For Information

TTC Pension Fund Society 2018 Annual Report

Date: June 12, 2019
To: TTC Board
From: Chief Executive Officer – TTC Pension Fund Society

Summary

The attached 2018 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.

Equity/Accessibility 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 2018 was $55,900. 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, 2018, the PFS had approximately 14,600 active members and 9,000 pensioners and net assets of $6.5 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

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Signature

Attachments

Attachment 1 – 2018 TTC Pension Fund Society Annual Report

TORONTO
TRANSIT COMMISSION
PENSION
FUND SOCIETY

2018 Annual Report

STRENGTH, SECURITY, STABILITY, GROWTH

About the TTC Pension Fund Society

The Toronto Transit Commission Pension Fund Society (the "PFS") was incorporated in 1940 under Part XVI of The Companies Act 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 PFS (the "Bylaws"), as amended from time to time.

Active Members of the Plan, who are employees of the TTC, the ATU, or the PFS that have completed six months of continuous service, contribute a percentage of contributory earnings to the Pension Fund (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.

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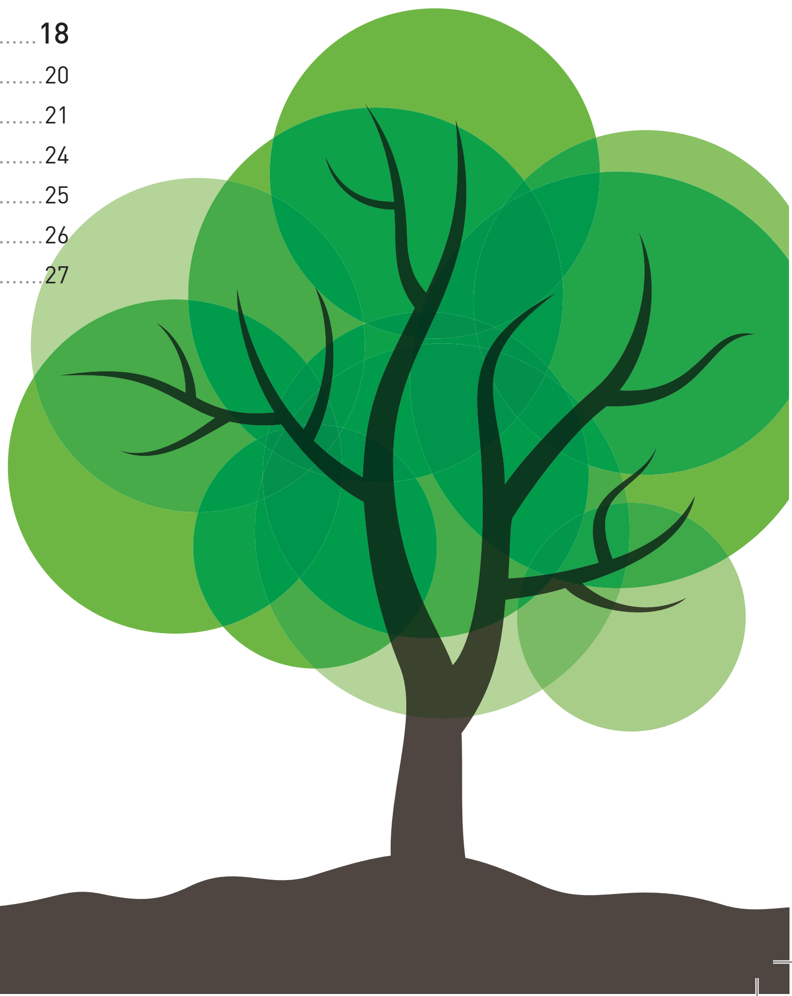
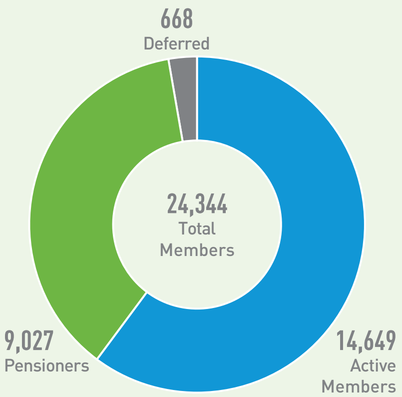
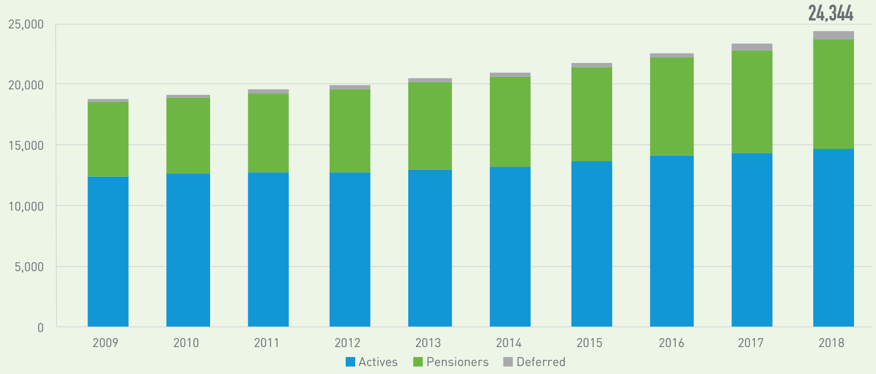


2018 Membership Highlights

Membership:



Membership continues to grow:



Average annual pension:

$33,380

Number of online pension estimates:

3,649

New pensioners in 2018:

621

Number of in-house pension estimates:

1,727

Number of pre-retirement seminar attendees:

432

% of seminar attendees that rate the seminar content as good or very good:

98%

TTC Pension Fund Society leadership team, left to right:
Andrew Greene, Sean Hewitt, Cheryl Uroda and James Clarkson.

2018 Financial Highlights

Going Concern Funded Status:

97%

10 Year Annualized Return:

8.4%

Market Value of Plan Assets:

$6.5 billion

Reasonable Assumptions:

5.3%

Going Concern Discount Rate

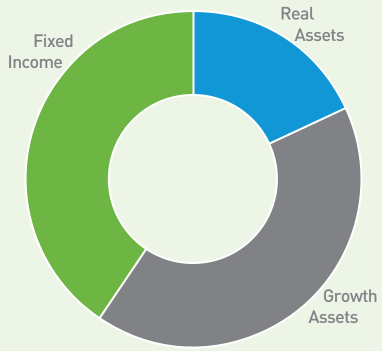
Contributions:

$239 million

Pension Payments:

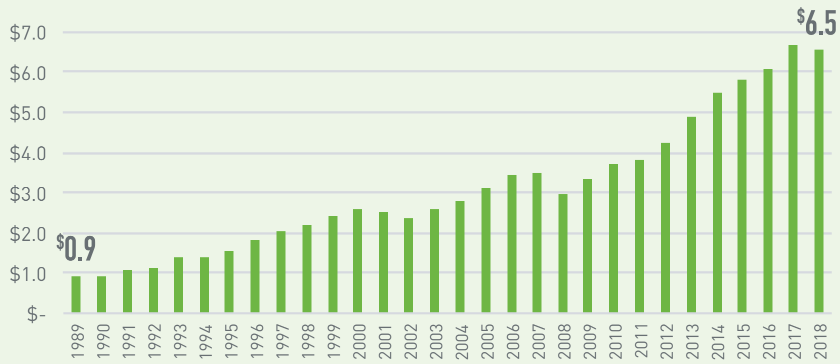
$320 million

Diversified Asset Mix

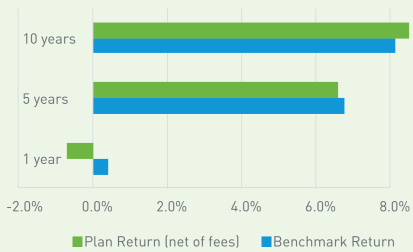


Base years fully caught up

Plan assets continue to grow



Plan returns (vs. Benchmark):



Message From the Board

We're pleased to report that 2018 was another productive year and the Plan continues to be well-positioned to provide secure retirement income to current and future generations.

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 PFS members depend on the Plan to pay pensions today and preserve pensions for tomorrow. That's why the PFS Board reviews in detail the financial position of the Plan 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 PFS plan design: equal risk sharing by employers and employees. This has proven to work reliably over time as we enter our 79th year of operations.

Although we're extremely proud of the results that the PFS produces, we recognize that challenges remain. While Plan assets have grown significantly since the financial crisis, pension liabilities have also increased, due to lower forward-looking returns and other factors such as increased life expectancy. We will continue to address these challenges as we have in the past, managing risk while pursuing investment strategies that can generate the returns necessary to pay members' benefits today and for decades to come.

The team remains committed to delivering the Pension Promise:

Keeping your pension stable and secure for current and future pensioners.

