rates of return used in outlining investment highlights exclude fees. This allows for a valid comparison to benchmarks.

Balanced Fund

The goal of the Balanced Fund is to provide long-term growth. To accomplish this, the Board, in consultation with its investment consultant, James P. Marshall, a Hewitt Company, set the investment policy for the Balanced Fund to include a mix of equities, bonds, real estate, mortgages and short-term investments.

Overall, the Balanced Fund provided a return of 14.2% for the year ending March 31, 2006, which underperformed the benchmark by 1.0 percentage point. Over the past four years, the Balanced Fund provided a return of 8.2% which outperformed the benchmark by 0.4 percentage points.

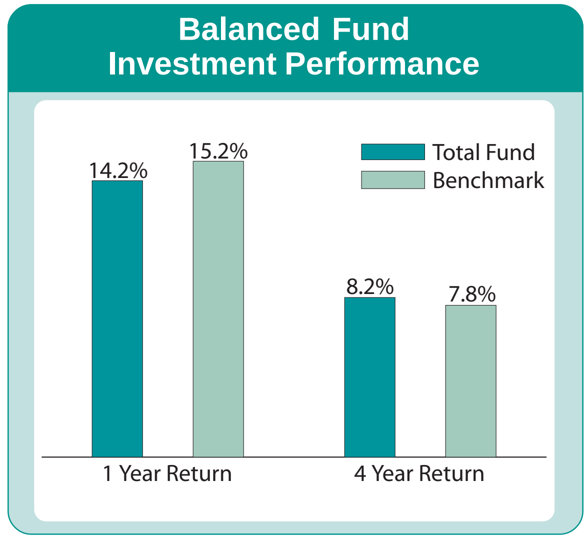


Figure 1.1

The market value of the assets of the Balanced Fund at March 31, 2006 was $3,755,342,000. The following was the asset mix for the Balanced Fund:

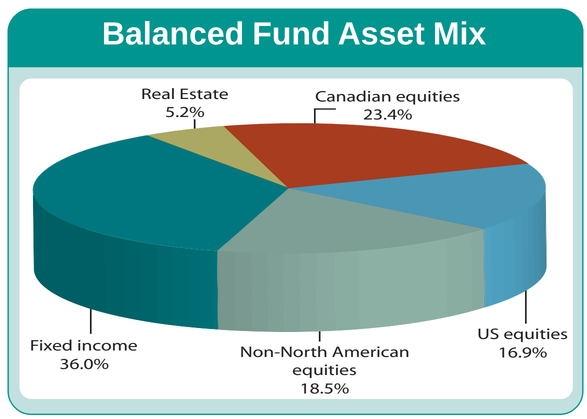


Figure 1.2

Investment Objectives

Plan Benchmarks by Asset Class

Asset Class	Class Market Index	Minimum Investment	Benchmark Investment	Maximum Investment
Canadian equities	S&P/TSX CPMS Cap 10	10%	**15%**	20%
Canadian small cap equities	Nesbitt Burns Small Cap Index	3%	**5%**	7%
US equities	Standard & Poor's 500 Index	10%	**15%**	20%
US mid cap equities	Standard & Poor's 400 Index	3%	**5%**	7%
Non-North American equities	Morgan Stanley, Europe Australia and Far East Index	16%	**20%**	24%
Canadian bonds	SC Universe Bond Index	27%	**35%**	43%
Real estate	Investment Property Databank Index	0%	**5%**	7%
Short-term investments	91 Day T-Bills	0%	**0%**	20%
			100%	

Table 1.1

43,902 members of the Plan participated in the Balanced Fund in 2005–2006. The primary long-term investment performance objective for the combined portfolio is to outperform a benchmark portfolio constructed as described in *Table 1.1* over a four-year period.

The Board retains seven investment managers to invest the assets of the Balanced Fund. Five of the managers (Greystone Managed Investments Inc., Franklin Templeton Investments, Tweedy, Browne Company LLC, AMI Partners Inc. and Hansberger Global Investors) use an "active" investment management style. The objective set for these managers is to out-perform the market index against which their performance is judged. TD Asset Management and Northwater Capital Management Inc. are "passive" managers. The objective for these managers is to match the index return relevant to their mandate.

The asset classes are managed by each of the investment managers as described in *Table 1.2*.

As at March 31, 2006, the investment managers invested portions of the portfolio as shown in *Figure 1.3*.

Investment Manager Mandates

Investment Manager	Mandate
Greystone Managed Investments Inc.	Canadian equities US equities Canadian bonds Real estate
TD Asset Management	Canadian equities US equities Canadian bonds
AMI Partners Inc.	Canadian small cap equities
Northwater Capital Management Inc.	US mid cap equities
Hansberger Global Investors	Non-North American equities
Franklin Templeton Investments	Non-North American equities
Tweedy, Browne Company LLC	Non-North American equities

Table 1.2

Investment Manager Mix

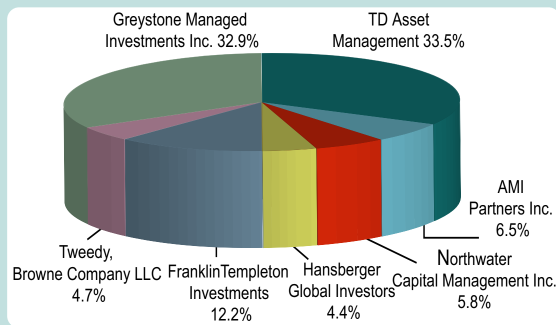


Figure 1.3

Fund Performance

Canadian Equity Managers

Greystone Managed Investments actively manages Canadian equities and is measured against the S&P/TSX CPMS Cap 10 Index. Greystone returned 30.0% for the year ending March 31, 2006, outperforming the benchmark by 1.6 percentage points. Over the four year period ending March 31, 2006, Greystone returned 14.9% on an annualized basis, outperforming the benchmark by 1.4 percentage points.

TD Asset Management passively manages Canadian equities and is measured against the S&P/TSX Composite Index. For the year ending March 31, 2006, TD Asset Management provided a return of 28.3% underperforming the benchmark by 0.1 percentage points. For the four year period ending March 31, 2006, TD Asset Management provided an annualized return of 13.6% compared to the benchmark which provided a return of 13.5%.

