PEPP

2012-2013 Annual Report

Public Employees Pension Plan

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LETTERS of Transmittal

Ken Krawetz
Minister of Finance

Her Honour, The Honourable Vaughn Solomon Schofield
Lieutenant Governor of the Province of Saskatchewan

May it Please Your Honour:

I respectfully submit the Annual Report of the Public Employees Pension Board for the fiscal year ending March 31, 2013.

Ken Krawetz
Minister of Finance

The Honourable Ken Krawetz
Minister of Finance

Sir:

On behalf of the Public Employees Pension Board, I have the honour of submitting the Annual Report of the Public Employees Pension Board for the fiscal year ending March 31, 2013.

Kenneth R. Horsman
Chair

CHAIR'S Comments

Kenneth R. Horsman
Chair

"Ensuring members have access to pension services and information which meet their needs is important to the Board."

On behalf of the members of the Public Employees Pension Board (the Board), I am pleased to present the 2012-2013 Annual Report of the Public Employees Pension Plan (PEPP). The report details critical strategic plan activities and accomplishments, and pertinent Plan financial and investment information.

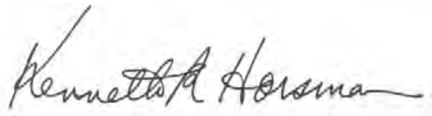
In keeping with PEPP's mission to provide members with a means of saving for retirement and a flexible way to receive retirement income and pension services, the Board remains committed to addressing members' changing needs.

As part of this commitment and in response to the investment option review conducted by the Board in 2011, PEPP launched the *GET MORE* campaign in the summer of 2012. It incorporated five major changes to be implemented from 2012 through 2014 to offer members the opportunity for improved returns and to reduce risk over the long term. The first of these changes was implemented on November 1, 2012 with changes to the PEPP Steps Fund.

Ensuring members have access to pension services and information which meet their needs is important to the Board. Last year, PEPP created the new *My PEPP Investor Profile* to offer members additional support when making investment decisions. As a value-added service, PEPP also created online videos as a new resource on the website.

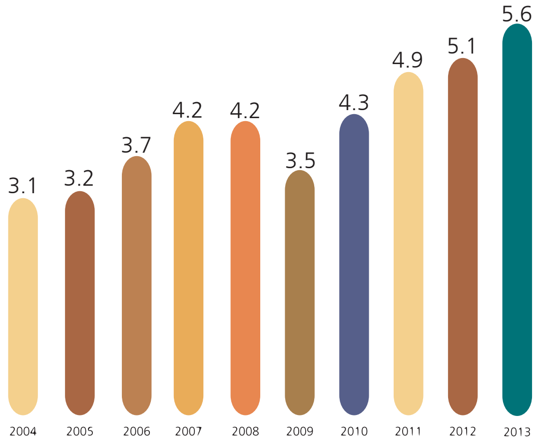
A Board-driven strategic initiative is to enhance member service by expanding online capabilities. This February, PEPP launched e-Comm to enhance electronic communication and provide members with an alternative to receiving paper communication.

I am privileged to chair the Public Employees Pension Board and to present the 2012-2013 Annual Report.



Kenneth R. Horsman
Chair

FINANCIAL Highlights

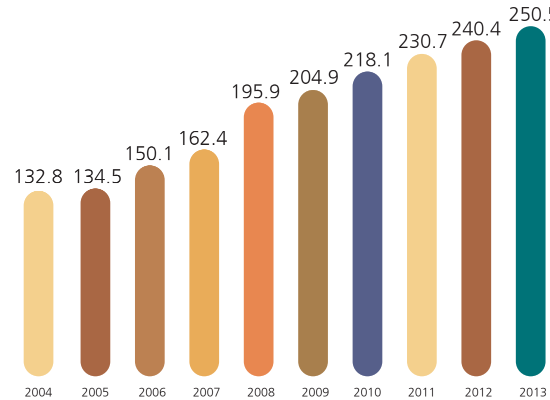


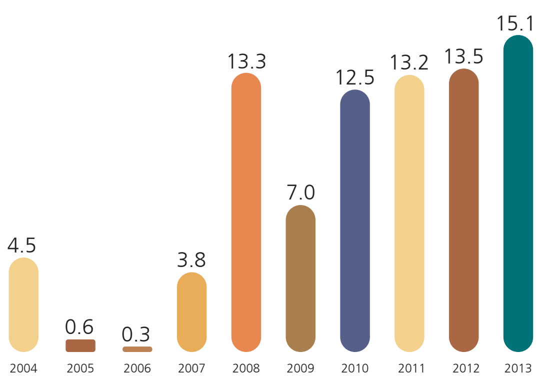
Total Assets of the Plan

5.6 BILLION $

Total Contributions to the Plan

250.5 MILLION $



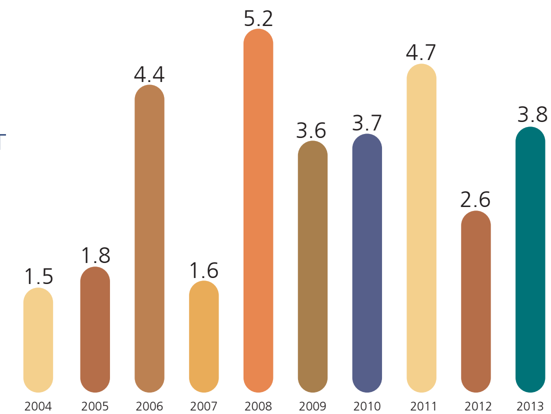


Total Transfers-in to the Plan

15.1 MILLION $

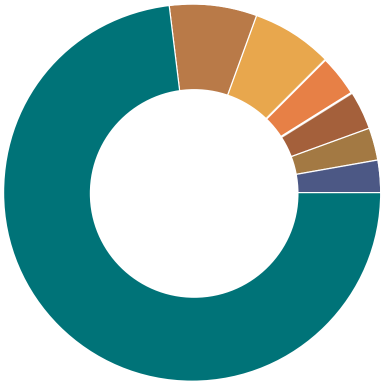
Total Transfers-out of the Plan

3.8 MILLION $



INVESTMENT Highlights

Assets by Investment Option ($ millions) (as at March 31, 2013)



4,089.3	Balanced Fund
406.0	PEPP Steps Fund
391.3	Short-term Bond Fund
199.8	Growth Fund
195.6	Conservative Fund
150.4	Moderate Fund
144.1	Accelerated Growth Fund

PEPP Fees and Rates of Return[1] (as at March 31, 2013)

Fund	(%) Gross Benchmark Rate of Return	Gross Rate of Return	Fees PEBA & Board[2]	Fees Investments[3]	Net Rate of Return
Accelerated Growth	10.5	10.3	0.10	0.41	**9.8**
Growth	9.9	9.8	0.10	0.36	**9.3**
Balanced	9.3	9.3	0.10	0.29	**8.9**
Moderate	8.2	8.1	0.10	0.24	**7.8**
Conservative	6.5	6.4	0.10	0.14	**6.2**
Short-term Bond	2.9	2.9	0.10	0.11	**2.7**

Table 1.0

[1] The rate of return and fee data for the PEPP Steps Fund varies with each step.
[2] Of the 0.10% fees shown, the Board accounts for less than 0.01%.
[3] Investment fees include fees for investment managers, consulting and custody

Most investment classes posted positive returns in the year, with equity markets outpacing fixed income investments. Foreign markets were particularly robust, both in the U.S. and in developed markets outside North America, all outpacing the domestic equity market. While all asset allocation funds posted positive returns on the year, these circumstances led to stronger performance at the more aggressive end of the asset allocation fund spectrum.

PLAN Profile

PEPP was established and is governed by *The Public Employees Pension Plan Act*. It is registered as a pension plan pursuant to *The Pension and Benefits Act, 1992* and the *Income Tax Act* (Canada).

The Public Employees Pension Plan (PEPP) has 79 participating employers and 52,583 members at March 31, 2013. Participating employers include the Government of Saskatchewan, Crown Corporations, agencies, boards and other public institutions.

PEPP is a defined contribution (DC) pension plan. A member's contributions and his or her employers' contributions, plus any return on investment, are used to provide a member with income based upon the account balance he or she has built at retirement.

Enrolment in the Plan is mandatory for employees who hold a permanent position with an employer participating in the Plan. Unless otherwise specified in an agreement, non-permanent employees may choose to join the Plan at any time.

Member and employer contributions are calculated as a percentage of the member's total gross regular earnings. Unless otherwise specified in an agreement, the contribution percentage is five per cent. Member contributions are made by payroll deduction.

Contributions to PEPP are tax deductible up to a maximum set by the *Income Tax Act* (Canada). Members do not pay taxes on contributions or the accumulated investment income until they withdraw an amount from the Plan.

Contributions are forwarded to the Plan and are used to purchase units in the PEPP investment option of the member's choice.

Units are valued daily following market close. Once a new unit value is declared, member accounts are valued using the new unit value. Return on investment is reflected in the changing unit value. The amount the member receives at payout or transfer is calculated using the unit value in effect at the date of payment.

Members may retire and begin to receive retirement income at age 50 or older.

Members may defer purchasing a retirement income option after retirement. The *Income Tax Act* (Canada) states that a pension must begin by the end of the calendar year a member turns age 71.

Membership Activity

Membership at March 31, 2012	**51,308**
Add:	
Enrolment during the year	3,331
Variable Pension Benefit (VPB) enrolment	429
Less:	
Exiting members	2,485
Membership at March 31, 2013	**52,583**

Table 1.1

PLAN ASSETS

5.6 BILLION $

PLAN MEMBERS

52.6 THOUSAND

INTER-FUND TRANSFERS PROCESSED BY PLAN MEMBERS ONLINE

2.3 THOUSAND

Plan members registered in PEPP Access

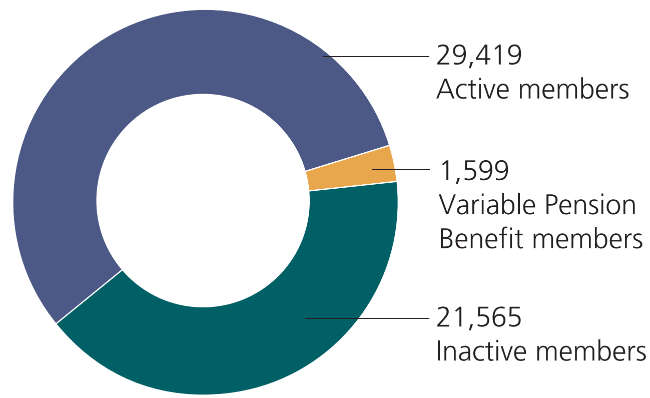
16.1 THOUSAND

Average age of active plan members

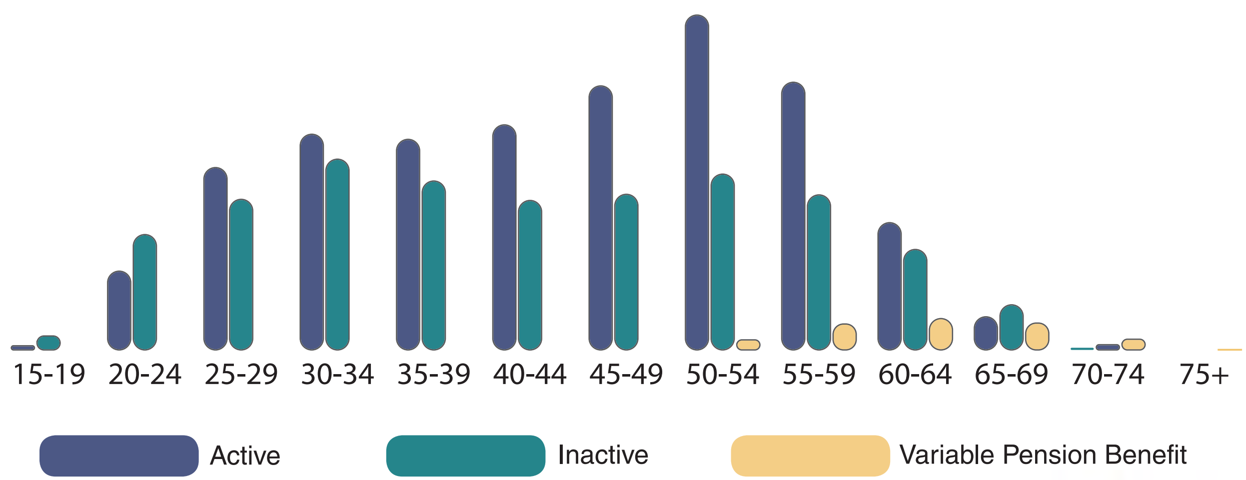
44.8 YEARS

Number of participating employers

79 EMPLOYERS



Membership Distribution by Age Band as at March 31, 2013



PUBLIC Employees Pension Board

The Board consists of nine members; four are appointed on behalf of participating employers, four on behalf of employees. The Board conducts an external recruitment process to choose a Chair, who is appointed for a three-year term.