Along with the rest of the PFS Board, we wish to recognize the hard work of our 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, James Clarkson and Andrew Greene, the team remains committed to delivering the Pension Promise: Keeping your pension stable and secure for current and future pensioners.

As a Jointly Sponsored Pension Plan, the Board is ultimately responsible for the oversight, administration and investment strategy. In doing so, we are continually monitoring manager performance, funded status and 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 our members. This responsibility is balanced among the membership and the employers through the Board's composition by having equal representation from both the ATU 113 and the TTC.

This governance structure is a model of teamwork and common purpose; both our current and former Board members have contributed to the PFS health and success by assessing challenges and making required adjustments. In order to continue to enhance our already strong governance structure, in 2018 the Board established an Audit Committee which is comprised of the most senior Members of the TTC and Local ATU 113. This step is the latest in a series of enhancements that the Board has made to ensure your pensions remain secure.

Message From the CEO

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 employ a long-term approach, keeping 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.

Sean Hewitt, Chief Executive Officer

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 will be characterized by challenging short-term performance due to slow economic growth, market volatility and heightened geopolitical risks. From a return perspective, 2018 was a challenging year. Our net investment return after fees was negative 0.7%, underperforming our plan benchmark by roughly 1.0% for the year.

Despite some of these varied challenges in 2018, the PFS has been able to generate positive returns over the long term. Over the past 10 years, the Fund earned 8.4% after fees which has comfortably exceeded the return of our Plan benchmark and the actuarial discount rate. Over that time period our asset values have more than doubled.

The strong position was based on long-term investment portfolio returns and strong cost control features with a risk management focus. The positive results of our investment portfolio have allowed the Board to approve a base-year update and 2.16% pensioner increase. Active Members and 2019 retirees will now have their pensionable earnings and credited service up to December 31, 2018 included in the base period for calculation of their pension benefit. These benefit improvements, while approved by the Board, are based on confirmation from the PFS's external actuary 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 years fully up-to-date. 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.

Staff Additions

PFS continues to evolve its staff team to meet the increasing needs and complexity of our operations. In late 2017, we created the position of Director, Investments, which has proven to be an important addition as our assets grow. In 2019, we intend to further expand our skill set by adding internal resources to support both the Investment and Pension Administration functions. The growth of our membership and retirements and the increasing size and complexity of our investment portfolio makes this a necessity. We are also continuing with succession planning initiatives as certain key individuals move closer to retirement. We are confident that the PFS will continue to enjoy strong and uninterrupted leadership.

Office Move

In 2019, PFS staff moved into new offices at 2 Bloor East, Suite 1901. Our phone, fax and email information remain the same. We are very pleased with the result and we are now well positioned to meet the current and projected space needs of the organization.

I would like to acknowledge the efforts of our entire staff, who have collectively delivered excellent results in the key areas under our control, member services and investment strategy.

PFS Enhancements

The Sponsors of the PFS, the TTC and ATU Local 113, along with the Board are committed to prudent management of the PFS. Several considerable improvements to the PFS governance structure have been made in recent history:

- In 2011, the PFS converted to a Jointly Sponsored Pension Plan (JSPP), where plan Sponsors have an equal say on matters that impact current and future pensioners;
- In 2016, the Board hired an independent CEO to manage the day-to-day affairs of the PFS, reporting directly to the Board;
- In 2017, the PFS completed an Asset/Liability Study with a focus on making portfolio changes to enhance long-term security of the plan at current contribution levels;
- In 2018, the Board approved amendments to the Plan Bylaws that will empower the Board to retain additional staff directly;
- In 2018, the Board established an Audit Committee, charged with the responsibility for detailed financial statement and budget reviews;
- In 2019 TTC employees working in the pension department became employees of the Pension Fund Society, reporting to the CEO;
- In 2019, PFS staff moved into new offices designed specifically for our needs, which offers room for our growing organization, while maintaining a strong Member focus.

These changes are designed to transition the PFS to an independent pension organization that will give the Board full control over its evolving organizational needs. The responsibility for day-to-day administration, including office space, pension staff hiring, and salary administration will rest with the PFS CEO, who is directly accountable to the Board.

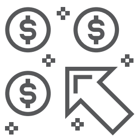
This change marks a significant organizational enhancement and has important advantages over the previous organizational structure. It will ensure that the PFS continues to confidently and systematically meet its fiduciary obligations through adequate staffing and resourcing. It will also enable the PFS to continue its prudent management and administration of pension assets, and to continue to deliver service in a manner that is consistent with a best-in-class pension organization.

We are a Jointly Sponsored Pension Plan ("JSPP") with sharing of costs, risks, and decisions. The Board is comprised of 10 people, five from the ATU Local 113 and five from the TTC. The Board has overall responsibility for pension administration, corporation management, investment strategy and reporting. The Board acts independently of the Sponsors.

The Board is supported by three Committees: Investment Committee, Governance Committee, and a newly created Audit Committee.

INVESTMENT COMMITTEE: The Investment Committee advises the Board on investment management and oversight of the Fund. They provide guidance on investment manager implementation and the construction of investment policies and strategies. They are also responsible for reviewing total fund and investment manager performance.

GOVERNANCE COMMITTEE: The Governance Committee advises the Board on matters of governance and human resource policies.



AUDIT COMMITTEE: The Audit Committee advises the Board on financial reporting and internal controls. They review the annual audited financial statements, annual budgets, and make recommendations to the Board.

Continuing Education
The PFS believes the ongoing development and education of its Board members is integral to achieving a high level of Board effectiveness. During 2018, the Board, its committees and individual Board members participated in presentations, attended relevant external instruction and received educational information on topics relevant to asset management, governance and pension administration.

STRENGTH

Pension Strength comes from a solid financial position with a focus on the needs and expectations of Members.

Board of Directors and Committee Membership

Board of Directors
Rick Fox
Scott Gordon
Orest Kobylansky
Brian Leck
Megan MacRae
Frank Malta
Kevin Morton
Gemma Piemontese
Carlos Santos
Dan Wright

Investment Committee
Orest Kobylansky *(Chair)*
Rick Fox
Kevin Morton
Dan Wright
James Knowles *(external)*

Governance Committee
Kevin Morton *(Chair)*
Scott Gordon
Brian Leck
Gemma Piemontese

Audit Committee
Dan Wright *(Chair)*
Megan MacRae
Kevin Morton
Carlos Santos

External Advisor
James Knowles

Leadership Team
The CEO and leadership team are responsible for all operational matters, implementation of strategic plans and policies

Sean Hewitt,
Chief Executive Officer

Cheryl Uroda,
Corporate Secretary and Director, Pension Administration

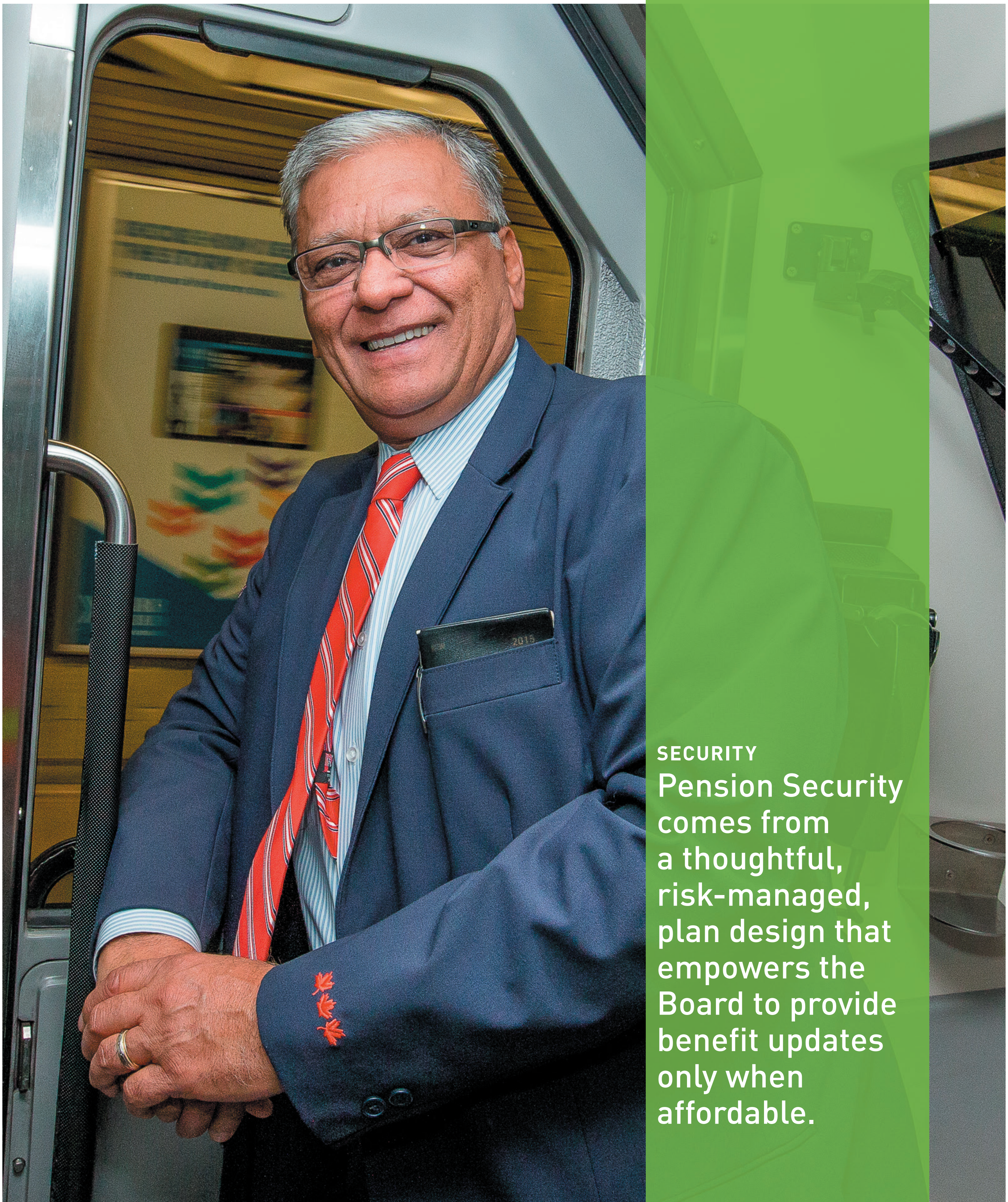
James Clarkson,
Treasurer and Director, Finance

