STAFF REPORT
INFORMATION ONLY

TTC Pension Fund Society 2016 Annual Report

Date:	June 15, 2017
To:	TTC Board
From:	Chief Executive Officer

Summary

The attached 2016 TTC Pension Fund Society Annual Report is submitted for the information of the TTC Board

Financial Summary

There are no financial implications resulting from the adoption of this report.

Accessibility/Equity Matters

This report has no accessibility or equity issues.

Decision History

The Annual Report is a comprehensive publication distributed primarily for communication with TTC employees and pensioners. Similar to the Annual Reports of other major Ontario pension plans, the attached covers important information, discussion and analysis of the TTC Pension Fund Society's financial position, investments, funded status and administrative matters.

Issue Background

The PFS was established through collective bargaining and incorporated on January 3, 1940 to provide retirement benefits for Toronto's transit employees. The PFS pension plan is administered by a Board, consisting of five Directors appointed by the Toronto

Transit Commission and five Directors who are ex officio members of the Amalgamated Transit Union Local 113 executive. The Directors are also contributing members of the plan, which promotes a strong alignment of interest with the plan members. The PFS Board of Directors review, monitor and make decisions on the administration of the plan benefits and investments within tolerable risk parameters. To fulfill this responsibility, the Board delegates the day-to-day management of operations to the PFS Staff and hires professional investment managers, consultants, actuarial and legal counsel to advise them.

Effective January 1, 2011, pursuant to the Memorandum of Agreement between the Toronto Transit Commission and the Amalgamated Transit Union Local 113, the PFS was established as a Jointly Sponsored Pension Plan (JSPP), as defined by the Ontario Pension Benefits Act. Other Ontario JSPPs include: Ontario Teachers' Pension Plan, OMERS, Healthcare of Ontario Pension Plan, Ontario Public Service Employees' Union Pension Plan (OP Trust) and Colleges of Applied Arts and Technology Pension Plan.

The PFS is a defined benefit, multi-employer pension plan. It covers substantially all employees of the TTC and ATU (the employers) who have completed six months of continuous service. Contributions are made into the plan by members and matched dollar for dollar by their employer. The Contribution rate is 9.25% up to the Yearly Maximum Pensionable Earnings (YMPE) and 10.85% above YMPE. The YMPE for 2016 was $54,900. It is worth noting that the PFS contribution rates have remained at this level since 2011 and is among the lowest of other Ontario JSPPs.

The plan is registered with the Financial Services Commission of Ontario and is subject to regulation under the Ontario Pension Benefits Act and the Income Tax Act (registration number 0317586).

As at December 31, 2015, the PFS had approximately 14,000 active members and 8,000 pensioners and net assets of $6.1 billion. The PFS plan design supports equal cost and risk sharing between employees and employers. Unlike typical final average earnings defined benefit plans, the PFS plan does not provide automatic annual updates to the best four-year base period used in determining pension benefits, and does not guarantee automatic increases to pensions in payment. Instead, benefit changes are approved only when, and to the degree that, they are deemed actuarially affordable.

Contact

Sean Hewitt
TTC PFS Chief Executive Officer
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Sean.Hewitt@ttc.ca

Attachments

2016 TTC Pension Fund Society Annual Report

TTC Pension Fund Society
2016 Annual Report

Contents

About the
TTC Pension Fund Society

The Toronto Transit Commission Pension Fund Society (PFS, Plan, Society, Fund) was incorporated in 1940 under Part XVI of The Corporations Act of the Province of Ontario. The PFS through its Board of Directors (the "Board") administers a contributory, defined benefit pension plan (the "Plan"). The Board consists of voting members from the Toronto Transit Commission (TTC) and the Amalgamated Transit Union Local 113 (ATU). The terms of the Plan are set out in the Bylaws of the Society (the "Bylaws"), as amended from time to time.

The Plan is a Jointly Sponsored Pension Plan (':JSPP"), established pursuant to an agreement (the "Sponsors Agreement") dated May 27, 2011, between the two co-sponsors, the Toronto Transit Commission ("TTC") and the Amalgamated Transit Union Local 113 ("ATU"). The TTC and the ATU, together, are referred to as the "Sponsors" or "Employers".

Active Members of the Plan, who are employees of the TTC or the ATU that have completed six months of continuous service, contribute a percentage of contributory earnings to the Fund and the Employers contribute an equal amount to the Fund. The Board sets the contribution rates, subject to the funding requirements determined in the actuarial report and subject to limitations in the Sponsor's Agreement.

2016
Highlights

Market Value of Plan Assets grew to

$6.1 billion

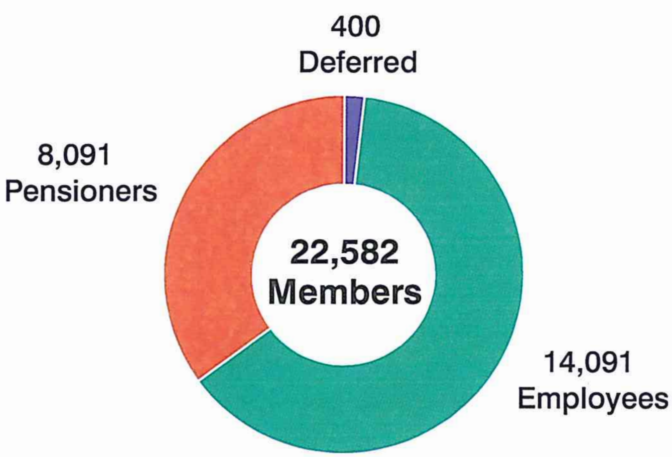
97%

Funded
On a going concern basis

6.3%
2016 rate of return, net of fees

10.0%
5 year annualized rate of return, net of fees

$378 million
2016 investment income



Average Retirement Age
60.0

Average Pensioner Age
71.7

Average Pension
$29,500

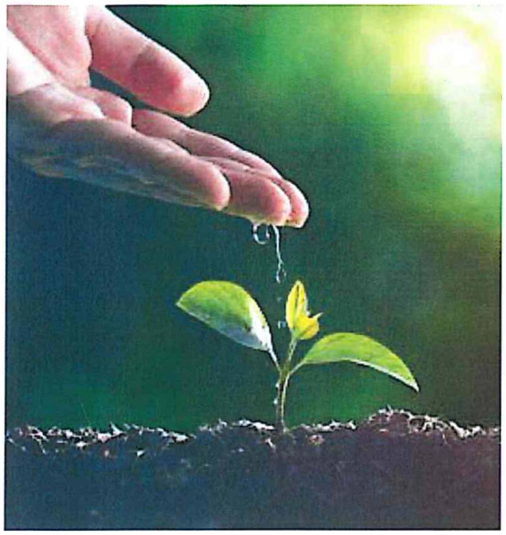
528
Members electing retirement in 2016

4,467
Online pension estimates

454
Pre-retirement seminar attendees

99%
of members rate the pre-retirement seminars as very good or good

Message from the Board



Our top priority is to protect the sustainability of the Plan for both current and future pensioners. We never lose sight of the fact that TTC PFS Members depend on the Plan to pay pensions today and preserve pensions for tomorrow. That's why the Board reviews in detail the financial position of the Plan, which includes a review of the external actuary's report, to determine if it's fiscally responsible and affordable to approve cost of living increases for pensioners or updates to the base-year calculation. This process highlights one of the core strengths of the Plan design: equal risk sharing by employers and employees. This has proven to work reliably over time as we enter our 77th year of operations.

Valuable updates have been approved by the Board

Given the financial health of the Plan, along with favorable long-term affordability metrics, we are very pleased to advise that the Board was able to approve a cost of living increase of 1.35% for pensioners and a one year base period update effective January 1, 2017. Active Members and 2016 retirees will now have their pensionable earnings and credited service up to December 31, 2016 included in the base period for calculation of the pension benefit.

The benefit improvements while approved by the Board are based on confirmation from the Society's external acturary that the plan has sufficient assets available to cover the cost of those benefits.

Since 2011, the Plan has been able to afford steady increases to the base period which have brought the base year fully up-to-date for the last four years. This is a noteworthy accomplishment, however, as a reminder; there is no contractual obligation to provide benefit improvements. As you know, on an annual basis, the Board assesses affordability of benefit improvements, including pension indexing, and grants them at their discretion. Future enhancements are not guaranteed.

Board continues to enhance its strong governance model

As a jointly sponsored pension plan, the Board is ultimately responsible for the oversight, administration and investments of the Plan. In doing so, we are continually monitoring manager performance, funded status of the Plan, and Plan expenses incurred while ensuring our strong governance policies and procedures are being adhered to. The Board's fiduciary duty is to ensure that all of these factors are taken into consideration in order to act in the best interest of the members. The fiduciary responsibility is balanced by the Board's composition, by having equal representation from both the ATU 113 and the TTC. In order to further strengthen independence, the PFS welcomed our new CEO in 2016, Sean Hewitt, the PFS's first employee who reports directly to the Board.

A long with the rest of the PFS Board, we wish to recognize the hard work of all Pension Fund Society staff and to thank them for their continued support in delivering the outstanding service that members expect. With the staff, led by Sean Hewitt, Cheryl Uroda and James Clarkson, the team remains committed to delivering *the Pension Promise: Keeping your pension stable and secure for current and future pensioners*.

TTC Pension Fund Society: A model for strong governance

The TTC PFS Board is comprised of ten members, five of whom are appointed from the ATU and five from TTC management. This governance model means that the Toronto Transit Commission and members have equal say on plan decisions. Members and the TTC are involved in, and responsible for, decisions about funding and the approval of benefit improvements including base-year updates and pensioner increases.

Members of the Board of Directors Are:

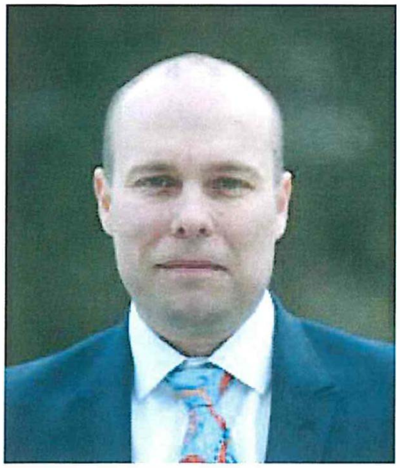
(December 31, 2016)

Bob Kinnear
Vincent Rodo
Bill Chrisp
Scott Gordon
Frank Grimaldi
Orest Kobylansky
Brian Leck
Kevin Morton
Gemma Piemontese
Michael Roche
Megan MacRae - Observer
Frank Malta - Observer

Sincerely,

TTC Pension Fund Society Board of Directors

Message from the CEO



Sean Hewitt
Chief Executive Office TTC Pension Fund Society

The TTC Pension Fund Society has been delivering our pension promise for over 75 years and we are committed to continue to deliver on that promise well into the future.

When we manage our Plans assets, we need to keep in mind that the contributions that we receive from a TTC operator today while they are in their 20s or 30s will be used to deliver pension payments to that person as a pensioner while they are in their 80s and 90s. Employing a long-term approach to pension plan management enables us to keep our sights on the horizon to deliver our *pension promise* long into the future. Of course, we fully expect, and anticipate that certain periods in the future will be characterized by challenging short term performance due to slow economic growth, market volatility qnd heightened geopolitical risks. Despite some of these varied challenges in 2016, the Fund has been able to generate another year with positive results. The Fund earned 6.3% after fees for the year ending December 31 with Plan assets increasing by approximately $300 million to $6.1 billion at year end.

We ended the year with a funded status of 97% on a going concern basis, equal to the funded status from the year prior. Consistent with our long term track-record, the Plan has earned an annualized return of 10.0% after fees over the last 5 years which has exceeded our Plan benchmark return by 1.4% annually.

This strong financial position has allowed the TTC Pension Fund Society Board the ability to approve valuable increases to member benefits. The Board approved a Base year update effective January 1, 2017, and an ad-hoc pensioner increase of up to 1.35%. The pensioner increase is the maximum permitted by Canadian tax law and is equal to the change in the Consumer Price Index (CPI) published by Statistics Canada.

In keeping with our long term approach to managing the Fund well into the future, pension staff are working with our plan actuary to conduct a study to update our long term funded status projections. This study may result in moderate changes to our investment strategy moving forward which will be designed to outperform the liabilities of the pension plan over the long term.

At the TTC Pension Fund Society, we take Member communication very seriously, which is why we have our Members come into our offices to understand the value of their pension, the provisions in their pension plan, and to go over various pension benefit options and other plan provisions available to them. In 2016, we processed a record number of retirements; over 500 employees came through our offices to sign pension documents, a year-over year increase of roughly 30% from 2015.

Market Overview

2016 was a challenging year, characterized by continued modest economic growth in the global economy including concerns regarding stagnating European economic conditions, slowdown of growth in China and modest growth figures in the US and Canada. The year was also characterized by significant political outcomes, with Britain voting to exit from the European Union and the unanticipated election of Donald Trump as President of the United States.

The environment for interest rates saw some major moves over the year, which was characterized by falling bond yields in both Canada and the US in the first three quarters of 2016 which was followed by a sharp increase in bond yields in the last quarter:

Equity market returns were quite robust. Within the domestic market, Canada's S&P/TSX Composite Index was one of the best performing markets in the world with a return of 21 %, which was led by a strong recovery of global energy prices. Equity indices in the US and emerging markets also experienced relatively strong performance, returning 8.7% and 8.0% in Canadian dollar terms respectively.

Sincerely,

Sean Hewitt
Chief Executive Officer
TTC Pension Fund Society

Investment Management

The Plan's assets grow through your contributions, matching employer contributions, and investment earnings. The primary investment objective is to grow the assets more than the pension liability over time. This improves the Plan's overall financial condition as measured by the Plan's funded status. When the funded status improves, the ability to provide a base period update and pension indexing also improves.

The management of our investment portfolio is done in accordance with the PFS Statement of Investment Policies and Procedures (the Investment Policy). The Investment Policy is reviewed, updated and approved by the Board annually. It sets objectives, guidelines and standards to assist the Plan's staff, investment managers and advisors to carry out the directives set by the Board.

The Investment Policy articulates the investment objectives, guidelines and benchmarks used in investing the capital of the Plan including permitted categories of investments, asset-mix diversification and rate of return expectations. The Investment Policy provides a framework for managing the Plan's assets in relation to its pension liability, within a tolerable level of risk. The investment portfolio is diversified across cash and fixed income investments, Canadian and foreign equity investments, and alternative investments including real estate, infrastructure, hedge funds, private debt and private equity.

Building a Diversified Portfolio

At the PFS, we include a broad array of investments that can be summarized into three broad categories:

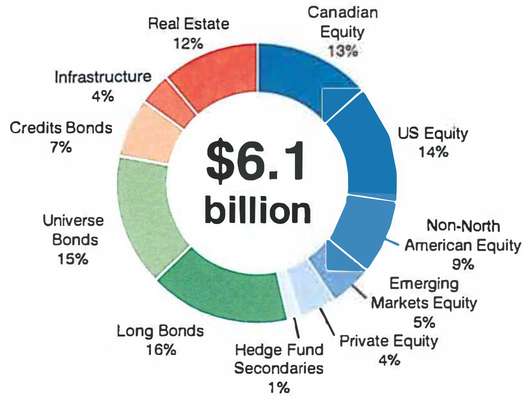
Liability-Matching Assets are investments that reduce funded status volatility from year to year. They include investments in Canadian universe and long term bonds and short term securities. The policy weight for these investments is 32% of the total Plan.

Growth Assets are investments that seek a higher return than Liability-Matching Assets, but are also characterized by higher volatility. Our growth asset portfolio contains Canadian and Non-Canadian Equities, Private Investments and Opportunistic Investments. The policy weight for these investments is 42% of the total Plan.

Hybrid Assets are investments that share characteristics of both Liability Matching Assets and Growth Assets. They tend to offer higher long-term returns than bonds but generally don't have the volatility associated with Growth Assets. Our holdings in real estate, infrastructure and credit bonds are included in this broad category. The policy weight for these investments is 26% of the total Plan.

Asset Allocation

(December 31, 2016)*



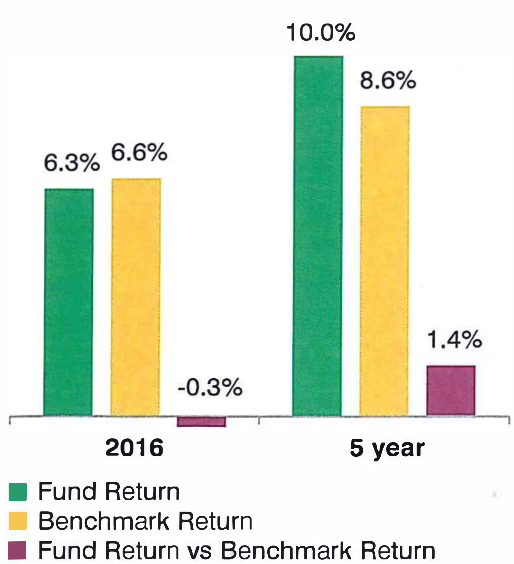
*Fixed income includes cash

Asset Type	Asset Class	Benchmark Index
Growth (42% Target Weight)	Canadian Equity	S&P/TSX Composite
	US Equity	S&P 500
	Non-North American Equity	MSCI EAFE
	Emerging Markets Equity	MSCI Emerging Markets
	Private Equity	Russell 2000
	Hedge Fund Secondaries	S&P 500
Liability Matching (32% Target Weight)	Cash and Cash Equivalents	91 Day T-bills
	Long Bonds	FTSE/TMX Long Bonds
	Universe Bonds	FTSE/TMX Universe Bonds
Hybrid (26% Target Weight)	Credit Bonds	FTSE/TMX Corporate Bonds
	Infrastructure	FTSE/TMX Long Bonds +3%
	Real Estate	FTSE/TMX Long Bonds +3%

Return vs. Policy Benchmark

Assets in the Plan totaled $6.1 billion at year end. The Plan delivered acceptable investment performance in 2016 with a return of 6.3% after fees, underperforming the Plan benchmark by 0.3%. Over the past five years, the plan has earned an annualized rate of return of 10.0%, outperforming the policy benchmark by 1.4% over the period, which has generated in added value of nearly $300 million over the last 5 years.