Public Employees Pension Board Members at March 31, 2013

Name	Position	Appointing Body
Kenneth R. Horsman	Chair	Public Employees Pension Board
Dennis Terry	Vice-Chair	SaskEnergy, SaskPower, SaskTel
Jack Duvall	Member	Saskatchewan Government and General Employees' Union
Sean Engemoen	Member	Saskatchewan Institute of Applied Science and Technology Saskatchewan Liquor and Gaming Authority
Derrick Goulet	Member	International Brotherhood of Electrical Workers Union Local 2067
Jacalyn Luterbach	Member	Canadian Union of Public Employees Local 600
Kathy Martin	Member	Communications, Energy and Paperworkers Union of Canada
Jocelyn Robinson	Member	Public Service Commission
Cathy Uhersky	Member	Saskatchewan Crop Insurance Corporation, Workers' Compensation Board, Saskatchewan Cancer Foundation

Table 1.2

purpose

To provide lifetime retirement benefits to members.

mission

To provide members with a means of saving for retirement, a flexible way to receive retirement income and pension services.

goals

- Service, Delivery, Design and Communications: The Board is committed to ensuring that Plan members have access to pension services and information which meet their needs.
- Plan Governance: The Board strives to be an industry leader in its pension plan governance practices.
- Accountability: The Board measures, manages, and reports on the performance of the Plan and its service providers.

Board Education

The Board has an education program in place for Board members. The purpose of the program is to ensure the Board members possess a sound knowledge and understanding of pension, investment, and governance related issues. The Board budgets $5,000 per year for each Board member for registration fees. Expenses related to travel and accommodation are reimbursed at rates established by the Public Service Commission.

Upon appointment to the Board, new members receive an orientation provided by the Public Employees Benefits Agency's (PEBA's) Executive Management. New members are also assigned a mentor during their orientation period. Mentors are drawn from experienced Board members who are able to answer questions and offer guidance to the new member as required.

Board members are required to undertake a formal education program. The program provides a list of courses and seminars that deliver specific investment and governance-related information relevant to Board members.

- Within one year of appointment, members attend the Queen's Governance Program for Executives and Board Members in the Government and Not-for-Profit Sectors, facilitated by the Queen's School of Business, Queen's University.
- Within one year of appointment, members complete a course on basic investment principles facilitated by PEBA.
- Within two years of appointment, members complete the Board Effectiveness Program for Pension and Other Long-Horizon Investment Institutions, presented by the International Centre for Pension Management at the Rotman School of Management, University of Toronto.

Board members who have completed the formal education program are also required to attend one educational event annually that is facilitated by an industry-recognized pension and benefits organization. A Board member who is actively pursuing the formal education program is exempt from the obligations found in the ongoing development for all members. However, all members are strongly encouraged to attend an education event.

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

Table 1.3 lists the education events attended by Board members to March 31, 2013.

The Board education program is to ensure Board members possess a sound knowledge and understanding of pension, investment and governance related issues.

Seminars, Courses and Other Events Attended by Board Members in 2012–2013

Name	Education Events Attended	Total Expenses
Jack Duvall Appointed 2008	• Canadian Investment Institute • Canadian Public Sector Pensions and Benefits Conference	$4,758.68
Sean Engemoen Appointed 2007	• Annual Pension Information Session[1] • Rotman School of Management	$9,383.35
Derrick Goulet Appointed 2006	• ACPM National Conference	$4,501.41
Ken Horsman Retained 2005	• Deloitte Presentation, Beyond Compliance: The Board's Role in Growth and Strategy • Annual Pension Information Session • CPBI Presentation and Luncheon, Economic and Investment Outlook for Developed and Emerging Economies	$1,582.17
Jacalyn Luterbach Appointed 2012	• Queens Governance Program	$5,376.34
Kathy Martin Appointed 2010	• Deloitte Presentation, Beyond Compliance: The Board's Role in Growth and Strategy • CPBI Regional Conference[2] • Annual Pension Information Session • Canadian Investment Institute • Canadian Public Sector Pensions and Benefits Conference • Basic Trustee Development Program • CPBI Presentation and Luncheon, Economic and Investment Outlook for Developed and Emerging Economies	$9,220.48
Denise Macza Appointed 2001	• CPBI Forum 2012	$1,884.34
Jocelyn Robinson Appointed 2012	• Deloitte Presentation, Beyond Compliance: Malfeasance, Culture and Tone-at-the-top	-

Name	Education Events Attended	Total Expenses
Dennis Terry Appointed 2010	• Queens School of Business • Deloitte Presentation, Beyond Compliance: Malfeasance, Culture and Tone-at-the-top • Basic Trustee Development Program	$6,867.88
Cathy Uhersky Appointed 2006	• ACPM National Conference	$3,283.17
	Total Expenditures	**$46,857.82**

Table 1.3

[1] This event is conducted by the Public Employees Benefits Agency (PEBA) for the various boards of trustees that it serves.
[2] Provided by the Canadian Pension and Benefits Institute.

Meeting Attendance

Members of the Board receive no compensation for the performance of their roles as Board members. They are remunerated for reasonable expenses for attending Board meetings and other functions in their capacity as Board members. The Chair is remunerated with a retainer and a per-meeting fee paid in accordance with a fee schedule set by the Board.

The Board met eight times in the 2012-2013 fiscal year. *Table 1.4* shows the number of meetings each Board member attended.

Name	Number of Meetings Attended
Kenneth R. Horsman	8
Dennis Terry	7
Jack Duvall	7
Sean Engemoen	7
Derrick Goulet	7
Jacalyn Luterbach	7
Denise Macza [1]	3
Kathy Martin	7
Jocelyn Robinson [2]	5
Cathy Uhersky	8

Table 1.4

[1] Denise Macza's appointment ended on August 31, 2012.
[2] Jocelyn Robinson was appointed on September 1, 2012.

Both Denise Macza and Jocelyn Robinson attended 100 per cent of the meetings they were eligible to attend during their appointment.

Board Members: (*left to right*)

Jocelyn Robinson, Jack Duvall, Jacalyn Luterbach, Dennis Terry, Kenneth R. Horsman, Sean Engemoen, Kathy Martin, Derrick Goulet
Missing: Cathy Uhersky,

INVESTMENTS

Year In Review

Although the year began sluggish, the 2012-13 fiscal year ended with equity markets, both domestic and abroad, in bullish territory. The underlying themes throughout the year were persistent global headwinds and the continuing fragile recovery in the U.S.

In Europe, the pains of deleveraging continued. European leaders moved to ease investor angst with an agreement to allow direct recapitalization of banks from EU central funds in mid-2012. In the fall of 2012 they announced a conditional program to purchase short-term sovereign debt of crisis-nations to reduce the credit risk premiums paid by those nations. The general public continued to struggle with the austerity versus growth debate. Italy and Greece rejected pro-austerity parties in national elections, while agreements with harsh austerity requirements were signed, such as Greece's bailout and the deal to recapitalize Spanish banks.

In the U.S, economic indicators, such as employment, gross domestic product (GDP) and manufacturing activity, continued to point to a slow recovery for the world's biggest economy. In September 2012, the U.S. Federal Reserve announced another round of quantitative easing to support the labour market and the recovery in the U.S. housing market. Recent elections highlighted investor concerns over the U.S. Congress' ability to tackle fiscal spending and increasing debt levels. Although short-term deals averted a government shutdown, a grand-bargain deal to effectively address the deficit continued to elude the U.S. government and may lead to future headwinds on the U.S. and global economies.

Global headwinds had an adverse impact on commodity prices, which led to the Materials sector being the biggest laggard in the Canadian stock market. This offset the gains found in other sectors while moderating the overall gains made by the TSX. Canada's GDP managed to increase 1.7 per cent year-over-year as of February 2013. The increase was led by mining, quarrying, oil and gas extraction and real estate, rental and leasing. Public administration was the only real detractor to the GDP. Employment was up 1.2 per cent, or 203,000 with the majority of new jobs found in the services-producing sector. However, an increase in people looking for work left the unemployment rate unchanged at 7.2 per cent as of March 2013. According to the Bank of Canada's core index, inflation was at 1.4 per cent year-over-year as of March 2013.

Performance of the domestic bond portfolio was moderately positive on the year. The Bank of Canada once again left its key overnight rate at 1.0 per cent over the entire year, pushing back its timetable to increase rates in a response to continuing global economic concerns. The Bank of Canada's bond yields dropped somewhat, with the five-year bond yield dropping 0.3 per cent to 1.3 per cent, and the 10-year bond yield dropping 0.3 per cent to 1.8 per cent. The Canadian dollar slipped in value relative to the U.S. dollar, but appreciated in value relative to other global currencies and continues to be strong relative to its historic performance.

Overview

The Plan offers members the choice of six asset allocation funds:

- Accelerated Growth Fund
- Growth Fund
- Balanced Fund
- Moderate Fund
- Conservative Fund
- PEPP Steps Fund

Members may invest in the Short-term Bond Fund, either in addition to or instead of, investing in one of the six asset allocation funds.

PEPP Members

choose

Investment Options

Accelerated Growth Fund
Growth Fund
Balanced Fund
Moderate Fund
Conservative Fund
PEPP Steps Fund
Short-term Bond Fund

invest in

Asset Class	Investment Managers
Canadian Equities	Beutel, Goodman & Company Ltd. GE Asset Management Canada Company GlobeFlex Capital, L.P. QV Investors Inc. TD Asset Management Inc. J Zechner Associates Inc.
Foreign Equities	Schroder Investment Management North America Inc.* Investec Asset Management Ltd.* TD Asset Management Inc. BlackRock Asset Management Canada Inc. Tweedy, Browne Company LLC Franklin Templeton Institutional, LLC*
Real Estate	Greystone Managed Investments Inc.
Bonds	Greystone Managed Investments Inc. TD Asset Management Inc.
Cash & Equivalents	TD Asset Management Inc.
Short-term Bonds	Greystone Managed Investments Inc.

* As of March 31, 2013, manager was engaged to manage investments within PEPP, but related assets were in transition.

Asset allocation funds invest in a mix of asset classes, including equities (Canadian and foreign), real estate, fixed income and cash equivalents. The mix depends on the fund: more conservative funds are weighted more heavily toward fixed-income investments, where more aggressive funds are weighted more heavily toward equities. The Short-term Bond Fund is invested solely in fixed income investments.

Equities offer the greatest potential return, but are exposed to a high level of market volatility, meaning they are susceptible to losses over the short term. As such, equities are best suited for long-term investors who are able to ride out short-term volatility in return for long-term growth potential.

Fixed-income investments, such as bonds and cash equivalents, are lower-volatility investments, meaning they are much better suited to capital preservation. For this reason, members with less tolerance for short-term volatility may prefer funds with a greater percentage of fixed income.

Members are encouraged to make an investment choice that fits their risk tolerance and investment profile. PEPP's seven investment options offer members a range from the Accelerated Growth Fund, an equity-based fund, to the Conservative Fund to the Short-term Bond Fund, invested solely in fixed income investments.

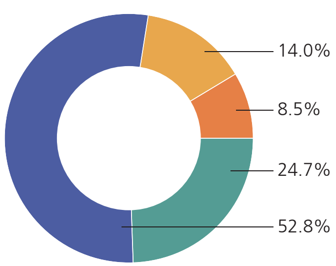
The PEPP Steps Fund, the default investment fund for the Plan, is an asset allocation fund that automatically moves members to more conservative investments over time. Equity holdings decrease and bond holdings increase by increments of approximately five per cent for each of the 12 steps.

Investment Options*

Accelerated Growth Fund

The Accelerated Growth Fund offers the highest risk and highest potential return. The goal of this fund is to provide capital growth over the long term. It invests primarily in equities. Foreign currency exposure for this fund is 35.9% (foreign exposure of 52.8%, less hedged exposure of 16.9%).