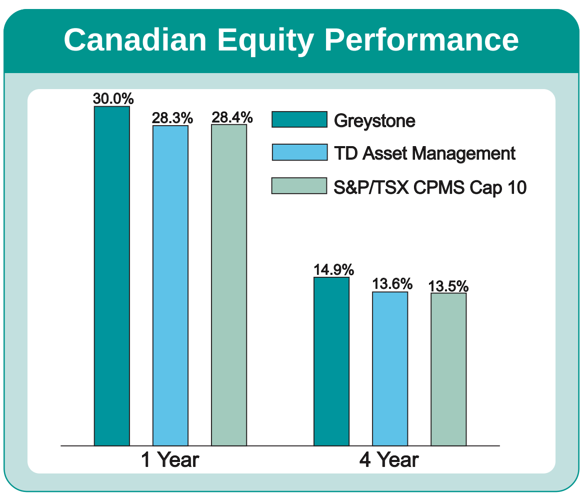


Figure 1.4

Canadian Small Cap Equity Manager

AMI Partners Inc. actively manages the small cap Canadian equity portfolio. The benchmark for this portfolio is the Nesbitt Burns Small Cap Index. For the year ended March 31, 2006, AMI returned 26.9%, underperforming the benchmark by 4.1 percentage points. The annualized return for the four-year period ending March 31, 2006 was 14.1% for AMI and 18.3% for the benchmark.

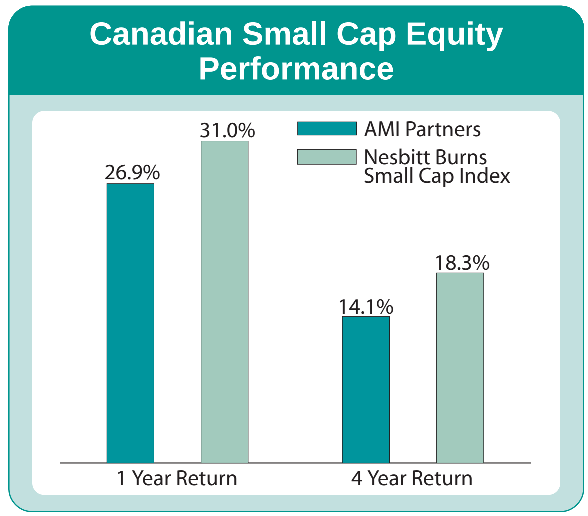


Figure 1.5

Fund Performance

US Large Cap Equity Managers

Greystone Managed Investments actively manages U.S. large cap equities and is measured against the S&P 500 Index ($Cdn). Greystone returned 9.7% for the year ended March 31, 2006, as compared to the benchmark which returned 7.7%. For the four year period ended March 31, 2006, Greystone returned a negative 0.5% on an annualized basis, outperforming the benchmark by 2.5 percentage points.

TD Asset Management passively manages U.S. large cap equities and is measured against the S&P 500 Index ($Cdn). For the year ending March 31, 2006, TD Asset Management provided a return of 7.6% as compared to the benchmark's return of 7.7%. For the four year period ending March 31, 2006, TD Asset Management provided an annualized return of -3.2% compared to the benchmark which provided a return of -3.0%.

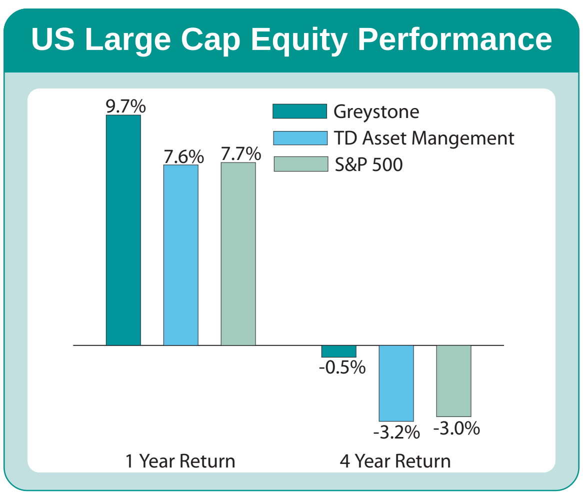


Figure 1.6

US Mid Cap Equity Manager

Northwater Capital Management passively manages U.S. mid cap equities and is measured against the S&P 400 Hedged Index. For the year ended March 31, 2006, Northwater provided a return of 21.1% and the S&P 400 hedged Index had a total return of 20.1%. For the four years ended March 31, 2006, Northwater provided an annualized return of 13.0% compared to the benchmark return of 11.3%.

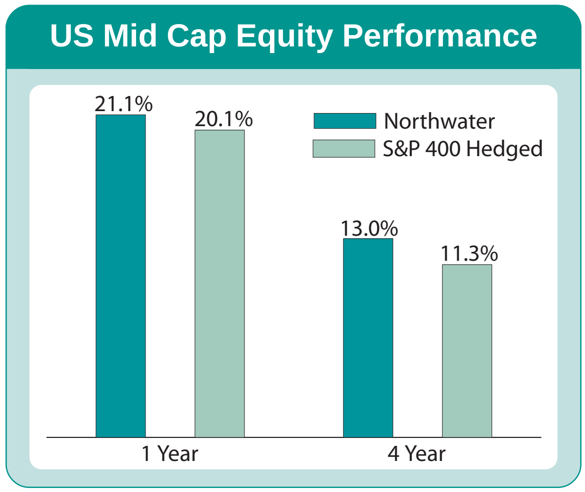


Figure 1.7

Fund Performance

Non-North American Equity Managers

Franklin Templeton and Hansberger Global Investors actively manage non-North American equities. These managers are measured against the MSCI EAFE Index ($Cdn). Franklin Templeton's return for the year ended March 31, 2006 was 14.0%, underperforming the benchmark by 6.0 percentage points, while Hansberger returned 21.3% for the same period, a 1.3 percentage point outperformance. Over the four year period ending March 31, 2006 Franklin Templeton returned 5.9% on an annualized basis which was 0.2 percentage points lower than the index return of 6.1%. Hansberger does not yet have four year returns available.

For the year ended March 31, 2006, Tweedy, Browne Company returned 11.9%, compared to the MSCI EAFE Index (hedged to Canadian dollars) which returned 35.3%. Four year returns are not yet available for this manager.

