Financial Statements of

TEACHERS' PENSION PLAN

Year ended December 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Teachers' Pension Plan Trustee Inc.

We have audited the accompanying financial statements of Teachers' Pension Plan, which comprise the statement of financial position as at December 31, 2016, and the statements of changes in net assets available for benefits, changes in pension obligations and changes in deficit for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Teachers' Pension Plan as at December 31, 2016 and the changes in its net assets available for benefits, changes in pension obligations and changes in deficit for the year then ended in accordance with Canadian accounting standards for pension plans.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
April 25, 2017
Halifax, Canada

TEACHERS' PENSION PLAN

Financial Statements

Year ended December 31, 2016

Financial Statements

TEACHERS' PENSION PLAN

Statement of Financial Position
(in thousands of dollars)

December 31, 2016, with comparative information for 2015

	2016	2015
Net Assets Available for Benefits		
Assets		
Cash	$ 47,536	$ 43,110
Contributions receivable:		
Employers'	6,312	6,335
Employees'	2,863	2,877
Special contribution from the Province of Nova Scotia	-	13,699
Due from administrator (note 12)	2,916	2,907
Receivable from pending trades	15,041	1,649
Accounts receivable	1,689	279
Prepaid expenses	4	-
Deposit on pending investment purchase (note 3(f))	-	11,113
Accrued investment income	10,762	12,877
Investments (note 5)	4,900,887	4,710,260
Total assets	4,988,010	4,805,106
Liabilities:		
Payable for pending trades	$ 59,599	$ 7,876
Accounts payable and accrued liabilities	3,773	3,696
Investment-related liabilities (note 5)	24,402	53,049
Total liabilities	87,774	64,621
Net assets available for benefits	$ 4,900,236	$ 4,740,485
Accrued Pension Obligation and Deficit		
Accrued pension obligation (note 7)	$ 6,309,580	$ 6,179,118
Deficit (note 7)	(1,409,344)	(1,438,633)
Commitments (note 8)		
Accrued pension obligation and deficit	$ 4,900,236	$ 4,740,485

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

On behalf of the Board:

Original signed by 'Vicki Clark' Director, Teachers' Pension Plan Trustee Inc.

Original signed by 'Jack MacLeod' Director, Teachers' Pension Plan Trustee Inc.

Original signed by 'John B. Carter' Chair, Teachers' Pension Plan Trustee Inc.

TEACHERS' PENSION PLAN

Statement of Changes in Net Assets Available for Benefits
(in thousands of dollars)

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Increase in Assets		
Contributions (note 4)	$ 194,258	$ 180,355
Transfers from other pension plans	989	1,053
Investment activities (note 5)	138,205	136,683
Change in market value of investments (note 5)	238,476	100,285
Total increase in assets	571,928	418,376
Decrease in Assets		
Benefits paid (note 9)	388,125	383,720
Transfers to other pension plans	2,378	1,700
Administrative expenses (note 10)	21,674	21,514
Total decrease in assets	412,177	406,934
Increase in net assets available for benefits	159,751	11,442
Net assets available for benefits, beginning of year	4,740,485	4,729,043
Net assets available for benefits, end of year	$ 4,900,236	$ 4,740,485

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

TEACHERS' PENSION PLAN

Statement of Changes in Pension Obligations
(in thousands of dollars)

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Accrued pension obligation, beginning of year	$ 6,179,118	$ 6,114,741
Increase in accrued pension benefits:		
Interest on accrued pension obligation	386,195	391,343
Contributions and transfers from other pension plans	195,248	181,408
Changes in actuarial assumptions	72,849	-
	654,292	572,751
Decrease in accrued pension benefits:		
Benefits paid and transfers to other pension plans	390,503	385,420
Net experience losses	64,150	62,345
Contributions in excess of current service cost	69,177	52,176
Changes in actuarial assumptions	-	8,433
	523,830	508,374
Net increase in accrued pension benefits	130,462	64,377
Accrued pension obligation, end of period	$ 6,309,580	$ 6,179,118

Statement of Changes in Deficit
(in thousands of dollars)

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Deficit, beginning of year	$ 1,438,633	$ 1,385,698
Increase in net assets available for benefits	(159,751)	(11,442)
Net increase in accrued pension obligation	130,462	64,377
Deficit, end of year	$ 1,409,344	$ 1,438,633

See accompanying notes to financial statements.

1. Authority and description of Plan:

The following description of the Teachers' Pension Plan (the "Plan") is a summary only. For more complete information, reference should be made to the Plan legislative documents and agreements.

General:

The Plan is governed by the Teachers' Pension Act (the "Act") as part of the Acts of Nova Scotia. It is a contributory defined benefit pension plan covering public school and community college teachers and is co-sponsored by the Province of Nova Scotia (the "Province") and the Nova Scotia Teachers' Union (the "Union"). The Act established the Nova Scotia Teachers' Pension Fund (the "Fund") for the purpose of crediting employer and employee contributions, investment earnings and meeting the Plan's obligations.

The detailed provisions of the Plan, including pension eligibility criteria and benefit formulas, are contained in the Act and in the Regulations made under the Act.

As part of the June 22, 2005 Agreement between the Province and the Union, the Province and the Union agreed to joint and equal participation in the governance of the Plan including the sharing of any actuarial surpluses or deficits between the Province and the beneficiaries of the Plan upon the transfer of the Plan to a newly formed trustee entity. Teachers' Pension Plan Trustee Inc. (the "TPPTI") was incorporated to act as trustee of the Fund and on April 1, 2006, the TPPTI became the trustee of the Fund. The 2005 Agreement was rescinded and replaced with a new agreement on July 2, 2014. However, there were no changes to the governance of the Plan or the sharing of actuarial surpluses or deficits.

The TPPTI is responsible for the administration of the Plan and the investment management of the Fund assets. The investment of the Fund assets is guided by the Fund's Statement of Investment Policies & Goals (the "SIP&G") as written by the TPPTI. The SIP&G sets out the parameters within which the investments are made. These parameters include permissible investments and the policy asset mix. The Investment Beliefs, also found within the SIP&G, state the general principles upon which the investments are made.

Funding:

Plan benefits are funded by contributions and investment earnings. Contributions are made by active members of the Plan and are matched by either the Province or participating employers. The determination of the value of the benefits and required contributions is made on the basis of periodic actuarial valuations (note 7).

1. Authority and description of Plan (continued):

In accordance with the Plan regulations, prior to August 1, 2014, employers and employees were required to contribute 8.3% of salary up to the Year's Maximum Pensionable Earnings (the "YMPE") per the Canada Pension Plan (the "CPP") and 9.9% of salary above the YMPE.

Effective August 1, 2014, Plan regulations were amended by the Province and the Union, and employer and employee contribution rates increased by 1% annually over the following three years. The amendments to contribution rates were as follows:

i) For the period between August 1, 2014 and July 31, 2015, employer and employee contribution rates were 9.3% of salary up to the YMPE per the CPP and 10.9% of salary above the YMPE; and

ii) For the period between August 1, 2015 and July 31, 2016, employer and employee contribution rates were 10.3% of salary up to the YMPE per the CPP and 11.9% of salary above the YMPE; and

iii) For the period beginning August 1, 2016, employer and employee contribution rates became 11.3% of salary up to the YMPE per the CPP and 12.9% of salary above the YMPE.