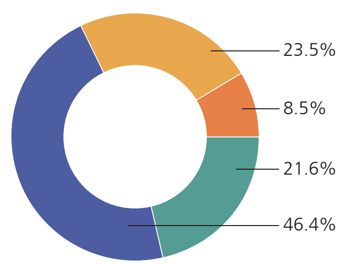
	10.3%	Annual Rate of Return
LESS	**0.51%**	Fund Fees
=	**9.8%**	Net Rate of Return



Growth Fund

The Growth Fund is an aggressive fund, offering relatively high risk and relatively high potential return. Its goal is to provide capital growth over the long term by investing largely in equities. Foreign currency exposure for this fund is 32.5% (foreign exposure of 46.4%, less hedged exposure of 13.9%).

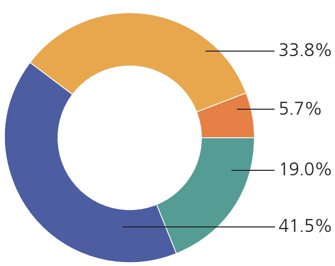
	9.8%	Annual Rate of Return
LESS	**0.46%**	Fund Fees
=	**9.3%**	Net Rate of Return



Balanced Fund

The Balanced Fund offers relatively balanced potential risk and return. Its goal is to provide long-term capital growth. The Balanced Fund provides a target weight of 65 per cent for equities and real estate. Foreign currency exposure for this fund is 30.9% (foreign exposure of 41.5%, less hedged exposure of 10.6%).

	9.3%	Annual Rate of Return
LESS	**0.39%**	Fund Fees
=	**8.9%**	Net Rate of Return



Fixed Income | Real Estate | Canadian Equity | Foreign Equity

* The pie charts for all of the investment options list the actual asset mix for each fund as at March 31, 2012.

Moderate Fund

The Moderate Fund is designated to provide a balance of security and long-term growth by balancing the risk and potential returns of the major asset classes. It invests almost equally in fixed income and equities with a small allocation to real estate. Foreign currency exposure for this fund is 24.3% (foreign exposure of 32.7%, less hedged exposure of 8.4%)

Conservative Fund

The Conservative Fund is designed to provide returns with little fluctuation. By focusing mainly on fixed income investments, it offers lower risk and lower potential for return than other PEPP asset allocation funds. Foreign currency exposure for this fund is 18.1% (foreign exposure of 21.1%, less hedged exposure of 3.0%).

Short-term Bond Fund

The Short-term Bond Fund is the most conservative investment choice within PEPP and offers the lowest potential risks and returns. Because its goal is to preserve capital, it invests strictly in bonds with a maturity of five years or less. There is no foreign currency exposure for this fund.

Moderate Fund

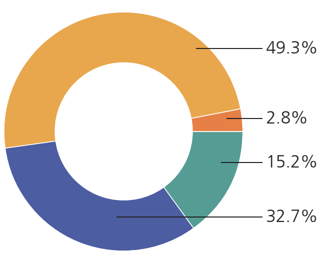
	8.1%	Annual Rate of Return
LESS	0.34%	Fund Fees
=	7.8%	Net Rate of Return

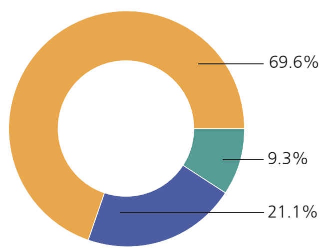
Conservative Fund

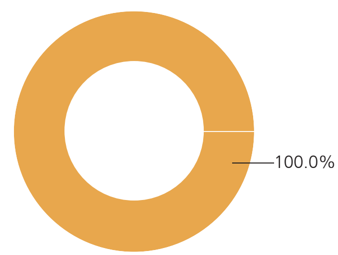
	6.4%	Annual Rate of Return
LESS	0.24%	Fund Fees
=	6.2%	Net Rate of Return

Short-term Bond Fund

	2.9%	Annual Rate of Return
LESS	0.21%	Fund Fees
=	2.7%	Net Rate of Return







Fixed Income | Real Estate | Canadian Equity | Foreign Equity

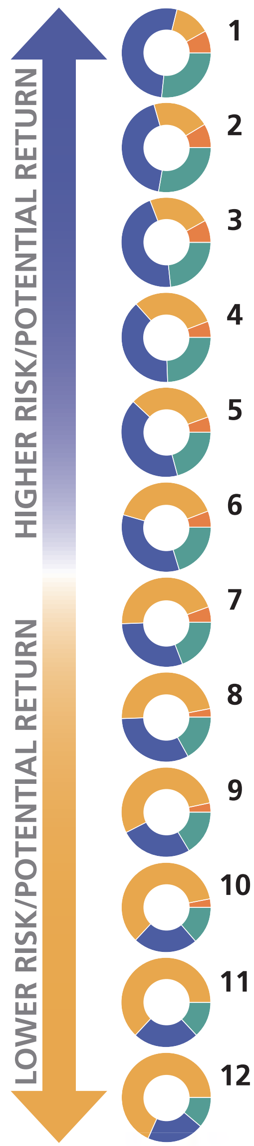
PEPP Steps Fund

The PEPP Steps Fund is the default investment fund for the Plan. It is made up of a diversified investment portfolio, which automatically moves members to more conservative investments in five-year intervals. Equity holdings decrease and bond holdings increase by increments of about five per cent for each step. Because of its unique structure, the PEPP Steps Fund does not have a single rate of return or fee level. Fees range from 0.51% for PEPP Step 1 to 0.24% for PEPP Step 12.

PEPP Fees and Rates of Return[1] (as at March 31, 2013)

	(%)		
Fund	Gross Rate of Return	Fees	Net Rate of Return
PEPP Step 1	10.3	0.51	**9.8**
PEPP Step 2	9.9	0.48	**9.4**
PEPP Step 3	9.8	0.46	**9.3**
PEPP Step 4	9.4	0.43	**9.0**
PEPP Step 5	9.3	0.39	**8.9**
PEPP Step 6	8.8	0.38	**8.4**
PEPP Step 7	8.5	0.35	**8.1**
PEPP Step 8	8.1	0.34	**7.8**
PEPP Step 9	7.8	0.31	**7.5**
PEPP Step 10	7.2	0.29	**6.9**
PEPP Step 11	6.8	0.25	**6.5**
PEPP Step 12	6.4	0.24	**6.2**

Table 1.5



Fixed Income Real Estate Canadian Equity Foreign Equity

Investment Managers

Within each asset class, one or more investment managers are used for each investment option. The use of different managers allows for further diversification of the investments within each investment option. The use of different investment managers allows the Plan to employ different investment styles that can focus on different regions or sectors for investment, reducing the risk that any one region, sector or style may suffer during any economic cycle or event.

Changes to Investment Managers In 2012-2013

The Board terminated two Canadian equity managers: Greystone Managed Investments Inc. (Greystone) and Hillsdale Investment Management Inc. They were replaced with four new Canadian equity managers: Beutel, Goodman and Company Ltd., GE Asset Management Canada Company, QV Investors Inc. and J. Zechner Associates Inc.

In addition, the Board terminated two foreign equity managers: Greystone (sub-advised by Hansberger Global Investors Inc.) and Franklin Templeton Investments Corp. (Templeton). They will be replaced by three global equity managers: Franklin Templeton Institutional, LLC (Franklin), Investec Asset Management Ltd. and Schroder Investment Management North America Inc. Franklin and Templeton are subsidiaries of Franklin Templeton Institutional, LLC.

Greystone continues to manage mandates for fixed income, short-term bonds and real estate on behalf of PEPP.

Investment Manager Mandates (as at March 31, 2013)

Investment Manager	Mandate	Description
Beutel, Goodman & Company Ltd. (Beutel Goodman)	• Canadian Equities	Actively manages Canadian equities
GE Asset Management Canada Company (GEAM)	• Canadian Equities	Actively manages Canadian equities
GlobeFlex Capital, L.P. (GlobeFlex)	• Canadian Equities	Actively manages small cap Canadian equities
J. Zechner Associates Inc. (Zechner)	• Canadian Equities	Actively manages small cap Canadian equities
QV Investors Inc. (QV)	• Canadian Equities	Actively manages small and mid cap Canadian equities
Greystone Managed Investments Inc. (Greystone)	• Real Estate • Fixed Income • Short-term Bonds	Actively manages real estate Actively manages fixed income Actively manages the Short-term Bond Fund
BlackRock Asset Management Canada Inc. (BlackRock)	• U.S. Equities	Actively manages small and mid cap U.S. equities, with currency hedging
TD Asset Management Inc. (TDAM)	• Canadian Equities • U.S. Equities • Fixed Income • Canadian Money Market	Passively manages Canadian equities Passively manages U.S. equities, without currency hedging Passively manages fixed income Actively manages Canadian money market

Investment Manager	Mandate	Description
Franklin Templeton Institutional, LLC (Franklin)*	• Global Equities	Actively manages global equities, without currency hedging
Investec Asset Management Ltd. (Investec)*	• Global Equities	Actively manages global equities, without currency hedging
Schroder Investment Management North America Inc. (Schroder)*	• Global Equities	Actively manages global equities, without currency hedging
Tweedy, Browne Company LLC (Tweedy)	• Non-North American Equities	Actively manages non-North American equities, with currency hedging

* As of March 31, 2013, manager was engaged to manage investments within PEPP, but related assets were in transition.

Table 1.6

Investment Performance

The board retains 12 investment managers to invest the assets of the Plan. Those managers employing an "active" investment management style are given the objective of out-performing the market index or benchmark selected for their mandate. Managers employing a "passive" investment management style are given the objective of equalling the market index or benchmark selected for their mandate.

Canadian Equities	Net Rate of Return 1-Year Return	Net Rate of Return 4-Year Return
Canadian Equity Manager		
TDAM (passive manager)	6.1	13.1
Benchmark (S&P/TSX Capped Composite Index)	6.1	13.2
Canadian Small Cap Equity Manager		
GlobeFlex (active manager)	7.7	17.4
Benchmark (S&P/TSX Small Cap Index*)	(4.1)	20.6

Table 1.7

* Prior to January 2013, benchmark was the BMO Small Cap Index.

U.S. Equities	Net Rate of Return 1-Year Return	Net Rate of Return 4-Year Return
U.S. Equity Manager		
TDAM (passive manager)	15.8	14.7
Benchmark (S&P 500 Index - $Cdn)	15.8	14.7
U.S. Small/Mid Cap Equity Manager		
BlackRock (active manager)	11.7	n/a
Benchmark (S&P US Small/Mid Cap Index - Hedged)	16.8	n/a

Table 1.8

Non-North American Equities	Net Rate of Return 1-Year Return	Net Rate of Return 4-Year Return
Hedged Non-North American Equity Manager		
Tweedy (active manager)	19.2	18.2
Benchmark (MSCI EAFE Index - Hedged)	17.1	13.3

Table 1.9

Real Estate	Net Rate of Return 1-Year Return	Net Rate of Return 4-Year Return
Real Estate Manager		
Greystone (active manager)	11.7	7.5
Benchmark (Investment Property Databank)	14.3	10.8

Table 1.11

Fixed Income	Net Rate of Return 1-Year Return	Net Rate of Return 4-Year Return
Canadian Bond Managers		
Greystone (active manager)	4.4	6.9
TDAM (passive manager)	4.5	6.1
Benchmark (DEX Universe Bond Index)	4.5	6.1
Short-term Bond Manager		
Greystone (active manager)	2.9	3.8
Benchmark (DEX Short-term Bond Index)	2.9	3.5

Table 1.10

Cash and Equivalents	Net Rate of Return 1-Year Return	Net Rate of Return 4-Year Return
Money Market Manager		
TDAM (active manager)	1.2	1.1
Benchmark (DEX 91-Day T-Bill Index)	1.0	0.8

Table 1.12

Notes:

During 2009, the Board terminated the U.S. equity mandate managed by Northwater Capital Management Inc. (Northwater). A less liquid portion of this mandate, consisting of a fund of hedge funds, is still held by the Plan and is being redeemed. Subsequent to termination, Northwater sold its fund of hedge funds operations to Crestline Investors Inc.

Due to the recent inception, performance for Beutel Goodman, GEAM, QV and Zechner is unavailable.

Investment Consulting

The Board retains Mercer (Canada) Limited for investment consulting services that include research and analysis of financial markets, market trends, investment managers, and investment performance, but also global trends in investments and pension plan design. Mercer (Canada) Limited was paid $459,912 in fees for the year ended March 31, 2013.