Our long term objective is to match or exceed the growth in our liability, and to generate enough return over time to provide Plan Members with steady and consistent base year updates and pensioner increases. The Fund has generated favorable returns over the last 5 year period which has afforded the plan to meet its objectives.



The 10.0% annualized return, net of investment management fees over the last 5 year period, outperformed the policy benchmark by 1.4%, generating $300 million in added value

Asset Class	5 year returns	Benchmark
Canadian Equity	13.6%	8.3%
US Equity	21.3%	21.2%
Non-North American Equity	12.0%	12.6%
Emerging Markets Equity*	5.3%	3.9%
Private Equity*	16.6%	14.7%
Hedge Fund Secondaries	21.7%	7.3%
Long Bonds	4.3%	4.3%
Universe Bonds	4.1%	3.2%
Credit Bonds	6.2%	4.2%
Infrastructure	12.3%	7.3%
Real Estate	9.0%	7.3%
Total Fund Return	**10.0%**	**8.6%**

*4 year return, investments purchased in 2013

The Fund has generated favorable returns over the last 5 year period which has afforded the TTC PFS Board the ability to grant steady base year updates and pensioner increases.

Benefits and Administration

Changes in Net Assets Available for Benefits

Net Assets Available for benefits totaled $6.1 billion as at December 31, 2016, an increase of $326 million over the year. Investment income, which is the sum of both realized and unrealized gains in the investment portfolio, totaled $378 million. Benefits paid, modestly exceeded contributions by $35 million.

($ millions)

Net assets December 31, 2015	**5,810**
Investment income and net increase in fair value of investments	378
Contributions	224
Benefits paid	(259)
Investment and administration expenses	(17)
Net assets December 31, 2016	**6,136**

Benefit Changes Approved By the Board

Benefit changes are approved by the PFS Board of Directors only when and to the degree that they are deemed actuarially affordable after consultation with the Plan's Actuary and careful consideration of long-term pension benefit affordability.

In May 2017 the Board had concluded its final meeting of the financial year with the Plan Actuary and after extensive analysis and discussions was able to approve the following changes in plan benefits:

- Pensioners will receive a retroactive ad hoc cost of living increase of up to 1.35% effective January 1, 2017;
- Effective January 1, 2017, the base period formula for calculating pension benefits will be the average of employees' best four years of pensionable earnings up to December 31, 2016; and
- In lock-step with this formula update, the survivor benefit date will be January 1, 2017.

The Canadian Income Tax Act does not permit the percentage increase in a pension in payment to be more than the cumulative percentage increase in the Consumer Price Index (CPI)

As stipulated in the PFS Bylaws, the Bylaw amendments to effect these improvements will be presented to the TTC Board for sanctioning before the AGM and will be presented at the AGM for approval.

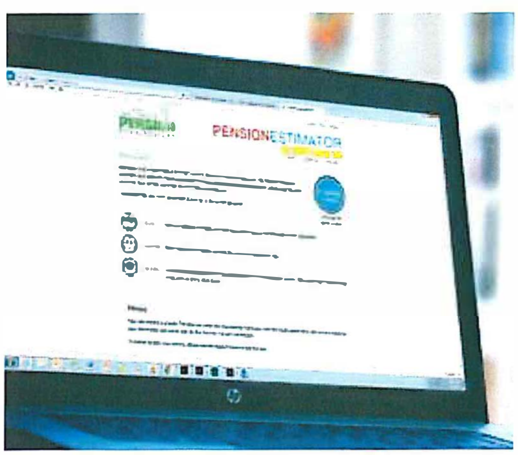
2016 Pre-Retirement Seminars

If you have never applied to attend a pre-retirement seminar and you would like to add your name to the waiting list, the qualification to do so is either 40 years of age or 1O years of service. At these sessions you will be provided useful retirement planning resources and information. Typically we hold 6 pre-retirement seminar sessions each year with approximately 75 attendees including spouses, 4 during the spring and 2 during the fall. This year's spring sessions were held in April and May. The fall 2017 seminar dates are: October 3 & 4 and October 12 & 13. If you are interested in attending, all we need to register you is your name, employee number, work location and whether your spouse/partner will be attending the seminar with you.

This year the seminars will be held at the Radisson Hotel Toronto East, 55 Hallcrown Place. The seminars are two full days with lunch included and they provide information regarding your TTC pension plan, health benefits and life insurance available upon retirement, financial planning, budget and debt management, RRSP information, tax planning and estate planning. Attendance is limited to one time only and we believe the information provided is most beneficial to those employees who are approximately 10-15 years away from their retirement. To apply to attend a seminar you can complete an application form at your work location or on the intranet, email us at pfs@ttc.ca or call us at 416-393-4367 or 416-393-4368.

Your name must be on the master waiting list to be eligible to attend. Your work location selects who attends based on date of application and availability. Once selected, the Pension Office will forward a confirmation letter to you indicating the date of your attendance including location and other details.

Pension Estimator Tool



Members of the PFS can calculate their estimates by accessing the Estimator through the PFS Intranet (internal website) or via TheCoupler.ca home page link. You may be surprised to know that on average the pension you receive during your retirement will far exceed the contributions you make as a member.

The Pension Estimator lets you calculate as many estimates as you wish and try out different scenarios to see the changes in your results. We recommend that you use the information provided to you in your most recent Annual Entitlement Statement to simplify your data entry and increase your accuracy. The Statement provides a comprehensive summary of your membership, including annual earnings and pensionable service - two important factors that form the basis of your pension entitlement.

We encourage you to first watch the estimator tutorial to help you navigate through the process.

As always, the Pension Office is here to assist you with any questions you have. If you can't find your most recent Annual Entitlement Statement, just e-mail us at pfs@ttc.ca.

It's as easy as 1, 2, 3 - or should we say **Input, Outlook, Results!**

Ten Year Review

(Unaudited)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Financials ($M)										
Fixed Income & Cash	2,645	2,788	2,613	2,051	2,055	1,783	1,709	1,551	1,506	1,590
Equities	2,356	2,526	2,415	2,513	2,040	1,783	1,790	1,602	1,290	1,728
Alternatives	1,389	819	710	562	378	231	306	300	337	303
Investment Recievables	59	23	46	54	288	64	57	37	39	22
Investment Liabilities	(313)	(346)	(286)	(276)	(490)	(37)	(161)	(146)	(210)	(142)
Total Net Assets	**6,136**	**5,810**	**5,498**	**4,904**	**4,271**	**3,825**	**3,701**	**3,344**	**2,962**	**3,501**
Contributions	224	216	207	202	194	182	168	151	136	110
Investment Income (loss)	378	352	621	647	457	120	358	393	(518)	110
Benefit Payments	(259)	(239)	(216)	(200)	(188)	(166)	(158)	(152)	(147)	(144)
Expenses	(17)	(17)	(18)	(16)	(15)	(12)	(11)	(9)	(10)	(10)
Change in Net Assets	**326**	**312**	**594**	**633**	**448**	**124**	**357**	**383**	**(539)**	**66**
Membership										
Actives	14,091	13,686	13,237	13,013	12,767	12,690	12,572	12,400	11,681	11,241
Pensioners	8,091	7,699	7,375	7,092	6,824	6,562	6,300	6,134	6,018	5,863
Deferred	400	378	374	354	339	301	289	276	266	278
Total Members	**22,582**	**21,763**	**20,986**	**20,459**	**19,930**	**19,553**	**19,161**	**18,810**	**17,965**	**17,382**
Retirements	528	431	443	409	384	373	299	257	267	248

Numbers are rounded

Contact Us

For general questions, please contact the
TTC Pension Fund Society Office
1920 Yonge Street, 6th Floor
Toronto Ontario
M4S 3E2

Phone: 1-800-663-6820
Fax: 416-338-0122
Email: pfs@ttc.ca

TORONTO TRANSIT COMMISSION - PENSION FUND SOCIETY

FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND DECEMBER 31, 2015

(IN THOUSANDS OF CANADIAN DOLLARS)

MERCER
MAKE TOMORROW, TODAY

Actuaries' Opinion

Mercer (Canada) Limited was retained by the Board of the Toronto Transit Commission Pension Fund Society (the Society) to perform an actuarial valuation of the assets and Section 4600 accounting liabilities of the Society as at December 31, 2016, for inclusion in the Society's financial statements.We have completed such a valuation and provided our report to the Board.

The valuation of the Society's Section 4600 accounting liabilities was based on:

- Membership data as at January 1, 2016, supplied by the Society and used to extrapolate valuation results to December 31, 2016,
- Methods prescribed by Section 4600 of the CPA Canada Handbook - Accounting for pension plan :financial statements, and
- Assumptions about future events (including mortality levels, future investment returns, and future pay levels), which have been developed by the Board with input from the actuaries and the auditors, and have been adopted by the Board as its best estimates for accounting purposes, in accordance with Section 4600 of the CPA Canada Handbook.

The valuation of the Society's assets was based on information provided by the Society.

The objective of the financial statements is to fairly present the financial position of the Society on December 31, 2016, in accordance with accounting practices.This is very different from the statutory funding valuation required by the Pension Benefits Act to ensure that the Society meets the funding requirements for the benefits being provided. As a result, the valuation results presented in the financial statements and notes are not indicative of the Society's ability to meet its funding requirements or of the benefit levels which it is able to provide.

While the actuarial assumptions used to estimate liabilities for the Society's financial statements represent the Board's best estimate of future events and market conditions at the end of 2016, the Society's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains and losses in future valuations.

We have tested the data used for the valuation for reasonableness and consistency, and in our opinion, the data are sufficient and reliable for purposes of the valuation and we believe that the methods employed are appropriate for purposes of the valuation. Our opinions have been given, and our valuation has been prepared, in accordance with accepted actuarial practice in Canada.

Scott Clausen

Scott Clausen
Fellow of the Society of Actuaries
Fellow of the Canadian Institute of Actuaries
May 10, 2017

Karen E. Koop

Karen E. Koop
Fellow of the Society of Actuaries
Fellow of the Canadian Institute of Actuaries May 10, 2017

Mercer (Canada) Limited

MARSH & McLENNAN COMPANIES

May 10, 2017

Independent Auditor's Report

To the Board of Directors of
Toronto Transit Commission Pension Fund Society

We have audited the accompanying financial statements of Toronto Transit Commission Pension Fund Society, which comprise the statement of financial position as at December 31, 2016 and the statement of changes in net assets available for benefits and changes in pension benefit obligation for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management using Canadian accounting standards for pension plans.

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.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2 T: +1416 863 1133, F: +1416 365 8215

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Toronto Transit Commission Pension Fund Society as at December 31, 2016 and the changes in its net assets available for benefits and changes in its pension benefit obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto Transit Commission Pension Fund Society

Statement of Financial Position

As at December 31, 2016

(in thousands of Canadian dollars)

	2016 $	2015 $
Assets		
Cash	36,345	4,375
Investments (note 3)	6,390,093	6,131,298
Investment-related receivables (note 3)	19,336	17,734
Contributions receivable		
Members	16,117	15,101
Employers	1,172	2,002
Other assets	1,098	1,092
	6,464,161	6,171,602
Liabilities		
Investment-related liabilities (note 3)	313,317	346,453
Other liabilities (note 6)	15,048	15,236
	328,365	361,689
Net Assets Available for Benefits	6,135,796	5,809,913
Pension benefit obligation (note 7)	5,321,178	5,024,589
Surplus	814,618	785,324

Kevin Morton

Director

M.A. Roche

Director

The accompanying notes are an integral part of these financial statements.

Toronto Transit Commission Pension Fund Society

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2016

(in thousands of Canadian dollars)

	2016 $	2015 $
Increase in net assets available for benefits		
Investment income (note 9)	194,358	203,314
Net increase in fair values of investments (note 9)	183,204	148,548
Contributions		
Members	111,563	107,422
Employers	112,398	108,396
	601,523	567,680
Decrease in net assets available for benefits		
Pension benefits	242,100	221,633
Investment and Plan administration expenses (note 10)	16,670	17,197
Death benefits	8,075	10,797
Termination refunds	8,153	5,516
Marriage breakdown	642	1,159
	275,640	256,302
Increase in net assets available for benefits during the year	325,883	311,378
Net assets available for benefits - Beginning of year	5,809,913	5,498,535
Net assets available for benefits - End of year	6,135,796	5,809,913

The accompanying notes are an integral part of these financial statements.

Toronto Transit Commission Pension Fund Society

Statement of Changes in Pension Benefit Obligations

For the year ended December 31, 2016

(in thousands of Canadian dollars)

	2016 $	2015 $
Pension benefit obligation - Beginning of year	5,024,589	4,595,935
Benefits accrued	167,307	145,846
Benefits paid	(258,970)	(239,105)
Interest accrued on benefits	282,933	271,247
Changes in actuarial assumptions	-	149,673
Experience losses (gains)	23,488	5,888
Plan amendments	81,831	95,105
Net increase in pension benefit obligation	296,589	428,654
Pension benefit obligation - End of year (note 7)	5,321,178	5,024,589

The accompanying notes are an integral part of these financial statements.

(in thousands of Canadian dollars)

1 Description ofthe Plan

The following description of the pension plan operated by the Toronto Transit Commission Pension Fund Society (the Plan) is a summary only. For more complete information, reference should be made to the bylaws of the Plan.

General

The Plan commenced operations on January 3, 1940 as a corporation pursuant to letters patent under Part XVI of the Corporations Act of the Province of Ontario. The Board of Directors (the Board), which consists of ten voting members, five of whom are appointed from the Toronto Transit Commission (ITC) and five of whom are appointed by Amalgamated Transit Union Local 113 (ATU), administers the affairs of the Plan. Pursuant to the Sponsors' Agreement between ATU and ITC (the Sponsors), the Plan is registered as a Jointly Sponsored Pension Plan (JSPP) effective January 1, 2011.

The Plan covers substantially all employees of the ITC and ATU who have completed six months of continuous service. Under the Plan, contributions are made by members and matched by their employers. The Plan is registered with the Financial Services Commission of Ontario (FSCO), under the Pension Benefits Act of the Province of Ontario (PBA) and the Income Tax Act (Canada) (registration number 0317586) and, therefore, is exempt from taxation on its income under Part I of the Income Tax Act (Canada). The Plan may be liable for taxes in other jurisdictions where full tax exemptions are not available.

The Plan is a defined benefit plan. The Board sets the employer and employee contribution rates, subject to the funding requirements determined in the actuarial report and subject to limitations in the Sponsors' Agreement between the ATU and ITC. Members' benefits are determined using a modified career average formula based on pensionable earnings and years of credited service. Plan improvements, including increases to the career average base period and pension indexing may be adopted by the Board. Improvements may be granted if affordable, taking into account the Plan's funded status.

Funding

The Plan is funded by contributions and investment earnings. The Board has adopted a Funding Policy that aims to achieve long-term funding stability, with the objective of supporting benefit levels higher than the contractual benefits, including base period updates and pension increases as stipulated in the bylaws. Actuarial funding valuations are conducted to determine the pension liabilities, the funded position and the contribution rates of the Plan.

Contributions

In 2016, each member employed by the ITC and ATU contributed 9.25% (2015 - 9.25%) of their earnings to the Plan up to the year's maximum pensionable earnings (YMPE) of $54,900 (2015 - $53,600) and 10.85% (2015 - 10.85%) of earnings above the YMPE. The ITC and ATU contributed an amount equivalent to each member's annual contribution.

(in thousands of Canadian dollars)

The Board or the Sponsors, establish and maintain a contribution rate for members. The Board establishes and maintains the contribution rate for members, within an upper and lower limit. The limits are defined in the Memorandum of Agreement, dated May 27, 2011, which established the Plan as a JSPP. A contribution rate outside of this corridor must be approved by the Sponsors.

The TTC is also obligated to make contributions for certain early retirement benefits after 29 years of service and some temporary supplements. These payments are indefinite and are adjusted based on the most recent actuarial valuation filed.

Benefits

Pensions are payable from the Plan based primarily on years of credited service and members' highest four-year career average pensionable earnings up to the current base period-end date December 31, 2015 (2015 - December 31, 2014). The benefits provided are those that can be actuarially supported by the Plan's assets and the contributions to the Plan based on funding requirements specified in the PBA and priorities outlined in the bylaws.

Death benefits, marriage breakdown and lump sum payments on termination before eligibility for retirement are also available from the Plan. Death benefits may take the form of a survivor pension or lump-sum payments.

2 Summary of significant accounting policies

Basis of accounting and adoption of Canadian accounting standards for pension plans

These financial statements are prepared in Canadian dollars, the Plan's functional currency, in accordance with the accounting standards for pension plans in Part IV of the Chartered Professional Accountants (CPA) Canada Handbook (Section 4600) and the relevant sections of the Canadian accounting standards for private enterprises (ASPE) in the CPA Canada Handbook. The financial statements also include current disclosure requirements outlined by FSCO, under Index No. FSGN-100.

These financial statements are prepared on a going concern basis and present the information of the Plan as a separate financial reporting entity independent of the Sponsors and members.

Policy for items not related to investment portfolio or pension obligation

The Plan's accounting policies not related to the investment portfolio or pension obligation are based on ASPE.

Investment assets and investment liabilities

Investment assets and investment liabilities are recorded at fair value in accordance with International Financial Reporting Standard (IFRS) 13, Fair Value Measurement. Purchases and sales of investments are recorded as of the trade date (the date on which the substantial risks and rewards have been transferred). Transactions that have not been settled are reflected in the statement of financial position as investment-related receivables/liabilities.