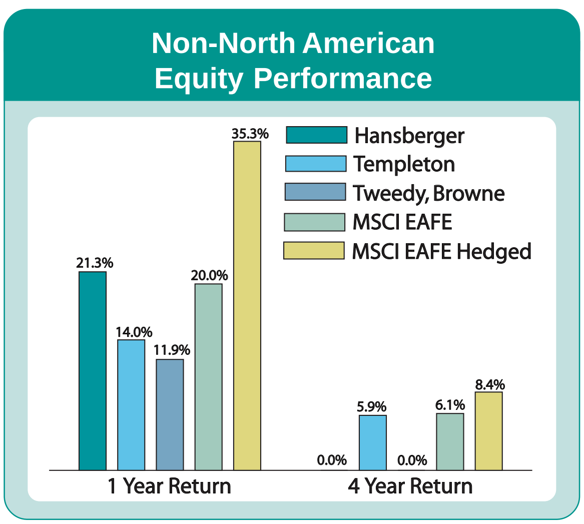


Figure 1.8

Real Estate Manager

Greystone Managed Investments actively manages the real estate portfolio and provided a return of 23.2% for the year ended March 31, 2006. This outperformed the benchmark, the Investment Property Databank, by 5.6 percentage points. For the four year period ending March 31, 2006, the annualized return for Greystone was 15.7%, a 3.8 percentage point outperformance as compared to the benchmark performance of 11.9%.

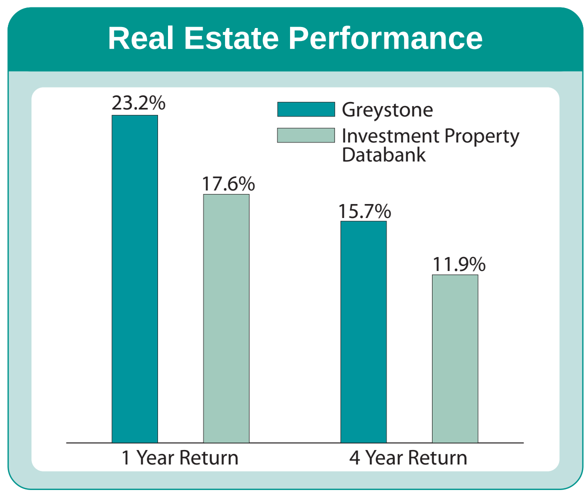


Figure 1.9

Fund Performance

Canadian Bond Managers

The active Canadian Bond portfolio is managed by Greystone Managed Investments and is measured against the Scotia Capital Universe Bond Index. Greystone's bond portfolio returned 5.0% for the year ended March 31, 2006, while the benchmark returned 4.9%. For the four year period ended March 31, 2006, Greystone returned an annualized 7.8%, outperforming the benchmark by 0.4 percentage points.

The passive Canadian Bond portfolio is managed by TD Asset Management and is also measured against the Scotia Capital Universe Bond Index. TD's bond portfolio returned 4.9% for the year ended March 31, 2006, matching the benchmark. TD returned 7.4% for the four year period ended March 31, 2006, again matching the benchmark return.

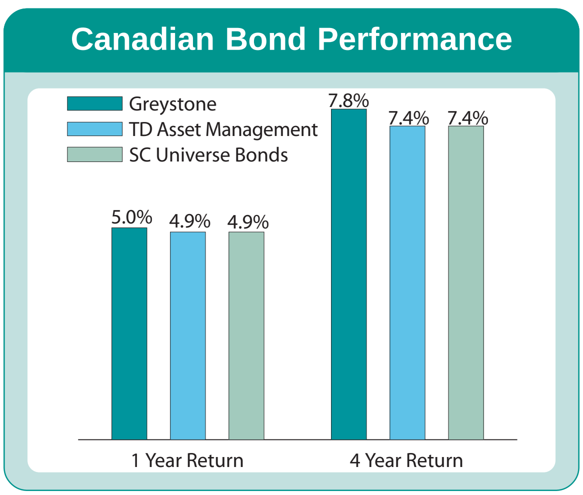


Figure 1.10

Investment Manager Fees

For the year ended March 31, 2006, the fees paid to the investment managers are shown in *Table 1.3*.

Balanced Fund Investment Manager Fees

Investment Manager	
Greystone Managed Investments Inc.	$2,028,655
TD Asset Management	$171,690
Franklin Templeton Investments	$1,830,833
AMI Partners Inc.	$905,539
Northwater Capital Management Inc.	$1,067,599
Tweedy, Browne Company LLC	$920,886
	$6,925,202

Table 1.3

Short-term Bond Fund

The goal of the Short-term Bond Fund is to provide protection from the volatility of the equity investment markets. To accomplish this, the Board, in consultation with its investment consultant, James P Marshall, a Hewitt Company, set the investment policy for the Short-term Bond Fund. The policy allows investment in government-issued bonds with a term to maturity of five years or less.

Short-term Bond Fund Investment Performance

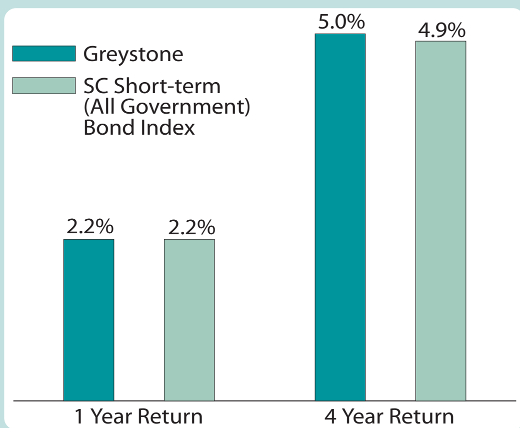


Figure 1.11

Overall, the Short-term Bond Fund, managed by Greystone Managed Investments, provided a return of 2.2% for the year ended March 31, 2006. This equalled the benchmark, the Scotia Capital Short-term (All Government) Bond Index. For the four year period ended March 31, 2006, the Short-term Bond Fund returned an annualized 5.0% compared to the benchmark return of 4.9%.

The Primary long-term investment performance objective for the portfolio is to outperform a benchmark portfolio constructed as described in *Table 1.4*.