Investment Custody and Valuation

The Board retains RBC Dexia Investor Services Trust as the custodian of the Plan. The custodian is responsible for custody of all financial assets for PEPP, settles all investment transactions and ensures all investment income (dividends and interest) is collected. The custodian also reports all investment transactions and conducts valuation for the Plan. The custodian was paid $674,000 for the year ended March 31, 2013.

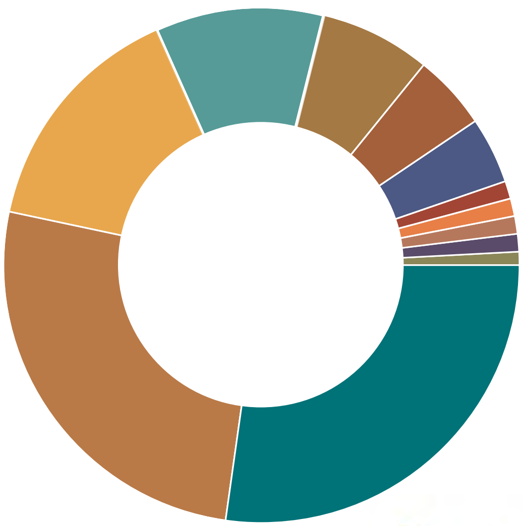
Investment Administration

PEBA is retained by the Board for administration of the Plan's investment program. This includes declaring unit values for all investment options, monitoring of investment performance, communicating with external investment managers and the investment consultant, research, compliance monitoring and managing asset mix and cash flows.

Investment Manager Fees ($ thousands) (for the 2012-13 fiscal year)

3,440	Tweedy, Browne Company LLC
3,318	Greystone Managed Investments Inc.
1,860	Franklin Templeton Investments Corp.
1,331	BlackRock Asset Management Canada Inc.
881	GlobeFlex Capital L.P.
606	Hillsdale Investment Management Inc.
539	TD Asset Management Inc.
132	GE Asset Management Inc.
132	QV Investors Inc.
132	J Zechner Associates Inc.
131	Beutel, Goodman Company Ltd.
105	Crestline Investors, Inc.

$12,607 Total Investment Manager Fees*



PLAN Administration

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

Under contract with the Board, PEBA provides all services required to operate, administer and manage the Plan in a manner consistent with and according to all statutory provisions and regulations that apply to the Plan.

To administer the Plan, PEBA:

- maintains all member and accounting records;
- collects and deposits contributions to the Fund;
- transfers contributions to the custodian of the Fund for investment;
- determines all questions of coverage, eligibility and methods of providing or arranging for the provision of pension benefits;
- calculates and pays all pension benefits;
- communicates with members and participating employers; and
- prepares the annual report.

PEBA also provides Senior Executive Officer services and Executive Secretary services to the Board. In 2012-2013, the Board paid PEBA $6,194,000 for administrative services.

Administration Service Standards

PEBA reports performance measurement against standards to the Board quarterly. *Table 1.13* and *Table 1.14* provide measurement results for the 2012-2013 year.

Participating employers include the Government of Saskatchewan, Crown Corporations, agencies, boards and other public institutions.

PEBA Service Standards April 1, 2012 to March 31, 2013

Task	Completed	Met or Exceeded Standard Number	Met or Exceeded Standard %	Standard (Days)*	Statutory Requirement (Days)**
Statement on Termination of Membership (option letter)	3,286	2,917	88.8	4	90
Payment of Termination Benefits	1,608	1,494	92.9	4	-
Statement on Retirement (option letter)	521	485	93.1	4	90
Retirement Payments	2,093	1,935	92.5	4	-
Statement on Death (option letter)	62	59	95.2	5	90
Payment of Death Benefits	70	62	88.6	4	-
Pension Estimates-Variable Pension Benefit	619	593	95.8	4	-
Pension Estimates-Annuity	643	616	95.8	4	-
Marriage Breakdown Estimates	82	78	95.1	5	-
Portability Transfer Values	59	50	84.7	5	-
Written Correspondence	4,161	4,161	100.0	5	-
Total	**13,204**	**12,450**	**94.3**		

Table 1.13

PEBA Periodic Requirements April 1, 2012 to March 31, 2013

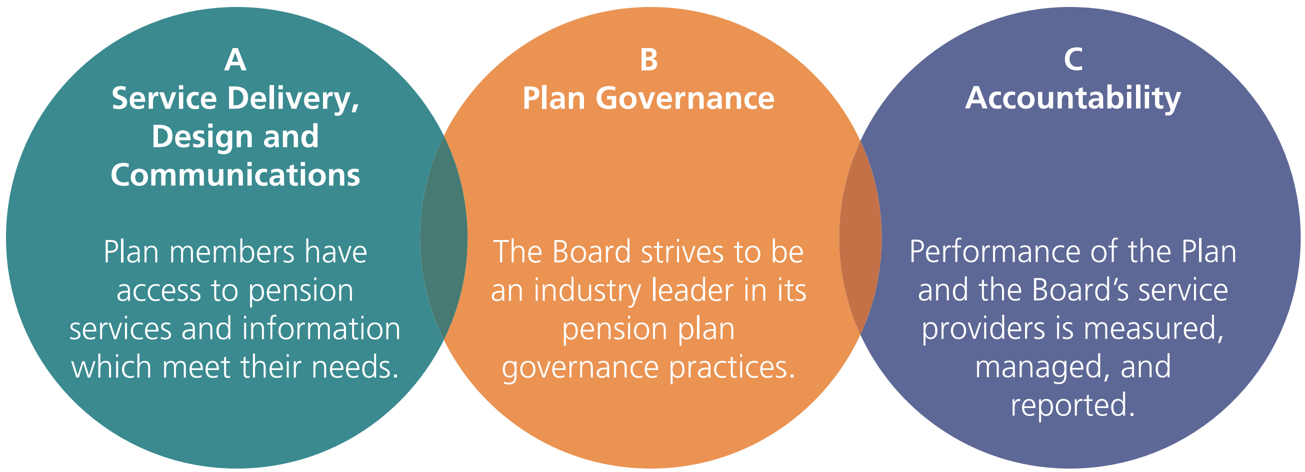
Task	Completed	Met or Exceeded Standard Number	Met or Exceeded Standard %	Standard (Days)*	Statutory Requirement (Days)**
Member Statement	2	2	100.0	75	180
Reporting on Budget Variances	4	4	100.0	Quarterly	-
Proposed Annual Budget	1	1	100.0	By March 31	-
Performance Measurement	4	4	100.0	Quarterly	-
Board Decision Affecting Individual Clients	0	N/A	N/A	1 Month	-
Newsletter (*Pension Perspectives*)	4	4	100.0	Quarterly	-
Total	**15**	**15**	**100.0**		

Table 1.14

* Standard is set within the contract between the Board and PEBA.
** Statutory Requirement is a compliance standard within *The Pension Benefits Act*, *1992* and *Regulation*, *1993*.

STRATEGIC Goals

The Board has adopted a comprehensive governance process that includes regular strategic planning and risk assessment. The strategic goals of the PEPP Strategic Business Plan for 2013-2014 include:



The Board conducts a review of its strategic business plan annually. The strategic business plan is constructed on a rolling three-year basis.

The PEPP strategic business plan was developed within the context of the Plan's purpose, mission and goals.

STRATEGIC Initiatives

A. Service Delivery, Design and Communications

The Board is committed to ensuring that Plan members have access to pension services and information which meet their needs.

The Board is determined to maintain its position as an industry leader in the value-added services the Plan provides to its members.

The Board is continually exploring leading industry practices, but its primary benchmark in Plan design and service delivery is the satisfaction of Plan members. The Board's goal is to ensure that Plan design and service delivery meet Plan member needs.

This means providing members with risk-appropriate investment options to enable them to make the investment choice that is most appropriate to their circumstances. It also means providing members with the information needed to make that choice.

The best way the Board can know whether the options and services it provides are meeting member needs is to ask members. The Board is committed to facilitating two-way communication with members to gather their feedback.

The Board's goal is to provide options and services that give members every reason to remain in the Plan and that attract the attention of other public-sector employers and employees who will seek to join the Plan.

Activities Accomplished in 2012-2013

Define the Plan's role in the provision of financial advice to members. Conduct research regarding the provision of financial advice and develop a recommended service delivery model.

- The Plan continued its consultation with the Financial and Consumer Affairs Authority regarding the provision of advice to Plan members to assist them with the decisions they must make as members of the Plan.

Update the suite of investment products. Review the investment policy regarding alternative asset classes and asset allocation.

- The Board began implementing its plan to enhance the Plan's investment options to improve member outcomes. The initiative is called *Get More*.
- The first of five planned changes occurred on November 1, 2012, when the Plan enhanced the PEPP Steps Fund, the Plan's default fund. The change will provide members with more opportunity for growth when the member is young, but will continue to decrease investment risk as the member ages and gets closer to retirement.
- The Plan provided communication to Plan members regarding the Plan enhancements, including an online video explaining the Plan amendment and targeted communications to members whose accounts would be affected by the change.
- The new *My PEPP Investor Profile* was created during this period to better assist plan members in making investment decisions.
- The change to the PEPP Steps Fund affected 10,377 members. All affected members were informed of the changes and provided with information on how to choose another investment option, if desired. Approximately 28 per cent of these members responded by providing positive indications of the investment funds in which they wished their accounts to be invested, including remaining in the PEPP Steps Fund.

Assess the feasibility of enhancing self-service by expanding online capabilities, research service delivery options, and decide on a course of action.

- The Plan commenced providing members with the ability to sign up for electronic communications in place of paper in February 2013.
- The Plan identified means of improving Retire@Ease™, the Plan's retirement planning application, to better serve retired members, and it made improvements to the system to accommodate the first of the planned enhancements to the Plan, the adjustment of the PEPP Steps Fund.
- An online interactive version of the revised *My PEPP Investor Profile* has been made available to plan members.
- The Plan now permits members to confirm their investment choice via PEPP *Access*, which means new enrolments in PEPP Steps no longer need to submit a paper form to the Plan.

Other activities accomplished in 2012-2013:

- The Plan commenced surveying members online regarding presentations, the *Pension Perspectives* newsletter, and the video communications provided on the Plan website. The results of the member surveys will aid the Plan in improving communications materials to better meet the needs of members.

Activities Planned for 2013-2014

Define the Plan's role in the provision of financial advice to members. Conduct research regarding the provision of financial advice and develop a recommended service delivery model.

- The Plan will continue consultation with the Financial and Consumer Affairs Authority regarding the provision of advice to Plan members to assist them with the decisions they must make as members of the Plan.

Update the suite of investment products. Review the investment policy regarding alternative asset classes and asset allocation.

- Continue implementation of the Board's plan to enhance the Plan's investment options to improve member outcomes.
- Communicate with Plan members as required regarding the plan enhancements.

Assess the feasibility of enhancing self-service by expanding online capabilities, research service delivery options, and decide on a course of action.

- Implement improvements to Retire@Ease™ to better serve retired members.

The Board will continue to implement their plan to enhance the Plan's investment options to improve member outcomes.

B. Plan governance

Pension plan governance refers to the roles and responsibilities of the Board and its service providers in fulfilling the Boards fiduciary* obligations to Plan members and their beneficiaries. The Board strives to be an industry leader in its pension plan governance practices.

The Board recognizes that good governance is crucial to the long-term success of the Plan. Good governance requires appropriate control mechanisms that encourage good decision making, proper and timely execution, and regular review and assessment. The Board has invested considerable effort in developing its governance practices and policies, and will continue to seek ways of improving its governance program.

Several ongoing initiatives have been implemented in this area, including:

- annual self-assessment based on Canadian Association of Pension Supervisory Authorities Guidelines;
- annual self-assessment and periodic external assessment against the Guidelines for Capital Accumulation Plans and best practices;
- the creation of a Board Policy Manual with ongoing policy development; and
- periodic benchmarking of the Board's governance practices against the governance practices of other pension governing bodies through benchmarking surveys and audits.

The Board's primary objective in its pursuit of this goal is to improve its oversight of the Plan.

Activities Accomplished in 2012-2013

Review the Plan's risk management program and develop a plan to address any items requiring attention.

- The Board's administrator retained an expert to conduct a comprehensive assessment of the Plan's risks and develop a report outlining the risks, the strategies in place to mitigate those risks, additional strategies to be implemented to further manage the risks, and the level of risk remaining after all management strategies are enacted.
- The Board's administrator adopted a plan to implement additional strategies to further mitigate the risks to the Plan.