Andrew Greene,
Director, Investments

Actuary
Mercer

Auditor
PricewaterhouseCoopers LLP

Custodian
Northern Trust



SECURITY

Pension Security comes from a thoughtful, risk-managed, plan design that empowers the Board to provide benefit updates only when affordable.

Investment Management

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 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.

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.

Market Overview

After two years of steady growth in asset prices, 2018 proved to be more of a challenge for investors, particularly in the last three months of the year.

US President Donald Trump's tax cuts had provided an added boost for equity investors heading into 2018, and US GDP growth accelerated to 4.2%. However, economic growth elsewhere, notably in the Eurozone, decelerated and global growth became less synchronized. Meanwhile the prospect of fading US monetary policy support in 2019, together with escalation in the US-China trade conflict, reduced monetary stimulus and global growth concerns eventually took their toll on investor confidence.

Stock markets in particular suffered in 2018. Stocks have been a major beneficiary of the low interest rate and loose monetary policy environment since the global financial crisis. Companies have been able to borrow money cheaply to strengthen their balance sheets while also benefiting from a pick-up in demand as the global economy recovered. Global stocks fell 8.9% in 2018, according to the MSCI All Country World Index. Global stocks gained 6.1% in the first three quarters of 2018, but stocks fell more than 12.0% in the fourth quarter of 2018. The fall in the last three months of 2018 meant global stocks posted their worst quarterly performance in seven years.

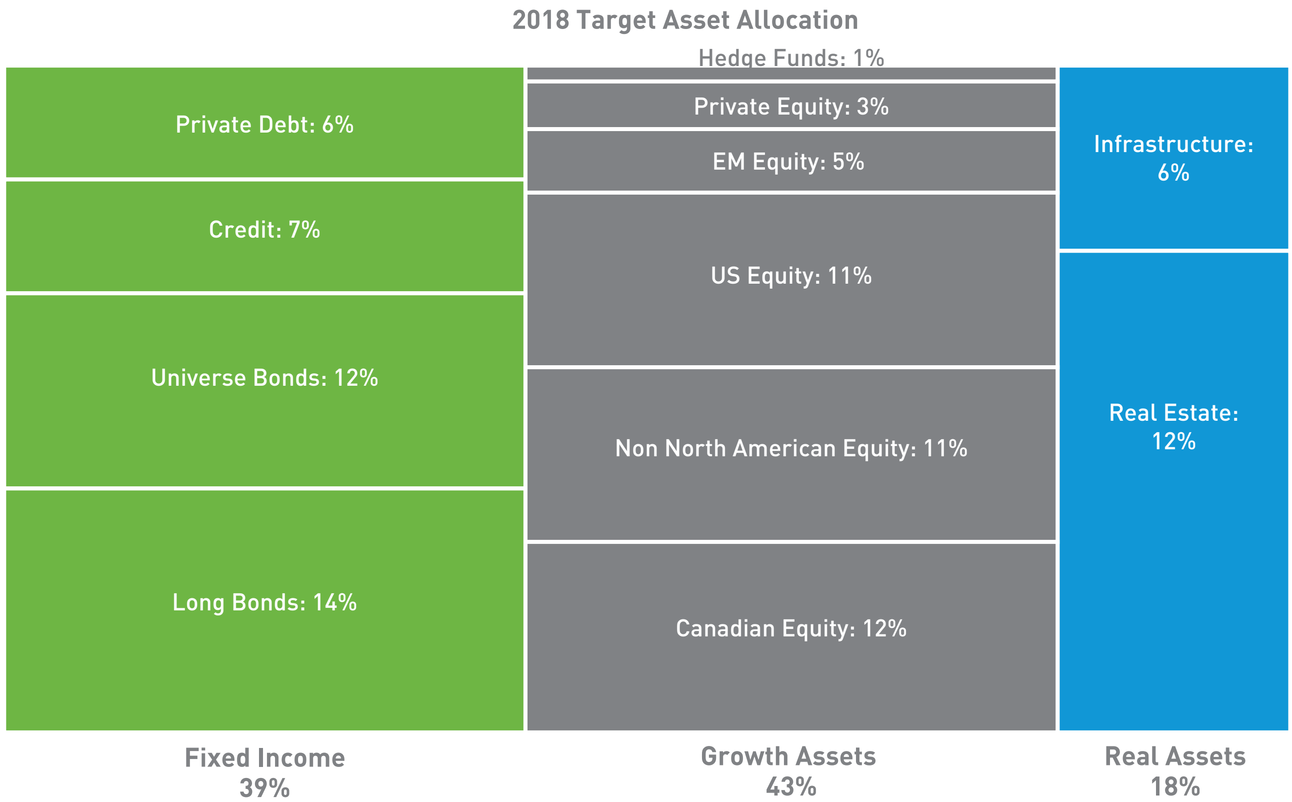
During the third quarter, the Canadian economy showed signs of a decline, growing at an annualized rate of 2.0%, following the 2.9% achieved in the previous quarter. The economy's cool-down was mostly due to a downturn in business investment and sluggish growth in household spending. While business investments were hurt by the meager outlook in the energy sector, household spending fell from 0.6% in the second quarter to 0.3%. Conversely, economic deceleration was partially offset by lower imports. After hitting a 43-year low in November, the unemployment rate remained unchanged during December, closing the quarter at 5.6% on a seasonally-adjusted basis.

Despite the slight economic slowdown, the Bank of Canada continued with its tightening path and raised its reference overnight rate by a quarter point to 1.75% in October, leaving it unchanged thereafter. The decision came amidst inflation pressures that have since receded. The consumer price index rose at the target rate of 2.0% (annualized rate) in the three months to December. This increase in prices was mainly due to higher air transportation fares and produce costs.

Falling oil prices posed a drag on the Canadian dollar, which lost ground against all major currencies during the fourth quarter of 2018. The Loonie depreciated -5.4% against the US dollar, from 0.77 in September to 0.73 in December, nearing its lowest value in almost two years.

Building a Diversified Portfolio

At the PFS, we have built a diversified portfolio of investments that can be summarized into three broad categories:



FIXED INCOME are investments that reduce funded status volatility from year to year. They include interest rate sensitive investments in Canadian Government, Provincial and Corporate Bonds of a variety of maturities (short, medium and long). The policy weight for these investments is 39% of the total Plan.

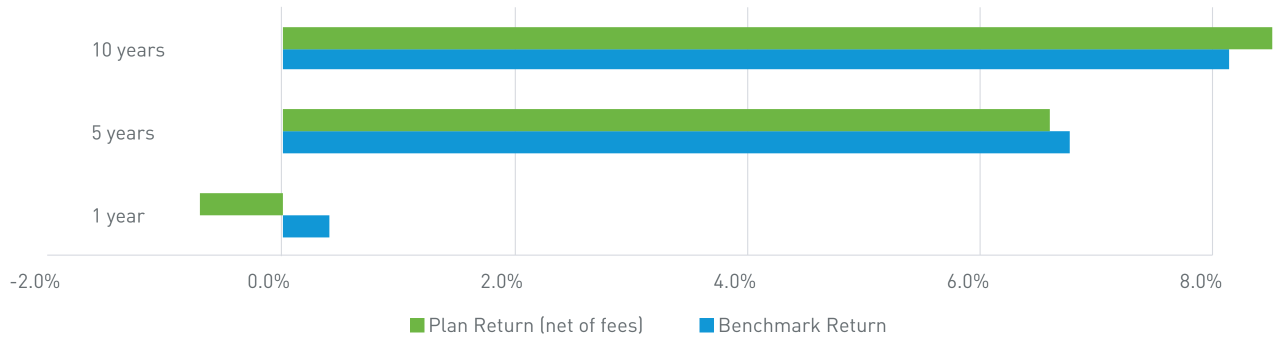
GROWTH ASSETS are investments that seek a higher return than Liability-Matching Assets, but are also characterized by higher volatility. Our growth asset portfolio contains Canadian and Non-Canadian Equities, Private Investments and Opportunistic Investments. Growth Assets are 43% of the total Plan.

