Quarterly Update on Estimated Solvency Funded Status of Defined Benefit Plans in Ontario - as of March 31, 2018

Update as at March 31, 2018

- **The median solvency ratio is 95% (compared to 94% as at December 31, 2017)**
- **53.1% of plans had a solvency ratio between 85% and 100%**
- **32.4% of plans had a solvency ratio greater than 100%**

Despite turbulent equity markets in the first quarter of 2018, DB pension plans retained most of their 2017 solvency position gains. Overall, first-quarter pension fund returns were negative. Equity markets retreated in the last two months of the quarter from their January highs. MSCI World equity returns remained positive, returning 1.6% for the quarter. However, the S&P/TSX experienced significant declines, ending the quarter with a 4.5% loss.

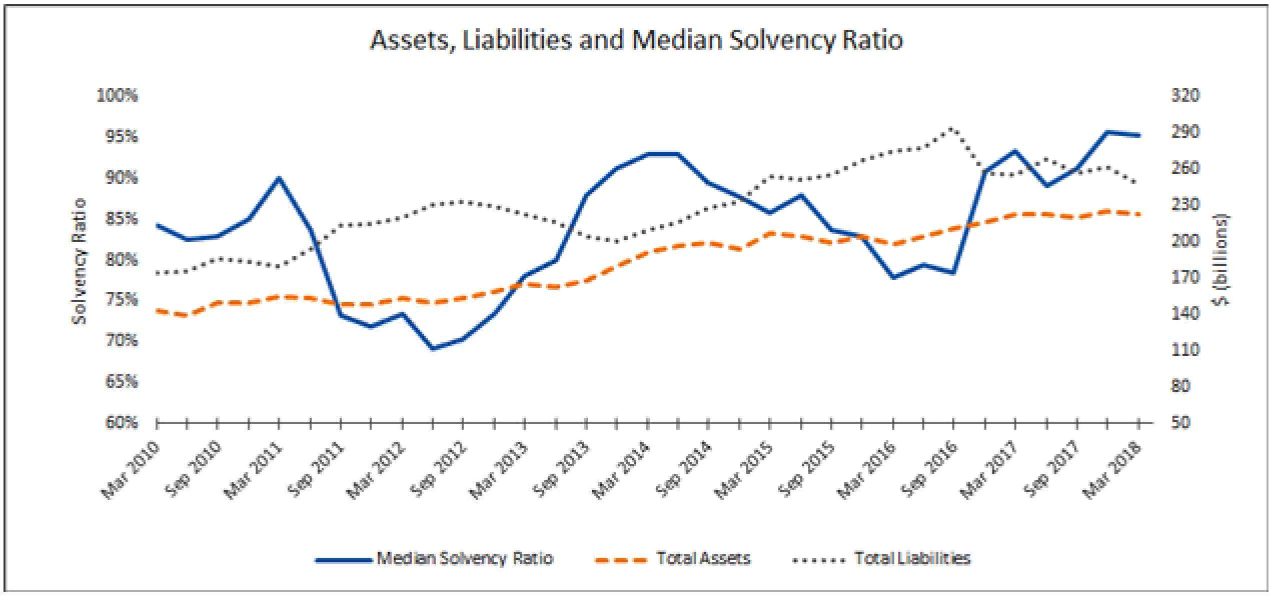
Short-term interest rates rose in the first quarter, while longer-term interest rates were mostly flat. The FTSE TMX Universe remained in positive territory, returning 0.1% in the first quarter despite the short-term interest rate increases, while 91-day T-Bills returned 0.3%. TMX Long Term bonds provided a nil return for the quarter with long term yields initially rising slightly but then declining to end the quarter near their opening.

The resulting median gross plan asset-weighted index return was -0.8% and the median net after-expense return was -1.1% in the first quarter. The slight increase in first-quarter short-term Canadian bond yields led to higher commuted value (CV) initial interest rates, against which solvency liabilities are highly negatively leveraged. The resulting solvency liability decrease helped mitigate some first-quarter solvency asset losses.