(in thousands of Canadian dollars)

Subsidiaries and affiliates

The Plan does not consolidate investment related subsidiaries and affiliates; all investment related units are recorded at fair value.

Fair values

The fair values of the investments are determined as follows:

- cash includes both cash and cash equivalents;
- short-term investments are valued at cost, which together with accrued income, approximates fair value;
- bonds are valued based on quoted market prices obtained from independent third party pricing sources; where quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields for comparable securities;
- securities sold under agreements to repurchase are valued using discounted cash flows based on current market yields;
- publicly traded Canadian and non-Canadian stocks are valued at the closing price on the applicable stock exchange;
- real estate property values are generally based on estimated fair values determined through independent annual appraisals of the property or the adjusted acquisition price in the year of purchase; the associated mortgages payable are measured at amortized cost, which approximates fair value;
- infrastructure, private equity, private debt and hedge fund investments are valued by the general partner based on the most appropriate industry valuation models applied on an investment by investment basis;
- the investment values of pooled funds and funds of hedge funds are supplied by the fund administrators based on fair value quotations or appraisals, as appropriate; and
- exchange traded derivatives, such as futures, are valued at quoted market prices; for other derivative financial instruments, where market prices are not available, appropriate valuation techniques are used to estimate fair values.

Investment income

Dividend income is recognized based on the ex-dividend date and interest income is recognized on the accrual basis as earned.

(in thousands of Canadian dollars)

Net realized gain (loss) on sale and settlement of investment assets and investment liabilities during the year represents the difference between sale or settlement proceeds and cost. The net change in unrealized gains (losses) on investment assets and investment liabilities represents the change in the difference between the fair value and cost of investment assets and investment liabilities at the beginning and end of the year. All realized and net changes in unrealized gains and losses on investment assets and investment liabilities are recorded in the statement of changes in net assets available for benefits in the year in which they occur.

Foreign currency translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated at the rates in effect at year-end. The resulting realized and unrealized gains or losses are included in net investment income.

Pension benefit obligation

Valuation of the pension benefit obligation and changes therein during the year are based on an actuarial valuation prepared by Mercer (Canada) Limited, an independent firm of actuaries. The valuation is based on data as at the beginning of the year extrapolated to the year-end. It uses the projected benefit method pro-rated on service and the Board's best estimate of various economic and non-economic assumptions.

Contributions

Contributions from members and employers due to the Plan at year-end are recorded on an accrual basis. Contributions for past service purchases are recorded when received. Cash transfers from other pension plans are not permitted.

Benefits

Benefits paid to pensioners are recorded in the year in which they are due. Refunds to former members and the estates of deceased members are recorded in the year in which they are paid. Refunds attributable to the current year but paid after year-end are reflected in accrued pension benefits.

Administrative expenses

Administrative expenses incurred are paid directly from the Plan and are treated as expenses in these financial statements. Expenses include, but are not limited to, actuarial fees, legal fees, special expenses approved by the Board, trust fees, fiduciary insurance, custody fees, investment management and investment consulting charges. Other administration expenses, including most salaries, office expenses, and other overhead are borne by the TTC.

(in thousands of Canadian dollars)

Use of estimates

The preparation of financial statements in accordance with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets available for benefits during the reporting period. Estimates and assumptions are evaluated on an ongoing basis and take into account historical experience and other factors, including expectations of future events that are believed to be reasonable and relevant under the circumstances. Significant estimates are used, primarily in the determination of the pension obligation and the fair value of certain investments. Note 7 explains how estimates and assumptions are used in determining accrued pension benefits. Note 4 explains how estimates are used to determine the fair value of investments. Actual results could materially differ from those estimates.

3 Investments

The Plan invests, directly or through derivatives, in fixed income, equities or alternative investments in accordance with the Statement of Investment Policies and Procedures (SIPP).

The following schedule summarizes the Plan's investments and investment-related receivables and liabilities before allocating the effect of derivative financial instruments:

	2016		2015	
	Fair value $	Cost $	Fair value $	Cost $
Investments*				
Fixed income				
Invested cash	128,987	128,987	73,875	73,875
Short-term money market securities	118,655	117,876	69,527	68,969
Canadian bonds	2,070,836	2,003,925	2,290,481	2,186,602
Non-Canadian bonds	80,892	75,180	95,654	74,089
Funds of hedge funds	245,578	182,652	256,128	182,652
	2,644,948	2,508,620	2,785,665	2,586,187
Equities				
Canadian	862,685	558,915	868,156	703,128
Non-Canadian	1,493,156	1,174,851	1,658,476	1,216,000
	2,355,841	1,733,766	2,526,632	1,919,128
Alternative investments				
Real estate	702,358	596,963	446,462	362,775
Infrastructure (note 12)	217,994	166,660	125,936	70,633
Hedge fund secondaries (note 12)	89,121	40,788	120,811	63,498
Private debts (note 12)	114,175	117,281	-	-
Private equity (note 12)	265,656	210,390	125,792	66,431
	1,389,304	1,132,082	819,001	563,337
	6,390,093	5,374,468	6,131,298	5,068,652

(in thousands of Canadian dollars)

	2016		2015	
	Fair value $	Cost $	Fair value $	Cost $
Investment-related receivables				
Derivative financial instruments receivable (note 5(b))	6,209	-	3,838	-
Pending trades	2,254	2,254	2,844	2,844
Accrued investment income	10,873	10,873	11,052	11,052
	19,336	13,127	17,734	13,896
Investment-related liabilities				
Bonds sold under repurchase agreements	306,133	306,133	309,299	309,299
Derivative financial instruments payable (note 5(b))	2,312	-	33,756	-
Pending trades	4,872	4,872	3,398	3,398
	313,317	311,005	346,453	312,697
	6,096,112	5,076,590	5,802,579	4,769,851

*Includes investments in pooled funds, details of which are provided in note 11(c).

4 Financial risk management

Capital management

The capital of the Plan is represented by the net assets available for benefits less the statutory actuarial valuation referred to in note 7. The objective of managing the Plan's capital is to ensure it is fully funded and sufficient assets are available to pay for the benefit obligations over the long term. The Board manages the Plan's capital by mandating an annual actuarial valuation on both the going concern and solvency bases to determine the Plan's funded status. Based on the results of this valuation and the priorities set out in the Plan's bylaws and the funding policy, the Board makes decisions with respect to pension formula updates, pension indexing and Plan improvements. Investments and the use of derivatives are based on an asset mix that is projected to enable the Plan to meet or exceed its long-term funding requirements, within an acceptable level of risk, consistent with the Plan's SIPP approved by the Board.

The Plan's administrator has adopted a SIPP which states investment objectives, guidelines and benchmarks used in investing the capital of the Plan, permitted categories of investments, asset-mix diversification and rate of return expectations. The SIPP is reviewed and approved by the Board at least annually and the last amendment, which was effective December 31, 2016, was approved by the Board on February 24, 2017. The significant amendments included changes made to refine the Fund's interim target asset mix.

(in thousands of Canadian dollars)

The Plan's investment objective, outlined in the SIPP, is to achieve a long-term rate of return that equals or exceeds the Plan's going concern liability growth rate, consistent with available market opportunities, and at acceptable levels of expected investment risk. The current estimated current growth rate, inherent in the CPA Canada Handbook Section 4600 valuation is 5.5% (2015 - 5.5%) The Plan's annualized five-year average rate of investment return, after investment management fees, as at December 31, 2016 was 10.0% (2015 - 9.3%).

The Plan's investment portfolio is subject to various risks, which may adversely affect its income, cash flows and net assets available for benefits. These risks include market risk (including foreign currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The Plan manages investment-related risks through the SIPP, which establishes long-term asset mix policies for the investment portfolio as a whole. This promotes investment diversification and limits exposure to individual investments, major asset classes, geographic markets and currencies. The long-term policy also specifies a target weighting for matching assets, which are expected to have a relatively high correlation with the Plan's actuarial liability. It also establishes mandate-specific policies for each investment manager of the Plan. The investment managers' compliance with the policies is confirmed quarterly.

		2016		2015	
Asset categories	Index Benchmark	Portfolio weight year-end %	Asset mix policy target weight %	Portfolio weight year-end %	Asset mix policy target weight %
Fixed income	Composite	38.5	42.0	41.4	44.0
Cash and overlay	FTSE TMX 91-day T-Bill	3.5	3.0	(1.2)	3.0
Long-term bonds	FTSE TMX long-term	16.4	21.0	17.7	20.0
Universe bonds	FTSE TMX Universe	11.8	8.0	18.1	11.0
Credit bonds	FTSE TMX Universe Corporate	6.8	10.0	6.8	10.0
Equities	Composite	40.6	36.0	44.6	37.0
Canadian	S&P/TSX Composite	13.5	12.0	15.9	12.0
U.S.[1]	S&P 500	13.5	9.0	12.6	10.0
Non-North American [1]	MSCI Europe, Australia, Far East	8.6	10.0	12.0	10.0
Emerging markets	MSCI Emerging Markets	5.0	5.0	4.1	5.0
Private equity	Russell 2000	4.3	4.0	2.1	3.0
Real estate	FTSE TMX Long Term Bonds + 3%	11.5	11.0	7.7	9.0
Infrastructure	FTSE TMX Long Term Bonds + 3%	3.6	5.0	2.1	5.0
Hedge funds secondaries	FTSE TMX Long Term Bonds + 3%	1.5	2.0	2.1	2.0
Total portfolio	Composite	100.0	100.0	100.0	100.0

1) Index expressed in CAD used as basis for manager evaluation. Index quarter-hedged into CAD in total portfolio and total equities benchmarks.

(in thousands of Canadian dollars)

	2016			2015		
Asset categories*	Post-fee return %	Benchmark return %	Post-fee vs. benchmark excess (shortfall) %	Post-fee return %	Benchmark return %	Post-fee vs. benchmark excess (shortfall) %
Fixed income	2.7	2.6	0.1	3.6	3.5	0.1
Long-term bonds	2.8	2.5	0.3	3.8	3.8	0.0
Universe bonds	1.0	1.7	(0.7)	3.9	3.5	0.4
Credit bonds	6.3	3.7	2.6	2.5	2.7	(0.2)
Equities**	7.6	9.6	(2.0)	8.9	6.9	2.0
Canadian	22.5	21.1	1.4	(6.1)	(8.3)	2.2
U.S.	5.0	8.7	(3.7)	23.0	21.1	1.9
Non-North American	(4.8)	(1.9)	(2.9)	19.3	18.5	0.8
Emerging markets	10.5	8.0	2.5	1.2	1.7	(0.5)
Private equity	9.0	17.8	(8.8)	28.3	14.2	14.1
Real estate	7.2	5.5	1.7	2.0	6.8	(4.8)
Infrastructure	0.1	5.5	(5.4)	39.2	6.8	32.4
Hedge funds secondaries	(8.6)	5.5	(14.1)	9.8	6.8	3.0
Total Plan	6.3	6.6	(0.3)	5.8	4.5	1.3

* Note that the Plan returns noted above are after management fees, whereas the benchmark returns do not include any management fee provision.

** Equity return and benchmark return exclude the impact of passive currency hedging policy. Currency hedging impact is included in the total Plan return.

a) Market risk

Market risk is the risk ofloss from changes in equity, interest and foreign exchange rates, and credit spreads. Changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market.

The Plan mitigates market risk through diversification ofits investment por tfolio, across industry sectors, investment strategies and on a geographic basis, based on asset and risk limits established in the SIPP and through the use ofderivative financial instruments.

- Currency risk

  Currency risk arises from the Plan's exposure to foreign currency-denominated assets. Fluctuations in the value ofthe Canadian dollar relative to foreign currencies may significantly increase or decrease the Plan's fair value and returns.

(in thousands of Canadian dollars)

The Plan invests in assets denominated in foreign currencies other than the Canadian dollar in order to improve its risk and return profile. The Plan's currency hedging policies are designed to limit the overall impact of currency fluctuations on Plan returns.

The Plan's currency managers passively hedge 25% of US dollar denominated equity, 50% of other developed market foreign equity currency exposures and 75% of funds of hedge funds. Through a separately managed active currency hedging program, the foreign currency exposure on some or all foreign equity holdings may be fully hedged or unhedged on a tactical basis, subject to risk constraints based on the Plan's SIPP.

The following schedule summarizes the Plan's currency exposure, net of foreign exchange forward contracts used in the passive and active currency programs:

	Net currency exposure*	
	2016 $	2015 $
United States dollar	1,808,066	1,304,240
Hong Kong dollar	71,499	69,188
British pound sterling	40,573	57,633
Swiss franc	3,578	23,519
Euro	20,171	32,966
Japanese yen	(20,795)	3,337
Australian dollar	(9,026)	4,771
Swedish krona	1,092	7,735
Other	160,509	143,212
	2,075,667	1,646,601

* Includes pooled funds

The following sensitivity analysis summarizes the impact on the Plan's net assets available for benefits, following a reasonably possible 5% change in foreign currency exchange rates, with all other variables and underlying values held constant, for each currency to which the Plan has a significant exposure.

	Changes in net assets available for benefits*	
	2016 $	2015 $
United States dollar	90,403	65,212
Hong Kong dollar	3,574	3,459
British pound sterling	2,029	2,881
Swiss franc	179	1,176
Euro	1,009	1,648

(in thousands of Canadian dollars)

	Changes in net assets available for benefits*	
	2016 $	**2015** $
Japanese yen	(1,040)	167
Australian dollar	(451)	239
Swedish krona	55	387
Other	8,025	7,161
	103,783	82,330

* Includes pooled funds

- Interest rate risk

Interest rate risk is the effect that changing interest rates have on both the market value of both the Plan's assets and liabilities. The value of the Plan's net assets available for benefits, are affected by short-term changes in nominal interest rates. The pension benefit obligation is impacted by fluctuations in long-term nominal and real interest rates.

The Plan administrator views interest rate risk on interest bearing financial instruments as a hedge that offsets the larger interest rate risk on pension benefit liabilities. In order for this offset to significantly reduce the overall level (on assets and pension benefit liabilities) of the Plan's interest rate risk, the SIPP has a target of 21% (2015 - 20%) of its holdings to be held in interest bearing financial instruments with long maturities.

The following sensitivity analysis summarizes the impact on the Plan's net assets available for benefits following a reasonably possible change **in** interest rates for all maturities (a parallel shift in the yield curve).

		Change in net assets available for benefits*	
	Interest rates	**2016** $	**2015** $
Interest bearing financial instruments	+ / -1%	225,914	240,560

* Includes pooled funds

As at December 31, 2016, assuming all other factors remain constant, a 1% decrease in the assumed long-term rate of return on assets would result in the pension benefit obligation increasing by 14.0%
(2015 - 14.1%) or $744.3 million (2015 - $709.2 million).

(in thousands of Canadian dollars)

- Equity prices risk

  Equity price risk is the risk that the fair value of equities decreases as a result of changes to their related indices.

  The following sensitivity analysis summarizes the impact on the Plan's net assets available for benefits, following reasonably possible changes in equity prices for each stock market benchmark to which the Plan has a significant exposure.

	Stock benchmark	Change in index value	2016* $	2015* $
Canadian equities	S&P/TSX Comp	+/-10%	78,880	72,196
Non-Canadian equities	various	+/-10%	155,234	158,700
			234,114	230,896

* Includes pooled funds

b) Credit risk

Credit risk is the loss potential associated with a counterparty's inability or unwillingness to fulfill its contractual obligations.

In order to mitigate against losses associated with credit risk, the Plan adheres to investment policies that require:

- having a minimum rating ofRl "low" by DBRS or equivalent for all cash and short-term investments;
- limiting the maximum exposure to bonds issued or guaranteed by any one non-governmental entity or group of affiliated entities to 5% of the fair value of the total fixed income portfolio held by the Plan;
- limiting the maximum exposure to non-investment grade bonds (defined as belowBBB - or equivalent) to 10% of the fixed income portfolio held by the Plan;
- dealing with counterparties to derivative transactions that have credit quality of no less than an A rating;
- securities lent will be secured by initial collateral of no less than 102%;
- entering into International Swaps and Derivative Association Inc. agreements with over-the-counter derivative counterparties to limit the Plan's exposure to credit losses;

(in thousands of Canadian dollars)

- entering into derivative financial instruments only on an unlevered basis; and
- where feasible, directing managers to enter into master netting arrangements.

Credit risk on equity and bond futures is minimal as the counterparty to every futures trade is a clearing corporation, which acts as a third party that matches trades and collects and maintains margins. These contracts are marked-to-market and margin receivables and payables are settled in cash daily.

The following are the interest bearing financial instruments, the exposure to credit risk and the Plan's share of it.

	AAA* $	AA $	A $	BBB $	R1 or Equiv $	Non-inv. grade/ unrated $	Total $
December 31, 2016**	518,257	508,935	582,446	184,295	2,445	374,083	2,170,461
December 31, 2015**	710,147	606,785	563,835	250,866	15,971	243,747	2,391,351

* Includes cash balances from fixed income accounts and accrued interest
** Includes pooled funds

c) Liquidity risk

Liquidity risk is the risk the Plan may be unable to meet obligations associated with pension payments and/or financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity seeks to ensure that even under adverse conditions, the Plan has access to immediate cash that is necessary to cover benefits payable, withdrawals and other liabilities. The SIPP requires a significant portion of the Plan's investments to be highly liquid so they can be converted into cash on short notice. Typically, the employee and employer contributions will cover the benefit payment requirements. Therefore, the Plan's exposure to liquidity risk is considered negligible.

In order to meet short-term liquidity requirements, cash and short-term investments are available for $283,987 (2015 - $147,777). With the exception of the pension benefit obligation, all liabilities are current and due within one year.

