Management's Responsibility for Financial Reporting

The consolidated financial statements of the Ontario Teachers' Pension Plan have been prepared by management, which is responsible for the integrity and fairness of the data presented, including the many amounts which must, of necessity, be based on estimates and judgments. The accounting policies followed in the preparation of these consolidated financial statements conform to Canadian accounting standards for pension plans. Financial information presented throughout the annual report is consistent with the consolidated financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets safeguarded and proper records maintained. These controls include quality standards in hiring and training of employees, a code of conduct, the establishment of an organizational structure that provides a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines through the organization.

Ultimate responsibility for the consolidated financial statements rests with the members of the Board. The Board is assisted in its responsibilities by the Audit & Actuarial Committee (the Committee), consisting of six Board members who are not officers or employees of the Plan Administrator. In addition, the Committee reviews the recommendations of the internal and external auditors for improvements in internal control and the action of management to implement such recommendations. In carrying out its duties and responsibilities, the Committee meets regularly with management and with both the external and internal auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. This Committee reviews the consolidated financial statements and recommends them for approval by the Board.

The Plan's external auditors, Deloitte LLP, are directly accountable to the Audit & Actuarial Committee and have full and unrestricted access to the Committee. They discuss with the Committee their audit and related findings as to the integrity of the Plan's financial reporting and the adequacy of internal control systems. The Plan's external auditors have conducted an independent examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express the opinion in their Report to the Administrator.

JIM LEECH
PRESIDENT AND CHIEF EXECUTIVE OFFICER
MARCH 7, 2013

DAVID McGRAW
SENIOR VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER

Auditor's Report to the Administrator

We have audited the accompanying consolidated financial statements of Ontario Teachers' Pension Plan Board which comprise the consolidated statements of financial position as at December 31, 2012, and the consolidated statements of changes in net assets available for benefits, consolidated statements of changes in accrued pension benefits and consolidated statements of changes in deficit for the year then ended and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Ontario Teachers' Pension Plan Board as at December 31, 2012, and the changes in its net assets available for benefits, changes in accrued pension benefits and changes in deficit for the year then ended in accordance with Canadian accounting standards for pension plans.

Deloitte LLP

CHARTERED PROFESSIONAL ACCOUNTANTS, CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS
MARCH 7, 2013

Actuaries' Opinion

Mercer (Canada) Limited was retained by the Ontario Teachers' Pension Plan Board (the Board) to perform an actuarial valuation of the going concern liabilities of the Ontario Teachers' Pension Plan (the Plan) as at December 31, 2012, for inclusion in the Plan's consolidated financial statements. As part of the valuation, we examined the Plan's recent experience with respect to the non-economic assumptions and presented our findings to the Board.

The valuation of the Plan's actuarial liabilities was based on:

- membership data provided by the Ontario Teachers' Pension Plan Board as at August 31, 2012;
- methods prescribed by Section 4600 of the Canadian Institute of Chartered Accountants' Handbook for pension plan financial statements;
- real and nominal interest rates on long-term bonds at the end of 2012;
- assumptions about future events (for example, future rates of inflation and future retirement rates) which have been communicated to us as the Board's best estimate of these events; and
- information obtained from the Ontario Ministry of Labour and other published data on wage rate changes for the 2012/2013 and 2013/2014 school years.

The objective of the consolidated financial statements is to fairly present the financial position of the Plan on December 31, 2012 as a going concern. This is different from the statutory valuation (the actuarial valuation required by the *Pension Benefits Act (Ontario)*), which establishes a prudent level for future contributions.

While the actuarial assumptions used to estimate liabilities for the Plan's consolidated financial statements represent the Board's best estimate of future events and market conditions at the end of 2012, and while in our opinion these assumptions are reasonable, the Plan'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 or losses in future valuations, and will affect the financial position of the Plan, and the contributions required to fund it, at that time.

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

SCOTT CLAUSEN, F.C.I.A., F.S.A
MARCH 7, 2013

LISE HOULE, F.C.I.A., F.S.A

Consolidated Statements of Financial Position

as at December 31 (Canadian $ millions)	2012	2011
Net assets available for benefits		
Assets		
Cash	**$ 344**	$ 435
Receivable from the Province of Ontario (note 3)	**2,831**	2,717
Receivable from brokers	**125**	39
Investments (note 2)	**174,731**	156,563
Premises and equipment	**27**	37
	178,058	159,791
Liabilities		
Accounts payable and accrued liabilities	**270**	542
Due to brokers	**796**	1,847
Investment-related liabilities (note 2)	**47,468**	40,305
	48,534	42,694
Net assets available for benefits	**$ 129,524**	$ 117,097
Accrued pension benefits and deficit		
Accrued pension benefits (note 4)	**$ 166,009**	$ 162,587
Deficit	**(36,485)**	(45,490)
Accrued pension benefits and deficit	**$ 129,524**	$ 117,097

