SaskTel Pension Plan News

July 2018

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SaskTel

Message from the Chair

The past year has been another busy one for the SaskTel Pension Plan (the Plan) and I want to update you on some of our activities.

Our investment portfolio had a return of 8.2% for the year ended March 31, 2018 and is valued slightly more than $1 billion. While this is welcome news, we remain focused on the financial health of the plan in the future. To this end, the Board reviews the experience of the past in conjunction with a forward-looking actuarial analysis to ensure the Plan remains on sound financial footing.

On the governance side, as we do every year, on external governance specialist reviewed the Plan's activities and governance structure to ensure we are operating effectively and that risks to the Plan have been properly mitigated. The Board will be looking to conduct a more extensive governance review in the upcoming year.

I hope you find this newsletter informative and that it finds you in good health.

Peter Hoffmann
SaskTel Pension Plan Chair

Pension Board Trustees

New Faces

Peter Hoffmann was appointed as chair of the SaskTel Pension Plan Board March 7, 2018.

Peter has previously served as a member of the Board of Directors and Chair of Finance and Audit Committee of the Technical Safety Authority of Saskatchewan (TSASK); Past Chair and Chair of the Campion College Board of Regents; member of Ehrlo Community Services Board of Directors and Chair of Finance and Audit Committee; member and President of RES&E Holding Company Board of Directors; and member of Western Development Museum Board of Directors.

Peter has his Chartered Professional Accounting designation (CPA, CMA) and has obtained his Pension Plan Administration Certificate (PPAC). He worked in the Saskatchewan public sector for 34 years in senior leadership roles for various organizations including Public Employees Benefits Agency (PEBA), Saskatchewan Housing Corporation (SHC) and SASKMEDIA.

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Annual Pension Increase

The annual pension increase is 1.59% based on the increase in the average consumer price index for Canada from December 2016 to December 2017, which was 1.59%. The increase was effective April 1, 2018.

New Email Address

We have a new email address to make it easier to contact us, sasktel.pensionplan@sasktel.com. Please use this email to ensure that your message is received and addressed in a timely manner.

2018/19 Pension Payment Schedule

Pension payments are deposited directly to your account on the last business day of the month except for December.

Fri	June 29
Tue	July 31
Fri	August 31
Fri	September 28
Wed	October 31
Fri	November 30
Fri	December 21
Thu	January 31
Thu	February 28
Fri	March 29
Tue	April 30
Fri	May 31
Fri	June 28

Power of Attorney

We require a copy of a power of attorney on file before we can communicate with anyone other than the plan member regarding their pension details. If you have given someone the power to manage your affairs, or a plan member has given you the power to manage their affairs, please ensure that you provide a copy of the legal document to us to avoid delays in responding to your inquiries.

Life Events

To ensure uninterrupted service, please notify us immediately of any changes in mailing address, banking details, marital status, or power of attorney.

Benefit Questions

For questions about your Plan benefits please see the Plan website or call us (see our contact information on the last page of this newsletter).

For questions regarding your life insurance please contact PEBA by calling 1-306-787-3440

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2017/18 Annual Report Highlights

Year at a glance

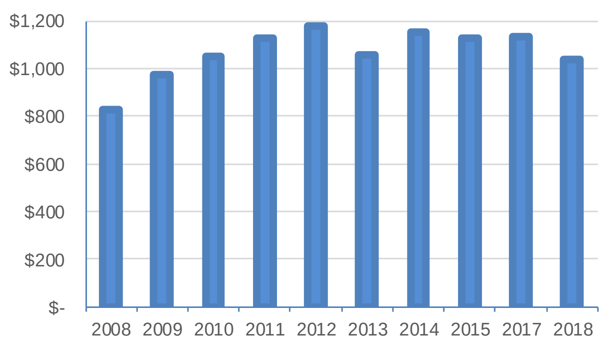
- **Going Concern status: 106.2%**
- **Solvency status: 88.5%**
- **Net assets: $1.044 billion**
- **Pension obligations: $1.037 billion**
- **Surplus: $0.007 billion**
- **Accounting status: 100.7%**
- **Total membership: 1,961**

Summary of Financial Position

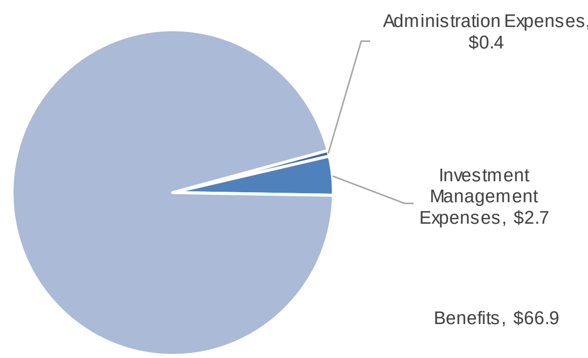
(As at March 31, 2018)

