Quarterly Update on Estimated Solvency Funded Status of Defined Benefit Plans in Ontario - as of June 30, 2018

Update as at June 30, 2018

- **The median solvency ratio is 97% (compared to 95% as at March 31, 2018)**
- **49.0% of plans had a solvency ratio between 85% and 100%**
- **39.2% of plans had a solvency ratio greater than 100%**

Ontario DB pension plan solvency positions continued to improve in the second quarter of 2018 mainly due to strong domestic and world equity returns. Equity markets rebounded from a weak first quarter in spite of domestic NAFTA and international trade tensions as well as geopolitical strains. The S&P/TSX recorded an exceptional 6.8% gain in the second quarter. Globally, strong U.S. dollar (USD) equity returns were buoyed by a depreciating Canadian dollar (CDN) while EAFE market returns were dampened by an appreciating CDN relative to the euro (EUR) and British pound (GBP). In aggregate, MSCI World equities returned 3.8% for the quarter.

Interest rates were mostly unchanged in the second quarter. The FTSE TMX Universe returned 0.5% in the second quarter while 91-day T-Bills returned 0.3%. TMX Long Term bonds provided a 0.9% return for the quarter with long term yields initially rising but then declining after mid-Q2 with the yield on Government of Canada marketable bonds over 10-years closing at 2.2%.

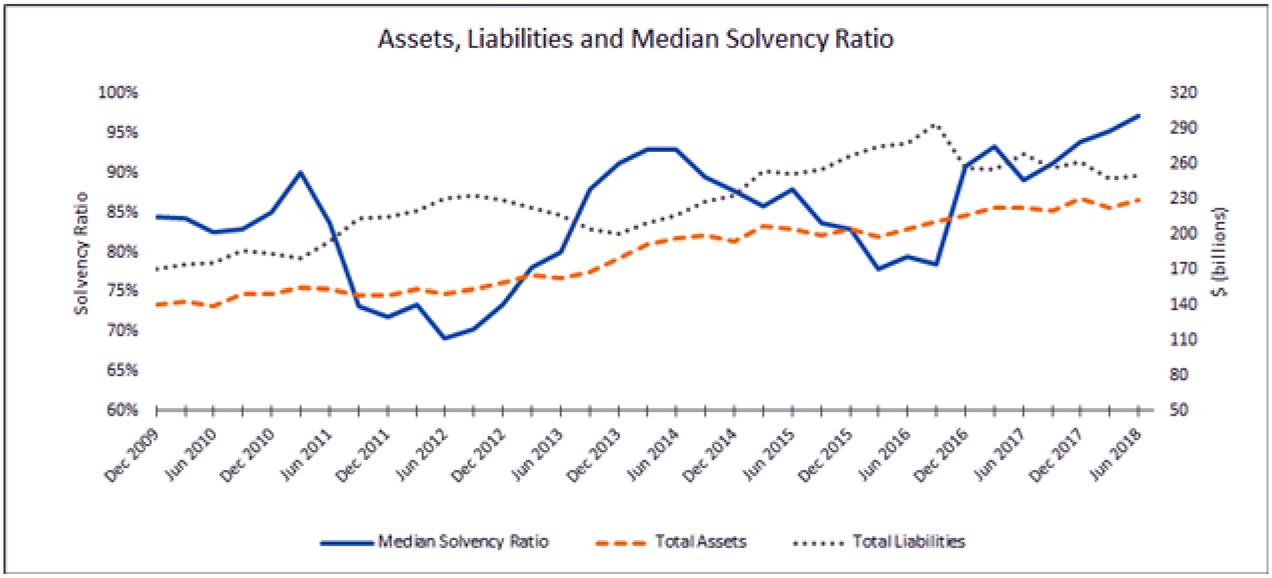
The resulting second quarter median gross plan asset-weighted index return was 3.2% and the median net after-expense return was 3.0%. The decrease in second-quarter long-term Canadian bond yields led to lower commuted value (CV) ultimate interest rates, against which solvency liabilities are highly negatively leveraged and slightly offset some of the second-quarter's solvency asset investment gains.