REAL 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 while providing some protection against inflation. Our holdings in real estate and infrastructure are included in this category. Real Assets represent 18% of the Plan.

Return vs. Policy Benchmark

Assets in the Plan totaled $6.5 billion at year end. The Plan delivered a modest return in 2018 with -0.7% after fees, which trailed the policy benchmark of 0.4%. Over the past five and 10-year periods ending 2018 the plan has earned an annualized rate of return of 6.6%, and 8.4% respectively.

Total Plan Return



The 5-year 6.6% annualized return, net of investment management fees over the last 5-year period, slightly trailed the policy benchmark return of 6.8% by 0.2%.

In order to evaluate the success of our investment strategies, we use a set of Board-approved benchmarks as a comparison tool. The total fund benchmark return (0.4% for 2018) is calculated by aggregating the benchmark returns of each individual asset class and weighting them according to the Fund's policy benchmark.

Asset Class	5 year returns	Benchmark
Canadian Equity	5.6%	4.1%
US Equity	13.8%	14.2%
Non-North American Equity	8.2%	5.8%
Emerging Markets Equity	7.3%	6.9%
Private Equity	20.1%	11.1%
Long Bonds	6.2%	6.1%
Universe Bonds	3.5%	3.5%
Credit Bonds	4.7%	3.7%
Infrastructure	13.0%	9.8%
Real Estate	7.9%	7.7%
Total Fund Return (Net of Fees)	6.6%	6.8%

Asset Class	Benchmark Index
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	MSCI World + 3%
Cash and Cash Equivalents	91 Day T-bills
Long Bonds	FTSE Canada Long
Universe Bonds	FTSE Canada Universe
Credit Bonds	FTSE Canada Corporate
Infrastructure*	CPI + 4%
Real Estate*	IPD Canada

*Prior to 2018 the benchmark index was FTSE/TMX Long Bonds +3%

About the Plan

The PFS is a defined benefit pension plan designed to provide secure pension retirement income for life. Plan Members and participating sponsors contribute equally to the Plan, and these contributions are collectively invested and managed by external investment managers.

As a Plan Member, your pension is determined using a formula based on your eligible earnings and years of service in the Plan. Your pension from the PFS is an important part of your retirement.

PFS Plan Features	
Normal Retirement	30 years of service, regardless of age; or 60 years of age, regardless of service; or 29 years of service and at least age 51
Reduced Early Retirement	Age 50 with less than 29 years of service
Indexation in Retirement	Indexing in retirement is conditional and provided by the Board when deemed affordable based on external actuaries report

Contributions

Every pay period, plan members contribute a percentage of their earnings into the Plan, and these contributions are matched by participating employers. Plan members' contributions are as follows:

Earnings up to YMPE: 9.25%

Above YMPE: 10.85%

The YMPE is the Year's Maximum Pensionable Earnings, which is an amount defined under the CPP. In 2018, this amount was $55,900

Changes in Net Assets Available for Benefits

($ millions)	
Net assets December 31, 2017	6,646
Investment Income (loss)	(13)
Contributions	239
Benefit payments	(320)
Expenses	(16)
Net Assets December 31, 2018	6,536

Net Assets Available for benefits totaled $6.5 billion as at December 31, 2018, a decrease of $110 million over the year.

Benefit Improvements 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 April 2019 the Board had concluded its final meeting of the 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 2.16% effective January 1, 2019;
- Effective January 1, 2019, the base period formula for calculating pension benefits will be the average of employees' best four years of pensionable earnings up to December 31, 2018; and
- In lock-step with this formula update, the survivor benefit date will be January 1, 2019.

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).

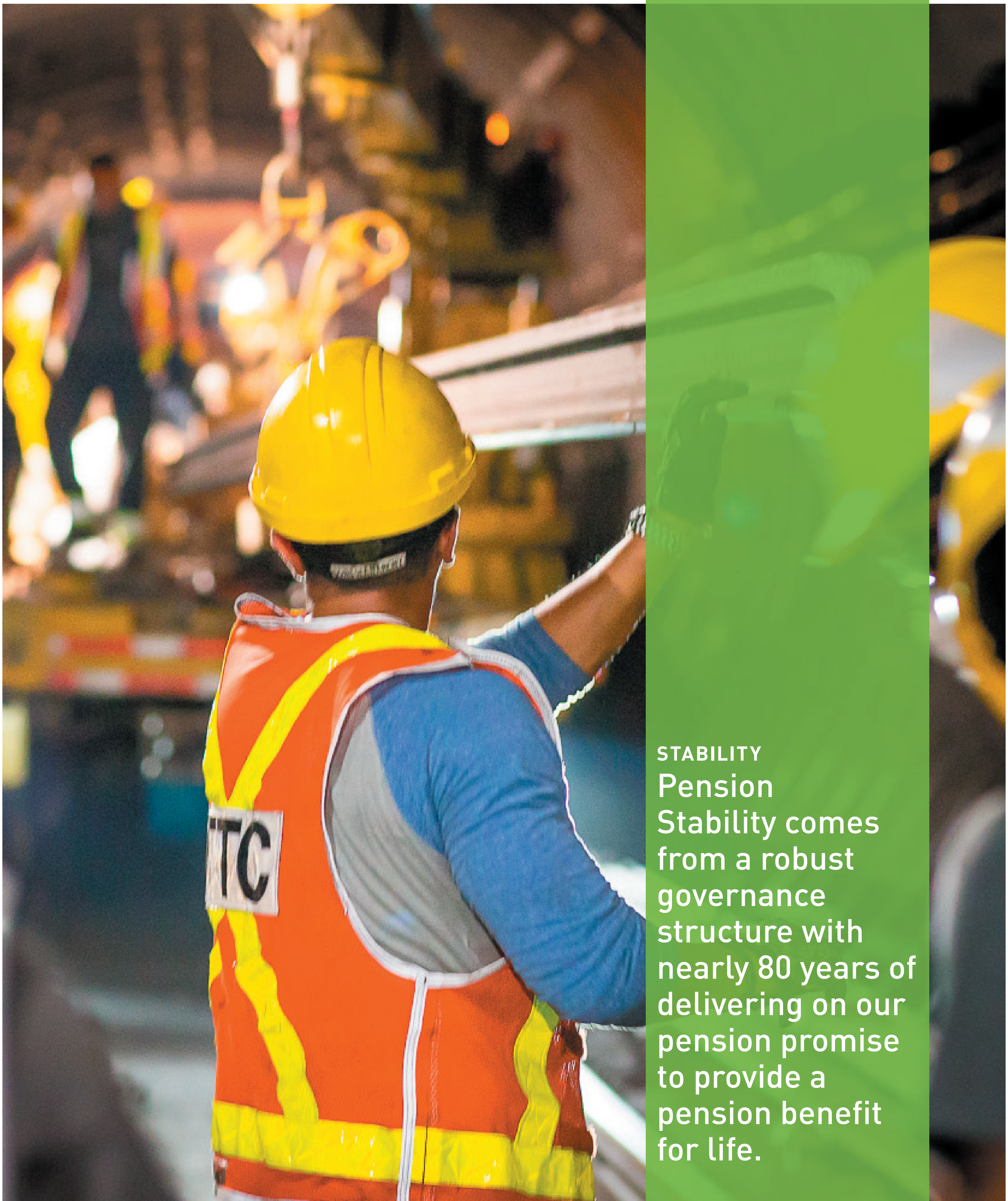
As stipulated in the PFS Bylaws, the Bylaw amendments to affect these improvements will be presented to the TTC Board for sanctioning before the AGM and will be presented at the AGM for Membership approval.

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 30 years of age or 10 years of service. At these sessions you will be provided with useful retirement planning resources and information. Typically, we hold six pre-retirement seminar sessions each year with approximately 75 attendees including spouses, three sessions during the spring and three during the fall. This year's spring sessions were held in April, May and June. The fall 2019 seminar dates are: November 7 & 8, and November 19 & 20. 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.

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, e-mail us at PFS@ttc.ca or call us at 416-393-4367 or 416-393-4368.

Please be advised 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.