(in thousands of Canadian dollars)

In addition to cash and short-term investments, the bond holdings held also aid in managing liquidity risk and have the following maturities:

	1 year $	1 - 5 years $	5 - 10 years $	10 - 20 years $	20 years $	Total $
December 31, 2016*	50,075	474,315	287,701	438,863	919,507	2,170,461
December 31, 2015*	81,626	547,135	391,361	486,295	884,934	2,391,351

* Includes pooled funds

d) Fair value hierarchy

Financial assets and liabilities are measured at fair value and can be classified based on the method used to determine their valuation. The fair value hierarchy has the following three levels:

- Level 1 - fair value is based on quoted market prices in markets for identical financial assets or financial liabilities. Level 1 financial assets generally include equity investments traded in an active market.

- Level 2 - fair value is based on observable inputs, other than quoted prices included within Level 1, such as quoted market prices for identical financial assets or financial liabilities in markets that are not active and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the financial assets or financial liabilities. Level 2 financial assets and financial liabilities generally include pooled funds, short-term money market securities, Government of Canada, provincial and other government bonds, Canadian corporate bonds and certain derivative financial instruments.

- Level 3 - fair value is based on inputs that are not supported by observable market data. Valuation methodologies are determined by the fund administrators and independent appraisers. Level 3 financial assets and financial liabilities include the funds of hedge funds, real estate, infrastructure, hedge fund secondaries investments, private debt and private equity investments.

(in thousands of Canadian dollars)

The following table presents the level within the fair value hierarchy for each of the financial assets and financial liabilities measured at fair value. The table excludes other financial assets and financial liabilities that are valued at their carrying amount, which represents a reasonable approximation of fair value due to their short-term nature.

2016	Level 1 $	Level 2 $	Level 3 $	Total $
Invested cash and short-term money market securities	128,987	118,655	-	247,642
Bonds*	-	1,845,595	-	1,845,595
Funds of hedge funds	-	-	245,578	245,578
Equities	2,355,841	-	-	2,355,841
Real estate	-	-	702,358	702,358
Infrastructure	-	-	217,994	217,994
Hedge funds secondaries	-	-	89,121	89,121
Private equity	-	-	265,656	265,656
Private debt	-	-	114,175	114,175
Derivative financial instruments	-	3,897	-	3,897
Other investment-related assets and liabilities	-	8,255	-	8,255
	2,484,828	1,976,402	1,634,882	6,096,112

2015	Level 1 $	Level 2 $	Level 3 $	Total $
Invested cash and short-term money market securities	73,875	69,527	-	143,402
Bonds*	-	2,076,837		2,076,837
Funds of hedge funds	-	-	256,128	256,128
Equities	2,526,632	-	-	2,526,632
Real estate	-	-	446,462	446,462
Infrastructure	-	-	125,936	125,936
Hedge fund secondaries	-	-	120,811	120,811
Private equity	-	-	125,792	125,792
Derivative financial instruments	-	(29,918)	-	(29,918)
Other investment-related assets and liabilities	-	10,497	-	10,497
	2,600,507	2,126,943	1,075,129	5,802,579

* Bonds total is net of bonds sold under repurchase agreements of $306,133 (2015 - $309,298).

(in thousands of Canadian dollars)

The following table summarizes the changes in the fair values offinancial instruments classified in Level 3.

	Funds of hedge funds $	Real estate $	Infrastructure $	Hedge fund secondaries $	Private equity $	Private debt $	Total $
Fair value - December 31, 2014	213,857	397,924	96,035	107,342	108,365	-	923,523
Total unrealized gains	36,008	8,718	25,768	12,071	24,996	-	107,561
Purchases (dispositions)	6,263	39,820	4,133	1,398	(7,569)	-	44,045
Fair value - December 31, 2015	256,128	446,462	125,936	120,811	125,792	-	1,075,129
Total unrealized gains (losses)	(10,550)	21,707	(3,969)	(8,980)	(4,095)	(3,106)	(8,993)
Purchases (dispositions)	-	234,189	96,027	(22,710)	143,959	117,281	568,746
Fair value - December 31, 2016	245,578	702,358	217,994	89,121	265,656	114,175	1,634,882

Investments that are classified as Level 3 have their fair values derived using valuation techniques. The values are provided by the general partner or other external manager and therefore, in the absence of specific information to support deviating from this value, no other reasonably possible alternative assumptions can be applied.

Sensitivity to changes in assumptions

The following analysis demonstrates the sensitivity of several Level 3 valuations to potential changes in capitalization rates, discount rates or interest rates, where applicable. These sensitivities are hypothetical and in actual experience, the change in the key factor may be the result of changes in a number of underlying assumptions which could increase or decrease the effect on the valuation.

		As at December 31, 2016		
Asset type	**Key factor**	**Fair value** $	**+0.25%** $	**-0.25%** $
Real estate	Capitalization rate	702,358	(12,124)	13,783
Infrastructure	Discount rate	217,994	(5,385)	5,391
Hedge fund secondaries	Discount rate	89,121	(302)	304
Private debt	Interest rate	114,175	(905)	905
Private equity	Discount rate	265,656	(1,987)	2,005
		1,389,304	(20,703)	22,388

(in thousands of Canadian dollars)

5 Derivative financial instruments

Derivative financial instruments are financial contracts, the value of which is derived from the value of the underlying assets, interest rates, indices or foreign currency exchange rates. Derivative contracts are transacted either in the over-the-counter (OTC) market or on regulated exchanges.

a) Derivative products and investment objectives

The Plan enters into the following types of derivative financial instruments:

- Equity and bond futures
  Futures contracts involve an agreement to buy or sell standardized amounts of equity or bond indices at a predetermined future date and price in accordance with the terms specified by a regulated futures exchange and are subject to daily cash margining. These contracts are purchased and/or sold with the primary objective of rebalancing the Plan's actual asset mix to closely align with that specified in the SIPP.

- Foreign exchange forward contracts
  A foreign exchange forward contract is a customized agreement negotiated between two parties to buy or sell a specific amount of a foreign currency at a price specified at the origination of the contract, with settlement at a specified future date. Foreign exchange forward contracts are used to hedge the Plan's foreign currency risk.

b) Notional amounts

Notional amounts of derivative financial instruments represent the dollar value of the market exposure gained through the purchase/sale of a contract. Notional amounts are not recorded as financial assets or financial liabilities on the annual statements of financial position and accrued pension benefits and surplus. The aggregate notional amounts and fair values of derivative contracts can fluctuate significantly.

The following is a schedule of notional amounts and fair values of derivative financial instruments:

	2016		2015	
	Notional amount $	Fair value receivable/ (payable) $	Notional amount $	Fair value receivable $
Fixed income futures	6,876	-	103,628	-
Canadian equity futures	40,181	-	53,263	-
Non-Canadian equity futures	154,708	-	10,043	-
Foreign exchange forward contracts	2,465,254	3,897	2,271,996	(29,918)

Derivative financial instruments held by the Plan generally have at least quarterly resets and all settle within one year.

(in thousands of Canadian dollars)

c) Net investments after allocating market exposure of derivative financial instruments

The following table summarizes the effective fair value of the Plan's investments after the allocation of market exposure of derivative financial instruments and investment-related receivables and liabilities:

	2016		2015	
	Effective net investments at fair value $	Effective asset mix %	Effective net investments at fair value $	Effective asset mix %
Fixed income				
Invested cash and short-term money market securities	138,391	2.3	(42,951)	(0.7)
Canadian bonds	1,771,579	29.1	2,084,810	35.9
Non-Canadian bonds	80,892	1.3	95,654	1.6
Funds of hedge funds	245,578	4.0	256,128	4.4
	2,236,440	36.7	2,393,641	41.2
Equities				
Canadian	822,504	13.5	921,419	15.9
Non-Canadian	1,647,864	27.0	1,668,518	28.8
	2,470,368	40.5	2,589,937	44.7
Real estate	702,358	11.5	446,462	7.7
Infrastructure	217,994	3.6	125,936	2.2
Hedge funds secondaries	89,121	1.5	120,811	2.1
Private debt	114,175	1.9	-	-
Private equity	265,656	4.3	125,792	2.1
	6,096,112	100.0	5,802,579	100.0

(in thousands of Canadian dollars)

6 Other liabilities

Other liabilities consist of the following:

	2016 $	2015 $
Accrued pension payroll	10,228	9,330
Fees payable to custodian, investment consultants and other advisers	3,833	5,238
Other accounts payable	987	668
	15,048	15,236

7 Pension benefit obligation

An estimate of the Plan's obligation for pension benefits has been made as at December 31, 2016 for inclusion in the Plan's financial statements by Mercer (Canada) Limited. The estimate is an extrapolation of the January 1, 2016 actuarial valuation based on membership data on that date, using the methods and assumptions summarized below. This note to the financial statements should be read in conjunction with the actuaries' opinion found in the annual general meeting newsletter.

Methods and assumptions

The valuation is based on the requirements outlined in Section 4600 of the CPA Canada Handbook-Accounting for pension plan financial statements. The estimated actuarial present value of accrued pension benefits is determined using the projected benefit method, pro-rated on service. The pension formula in effect in the Plan's bylaws, including the current base period (average of the four calendar years before 2015 with the highest average pensionable earnings) for credited service before 2015, is used to project the pension at retirement, without provision for future updates in the base period or other changes in the bylaws. The pro rata portion of the projected pension, which relates to past service, is then valued as the accrued pension.

Under note 1, description of the Plan, the Board has the authority to provide plan improvements, including increases to the career average base period and also for ad hoc pension indexing. The following amendments to the Plan were adopted by the Board effective January 1, 2016:

- A one-year update of the Base Period to December 31, 2015;
- A one-year update of the Survivor Benefit Date to January 1, 2016; and
- A one-time ad hoc pensioner increase of 1.28% as at January 1, 2016.

As at December 31, 2016, the financial impact of these changes is $81,831. During 2015, similar amendments were adopted with a financial impact of $95,105.

(in thousands of Canadian dollars)

Assets were valued at fair value as at December 31, 2016.

The major assumptions used as best estimates of the Plan's future experience for calculating the actuarial present value of accrued pension benefits are summarized as follows:

	2016 %	2015 %
Discount rate - net of expenses	5.50	5.50
Rate of inflation	2.00	2.00
Weighted average rate of salary increase*	3.25	3.25

*Assumed salary increases from April 1, 2014 through March 30, 2018 are based on wage increases as per the May 17, 2014 collective agreement with an additional 0.5% provision for individual factors. The assumed salary increase on and after April 1, 2018 is 3.25% per annum.

Statutory actuarial valuations

In accordance with the PBA and the Income Tax Act (Canada), an actuarial valuation is required to be filed at least every three years to report the Plan's surplus or deficit, and to determine the Plan's funding requirements. The most recent actuarial valuation for funding purposes was conducted as at January 1, 2016 and filed with regulators on August 31, 2016. The next required funding valuation filing with the regulators will be as at January 1, 2019. The two valuations required by the PBA, the going concern basis and the solvency basis, are determined using different valuation methods and assumptions and yield different surplus or deficit amounts than those disclosed in these financial statements. A solvency (hypothetical windup) valuation must be performed on the Plan, even though the risk of its being wound up, in management's view, is remote. As a JSPP, the Plan is permitted and has elected an exemption from solvency funding requirements. As a result of converting to a JSPP in 2011, only going concern deficits incurred after January 1, 2011 are to be funded. Funding is also required for previously established solvency deficits, which were determined prior to January 1, 2011.

8 Related party transactions and balances

Related parties include the Plan's Sponsors and the Plan's subsidiaries. Expenses borne by the Sponsor are listed under note 2, administrative expenses. These costs are not charged back to the Plan.

Alternative investments held in subsidiary corporations are managed on behalf of the Plan by external advisers through investment management agreements. The Plan has 14 wholly owned subsidiary corporations. The assets held within the subsidiary corporations are investments in real estate, infrastructure, private equity, hedge funds and private debt. The subsidiary corporations are 100% owned by the Plan. Regular transactions include investment income and return of capital distributions, or capital contributions. For real estate investments, the market value is comprised of both an equity component and also a note payable to the Plan relating to the initial investment.

(in thousands of Canadian dollars)

The following schedule summarizes the Plan's net related party alternative investments:

	2016		2015	
	Fair value $	Cost $	Fair value $	Cost $
PFS Exchange Inc*.	146,849	77,100	140,759	77,100
PFS GTA Industrial Inc.*	116,506	127,700	119,179	142,600
PFS Retail Two Inc.*	115,710	95,170	115,212	95,170
PFS Office One Inc.*	203,157	204,700	91,146	95,000
PFS Retail One Inc.	38,371	15,980	35,831	15,980
PFS Industrial One Inc.	23	23	9,054	6,225
5160 Orbitor Drive Ltd.	8,230	3,700	8,241	3,700
PFS Faubourg Inc.*	57,245	57,590	-	-
PFS The Hudson	31,267	30,000	30,000	30,000
Debt on real estate properties	(15,000)	(15,000)	(103,000)	(103,000)
Net investment in real estate	702,358	596,963	446,462	362,775
1793177 Ontario Inc.*	132,532	77,321	117,734	62,875
TTC PFS Secondaries Inc.*	89,121	40,788	120,811	63,498
TTC PFS Private Equities Inc.*	131,597	74,953	125,792	66,431
TTC PFS Private Debt Inc.*	114,175	117,281	-	-
TTC PFS Taurus Inc.	33,428	35,131	8,202	7,758
Net related party alternative investments	1,203,211	942,437	819,001	563,337

* Exceeds 1% of the fair value or cost of the Plan's net assets

The debt on real estate properties consists of the following mortgages payable, which are collateralized by the specific real estate properties:

	2016			2015		
	$	Interest rate %	Maturity date	$	Interest rate %	Maturity date
PFS GTA Industrial Inc.	-	-	-	88,000	5.19	May 2016
PFS The Hudson Inc.	15,000	3.94	August 2025	15,000	3.94	August 2025
	15,000			103,000		

(in thousands of Canadian dollars)

The annual principal repayments due within the next five years and thereafter are as follows:

	$
2017	-
2018	-
2019	-
2020	-
2021 and thereafter	15,000
	15,000

9 Net investment income

The following schedule summarizes investment income (loss) before and after allocation of net realized and unrealized gains Oosses) on investments to asset classes:

	2016		2015	
	Before allocation $	**After allocation $**	**Before allocation $**	**After allocation $**
Fixed income				
Invested cash	262	262	(883)	(883)
Short-term money market securities	748	1,069	891	1,250
Canadian bonds	91,104	113,203	106,600	33,041
Non-Canadian bonds	3,720	9,019	4,104	12,058
Funds of hedge funds	-	(4,922)	-	2,949
	95,834	118,631	110,712	48,415
Equities				
Canadian	20,508	182,879	27,113	(82,463)
Non-Canadian	29,158	25,636	32,065	280,934
	49,666	208,515	59,178	198,471
Alternative investments				
Real estate	21,269	42,977	16,320	25,038
Infrastructure	8,298	4,330	8,904	34,672
Hedge funds secondaries	-	(8,980)	-	12,071
Private debt	3,022	(84)	-	-
Private equity	16,269	12,173	8,200	33,195
	48,858	50,416	33,424	104,976
Investment income	194,358	377,562	203,314	351,862
Net realized gains on investments	196,408	-	142,125	-
Net change in unrealized gains (losses) on investments	(13,204)	-	6,423	-
Net increase in fair values of investments	183,204	-	148,548	-
	377,562	377,562	351,862	351,862

(in thousands of Canadian dollars)

10 Investment and Plan administration expenses

Administration expenses, such as most salaries and benefits, furniture and equipment, materials and supplies, accommodation and audit fees, are borne by the TIC and are, therefore, not included in these financial statements. The following summarizes the expenses paid by the Plan:

	2016 $	2015 $
Investment managers' fees	14,070	14,499
Custodial fees	604	567
Investment consultants' fees	831	789
Actuarial fees	352	396
Other plan administration expenses	491	440
Legal fees	322	506
	16,670	17,197

11 Significant investments

a) Significant individual securities*

As at December 31, 2016, the Plan held no individual investments with fair value or cost exceeding 1% of the fair value or cost of the Plan's net assets (excludes currency (note 4(a)), derivatives (note 5(b)), pooled fund investments (note n(c)) and alternative investments (note 3).

b) Significant issuers*

The Plan has invested in the following issuers of fixed income and equity securities an amount that exceeds 1% of the fair value or cost of the Plan's net assets:

	2016		2015	
	Fair value $	Cost $	Fair value $	Cost $
Province of Ontario	71,435	72,800	74,135	72,467
Government of Canada	55,517	56,210	51,451	51,105
Royal Bank of Canada	63,490	46,760	57,577	43,906

* Excludes currency (note 4(a)), derivatives (note 5(b)), pooled fund investments (note 11(c)) and alternative investments (note 3).

(in thousands of Canadian dollars)

c) Pooled fund investments

The Plan owns the following pooled fund investments as at December 31. The fair value of these pooled fund investments is included in the statement of financial position under the investment type to which they relate.