($ thousands)	**March 31, 2018**	March 31, 2017
Net assets available for benefits	1,043,547	1,030,246
Pension obligation	1,036,502	1,131,244
Surplus (Deficiency)	7,045	(100,998)

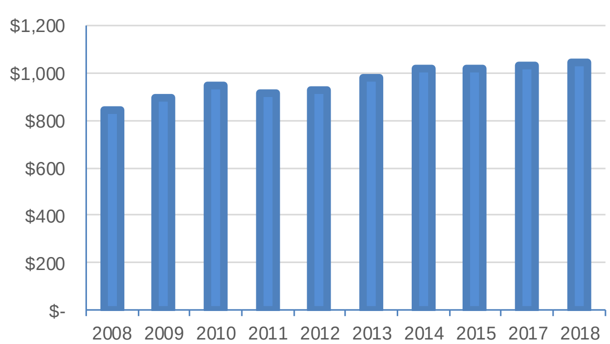
Plan Obligations (millions)



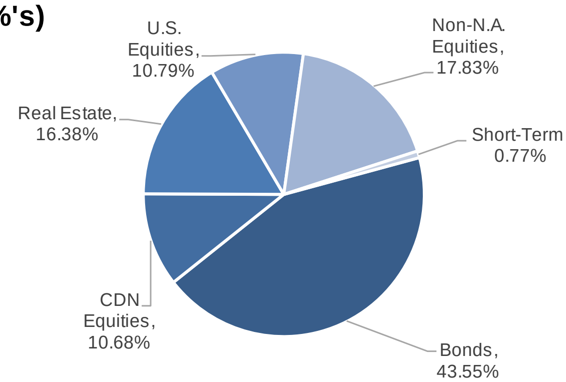
Plan Expenses (millions)



Plan Assets (millions)



Plan Asset Mix (%'s)



Investment Performance

Continuing themes of a synchronized recovery in global growth, relatively low inflation and easy monetary policy helped sustain equity market momentum throughout the second half of 2017, and into 2018 before concerns of rising interest rates, historically high equity valuations and trade war rhetoric brought volatility back to the market. Overall though, the annual period from April 1, 2017 to March 31, 2018 was a ‘risk-on’ environment, with return seeking assets broadly outperforming.

The Canadian equity market was amongst the weaker returning developed equity markets in the year with a 1.7% annual result for the S&P/TSX Composite Index. The Energy and Materials sectors, which combined, account for just under one third of the market, were under pressure throughout the period, and trailed global markets. More cyclical sectors such as Health Care, Industrials, Info Tech and Consumer Discretionary led.

The U.S. equity market, which now accounts for 60% of the developed global equity benchmark, saw continued strength throughout the year. The S&P 500 Index returned 14.0% in U.S. dollars, falling to 10.2% in Canadian dollars, as the loonie appreciated. Large cap Info Tech names, particularly the popularly known ‘FAANG’ stocks, were the major sources of return, although other sectors were broadly positive. Energy stocks underperformed, as did Telecom, the only two sectors with negative annual performance.

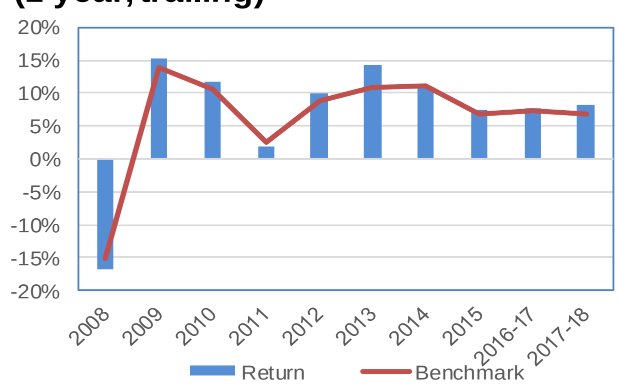
The MSCI EAFE Index, representing non-North American developed equity markets, had a Canadian dollar return of 11.0% over the year (up from 5.3% in local currencies), driven by strength in the Eurozone, which benefited not only from recovering economies, but also the reduced fear surrounding Brexit, and other nationalistic movements. Emerging Markets once again led global developed equity markets, returning 20.8% in Canadian dollars over the annual period.

Fixed income markets were volatile but overall positive, with the FTSE/TMX Universe Bond Index returning 1.4% over the year. The yield curve flattened overall, with long term yields falling, while short and medium term yields rose substantially, in unison with Bank of Canada overnight lending rate increases which occurred in July and September. Longer term bonds outperformed, as yields at the longer end of the curve fell. The Plan’s bond portfolio is customized to reflect the duration of the liabilities, which are relatively long term in nature, and returned 4.3% in the year.