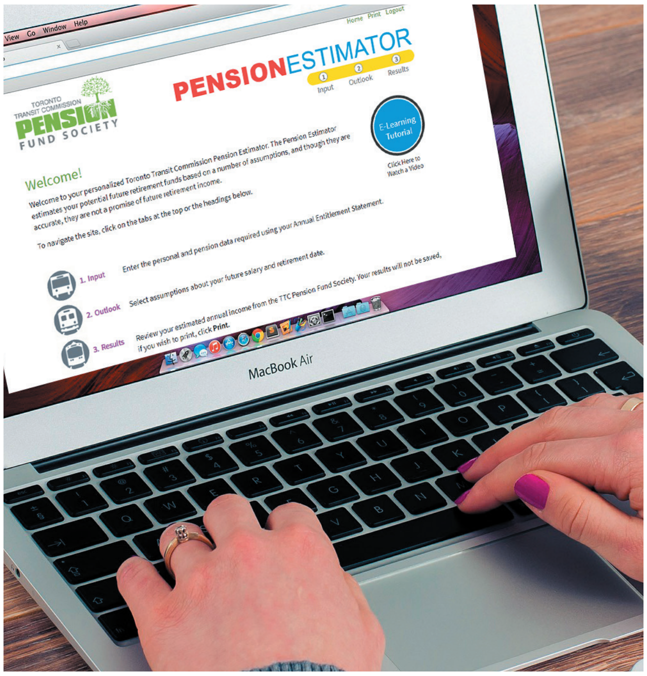


STABILITY

Pension Stability comes from a robust governance structure with nearly 80 years of delivering on our pension promise to provide a pension benefit for life.

Online Pension Estimator

TTC employees can calculate their pension by accessing the Estimator through the PFS Intranet (internal website) or via TheCoupler.ca home page link. You may be surprised to know that 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. 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!

1. Input — Enter the personal and pension data required using your Annual Entitlement Statement.

2. Outlook — Select assumptions about your future salary and retirement date.

3. Results — Review your estimated annual income from the TTC Pension Fund Society. Your results will not be saved, if you wish to print, click **Print**.

10-Year Review
(Unaudited)

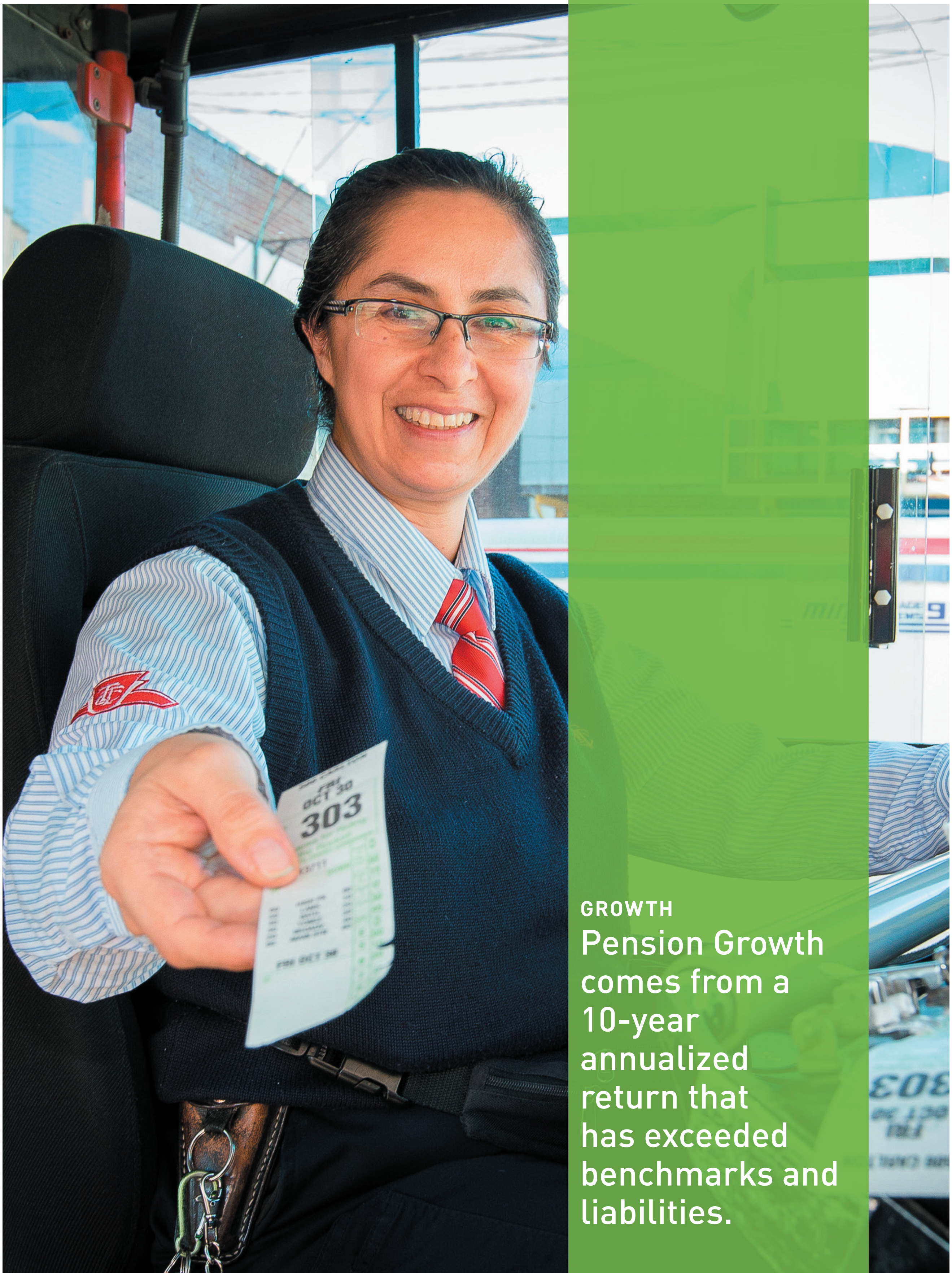
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Financials ($M)										
Fixed Income & Cash	2,574	2,902	2,681	2,788	2,613	2,051	2,055	1,783	1,709	1,551
Equities	2,445	2,558	2,356	2,526	2,415	2,513	2,040	1,783	1,790	1,602
Alternatives	1,831	1,449	1,389	819	710	562	378	231	306	300
Investment Recievables	18	59	38	23	46	54	288	64	57	37
Investment Liabilities	(332)	(322)	(328)	(346)	(286)	(276)	(490)	(37)	(161)	(146)
Total Net Assets	6,536	6,646	6,136	5,810	5,498	4,904	4,271	3,825	3,701	3,344
Contributions	239	234	224	216	207	202	194	182	168	151
Investment Income (loss)	(13)	583	377	352	621	647	457	120	358	393
Benefit Payments	(320)	(291)	(258)	(239)	(216)	(200)	(188)	(166)	(158)	(152)
Expenses	(16)	(16)	(17)	(17)	(18)	(16)	(15)	(12)	(11)	(9)
Change in Net Assets	(110)	510	326	312	594	633	448	124	357	383
Membership										
Actives	14,649	14,287	14,091	13,686	13,237	13,013	12,767	12,690	12,572	12,400
Pensioners	9,027	8,539	8,091	7,699	7,375	7,092	6,824	6,562	6,300	6,134
Deferred	668	561	400	378	374	354	339	301	289	276
Total Members	24,344	23,387	22,582	21,763	20,986	20,459	19,930	19,553	19,161	18,810
Active Members per Retiree	1.6	1.7	1.7	1.8	1.8	1.8	1.9	1.9	2.0	2.0
Retirements	621	613	572	431	443	409	384	373	299	257

Numbers are rounded

Toronto Transit Commission – Pension Fund Society

Financial Statements

December 31, 2018
(In thousands of Canadian dollars)



GROWTH

Pension Growth comes from a 10-year annualized return that has exceeded benchmarks and liabilities.