Other accomplishments in 2012-2013

- The Board retained experts to facilitate a review of the administration of the Plan and of alternate models for the administration of the Act to determine if the Board can better carry out its duties to Plan members. The consultants provided their report to the Board at its meeting of January 23, 2013.
- The Board amended its orientation program for new Board members to include a greater focus on governance best practices.

Activities Planned for 2013-2014

The Board will examine the report regarding the potential administrative models for the Plan and formulate a position on the consultants' recommendation.

* *A fiduciary relationship is a legal term for a special type of relationship under the law where one party is bound to act strictly in the best interest of the beneficiary. An example of a fiduciary relationship is the relationship between a doctor and a patient: a doctor is bound to act honestly, in good faith, and strictly in the best interest of the patient.*

C. Accountability

The Board measures, manages and reports on the performance of the Plan and its service providers.

The Board believes that good governance requires a strong focus on accountability, the basis of which is the establishment of measurable objectives, the monitoring of progress against these objectives, and the communication of the results to Plan stakeholders.

The Board has made considerable progress with respect to this goal, including:

- the establishment of service standards for the Plan administrator;
- the development and implementation of a strategic business plan; and
- annual Board member self assessment.

The Board has two primary objectives in its pursuit of this goal:

- The Board demonstrates that it governs the Plan responsibly.
- The Board demonstrates that it provides appropriate oversight of service providers.

Activities Accomplished in 2012-2013

The Board will review additional recommendations with regard to the Plan's balanced scorecard and the Plan's enhanced reporting framework as a whole.

- The Board amended its enhanced reporting framework and commenced receiving reports employing draft targets for the evaluation of performance.

Activities Planned for 2013-2014

Implement the remaining enhanced reporting measures and evaluate the efficacy of the enhanced reporting framework.

Public Employees Pension (PEPP)
Plan Member

RISK Management

Within its mandate, the Board is responsible for managing risks that could affect the Plan's members, the operation of PEPP and other stakeholders.

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

Risk: The potential events and trends that may positively or negatively affect the operation of the Plan, the members or other stakeholders of the Plan or the attainment of strategic goals.

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

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

The Board's Risk Management Philosophy Statement

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

The Board is responsible for managing risks that could affect the Plan's members, the operation of PEPP and other stakeholders.

Key Risks

In order to assist in the identification and assessment of all foreseeable risks in the Plan, the Board has identified the following key broad-based risks to the Plan:

Broad-based Risks		Key Risks
Strategic Risk	Strategic Risk is the risk of failing to meet objectives. Strategic risk is further categorized into governance, reputation, plan design and communication considerations.	• Failure to meet plan members' or participating employers' needs. • Lack of member understanding of the role of the pension plan in the attainment of their retirement objectives.
Financial Risk	In order to meet the long-term needs of members and employers, sustainable pension products responsive to and valued by members, employers, unions and the sponsor must be maintained. This must be achieved in a way that considers the affordability and adequacy of the Plan's services.	• Investment of assets. • Excessive costs/expenses. • Fraudulent activities of service providers, the administrator or the Board.
Regulatory Risk	Regulatory risk is the risk of not meeting objectives due to non-compliance with legislation or regulation, or due to changes in legislation or regulations, or precedent-setting court decisions.	• Non-compliance with legislative and common-law requirements. • Failure to meet fiduciary obligations to Plan members and their beneficiaries or obligations to other stakeholders.
Operational Risk	Operational risk is the risk of failing to meet objectives due to inadequate or failed internal processes, human performance, or technology, or due to external events. Operational risks includes service-provider risk, which is the risk of failing to meet objectives due to the inability or unwillingness of a service provider to fulfill its obligations.	• Errors and omissions by administrative agent or professional advisors. • Service provider unable to carry on business. • Poor performance of service providers.

The Board believes that these broad-based risks are integrated with each other and with the processes of the Plan. Therefore, the Board has resolved to retain a balanced approach in the management of all four types of risks.

The Board has developed and implemented these strategies and ongoing business practices to manage the following risks:

- The Board implemented a Statement of Investment Policies and Goals (SIP&G) that outlines the Board's investment beliefs and provides for risk management through diversification of asset classes, capital markets and investment managers.

  The SIP&G defines the benchmark to which investment performance is measured. The Board annually reviews the SIP&G.

  The Board communicates investment performance.

  Independent monitoring is carried out by:

  - PEBA;
  - Mercer (Canada) Ltd.;
  - RBC Dexia Investor Services; and
  - custodians of pooled funds used by the Board.

- The Board ensures initiatives and Plan-related activities are adequately funded through its budgeting process.
- The Board receives a report comparing the administrative costs for public-sector pension plans, including other public-sector defined contribution pension plans, annually.
- The Board reviews the performance standards for the Board's administrator quarterly, investment consultant annually, investment managers quarterly, and custodian semi-annually.
- The Board annually evaluates the performance of the executive management services provided by its administrator.
- The Board requires that service providers confirm that they maintain disaster recovery plans and adhere to a code of conduct.
- There are two levels of audit:
  - The Board retains Deloitte & Touche LLP to conduct an audit of the Plan.
  - The Provincial Auditor reports to the Legislative Assembly regarding the audit of the Plan.
- The Board has an Acquisition and Retention of Services policy that details how the Board is to retain and evaluate service providers.
- The Board's administrator reviews and reports compliance with legislative requirements annually.
- The Periodic Checklist is a list of major items identified by the Board that are necessary for the administration of a pension plan. The checklist allows verification that an activity has been carried out. The completed Periodic Checklist is provided to the Board on a semi-annual basis.
- Board members are required to review and sign the Board's Code of Conduct and Conflict of Interest Procedures at least annually.
- The Board has outlined the education required to aid Board members in executing their fiduciary and governance duties.
- The Board formally reviews its Strategic Business Plan on a periodic basis.
- The Board regularly consults with legal counsel and outside advisors regarding issues on which it is deliberating.

- The Board retains service providers who are experts in the responsibilities to which they are assigned with respect to the Plan.
- PEBA staff provides retirement information seminars and individual information to Plan members.
- Information tools include member and employer seminars, employer bulletins and guides, website information, and written materials.
- The Board consults with Plan members and participating employers on a regular basis to determine their needs.

Activities Accomplished in 2012-2013

Board oversight of the implementation of changes to the Plan's investment options.

- Throughout the year, the Board monitored the progress of planned amendments to the Plan's investment options intended to improve member outcomes.

Periodic evaluation by the Board's administrator of the performance of the auditor, investment consultant and custodian.

- The Board reviewed the performance of its auditor in September 2012. The Board reviewed the performance of its custodian in September 2012 and January 2013. The Board reviewed the performance of its investment consultant in April 2013. The evaluations found the performance of all service providers to be satisfactory.

Quarterly updates comparing actual expenditures versus budgeted amounts.

- The Board received quarterly updates on its budget for the periods ending June, September, and December 2012, and March 2013.

Semi-annual completion of the Periodic Checklist.

- PEBA provided the Board with the final Periodic Checklist for 2011-2012 in May 2012 and the interim Periodic Checklist for the first six months of 2012-2013 in November 2012.

Continued work in 2012-2013 on the audit program for PEBA's unit value processes in order to ensure that PEBA's processes are appropriate and may be relied upon.

- In November 2012, the Board received a report by its auditor regarding PEBA's calculation of unit values. The report noted that PEBA's daily unit value processes were appropriate.
- In January 2013, the Board approved a strategy for third-party validation of the process used by PEBA to calculate daily unit values. The strategy includes an annual audit of controls with a periodic review of operations, process, and methodology.

The performance evaluations found the performance of all service providers to be satisfactory.

Other Activities Accomplished in 2012-2013

- PEBA retained an expert to facilitate a comprehensive assessment of the Plan's risks and develop a report outlining the risks, the strategies in place to mitigate those risks, additional strategies to be implemented to further manage the risks, and the level of risk remaining after all management strategies are enacted. The results of the report will be considered in amending the Plan's risk management plan and review process.

- PEBA enhanced its systems and processes for investment fund monitoring and unit value validation in 2012-2013.

- PEBA engaged an audit firm in 2012-2013 to design an audit program for PEBA's unit value processes. The purpose of the audit is to assure the Board that PEBA's processes for the calculation of PEPP daily unit values are appropriate and may be relied upon.

Activities Planned for 2013-2014

- The Board will continue its oversight of the implementation of the changes it directed be made to the Plan's investment options.

- The Board will continue to periodically evaluate the performance of its auditor, investment consultant, and custodian.

- The Board will continue to receive quarterly updates comparing actual expenditures versus budgeted amounts.

- The completed Periodic Checklist will be provided to the Board on a semi-annual basis.

- The Board will continue to oversee the audit program for PEBA's unit value processes in order to ensure that PEBA's processes are appropriate and may be relied upon.

- The Board will consider amending its risk management framework to reflect the work done during the 2012 risk assessment. Amendments may include additional strategies to be implemented to further manage the risks facing the Plan.

Public Employees Pension (PEPP)
Plan Member

MANAGEMENT'S Report

To the Members of the Legislative Assembly of Saskatchewan

The Public Employees Pension Board is composed of four members appointed on behalf of participating employers, four members appointed on behalf of employees, and a Chairperson selected through a formal recruitment process. The Board is responsible for financial administration, administration of the funds and management of assets.

The financial statements, which follow, have been prepared by management in conformity with Canadian Generally Accepted Accounting Principles (GAAP) and have been approved by the Board. Management uses internal controls and exercises its best judgment in order that the financial statements reflect fairly the financial position of the Plan.

The financial statements were examined by Deloitte LLP. Their report follows.

Brian Smith
Assistant Deputy Minister
Public Employees Benefits Agency

Regina, Saskatchewan
June 26, 2013

FINANCIAL Statements (as at March 31, 2013)

Public Employees Pension Board

Public Employees Pension Plan

Deloitte.

INDEPENDENT AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan:

We have audited the accompanying financial statements of the Public Employees Pension Plan, which comprise the statement of financial position as at March 31, 2013 and the statement of changes in net assets available for benefits for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Public Employees Pension Plan as at March 31, 2013 and the changes in net assets available for benefits for the year then ended in accordance with Canadian accounting standards for pension plans.

Deloitte LLP

Chartered Accountants
June 26, 2013
Regina, Saskatchewan

Public Employees Pension Plan Statement of Financial Position

Statement 1

	(in thousands)			
		March 31 2013		**March 31 2012**
ASSETS				
Investments (Note 4)				
Short-term	$	28,244	$	36,328
Bonds and debentures		768,417		778,759
Equities		1,980,909		1,420,294
Pooled funds		2,407,534		2,418,771
Real estate		-		-
Investments under securities lending program		276,762		391,188
		5,461,866		5,045,340
Receivables				
Contributions receivable - employee		1,776		1,923
Contributions receivable - employer		1,835		1,990
Accrued investment income		8,750		8,749
		12,361		12,662
Cash		118,811		38,965
Due from General Revenue Fund (Note 7)		4,931		4,564
Total assets		5,597,969		5,101,531
LIABILITIES				
Administrative expenses payable		3,678		6,001
Refunds, transfers and other payables		2,552		1,227
Total liabilities		6,230		7,228
NET ASSETS AVAILABLE FOR BENEFITS	$	5,591,739	$	5,094,303

(See accompanying notes to the financial statements)

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

Statement 2

For the Year Ended March 31	2013 (in thousands)	2012 (in thousands)
INCREASE IN ASSETS		
Investment income		
Interest	$ 29,509	$ 27,930
Pooled funds	73,552	77,716
Dividends	53,927	44,665
Other	887	79
	157,875	150,390
Change in fair value of investments	293,895	-
Contributions		
Employee contributions	116,961	113,922
Employer contributions	133,517	126,431
External transfers in	15,094	13,514
	265,572	253,867
Total increase in assets	717,342	404,257
DECREASE IN ASSETS		
Transfers, refunds and benefits (Note 6)	184,771	160,403
Transfers to Saskatchewan Pension Annuity Fund	10,359	10,528
Investment transaction costs	5,192	3,820
Administrative expenses (Note 8)	19,584	20,590
	219,906	195,341
Change in fair value of investments	-	30,943
Total decrease in assets	219,906	226,284
Net increase in net assets	497,436	177,973
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	5,094,303	4,916,330
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$ 5,591,739	$ 5,094,303

(See accompanying notes to the financial statements)

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 domiciled in Regina, Saskatchewan, and 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 five asset allocation Funds: the Accelerated Growth Fund; the Growth Fund; the Balanced Fund; the Moderate Fund; the Conservative Fund; one lifecycle Fund: the PEPP Steps Fund; and the Short-term Bond Fund.