Retirement benefits:

The pension benefit consists of two components. The lifetime pension, for every year of pensionable service, is 1.3% times the 5-year highest average salary at retirement (the "HAS-5") up to the average YMPE, plus 2.0% times the portion of the HAS-5 in excess of the average YMPE (if applicable). The bridge benefit, for every year of pensionable service, is 0.7% times the lesser of (i) the HAS-5, and (ii) the average YMPE. The lifetime pension is payable for life, while the bridge benefit is payable until age 65, at which point it ceases as a result of integration with the CPP.

Plan members are eligible for a pension upon reaching any of the following criteria:

- 35 years of service;
- age 50 with 30 years of service (reduced pension);
- age 55 with an age plus service factor of 85 "Rule of 85";
- age 55 with two years of service (reduced pension);
- age 60 with 10 years of service;
- age 65 with two years of service.

Indexing:

For pensions with an effective date before August 1, 2006, the rate is equal to the increase in the 12-month average Consumer Price Index ("CPI") for Canada, less 1%, to a maximum of 6%.

1. Authority and description of Plan (continued):

As a result of the agreement between the Province and the Union signed on July 2, 2014, indexing in a given year for pensions with an effective date on or after August 1, 2006, as well as those of existing pensioners who opted for the new indexing arrangement, depends on the funding level of the Plan. If the funding level as at December 31 of the preceding fiscal year is less than 90%, no indexing will be provided. At a funding level of between 90% and 100%, indexing may be granted at 50% of the increase in the 12-month average CPI up to a maximum of 6%, at the discretion of the Board of Trustees.

If the funding level is greater than 100%, indexing will be provided at 100% of the increase in the 12-month average CPI up to a maximum of 6%, to the extent that it does not reduce the funding level to below 100%; however, pensions will be increased by at least 50% of the increase in the 12-month average CPI up to a maximum of 6%. For the purposes of the valuation, it was assumed that indexing would not be paid in years in which it is discretionary.

Disability benefits:

Prior to August 1, 2014, active members who became mentally or physically disabled were entitled to apply for a disability pension from the Plan. Effective August 1, 2014, however, disability coverage was moved to the union long-term disability insurance plan, and the ability to apply for a disability pension from the Plan was discontinued except in very limited circumstances.

Death benefits:

Upon the death of a vested member, the surviving spouse is entitled to receive 60% of the vested member’s pension benefit payable for life, or a higher percentage if the member elected an optional form of pension. Eligible children are entitled to receive 10% of the vested member's pension benefit, payable until age 18 (or 25 while still in school).

Termination benefits:

Upon termination of employment, a vested member may choose to defer their pension until they satisfy one of the above eligibility criteria, or they may remove their funds from the Plan in the form of a commuted value (or refund of contributions, for service prior to January 1, 1988).

Refunds:

The benefit payable upon termination or death of a non-vested member, or upon death prior to retirement of a vested member with no eligible survivors, is a lump sum refund of the member's contributions with interest.

2. Basis of preparation:

(a) Basis of presentation:

These financial statements are prepared in Canadian dollars, which is the Plan's functional currency in accordance with the accounting standards for pension plans in Part IV of the Canadian Institute of the Chartered Professional Accountants (CPA) Canada Handbook (Section 4600). Section 4600 provides specific accounting guidance on investments and pension obligations. For accounting policies that do not relate to either investments or pension obligations, the Plan must consistently comply with either International Financial Reporting Standards ("IFRS") in Part I or accounting standards for private enterprises in Part II of the CPA Canada Handbook. The Plan has elected to comply on a consistent basis with IFRS in Part I of the CPA Canada Handbook. To the extent that IFRS in Part I is inconsistent with Section 4600, Section 4600 takes precedence.

Consistent with Section 4600, investment assets and liabilities are presented on a non-consolidated basis even when the investment is in an entity over which the Plan has effective control. Earnings of such entities are recognized as income as earned and as dividends are declared. The Plan's total investment income includes valuation adjustments required to bring the investments to their fair value.

These financial statements are prepared on a going concern basis and present the aggregate financial position of the Plan as a separate reporting entity.

These financial statements were authorized for issue by the Board of Trustees of the Teachers' Pension Plan Trustee Inc. on April 25, 2017.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value through the statement of changes in net assets available for benefits and derivative financial instruments which are measured at fair value. Units of subsidiaries held are measured at the fair value of the underlying assets and liabilities.

2. Basis of preparation (continued):

(c) Use of estimates and judgments:

The preparation of the financial statements in conformity with Section 4600 and IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the statement of financial position, the reported amounts of changes in net assets available for benefits and accrued pension benefits during the year. Actual results may differ from those estimates. Significant estimates included in the financial statements relate to the valuation of real estate, infrastructure, private equity investments and the determination of the accrued pension obligation.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

3. Significant accounting policies:

(a) Investment transactions, income recognition and transaction costs:

(i) Investment transactions:

Investment transactions are accounted for on a trade date basis.

(ii) Income recognition:

Income from investments is recorded on an accrual basis and includes interest, dividends and gains and losses that have been realized on disposal of investments and the unrealized appreciation and depreciation in the fair value of investments.

(iii) Transaction costs:

Brokers' commissions and other transaction costs are recorded in the statement of changes in net assets available for benefits when incurred.

(b) Foreign currency translation:

Transactions denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into Canadian dollars at the exchange rate at that date.

Foreign currency differences arising on retranslation are recognized in the statement of changes in net assets available for benefits as a change in net unrealized gains (loss).

3. Significant accounting policies (continued):

(c) Financial assets and liabilities:

(i) Non-derivative financial assets:

Financial assets are recognized initially on the trade date, which is the date that the Plan becomes a party to the contractual provisions of the instrument.

The Plan classifies all of its financial assets at fair value through the statement of changes in net assets available for benefits if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through the statement of changes in net assets available for benefits if the Plan manages such investment and makes purchase and sale decisions based on their fair value in accordance with the Plan's documented risk management or investment strategy. Upon initial recognition, attributed transaction costs are recognized in the statement of changes in net assets available for benefits as incurred. Financial assets at fair value through the statement of changes in net assets available for benefits are measured at fair value and changes therein are recognized in the statement of changes in net assets available for benefits.

(ii) Non-derivative financial liabilities:

All financial liabilities are recognized initially on the trade date at which the Plan becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are presented in the statement of financial position. The net amount is presented in the statement of financial position, when and only when, the Plan has a legal right to offset the amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Plan considers its amounts payable to be a non-derivative financial liability.

(iii) Derivative financial instruments:

Derivative financial instruments are recognized initially at fair value and attributable transaction costs are recognized in the statement of changes in net assets available for benefits as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and all changes are recognized immediately in the statement of changes in net assets available for benefits.

Derivative-related assets and liabilities are presented in the statement of financial position. The net amount is presented in the statement of financial position, when and only when, the Plan has a legal right to offset the amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3. Significant accounting policies (continued):

(d) Fair value measurement:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

As allowed under IFRS 13, if an asset or a liability measured at fair value has a bid and an ask price, the price within the bid-ask spread that is the most representative of fair value in the circumstances shall be used to measure fair value. The Plan uses closing market price as a practical expedient for fair value measurement.