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, 2018, 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, 2018, supplied by the Society and used to extrapolate valuation results to December 31, 2018,
- 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, 2018, 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 2018, 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	**Karen E. Koop**
Fellow of the Society of Actuaries	Fellow of the Society of Actuaries
Fellow of the Canadian Institute of Actuaries	Fellow of the Canadian Institute of Actuaries
May 24, 2019	May 24, 2019

Mercer (Canada) Limited

MARSH & McLENNAN COMPANIES

Independent auditor's report

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

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Toronto Transit Commission Pension Fund Society (the Plan) as at December 31, 2018 and the changes in its net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

What we have audited
The Plan's financial statements comprise:

- the statement of financial position as at December 31, 2018;
- the statement of changes in net assets available for benefits for the year then ended;
- the statement of changes in pension benefit obligations for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence
We are independent of the Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Plan or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Plan's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Plan's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Plan to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
May 24, 2019

Toronto Transit Commission Pension Fund Society

Statement of Financial Position

As at December 31, 2018

(in thousands of Canadian dollars)

	2018 $	2017 $
Assets		
Cash	33,528	30,507
Investments (note 3)	6,816,527	6,909,062
Investment-related receivables (note 3)	19,088	23,791
Contributions receivable		
Members	10,139	17,141
Employers	4,725	2,038
Other assets	952	1,039
	6,884,959	6,983,578
Liabilities		
Investment-related liabilities (note 3)	331,729	321,601
Other liabilities (note 7)	16,825	15,698
	348,554	337,299
Net Assets Available for Benefits	6,536,405	6,646,279
Pension benefit obligation (note 8)	5,374,106	5,274,719
Surplus	1,162,299	1,371,560

Kevin Morton, Director

Dan Wright, Director

Toronto Transit Commission Pension Fund Society

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2018
(in thousands of Canadian dollars)

	2018 $	2017 $
Increase in net assets available for benefits		
Net investment income (note 10)	187,367	180,447
Net increase (decrease) in fair values of investments (note 10)	(199,793)	403,062
Contributions		
Members	119,348	116,463
Employers	119,925	117,034
	226,847	817,006
Decrease in net assets available for benefits		
Benefit payments		
Pension benefits	293,174	265,926
Death benefits	9,909	6,513
Termination refunds	16,092	15,687
Marriage breakdown	1,339	2,662
Investment and Plan administration expenses (note 11)	16,207	15,735
	336,721	306,523
Increase (decrease) in net assets available for benefits during the year	(109,874)	510,483
Net assets available for benefits – Beginning of year	6,646,279	6,135,796
Net assets available for benefits – End of year	6,536,405	6,646,279

Toronto Transit Commission Pension Fund Society

Statement of Changes in Pension Benefit Obligations

For the year ended December 31, 2018

(in thousands of Canadian dollars)

	2018 $	2017 $
Pension benefit obligation – Beginning of year	5,274,719	5,321,178
Benefits accrued	160,552	173,932
Benefits paid	(320,514)	(290,788)
Interest accrued on benefits	321,266	298,401
Changes in actuarial assumptions	(161,062)	(317,965)
Experience losses	19,729	14,201
Plan amendments	79,416	75,760
Net increase (decrease) in pension benefit obligation	99,387	(46,459)
Pension benefit obligation – End of year (note 8)	5,374,106	5,274,719

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 2018, each member employed by the TTC and ATU contributed 9.25% (2017 – 9.25%) of their earnings to the Plan up to the year's maximum pensionable earnings (YMPE) of $55,900 (2017 – $55,300) and 10.85% (2017 – 10.85%) of earnings above the YMPE. The TTC and ATU contributed an amount equivalent to each member's annual contribution.

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 of December 31, 2017 (2017 – December 31, 2016). 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 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 FSGN-100 (Financial Statement Guidance Note).

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.

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. All investment transactions are recorded when the risks and rewards of ownership are transferred. Investment transactions relating to marketable securities and derivatives are recorded as of the trade date. Transactions that have not yet been settled are reflected in the statement of financial position as investment-related receivables/liabilities.

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 and is valued at cost, which approximates fair value;
- 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;
- 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.

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 average 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
These financial statements are prepared in Canadian dollars, the Plan's functional currency. 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 the net change in the fair value of investments.

Derivatives
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.

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. The discount rate reflects the best estimate of the long-term expected return on plan assets.

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 (note 14).

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 8 explains how estimates and assumptions are used in determining accrued pension benefits. Note 5 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 and/or pooled funds, 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:

As at December 31, 2018
(in thousands of Canadian dollars)

	2018		2017	
	Fair value $	Cost $	Fair value $	Cost $
Investments*				
Fixed income				
Restricted cash	-	-	31,693	31,693
Invested cash	63,672	63,672	57,420	57,420
Short-term money market securities	101,344	100,364	185,926	185,157
Canadian bonds	2,019,293	2,037,413	2,297,505	2,240,997
Non-Canadian bonds	144,945	136,642	91,839	90,666
Funds of hedge funds	210,557	147,052	237,998	182,652
	2,539,811	2,485,143	2,902,381	2,788,585
Equities				
Canadian	782,322	616,240	897,563	573,157
Non-Canadian	1,663,012	1,363,609	1,660,458	1,182,700
	2,445,334	1,979,849	2,558,021	1,755,857
Alternative investments				
Real estate	697,633	518,196	642,871	517,519
US real estate (note 13)	125,545	109,824	25,651	25,028
Infrastructure (note 13)	351,586	258,846	263,685	213,034
Hedge fund secondaries (note 13)	47,887	6,575	62,191	19,965
Private debt (note 13)	443,783	398,037	309,998	305,792
Private equity (note 13)	164,948	87,715	144,264	81,429
	1,831,382	1,379,193	1,448,660	1,162,767
Derivative financial instruments (note 6(b))				
Derivative financial assets	39	-	3,727	-
Derivative financial liabilities	(54,120)	-	(443)	-
	(54,081)	-	3,284	-
	6,762,446	5,844,185	6,912,346	5,707,209
Investment-related receivables				
Pending trades	3,296	3,296	4,002	4,002
Accrued investment income	15,753	15,753	16,062	16,062
	19,049	19,049	20,064	20,064
Other investment-related liabilities				
Bonds sold under repurchase agreements**	271,881	271,881	316,791	316,791
Pending trades	5,728	5,728	4,367	4,367
	277,609	277,609	321,158	321,158
	6,503,886	5,585,625	6,611,252	5,406,115

* Includes investments in pooled funds, details of which are provided in note 12(c). The margin account balance as at December 31, 2018 is $nil (2017 – $31,693). There was no restricted cash held at the end of 2018, as the overlay account mandate, which held the funds, was terminated during the year.

**Bonds sold under repurchase agreements are secured by collateral of $289,239 (2017 - $315,662). The net amount not offset in the statement of financial position is $17,358 (2017 - $1,129).

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 8. 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 that 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 typically reviewed and approved by the Board annually and the last amendment, which was effective December 31, 2018, was approved by the Board on February 28, 2018. The significant amendments included changes made to refine the Fund's interim target asset mix.

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 estimated current growth rate, inherent in the CPA Canada Handbook Section 4600 valuation, is 6.25% (2017 – 6.0%).

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.

As at December 31, 2018
(in thousands of Canadian dollars)

		2018		2017	
Asset categories	2018 Index benchmark	Portfolio weight year-end %	Asset mix policy target weight %	Portfolio weight year-end %	Asset mix policy target weight %
Fixed income	Composite	42.0	39.0	46.1	42.0
Cash and overlay	FTSE TMX 91-day T-Bill	4.4	0.0	1.4	3.0
Long-term bonds	FTSE TMX Long Bond	14.6	14.0	23.2	21.0
Universe bonds	FTSE TMX Universe Bond	11.5	12.0	15.0	8.0
Credit bonds	FTSE TMX All Corporate	7.1	7.0	6.5	10.0
Alternative fixed income[1]	FTSE TMX 91 Day T-Bills +3%	4.4	6.0	-	-
Equities	Composite	37.6	39.0	36.6	36.0
Canadian	S&P/TSX Composite	12.1	12.0	11.9	12.0
US	S&P 500, net in C$	10.4	11.0	8.7	9.0
Non-North American	MSCI EAFE, net in C$	10.7	11.0	11.0	10.0
Emerging markets	MSCI EM, net in C$	4.4	5.0	5.0	5.0
Private equity	MSCI World +3% in C$	2.5	3.0	2.2	4.0
Real estate	REALpac/IPD Canada	12.7	12.0	10.2	11.0
Infrastructure	Consumer Price Index +4%	5.4	6.0	4.0	5.0
Hedge funds	FTSE TMX 91-day T-Bill	4.0	5.0	0.9	2.0
Leverage[1]		(4.2)	(4.0)	-	-
Total portfolio	Composite	100.0	100.0	100.0	100.0

1) 2017 includes alternative fixed income of 3.5% and leverage of (4.8%). As these were not a separate asset mix policy weight defined for 2017, the 2017 year-end weight has not been adjusted to reflect the 2018 policy.

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.

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 manager passively hedges 100% of alternative fixed income, foreign real estate and infrastructure and 75% of hedge funds, the majority of which are denominated in US dollars.

As at December 31, 2018
(in thousands of Canadian dollars)

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

	Net currency exposure*	
	2018 $	2017 $
United States dollar	1,176,948	1,334,395
Hong Kong dollar	63,483	69,735
British pound sterling	122,346	65,006
Swiss franc	42,829	12,731
Euro	251,461	92,249
Japanese yen	90,861	10,784
Australian dollar	13,185	7,439
Swedish krona	14,220	3,471
Other	163,357	230,984
	1,938,690	1,826,794

* 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*	
	2018 $	2017 $
United States dollar	58,847	66,720
Hong Kong dollar	3,174	3,487
British pound sterling	6,117	3,250
Swiss franc	2,142	637
Euro	12,573	4,612
Japanese yen	4,543	539
Australian dollar	659	372
Swedish krona	711	174
Other	8,168	11,549
	96,934	91,340

* Includes pooled funds

As at December 31, 2018
(in thousands of Canadian dollars)

A strengthening Canadian dollar, relative to foreign currency values, results in a decrease in the market value of foreign investments in Canadian terms.