All Funds receive and hold, in trust for members, contributions from the members and employers (“participants”) and investment income derived from the Plan’s investments.

All Funds hold varying percentages of bonds, equities, real estate, mortgages, pooled funds, short-term investments and derivative financial instruments. The asset mix of each fund is established based on the expected volatility of the underlying securities and assets. The Accelerated Growth Fund is considered the most volatile and contains the highest percentage of equities relative to fixed income investments of all the funds. The Short-term Bond Fund is considered the least volatile and contains the lowest percentage of equities relative to fixed income investments.

Effective November 1, 2007, members of PEPP may choose either one of the five asset allocation funds or the PEPP Steps Fund. In addition, each member may also choose the Short-term Bond Fund.

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

The Plan introduced a Variable Pension Benefit option ("VPB") in May 2006 whereby retired members could elect to withdraw all or some of their pension funds either through lump-sum withdrawals or scheduled monthly payments. Members who participate in the VPB may choose to invest in any of the funds which are offered by the Plan.

b) **Administration**

The Act established the Public Employees Pension Board ("Pension Board") to administer the Plan. The Pension Board is comprised of nine members: four are appointed on behalf of participating employers, four on behalf of employees. The Board conducts an external recruitment process to choose a Chair, who is appointed for a three-year term. The Public Employees Benefits Agency ("PEBA") is under contract with the Board to provide day-to-day administration.

c) **Retirement**

Members may retire as early as age 50.

Upon retirement a member may choose to receive a VPB from the Plan or to 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 71, 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.

Members who elect to receive a VPB retain their account balances within the Plan. Those members who purchase their annuities from the Saskatchewan Pension Annuity Fund have their accumulated balance in the Plan at the date of retirement transferred to the Saskatchewan Pension Annuity Fund.

A VPB is a periodic payment made from a registered plan to a member of that plan and which must conform to certain minimum payment requirements but not to any maximum payment requirements.

d) **Completeness of Contributions**

Participants are responsible for the accuracy and completeness of member contributions remitted to the Plan. Accordingly, these financial statements presume the accuracy and completeness of the participants' contributions.

2. Basis of Preparation

a) Statement of Compliance

The financial statements for the year ended March 31, 2013 have been prepared in accordance with Canadian accounting standards for pension plans as defined in the Canadian Institute of Chartered Accountants ("CICA") Handbook section 4600, *Pension Plans.* For matters not addressed in Section 4600, International Financial Reporting Standards ("IFRSs") have been followed.

These financial statements were authorized and issued by the Board on June 26, 2013.

b) Functional and Presentation Currency

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

3. Significant Accounting Policies

The significant accounting policies are as follows:

a) Investments

Investments are stated at their fair value in the Statement of Financial Position. The change in the fair value of investments 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 and equities are valued at year-end quoted bid prices from recognized security dealers and accredited stock exchanges on which the security is principally traded.

Pooled fund investments are valued at the unit value supplied by the pooled fund administrator, which represent the underlying net assets of the pooled fund at fair values determined using closing bid prices.

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

Investment transactions are recorded on the trade date.

b) **Other Assets and Financial Liabilities**

Accounts receivable are classified as loans and receivables and accounts payable are classified as other financial liabilities and are measured at amortized cost. Due to their short-term nature, the amortized cost of these instruments approximates their fair value.

c) **Investment Income and Transaction Costs**

Investment income, which is recorded on the accrual basis, includes interest income, dividends, real estate operating income, pooled fund 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.

d) **Foreign Currency Translation**

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

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

e) **Income Taxes**

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

f) **Use of Estimates and Judgments**

The preparation of financial statements in accordance with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial 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. Actual results could differ from these estimates.

g) **Future Accounting Policy Changes**

A number of new standards, amendments to standards and interpretations which become effective for annual periods beginning on or after January 1, 2015 and January 1, 2013 respectively, and which may have an impact on the Plan, include: IFRS 9, Financial Instruments; IFRS 12, Disclosure of Interests in Other Entities; and IFRS 13, Fair Value Measurement. The extent of the impact on adoption of these standards is not known at this time, but is not expected to be material.

4. Investments

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

	(in thousands) 2013	2012
Short-term	$ 28,244	$ 36,328
Bonds and debentures	768,417	778,759
Equities	1,980,909	1,420,294
Pooled funds	2,407,534	2,418,771
	$ 5,185,104	**$4,654,152**
Investments under securities lending:		
Short-term	$ -	$ 1,676
Bonds and debentures	111,332	78,519
Equities	165,430	310,993
	$ 276,762	**$ 391,188**

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 105% of the market value of the loaned securities is retained by the Plan until the loaned securities have been returned (see Securities Lending Program in note 9). The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. In addition, the custodian provides indemnification against any potential losses in the securities lending program. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

Short-term Investments

Short-term investments are comprised of treasury bills, notes and commercial paper with effective rates of 1.00% to 1.30% (2012 – 0.11% to 1.30%), and an average remaining term to maturity of 68 days (2012 - 66 days). Also included in short-term investments are repurchase agreements and foreign exchange forward contracts (see note 5) and a foreign short-term pooled fund.

The Plan's investment policy states that investments must meet a minimum investment standard of "A2/P2" or equivalent rating by a recognized credit rating service.

Other than the Government of Canada, no single issue represents more than 13.99% (2012 – 20.78%) of the market value of the short-term investment portfolio.

Bonds and Debentures

2013 (in thousands)

Years to Maturity	Federal	Provincial	Municipal	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 5	$ 224,224	$ 91,422	$ 5,882	$ 286,882	$ 608,410	0.00% - 5.95%	0.97%
5 to 10	27,604	43,469	7,806	38,782	117,661	2.65% - 11.00%	2.24%
Over 10	21,510	79,428	1,975	50,765	153,678	0.80% - 8.29%	3.31%
Market Value	$ 273,338	$ 214,319	$ 15,663	$ 376,429	$ 879,749		

2012 (in thousands)

Years to Maturity	Federal	Provincial	Municipal	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 5	$ 294,796	$ 54,351	$ -	$ 199,717	$ 548,864	0.75% - 5.95%	1.75%
5 to 10	31,586	31,046	13,604	89,187	165,423	1.90% - 11.00%	2.50%
Over 10	20,544	67,567	1,971	52,908	142,990	0.00% - 8.29%	3.55%
Market Value	$ 346,926	$ 152,964	$ 15,575	$ 341,812	$ 857,277		

Included in the above amounts of corporate bonds are foreign bonds, issued in Canadian currency, with a market value of $4.0 million (2012 - $4.2 million). Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties. As at March 31, 2013, approximately $6.6 million (2012 - $6.6 million) in asset-backed securities is included in bonds.

Equities

The Plan's investment policy allows no one holding to represent more than 10% of the book 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, 2013, the market value of the Plan’s foreign equity investments in Canadian dollars amounted to $1,471 million (2012 - $1,129 million) and included currencies from regions around the world including Argentina, Australia, Brazil, Chile, Croatia, Czechoslovakia, Denmark, Egypt, Eurozone, Hong Kong, Hungary, India, Indonesia, Israel, Japan, Jordan, Malaysia, Mexico, Morocco, New Zealand, Norway, Philippines, Poland, Qatar, Rial, Romania, Singapore, South Africa, South Korea, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Kingdom, and United States. Foreign equities represent 68.60% (2012 – 65.20%) of the market value of the directly-held equity portfolio.

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 2.89% (2012 – 3.07%).

Pooled Funds

The Plan’s 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 when units of the pooled fund are sold.

The Plan's pooled funds are comprised of:

	Units Held (in thousands)		% of Total Units Outstanding		Market Value (in thousands)	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Canadian Equity						
TD Emerald Canadian Market Capped Pooled Fund Trust	187,643	158,813	37.21%	40.26%	$ 266,304	$ 219,783
US Equity						
Hillsdale US Performance Equity Pooled Fund *Note 1*	-	105	-	15.75%	-	10,644
TD Emerald Pooled U.S. Fund	23,665	23,127	18.60%	18.67%	532,001	459,437
Global Equity						
Greystone EAFE Growth Fund *Note 2*	-	24,613	-	13.76%	-	216,695
Trent River Offshore Class R1 *Note 3*	1	1	6.01%	16.13%	12,869	11,226
Trent River Offshore Class R2 *Note 3*	-	1	-	100.00%	-	9,411
Fixed Income Fund						
TD Emerald Canadian Bond Pooled Fund Trust	102,519	93,858	21.25%	23.44%	1,124,733	1,027,990
Other						
TD Emerald Canadian Short-Term Investment Fund	8,063	8,365	5.92%	6.30%	176,076	176,200
Greystone Real Estate Fund	3,158	3,438	7.60%	8.99%	295,551	287,385
					$ 2,407,534	$ 2,418,771

Note 1 Hillsdale Pooled Fund liquidated
Note 2 Greystone EAFE Fund liquidated
Note 3 Trent River Class 1 and Class 2 combined into 1 pooled fund this year

The Trent River Offshore Funds at March 31, 2013 consist of $12.9 million (2012 - $20.6 million) invested in market neutral hedge funds. The hedge funds use a variety of investment strategies.

The TD Emerald Canadian Market Capped Pooled Fund Trust may invest in equity index futures to replicate the return of the S&P/TSX Composite Index components.

The TD Emerald Pooled U.S. Fund may invest in equity index futures to replicate the return of the S&P 500 Composite Index components.

The TD Emerald Canadian Bond Pooled Fund Trust may not invest in any derivative investments.

The TD Emerald Canadian Short Term Investment Fund may use derivatives such as options, futures, forward contracts and swaps provided the reasons for use are consistent with the Fund's objectives and strategies. The Fund does not use derivatives for speculative trading or to create a portfolio with excess leverage.

Investments in real estate consist of Canadian commercial property held directly by the Greystone Real Estate Fund. The market appraisals used in valuing the real estate involves various assumptions. Changes in the underlying assumptions will have an impact on the market value of the investments.

Fair Value

The Plan has classified its fair valued financial instrument holdings using a hierarchy that reflects the significance of the inputs used in determining their measurements.

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

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

2013 (in thousands)

	Level 1	Level 2	Level 3	Total
Bonds and debentures	$ -	$ 873,175	$ 6,574	$ 879,749
Pooled funds	-	2,111,983	295,551	2,407,534
Short-term	21,310	6,934	-	28,244
Equities	2,146,339	-	-	2,146,339
Total	$ 2,167,649	$ 2,992,092	$ 302,125	$ 5,461,866

2013 Fair Value measurement using level 3 inputs

	Real Estate Fund	Asset-Backed	Total
Balance at April 1	$ 287,385	$ 6,574	$ 293,959
Net purchases and sales	(25,000)	-	(25,000)
Gains (losses)			
Realized	6,541	-	6,541
Unrealized	26,625	-	26,625
Balance at March 31	$ 295,551	$ 6,574	$ 302,125

2012 (in thousands)

	Level 1	Level 2	Level 3	Total
Bonds and debentures	$ -	$ 850,703	$ 6,574	$ 857,277
Pooled funds	-	2,131,386	287,379	2,418,765
Short-term	38,004	-	-	38,004
Real estate	-	-	6	6
Equities	1,723,995	7,293	-	1,731,288
Total	$ 1,761,999	$ 2,989,382	$ 293,959	$ 5,045,340

2012 Fair Value measurement using level 3 inputs

	Real Estate Fund	Asset-Backed Bonds	Total
Balance at April 1	$ 250,527	$ 6,574	$ 257,101
Net purchases and sales	(25)	-	(25)
Gains (losses)			
Realized	25	-	25
Unrealized	36,858	-	36,858
Balance at March 31	$ 287,385	$ 6,574	$ 293,959

5. Derivatives

Derivative financial instruments are financial contracts whose values are derived from changes in underlying assets, interest or currency exchange rates. The Plan objective is to achieve an overall Plan duration that approximates the duration of the Plan liabilities on a going-concern basis.