Other Funding Matters

Following consultations held by the Ministry of Finance, O. Reg 250/18 was filed on April 20, 2018. The new regulation amends Regulation 909 and sets out Ontario's new funding framework for single employer DB pension plans (SEPPs). Most provisions came into force on May 1, 2018. Among other things, the new framework provides for enhanced going concern funding, provisions for adverse deviations (PfADs) and funding on a solvency basis if the plan's solvency status falls below 85%.

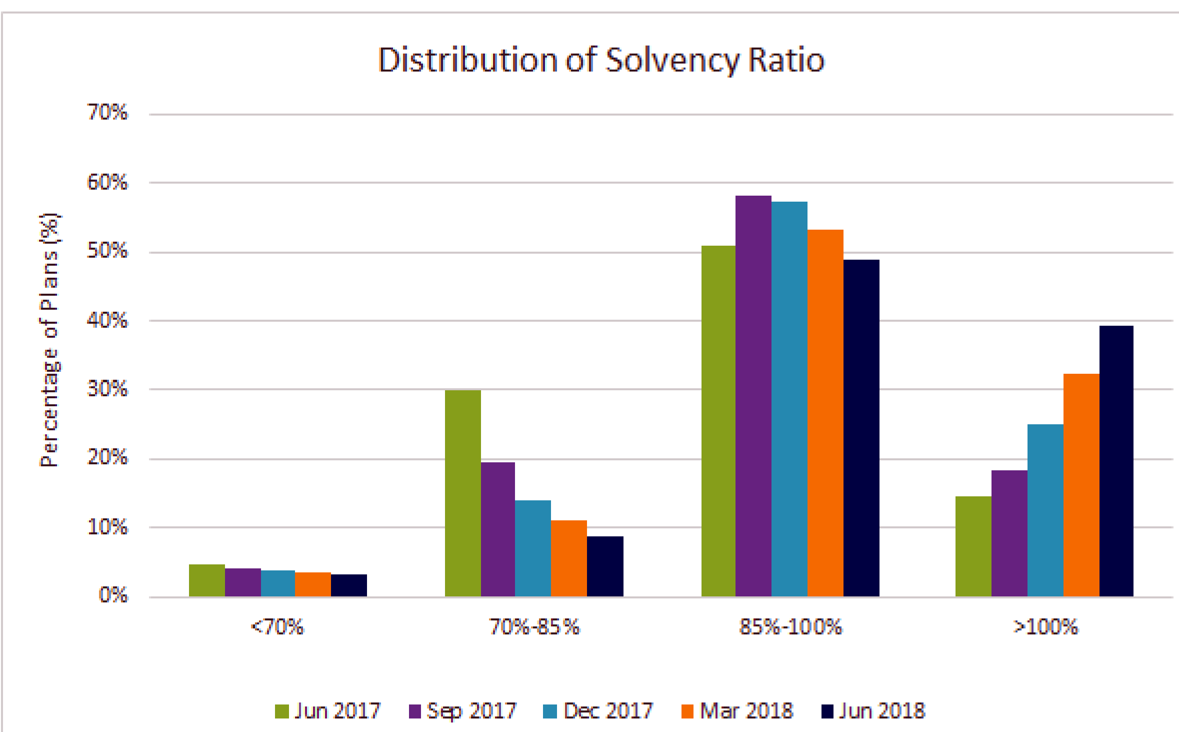
Finally, the MOF is reviewing comments received in response to its April consultation document for eligible multi-employer pension plans providing target benefits. Consideration will be given to whether the government wishes to proceed with the implementation of this framework.