When available, the Plan measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Plan establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When a transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

All changes in fair value, other than interest and dividend income and expense, are recognized in the statement of changes in net assets available for benefits as part of the change in market value of investments.

3. Significant accounting policies (continued):

Fair values of investments are determined as follows:

(i) Fixed income securities and equities are valued at year-end quoted closing prices, where available. Where quoted prices are not available, estimated fair values are calculated using comparable securities.

(ii) Short-term notes, treasury bills, repurchase agreements and term deposits maturing within one year are stated at cost, which together with accrued interest income approximates fair value given the short-term nature of these investments.

(iii) Pooled fund investments include investments in fixed income, equities, real estate and commodities. Pooled funds are valued at the unit values supplied by the pooled fund administrator, which represent the Plan's proportionate share of underlying net assets at fair values determined using closing market prices. These net asset values are reviewed by management.

(iv) Directly held real estate is valued based on estimated fair values determined by appropriate techniques and best estimates by management, appraisers, or both. Where external appraisers are engaged to perform the valuation, management ensures the appraisers are independent and compares the assumptions used by the appraisers with management's expectations based on current market conditions and industry practice to ensure the valuation captures the business and economic conditions specific to the investment.

(v) Private fund investments include investments in private equity, real estate and infrastructure assets. The fair value of a private fund investment where the Plan's ability to access information on underlying individual fund investments is restricted, such under the terms of a limited partnership agreement, is equal to the value provided by the fund's general partner unless there is specific and objectively verifiable reason to vary from the value provided by the general partner. These net asset values are reviewed by management.

(vi) Derivatives, including futures, options, interest rate swaps, credit default swaps, and currency forward contracts, are valued at year-end quoted market prices, interest, spot and forward rates, where available. Where quoted prices are not available, appropriate alternative valuation techniques are used to determine fair value. The gains or losses from derivative contracts are included in the realized and unrealized gains or losses on investments.

(vii) Absolute return strategy investments, comprised of hedge funds, are recorded at fair value based on net asset values obtained from each of the hedge funds' administrators. These net asset values are reviewed by management.

3. Significant accounting policies (continued):

(e) Non-investment assets and liabilities:

The fair value of non-investment assets and liabilities are equal to their amortized cost value and are adjusted for foreign exchange where applicable.

(f) Deposit on pending investment purchase:

On December 31, 2015, the Plan wired funds to a hedge fund for subscription on January 1, 2016. Monies were due in advance of the value date.

(g) Receivable/payable for pending trades:

For securities transactions, the fair value of receivable from pending trades and payable for pending trades approximate their carrying amounts due to their short-term nature.

(h) Accrued pension obligation:

The value of the accrued pension obligation of the Plan is based on a going concern method actuarial valuation prepared by an independent firm of actuaries using the projected unit credit method. The accrued pension obligation is measured in accordance with accepted actuarial methods using actuarial assumptions and methods adopted by the TPPTI for the purpose of establishing the long-term funding requirements of the Plan. The actuarial valuation included in the financial statements is consistent with the valuation for funding purposes.

(i) Contributions:

Basic contributions from employers and members are recorded on an accrual basis. Service purchases that include but are not limited to leaves of absence and transfers from other pension plans are recorded and service is credited when the purchase amount is received.

In certain years, an additional contribution to the Plan may be required from the Minister of Finance and Treasury Board. In any indexing period in which there is an actuarial deficit and clause 27B(3)(a) of the Teachers' Pension Plan Regulations applies, the Minister must contribute to the Plan, no later than the beginning of the following indexing period, an amount equal to the actuarial value, as calculated by the Plan's actuary at the beginning of the indexing period, of the difference between:

i) the indexing of all pensions to which subsection 27B(3) applies for that indexing period at a rate of one-half of the percentage increase in the 12-month average CPI for that indexing period over the 12-month average CPI for the preceding indexing period to a maximum of 6% and, for all future indexing periods, at a rate of one-half of the assumed percentage increase in the 12-month average CPI determined in accordance with the actuarial assumptions and methods; and

3. Significant accounting policies (continued):

ii) no indexing of all pensions to which subsection 27B(3) applies for that indexing period and, for all future indexing periods, indexing at a rate of one-half of the assumed percentage increase in the 12-month average CPI determined in accordance with the actuarial assumptions and methods.

(i) Benefits:

Benefit payments to retired members, commuted value payments and refunds to former members, and transfers to other pension plans are recorded in the period in which they are paid. Accrued benefits are recorded as part of the accrued pension benefit obligation.

(j) Administrative expenses:

Administrative expenses, incurred for plan administration and direct investment management services, are recorded on an accrual basis. Plan administration expenses represent expenses incurred to provide direct services to the Plan members and employers. Investment management expenses represent expenses incurred to manage the Fund. Base external manager fees for portfolio management are expensed in investment management expenses as incurred.

(k) Income taxes:

The Fund is the funding vehicle for a registered pension plan, as defined by the Income Tax Act (Canada) and, accordingly is not subject to income taxes.

(l) Future changes to accounting policies:

The following standard is not yet effective for the year ended December 31, 2016, and has not been applied in preparing these consolidated financial statements:

- IFRS 9, Financial Instruments, introduces new requirements for the classification and measurement of financial assets. Financial assets are classified and measured based on the business model in which they are held and the characteristic of their contractual cash flows. The standard introduces additional changes relating to financial liabilities and amends the impairment model. The International Accounting Standards Board (“IASB”) has determined the mandatory effective date for IFRS 9 will be for the annual periods beginning on or after January 1, 2018. The Plan will evaluate the impact of the change to the financial statements based on the characteristics of financial instruments outstanding at the time of adoption.

(in thousands of dollars)

4. Contributions:

		2016		2015
Employer:				
Matched current service	$	91,740	$	82,852
Matched past service		24		93
		91,764		82,945
Special contribution from the Province of Nova Scotia		10,124		13,699
Employee:				
Matched current service		91,740		82,852
Matched past service		24		93
Unmatched current service		2		-
Unmatched past service		604		766
		92,370		83,711
	$	194,258	$	180,355

5. Investments and investment-related liabilities:

(a) The fair value of the Plan's investments and investment-related liabilities along with the related income are summarized in the following tables:

	As at December 31, 2016			As at December 31, 2015		
Investment assets			%			%
Fixed income						
Money market	$	184,963	3.8	$	137,730	2.9
Canadian bonds & debentures		503,991	10.3		516,732	11.0
Non-Canadian bonds & debentures		661,890	13.5		547,711	11.6
Canadian real return bonds		227,626	4.6		253,825	5.4
Equities						
Canadian		440,598	9.0		664,532	14.1
US		825,366	16.8		657,103	14.0
Global		801,003	16.4		776,385	16.5
Real assets						
Real estate		590,578	12.1		530,468	11.3
Infrastructure		136,527	2.8		138,005	2.9
Commodities		136,899	2.8		125,495	2.7
Absolute return strategy						
Hedge funds		389,524	7.9		361,251	7.7
Derivatives						
Derivative-related receivables		1,922	-		1,023	-
	$	4,900,887	100.0	$	4,710,260	100.0