At March 31, 2013 the Plan held the following derivatives:

Future / Forward Contracts

The Plan has entered into foreign exchange forward contracts to hedge some of its foreign currency exposure in foreign equity pooled funds. 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 Non North American Equity mandate managed by Tweedy Browne Company LLC and the US Equity mandate managed by BlackRock Asset Management Company Ltd. include currency hedging programs to reduce the impact of foreign currency changes on the Plan. It is the intention of both these managers to hedge 100% of the foreign currency and so the net exposure of the Plan to these foreign currency changes should be 0%. Forward contracts are used to hedge the foreign currency exposure within the mandate as indicated in the following table.

FOREIGN EXCHANGE FORWARD CURRENCY CONTRACTS
(in thousands)

		2013		2012	
# of Contracts	Currency	Notional Value	Gain (Loss)	Notional Value	Gain (Loss)
2	Australian Dollar	$ (1,700)	$ (105)	$ (1,700)	$ (56)
7	European Euro	(83,400)	(371)	(76,800)	1,703
3	Hong Kong Dollar	(490)	(4)	(430)	(11)
4	Japanese Yen	(21,000)	1,642	(19,600)	338
2	Mexican Nevo Peso	(1,570)	(301)	(2,374)	146
2	New Zealand Dollar	-	(22)	(450)	(12)
4	Norwegian Dollar	(2,650)	10	(3,950)	(23)
5	Pound Sterling	(45,600)	1,459	(41,800)	(363)
5	Singapore Dollar	(5,150)	(90)	(5,000)	37
1	South Korean Won	(570)	4	(1,432)	(11)
9	Swiss Franc	(36,611)	(21)	(32,100)	1,471
13	US Dollar	(248,803)	2,599	(222,017)	4,074
			$ 4,800		**$ 7,293**

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. Maturity dates range from April 2 2013 to August 20 2014.

Based on the current rate of exchange as of March 31, 2013, the forward contracts are in a net gain position of $4.8 million (2012 – $7.3 million). The foreign currency forward exchange contracts are short-term in duration and all current contracts as of March 31, 2013 have a maturity date of less than one year. This amount is included in short term investments on the Statement of Financial Position.

Repurchase Agreements

A repurchase agreement, also known as a repo, is a contract entered into between two counterparties to sell securities together with an agreement for the seller to buy back the securities at a later date. At March 31, 2013, the Plan has entered into repurchase agreements with a notional value of $95.4 million (2012 - $92.0 million) and a fair value of $2.1 million (2012 - $(0.8) million). This amount is included in short term investments on the Statement of Financial Position. The repurchase agreements have a term to maturity of less than one year. The amount held for collateral is $10 million.

Repurchase agreements require a fraction of their market value to be available as collateral to back the market exposure provided. PEPP has invested roughly $10 million in physical bonds which serve as a backing asset for the repurchase agreements with TD Asset Management. The $72 million investment in the TD Emerald Canadian Short-term Investment Fund is available as additional margin. No specific collateral is pledged for the repurchase agreement exposure as the investment is not leveraged. Collateral may be pledged to the Plan if the market value of the repurchase agreements changes significantly.

6. Transfers, Refunds and Benefits

	(thousands of dollars) 2013	2012
Termination refunds	$ 606	$ 4,429
Death and lump sum benefits	6,862	10,267
Variable pension benefits	47,283	46,083
Marital transfers	2,877	1,337
Transfers to registered retirement savings plans and to private companies providing annuities	123,348	95,642
Transfers out	3,795	2,645
	$184,771	$160,403

7. Due from General Revenue Fund

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

The Plan's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis to the Plan's bank accounts using the Government's 30 day borrowing rate and the Plan's average bank account balance. The Government's average 30 day borrowing rate in 2013 was 1.09% (2012 – 1.05%).

8. 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)

	2013		2012	
	Budget	**Actual**	**Budget**	**Actual**
	(unaudited)		(unaudited)	
Audit fees	$ 85	$ 122	$ 43	$ 43
Administration costs	7,636	6,072	7,039	6,480
Custodial fees	728	674	1,335	1,477
Investment management fees	14,408	12,716	11,762	12,590
Total	$ 22,857	$ 19,584	$ 20,179	$ 20,590

9. Financial Risk Management

The nature of the Plan's operations results in a statement of financial position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) 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 Board. The investment policy provides guidelines to the Plan's investment managers for the asset mix of the portfolio regarding quality and quantity of fixed term investments, real estate and equity investments. 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. PEBA reviews and reports on regular compliance reports from its investment managers and custodian as to their compliance with the investment policy. PEBA also reviews and reports on regular compliance reports from its custodian as to the investment managers' compliance with the investment policy.

Credit risk

Credit risk is the risk that one party does not pay funds owed to another party. The Plan's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which it is exposed at March 31, 2013 is limited to the carrying value of the financial assets summarized as follows:

	(in thousands)	
	2013	**2012**
Cash	$ 118,811	$ 38,965
Accounts receivable	12,361	12,662
Fixed income investments	2,208,802	2,099,471
Due from the General Revenue Fund	4,931	4,564

Accounts receivable are primarily made up of employee and employer contributions receivable and accrued investment income. Employee and employer contributions receivable are generally received in less than 30 days. Accrued investment income is received on the next scheduled payment date, generally either annually or semi-annually.

Credit risk within investments is primarily related to short-term investments, bonds and debentures, and the fixed income pooled funds. It is managed through the investment policy that limits fixed term investments to those of high credit quality (minimum rating for bonds, BBB, 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 and debentures are as follows:

(in thousands)

	2013		2012	
Credit Rating	Fair Value	Makeup of Portfolio (%)	Fair Value	Makeup of Portfolio (%)
AAA	$ 313,543	35.64%	$ 424,478	49.51%
AA	116,147	13.20%	219,065	25.55%
A	389,064	44.22%	161,161	18.80%
BBB	60,344	6.86%	51,922	6.06%
Not Rated	651	0.07%	651	0.08%
Total	$ 879,749	99.99%	$ 857,277	100.00%

Within bonds and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 4.17% (2012 – 3.47%) of the market value of the combined portfolio. No one holding of a province is over 1.96% (2012 – 1.88%) of the market value of the bond and debentures portfolio.

The Plan is also subject to credit risk through its use of forward currency contracts. The contracts are entered into between the Plan and approved counterparties. The currency manager must receive approval from the Board prior to engaging a new counterparty.

Market risk

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

Interest rate risk

The Plan is exposed to changes in interest rates in its fixed income investments, including bonds, debentures and the fixed income pooled funds. Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point increase in interest rates would decrease net assets available for benefits by $123.7 million at March 31, 2013 (2012 - $116.7 million); representing 5.9% of the $2,101 million fair value of fixed income investments. Conversely, a decrease in interest rates of 100 basis points would increase net assets available for benefits by $123.7 million at March 31, 2013 (2012 - $116.7 million); representing 5.9% of the $2,101 million fair value of fixed income investments.

Foreign exchange

The Plan is subject to changes in the U.S./Canadian dollar exchange rate for U.S. denominated investments. Also, the Plan is exposed to EAFE (Europe, Australasia and Far East) currencies through its investment in foreign equity funds. At March 31, 2013, the Plan's exposure to U.S. equities was 19.03% (2012 – 19.10%) and its exposure to non-north American equities was 16.94% (2012 – 16.92%).

At March 31, 2013, a 10% appreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $83.2 million decrease in net assets available for benefits. A 10% weakening in the Canadian dollar versus the EAFE currencies would result in approximately a $67.6 million increase in the net assets available for benefits.

The Plan's exposure to exchange rate risk resulting from the purchase of goods and services are not considered material to the operations of the Plan. The Plan has mitigated its exposure to foreign exchange through the use of derivatives as in Note 5. As at March 31, 2013, the Plan's foreign exchange exposure net of derivatives is $1,509 million. A 10% change in the exchange rate would equate to a net change of $151 million.

Equity prices

The Plan is exposed to changes in equity prices in Canadian, U.S. and EAFE markets. Equities,including equities invested in pooled funds, comprise 52.95% (2012 – 52.32%) 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% of the market value of the Plan.

The following table indicates the approximate change that could be anticipated to the increase in net assets available for benefits based on changes in the Plan's benchmark indices March 31, 2013:

	(Change in thousands of $)	
	10% increase	10% decrease
S&P/TSX Composite Index	$ 95,542	$ (95,542)
S&P 500 Index	106,311	(106,311)
MSCI EAFE Index	94,629	(94,629)

Securities Lending Program

As part of the Plan's securities lending strategy, no Plan assets have been deposited or pledged as collateral or margin. Collateral has been pledged to the Plan by various counterparties for securities out on loan to the counterparties. At March 31, 2013, the total amount of collateral pledged to the Plan amounted to $290.6 million (2012 - $410.8 million). Security lending obtains collateral of at least 105% 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.

Real Estate

Risk in the real estate portfolio is managed through diversification across 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.

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. The Plan invests in repurchase agreements in order to increase Plan liquidity while maintaining fixed income exposure. Repurchase agreements provide $82 million in fixed income exposure with a margin of $10 million in physical bond investments which take three days to liquidate, but also $72 million invested in money market investments which can be liquidated for cash in a single day.

10. Related Party Transactions

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

The Plan holds $14.4 million (2012 - $10.1 million) Province of Saskatchewan Bonds and Debentures with a yield of 4.14% (2012 – 4.46%). Investment income including change in market value of $0.5 million (2012 - $1.1 million) was recorded from the Province of Saskatchewan Bonds and Debentures.

The Plan has an accounts payable balance as at March 31, 2013 of $0.6 million (2012 - $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 net assets available for benefits and are settled at agreed upon exchange rates.

11. 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, bonds and debentures, real estate, pooled funds, and short-term investments. The Board has delegated the operational investment decisions to a number of different investment management firms through a number of different investment mandates as defined in the Plan's Statement of Investment Policy and Procedures.

12. Fair Value of Financial Assets and Liabilities

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

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

The fair value of investments is disclosed in Note 4.

13. Value and Performance of Members' Accounts

In accordance with Canadian accounting standards for pension plans, various accruals are included in the Statement of Financial Position. However, only transactions that were processed and unitized during the fiscal year ending March 31, 2013 are reflected in the unitized account balances of members at year-end. The total value of members' unitized accounts at March 31, 2013 was $5,575 million (2012 – $5,083 million).

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

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

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

On November 1, 2007, the Plan introduced a new fund structure whereby members may choose either one of the five asset allocation Funds or the PEPP Steps Fund. In addition, each member may also choose the Short-term Bond Fund. The PEPP Steps Fund is comprised of twelve separate Funds, five of which are the asset allocation Funds. In all, there are thirteen separate Funds.

The following table shows some selected data for each of the Funds:

	2013			
	Units	Net asset value per unit	Total net assets (000's)	Return %
PEPP Step 1 (Accelerated Growth Fun	1,745,111	106.0617	$ 185,089	9.8%
PEPP Step 2	328,939	110.1277	36,225	9.4%
PEPP Step 3 (Growth Fund)	2,101,505	111.7171	234,774	9.3%
PEPP Step 4	293,477	113.5396	33,321	9.0%
PEPP Step 5 (Balanced Fund)	29,296,460	140.8352	4,125,972	8.9%
PEPP Step 6	578,735	118.6951	68,693	8.4%
PEPP Step 7	613,313	121.2615	74,371	8.1%
PEPP Step 8 (Moderate Fund)	1,659,746	122.1649	202,763	7.8%
PEPP Step 9	191,065	123.5646	23,609	7.5%
PEPP Step 10	18,446	125.6392	2,318	6.9%
PEPP Step 11	1	123.6400	-	6.5%
PEPP Step 12 (Conservative Fund)	1,547,063	126.3923	195,537	6.2%
Short-term Bond Fund	2,875,629	136.5288	392,606	2.7%
Total Unitized Net Assets			$ 5,575,278	

	2012			
	Units	Net asset value per unit	Total net assets (000's)	Return %
PEPP Step 1 (Accelerated Growth Fun	1,346,317	96.5692	$ 130,013	-1.2%
PEPP Step 2	75,959	100.6379	7,644	-0.5%
PEPP Step 3 (Growth Fund)	1,953,623	102.2390	199,736	0.5%
PEPP Step 4	245,452	104.1951	25,575	1.1%
PEPP Step 5 (Balanced Fund)	29,676,516	129.3786	3,839,507	1.9%
PEPP Step 6	219,415	109.4881	24,023	2.4%
PEPP Step 7	315,426	112.1660	35,380	3.0%
PEPP Step 8 (Moderate Fund)	1,616,586	113.3145	183,183	3.5%
PEPP Step 9	503,730	114.9013	57,879	4.1%
PEPP Step 10	305,072	117.5567	35,863	4.5%
PEPP Step 11	166,315	116.0627	19,303	4.6%
PEPP Step 12 (Conservative Fund)	1,134,031	119.0006	134,950	4.8%
Short-term Bond Fund	2,935,710	132.8921	390,133	4.8%
Total Unitized Net Assets			$ 5,083,189	