Short-term Bond Fund Asset Mix

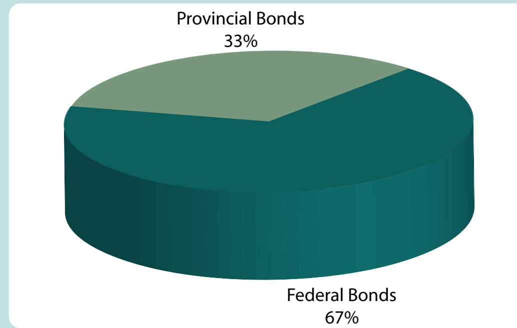


Figure 1.12

The market value of the Short-term Bond Fund was $44,580,000 as at March 31, 2006. The Board retained Greystone Managed Investments to manage the assets of the Short-term Bond Fund and paid $35,648 in fees.

Monitoring Investment Performance

To assist the Board in monitoring performance of the investment funds and the investment managers, the Board retains James P. Marshall, a Hewitt Company, to measure the performance and report to the Board. James P. Marshall was paid $98,066 in fees for the year ended March 31, 2006.

Custody

The Board retains RBC Dexia Investor Services as the custodian of the Plan. The custodian is responsible for custody of all financial assets of the Plan. The custodian settles all investment transactions, ensures investment income (dividends, interest) is collected and provides financial statements for all investment transactions. RBC Dexia Investor Services provides fund valuation services and investment compliance monitoring. The custodian was paid $441,816 for the year ended March 31, 2006.

Plan Benchmarks by Asset Class

Asset Class	Class Market Index	Minimum Investment	Benchmark Investment	Maximum Investment
Bonds	Scotia Capital Short-term (All Government) Bond Index	90%	**100%**	100%
Short-term Investments	91 Day Treasury Bills	0%	**0%**	10%
			100%	

Table 1.4

2005–2006 Administration Highlights

PEPP *Access* conversion to the new pension administration system was completed in August 2005. A complete business process review, system functionality testing, as well as staff training, were conducted during the year in preparation for conversion. Member and employer communication spanned the year to ensure awareness of the changes. PEPP funds were unitized at conversion. At that time, members were sent a conversion statement with a newsletter explaining the change.

The conversion to the new pension administration system was the platform for further PEPP *Access* change that started in 2005-2006. Forthcoming initiatives are expected to meet the PEPP Board's objectives of improving communications and service delivery as well as align with the Capital Accumulation Plan (CAP) Guidelines regarding the provision of investment information and decision-making tools.

The next phase of PEPP *Access* includes offering a variable pension benefit option for retiring members, web access for employers and members as well as online retirement planning tools.

For the variable pension benefit option, a plan description, product design and system specifications were completed for vendor system delivery and testing of functionality for introduction May 1 2006. The new option offered by PEPP is referred to as the *VP Benefit*.

For the retirement planning tools initiative, a Request for Information (RFI) was issued to determine the size of the project. A project manager was hired to provide management. A Request for Proposal (RFP) was issued and Mercer Human Resource Consulting selected as a vendor. Target roll-out is planned in fall of 2006.

Communication to members and employers continued supporting these three initiatives throughout the year. Communications included employer bulletins, creation of an employer administration guide, newsletters and a *VP Benefit* brochure. Information on the website was reviewed and updated (including forms and pension topics). The website appearance has been refreshed.

The final phase of PEPP *Access* encompasses the introduction of expanded investment choice for PEPP members with planned delivery in 2007. The range of options offered to members for investment choice will increase from two options to seven. In 2005-2006 a project consultant and project manager were hired to provide strategic direction and project management to this initiative.

Retirement Planning Workshops and Plan Overview presentations continue upon employer request. The workshop content and presentations were updated and will continue to be updated to present the new initiatives of the Plan.

Administration of the Plan

The Board retains PEBA, Saskatchewan Finance, to provide day-to-day administration of the Plan.

PEBA charged $3,052,533 to the Plan for administration.

Membership Statistics

Membership Status

Membership at March 31, 2005	42,083
Add:	
Enrolments during the year	3,420
Less:	
Benefit Payments	2,293
Membership at March 31, 2006	43,210

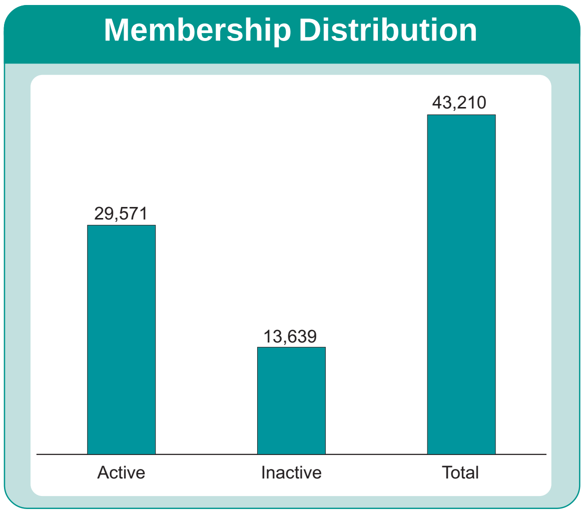


Figure 1.13

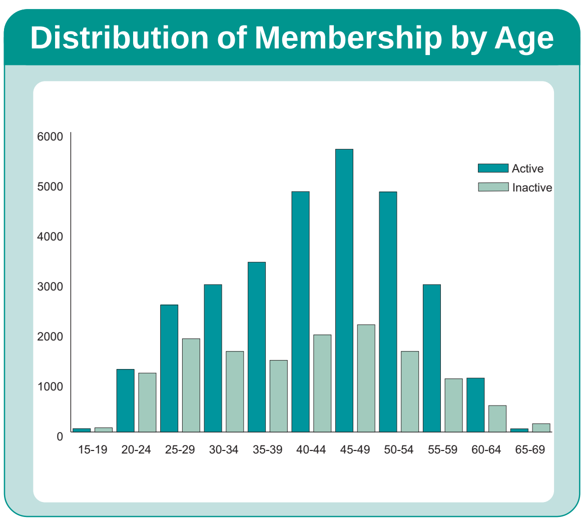


Figure 1.14

PEBA Performance Standards

The reporting on standards is for the period of October 1, 2005 - March 31, 2006. PEBA administers the Plan in accordance with *The Public Employees Pension Plan Act* and the *Pension Benefits Act 1992*, (Saskatchewan) where applicable.

1. Annual member statement:

PEBA will provide Member Statements by June 14 each year.