	2016		2015	
	Fair value $	Cost $	Fair value $	Cost $
Short-term money market securities				
PHN Institution Short-term Investment Fund	13,182	13,182	6	6
TDAM TD Emerald Canada Treasury	1,047	1,047	1,061	1,061
	14,229	14,229	1,067	1,067
Fixed income				
Canso Corp. & Infrastructure Debt	22,774	21,911	22,018	20,616
Canso Private Loan Fund	32,253	32,084	29,964	29,824
BlackRock Universe Bond Fund*	127,157	126,224	406,317	395,443
BlackRock Long Bond Index Fund*	714,322	665,567	697,081	629,684
PHN Long Bond Pension Trust*	286,245	272,952	278,918	257,258
PHN Investment Grade Corp. Bond Trust*	97,077	99,199	118,543	120,402
PHN Mortgage Pension Trust Fund	18,200	17,837	21,047	20,340
RBC High Yield Bond Fund	1,485	1,454	1,307	1,380
Crestline Offshore Fund, Ltd.*	111,162	91,985	116,095	91,985
Mesirow Absolute Return Fund (Institutional)*	134,415	90,667	140,033	90,667
PHN High Yield Bond Fund, Series O	2,971	2,803	3,166	3,475
	1,548,061	1,422,683	1,834,489	1,661,074
Non-Canadian equities				
Daiwa Nikkei 225 Exchange Traded Fund	-	-	1,363	1,247
Nomura Topix Exchange Traded Fund	3,309	2,993	7,302	6,564
MFC Japan Exchange Traded Fund	4,721	4,504	16,301	15,132
SPDR S&P 500 Exchange Traded Fund	9,411	8,838	7,750	7,371
Harding Loevner Emerging Market Equity*	148,176	112,486	134,263	113,707
Oaktree Capital Emerging Market Equity*	58,807	50,798	53,089	51,340
	224,424	179,619	220,068	195,361
	1,786,714	1,616,531	2,055,624	1,857,502

* Exceeds 1% of the fair value or cost of the Plan's net assets

(in thousands of Canadian dollars)

12 Commitments

As part of normal business operations, the Plan enters into commitments to the funding of investments. Future commitments to fund investments include investment in infrastructure, hedge fund secondaries and private equity. The future commitments are generally payable on demand based on the capital needs of the investment.

In particular, the Plan is committed to investing up to an additional US$36.0 million (2015 - US$9.09 million) into existing infrastructure investments, up to an additional US$11.5 million (2015 - US$18.1 million) into hedge fund secondaries, US$32.3 million in private debt (2015 - $nil) and an additional US$63.6 million in private equities (2015 - US$87.8 million).

Notes

Notes

Notes

TORONTO
TRANSIT COMMISSION
PENSION
FUND SOCIETY

TTC Pension Fund Society
2016 Annual Report

Contents

About the
TTC Pension Fund Society

The Toronto Transit Commission Pension Fund Society (PFS, Plan, Society, Fund) was incorporated in 1940 under Part XVI of The Corporations Act of the Province of Ontario. The PFS through its Board of Directors (the "Board") administers a contributory, defined benefit pension plan (the "Plan"). The Board consists of voting members from the Toronto Transit Commission (TTC) and the Amalgamated Transit Union Local 113 (ATU). The terms of the Plan are set out in the Bylaws of the Society (the "Bylaws"), as amended from time to time.

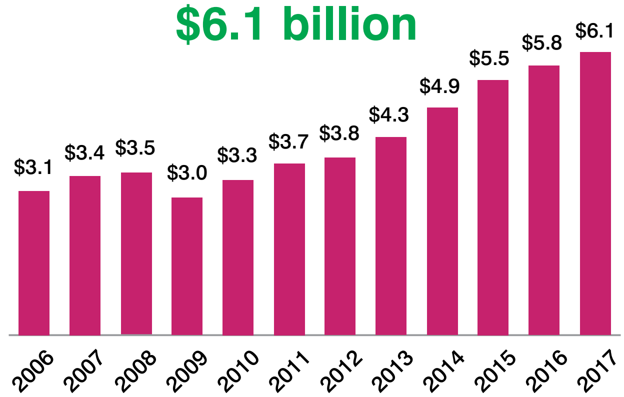
The Plan is a Jointly Sponsored Pension Plan ("JSPP"), established pursuant to an agreement (the "Sponsors Agreement") dated May 27, 2011, between the two co-sponsors, the Toronto Transit Commission ("TTC") and the Amalgamated Transit Union Local 113 ("ATU"). The TTC and the ATU, together, are referred to as the "Sponsors" or "Employers".

Active Members of the Plan, who are employees of the TTC or the ATU that have completed six months of continuous service, contribute a percentage of contributory earnings to the Fund and the Employers contribute an equal amount to the Fund. The Board sets the contribution rates, subject to the funding requirements determined in the actuarial report and subject to limitations in the Sponsor's Agreement.

2016
Highlights

Market Value of Plan Assets grew to

$6.1 billion



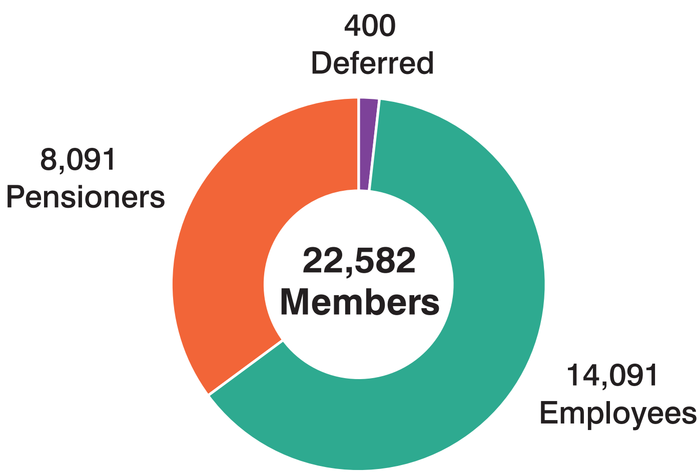
97%

Funded
On a going concern basis

6.3%
2016 rate of return, net of fees

10.0%
5 year annualized rate of return, net of fees

$378 million
2016 investment income



Average Retirement Age
60.0

Average Pensioner Age
71.7

Average Pension
$29,500

528
Members electing retirement in 2016

4,467
Online pension estimates

454
Pre-retirement seminar attendees

99%
of members rate the pre-retirement seminars as very good or good

Message from the Board

Our top priority is to protect the sustainability of the Plan for both current and future pensioners. We never lose sight of the fact that TTC PFS Members depend on the Plan to pay pensions today and preserve pensions for tomorrow. That's why the Board reviews in detail the financial position of the Plan, which includes a review of the external actuary's report, to determine if it's fiscally responsible and affordable to approve cost of living increases for pensioners or updates to the base-year calculation. This process highlights one of the core strengths of the Plan design: equal risk sharing by employers and employees. This has proven to work reliably over time as we enter our 77th year of operations.

Valuable updates have been approved by the Board

Given the financial health of the Plan, along with favorable long-term affordability metrics, we are very pleased to advise that the Board was able to approve a cost of living increase of 1.35% for pensioners and a one year base period update effective January 1, 2017. Active Members and 2016 retirees will now have their pensionable earnings and credited service up to December 31, 2016 included in the base period for calculation of the pension benefit.

The benefit improvements while approved by the Board are based on confirmation from the Society's external acturary that the plan has sufficient assets available to cover the cost of those benefits.

Since 2011, the Plan has been able to afford steady increases to the base period which have brought the base year fully up-to-date for the last four years. This is a noteworthy accomplishment, however, as a reminder; there is no contractual obligation to provide benefit improvements. As you know, on an annual basis, the Board assesses affordability of benefit improvements, including pension indexing, and grants them at their discretion. Future enhancements are not guaranteed.

Board continues to enhance its strong governance model

As a jointly sponsored pension plan, the Board is ultimately responsible for the oversight, administration and investments of the Plan. In doing so, we are continually monitoring manager performance, funded status of the Plan, and Plan expenses incurred while ensuring our strong governance policies and procedures are being adhered to. The Board's fiduciary duty is to ensure that all of these factors are taken into consideration in order to act in the best interest of the members. The fiduciary responsibility is balanced by the Board's composition, by having equal representation from both the ATU 113 and the TTC. In order to further strengthen independence, the PFS welcomed our new CEO in 2016, Sean Hewitt, the PFS's first employee who reports directly to the Board.

Along with the rest of the PFS Board, we wish to recognize the hard work of all Pension Fund Society staff and to thank them for their continued support in delivering the outstanding service that members expect. With the staff, led by Sean Hewitt, Cheryl Uroda and James Clarkson, the team remains committed to delivering *the Pension Promise: Keeping your pension stable and secure for current and future pensioners*.

TTC Pension Fund Society: A model for strong governance

The TTC PFS Board is comprised of ten members, five of whom are appointed from the ATU and five from TTC management. This governance model means that the Toronto Transit Commission and members have equal say on plan decisions. Members and the TTC are involved in, and responsible for, decisions about funding and the approval of benefit improvements including base-year updates and pensioner increases.

Members of the Board of Directors Are:

(December 31, 2016)

Bob Kinnear
Vincent Rodo
Bill Chrisp
Scott Gordon
Frank Grimaldi
Orest Kobylansky
Brian Leck
Kevin Morton
Gemma Piemontese
Michael Roche
Megan MacRae – Observer
Frank Malta – Observer

Sincerely,

TTC Pension Fund Society Board of Directors

Message from the CEO

Sean Hewitt
Chief Executive Officer
TTC Pension Fund Society

The TTC Pension Fund Society has been delivering our pension promise for over 75 years and we are committed to continue to deliver on that promise well into the future.

When we manage our Plans assets, we need to keep in mind that the contributions that we receive from a TTC operator today while they are in their 20s or 30s will be used to deliver pension payments to that person as a pensioner while they are in their 80s and 90s. Employing a long-term approach to pension plan management enables us to keep our sights on the horizon to deliver our *pension promise* long into the future. Of course, we fully expect, and anticipate that certain periods in the future will be characterized by challenging short term performance due to slow economic growth, market volatility and heightened geopolitical risks. Despite some of these varied challenges in 2016, the Fund has been able to generate another year with positive results. The Fund earned 6.3% after fees for the year ending December 31 with Plan assets increasing by approximately $300 million to $6.1 billion at year end.

We ended the year with a funded status of 97% on a going concern basis, equal to the funded status from the year prior. Consistent with our long term track-record, the Plan has earned an annualized return of 10.0% after fees over the last 5 years which has exceeded our Plan benchmark return by 1.4% annually.

This strong financial position has allowed the TTC Pension Fund Society Board the ability to approve valuable increases to member benefits. The Board approved a Base year update effective January 1, 2017, and an ad-hoc pensioner increase of up to 1.35%. The pensioner increase is the maximum permitted by Canadian tax law and is equal to the change in the Consumer Price Index (CPI) published by Statistics Canada.

In keeping with our long term approach to managing the Fund well into the future, pension staff are working with our plan actuary to conduct a study to update our long term funded status projections. This study may result in moderate changes to our investment strategy moving forward which will be designed to outperform the liabilities of the pension plan over the long term.

At the TTC Pension Fund Society, we take Member communication very seriously, which is why we have our Members come into our offices to understand the value of their pension, the provisions in their pension plan, and to go over various pension benefit options and other plan provisions available to them. In 2016, we processed a record number of retirements; over 500 employees came through our offices to sign pension documents, a year-over year increase of roughly 30% from 2015.

Market Overview

2016 was a challenging year, characterized by continued modest economic growth in the global economy including concerns regarding stagnating European economic conditions, slowdown of growth in China and modest growth figures in the US and Canada. The year was also characterized by significant political outcomes, with Britain voting to exit from the European Union and the unanticipated election of Donald Trump as President of the United States.

The environment for interest rates saw some major moves over the year, which was characterized by falling bond yields in both Canada and the US in the first three quarters of 2016 which was followed by a sharp increase in bond yields in the last quarter.

Equity market returns were quite robust. Within the domestic market, Canada's S&P/TSX Composite Index was one of the best performing markets in the world with a return of 21%, which was led by a strong recovery of global energy prices. Equity indices in the US and emerging markets also experienced relatively strong performance, returning 8.7% and 8.0% in Canadian dollar terms respectively.

Sincerely,

Sean Hewitt
Chief Executive Officer
TTC Pension Fund Society

Investment Management

The Plan's assets grow through your contributions, matching employer contributions, and investment earnings. The primary investment objective is to grow the assets more than the pension liability over time. This improves the Plan's overall financial condition as measured by the Plan's funded status. When the funded status improves, the ability to provide a base period update and pension indexing also improves.

The management of our investment portfolio is done in accordance with the PFS Statement of Investment Policies and Procedures (the Investment Policy). The Investment Policy is reviewed, updated and approved by the Board annually. It sets objectives, guidelines and standards to assist the Plan's staff, investment managers and advisors to carry out the directives set by the Board.

The Investment Policy articulates the investment objectives, guidelines and benchmarks used in investing the capital of the Plan including permitted categories of investments, asset-mix diversification and rate of return expectations. The Investment Policy provides a framework for managing the Plan's assets in relation to its pension liability, within a tolerable level of risk. The investment portfolio is diversified across cash and fixed income investments, Canadian and foreign equity investments, and alternative investments including real estate, infrastructure, hedge funds, private debt and private equity.

Building a Diversified Portfolio

At the PFS, we include a broad array of investments that can be summarized into three broad categories:

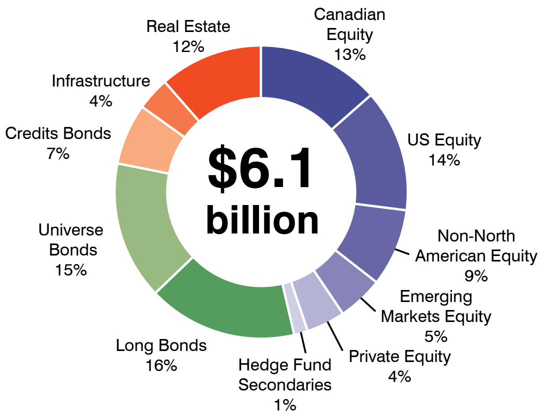
Liability-Matching Assets are investments that reduce funded status volatility from year to year. They include investments in Canadian universe and long term bonds and short term securities. The policy weight for these investments is 32% of the total Plan.

Growth Assets are investments that seek a higher return than Liability-Matching Assets, but are also characterized by higher volatility. Our growth asset portfolio contains Canadian and Non-Canadian Equities, Private Investments and Opportunistic Investments. The policy weight for these investments is 42% of the total Plan.

Hybrid Assets are investments that share characteristics of both Liability Matching Assets and Growth Assets. They tend to offer higher long-term returns than bonds but generally don't have the volatility associated with Growth Assets. Our holdings in real estate, infrastructure and credit bonds are included in this broad category. The policy weight for these investments is 26% of the total Plan.

Asset Allocation

(December 31, 2016)*



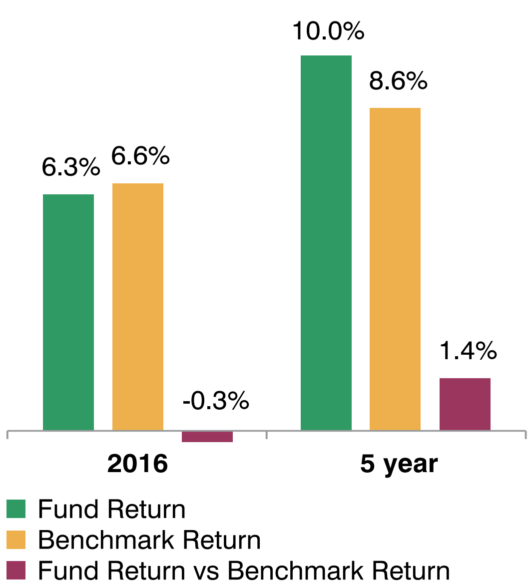
*Fixed income includes cash

Asset Type	Asset Class	Benchmark Index
Growth (42% Target Weight)	Canadian Equity	S&P/TSX Composite
	US Equity	S&P 500
	Non-North American Equity	MSCI EAFE
	Emerging Markets Equity	MSCI Emerging Markets
	Private Equity	Russell 2000
	Hedge Fund Secondaries	S&P 500
Liability Matching (32% Target Weight)	Cash and Cash Equivalents	91 Day T-bills
	Long Bonds	FTSE/TMX Long Bonds
	Universe Bonds	FTSE/TMX Universe Bonds
Hybrid (26% Target Weight)	Credit Bonds	FTSE/TMX Corporate Bonds
	Infrastructure	FTSE/TMX Long Bonds +3%
	Real Estate	FTSE/TMX Long Bonds +3%

Return vs. Policy Benchmark

Assets in the Plan totaled $6.1 billion at year end. The Plan delivered acceptable investment performance in 2016 with a return of 6.3% after fees, underperforming the Plan benchmark by 0.3%. Over the past five years, the plan has earned an annualized rate of return of 10.0%, outperforming the policy benchmark by 1.4% over the period, which has generated in added value of nearly $300 million over the last 5 years.

Our long term objective is to match or exceed the growth in our liability, and to generate enough return over time to provide Plan Members with steady and consistent base year updates and pensioner increases. The Fund has generated favorable returns over the last 5 year period which has afforded the plan to meet its objectives.



The 10.0% annualized return, net of investment management fees over the last 5 year period, outperformed the policy benchmark by 1.4%, generating $300 million in added value

Asset Class	5 year returns	Benchmark
Canadian Equity	13.6%	8.3%
US Equity	21.3%	21.2%
Non-North American Equity	12.0%	12.6%
Emerging Markets Equity*	5.3%	3.9%
Private Equity*	16.6%	14.7%
Hedge Fund Secondaries	21.7%	7.3%
Long Bonds	4.3%	4.3%
Universe Bonds	4.1%	3.2%
Credit Bonds	6.2%	4.2%
Infrastructure	12.3%	7.3%
Real Estate	9.0%	7.3%
Total Fund Return	**10.0%**	**8.6%**

*4 year return, investments purchased in 2013

The Fund has generated favorable returns over the last 5 year period which has afforded the TTC PFS Board the ability to grant steady base year updates and pensioner increases.

Benefits and Administration

Changes in Net Assets Available for Benefits

Net Assets Available for benefits totaled $6.1 billion as at December 31, 2016, an increase of $326 million over the year. Investment income, which is the sum of both realized and unrealized gains in the investment portfolio, totaled $378 million. Benefits paid, modestly exceeded contributions by $35 million.