(in thousands of dollars)

5. Investments and investment-related liabilities (continued):

	As at December 31, 2016		As at December 31, 2015	
Investment-related liabilities		%		%
Derivative-related payables	$ (24,402)	(100.0)	$ (53,049)	(100.0)
	$ (24,402)	(100.0)	$ (53,049)	(100.0)
Net investments	$ 4,876,485		$ 4,657,211	

As at December 31, 2016	Investment income	Changes in market value of investments and derivatives: Realized	Unrealized	Total
Fixed income	$ 53,203	$ 47,825	$ (60,880)	$ (13,055)
Equities	44,991	117,639	38,620	156,259
Real assets	39,282	5,241	15,575	20,816
Absolute return strategies	-	(1,241)	883	(358)
Derivatives	44	44,449	30,365	74,814
Other	685	-	-	-
Total	$ 138,205	$ 213,913	$ 24,563	$ 238,476

As at December 31, 2015	Investment income	Changes in market value of investments and derivatives: Realized	Unrealized	Total
Fixed income	$ 53,148	$ 43,007	$ 44,319	$ 87,326
Equities	54,791	200,839	(66,491)	134,348
Real assets	28,392	11,383	29,918	41,301
Absolute return strategies	-	15,472	50,972	66,444
Derivatives	(418)	(188,451)	(40,683)	(229,134)
Other	770	-	-	-
Total	$ 136,683	$ 82,250	$ 18,035	$ 100,285

(b) Derivatives:

Derivatives are financial contracts, the value of which is "derived" from the value of underlying assets or interest or exchange rates. The Plan utilizes such contracts to provide flexibility in implementing investment strategies and for managing exposure to interest rate and foreign currency volatility.

5. Investments and investment-related liabilities (continued):

Notional amounts of derivative contracts are the contract amounts used to calculate the cash flows to be exchanged. They represent the contractual amount to which a rate or price is applied for computing the cash to be paid or received. Notional amounts are the basis upon which the returns from, and the fair value of, the contracts are determined. They do not necessarily indicate the amounts of future cash flows involved or the current fair value of the derivative contracts. They are a common measure of volume of outstanding transactions but do not represent credit or market risk exposure. The derivative contracts become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in either market rates or prices relative to their terms. The aggregate notional amounts and fair values of derivative contracts can fluctuate significantly.

Derivative contracts transacted either on a regulated exchange market or in the over-the-counter ("OTC") market, directly between two counterparties include the following:

Futures

Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining. The futures contracts that the Plan enters into are as follows:

- Government futures - contractual obligations to either buy or sell at a fixed value (the contracted price) government fixed income financial instruments at a predetermined future date. They are used to adjust interest rate exposure and replicate government bond positions. Long future positions are backed with high grade, liquid debt securities.

- Money market futures - contractual obligations to either buy or sell money market financial instruments at a predetermined future date at a specified price. They are used to manage exposures at the front end of the yield curve. Futures are based on short-term interest rates and do not require delivery of an asset at expiration. Therefore they do not require cash backing.

5. Investments and investment-related liabilities (continued):

Options

Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option), a security, exchange rate, interest rate, or other financial instrument or commodity at a predetermined price, at or by a specified future date. The seller (writer) of an option can also settle the contract by paying the cash settlement value of the purchaser's right. The seller (writer) receives a premium from the purchaser for this right. Purchased options are used to manage interest rate volatility exposures. Written options generate income in expected interest rate scenarios and may generate capital losses if unexpected interest rate environments are realized. Both written and purchased options will become worthless at expiration if the underlying instrument does not reach the strike price of the option. In-the-money portion of written options are covered by high grade, liquid debt securities.

Swaptions are contractual agreements that convey to the purchaser the right but not the obligation to enter into or cancel a swap agreement at a fixed future date or at any time within a fixed future period. The seller receives a premium from the purchaser for this right.

Credit default swaps

Credit default swaps ("CDS") provide protection against the decline in value of the referenced asset as a result of specified events such as payment default or insolvency. The purchaser pays a premium to the seller of the CDS in return for payment related to the deterioration in the value of the referenced asset. The referenced asset for CDS is a debt instrument. They are used to manage credit exposure without buying or selling securities outright. Written CDS increase credit exposure (selling protection), obligating the Plan to buy bonds from counterparties in the event of a default. Purchased CDS decrease exposure (buying protection), providing the right to “put” bonds to the counterparty in the event of a default. Net long exposures are backed with high grade, liquid debt securities. Underlying credit exposures are continuously monitored.

Interest rate swaps

Interest rate swaps involve contractual agreements between two counterparties to exchange fixed and floating interest payments based on notional amounts. They are used to adjust interest rate yield curve exposures and substitute for physical securities. Long swap positions increase exposure to long-term interest rates and short positions decrease exposure. Long swap positions are backed with high grade, liquid debt securities.

(in thousands of dollars)

5. Investments and investment-related liabilities (continued):

Currency forwards

Currency forwards are contractual obligations to exchange one currency for another at a specified price or settlement at a predetermined future date. Forward contracts are used to manage the currency exposure of investments held in foreign currencies. The notional amount of a currency forward represents the contracted amount purchased or sold for settlement at a future date. The fair value is determined by the difference between the market value and the notional value upon settlement.

The following tables set out the notional values of the Plan's derivatives and their related assets and liabilities as at December 31.

2016	Notional value	Fair value Assets	Fair value Liabilities	Fair value Net
Derivatives				
Futures	$ 36,068	$ 95	$ (241)	$ (146)
Options	14,000	-	(82)	(82)
Credit default swaps	24,050	717	(10)	707
Interest rate swaps	11,900	5	(92)	(87)
Currency forwards	2,090,569	1,105	(23,977)	(22,872)
	$ 2,176,587	$ 1,922	$ (24,402)	$ (22,480)

2015	Notional value	Fair value Assets	Fair value Liabilities	Fair value Net
Derivatives				
Futures	$ 153,786	$ 145	$ (366)	$ (221)
Options	14,646	–	(38)	(38)
Credit default swaps	60,186	242	(8,288)	(8,046)
Interest rate swaps	28,776	1	(108)	(107)
Currency forwards	2,043,173	635	(44,249)	(43,614)
	$ 2,300,567	$ 1,023	$ (53,049)	$ (52,026)

(in thousands of dollars)

5. Investments and investment-related liabilities (continued):

The following table summarizes the contractual maturities of the Plan’s derivatives and their related assets and liabilities as at December 31.

December 31, 2016	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
Futures	$ (146)	$ -	$ -	$ -	$ (146)
Options	(82)	-	-	-	(82)
Credit default swaps	13	693	-	-	706
Credit default swaps	-	(55)	-	(32)	(87)
Currency forwards	(22,871)	-	-	-	(22,871)
	$ (23,086)	$ 638	$ -	$ (32)	$ (22,480)

December 31, 2015	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
Futures	$ (221)	$ -	$ -	$ -	$ (221)
Options	(38)	-	-	-	(38)
Credit default swaps	12	(7,778)	(280)	-	(8,046)
Credit default swaps	1	(66)	(42)	-	(107)
Currency forwards	(43,614)	-	-	-	(43,614)
	$ (43,860)	$ (7,844)	$ (322)	$ -	$ (52,026)

Cash is deposited or pledged with various financial institutions as collateral or margin in the event that the Plan was to default on payment obligations on its derivative contracts. On the statement of financial position collateral is represented as part of the net cash balance of the Plan.