The Total Fund return was 8.2% vs. the 6.8% benchmark return in the year, with the 1.4% in value added more than offsetting the 0.24% in investment management fees paid annually. Beutel Goodman outperformed in Canadian equities, while GMO had mixed results; adding value in their international equity mandate, but trailing in their emerging markets equity strategies. Asset mix was slightly positive, with the Plan’s overweight in foreign equities, and underweight in fixed income and cash adding value.

Medium and longer term performance was strong; the Total Fund outperformed its benchmark over both the four-year (8.2% vs. 7.6%) and ten-year (7.1% vs. 6.5%) periods. The Plan’s real return objective of 3.5% was also met over both periods.

Annual Return (1 year, trailing)



Investment allocations are governed by the Statement of Investment Policies and Goals, a vital document in the management of plan assets.

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Actuarial Report Summary

In 2018, the Pension Board filed an actuarial valuation for the Plan as of March 31, 2017 as required by *The Pension Benefits Regulations* 1993. The next valuation will be completed in 2020.

Going Concern

The Plan was in a surplus position using the going concern method of $22 million at March 31, 2017, up from a $10 million surplus at the end of 2013, the previous valuation year.

The increase in surplus was mainly due to favourable asset performance, offset by an increase in liabilities due to the net effect of changes in assumptions as well as the Board's decision to increase the provision for adverse deviation, or "safety margin" from 10% to 12%, increasing the reserve from $88 million in 2013 to $108 million in 2017.

Solvency

The solvency valuation at March 31, 2017 was calculated to be a deficit of $158 million, up from the December 31, 2013 $156 million deficit.

The decrease in solvency is attributed to a slight decline in interest rates, partially offset by favourable asset performance.

2018 Update

The Board receives interim valuations on a regular basis in order to monitor the health of the Plan.

As at March 31, 2018, the going concern valuation showed a surplus of $61 million, up from the $22 million at the end of March 31, 2017. The solvency valuation improved to a $136 million deficit from a deficit of $158 million at March 31, 2017.

Significant Assumptions

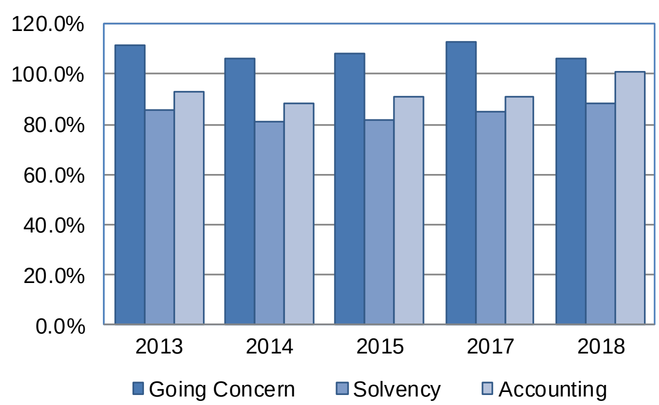
- **Net investment return: 5.00% (6.35% previous)**
- **Average annual pension increase: 1.6% (2% previous)**
- **Average inflation 2.25% (2.50% previous)**

Summary of Valuation Measures

Surplus (Deficit) in millions

	2018 Interim	2017 Valuation	2013 Valuation
Going Concern /Funding			
Assets	$1,044	$1,030	$982
Actuarial Liabilities	(877)	(900)	(884)
Provision for Adverse Deviation	(105)	(108)	(88)
Going Concern	$ 61	$ 22	$ 10
Solvency	$ (136)	$ (158)	$ (156)
Accounting	$ 7	$ (101)	$ (75)

Valuation Ratios



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What is an actuarial valuation?

The Plan works with an independent actuary on an ongoing basis in order to monitor the financial health of the Plan.

Performing a valuation is an exercise in predicting the future - we don't really know what is going to happen, but through the use of advanced computer modeling the actuary is able to take a set of assumptions on future events and produce an estimate of the Plan's status.

The assumptions we make about what lies ahead are based on what we know to be true today and what we have experienced in the past. Some of the larger assumptions we make include:

- Investment returns
- Inflation rates
- Interest rates
- How long we live

Some assumptions are used to calculate the value of assets (investment returns, interest rates) and some are used to calculate the value of current and future pension obligations. The actuary compares the assets to the estimated obligations and determines whether the Plan is properly funded.

The three valuation figures

The actuary prepares three assessments of the Plan's financial well-being:

- Going concern (funding)
- Solvency
- Accounting

Each of the values looks at the Plan in a different way.

The main valuation is the Going Concern method, also called the Funding valuation. This views the Plan over a long time horizon. It is the method used by actuaries to measure the ability of the Plan to meet current and future obligations to plan members. It is also the method used by the provincial regulator to determine whether SaskTel must contribute additional funding to the Plan.