Assets, Liabilities and Median Solvency Ratio



View accessible description of Assets, Liabilities, and Median Solvency Ratio Line Chart

Distribution of Solvency Ratio



View accessible description of Distribution of Solvency Ratio Bar Chart

Methodology and Assumptions:

1. The results reported in each plan's last filed actuarial valuation reports (assets and liabilities) were projected to June 30, 2018 based on these assumptions:
   - sponsors would use all available funding excess and prior year credit balance for contribution holidays, subject to any statutory restrictions;
   - sponsors would make normal cost contributions and special payments, if required, at the statutory minimum level;
   - cash outflows equal to pension amounts payable to retired members as reported in the last filed valuation report were assumed. Plan administration costs were not directly reflected in cash outflows, but indirectly through net after expense investment earnings.

2. Each plan's annual net rates of return for years prior to 2017 were calculated based on individual plan filed IIS information. Rate of return statistics for 2015 and 2016 are summarized as follows:

	5th Percentile	1st Quartile	2nd Quartile	3rd Quartile	95th Percentile
2015 Gross Return:	10.0%	7.0%	5.5%	4.1%	1.4%
2015 Net After Inv. Expense:	9.6%	6.6%	5.1%	3.7%	0.9%
2015 Net After All Expense:	9.3%	6.2%	4.7%	3.1%	-0.3%
2016 Gross Return:	11.6%	8.1%	6.4%	4.7%	2.2%
2016 Net After Inv. Expense:	11.1%	7.6%	5.9%	4.3%	1.9%
2016 Net After All Expense:	10.6%	7.2%	5.4%	3.7%	1.0%

3. Each plan's unique annual 2017 and quarterly 2018 returns were estimated based on each plan's 2016 filed IIS asset allocation in combination with 2017 and 2018 market index returns, offset by a 25 basis point quarterly expense charge. Estimated plan gross and net after expense return statistics are as follows:

	5th Percentile	1st Quartile	2nd Quartile	3rd Quartile	95th Percentile

2017 Gross Return:	9.9%	9.5%	9.1%	8.3%	6.5%
2017 Net After All Expense:	8.9%	8.4%	8.0%	7.2%	5.4%
2018 Q1 Gross Return:	0.0%	-0.5%	-0.8%	-0.9%	-1.2%
2018 Q1 Net After All Expense:	-0.2%	-0.7%	-1.0%	-1.1%	-1.5%
2018 Q2 Gross Return:	4.0%	3.5%	3.2%	2.7%	1.1%
2018 Q2 Net After All Expense:	3.7%	3.2%	3.0%	2.4%	0.9%

The following table summarizes 2016 average IIS plan asset allocations by major asset class:

Cash	Canadian Equities1	Foreign Equities	Fixed Income2	Real Estate	Other
3.0%	25.1%	24.4%	44.3%	1.1%	2.1%

1 Previously, resource properties; venture capital; securities of real estate, resource and investment corporations; other pooled/mutual/segregated funds; and investments in other asset categories had been grouped under Canadian Equities. To the extent that returns on these assets are sufficiently detached from Canadian equity returns as measured by the S&P TSX Index, these asset groupings have been removed from Canadian Equities and two-thirds of other pooled/mutual/segregated funds have been allocated to Real Estate.

2 50% FTSE TMX Universe Bonds and 50% FTSE TMX Long Term Bonds.

Market index returns on the major assets classes have been as follows:

	S&P / TSX Total Return Index	MSCI World Total Net Return Index	FTSE TMX Universe Bond Index	FTSE TMX Long Bond Index
Q1 2018	-4.5%	1.6%	0.1%	-0.0%
Q2 2018	6.8%	3.8%	0.5%	0.9%

4. Estimated solvency liabilities were calculated based on the Canadian Institute of Actuaries Standards of Practice and the Canadian Institute of Actuaries Educational Notes, with these key assumptions:

Valuation Date	Commuted Value Basis	Annuity Purchase Basis3
March 31, 2018	Interest: 3.00% for 10 years 3.40% thereafter Mortality: CPM2014 generational	Interest: 3.00% Mortality: CPM2014 generational
June 30, 2018	Interest: 3.10% for 10 years, 3.20% thereafter Mortality: CPM2014 generational	Interest: 3.00% Mortality: CPM2014 generational

3 based on a medium duration illustrative block

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