($ millions)

Net assets December 31, 2015	**5,810**
Investment income and net increase in fair value of investments	378
Contributions	224
Benefits paid	(259)
Investment and administration expenses	(17)
Net assets December 31, 2016	**6,136**

Benefit Changes Approved By the Board

Benefit changes are approved by the PFS Board of Directors only when and to the degree that they are deemed actuarially affordable after consultation with the Plan's Actuary and careful consideration of long-term pension benefit affordability.

In May 2017 the Board had concluded its final meeting of the financial year with the Plan Actuary and after extensive analysis and discussions was able to approve the following changes in plan benefits:

- Pensioners will receive a retroactive ad hoc cost of living increase of up to 1.35% effective January 1, 2017;
- Effective January 1, 2017, the base period formula for calculating pension benefits will be the average of employees' best four years of pensionable earnings up to December 31, 2016; and
- In lock-step with this formula update, the survivor benefit date will be January 1, 2017.

The Canadian Income Tax Act does not permit the percentage increase in a pension in payment to be more than the cumulative percentage increase in the Consumer Price Index (CPI)

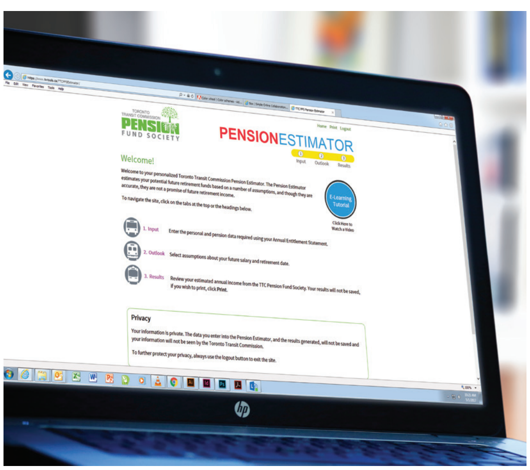
As stipulated in the PFS Bylaws, the Bylaw amendments to effect these improvements will be presented to the TTC Board for sanctioning before the AGM and will be presented at the AGM for approval.

2016 Pre-Retirement Seminars

If you have never applied to attend a pre-retirement seminar and you would like to add your name to the waiting list, the qualification to do so is either 40 years of age or 10 years of service. At these sessions you will be provided useful retirement planning resources and information. Typically we hold 6 pre-retirement seminar sessions each year with approximately 75 attendees including spouses, 4 during the spring and 2 during the fall. This year's spring sessions were held in April and May. The fall 2017 seminar dates are: October 3 & 4 and October 12 & 13. If you are interested in attending, all we need to register you is your name, employee number, work location and whether your spouse/partner will be attending the seminar with you.

This year the seminars will be held at the Radisson Hotel Toronto East, 55 Hallcrown Place. The seminars are two full days with lunch included and they provide information regarding your TTC pension plan, health benefits and life insurance available upon retirement, financial planning, budget and debt management, RRSP information, tax planning and estate planning. Attendance is limited to one time only and we believe the information provided is most beneficial to those employees who are approximately 10-15 years away from their retirement. To apply to attend a seminar you can complete an application form at your work location or on the intranet, email us at pfs@ttc.ca or call us at 416-393-4367 or 416-393-4368.

Your name must be on the master waiting list to be eligible to attend. Your work location selects who attends based on date of application and availability. Once selected, the Pension Office will forward a confirmation letter to you indicating the date of your attendance including location and other details.



Pension Estimator Tool

Members of the PFS can calculate their estimates by accessing the Estimator through the PFS Intranet (internal website) or via TheCoupler.ca home page link. You may be surprised to know that on average the pension you receive during your retirement will far exceed the contributions you make as a member.

The Pension Estimator lets you calculate as many estimates as you wish and try out different scenarios to see the changes in your results. We recommend that you use the information provided to you in your most recent Annual Entitlement Statement to simplify your data entry and increase your accuracy. The Statement provides a comprehensive summary of your membership, including annual earnings and pensionable service – two important factors that form the basis of your pension entitlement.

We encourage you to first watch the estimator tutorial to help you navigate through the process.

As always, the Pension Office is here to assist you with any questions you have. If you can't find your most recent Annual Entitlement Statement, just e-mail us at pfs@ttc.ca.

It's as easy as 1, 2, 3 - or should we say **Input, Outlook, Results!**

Ten Year Review

(Unaudited)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Financials ($M)										
Fixed Income & Cash	2,645	2,788	2,613	2,051	2,055	1,783	1,709	1,551	1,506	1,590
Equities	2,356	2,526	2,415	2,513	2,040	1,783	1,790	1,602	1,290	1,728
Alternatives	1,389	819	710	562	378	231	306	300	337	303
Investment Recievables	59	23	46	54	288	64	57	37	39	22
Investment Liabilities	(313)	(346)	(286)	(276)	(490)	(37)	(161)	(146)	(210)	(142)
Total Net Assets	**6,136**	**5,810**	**5,498**	**4,904**	**4,271**	**3,825**	**3,701**	**3,344**	**2,962**	**3,501**
Contributions	224	216	207	202	194	182	168	151	136	110
Investment Income (loss)	378	352	621	647	457	120	358	393	(518)	110
Benefit Payments	(259)	(239)	(216)	(200)	(188)	(166)	(158)	(152)	(147)	(144)
Expenses	(17)	(17)	(18)	(16)	(15)	(12)	(11)	(9)	(10)	(10)
Change in Net Assets	**326**	**312**	**594**	**633**	**448**	**124**	**357**	**383**	**(539)**	**66**
Membership										
Actives	14,091	13,686	13,237	13,013	12,767	12,690	12,572	12,400	11,681	11,241
Pensioners	8,091	7,699	7,375	7,092	6,824	6,562	6,300	6,134	6,018	5,863
Deferred	400	378	374	354	339	301	289	276	266	278
Total Members	**22,582**	**21,763**	**20,986**	**20,459**	**19,930**	**19,553**	**19,161**	**18,810**	**17,965**	**17,382**
Retirements	528	431	443	409	384	373	299	257	267	248

Numbers are rounded

Contact Us

For general questions, please contact the
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1920 Yonge Street, 6th Floor
Toronto Ontario
M4S 3E2

Phone: 1-800-663-6820
Fax: 416-338-0122
Email: pfs@ttc.ca

TORONTO TRANSIT COMMISSION – PENSION FUND SOCIETY

FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND DECEMBER 31 2015

(IN THOUSANDS OF CANADIAN DOLLARS)

MERCER
MAKE TOMORROW, TODAY

Actuaries' Opinion

Mercer (Canada) Limited was retained by the Board of the Toronto Transit Commission Pension Fund Society (the Society) to perform an actuarial valuation of the assets and Section 4600 accounting liabilities of the Society as at December 31, 2016, for inclusion in the Society's financial statements. We have completed such a valuation and provided our report to the Board.

The valuation of the Society's Section 4600 accounting liabilities was based on:

- Membership data as at January 1, 2016, supplied by the Society and used to extrapolate valuation results to December 31, 2016,
- Methods prescribed by Section 4600 of the CPA Canada Handbook – Accounting for pension plan financial statements, and
- Assumptions about future events (including mortality levels, future investment returns, and future pay levels), which have been developed by the Board with input from the actuaries and the auditors, and have been adopted by the Board as its best estimates for accounting purposes, in accordance with Section 4600 of the CPA Canada Handbook.

The valuation of the Society's assets was based on information provided by the Society.

The objective of the financial statements is to fairly present the financial position of the Society on December 31, 2016, in accordance with accounting practices. This is very different from the statutory funding valuation required by the Pension Benefits Act to ensure that the Society meets the funding requirements for the benefits being provided. As a result, the valuation results presented in the financial statements and notes are not indicative of the Society's ability to meet its funding requirements or of the benefit levels which it is able to provide.

While the actuarial assumptions used to estimate liabilities for the Society's financial statements represent the Board's best estimate of future events and market conditions at the end of 2016, the Society's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains and losses in future valuations.

We have tested the data used for the valuation for reasonableness and consistency, and in our opinion, the data are sufficient and reliable for purposes of the valuation and we believe that the methods employed are appropriate for purposes of the valuation. Our opinions have been given, and our valuation has been prepared, in accordance with accepted actuarial practice in Canada. .

Scott Clausen
Fellow of the Society of Actuaries
Fellow of the Canadian Institute of Actuaries
May 10, 2017

Karen E. Koop
Fellow of the Society of Actuaries
Fellow of the Canadian Institute of Actuaries
May 10, 2017

May 10, 2017

Independent Auditor's Report

To the Board of Directors of
Toronto Transit Commission Pension Fund Society

We have audited the accompanying financial statements of Toronto Transit Commission Pension Fund Society, which comprise the statement of financial position as at December 31, 2016 and the statement of changes in net assets available for benefits and changes in pension benefit obligation for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management using Canadian accounting standards for pension plans.

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.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Toronto Transit Commission Pension Fund Society as at December 31, 2016 and the changes in its net assets available for benefits and changes in its pension benefit obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto Transit Commission Pension Fund Society

Statement of Financial Position

As at December 31, 2016

(in thousands of Canadian dollars)

	2016 $	2015 $
Assets		
Cash	36,345	4,375
Investments (note 3)	6,390,093	6,131,298
Investment-related receivables (note 3)	19,336	17,734
Contributions receivable		
Members	16,117	15,101
Employers	1,172	2,002
Other assets	1,098	1,092
	6,464,161	6,171,602
Liabilities		
Investment-related liabilities (note 3)	313,317	346,453
Other liabilities (note 6)	15,048	15,236
	328,365	361,689
Net Assets Available for Benefits	6,135,796	5,809,913
Pension benefit obligation (note 7)	5,321,178	5,024,589
Surplus	814,618	785,324

Kevin Morton

Director

M. A. Roche

Director

The accompanying notes are an integral part of these financial statements.

Toronto Transit Commission Pension Fund Society

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2016

(in thousands of Canadian dollars)

	2016 $	2015 $
Increase in net assets available for benefits		
Investment income (note 9)	194,358	203,314
Net increase in fair values of investments (note 9)	183,204	148,548
Contributions		
Members	111,563	107,422
Employers	112,398	108,396
	601,523	567,680
Decrease in net assets available for benefits		
Pension benefits	242,100	221,633
Investment and Plan administration expenses (note 10)	16,670	17,197
Death benefits	8,075	10,797
Termination refunds	8,153	5,516
Marriage breakdown	642	1,159
	275,640	256,302
Increase in net assets available for benefits during the year	325,883	311,378
Net assets available for benefits - Beginning of year	5,809,913	5,498,535
Net assets available for benefits - End of year	6,135,796	5,809,913

The accompanying notes are an integral part of these financial statements.

Toronto Transit Commission Pension Fund Society

Statement of Changes in Pension Benefit Obligations

For the year ended December 31, 2016

(in thousands of Canadian dollars)

	2016 $	2015 $
Pension benefit obligation - Beginning of year	5,024,589	4,595,935
Benefits accrued	167,307	145,846
Benefits paid	(258,970)	(239,105)
Interest accrued on benefits	282,933	271,247
Changes in actuarial assumptions	-	149,673
Experience losses (gains)	23,488	5,888
Plan amendments	81,831	95,105
Net increase in pension benefit obligation	296,589	428,654
Pension benefit obligation - End of year (note 7)	5,321,178	5,024,589

The accompanying notes are an integral part of these financial statements.

(in thousands of Canadian dollars)

1 Description of the Plan

The following description of the pension plan operated by the Toronto Transit Commission Pension Fund Society (the Plan) is a summary only. For more complete information, reference should be made to the bylaws of the Plan.

General

The Plan commenced operations on January 3, 1940 as a corporation pursuant to letters patent under Part XVI of the Corporations Act of the Province of Ontario. The Board of Directors (the Board), which consists of ten voting members, five of whom are appointed from the Toronto Transit Commission (TTC) and five of whom are appointed by Amalgamated Transit Union Local 113 (ATU), administers the affairs of the Plan. Pursuant to the Sponsors' Agreement between ATU and TTC (the Sponsors), the Plan is registered as a Jointly Sponsored Pension Plan (JSPP) effective January 1, 2011.

The Plan covers substantially all employees of the TTC and ATU who have completed six months of continuous service. Under the Plan, contributions are made by members and matched by their employers. The Plan is registered with the Financial Services Commission of Ontario (FSCO), under the Pension Benefits Act of the Province of Ontario (PBA) and the Income Tax Act (Canada) (registration number 0317586) and, therefore, is exempt from taxation on its income under Part I of the Income Tax Act (Canada). The Plan may be liable for taxes in other jurisdictions where full tax exemptions are not available.

The Plan is a defined benefit plan. The Board sets the employer and employee contribution rates, subject to the funding requirements determined in the actuarial report and subject to limitations in the Sponsors' Agreement between the ATU and TTC. Members' benefits are determined using a modified career average formula based on pensionable earnings and years of credited service. Plan improvements, including increases to the career average base period and pension indexing may be adopted by the Board. Improvements may be granted if affordable, taking into account the Plan's funded status.

Funding

The Plan is funded by contributions and investment earnings. The Board has adopted a Funding Policy that aims to achieve long-term funding stability, with the objective of supporting benefit levels higher than the contractual benefits, including base period updates and pension increases as stipulated in the bylaws. Actuarial funding valuations are conducted to determine the pension liabilities, the funded position and the contribution rates of the Plan.

Contributions

In 2016, each member employed by the TTC and ATU contributed 9.25% (2015 - 9.25%) of their earnings to the Plan up to the year's maximum pensionable earnings (YMPE) of $54,900 (2015 - $53,600) and 10.85% (2015 - 10.85%) of earnings above the YMPE. The TTC and ATU contributed an amount equivalent to each member's annual contribution.

(in thousands of Canadian dollars)

The Board or the Sponsors, establish and maintain a contribution rate for members. The Board establishes and maintains the contribution rate for members, within an upper and lower limit. The limits are defined in the Memorandum of Agreement, dated May 27, 2011, which established the Plan as a JSPP. A contribution rate outside of this corridor must be approved by the Sponsors.

The TTC is also obligated to make contributions for certain early retirement benefits after 29 years of service and some temporary supplements. These payments are indefinite and are adjusted based on the most recent actuarial valuation filed.

Benefits

Pensions are payable from the Plan based primarily on years of credited service and members' highest four-year career average pensionable earnings up to the current base period-end date December 31, 2015 (2015 - December 31, 2014). The benefits provided are those that can be actuarially supported by the Plan's assets and the contributions to the Plan based on funding requirements specified in the PBA and priorities outlined in the bylaws.

Death benefits, marriage breakdown and lump sum payments on termination before eligibility for retirement are also available from the Plan. Death benefits may take the form of a survivor pension or lump-sum payments.

2 Summary of significant accounting policies

Basis of accounting and adoption of Canadian accounting standards for pension plans

These financial statements are prepared in Canadian dollars, the Plan's functional currency, in accordance with the accounting standards for pension plans in Part IV of the Chartered Professional Accountants (CPA) Canada Handbook (Section 4600) and the relevant sections of the Canadian accounting standards for private enterprises (ASPE) in the CPA Canada Handbook. The financial statements also include current disclosure requirements outlined by FSCO, under Index No. FSGN-100.

These financial statements are prepared on a going concern basis and present the information of the Plan as a separate financial reporting entity independent of the Sponsors and members.

Policy for items not related to investment portfolio or pension obligation

The Plan's accounting policies not related to the investment portfolio or pension obligation are based on ASPE.

Investment assets and investment liabilities

Investment assets and investment liabilities are recorded at fair value in accordance with International Financial Reporting Standard (IFRS) 13, Fair Value Measurement. Purchases and sales of investments are recorded as of the trade date (the date on which the substantial risks and rewards have been transferred). Transactions that have not been settled are reflected in the statement of financial position as investment-related receivables/liabilities.

(in thousands of Canadian dollars)

Subsidiaries and affiliates

The Plan does not consolidate investment related subsidiaries and affiliates; all investment related units are recorded at fair value.

Fair values

The fair values of the investments are determined as follows:

- cash includes both cash and cash equivalents;
- short-term investments are valued at cost, which together with accrued income, approximates fair value;
- bonds are valued based on quoted market prices obtained from independent third party pricing sources; where quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields for comparable securities;
- securities sold under agreements to repurchase are valued using discounted cash flows based on current market yields;
- publicly traded Canadian and non-Canadian stocks are valued at the closing price on the applicable stock exchange;
- real estate property values are generally based on estimated fair values determined through independent annual appraisals of the property or the adjusted acquisition price in the year of purchase; the associated mortgages payable are measured at amortized cost, which approximates fair value;
- infrastructure, private equity, private debt and hedge fund investments are valued by the general partner based on the most appropriate industry valuation models applied on an investment by investment basis;
- the investment values of pooled funds and funds of hedge funds are supplied by the fund administrators based on fair value quotations or appraisals, as appropriate; and
- exchange traded derivatives, such as futures, are valued at quoted market prices; for other derivative financial instruments, where market prices are not available, appropriate valuation techniques are used to estimate fair values.

Investment income

Dividend income is recognized based on the ex-dividend date and interest income is recognized on the accrual basis as earned.

(in thousands of Canadian dollars)

Net realized gain (loss) on sale and settlement of investment assets and investment liabilities during the year represents the difference between sale or settlement proceeds and cost. The net change in unrealized gains (losses) on investment assets and investment liabilities represents the change in the difference between the fair value and cost of investment assets and investment liabilities at the beginning and end of the year. All realized and net changes in unrealized gains and losses on investment assets and investment liabilities are recorded in the statement of changes in net assets available for benefits in the year in which they occur.

Foreign currency translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated at the rates in effect at year-end. The resulting realized and unrealized gains or losses are included in net investment income.