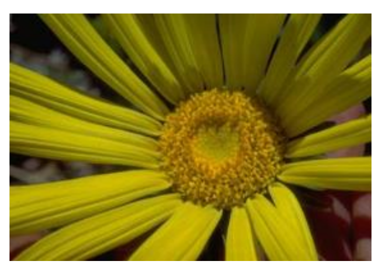
The Solvency method views the Plan as if it were to cease operations immediately and pay out lump sum payments to members. This method provides additional insight to the Trustees.

The final method is the Accounting method, which is based on the accounting rules used in the preparation of financial statements. It is this method that you see when reading the Annual Report for the Plan.

The assumptions used in an actuarial study are best estimate of what the future may bring. Actual results may differ from the assumptions.

For example, while the assumptions use an average annual pension increase of 1.6%, that does not change the actual increases that may occur. In any given year the actual increase may be as high as 2% or as low as 0%.

SaskTel has the ultimate responsibility to ensure that the pension obligations are paid. As the sponsor of the Plan, SaskTel remains committed to meeting all funding requirements necessary to fulfill pension obligations to plan members. SaskTel closely monitors the going concern funded position and will fund any shortfalls, should they occur, in accordance with provincial regulations.



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Year in Review

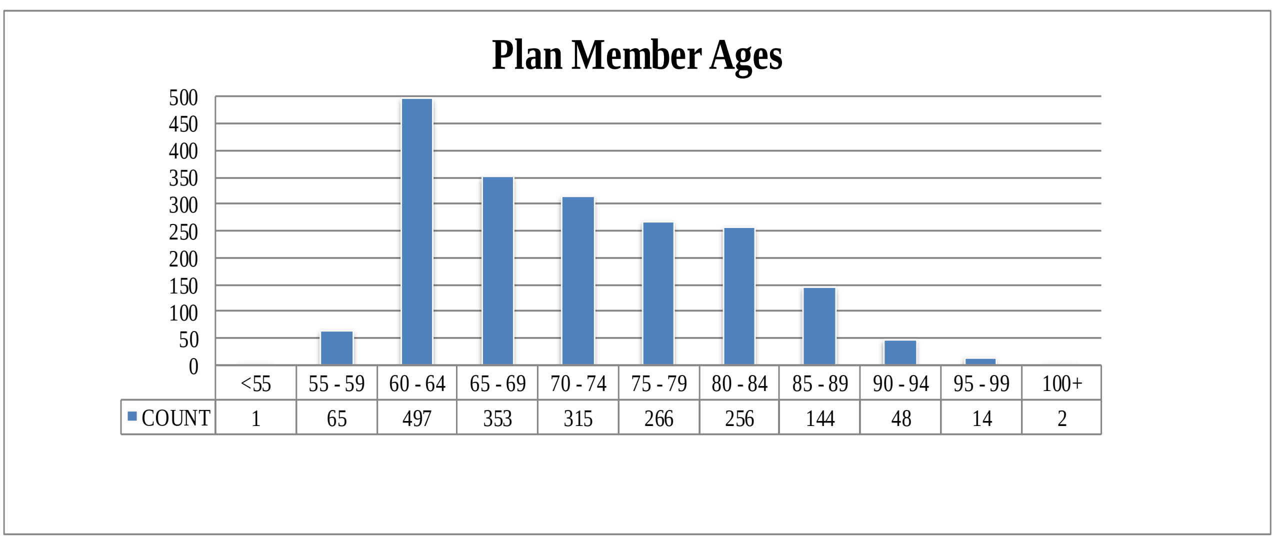
The Board is committed to pursuing sound governance practices in discharging its responsibilities as administrator of the Pension Plan. The Board strives to ensure the Pension Plan is administered always in an effective manner and consistent with the fiduciary duties owed to plan members and other stakeholders.

Activities completed by the Board during 2017/18 included:

- Completed all governance requirements
- Completed a de-risking step in March
- Completed an actuarial valuation
- Reviewed the investment asset mix
- Reviewed the strategic plan and risk objectives

Plan Member Data

At March 31, 2018, the average age of all Plan members was 72.3 years.



SaskTel Pension Plan

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Established in 1928, the Saskatchewan Telecommunications Pension Plan is a contributory-defined benefit pension plan. It has been closed to new members since 1977.

Effective January 1, 1999, the Plan is governed by the Pension Benefits Act, 1992 (the Act). Prior to January 1, 1999, the Plan was governed by the Saskatchewan Telecommunication Superannuation Act and the Superannuation (Supplementary Provisions) Act. The Plan is registered under The Income Tax Act and The Pensions Benefits Act, 1992. It's administered by a Board appointed by the Corporation and Union consisting of 4 members plus an independent chair.