2004-2005 mailed to members first week in May

2. Member Transactions including statement of termination of employment, payment of termination benefits, statement on death, payment of death benefits, pension estimates, spousal break down estimates, portability transfer values:

PEBA will meet transaction obligations within 14 days from the date of receipt of all necessary information.

- Contributions are processed within three business days of receipt
  - only 15 exceptions in 1,129 transactions
- inter-fund transfers same day/next day processing – four exceptions in 98 transactions
- Payments
  - 13 exceptions in 1,331 transactions

3. Statement on retirement:

PEBA will provide a statement on retirement within 30 days of receiving a completed application form with all the necessary information.

All 2005-2006 retirements were processed within 30 days of receiving a completed application form with all required documentation

4. Communicate Board decisions affecting clients:

Within one month of Board meeting.

- Blackout – web alert placed three weeks prior to system conversion
- Unitizing of funds – communication strategy initiated in early 2005 to go-live date of new system
- Variable Pension Benefit – communication strategy commenced February 2006

5. Response to written correspondence from members and employers:

Within 14 days.

PEBA will respond to e-mails same day; written letter within 14 days – (reporting is being developed)

6. Return telephone calls from members and employers:

Next business day.

Telephone Statistics:

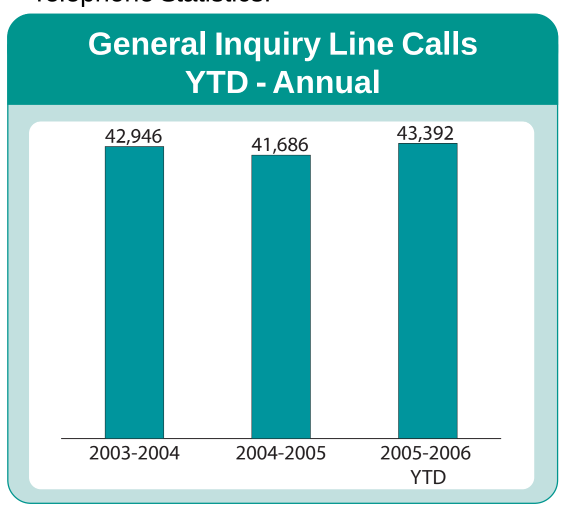


Figure 1.15

7. Newsletter:

PEBA will publish and mail a PEPP quarterly newsletter.

Pension Perspectives issues were mailed in January, May and September of 2005 and February 2006.

Management's Report

To the Members of the Legislative Assembly of Saskatchewan

The Public Employees Pension Board is comprised of a Chairperson selected through a formal recruitment process with four members representing employees and four members representing employers. The Pension Board is responsible for financial administration, administration of the funds and management of assets.

The financial statements, which follow, have been prepared by management in conformity with accounting principles generally accepted in Canada and have been approved by the Pension Board. Management uses internal controls and exercises its best judgment in order that the financial statements reflect fairly the financial position of the Plan.

The financial statements were examined by Meyers Norris Penny. Their report follows.

Brian Smith
Assistant Deputy Minister
Public Employees Benefits Agency

Kmorgan

Kathy Morgan
Director, Financial Services
Public Employees Benefits Agency

Regina, Saskatchewan
May 18, 2006

PUBLIC EMPLOYEES PENSION PLAN

FINANCIAL STATEMENTS

YEAR ENDED March 31, 2006

AUDITORS' REPORT

MEYERS NORRIS PENNY LLP

To the Members of the Legislative Assembly of Saskatchewan

We have audited the statement of net assets available for benefits of the Public Employees Pension Plan as at March 31, 2006 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Public Employees Pension Plan as at March 31, 2006 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Regina, Saskatchewan
May 18, 2006

Chartered Accountants

PUBLIC EMPLOYEES PENSION PLAN **STATEMENT 1**
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

AS AT MARCH 31

	(thousands of dollars) 2006			2005
	Balanced Fund	**Short-Term Bond Fund**	**Total**	**Total**
ASSETS				
Investments (Note 3)				
Short-term	$ 28,875	$ 83	$ 28,958	$ 27,830
Bonds and debentures	416,379	44,497	460,876	534,403
Equities	1,377,426	-	1,377,426	1,101,971
Pooled funds	1,640,997	-	1,640,997	1,377,963
Mortgages	789	-	789	828
Real estate	194,446	-	194,446	151,574
	3,658,912	44,580	3,703,492	3,194,569
Receivables				
Contributions receivable – employee	1,643	35	1,678	1,913
Contributions receivable – employer	1,766	38	1,804	1,913
Accrued investment income	11,237	497	11,734	11,787
Inter-fund receivables	-	4	4	7
	14,646	574	15,220	15,620
Cash	96,430	-	96,430	128,263
Due from General Revenue Fund (Note 6)	2,645	-	2,645	1,042
Total assets	3,772,633	45,154	3,817,787	3,339,494
LIABILITIES				
Bank indebtedness	-	626	626	-
Administrative expenses payable	1,918	44	1,962	2,389
Refunds, transfers and other payables	1,929	135	2,064	403
Inter-fund payables	4	-	4	7
Total liabilities	3,851	805	4,656	2,799
NET ASSETS AVAILABLE FOR BENEFITS	$3,768,782	$44,349	$3,813,131	$3,336,695

(See accompanying notes to the financial statements)

PUBLIC EMPLOYEES PENSION PLAN **STATEMENT 2**

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEAR ENDED MARCH 31

	(thousands of dollars) 2006			2005
	Balanced Fund	**Short-Term Bond Fund**	**Total**	**Total**
INCREASE IN ASSETS				
Investment income				
Interest	$ 23,539	$ 1,736	$ 25,275	$ 25,717
Pooled funds	222,628	-	222,628	65,720
Dividends	27,150	-	27,150	24,174
Real estate	9,281	-	9,281	7,284
Other	616	10	626	414
	283,214	1,746	284,960	123,309
Increase (decrease) in market value of investments	187,782	(636)	187,146	123,421
Contributions				
Employees	76,920	827	77,747	65,124
Employers	72,383	851	73,234	69,367
Inter-fund transfers	16,897	20,852	37,749	30,819
Reciprocal transfers in	257	-	257	594
	166,457	22,530	188,987	165,904
Total increase in assets	637,453	23,640	661,093	412,634
DECREASE IN ASSETS				
Transfers, refunds and benefit payments (Note 5)	113,297	7,317	120,614	90,881
Transfer to Saskatchewan Pension Annuity Fund				
Contributions	14,632	1,204	15,836	17,234
Interest	-	-	-	37
Inter-fund transfers	20,860	16,891	37,751	30,819
Administrative expenses (Note 7)	10,343	113	10,456	9,246
Total decrease in assets	159,132	25,525	184,657	148,217
Increase (decrease) in net assets	478,321	(1,885)	476,436	264,417
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	3,290,461	46,234	3,336,695	3,072,278
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$3,768,782	$44,349	$3,813,131	$3,336,695