The fair value of cash held or pledged with other financial institutions as collateral and or margin as at December 31, 2016 and December 31, 2015 is as follows.

	December 31, 2016	December 31, 2015
Collateral	$ 1,529	$ 4,499
Margin	(562)	694
	$ 967	$ 5,193

6. Financial instruments:

(a) Fair values:

The fair values of investments and derivatives are as described in note 3(d). The fair values of other financial assets and liabilities, being cash, contributions receivable, receivable from pending trades, accrued investment income, pension benefits payable, payable from pending trades and administrative expenses payable approximate their carrying values due to the short-term nature of these financial instruments.

Fair value measurements recognized in the statement of financial position are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values.

Level 1: Fair value is based on inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Investment Manager has the ability to access at the measurement date. Level 1 primarily includes publicly listed investments.

Level 2: Fair value is based on valuation methods that make use of inputs other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active. Level 2 primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market.

Level 3: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level 3 primarily includes real estate, infrastructure, and private equity investments valued based on discounted future cash flow models which reflect assumptions that a market participant would use when valuing such an asset or liability.

(in thousands of dollars)

6. Financial instruments (continued):

The following table illustrates the classification of the Plan's financial instruments using the fair value hierarchy as at December 31:

As at December 31, 2016	Level 1	Level 2	Level 3	Total
Investment assets				
Fixed income				
Money market	$ 9,570	$ 175,393	$ -	$ 184,963
Canadian bonds & debentures	127,477	376,514	-	503,991
Non-Canadian bonds & debentures	18,687	643,203	-	661,890
Canadian real return bonds	-	144,431	83,195	227,626
Equities				
Canadian	428,730	11,868	-	440,598
US	436,447	388,919	-	825,366
Global	618,144	182,859	-	801,003
Real assets				
Real estate	-	112,273	478,305	590,578
Infrastructure	-	-	136,527	136,527
Commodities	-	136,899	-	136,899
Absolute return strategies				
Hedge funds	-	389,524	-	389,524
Derivatives				
Derivative-related receivables	95	1,827	-	1,922
	$ 1,639,150	$ 2,563,710	$ 698,027	$ 4,900,887

As at December 31, 2016	Level 1	Level 2	Level 3	Total
Investment-related liabilities				
Derivative-related liabilities	$ (323)	$ (24,079)	$ -	$ (24,402)
	$ (323)	$ (24,079)	$ -	$ (24,402)
Net investments	$ 1,638,827	$ 2,539,631	$ 698,027	$ 4,876,485

(in thousands of dollars)

6. Financial instruments (continued):

As at December 31, 2015	Level 1	Level 2	Level 3	Total
Investment assets				
Fixed income				
Money market	$ 13,685	$ 124,045	$ -	$ 137,730
Canadian bonds & debentures	93,138	423,594	-	516,732
Non-Canadian bonds & debentures	68,254	479,457	-	547,711
Canadian real return bonds	-	169,669	84,156	253,825
Equities				
Canadian	648,471	16,061	-	664,532
US	270,299	386,804	-	657,103
Global	776,385	-	-	776,385
Real assets				
Real estate	-	112,223	418,245	530,468
Infrastructure	-	-	138,005	138,005
Commodities	-	125,495	-	125,495
Absolute return strategies				
Hedge funds	-	361,251	-	361,251
Derivatives				
Derivative-related receivables	145	878	-	1,023
	$ 1,870,377	$ 2,199,477	$ 640,406	$ 4,710,260

As at December 31, 2015	Level 1	Level 2	Level 3	Total
Investment-related liabilities				
Derivative-related liabilities	$ (366)	$ (52,683)	$ -	$ (53,049)
	$ (366)	$ (52,683)	$ -	$ (53,049)
Net investments	$ 1,870,011	$ 2,146,794	$ 640,406	$ 4,657,211

There were no significant transfers between level 1 and level 2 financial instruments during the years ended December 31, 2016 and 2015.

(in thousands of dollars)

6. Financial instruments (continued):

The following tables present the changes in the fair value measurement in Level 3 of the fair value hierarchy:

Year ended December 31, 2016	Fixed income	Real Assets	Private Equity	Total
Balance, beginning of year	$ 84,156	$ 556,250	$ -	$ 640,406
Purchases, contributed capital	-	83,250	-	83,250
Sales, capital returned	(860)	(28,270)	-	(29,130)
Realized gains	249	3,903	-	4,152
Unrealized losses	(350)	(301)	-	(651)
Balance, end of year	$ 83,195	$ 614,832	$ -	$ 698,027

Year ended December 31, 2015	Fixed income	Real assets	Private Equity	Total
Balance, beginning of year	$ 84,891	$ 500,765	$ 703	$ 586,359
Purchases, contributed capital	-	24,620	-	24,620
Sales, capital returned	(886)	(21,360)	(595)	(22,841)
Realized gains	199	10,770	595	11,564
Unrealized gains/(losses)	(48)	41,455	(703)	40,704
Balance, end of year	$ 84,156	$ 556,250	$ -	$ 640,406

The total income from level 3 financial instruments held as at December 31, 2016 and 2015, respectively, was $3,501 and $52,268.

Fair value assumptions and sensitivity:

Level 3 financial instruments are valued using various methods. Listed real return bonds are valued by a third party using broker prices and comparable securities. Certain unlisted private equity, real estate and infrastructure funds are valued using various methods including overall capitalization method and discount rate method. Real estate subsidiaries are valued using the overall capitalization method and discount rate method and the valuations are significantly affected by non-observable inputs, the most significant of which are the capitalization rate and the discount rate.

(in thousands of dollars)

6. Financial instruments (continued):

Significant unobservable inputs used in measuring fair value:

The table below sets out information about significant unobservable inputs used at December 31, 2016 in measuring financial instruments categorized as level 3 in the fair value hierarchy.

Description	Fair value at December 31, 2016	Valuation technique	Unobservable inputs
Unlisted direct real estate subsidiaries	$376,504	Income approach technique: overall capitalization rate method and discounted cash flow method	Capitalization rates, discount rates
Unlisted real estate, infrastructure funds	238,328	Net asset value – audited financial statements	Information not available
Listed real return bond	83,195	Vendor supplied price - proprietary price model	Information not available

The following analysis illustrates the sensitivity of the Level 3 valuations to reasonably possible capitalization rate and discount rate assumptions for real estate properties where reasonably possible alternative assumptions would change the fair value significantly.

Valuations determined by the direct capitalization method are most sensitive to changes in the discount rates.