Other Funding Matters

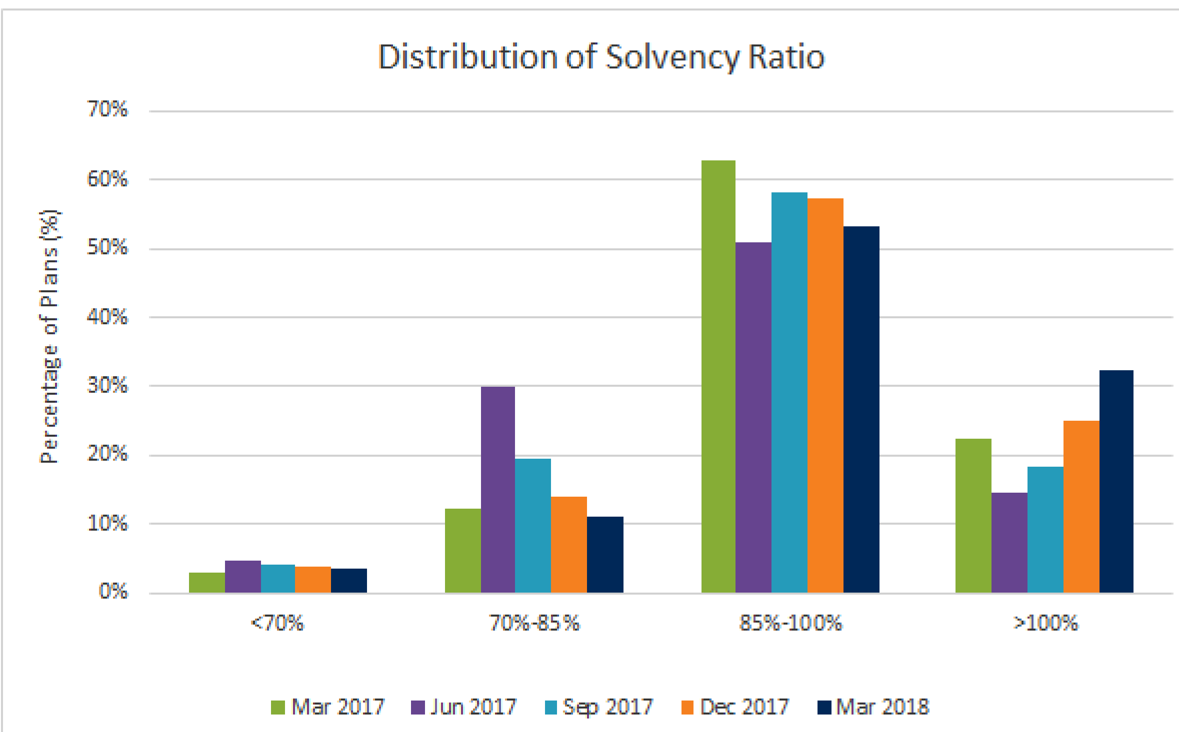
The Ministry of Finance (MOF) recently held consultations on Ontario’s proposed new funding framework for single employer DB pension plans (SEPPs), which closed on January 29, 2018. Among other things, the new framework includes enhanced going concern funding, provisions for adverse deviations (PfADs) and funding on a solvency basis if the plan’s solvency status falls below 85%.

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 the last filed actuarial valuation reports (assets and liabilities) were projected to March 31, 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 were reflected through reduced net after expense investment earnings.

2. Each plan's unique annual after-expense rates of return were calculated based on filed IIS information. Individual plan 2015 and 2016 rate of return statistics are summarized as follows:

	1st Quartile	2nd Quartile	3rd Quartile
2015 Gross Return:	7.0%	5.5%	4.1%
2015 Net After Investment Expense Return:	6.6%	5.1%	3.7%
2015 Net After All Expense Return:	6.2%	4.7%	3.1%
2016 Gross Return:	8.1%	6.4%	4.7%
2016 Net After Investment Expense Return:	7.6%	5.9%	4.3%
2016 Net After All Expense Return:	7.2%	5.4%	3.7%

3. Each plan's unique annual 2017 and first quarter 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:

	1st Quartile	2nd Quartile	3rd Quartile
2017 Q4 YTD Gross Return:	9.5%	9.1%	8.3%
2017 Q4 YTD Net After Expense Return:	8.4%	8.0%	7.2%
2018 Q1 Gross Return:	-0.5%	-0.8%	-0.9%
2018 Q1 Net After All Expense Return:	-0.7%	-1.1%	-1.1%

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%

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
Dec 31, 2017	Interest: 2.60% for 10 years, 3.40% thereafter Mortality: CPM2014 generational	Interest: 3.02% Mortality: CPM2014 generational

3 based on a medium duration illustrative block

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