(See accompanying notes to the financial statements)

PUBLIC EMPLOYEES PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2006

1. Description of Plan

The following description of the Public Employees Pension Plan is a summary only. For more complete information, reference should be made to the Plan text.

a) **General**

The *Public Employees Pension Plan Act* (the Act) is the legislative authority for the Public Employees Pension Plan (the Plan), which is a defined contribution plan that covers the employees of a number of government entities. Effective September 1, 2002, the Plan also covers the Members of the Legislative Assembly.

The Act established the Plan to accumulate all contributions and earnings for plan members. The Plan consists of two funds: the Balanced Fund and the Short-Term Bond Fund.

The Balanced Fund receives and holds, in trust for members, contributions from the members and employers (participants) and investment income derived from the Fund's investments.

The Balanced Fund holds bonds, equities, real estate, mortgages, pooled funds and short-term investments. The Balanced Fund's mandate is to provide long-term capital appreciation for members.

The Short-Term Bond Fund receives and holds, in trust for members, contributions from the member and employer as well as investment income derived from the Fund's investments.

The Short-Term Bond Fund is available to all members and holds low risk mid-term income investments and is intended for those members who wish to protect themselves from the volatility of the investment markets. Participation in the Short-Term Bond Fund is at the discretion of the member.

Effective August 13, 2005 the Plan adopted a unitized method of plan participation whereby each member has a certain number of units of ownership in the net assets of the Plan. Investment income including changes in the market value of the investments and expenses is reflected in the market value of the net asset value per unit of participation. The total available to a member upon termination or retirement is equal to the particular member's account balance at that date, subject to certain vesting and other specific rules governing the Plan.

b) **Administration**

The Act established the Public Employees Pension Board (Pension Board) to administer the Plan. The Pension Board is comprised of nine members appointed by Cabinet. The Public Employees Benefits Agency provides day-to-day administration.

c) **Retirement**

Members may retire as early as age 50, or after 35 years of service regardless of age.

Upon retirement an employee may purchase an annuity from the Saskatchewan Pension Annuity Fund or from a private company that issues annuities.

Alternatively, the funds may be left in the Plan to continue to accumulate earnings to provide retirement income beginning no later than the end of the calendar year in which the member reaches age 69, be transferred to a Locked-in Retirement Account or, after age 50, to a Locked-in Retirement Income Fund, Life Income Fund or a Life Annuity from the Saskatchewan Pension Annuity Fund, or be transferred to another pension plan which has a reciprocal agreement with the Plan. Beginning in May 2006, a member may also choose to receive a variable pension benefit from the Public Employees Pension Plan.

Members who purchase their annuities from the Pension Board have their accumulated balance in the Plan at the date of retirement transferred to the Saskatchewan Pension Annuity Fund. Members who elect to receive a variable pension benefit retain their account balances within the Public Employees Pension Plan. A variable pension benefit is a periodic payment made from a registered plan to a member of that plan and which must conform to certain minimum payment requirements but not to any maximum payment requirements.

d) **Completeness of Contributions**

Participants are responsible for the accuracy and completeness of member contributions remitted to the Plan and for the employee payroll information on which benefit payments are determined. Accordingly, these financial statements presume the accuracy and completeness of the participants' contributions and payroll information received from participants.

2. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following accounting policies are considered significant:

Investments

Investments in bonds and equities are recorded at market values which are determined by reference to closing year-end sale prices from recognized security dealers or, in the absence of recorded sales, by reference to closing year-end bid and ask prices. Transactions in bonds and equities are recorded as of the trade date.

Short-term investments are recorded at cost, which approximates market value.

Real estate is recorded at market value as estimated by independent appraisals.

Mortgages are recorded at market value calculated by discounting the present value of all income streams accruing to the mortgage. The discount rate applied to these income streams reflects the current market rate for comparable mortgages of a comparable term.

Pooled funds are recorded at market value based on the quoted market price of the underlying investments normally the current bid price.

Derivative financial instruments are financial contracts, the value of which is derived from changes in underlying assets or indices. Derivatives transactions are conducted in the over-the-counter market directly between two counterparties or on regulated exchange markets. All derivative financial instruments are recorded at market value using market prices. Where quoted market values are not readily available, appropriate valuation techniques are used to determine market value.

The change in market value of investments during the year is reflected on the financial statements as a current period change in the market value of investments.

Fair value approximates market value of investments.

Foreign Currency Translation

Monetary items denominated in foreign currency are translated at the exchange rate in effect at year-end. Investments, revenue and expense items are translated at the exchange rate in effect at the transaction date. Gains and losses arising on translation at year-end are included in the current period change in market value of the investments.

3. Investments

The Plan is a defined contribution plan whereby members bear the investment risk and reap the rewards of actual investment performance as there is no guarantee of pension benefits. The Plan's Balanced Fund is designed for members whose primary objective is capital growth. The Plan's Short-Term Bond Fund is designed for members who wish to reduce their equity exposure as retirement approaches in order to preserve capital. These members have a low risk tolerance. As the primary objective of the Short-Term Bond Fund is capital preservation, its orientation is towards fixed income investments with a term to maturity of five years or less.

The strategy employed to achieve these objectives is to invest cash flows from contributions, maturing debentures and investment returns into assets such as equities, pooled funds, real estate, money market securities, and bonds.

The Plan uses derivative financial instruments, when appropriate, to manage its asset mix and to assist in the management of exposure to financial risks, including interest rate, foreign exchange and market risks without directly purchasing or selling the underlying assets or currencies. In certain circumstances, derivatives are also used to increase returns or to replicate investments synthetically.

a) **Interest Rate Risk**

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's net assets and interest income. This risk arises from differences in the time and amount of cash flows related to the Plan's assets. Interest rate risk is managed by investing in fixed income investments with varying duration.