	2016	2015
Real estate subsidiaries		
Minimum capitalization rate	4.00%	4.30%
Maximum capitalization rate	8.00%	7.50%
Increase in 25 basis points in capitalization rate	$ (11,314)	$ (17,552)
Decrease of 25 basis points in capitalization rate	16,986	21,548
Note 1: basis point is equal to 0.01%		

(in thousands of dollars)

6. Financial instruments (continued):

Valuations determined by the discounted cash flow method are most sensitive to changes in the discount rates.

	2016	2015
Real estate subsidiaries		
Minimum discount rate	5.42%	6.50%
Maximum discount rate	8.10%	8.50%
Increase in 25 basis points in discount rate	$ (7,433)	$ (6,973)
Decrease of 25 basis points in discount rate	7,945	7,603
Note 1: basis point is equal to 0.01%		

The Plan does not have access to underlying information that comprises the fair market value of real return bonds, and certain real estate and infrastructure fund investments. The fair market value is provided by the general partner or other external managers. In the absence of information supporting the fair market value, no other reasonably possible alternative assumptions could be applied.

(in thousands of dollars)

6. Financial instruments (continued):

Significant investments

The Plan’s investments, each having a fair value or cost exceeding one per cent of the fair market value or cost of net investment assets and liabilities as follows:

As at December 31	Number of investments	Fair value	2016 Cost	Number of investments	Fair value	2015 Cost
Public market investments	1	83,195	32,913	1	84,151	33,775
Private market investments	12	1,626,707	1,362,698	14	1,761,129	1,536,636
	13	1,709,902	1,395,611	15	1,845,280	1,570,411

The Plan’s significant private market investments consist of fixed income and equity pooled funds, commodities, real estate, and infrastructure.

(b) Investment risk management:

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to interest rate volatility, market price fluctuations, credit risk, foreign currency risk and liquidity risk. The Plan has set formal goals, policies, and operating procedures that establish an asset mix among equity, fixed income, real assets, absolute return strategy investments and derivatives that requires diversification of investments within categories, and set limits on the size of exposure to individual investments and counterparties. Risk and credit committees have been created to regularly monitor the risks and exposures of the Plan. Trustee oversight, procedures and compliance functions are incorporated into Plan processes to achieve consistent controls and to mitigate operational risk.

(i) Interest rate risk

Interest rate risk refers to the fact that the Plan’s financial position will change with market interest rate changes, as fixed income securities are sensitive to changes in nominal interest rates. Interest rate risk is inherent in the management of a pension plan due to prolonged timing differences between cash flows related to the Plan's assets and cash flows related to the Plan's liabilities. To properly manage the Plan's interest rate risk, appropriate guidelines on the weighting and duration for the bonds and other fixed income investments are set and monitored.

(in thousands of dollars)

6. Financial instruments (continued):

The following table summarizes the contractual maturities of all financial assets at December 31, by the earlier of contractual re-pricing or maturity dates:

December 31, 2016	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	Average yield (%) (1)
Money market	$ 182,861	$ -	$ -	$ -	$ 182,861	-
Bonds and debentures	96,291	189,714	288,604	225,672	800,281	3.9
Real return bonds (2)	-	-	-	83,195	83,195	5.3
Total	$ 279,152	$ 189,714	$ 288,604	$ 308,867	$ 1,066,337	3.3
Excluded pooled funds					512,133	
Total fixed income					$ 1,578,470	

December 31, 2015	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	Average yield (%) (1)
Money market	$ 137,730	$ -	$ -	$ -	$ 137,730	-
Bonds and debentures	40,582	280,567	246,867	274,963	842,979	4.5
Real return bonds (2)	-	-	-	84,156	84,156	5.3
Total	$ 178,312	$ 280,567	$ 246,867	$ 359,119	$ 1,064,865	3.9
Excluded pooled funds					391,133	
Total fixed income					$ 1,455,998	

(1) The average effective yield reflects the estimated annual income of a security as a percentage of its year-end fair value. The total average yield is the weighted average of the average yields shown.

(2) Real return bond yields are based on real interest rates. The ultimate yield will be impacted by inflation as it occurs.

The fair value of the Plan’s investments is affected by short-term changes in nominal interest rates. Pension liabilities are exposed to the long-term expectation of rate of return of the Fund as well as expectations of inflation and salary escalation.

(in thousands of dollars)

6. Financial instruments (continued):

Interest rate sensitivity

The Plan's investments in fixed income and fixed income related derivatives are sensitive to interest rate movements. The following table represents the assets held in the Plan subject to interest rate changes, average duration due to a one percent increase (decrease) in interest rate and the change in fair value of those assets:

	December 31, 2016	December 31, 2015
Interest rate sensitive assets	$ 1,066,727	$ 1,056,454
Average duration for 1% increase in interest rates	(5.6)	(6.1)
Sensitivity to 1% increase in interest rates	$ (59,801)	$ (64,399)
Fair value after 1% increase in rates	$ 1,006,926	$ 992,055
Average duration for 1% decrease in interest rates	5.6	6.1
Sensitivity to 1% decrease in interest rates	$ 59,801	$ 64,399
Fair value after 1% decrease in rates	$ 1,126,528	$ 1,120,853

(ii) Market price risk

Market price risk is the risk of fluctuation in market values of investments from influences specific to a particular investment or from influences on the market as a whole. Market price risk does not include interest rate risk and foreign currency risk which are also discussed in this note. As all of the Plan's financial instruments are carried at fair value with fair value changes recognized in the statement of changes in financial position, all changes in market conditions will directly result in an increase (decrease) in net assets. Market price risk is managed by the Plan through the construction of a diversified portfolio of instruments traded on various markets and across various industries.

(in thousands of dollars)

6. Financial instruments (continued):

Market sensitivity:

The Plan's investments in equities are sensitive to market fluctuations. The following table represents the change in fair value of the Plan's investment in public and private equities due to a ten percent increase (decrease) in fair market values as at December 31, 2016:

	December 31, 2016	December 31, 2015
Total equity	$ 2,066,967	$ 2,098,020
10% increase in market values	$ 206,697	$ 209,802
Fair value after 10% increase	$ 2,273,664	$ 2,307,822
10% decrease in market values	$ (206,697)	$ (209,802)
Fair value after 10% decrease	$ 1,860,270	$ 1,888,218

(iii) Credit risk

Credit risk is the risk of loss in the event the counterparty to a transaction fails to discharge an obligation and causes the other party to incur a loss. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for traded financial instrument is not backed by an exchange clearing house. Credit risk associated with the Plan is regularly monitored and analyzed through risk and credit committees.

(in thousands of dollars)

6. Financial instruments (continued):

Fixed income

The Plan's Fixed Income Program includes two main sectors: the Government Sector and the Corporate Sector. One benefit to managing these two pieces separately is to provide the opportunity to access physical government bonds when required. When markets are at their utmost distress these may be the only securities available for liquidation. Managing the Corporate Sector and the Government Sector separately allows for the adjustment of credit risk within the Fixed Income Program by changing the allocation between these two sectors - increasing the Government Sector through periods of market duress and increasing the Corporate Sector through periods of stability. This approach also allows the active management of the Corporate Sector and taking active decisions where returns can be maximized. In order to minimize the exposure to credit risk, a comprehensive investment policy has been developed. There were no significant concentrations of credit risk in the portfolio in 2016.