On behalf of the Plan Administrator:

CHAIR

BOARD MEMBER

Consolidated Statements of Changes in Net Assets Available for Benefits

for the year ended December 31 (Canadian $ millions)	2012	2011
Net assets available for benefits, beginning of year	**$ 117,097**	$ 107,535
Investment operations		
Investment income (note 6)	**14,752**	11,735
Administrative expenses (note 11a)	**(301)**	(289)
Net investment operations	**14,451**	11,446
Member service operations		
Contributions (note 9)	**2,944**	2,823
Benefits paid (note 10)	**(4,924)**	(4,663)
Administrative expenses (note 11b)	**(44)**	(44)
Net member service operations	**(2,024)**	(1,884)
Increase in net assets available for benefits	**12,427**	9,562
Net assets available for benefits, end of year	**$ 129,524**	$ 117,097

Consolidated Statements of Changes in Accrued Pension Benefits

for the year ended December 31 (Canadian $ millions)	2012	2011
Accrued pension benefits, beginning of year	**$ 162,587**	$ 146,893
Increase in accrued pension benefits		
Interest on accrued pension benefits	**5,531**	5,944
Benefits accrued	**5,095**	4,409
Changes in actuarial assumptions and methods (note 4a)	**–**	9,819
Changes in plan provisions	**107**	6
Experience losses (note 4c)	**286**	179
	11,019	20,357
Decrease in accrued pension benefits		
Benefits paid (note 10)	**4,924**	4,663
Changes in actuarial assumptions and methods (note 4a)	**2,673**	–
	7,597	4,663
Net increase in accrued pension benefits	**3,422**	15,694
Accrued pension benefits, end of year	**$ 166,009**	$ 162,587

Consolidated Statements of Changes in Deficit

for the year ended December 31 (Canadian $ millions)	2012	2011
Deficit, beginning of year	**$ (45,490)**	$ (39,358)
Increase in net assets available for benefits	**12,427**	9,562
Net increase in accrued pension benefits	**(3,422)**	(15,694)
Deficit, end of year	**$ (36,485)**	$ (45,490)

Notes to Consolidated Financial Statements

for the year ended December 31, 2012

DESCRIPTION OF PLAN

The following description of the Ontario Teachers' Pension Plan (the Plan) is a summary only. For more complete information, reference should be made to the *Teachers' Pension Act (Ontario)* (the TPA) as amended.

(a) General

The Plan is governed by the TPA. It is a contributory defined benefit pension plan co-sponsored by the Province of Ontario (the Province) and Plan members, represented by Ontario Teachers' Federation (OTF) (the co-sponsors). The terms of the Plan are set out in Schedule 1 to the TPA.

The Plan is registered with the Financial Services Commission of Ontario (FSCO) and under the *Income Tax Act (Canada)* (the ITA) (registration number 0345785) as a Registered Pension Plan which is not subject to income taxes in Canada. The Plan may be liable for taxes in other jurisdictions where full tax exemptions are not available.

The Plan is administered and the investments are managed by the Ontario Teachers' Pension Plan Board (the Board). Under the TPA, the Board is constituted as a corporation without share capital to which the *Corporations Act (Ontario)* does not apply.

(b) 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 designated employers. The determination of the value of the accrued pension benefits and required contributions is made on the basis of periodic actuarial valuations.

(c) Retirement pensions

A retirement pension is available based on the number of years of credited service, the average of the best five annual salaries and the age of the member at retirement. A member is eligible for a reduced retirement pension from age 50. An unreduced retirement pension is available at age 65 or if the sum of a member's age and qualifying service equals 85.

(d) Disability pensions

A disability pension is available at any age to a disabled member with a minimum of 10 years of qualifying service. The type of disability pension is determined by the extent of the disability.

(e) Death benefits

Death benefits are available on the death of an active member and may be available on the death of a retired member. The benefit may take the form of a survivor pension, lump-sum payment or both.