The value of the Plan's assets is affected by short-term changes in nominal interest rates and equity markets.

b) **Credit Risk**

Credit risk arises from the potential for counterparties to default on their contractual obligations to the Plan. The Plan limits the credit risk by dealing with counterparties that are considered to be high quality. The credit ratings used to describe the securities below are based on the Dominion Bond Rating Service and/or the Standard & Poors Bond Rating Service and/or Moody's Bond Rating Service.

c) **Foreign Currency Risk**

Foreign currency exposure arises from the Plan holding investments denominated in currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the value of investments. The Plan manages its foreign currency risk by limiting the investment in foreign funds.

d) **Market Risk**

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. The Board's policy is to invest in a diversified portfolio of investments, based on criteria established in the Statement of Investment Policies and Objectives.

e) **Real Estate Risk**

Risk in the real estate portfolio is managed through diversification across real estate types and locations. Adverse impacts in any one segment of the market or geographic location are minimized by having holdings diversified across property type, geographic location and investment size.

Short-term Investments

Short-term investments are comprised of treasury bills, notes and commercial paper with effective rates of 3.70% to 4.80% in the Balanced Fund (2005 – 2.50% to 3.00%), and 3.80% in the Short-Term Bond Fund (2005 - 2.50%) and an average remaining term to maturity of 37 days in the Balanced Fund (2005 - 40 days) and 76 days in the Short-Term Bond Fund (2005 - 49 days).

The Plan's investment policy states that investments must meet a minimum investment standard of "R1" or equivalent rating by a recognized credit rating service.

Other than the Government of Canada, no single issue represents more than 31.51% (2005 – 31.72%) of the market value of the short-term investment portfolio.

Bonds and Debentures

The Plan's investment policy states that bonds must meet a minimum quality standard of BBB as rated by a recognized credit rating service. No more than 15% of the market value of the total portfolio may be invested in BBB rated bonds. At March 31, 2006, the Balanced Fund held 0.12% (2005 - 0.30%) of its portfolio in BBB bonds. At March 31, 2006, the Short-Term Bond Fund held 0.00% (2005 – 0.00%) of its portfolio in BBB bonds.

BALANCED FUND
(in thousands of dollars)

	2006							2005		
Years to Maturity	**Federal**	**Provincial**	**Corporate**	**Municipal**	**Total Market Value**	**Yield to Maturity at Market**	**Coupon Rate**	**Total Market Value**	**Yield to Maturity at Market**	**Coupon Rate**
Under 5	114,707	15,232	34,876	-	164,815	1.74%	2.75-9.00	181,631	1.53%	3.25-9.00
5 – 10	5,499	27,671	25,345	-	58,515	0.68%	3.75-6.75	147,604	1.54%	4.18-8.50
Over 10	100,868	65,024	25,380	1,777	193,049	2.18%	4.00-8.75	159,392	1.70%	4.50-8.29
Market Value	221,074	107,927	85,601	1,777	416,379			488,627		

SHORT-TERM BOND FUND
(in thousands of dollars)

	2006					2005		
Years to Maturity	**Federal**	**Provincial**	**Total Market Value**	**Yield to Maturity at Market**	**Coupon Rate**	**Total Market Value**	**Yield to Maturity at Market**	**Coupon Rate**
Under 5	29,649	14,848	44,497	4.72%	2.75-6.38	45,776	4.59%	3.25-6.00

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Equities

The Plan's investment policy allows no one holding to represent more than 10% of the market value of the related portfolio and no one holding to represent more than 10% of the common stock in any corporation. As at March 31, 2006, the market value of the Plan's foreign equity investments in Canadian dollars amounted to $677 Million (2005 - $569 Million) and included currencies from regions around the world including Australia, Europe, Hong Kong, Japan, South Korea, Mexico, Norway, Switzerland, Sweden, United Kingdom, and United States. Foreign equities represent 49.18% (2005 – 50.66%) of the market value of the equity portfolio. All foreign equities are denominated in Canadian dollars. Dividends are generally declared on an annual basis. The Plan's equities include common shares that have no fixed maturity date and are generally not exposed to interest rate risk. The average dividend rate is 2.57% (2005 – 3.58%).

The Plan has entered into foreign exchange forwards contracts to hedge some of its foreign currency exposure in equities. Foreign exchange forwards 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 following summarizes the Plan's foreign exchange forwards contracts at March 31, 2006:

	(in thousands of dollars) - Cdn dollar equivalent	
	Market value	**Notional value**
Canadian Dollar	$ 80,769	$ 80,769
European Euro	(42,670)	(43,415)
Hong Kong Dollar	(759)	(760)
Japanese Yen	(5,064)	(5,670)
Mexican Nuevo Peso	(3,890)	(3,930)
Pound Sterling	(10,159)	(10,550)
South Korean Won	(6,333)	(6,106)
Swiss Franc	(9,861)	(10,305)

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

Foreign investments including equities, pooled funds, but excluding synthetic pooled funds, are no longer limited to 30% of the cost of the investment portfolio and are denominated in Canadian dollars. 29.90% (2005 – 20.21%) of the cost of the Plan's investment portfolio was held in foreign equities including foreign pooled funds.

Pooled Funds

For liquidity reasons, the investment policy limits pooled fund holdings to not more than 10% of the market value of the individual pooled fund. Exceptions to the 10% limit are allowed if provision has been made to transfer securities in kind out of the pooled fund when assets are transferred out of the pooled fund.

The Plan limits its investments in synthetic pooled funds to 13% of the market value of its investment portfolio for the Emerald Synthetic U.S. Equity Fund and 7% of the market value of its investment portfolio for the Newcastle Derivative Enhanced Mid Cap Fund. The Plan's units in pooled funds have no fixed interest rate and the returns are based on the success of the fund manager.