The fair values of the Plan's fixed income investments exposed to credit risk are categorized in the following table.

	December 31, 2016	December 31, 2015
Canadian		
Governments	$ 349,523	$ 357,271
Corporate	194,367	146,199
Non-Canadian		
Governments	20,130	81,939
Corporate	502,317	479,457
	$ 1,066,337	$ 1,064,865
Excluded pooled funds	512,133	391,133
Total fixed income	$ 1,578,470	$ 1,455,998

6. Financial instruments (continued):

Derivatives:

The Plan is exposed to credit-related losses in the event counterparties fail to meet their payment obligations upon maturity of derivative contracts. The Plan limits derivative contract risk by dealing with counterparties that have a minimum "A" credit rating. In order to mitigate this risk, the Fund:

i) Deals only with highly rated counterparties, with whom International Swap and Derivative Association agreements have been executed, normally major financial institutions with a minimum credit standard of “A” rating, as supported by a recognized credit rating agency; and

ii) Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed completely to perform under the contracts, and if the right of offset proved to be non-enforceable. Credit risk exposure on derivative contracts is represented by the receivable replacement cost of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date.

Securities lending:

The Plan engages in securities lending to enhance portfolio returns (see note 11). Through a securities lending program at the Plan’s custodian, the Plan lends securities for a fee to approved borrowers. Credit risk associated with securities lending is mitigated by requiring the borrowers to provide high quality collateral. In the event that a borrower defaults completely or in part, the custodian will replace the security at its expense. Regular reporting of the securities lending program ensures that its various components are continuously being monitored.

(iv) Foreign currency risk

Foreign currency risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Plan primarily invests in financial instruments and enters into transactions denominated in various foreign currencies, other than its measurement currency. Consequently, the Plan is exposed to risk that the exchange rates of the various currencies may change in a manner that has an adverse effect on the value of the portion of the Plan's investment and non-investment assets or liabilities denominated in currencies other than the Canadian dollar. Foreign currency risk is hedged by using foreign exchange forward contracts. A policy of hedging up to 100% of the currency exposure helps to mitigate this risk.

(in thousands of dollars)

6. Financial instruments (continued):

The Plan's currency policy allows for the management of risk of investment and non-investments assets and liabilities held in the Fund through hedging strategies that are implemented through the purchase of forward currency contracts. The forward currency contracts offset the Plan's foreign currency exposure, hence reducing the Plan's foreign currency risk.

The Plan’s investment and non-investment assets and liabilities that are held in the Fund are represented as unhedged and hedged currency exposures as at December 31 in the following table:

Summary FX Exposure	December 31, 2016 Unhedged	December 31, 2016 Hedged
Canadian Dollar	$ 2,082,366	$ 3,604,964
United States Dollar	2,276,679	1,165,352
Euro	194,452	19,557
British Pound Sterling	118,358	(5,917)
Japanese Yen	75,234	24,425
Other	165,289	81,126
	$ 4,912,378	$ 4,889,507

Summary FX Exposure	December 31, 2015 Unhedged	December 31, 2015 Hedged
Canadian Dollar	$ 2,232,717	$ 3,491,045
United States Dollar	1,943,932	1,053,112
Euro	203,189	33,524
British Pound Sterling	128,620	(19,522)
Japanese Yen	80,140	55,707
Other	172,520	103,637
	$ 4,761,118	$ 4,717,503

(in thousands of dollars)

6. Financial instruments (continued):

After the effect of hedging, and without change in all other variables, a ten percent increase (decrease) in the Canadian dollar against all other currencies would (decrease) increase the fair value of the Plan’s investment and non-investment assets and liabilities held in the Fund, respectively.

The following table below represents these changes in the Plan’s investment and non-investment assets and liabilities held in the Fund as at December 31:

	December 31, 2016	December 31, 2015
Fund assets and liabilities	$ 4,889,507	$ 4,717,503
10% increase in Canadian Dollar	(116,777)	(111,496)
Fund assets and liabilities after increase	$ 4,772,730	$ 4,606,007
10% decrease in Canadian Dollar	142,727	136,273
Fund assets and liabilities after decrease	$ 5,032,234	$ 4,853,776

(v) Liquidity risk:

Liquidity risk is the risk that the Plan’s does not have sufficient cash to meet its current payment liabilities and acquire investments in a timely and cost-effective manner. Liquidity risk is inherent in the Plan's operations and can be impacted by a range of situation specific and market-wide events including, but not limited to, credit events and significant movements in the market. Cash obligations are fulfilled from contributions to the Plan, cash income of the Plan and planned dispositions of Plan assets as required. Cash requirements of the Plan are reviewed on an ongoing basis to provide for the orderly availability of resources to meet the financial obligations of the Plan. The Plan's cash management policy ensures that the quality and liquidity of the investment vehicles within the cash portfolios are consistent with the needs of the Plan.

Approximately 50% (2015 - 56%) of the Plan's investments are in liquid securities traded in public markets, consisting of fixed income and equities. Pooled funds consisting of exchange traded equities are approximately 28% (2015 - 11%) of the Plan's investments and are liquid within 30 days or less. Although market events could lead to some investments becoming illiquid, the diversity of the Plan's portfolios should ensure that liquidity is available for benefit payments. The Plan also maintains cash on hand for liquidly purposes and for payment of Plan liabilities. At December 31, 2016, the Plan had cash in the amount of $47,536 (2015 - $43,110).

7. Accrued pension obligation:

The actuarial present value of the accrued pension obligation is an estimate of the value of pension obligations of the Plan in respect of benefits accrued to date for all active and inactive members including pensioners and survivors. As the experience of the Plan unfolds, and as underlying conditions change over time, the actual value of accrued benefits payable in the future could be materially different than the actuarial present value.

Actuarial valuations of the Plan are required every year by the Act, and provide an estimate of the accrued pension obligation (Plan liabilities) calculated using various economic and demographic assumptions, based on membership data as at the valuation date. The Plan's consulting actuaries, Eckler Limited, performed a valuation as at December 31, 2016 and issued their report in April 2017. The report indicated that the Plan had an unfunded liability of $1,409,344 (2015 - $1,438,633).

The actuarial valuation calculates liabilities for each member on the basis of service earned to date and the employee's projected five-year highest average salary at the expected date of retirement, or in the case of pensioners and survivors, on the basis of the amount of pension being paid to them. The projected unit credit method was adopted for the actuarial valuation to determine the current service cost and actuarial liability.

The major economic and demographic assumptions used in the December 31, 2016 valuation were as follows:

(in thousands of dollars)

7. Accrued pension obligation (continued):

	December 31, 2016	December 31, 2015
Discount rate	6.15% per annum	6.25% per annum
Inflation	2.00% per annum	2.00% per annum
Salary	2.00% per annum plus promotional ranging from 0.00% to 3.25%	2.00% per annum plus promotional ranging from 0.00% to 3.25%
Retirement age	50% of active members who achieve eligibility for an unreduced pension under the rule of 85 prior to age 62 will retire when they first become eligible; the remainder of active and all inactive members will retire at the earliest of: -age 65 with 2 years of service, -35 years of service; and -age 62 with 10 years of service	50% of active members who achieve eligibility for an unreduced pension under the rule of 85 prior to age 62 will retire when they first become eligible; the remainder of active and all inactive members will retire at the earliest of: -age 65 with 2 years of service, -35 years of service; and -age 62 with 10 years of service
Mortality	2014 Public Sector Mortality Table projected generationally with CPM improvement Scale B	2014 Public Sector Mortality Table projected generationally with CPM improvement Scale B

The assumed increases in the real rate of pensionable earnings (i.e. increase in excess of the assumed inflation rate) are dependent on the attained age of the members.