Public Employees Pension Plan
Investment Options:
Statement of Financial Position
As at March 31, 2013

Schedule 1

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Unaudited (in thousands)	Accelerated Growth Fund	Growth Fund	Balanced Fund	Moderate Fund	Conservative Fund	PEPP Step 1	Subtotal
ASSETS							
Investments							
Short-term	$ 1,259	$ 1,399	$ 21,220	$ 686	$ 375	$ 358	$ 25,298
Bonds and debentures	13,539	19,110	388,284	14,184	18,268	3,854	457,241
Equities	95,829	100,786	1,690,589	50,459	35,069	27,281	2,000,012
Pooled Funds	29,902	74,066	1,903,089	81,895	135,695	8,513	2,233,160
	140,528	195,362	4,003,183	147,225	189,407	40,006	4,715,711
Receivables							
Contributions receivable - employee	46	64	1,302	48	62	13	1,535
Contributions receivable - employer	47	66	1,346	49	64	14	1,586
Accrued investment income	228	267	5,101	176	196	65	6,032
Interfund receivables		-	10,069		1,352		11,421
	321	396	17,817	273	1,675	91	20,575
Cash	3,500	5,033	91,768	2,932	3,763	1,498	108,494
Due from General Revenue Fund	127	177	3,616	133	173	36	4,262
Total assets	144,477	200,968	4,116,384	150,563	195,018	41,633	4,849,042
LIABILITIES							
Liabilities							
Administration expenses payable	95	132	2,697	99	129	27	3,179
Refunds, transfers, other payables	66	91	1,871	69	90	19	2,206
Interfund payables	4,116	5,751		15,531		1,178	26,576
Total liabilities	4,277	5,974	4,568	15,699	219	1,224	31,961
NET ASSETS AVAILABLE FOR BENEFITS	**$ 140,200**	**$ 194,994**	**$ 4,111,815**	**$ 134,864**	**$ 194,800**	**$ 40,409**	**$ 4,817,081**

Public Employees Pension Plan
Investment Options:
Statement of Financial Position
As at March 31, 2013

Schedule 1

Unaudited (in thousands)	PEPP Step 2	PEPP Step 3	PEPP Step 4	PEPP Step 5	PEPP Step 6	PEPP Step 7	Subtotal
ASSETS							
Investments							
Short-term	$ 276	$ 245	$ 214	$ 202	$ 355	$ 336	$ 1,628
Bonds and debentures	3,463	3,349	3,163	3,694	6,520	7,009	27,198
Equities	20,088	17,662	15,567	16,083	26,245	25,651	121,296
Pooled Funds	11,585	12,980	13,573	18,104	34,239	39,925	130,406
	35,413	34,236	32,517	38,082	67,359	72,921	280,528
Receivables							
Contributions receivable - employee	12	11	11	12	22	24	91
Contributions receivable - employer	12	12	11	13	23	24	94
Accrued investment income	50	47	43	48	84	88	360
Interfund receivables		2,649	66		377		3,092
	73	2,718	131	74	505	136	3,638
Cash	1,104	932	1,069	1,030	1,323	1,651	7,109
Due from General Revenue Fund	32	31	29	34	61	66	253
Total assets	36,622	37,917	33,746	39,220	69,248	74,773	291,528
LIABILITIES							
Liabilities							
Administration expenses payable	24	23	22	26	45	49	189
Refunds, transfers, other payables	17	16	15	18	31	34	131
Interfund payables	751			1,530		341	2,622
Total liabilities	791	39	37	1,573	77	424	2,942
NET ASSETS AVAILABLE FOR BENEFITS	**$ 35,831**	**$ 37,878**	**$ 33,709**	**$ 37,646**	**$ 69,172**	**$ 74,349**	**$ 288,586**

Public Employees Pension Plan Investment Options: Statement of Financial Position As at March 31, 2013

Schedule 1

Unaudited (in thousands)	PEPP Step 8	PEPP Step 9	PEPP Step 10	PEPP Step 11	PEPP Step 12	Short-term Bond Fund	Subtotal	Total
ASSETS								
Investments								
Short-term	$ 239	$ 92	$ 7	$ 0	$ 0	$ 978	$ 1,317	$ 28,244
Bonds and debentures	4,946	2,221	218	0	0	387,926	395,311	879,749
Equities	17,596	6,859	575	0	0	-	25,031	2,146,339
Pooled Funds	28,559	13,932	1,476	0	0	-	43,968	2,407,534
	51,342	23,104	2,276	0	0	388,905	465,627	5,461,866
Receivables								
Contributions receivable - employee	17	8	1	-	-	125	150	1,776
Contributions receivable - employer	17	8	1	-	-	129	155	1,835
Accrued investment income	61	27	3	0	0	2,267	2,357	8,750
Interfund receivables	14,244	93	134	20	111	83	14,685	29,198
	14,339	135	138	20	111	2,603	17,346	41,559
Cash	1,033	433	44	0	0	1,699	3,209	118,811
Due from General Revenue Fund	46	21	2	-	-	346	415	4,931
Total assets	66,760	23,693	2,460	20	111	393,553	486,597	5,627,167
LIABILITIES								
Liabilities								
Administration expenses payable	35	16	2	-	-	258	310	3,678
Refunds, transfers, other payables	24	11	1	-	-	179	215	2,552
Interfund payables							-	29,198
Total liabilities	59	26	3	-	-	437	525	35,428
NET ASSETS AVAILABLE FOR BENEFITS	**$ 66,702**	**$ 23,666**	**$ 2,457**	**$ 20**	**$ 111**	**$ 393,116**	**$ 486,072**	**$ 5,591,739**

Public Employees Pension Plan **Schedule 2**
Investment Options:
Statement of Changes in Net Assets Available for Benefits
For the Year Ended March 31, 2013

Unaudited
(in thousands)

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	Accelerated Growth Fund	Growth Fund	Balanced Fund	Moderate Fund	Conservative Fund	PEPP Step 1	Subtotal
INCREASE IN ASSETS							
Investment income							
Interest	$ 477	$ 665	$ 13,845	$ 476	$ 594	$ 55	$ 16,112
Pooled funds	611	1,981	58,172	2,653	4,341	141	67,899
Dividends	2,324	2,549	43,727	1,138	714	244	50,696
Other	34	40	693	19	15	8	809
	3,446	5,235	116,437	4,286	5,664	448	135,516
Change in fair value of investments	5,673	9,969	248,062	5,315	4,717	1,696	275,432
Contributions							
Employee contributions	4,932	5,650	72,687	2,422	2,439	3,156	91,286
Employer contributions	5,755	6,611	83,329	2,777	2,563	3,599	104,634
External transfers in	767	920	9,337	307	341	667	12,339
Interfund transfers net	(6,731)	(5,650)	(105,925)	20,570	57,075	31,233	(9,428)
	4,723	7,531	59,428	26,076	62,418	38,655	198,831
Total increase in assets	13,842	22,735	423,927	35,677	72,799	40,799	609,779
DECREASE IN ASSETS							
Transfers, refunds and benefits	2,799	3,223	110,007	9,255	11,091	752	137,127
Transfers to SPAF	-	-	6,301	369	1,348	-	8,018
Investment transaction costs	217	238	4,389	90	12	32	4,978
Administrative expenses	602	749	15,379	406	381	115	17,632
Total decrease in assets	3,618	4,210	136,076	10,120	12,832	899	167,755
Net increase in net assets	10,224	18,525	287,851	25,557	59,967	39,900	442,024
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	129,976	176,469	3,823,964	109,307	134,833	509	4,375,058
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	**$ 140,200**	**$ 194,994**	**$ 4,111,815**	**$ 134,864**	**$ 194,800**	**$ 40,409**	**$ 4,817,082**

Public Employees Pension Plan
Investment Options:
Statement of Changes in Net Assets Available for Benefits
For the Year Ended March 31, 2013

Schedule 2

Unaudited
(in thousands)

	PEPP Step 2	PEPP Step 3	PEPP Step 4	PEPP Step 5	PEPP Step 6	PEPP Step 7	Subtotal
INCREASE IN ASSETS							
Investment income							
Interest	$ 65	$ 96	$ 105	$ 110	$ 146	$ 176	$ 698
Pooled funds	233	311	383	492	820	1,023	3,262
Dividends	260	362	372	340	403	432	2,169
Other	5	5	6	7	5	6	34
	563	774	866	949	1,374	1,637	6,163
Change in fair value of investments	1,645	1,781	2,107	2,299	3,570	3,182	14,584
Contributions							
Employee contributions	3,326	3,885	3,226	2,513	2,225	2,051	17,226
Employer contributions	3,769	4,394	3,707	2,844	2,523	2,320	19,557
External transfers in	394	257	274	201	235	225	1,586
Interfund transfers net	19,490	3,532	(1,485)	6,338	36,626	30,798	95,299
	26,979	12,068	5,722	11,896	41,609	35,394	133,668
Total increase in assets	29,187	14,623	8,695	15,144	46,553	40,213	154,415
DECREASE IN ASSETS							
Transfers, refunds and benefits	1,001	666	636	541	1,333	1,175	5,352
Transfers to SPAF	-	-	-	-	-	-	-
Investment transaction costs	36	33	27	38	36	36	206
Administrative expenses	108	122	121	117	176	182	826
Total decrease in assets	1,145	821	784	696	1,545	1,393	6,384
Net increase in net assets	28,042	13,802	7,911	14,448	45,008	38,820	148,031
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	7,789	24,076	25,798	23,198	24,164	35,529	140,554
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	**$ 35,831**	**$ 37,878**	**$ 33,709**	**$ 37,646**	**$ 69,172**	**$ 74,349**	**$ 288,585**

Public Employees Pension Plan **Schedule 2**
Investment Options:
Statement of Changes in Net Assets Available for Benefits
For the Year Ended March 31, 2013

Unaudited *Page 3 of 3*
(in thousands)

	PEPP Step 8	PEPP Step 9	PEPP Step 10	PEPP Step 11	PEPP Step 12	Short-term Bond Fund	Subtotal	Total
INCREASE IN ASSETS								
Investment income								
Interest	$ 199	$ 162	$ 90	$ 43	$ 2	$ 12,203	$ 12,699	$ 29,509
Pooled funds	1,027	759	402	194	9	-	2,391	73,552
Dividends	481	346	163	70	2	-	1,062	53,927
Other	9	7	3	1	-	24	44	887
	1,716	1,274	658	308	13	12,227	16,196	157,875
Change in fair value of investments	1,940	1,304	526	126	18	(35)	3,879	293,895
Contributions								-
Employee contributions	1,445	1,252	402	135	12	5,203	8,449	116,961
Employer contributions	1,575	1,344	396	78	13	5,920	9,326	133,517
External transfers in	110	86	23	5	-	945	1,169	15,094
Interfund transfers net	(11,961)	(37,496)	(33,775)	(19,482)	(348)	17,191	(85,871)	-
	(8,831)	(34,814)	(32,954)	(19,264)	(323)	29,259	(66,927)	265,572
Total increase in assets	(5,175)	(32,236)	(31,770)	(18,830)	(292)	41,451	(46,852)	717,342
DECREASE IN ASSETS								
Transfers, refunds and benefits	2,234	1,986	1,547	459	24	36,042	42,292	184,771
Transfers to SPAF	-	-	96	-	-	2,245	2,341	10,359
Investment transaction costs	7	1	-	-	-	-	8	5,192
Administrative expenses	163	114	54	18	1	776	1,126	19,584
Total decrease in assets	2,404	2,101	1,697	477	25	39,063	45,767	219,906
Net increase in net assets	(7,579)	(34,337)	(33,467)	(19,307)	(317)	2,388	(92,619)	497,436
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	74,281	58,003	35,924	19,327	428	390,728	578,691	5,094,303
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	**$ 66,702**	**$ 23,666**	**$ 2,457**	**$ 20**	**$ 111**	**$ 393,116**	**$ 486,072**	**$ 5,591,739**