Pension benefit obligation

Valuation of the pension benefit obligation and changes therein during the year are based on an actuarial valuation prepared by Mercer (Canada) Limited, an independent firm of actuaries. The valuation is based on data as at the beginning of the year extrapolated to the year-end. It uses the projected benefit method pro-rated on service and the Board’s best estimate of various economic and non-economic assumptions.

Contributions

Contributions from members and employers due to the Plan at year-end are recorded on an accrual basis. Contributions for past service purchases are recorded when received. Cash transfers from other pension plans are not permitted.

Benefits

Benefits paid to pensioners are recorded in the year in which they are due. Refunds to former members and the estates of deceased members are recorded in the year in which they are paid. Refunds attributable to the current year but paid after year-end are reflected in accrued pension benefits.

Administrative expenses

Administrative expenses incurred are paid directly from the Plan and are treated as expenses in these financial statements. Expenses include, but are not limited to, actuarial fees, legal fees, special expenses approved by the Board, trust fees, fiduciary insurance, custody fees, investment management and investment consulting charges. Other administration expenses, including most salaries, office expenses, and other overhead are borne by the TTC.

(in thousands of Canadian dollars)

Use of estimates

The preparation of financial statements in accordance with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets available for benefits during the reporting period. Estimates and assumptions are evaluated on an ongoing basis and take into account historical experience and other factors, including expectations of future events that are believed to be reasonable and relevant under the circumstances. Significant estimates are used, primarily in the determination of the pension obligation and the fair value of certain investments. Note 7 explains how estimates and assumptions are used in determining accrued pension benefits. Note 4 explains how estimates are used to determine the fair value of investments. Actual results could materially differ from those estimates.

3 Investments

The Plan invests, directly or through derivatives, in fixed income, equities or alternative investments in accordance with the Statement of Investment Policies and Procedures (SIPP).

The following schedule summarizes the Plan's investments and investment-related receivables and liabilities before allocating the effect of derivative financial instruments:

	2016		2015	
	Fair value $	Cost $	Fair value $	Cost $
Investments*				
Fixed income				
Invested cash	128,987	128,987	73,875	73,875
Short-term money market securities	118,655	117,876	69,527	68,969
Canadian bonds	2,070,836	2,003,925	2,290,481	2,186,602
Non-Canadian bonds	80,892	75,180	95,654	74,089
Funds of hedge funds	245,578	182,652	256,128	182,652
	2,644,948	2,508,620	2,785,665	2,586,187
Equities				
Canadian	862,685	558,915	868,156	703,128
Non-Canadian	1,493,156	1,174,851	1,658,476	1,216,000
	2,355,841	1,733,766	2,526,632	1,919,128
Alternative investments				
Real estate	702,358	596,963	446,462	362,775
Infrastructure (note 12)	217,994	166,660	125,936	70,633
Hedge fund secondaries (note 12)	89,121	40,788	120,811	63,498
Private debts (note 12)	114,175	117,281	-	-
Private equity (note 12)	265,656	210,390	125,792	66,431
	1,389,304	1,132,082	819,001	563,337
	6,390,093	5,374,468	6,131,298	5,068,652

(in thousands of Canadian dollars)

	2016		2015	
	Fair value $	Cost $	Fair value $	Cost $
Investment-related receivables				
Derivative financial instruments receivable (note 5(b))	6,209	-	3,838	-
Pending trades	2,254	2,254	2,844	2,844
Accrued investment income	10,873	10,873	11,052	11,052
	19,336	13,127	17,734	13,896
Investment-related liabilities				
Bonds sold under repurchase agreements	306,133	306,133	309,299	309,299
Derivative financial instruments payable (note 5(b))	2,312	-	33,756	-
Pending trades	4,872	4,872	3,398	3,398
	313,317	311,005	346,453	312,697
	6,096,112	5,076,590	5,802,579	4,769,851

*Includes investments in pooled funds, details of which are provided in note 11(c).

4 Financial risk management

Capital management

The capital of the Plan is represented by the net assets available for benefits less the statutory actuarial valuation referred to in note 7. The objective of managing the Plan's capital is to ensure it is fully funded and sufficient assets are available to pay for the benefit obligations over the long term. The Board manages the Plan's capital by mandating an annual actuarial valuation on both the going concern and solvency bases to determine the Plan's funded status. Based on the results of this valuation and the priorities set out in the Plan's bylaws and the funding policy, the Board makes decisions with respect to pension formula updates, pension indexing and Plan improvements. Investments and the use of derivatives are based on an asset mix that is projected to enable the Plan to meet or exceed its long-term funding requirements, within an acceptable level of risk, consistent with the Plan's SIPP approved by the Board.

The Plan's administrator has adopted a SIPP which states investment objectives, guidelines and benchmarks used in investing the capital of the Plan, permitted categories of investments, asset-mix diversification and rate of return expectations. The SIPP is reviewed and approved by the Board at least annually and the last amendment, which was effective December 31, 2016, was approved by the Board on February 24, 2017. The significant amendments included changes made to refine the Fund's interim target asset mix.

(in thousands of Canadian dollars)

The Plan's investment objective, outlined in the SIPP, is to achieve a long-term rate of return that equals or exceeds the Plan's going concern liability growth rate, consistent with available market opportunities, and at acceptable levels of expected investment risk. The current estimated current growth rate, inherent in the CPA Canada Handbook Section 4600 valuation is 5.5% (2015 - 5.5%) The Plan's annualized five-year average rate of investment return, after investment management fees, as at December 31, 2016 was 10.0% (2015 - 9.3%).

The Plan's investment portfolio is subject to various risks, which may adversely affect its income, cash flows and net assets available for benefits. These risks include market risk (including foreign currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The Plan manages investment-related risks through the SIPP, which establishes long-term asset mix policies for the investment portfolio as a whole. This promotes investment diversification and limits exposure to individual investments, major asset classes, geographic markets and currencies. The long-term policy also specifies a target weighting for matching assets, which are expected to have a relatively high correlation with the Plan's actuarial liability. It also establishes mandate-specific policies for each investment manager of the Plan. The investment managers' compliance with the policies is confirmed quarterly.

		2016		2015	
Asset categories	**Index Benchmark**	**Portfolio weight year-end %**	**Asset mix policy target weight %**	**Portfolio weight year-end %**	**Asset mix policy target weight %**
Fixed income	Composite	38.5	42.0	41.4	44.0
Cash and overlay	FTSE TMX 91-day T-Bill	3.5	3.0	(1.2)	3.0
Long-term bonds	FTSE TMX long-term	16.4	21.0	17.7	20.0
Universe bonds	FTSE TMX Universe	11.8	8.0	18.1	11.0
Credit bonds	FTSE TMX Universe Corporate	6.8	10.0	6.8	10.0
Equities	Composite	40.6	36.0	44.6	37.0
Canadian	S&P/TSX Composite	13.5	12.0	15.9	12.0
U.S.[1]	S&P 500	13.5	9.0	12.6	10.0
Non-North American [1]	MSCI Europe, Australia, Far East	8.6	10.0	12.0	10.0
Emerging markets	MSCI Emerging Markets	5.0	5.0	4.1	5.0
Private equity	Russell 2000	4.3	4.0	2.1	3.0
Real estate	FTSE TMX Long Term Bonds + 3%	11.5	11.0	7.7	9.0
Infrastructure	FTSE TMX Long Term Bonds + 3%	3.6	5.0	2.1	5.0
Hedge funds secondaries	FTSE TMX Long Term Bonds + 3%	1.5	2.0	2.1	2.0
Total portfolio	Composite	100.0	100.0	100.0	100.0

1) Index expressed in CAD used as basis for manager evaluation. Index quarter-hedged into CAD in total portfolio and total equities benchmarks.

(in thousands of Canadian dollars)

	2016			2015		
Asset categories*	Post-fee return %	Benchmark return %	Post-fee vs. benchmark excess (shortfall) %	Post-fee return %	Benchmark return %	Post-fee vs. benchmark excess (shortfall) %
Fixed income	2.7	2.6	0.1	3.6	3.5	0.1
Long-term bonds	2.8	2.5	0.3	3.8	3.8	0.0
Universe bonds	1.0	1.7	(0.7)	3.9	3.5	0.4
Credit bonds	6.3	3.7	2.6	2.5	2.7	(0.2)
Equities**	7.6	9.6	(2.0)	8.9	6.9	2.0
Canadian	22.5	21.1	1.4	(6.1)	(8.3)	2.2
U.S.	5.0	8.7	(3.7)	23.0	21.1	1.9
Non-North American	(4.8)	(1.9)	(2.9)	19.3	18.5	0.8
Emerging markets	10.5	8.0	2.5	1.2	1.7	(0.5)
Private equity	9.0	17.8	(8.8)	28.3	14.2	14.1
Real estate	7.2	5.5	1.7	2.0	6.8	(4.8)
Infrastructure	0.1	5.5	(5.4)	39.2	6.8	32.4
Hedge funds secondaries	(8.6)	5.5	(14.1)	9.8	6.8	3.0
Total Plan	6.3	6.6	(0.3)	5.8	4.5	1.3

* Note that the Plan returns noted above are after management fees, whereas the benchmark returns do not include any management fee provision.

** Equity return and benchmark return exclude the impact of passive currency hedging policy. Currency hedging impact is included in the total Plan return.

a) Market risk

Market risk is the risk of loss from changes in equity, interest and foreign exchange rates, and credit spreads. Changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market.

The Plan mitigates market risk through diversification of its investment portfolio, across industry sectors, investment strategies and on a geographic basis, based on asset and risk limits established in the SIPP and through the use of derivative financial instruments.

- Currency risk

  Currency risk arises from the Plan's exposure to foreign currency-denominated assets. Fluctuations in the value of the Canadian dollar relative to foreign currencies may significantly increase or decrease the Plan's fair value and returns.

(in thousands of Canadian dollars)

The Plan invests in assets denominated in foreign currencies other than the Canadian dollar in order to improve its risk and return profile. The Plan's currency hedging policies are designed to limit the overall impact of currency fluctuations on Plan returns.

The Plan's currency managers passively hedge 25% of US dollar denominated equity, 50% of other developed market foreign equity currency exposures and 75% of funds of hedge funds. Through a separately managed active currency hedging program, the foreign currency exposure on some or all foreign equity holdings may be fully hedged or unhedged on a tactical basis, subject to risk constraints based on the Plan's SIPP.

The following schedule summarizes the Plan's currency exposure, net of foreign exchange forward contracts used in the passive and active currency programs:

	Net currency exposure*	
	2016 $	**2015 $**
United States dollar	1,808,066	1,304,240
Hong Kong dollar	71,499	69,188
British pound sterling	40,573	57,633
Swiss franc	3,578	23,519
Euro	20,171	32,966
Japanese yen	(20,795)	3,337
Australian dollar	(9,026)	4,771
Swedish krona	1,092	7,735
Other	160,509	143,212
	2,075,667	1,646,601

* Includes pooled funds

The following sensitivity analysis summarizes the impact on the Plan's net assets available for benefits, following a reasonably possible 5% change in foreign currency exchange rates, with all other variables and underlying values held constant, for each currency to which the Plan has a significant exposure.

	Changes in net assets available for benefits*	
	2016 $	**2015 $**
United States dollar	90,403	65,212
Hong Kong dollar	3,574	3,459
British pound sterling	2,029	2,881
Swiss franc	179	1,176
Euro	1,009	1,648

(in thousands of Canadian dollars)

	Changes in net assets available for benefits*	
	2016 $	**2015 $**
Japanese yen	(1,040)	167
Australian dollar	(451)	239
Swedish krona	55	387
Other	8,025	7,161
	103,783	82,330

* Includes pooled funds

- Interest rate risk

  Interest rate risk is the effect that changing interest rates have on both the market value of both the Plan's assets and liabilities. The value of the Plan's net assets available for benefits, are affected by short-term changes in nominal interest rates. The pension benefit obligation is impacted by fluctuations in long-term nominal and real interest rates.

  The Plan administrator views interest rate risk on interest bearing financial instruments as a hedge that offsets the larger interest rate risk on pension benefit liabilities. In order for this offset to significantly reduce the overall level (on assets and pension benefit liabilities) of the Plan's interest rate risk, the SIPP has a target of 21% (2015 - 20%) of its holdings to be held in interest bearing financial instruments with long maturities.

  The following sensitivity analysis summarizes the impact on the Plan's net assets available for benefits following a reasonably possible change in interest rates for all maturities (a parallel shift in the yield curve).

		Change in net assets available for benefits*	
	Interest rates	**2016 $**	**2015 $**
Interest bearing financial instruments	+ / -1%	225,914	240,560

* Includes pooled funds

As at December 31, 2016, assuming all other factors remain constant, a 1% decrease in the assumed long-term rate of return on assets would result in the pension benefit obligation increasing by 14.0% (2015 - 14.1%) or $744.3 million (2015 - $709.2 million).

(in thousands of Canadian dollars)

- Equity prices risk

  Equity price risk is the risk that the fair value of equities decreases as a result of changes to their related indices.

  The following sensitivity analysis summarizes the impact on the Plan's net assets available for benefits, following reasonably possible changes in equity prices for each stock market benchmark to which the Plan has a significant exposure.

	Stock benchmark	Change in index value	2016* $	2015* $
Canadian equities	S&P/TSX Comp	+/-10%	78,880	72,196
Non-Canadian equities	various	+/-10%	155,234	158,700
			234,114	230,896

* Includes pooled funds

b) Credit risk

Credit risk is the loss potential associated with a counterparty's inability or unwillingness to fulfill its contractual obligations.

In order to mitigate against losses associated with credit risk, the Plan adheres to investment policies that require:

- having a minimum rating of R1 "low" by DBRS or equivalent for all cash and short-term investments;
- limiting the maximum exposure to bonds issued or guaranteed by any one non-governmental entity or group of affiliated entities to 5% of the fair value of the total fixed income portfolio held by the Plan;
- limiting the maximum exposure to non-investment grade bonds (defined as below BBB - or equivalent) to 10% of the fixed income portfolio held by the Plan;
- dealing with counterparties to derivative transactions that have credit quality of no less than an A rating;
- securities lent will be secured by initial collateral of no less than 102%;
- entering into International Swaps and Derivative Association Inc. agreements with over-the-counter derivative counterparties to limit the Plan's exposure to credit losses;

(in thousands of Canadian dollars)

- entering into derivative financial instruments only on an unlevered basis; and

- where feasible, directing managers to enter into master netting arrangements.

Credit risk on equity and bond futures is minimal as the counterparty to every futures trade is a clearing corporation, which acts as a third party that matches trades and collects and maintains margins. These contracts are marked-to-market and margin receivables and payables are settled in cash daily.

The following are the interest bearing financial instruments, the exposure to credit risk and the Plan's share of it.

	AAA* $	AA $	A $	BBB $	R1 or Equiv $	Non-inv. grade/ unrated $	Total $
December 31, 2016**	518,257	508,935	582,446	184,295	2,445	374,083	2,170,461
December 31, 2015**	710,147	606,785	563,835	250,866	15,971	243,747	2,391,351

* Includes cash balances from fixed income accounts and accrued interest
** Includes pooled funds

c) Liquidity risk

Liquidity risk is the risk the Plan may be unable to meet obligations associated with pension payments and/or financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity seeks to ensure that even under adverse conditions, the Plan has access to immediate cash that is necessary to cover benefits payable, withdrawals and other liabilities. The SIPP requires a significant portion of the Plan's investments to be highly liquid so they can be converted into cash on short notice. Typically, the employee and employer contributions will cover the benefit payment requirements. Therefore, the Plan's exposure to liquidity risk is considered negligible.

In order to meet short-term liquidity requirements, cash and short-term investments are available for $283,987 (2015 - $147,777). With the exception of the pension benefit obligation, all liabilities are current and due within one year.

(in thousands of Canadian dollars)

In addition to cash and short-term investments, the bond holdings held also aid in managing liquidity risk and have the following maturities:

	1 year $	1 - 5 years $	5 - 10 years $	10 - 20 years $	20 years $	Total $
December 31, 2016*	50,075	474,315	287,701	438,863	919,507	2,170,461
December 31, 2015*	81,626	547,135	391,361	486,295	884,934	2,391,351

* Includes pooled funds

d) Fair value hierarchy

Financial assets and liabilities are measured at fair value and can be classified based on the method used to determine their valuation. The fair value hierarchy has the following three levels:

- Level 1 - fair value is based on quoted market prices in markets for identical financial assets or financial liabilities. Level 1 financial assets generally include equity investments traded in an active market.

- Level 2 - fair value is based on observable inputs, other than quoted prices included within Level 1, such as quoted market prices for identical financial assets or financial liabilities in markets that are not active and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the financial assets or financial liabilities. Level 2 financial assets and financial liabilities generally include pooled funds, short-term money market securities, Government of Canada, provincial and other government bonds, Canadian corporate bonds and certain derivative financial instruments.

- Level 3 - fair value is based on inputs that are not supported by observable market data. Valuation methodologies are determined by the fund administrators and independent appraisers. Level 3 financial assets and financial liabilities include the funds of hedge funds, real estate, infrastructure, hedge fund secondaries investments, private debt and private equity investments.

(in thousands of Canadian dollars)

The following table presents the level within the fair value hierarchy for each of the financial assets and financial liabilities measured at fair value. The table excludes other financial assets and financial liabilities that are valued at their carrying amount, which represents a reasonable approximation of fair value due to their short-term nature.