(f) Escalation of benefits

Pension benefits are adjusted in January each year for inflation, subject to an upper limit of 8% and a lower limit of 0% in any one year with any excess above or below those limits carried forward. For credited service earned up to December 31, 2009, inflation protection is 100% of the change in the Consumer Price Index. Credited service earned after December 31, 2009 is subject to conditional inflation protection. For credited service earned between January 1, 2010 and December 31, 2013, the minimum indexation level is set at 50% of the change in the Consumer Price Index. There is no minimum level of inflation protection for credited service earned after 2013. The indexation level stated in the most recent funding valuation filing remains in effect until a subsequent filing updates the amount. Inflation protection of up to 100% for credited service earned after 2009 can be restored on a go-forward basis, depending on the Plan's funded status.

(g) Retirement Compensation Arrangement

Restrictions in the ITA and its regulations on the payment of certain benefits from the registered pension plan for periods of service after 1991 may impact some Plan members. To address affected members, the Retirement Compensation Arrangement (the RCA) was established by agreement between the co-sponsors as a supplementary plan to provide for these benefits. Examples of these benefits include: (1) members of the Plan who retired with average earnings above $142,990 (CPP-exempt members $132,334) in 2012 and $137,979 (CPP-exempt members $127,611) in 2011; and (2) members whose pensions would require a larger reduction for early retirement to comply with the ITA limitations than the Plan would impose. Because the RCA is a separate trust, the net assets available for benefits and accrued benefits and deficit of the RCA are not included in these consolidated financial statements.

NOTE 1.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These consolidated financial statements are prepared in Canadian dollars, the Plan's functional currency, in accordance with the accounting standards for pension plans in Part IV of the Canadian Institute of Chartered Accountants (CICA) 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 for private enterprises in Part II of the CICA Handbook. The Plan has elected to comply with IFRS in Part I of the CICA Handbook commencing January 1, 2011. To the extent that IFRS in Part I is inconsistent with Section 4600, Section 4600 takes precedence.

The Plan's real estate portfolio is comprised of real estate-related investments that are either owned or managed on behalf of the Plan by The Cadillac Fairview Corporation Limited (CFCL), a wholly-owned subsidiary. During 2012, the Plan was more actively involved with CFCL and as a result, the Plan now consolidates CFCL. As such, the fair value of the assets and liabilities of CFCL and the investment holding companies managed by CFCL are consolidated as at December 31, 2012. The consolidation of the real estate portfolio increases both investments and investment-related liabilities with no impact on the net assets available for benefits. Comparative information is presented on a non-consolidated basis. Real estate investment income represents the operating income (net of interest expense) earned from the real estate portfolio in both 2012 and 2011. The Plan continues to consolidate investment holding companies that are managed by the Plan. Investment holding companies that are managed by external parties are recognized as the Plan's investment assets. Under Section 4600, investment assets, including those over which the Plan has control or significant influence, are measured at fair value and presented on a non-consolidated basis.

The consolidated financial statements for the year ended December 31, 2012 were authorized for issue through a resolution of the Board on March 7, 2013.

(b) Future changes in accounting policies

The International Accounting Standards Board has issued a number of new and amended standards that are not yet effective as at December 31, 2012. The relevant new guidance not yet adopted by the Plan includes:

- IFRS 12, Disclosures of Interests in Other Entities, and IAS 27, Separate Financial Statements. The new standards set out the required disclosures for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The new standards are effective for annual periods beginning on or after January 1, 2013 and early application is permitted.
- IFRS 9, Financial Instruments. The new standard will replace IAS 39, Financial Instruments: Recognition and Measurement, and includes guidance on recognition and derecognition of financial assets and financial liabilities. The new standard is effective for annual periods beginning on or after January 1, 2015 and early application is permitted.

Management does not expect any significant impact on either the Plan's financial position or investment income when adopting these new standards.

(c) Investments

Valuation of investments

Investments are either directly or indirectly owned by the Plan. Investment-related liabilities are incurred by the Plan directly. Details of investments and investment-related liabilities are presented in note 2a and are stated at fair value. Fair value is the price that would either be received to sell an asset or paid to transfer a liability in an orderly transaction (i.e., an exit price) between market participants at the measurement date. In an active market, fair value is best evidenced by an independent quoted market price. In the absence of an active market, fair value is determined by valuation techniques that make maximum use of inputs observed from markets.

Fair values of investments are determined as follows:

a. Short-term investments are valued using either quoted closing mid-market prices or discounted cash flows based on current market yields, when quoted closing mid-market prices are unavailable.

b. Bonds, including both nominal and real return, are valued on the basis of quoted closing mid-market prices. If quoted closing mid-market prices are not available, estimated values are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.

c. Securities sold under agreements to repurchase and securities purchased under agreements to resell are valued using discounted cash flows based on current market yields.

d. Public equities are valued at quoted closing mid-market prices. When the market for a public equity is not active, management assesses whether the quoted prices represent fair value. If not, management adjusts the quoted prices or estimates the fair value by using appropriate techniques including valuation models.

e. Real estate, private equities, infrastructure and timberland are valued based on estimated fair values determined by using appropriate techniques and best estimates by either 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.