- Interest rate risk

  Interest rate risk is the effect that changing interest rates have on the market value of both the Plan's assets and liabilities. The value of the Plan's net assets available for benefits is affected by 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 20% (2017 – 21%) 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). An increase in interest rates results in a decrease in the market value of interest bearing financial instruments and vice versa for a decrease in interest rates.

		Change in net assets available for benefits*	
	Interest rates	2018 $	2017 $
Interest bearing financial instruments	+ / -1%	225,299	280,018

* Includes pooled funds

As at December 31, 2018, 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 12.5% (2017 – 13.1%) or $674.1 million (2017 – $690.0 million).

- Equity price risk

  One item that affects equity prices 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	2018* $	2017* $
Canadian equities	S&P/TSX Comp	+/-10%	82,965	84,503
Non-Canadian equities	various	+/-10%	183,561	183,920
			266,526	268,423

* Includes pooled funds

a. 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

(in thousands of Canadian dollars)

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;
- 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 Equivalent $	Non-investment grade/ unrated $	Total $
December 31, 2018**	613,463	576,241	471,359	189,679	14	347,158	2,197,914
December 31, 2017**	617,369	692,894	565,507	184,512	1,130	353,910	2,415,322

* Includes cash balances from fixed income accounts and accrued interest

** Includes pooled funds

b. 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 most of 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 $199 (2017 – $306). With the exception of the pension benefit obligation, all liabilities are current and due within one year.

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, 2018*	45,454	493,657	333,399	467,127	858,277	2,197,914
December 31, 2017*	40,905	489,525	315,916	509,343	1,059,633	2,415,322

* Includes pooled funds

(in thousands of Canadian dollars)

5. 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.

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.

	2018			
	Level 1 $	Level 2 $	Level 3 $	Total $
Invested cash and short-term money market securities	63,672	101,344	-	165,016
Bonds*	-	1,892,357	-	1,892,357
Funds of hedge funds	-	-	210,557	210,557
Equities	2,445,334	-	-	2,445,334
Real estate	-	-	697,633	697,633
US real estate	-	-	125,545	125,545
Infrastructure	-	-	351,586	351,586
Hedge funds secondaries	-	-	47,887	47,887
Private debt	-	-	443,783	443,783
Private equity	-	-	164,948	164,948
Derivative financial instruments	-	(54,081)	-	(54,081)
Other investment-related assets and liabilities	13,321	-	-	13,321
	2,522,327	1,939,620	2,041,939	6,503,886

As at December 31, 2018
(in thousands of Canadian dollars)

	2017			
	Level 1 $	Level 2 $	Level 3 $	Total $
Invested cash and short-term money market securities	89,113	185,925	-	275,038
Bonds*	-	2,072,554	-	2,072,554
Funds of hedge funds	-	-	237,998	237,998
Equities	2,558,021	-	-	2,558,021
Real estate	-	-	642,871	642,871
US real estate	-	-	25,651	25,651
Infrastructure	-	-	263,685	263,685
Hedge fund secondaries	-	-	62,191	62,191
Private debt	-	-	309,998	309,998
Private equity	-	-	144,264	144,264
Derivative financial instruments		3,284	-	3,284
Other investment-related assets and liabilities	-	15,697	-	15,697
	2,647,134	2,277,460	1,686,658	6,611,252

* Bonds total is net of bonds sold under repurchase agreements of $271,881 (2017 – $316,791)

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

	Funds of hedge funds $	Real estate $	US real estate $	Infrastructure $	Hedge fund secondaries $	Private equity $	Private debt $	Total $
Fair value – December 31, 2016	245,578	702,358	-	217,994	89,121	265,656	114,175	1,634,882
Total unrealized gains (losses)	(7,580)	19,958	623	(684)	(6,107)	6,189	8,693	21,092
Reclassification of investments	-	-	-	-	-	(134,058)	134,058	-
Purchases (dispositions)	-	(79,445)	25,028	46,375	(20,823)	6,477	53,072	30,684
Fair value – December 31, 2017	237,998	642,871	25,651	263,685	62,191	144,264	309,998	1,686,658
Total unrealized gains (losses)	18,001	54,085	15,097	42,089	(915)	14,399	41,540	184,296
Purchases (dispositions)	(45,442)	677	84,797	45,812	(13,389)	6,285	92,245	170,985
Fair value – December 31, 2018	210,557	697,633	125,545	351,586	47,887	164,948	443,783	2,041,939

(in thousands of Canadian dollars)

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 that could increase or decrease the effect on the valuation.

		As at December 31, 2018		
Asset type	Key factor	Fair value $	+0.25% $	-0.25% $
Real estate	Capitalization rate	823,178	(34,606)	37,817
Infrastructure	Discount rate	351,586	(1,646)	1,600
Hedge fund secondaries	Discount rate	47,887	(174)	174
Private debt	Interest rate	443,783	(3,687)	3,741
Private equity	Discount rate	164,948	(1,554)	1,577
		1,831,382	(41,667)	44,909

		As at December 31, 2017		
Asset type	Key factor	Fair value $	+0.25% $	-0.25% $
Real estate	Capitalization rate	668,522	(27,183)	29,186
Infrastructure	Discount rate	263,685	(5,121)	5,357
Hedge fund secondaries	Discount rate	62,191	(123)	123
Private debt	Interest rate	309,998	(2,556)	2,575
Private equity	Discount rate	144,264	(952)	963
		1,448,660	(35,935)	38,204

* The sensitivity analysis for the fund of hedge funds has been excluded from the above table. The impact to the fair value of the investment is not practical to determine given the underlying nature of the holdings.

6. Derivative financial instruments

a. Derivative products and investment objectives
During the year, the Plan entered 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 were 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. At the end of the year, the Plan no longer held any of these contracts.

- 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.

(in thousands of Canadian dollars)

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.

During 2018, the investment manager that purchased and sold derivative fixed income and equity financial instruments was terminated, as a result, there is no exposure reflected for 2018.

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

	2018		
	Notional amount $	Fair value receivable $	Fair value payable $
Fixed income futures	-	-	-
Canadian equity futures	-	-	-
Non-Canadian equity futures	-	-	-
Foreign exchange forward contracts	1,864,433	60	(54,141)

	2017		
	Notional amount $	Fair value receivable $	Fair value payable $
Fixed income futures	585,484	-	-
Canadian equity futures	111,824	-	-
Non-Canadian equity futures	30,854	-	-
Foreign exchange forward contracts	1,971,293	7,483	(4,199)

Derivative financial instruments held by the Plan generally have at least quarterly resets and all settle within one year. Futures contracts settle on a daily basis with the same counterparty, and therefore no fair value is reflected.

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:

As at December 31, 2018
(in thousands of Canadian dollars)

	2018		2017	
	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*	124,256	1.9	(148,788)	(2.3)
Canadian bonds	1,747,412	27.0	2,566,199	38.9
Non-Canadian bonds	144,945	2.2	91,839	1.4
Funds of hedge funds	210,557	3.2	237,998	3.6
	2,227,170	34.3	2,747,248	41.6
Equities				
Canadian	782,322	12.0	785,739	11.9
Non-Canadian	1,663,012	25.6	1,629,605	24.6
	2,445,334	37.6	2,415,344	36.5
Real estate	823,178	12.7	668,522	10.1
Infrastructure	351,586	5.4	263,685	4.0
Hedge funds secondaries	47,887	0.7	62,191	0.9
Private debt	443,783	6.8	309,998	4.7
Private equity	164,948	2.5	144,264	2.2
	1,831,382	28.1	1,448,660	21.9
	6,503,886	100.0	6,611,252	100.0

* For 2017, invested cash and short-term money market securities is negative as there was a large derivative offset.

7. Other liabilities

Other liabilities consist of the following:

	2018 $	2017 $
Accrued pension benefits	12,405	11,264
Fees payable to custodian, investment consultants and other advisers	3,786	3,642
Other accounts payable	634	792
	16,825	15,698

(in thousands of Canadian dollars)

8. Pension benefit obligation

An estimate of the Plan's obligation for pension benefits has been made as at December 31, 2018 for inclusion in the Plan's financial statements by Mercer (Canada) Limited. The estimate is an extrapolation of the January 1, 2018 actuarial valuation based on membership data on that date, using the methods and assumptions summarized below.