				2016
	Level 1 **$**	**Level 2** **$**	**Level 3** **$**	**Total** **$**
Invested cash and short-term money market securities	128,987	118,655	-	247,642
Bonds*	-	1,845,595	-	1,845,595
Funds of hedge funds	-	-	245,578	245,578
Equities	2,355,841	-	-	2,355,841
Real estate	-	-	702,358	702,358
Infrastructure	-	-	217,994	217,994
Hedge funds secondaries	-	-	89,121	89,121
Private equity	-	-	265,656	265,656
Private debt	-	-	114,175	114,175
Derivative financial instruments	-	3,897	-	3,897
Other investment-related assets and liabilities	-	8,255	-	8,255
	-			
	2,484,828	1,976,402	1,634,882	6,096,112

				2015
	Level 1 **$**	**Level 2** **$**	**Level 3** **$**	**Total** **$**
Invested cash and short-term money market securities	73,875	69,527	-	143,402
Bonds*	-	2,076,837		2,076,837
Funds of hedge funds	-	-	256,128	256,128
Equities	2,526,632	-	-	2,526,632
Real estate	-	-	446,462	446,462
Infrastructure	-	-	125,936	125,936
Hedge fund secondaries	-	-	120,811	120,811
Private equity	-	-	125,792	125,792
Derivative financial instruments	-	(29,918)	-	(29,918)
Other investment-related assets and liabilities	-	10,497	-	10,497
	2,600,507	2,126,943	1,075,129	5,802,579

* Bonds total is net of bonds sold under repurchase agreements of $306,133 (2015 - $309,298).

(in thousands of Canadian dollars)

The following table summarizes the changes in the fair values of financial instruments classified in Level 3.

	Funds of hedge funds $	Real estate $	Infrastructure $	Hedge fund secondaries $	Private equity $	Private debt $	Total $
Fair value - December 31, 2014	213,857	397,924	96,035	107,342	108,365	-	923,523
Total unrealized gains	36,008	8,718	25,768	12,071	24,996	-	107,561
Purchases (dispositions)	6,263	39,820	4,133	1,398	(7,569)	-	44,045
Fair value - December 31, 2015	256,128	446,462	125,936	120,811	125,792	-	1,075,129
Total unrealized gains (losses)	(10,550)	21,707	(3,969)	(8,980)	(4,095)	(3,106)	(8,993)
Purchases (dispositions)	-	234,189	96,027	(22,710)	143,959	117,281	568,746
Fair value - December 31, 2016	245,578	702,358	217,994	89,121	265,656	114,175	1,634,882

Investments that are classified as Level 3 have their fair values derived using valuation techniques. The values are provided by the general partner or other external manager and therefore, in the absence of specific information to support deviating from this value, no other reasonably possible alternative assumptions can be applied.

Sensitivity to changes in assumptions

The following analysis demonstrates the sensitivity of several Level 3 valuations to potential changes in capitalization rates, discount rates or interest rates, where applicable. These sensitivities are hypothetical and in actual experience, the change in the key factor may be the result of changes in a number of underlying assumptions which could increase or decrease the effect on the valuation.

		As at December 31, 2016		
Asset type	**Key factor**	**Fair value $**	**+0.25% $**	**-0.25% $**
Real estate	Capitalization rate	702,358	(12,124)	13,783
Infrastructure	Discount rate	217,994	(5,385)	5,391
Hedge fund secondaries	Discount rate	89,121	(302)	304
Private debt	Interest rate	114,175	(905)	905
Private equity	Discount rate	265,656	(1,987)	2,005
		1,389,304	(20,703)	22,388

(in thousands of Canadian dollars)

5 Derivative financial instruments

Derivative financial instruments are financial contracts, the value of which is derived from the value of the underlying assets, interest rates, indices or foreign currency exchange rates. Derivative contracts are transacted either in the over-the-counter (OTC) market or on regulated exchanges.

a) Derivative products and investment objectives

The Plan enters into the following types of derivative financial instruments:

- Equity and bond futures

  Futures contracts involve an agreement to buy or sell standardized amounts of equity or bond indices at a predetermined future date and price in accordance with the terms specified by a regulated futures exchange and are subject to daily cash margining. These contracts are purchased and/or sold with the primary objective of rebalancing the Plan's actual asset mix to closely align with that specified in the SIPP.

- Foreign exchange forward contracts

  A foreign exchange forward contract is a customized agreement negotiated between two parties to buy or sell a specific amount of a foreign currency at a price specified at the origination of the contract, with settlement at a specified future date. Foreign exchange forward contracts are used to hedge the Plan's foreign currency risk.

b) Notional amounts

Notional amounts of derivative financial instruments represent the dollar value of the market exposure gained through the purchase/sale of a contract. Notional amounts are not recorded as financial assets or financial liabilities on the annual statements of financial position and accrued pension benefits and surplus. The aggregate notional amounts and fair values of derivative contracts can fluctuate significantly.

The following is a schedule of notional amounts and fair values of derivative financial instruments:

	2016		2015	
	Notional amount $	Fair value receivable/ (payable) $	Notional amount $	Fair value receivable $
Fixed income futures	6,876	-	103,628	-
Canadian equity futures	40,181	-	53,263	-
Non-Canadian equity futures	154,708	-	10,043	-
Foreign exchange forward contracts	2,465,254	3,897	2,271,996	(29,918)

Derivative financial instruments held by the Plan generally have at least quarterly resets and all settle within one year.

(in thousands of Canadian dollars)

c) Net investments after allocating market exposure of derivative financial instruments

The following table summarizes the effective fair value of the Plan's investments after the allocation of market exposure of derivative financial instruments and investment-related receivables and liabilities:

	2016		2015	
	Effective net investments at fair value $	Effective asset mix %	Effective net investments at fair value $	Effective asset mix %
Fixed income				
Invested cash and short-term money market securities	138,391	2.3	(42,951)	(0.7)
Canadian bonds	1,771,579	29.1	2,084,810	35.9
Non-Canadian bonds	80,892	1.3	95,654	1.6
Funds of hedge funds	245,578	4.0	256,128	4.4
	2,236,440	36.7	2,393,641	41.2
Equities				
Canadian	822,504	13.5	921,419	15.9
Non-Canadian	1,647,864	27.0	1,668,518	28.8
	2,470,368	40.5	2,589,937	44.7
Real estate	702,358	11.5	446,462	7.7
Infrastructure	217,994	3.6	125,936	2.2
Hedge funds secondaries	89,121	1.5	120,811	2.1
Private debt	114,175	1.9	-	-
Private equity	265,656	4.3	125,792	2.1
	6,096,112	100.0	5,802,579	100.0

(in thousands of Canadian dollars)

6 Other liabilities

Other liabilities consist of the following:

	2016 $	2015 $
Accrued pension payroll	10,228	9,330
Fees payable to custodian, investment consultants and other advisers	3,833	5,238
Other accounts payable	987	668
	15,048	15,236

7 Pension benefit obligation

An estimate of the Plan's obligation for pension benefits has been made as at December 31, 2016 for inclusion in the Plan's financial statements by Mercer (Canada) Limited. The estimate is an extrapolation of the January 1, 2016 actuarial valuation based on membership data on that date, using the methods and assumptions summarized below. This note to the financial statements should be read in conjunction with the actuaries' opinion found in the annual general meeting newsletter.

Methods and assumptions

The valuation is based on the requirements outlined in Section 4600 of the CPA Canada Handbook - Accounting for pension plan financial statements. The estimated actuarial present value of accrued pension benefits is determined using the projected benefit method, pro-rated on service. The pension formula in effect in the Plan's bylaws, including the current base period (average of the four calendar years before 2015 with the highest average pensionable earnings) for credited service before 2015, is used to project the pension at retirement, without provision for future updates in the base period or other changes in the bylaws. The pro rata portion of the projected pension, which relates to past service, is then valued as the accrued pension.

Under note 1, description of the Plan, the Board has the authority to provide plan improvements, including increases to the career average base period and also for ad hoc pension indexing. The following amendments to the Plan were adopted by the Board effective January 1, 2016:

- A one-year update of the Base Period to December 31, 2015;
- A one-year update of the Survivor Benefit Date to January 1, 2016; and
- A one-time ad hoc pensioner increase of 1.28% as at January 1, 2016.

As at December 31, 2016, the financial impact of these changes is $81,831. During 2015, similar amendments were adopted with a financial impact of $95,105.

(in thousands of Canadian dollars)

Assets were valued at fair value as at December 31, 2016.

The major assumptions used as best estimates of the Plan's future experience for calculating the actuarial present value of accrued pension benefits are summarized as follows:

	2016 %	2015 %
Discount rate - net of expenses	5.50	5.50
Rate of inflation	2.00	2.00
Weighted average rate of salary increase*	3.25	3.25

*Assumed salary increases from April 1, 2014 through March 30, 2018 are based on wage increases as per the May 17, 2014 collective agreement with an additional 0.5% provision for individual factors. The assumed salary increase on and after April 1, 2018 is 3.25% per annum.

Statutory actuarial valuations

In accordance with the PBA and the Income Tax Act (Canada), an actuarial valuation is required to be filed at least every three years to report the Plan's surplus or deficit, and to determine the Plan's funding requirements. The most recent actuarial valuation for funding purposes was conducted as at January 1, 2016 and filed with regulators on August 31, 2016. The next required funding valuation filing with the regulators will be as at January 1, 2019. The two valuations required by the PBA, the going concern basis and the solvency basis, are determined using different valuation methods and assumptions and yield different surplus or deficit amounts than those disclosed in these financial statements. A solvency (hypothetical windup) valuation must be performed on the Plan, even though the risk of its being wound up, in management's view, is remote. As a JSPP, the Plan is permitted and has elected an exemption from solvency funding requirements. As a result of converting to a JSPP in 2011, only going concern deficits incurred after January 1, 2011 are to be funded. Funding is also required for previously established solvency deficits, which were determined prior to January 1, 2011.

8 Related party transactions and balances

Related parties include the Plan's Sponsors and the Plan's subsidiaries. Expenses borne by the Sponsor are listed under note 2, administrative expenses. These costs are not charged back to the Plan.

Alternative investments held in subsidiary corporations are managed on behalf of the Plan by external advisers through investment management agreements. The Plan has 14 wholly owned subsidiary corporations. The assets held within the subsidiary corporations are investments in real estate, infrastructure, private equity, hedge funds and private debt. The subsidiary corporations are 100% owned by the Plan. Regular transactions include investment income and return of capital distributions, or capital contributions. For real estate investments, the market value is comprised of both an equity component and also a note payable to the Plan relating to the initial investment.

(in thousands of Canadian dollars)

The following schedule summarizes the Plan's net related party alternative investments:

	2016		2015	
	Fair value $	Cost $	Fair value $	Cost $
PFS Exchange Inc*.	146,849	77,100	140,759	77,100
PFS GTA Industrial Inc.*	116,506	127,700	119,179	142,600
PFS Retail Two Inc.*	115,710	95,170	115,212	95,170
PFS Office One Inc.*	203,157	204,700	91,146	95,000
PFS Retail One Inc.	38,371	15,980	35,831	15,980
PFS Industrial One Inc.	23	23	9,054	6,225
5160 Orbitor Drive Ltd.	8,230	3,700	8,241	3,700
PFS Faubourg Inc.*	57,245	57,590	-	-
PFS The Hudson	31,267	30,000	30,000	30,000
Debt on real estate properties	(15,000)	(15,000)	(103,000)	(103,000)
Net investment in real estate	702,358	596,963	446,462	362,775
1793177 Ontario Inc.*	132,532	77,321	117,734	62,875
TTC PFS Secondaries Inc.*	89,121	40,788	120,811	63,498
TTC PFS Private Equities Inc.*	131,597	74,953	125,792	66,431
TTC PFS Private Debt Inc.*	114,175	117,281	-	-
TTC PFS Taurus Inc.	33,428	35,131	8,202	7,758
Net related party alternative investments	1,203,211	942,437	819,001	563,337

* Exceeds 1% of the fair value or cost of the Plan's net assets

The debt on real estate properties consists of the following mortgages payable, which are collateralized by the specific real estate properties:

	2016			2015		
	$	Interest rate %	Maturity date	$	Interest rate %	Maturity date
PFS GTA Industrial Inc.	-	-	-	88,000	5.19	May 2016
PFS The Hudson Inc.	15,000	3.94	August 2025	15,000	3.94	August 2025
	15,000			103,000		

(in thousands of Canadian dollars)

The annual principal repayments due within the next five years and thereafter are as follows:

	$
2017	-
2018	-
2019	-
2020	-
2021 and thereafter	15,000
	15,000

9 Net investment income

The following schedule summarizes investment income (loss) before and after allocation of net realized and unrealized gains (losses) on investments to asset classes:

	2016		2015	
	Before allocation $	After allocation $	Before allocation $	After allocation $
Fixed income				
Invested cash	262	262	(883)	(883)
Short-term money market securities	748	1,069	891	1,250
Canadian bonds	91,104	113,203	106,600	33,041
Non-Canadian bonds	3,720	9,019	4,104	12,058
Funds of hedge funds	-	(4,922)	-	2,949
	95,834	118,631	110,712	48,415
Equities				
Canadian	20,508	182,879	27,113	(82,463)
Non-Canadian	29,158	25,636	32,065	280,934
	49,666	208,515	59,178	198,471
Alternative investments				
Real estate	21,269	42,977	16,320	25,038
Infrastructure	8,298	4,330	8,904	34,672
Hedge funds secondaries	-	(8,980)	-	12,071
Private debt	3,022	(84)	-	-
Private equity	16,269	12,173	8,200	33,195
	48,858	50,416	33,424	104,976
Investment income	194,358	377,562	203,314	351,862
Net realized gains on investments	196,408	-	142,125	-
Net change in unrealized gains (losses) on investments	(13,204)	-	6,423	-
Net increase in fair values of investments	183,204	-	148,548	-
	377,562	377,562	351,862	351,862

(in thousands of Canadian dollars)

10 Investment and Plan administration expenses

Administration expenses, such as most salaries and benefits, furniture and equipment, materials and supplies, accommodation and audit fees, are borne by the TTC and are, therefore, not included in these financial statements. The following summarizes the expenses paid by the Plan:

	2016 $	2015 $
Investment managers' fees	14,070	14,499
Custodial fees	604	567
Investment consultants' fees	831	789
Actuarial fees	352	396
Other plan administration expenses	491	440
Legal fees	322	506
	16,670	17,197

11 Significant investments

a) Significant individual securities*

As at December 31, 2016, the Plan held no individual investments with fair value or cost exceeding 1% of the fair value or cost of the Plan's net assets (excludes currency (note 4(a)), derivatives (note 5(b)), pooled fund investments (note 11(c)) and alternative investments (note 3).

b) Significant issuers*

The Plan has invested in the following issuers of fixed income and equity securities an amount that exceeds 1% of the fair value or cost of the Plan's net assets:

	2016		2015	
	Fair value $	Cost $	Fair value $	Cost $
Province of Ontario	71,435	72,800	74,135	72,467
Government of Canada	55,517	56,210	51,451	51,105
Royal Bank of Canada	63,490	46,760	57,577	43,906

* Excludes currency (note 4(a)), derivatives (note 5(b)), pooled fund investments (note 11(c)) and alternative investments (note 3).

(in thousands of Canadian dollars)

c) Pooled fund investments

The Plan owns the following pooled fund investments as at December 31. The fair value of these pooled fund investments is included in the statement of financial position under the investment type to which they relate.

	2016		2015	
	Fair value $	Cost $	Fair value $	Cost $
Short-term money market securities				
PHN Institution Short-term Investment Fund	13,182	13,182	6	6
TDAM TD Emerald Canada Treasury	1,047	1,047	1,061	1,061
	14,229	14,229	1,067	1,067
Fixed income				
Canso Corp. & Infrastructure Debt	22,774	21,911	22,018	20,616
Canso Private Loan Fund	32,253	32,084	29,964	29,824
BlackRock Universe Bond Fund*	127,157	126,224	406,317	395,443
BlackRock Long Bond Index Fund*	714,322	665,567	697,081	629,684
PHN Long Bond Pension Trust*	286,245	272,952	278,918	257,258
PHN Investment Grade Corp. Bond Trust*	97,077	99,199	118,543	120,402
PHN Mortgage Pension Trust Fund	18,200	17,837	21,047	20,340
RBC High Yield Bond Fund	1,485	1,454	1,307	1,380
Crestline Offshore Fund, Ltd.*	111,162	91,985	116,095	91,985
Mesirow Absolute Return Fund (Institutional)*	134,415	90,667	140,033	90,667
PHN High Yield Bond Fund, Series O	2,971	2,803	3,166	3,475
	1,548,061	1,422,683	1,834,489	1,661,074
Non-Canadian equities				
Daiwa Nikkei 225 Exchange Traded Fund	-	-	1,363	1,247
Nomura Topix Exchange Traded Fund	3,309	2,993	7,302	6,564
MFC Japan Exchange Traded Fund	4,721	4,504	16,301	15,132
SPDR S&P 500 Exchange Traded Fund	9,411	8,838	7,750	7,371
Harding Loevner Emerging Market Equity*	148,176	112,486	134,263	113,707
Oaktree Capital Emerging Market Equity*	58,807	50,798	53,089	51,340
	224,424	179,619	220,068	195,361
	1,786,714	1,616,531	2,055,624	1,857,502

* Exceeds 1% of the fair value or cost of the Plan's net assets

(in thousands of Canadian dollars)

12 Commitments

As part of normal business operations, the Plan enters into commitments to the funding of investments. Future commitments to fund investments include investment in infrastructure, hedge fund secondaries and private equity. The future commitments are generally payable on demand based on the capital needs of the investment.

In particular, the Plan is committed to investing up to an additional US$36.0 million (2015 - US$9.09 million) into existing infrastructure investments, up to an additional US$11.5 million (2015 - US$18.1 million) into hedge fund secondaries, US$32.3 million in private debt (2015 - $nil) and an additional US$63.6 million in private equities (2015 - US$87.8 million).

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TORONTO
TRANSIT COMMISSION
PENSION
FUND SOCIETY