Demographic assumptions are used to estimate when future benefits are payable to members and beneficiaries, including assumptions about mortality rates, termination rates, and patterns of early retirement. Each of these assumptions is updated periodically, based on a detailed review of the experience of the Plan and on the expectations for future trends.

(in thousands of dollars)

8. Commitments:

The Plan has committed capital to investments in real estate and infrastructure over a definitive period of time. The future commitments are generally payable on demand based on the capital needs of the related investment. The table below indicates the capital amount committed and outstanding as at December 31, 2016.

December 31, 2016	Committed	Outstanding
Real estate	$ 25,000 USD	$ 3,306 USD
Infrastructure	$ 50,000 CAD	$ 49,800 CAD
Infrastructure	$135,000 USD	$ 70,334 USD

9. Benefits:

	2016	2015
Benefits paid to pensioners	$ 343,551	$ 339,322
Benefits paid to disabled pensioners	23,042	23,074
Benefits paid to surviving members	20,432	19,165
Refunds paid to terminated members	1,100	2,159
	$ 388,125	$ 383,720

(in thousands of dollars)

10. Administrative expenses:

The Plan is charged by its service providers, including Nova Scotia Pension Services Corporation, a related entity for professional and administrative services. The following is a summary of these administrative expenses.

	2016	2015
Plan administration:		
Office and administration services	$ 4,648	$ 4,138
Actuarial services	119	84
Legal services	48	42
Other professional services	44	56
Audit services	40	37
Bad debt expense	39	-
	4,938	4,357
Investment expenses:		
Investment management services	12,191	13,108
Transaction costs	1,544	1,264
Custody services	618	514
Advisory & consulting services	316	397
Information services	205	178
	14,874	15,461
HST	1,862	1,696
	$ 21,674	$ 21,514

Investment management and performance fees included in the unrealized gains / (losses) on investments consisting of pooled funds, limited partnerships and subsidiaries are estimated at $14,131 (2015 - $13,807). These fees are not direct expenses of the Plan and therefore are not included in administrative expenses.

(in thousands of dollars)

11. Securities lending:

The Plan participates in a securities lending program where it lends securities that it owns to third parties for a fee. For securities lent, the Plan receives a fee and the borrower provides readily marketable securities of higher value as collateral which mitigates the credit risk associated with the program. When the Plan lends securities, the risk of failure by the borrower to return the loaned securities is alleviated by such loans being continually collateralized. The securities lending agent also provides indemnification if there is a shortfall between collateral and the lent security that cannot be recovered. The securities lending contracts are collateralized by securities issued by, or guaranteed without any limitation or qualification by, the government of Canada or the governments of other countries.

The following table represents the estimated fair value of securities that were loaned out and the related collateral:

	December 31, 2016	December 31, 2015
Securities on loan	$ 385,516	$ 440,226
Collateral held	$ 413,121	$ 469,571

12. Related party transactions:

Investments held by the Plan include debentures of the Province of Nova Scotia and promissory notes issued by its subsidiaries. The total fair value of these investments is $9,162 (0.2% of Fund assets and liabilities) as at December 31, 2016 ($9,040 (0.2% of Fund assets and liabilities) at December 31, 2015.

The Plan's administrator, Nova Scotia Pension Services Corporation, an entity co-owned by Teachers' Pension Plan Trustee Inc. and Public Service Superannuation Plan Trustee Inc. for the purpose of providing pension plan administration and investment services, charges the Plan at cost, an amount equal to the expenses incurred in order to service the Plan. The administration expense charged to the Plan, including HST, for the year ending December 31, 2016 was $5,788 (2015 - $5,188).

As Nova Scotia Pension Services Corporation operates on a cost recovery basis, the Plan advances or loans cash to its administrator, as required to pay upcoming expenses or to purchase capital assets. The amount due to the Plan was $2,916 (2015 - $2,907) at December 31, 2016.

(in thousands of dollars)

13. Interest in subsidiaries:

The Plan's subsidiaries were created for the purposes of providing investment earnings from real estate, infrastructure and other investment arrangements. The Plan's subsidiaries are presented on a non-consolidated basis. The following table shows the fair values of the Plan's subsidiaries as at December 31, 2016 and 2015:

Subsidiary	Purpose	Ownership %	2016 Fair value	2015 Fair value
NT Combined Investments Inc.	Equities	47	$ 388,919	$ 386,804
TPP Investments RE Inc.	Real estate	100	304,140	287,794
TPP Investments II Inc.	Real estate	100	108,013	111,686
TPP Investments CS Inc.	Infrastructure	100	35,008	49,194
TPP Investments ES Inc.	Real estate	100	31,722	31,976
HV Combined Investments Inc.	Hedge funds	37	16,858	18,083

The Plan either has 100% controlling interest or significant influence over its subsidiaries' cash flows. Funding is made via capital investment from the Plan. Certain subsidiaries have commitments that must be funded directly through capital investment by the Plan. These amounts are included in the Plan's commitments (note 8). Financing is provided as required via shareholder loan and is payable on demand to the Plan.

14. Capital management:

The main objective of the Fund is to sustain a certain level of net assets in order to meet the Plan's pension obligations. The TPPTI (see note 1) manages the contributions and plan benefits as required by the Teachers' Pension Act and its related Regulations. The TPPTI approves and incurs expenses to administer the commerce of the Fund as required by agreement between the Province and the Union.

Under the direction of the TPPTI, the Fund provides for the short term financial needs of current benefit payments while investing members' contributions for the longer term security of pensioner payments. The TPPTI exercises duly diligent practices and has established written investment policies and procedures, and approval processes. Operating budgets, audited financial statements, yearly actuarial valuations and reports, and as required, the retention of supplementary professional, technical and other advisors, are part of the Fund governance structure.

14. Capital management (continued):

The Fund fulfils its primary objective by adhering to specific investment policies outlined in its SIP&G, which is reviewed annually by TPPTI. The Fund manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds (current year's employee and employer contributions) in accordance with the SIP&G. Increases in net assets are a direct result of investment income generated by investments held by the Fund and contributions into the Fund by eligible employees and participating employers. The main use of net assets is for benefit payments to eligible Plan members.

Under the 2014 Agreement, minimum funding targets were established, with objectives of having assets of the Plan reach levels of 80-90% of the actuarial liabilities on or before December 31, 2025, at least 85-95% on or before December 31, 2030, and at least 90-100% on or before December 31, 2035. These funding targets are required to be regularly reviewed, including a comprehensive review in 2020 and further reviews every 5 years thereafter.

15. Comparative information:

Certain 2015 comparative information has been reclassified to conform to the financial statement presentation adopted for the current year.