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 2017 with the highest average pensionable earnings) for credited service before 2017, 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, 2018:

- a one-year update of the base period to December 31, 2017;
- a one-year update of the survivor benefit date to January 1, 2018; and
- a one-time ad hoc pensioner increase of 1.56% as at January 1, 2018.

As at December 31, 2018, the financial impact of these changes is $79,416. During 2017, similar amendments were adopted with a financial impact of $75,760.

Assets were valued at fair value as at December 31, 2018.
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:

	2018 %	2017 %
Discount rate – net of expenses	6.25	6.00
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 collective agreements and TTC announcements to non-union staff, with an additional 0.5% provision for individual factors. On and after April 1, 2021, 3.25% per annum increase.

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, 2018 and filed with regulators on August 23, 2018. The next required funding valuation filing with the regulators will be as at January 1, 2021. 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 on or 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. The amortization of these going concern deficits was completed in July, 2018.

(in thousands of Canadian dollars)

9. Related party transactions and balances

Related parties include the Plan's Sponsors and the Plan's subsidiaries. Expenses borne by the Sponsors 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.

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

	2018		2017	
	Fair value $	Cost $	Fair value $	Cost $
PFS Exchange Inc*.	178,799	77,100	150,828	77,100
PFS GTA Industrial Inc.*	122,873	96,325	100,783	95,626
PFS Retail Two Inc.*	73,588	51,500	73,271	51,500
PFS Office One Inc.*	202,699	204,700	202,732	204,700
PFS Retail One Inc.	38,380	15,980	37,414	15,980
PFS Industrial One Inc.	-	-	21	23
5160 Orbitor Drive Ltd.	235	-	231	-
PFS Faubourg Inc.*	62,527	57,590	59,600	57,590
PFS The Hudson	33,532	30,000	32,991	30,000
Debt on real estate properties	(15,000)	(15,000)	(15,000)	(15,000)
Net investment in real estate	697,633	518,195	642,871	517,519
1793177 Ontario Inc.*	164,825	97,858	134,971	86,666
TTC PFS Secondaries Inc.*	47,887	6,576	62,191	19,965
TTC PFS Private Equities Inc.*	164,948	87,715	144,264	81,429
TTC PFS Private Debt Inc.*	194,588	179,770	130,670	136,806
TTC PFS Taurus Inc.*	125,531	106,781	72,251	72,161
	697,779	478,700	544,347	397,027
Net related party alternative investments	1,395,412	996,895	1,187,218	914,546

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

As at December 31, 2018
(in thousands of Canadian dollars)

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

	2018			2017		
	$	Interest rate %	Maturity date	$	Interest rate %	Maturity date
PFS The Hudson Inc.	15,000	3.94	August 2025	15,000	3.94	August 2025

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

	$
2019	-
2020	-
2021	-
2022	-
2023 and thereafter	15,000

10. Net investment income

The following schedule summarizes investment income (loss), broken down by earned income (loss), realized gain/loss and unrealized gain/loss:

	2018			
	Earned income $	Realized gain (loss) $	Unrealized gain (loss) $	Total $
Fixed income				
Invested cash	915	-	-	915
Short-term money market securities	1,738	(127)	(182)	1,429
Canadian bonds	66,384	(18,047)	(78,826)	(30,489)
Non-Canadian bonds	4,549	173	(1,215)	3,507
Fund of hedge funds	-	18,001	8,160	26,161
Derivatives	-	(2,744)	(44,428)	(47,172)
Equities				
Canadian	25,328	29,248	(158,325)	(103,749)
Non-Canadian	33,519	60,583	(178,355)	(84,253)
Alternative investments				
Real estate	17,516	(5)	69,183	86,694
Infrastructure	4,831	-	42,089	46,920
Hedge funds secondaries	-	-	(915)	(915)
Private debt	13,147	-	41,540	54,687
Private equity	19,440	-	14,399	33,839
	187,367	87,082	(286,875)	(12,426)

As at December 31, 2018
(in thousands of Canadian dollars)

	2017			
	Earned income (loss) $	Realized gain (loss) $	Unrealized gain (loss) $	Total $
Fixed income				
Invested cash	(392)	-	-	(392)
Short-term money market securities	1,291	(533)	8	766
Canadian bonds	76,603	39,998	2,509	119,110
Non-Canadian bonds	3,497	2,318	(9,710)	(3,895)
Fund of hedge funds	-	(7,579)	(7,579)	(15,158)
Derivatives	-	3,502	(8,377)	(4,875)
Equities				
Canadian	21,194	56,610	20,751	98,555
Non-Canadian	31,434	119,034	159,338	309,806
Alternative investments				
Real estate	21,632	4,100	20,581	46,313
Infrastructure	13,640	-	(684)	12,956
Hedge funds secondaries	-	-	(6,107)	(6,107)
Private debt	286	-	8,693	8,979
Private equity	11,262	-	6,189	17,451
	180,447	217,450	185,612	583,509

11. 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 (note 14). The following summarizes the expenses paid by the Plan:

	2018 $	2017 $
Investment managers' fees	14,326	13,654
Custodial fees	669	599
Investment consultants' fees	162	220
Actuarial fees	442	507
Other plan administration expenses	464	553
Legal fees	144	202
	16,207	15,735

(in thousands of Canadian dollars)

12. Significant investments

a. Significant individual securities**
As at December 31, 2018, 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.

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:

	2018		2017	
	Fair value $	Cost $	Fair value $	Cost $
Province of Ontario	153,218	154,592	234,921	226,151
Province of Quebec	85,885	85,553	116,539	111,107
Government of Canada	175,557	172,454	267,963	266,455
Royal Bank of Canada	50,855	35,726	71,962	51,999

As at December 31, 2018
(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.

	2018		2017	
	Fair value $	Cost $	Fair value $	Cost $
Short-term money market securities				
PHN Institution Short-term Investment Fund	14,176	14,176	9,161	9,161
PHN Municipal Plus Bond Series O	8,700	8,824	3,456	3,469
TDAM TD Emerald Canada Treasury	930	930	592	592
	23,806	23,930	13,209	13,222
Fixed income				
Canso Corp. & Infrastructure Debt	26,804	26,729	23,149	22,872
Canso Private Loan Fund	16,692	16,704	33,540	33,357
BlackRock Universe Bond Fund*	132,173	133,994	130,776	130,438
PHN Long Bond Pension Trust*	303,274	302,716	301,921	282,815
PHN Investment Grade Corp. Bond Trust*	101,761	104,793	81,453	86,187
PHN Mortgage Pension Trust Fund	14,057	13,800	14,988	14,814
RBC High Yield Bond Fund	31	32	-	-
Crestline Offshore Fund, Ltd.*	72,490	56,385	109,682	91,985
Mesirow Absolute Return Fund (Institutional)*	138,068	90,667	128,316	90,667
PHN High Yield Bond Fund, Series O	64	64	62	60
	805,414	745,884	823,887	753,195
Non-Canadian equities				
Nomura Topix Exchange Traded Fund	3,847	3,740	7,872	6,735
MFC Japan Exchange Traded Fund	7,970	7,826	8,979	8,053
SPDR S&P 500 Exchange Traded Fund	13,472	13,815	6,868	6,523
Harding Loevner Emerging Market Equity*	191,003	134,142	188,060	111,058
Oaktree Capital Emerging Market Equity*	93,286	75,101	72,798	50,153
	309,578	234,624	284,577	182,522
	1,138,798	1,004,438	1,121,673	948,939

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

** Excludes currency (note 4(a)), derivatives (note 6(b)), pooled fund investments (note 12(c)) and alternative investments (note 3).

13. 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, private debt, private equity and US real estate. 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$85,200 (2017 – US$18,100) in existing infrastructure investments, up to an additional US$11,500 (2017 – US$11,500) in hedge fund secondaries, US$35,000 in private debt (2017 – $94,000), US$114,500 in private equities (2017 – US$39,000) and an additional US$30,600 in US real estate (2017 – US$80,000).

14. Subsequent events

There were two subseququent events, which occurred after December 31, 2018:

- In an effort to provide the Plan with greater flexibility and autonomy, the PFS Board of Directors submitted a proposal to the TTC in 2018, whereby the Plan would fund most administrative expenses (salaries, benefits, overhead expenses) in exchange for an ongoing, annual employer contribution of $2,250, indexed to the consumer price index (CPI) on an annual basis. This proposal was accepted by the TTC, with an effective date of January 1, 2019.
- In a communication to stakeholders on May 3, 2019, Financial Services Regulatory Authority of Ontario (FSRA) announced that during June 2019 it will assume the regulatory responsibilities of the Financial Services Commission of Ontario (FSCO) and therefore any pension related regulatory filings or references made to FSCO will therefore apply to FSRA upon this change. The responsibility for administration of the Pension Benefits Act (Ontario), as it relates to the Plan will transfer to FSRA at that date.

TORONTO TRANSIT COMMISSION
PENSION
FUND SOCIETY

Contact Us

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