The Plan's pooled funds are comprised of:

	Units Held (in thousands)		% of Total Units Outstanding		Market Value (in thousands)	
	2006	2005	2006	2005	2006	2005
Canadian Equity						
Emerald Cdn Equity TSE 300	-	12,822	-	9.70	$ -	$ 141,196
Emerald Cdn Mkt Capped PF	113,306	-	42.42	-	181,142	-
Newcastle Derivative Enhanced Mid Cap Fund	2,064	1,818	100.00	100.00	217,106	178,758
Global Equity						
Greystone EAFE Plus Fund	-	13,612	-	12.21	-	137,510
Greystone EAFE Growth Fund	13,848	-	17.28	-	165,969	-
Fixed Income Funds						
Emerald Cdn Bond Fund	76,986	63,113	15.85	14.57	806,221	668,826
Other Canadian						
Emerald Synthetic US Equity Fund	-	21,104	-	40.39	-	251,673
Emerald US Pooled Fund	12,584	-	19.54	-	270,559	-
					$1,640,997	$1,377,963

Newcastle Derivative Enhanced Mid Cap Fund combines U.S. S&P 400 stock index futures with Canadian money market instruments to create a synthetic U.S. equity investment, hedged into Canadian dollars. The Emerald Synthetic U.S. Equity Fund also uses U.S. S&P 500 stock index futures combined with Canadian money market instruments to create a synthetic U.S. equity investment.

Mortgages

All mortgages are secured by Canadian commercial properties and have effective and stated interest rates of 5.50% (2005 – 5.50%) with an average remaining term of 2.42 years (2005 – 3.42 years). Principal and interest are receivable on a monthly basis.

Real Estate

Investments in real estate consist of Canadian commercial property.

Included in real estate are investments of $4,571,453 (2005 - $3,631,169) in SaskPen Properties Ltd. Income received from SaskPen Properties is $355,619 (2005 - $314,267). SaskPen Properties Ltd. is a real estate corporation beneficially owned by Crown managed pension plans in the Province of Saskatchewan.

4. Earnings Allocation to Members

Investment income plus the current year's allocation of the change in the market values of investments less administrative expenses was allocated monthly to the individual member's account balances in accordance with the provisions of the governing legislation up to August 12, 2005. The Plan unitized at that date and income allocations were no longer made. Instead, all members received units of participation in the Funds of the Plan based on their account balances at August 12, 2005. Investment income including changes in market value of investments and expenses are reflected in the net asset value per unit. The net annual rate of return for the year ended March 31, 2006 was 13.76% for the Balanced Fund (2005 – 7.75%) and 1.75% for the Short-Term Bond Fund (2005 – 3.11%).

5. Transfers, Refunds and Benefit Payments

	(in thousands of dollars) 2006	2005
Termination refunds	$ 981	$ 863
Death and lump sum benefits	9,036	5,594
Marital transfers	3,894	2,817
Transfers to registered retirement savings plans and to private companies providing annuities	101,674	78,082
Transfers out	5,029	3,525
	$120,614	$90,881

6. Due from General Revenue Fund

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

The Plan's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis to the Plan's bank accounts using the Government's thirty day borrowing rate and the Plan's average bank account balance. The Government’s average 30 day borrowing rate in 2006 was 2.82% (2005 - 2.19%).

7. Administration Expenses

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

	(in thousands of dollars) 2006 Budget (unaudited)	2006 Actual	2005 Budget (unaudited)	2005 Actual
Administration costs	$ 4,205	$ 3,053	$3,065	$2,514
Custodial fees	583	442	555	622
Transition fees	-	-	-	38
Investment management fees	6,543	6,961	6,296	6,072
	$11,331	$10,456	$9,916	$9,246

8. Related Party Transactions

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

The Plan holds $10,075,892 (2005 - $9,594,182) Province of Saskatchewan Bonds and Debentures with a yield of 5.03% (2005 - 5.18%). Investment income of $539,559 (2005 - $605,260) was recorded from the Province of Saskatchewan Bonds and Debentures.

The Plan has an accounts payable balance as at March 31, 2006 of $233,724 (2005 - $145,000) 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 net assets available for benefits and are settled at agreed upon exchange rates.

9. Investment Performance

The investment manager makes day-to-day decisions on whether to buy or sell investments in order to achieve the long-term performance objectives set by the Pension Board. The Pension Board reviews the investment performance of the plan in terms of the performance of the benchmark portfolio over four year rolling periods. The primary long-term investment performance objective for the entire portfolio is to outperform a benchmark portfolio.

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

	Rolling Four Year Average Annual Return Fund	
	2006	**2005**
Fund's actual rate of return (a)	8.20%	6.20%
Target rate of return (b)	7.80%	5.10%

(a) The Fund's actual rate of return is before deducting investment expenses.

(b) The Fund's target rate of return for its investment portfolio (return on the benchmark portfolio) has been determined using the actual returns of the market indices such as the S&P/TSX Composite Index, Nesbitt Burns Small Capitalization Canadian Stock Index, Standard & Poor's 500 U.S. Stock Index, Standard and Poor's 400 Mid Capitalization U.S. Stock Index, Morgan Stanley, Europe, Australia and Far East Index, Scotia Capital Universe Bond Index, 91 Day Canadian Treasury Bill, and Investment Property Databank Ltd. Return Index.

The following is a summary of the Short-Term Bond Fund's investment performance:

	Rolling Four Year Average Annual Return Fund	
	2006	**2005**
Fund's actual rate of return (a)	5.00%	5.70%
Target rate of return (b)	4.90%	5.70%

(a) The Fund's actual rate of return is before deducting investment expenses.

(b) The Fund's target rate of return for its investment portfolio is based on the "All Governments" portion of the Scotia Capital Markets Short-term Bond Index.

10. Fair Value

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

a) contributions receivable
b) accrued investment income
c) due from General Revenue Fund
d) inter-fund receivables
e) administrative expenses payable
f) refunds, transfers and other payables, and
g) inter-fund payables

The fair value of investments approximates the carrying value, the determination of which is disclosed in notes 2 and 3.

11. Value of Members' Accounts

In accordance with generally accepted accounting principles, various estimates and accruals are included in the Statement of Net Assets Available for Benefits. However, only transactions that were processed and unitized during the fiscal year ending March 31, 2006 are reflected in the unitized account balances of members at year-end. The total value of members' unitized accounts at March 31, 2006 was $3,800 Million.

Unit Pricing

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

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

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

On August 12, 2005, members' account balances were converted into Balanced Fund and Short-Term Bond Fund units at an initial unit price of $100.0000. On March 31, 2006, the Balanced Fund's unit price was $107.3042 and there were 34,998,113 units outstanding. On March 31, 2006 the Short-Term Bond Fund's price was $100.0735 and there were 443,731 units outstanding.