   At least 70% of the value of the rental property portfolio covering all product types and geographic regions is independently appraised annually. At a minimum, 90% of the real estate portfolio will be valued by independent appraisers at least every three years. The same appraisal firm is not permitted to value the same property more than three years in a row.

   Private equity funds are recorded at fair value based on net asset values obtained from each of the funds' administrators. These net asset values are reviewed by management.

f. Derivative financial instruments are recorded at fair value using market prices where available. Where quoted market values are not readily available, appropriate alternative valuation techniques are used to determine fair value. In determining fair value, consideration is also given to the credit risk of the counterparty.

g. Alternative investments, comprised of hedge funds and managed futures accounts, are recorded at fair value based on net asset values obtained from each of the funds' administrators. These net asset values are reviewed by management.

The Plan uses a number of valuation techniques to determine the fair value of investments for which observable prices in active markets for identical investments are not available. These techniques include: valuation methodologies based on observable prices for similar investments; present-value approaches where future cash flows generated by the investment are estimated and then discounted using a risk-adjusted interest rate; and option-pricing models. The principal inputs to these valuation techniques are listed below. Values between and beyond available data points may be obtained by interpolation and extrapolation.

- Bond prices – quoted prices are generally available for government bonds, certain corporate bonds and some other debt-related products.
- Credit spreads – where available, credit spreads are derived from prices of credit default swaps or other credit-based instruments, such as debt securities. For others, credit spreads are obtained from pricing services.
- Interest rates – principally derived from benchmark interest rates such as quoted interest rates from central banks and in swap, bond and futures markets. Benchmark interest rates are considered when determining discount rates used in the present-value approaches.
- Foreign currency exchange rates – there are observable markets, both spot and forward, and in futures in all major currencies.
- Public equity and equity index prices – quoted prices are generally readily available for equity shares listed on the stock exchanges and for indices on such shares.
- Commodity prices – many commodities are actively traded in spot, forward and futures markets.
- Price volatilities and correlations – volatility is a measure of the tendency of a specific price to change over time. Correlation measures the degree to which two or more prices or other variables are observed to have moved together historically. Volatility is an input in valuing options and certain products such as derivatives with more than one underlying variable that is correlation-dependent. Volatility and correlation values are either obtained from broker quotations, from pricing services, or are derived from quoted option prices.
- Forecasts on operating cash flows of real estate, private equities, infrastructure and timberland – forecasts include assumptions on revenue, revenue growth, expenses, capital expenditures, and capital structure. They are generally provided by either management of the companies in which the Plan invests or external managers. Additional assumptions from external parties, for example, external appraisers, may also be used in the forecast.

The Plan refines and modifies its valuation techniques as markets and products develop and the pricing for individual products becomes more transparent.

While the Plan believes its valuation techniques are appropriate and consistent with other market participants, the use of different techniques or assumptions could result in different estimates of fair value at the balance sheet date. Management has assessed and determined that using possible alternative assumptions will not result in significantly different fair values.

Fair value hierarchy

Investment assets and investment-related liabilities are classified and disclosed in one of the following categories reflecting the significance of inputs used in making the fair value measurement:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly; and
- Level 3 – unobservable inputs.

If different levels of inputs are used to measure the fair value of an investment, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement.

Trade-date reporting

Purchases and sales of investments and derivative contracts are recorded as of the trade date.

Investment income

Dividend income is recognized based on the ex-dividend date, and interest income and real estate income are recognized on the accrual basis as earned. Investment income also includes both realized and unrealized gains and losses. Unrealized gains and losses are recognized only when the fair value of the investment is based on a quoted market price in an active market or a valuation using appropriate valuation techniques is performed and approved by management.

Transaction costs

Transaction costs are incremental costs directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs are expensed as incurred. Any transaction amounts received by the Plan that are directly attributable to the acquisition of an investment are netted against transaction costs paid.

Management fees

Management and performance fees for external investment managers and administrators are expensed as incurred.

(d) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing on the year-end date. Income and expenses are translated into Canadian dollars at the exchange rates prevailing on the dates of the transactions. The realized and unrealized gains and losses arising from these translations are included within net realized and unrealized gains on investments in investment income.

(e) Accrued pension benefits

The value of accrued pension benefits 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 made annually as at September 1 and then extrapolated to year end. It uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation date, of various economic and non-economic assumptions.

As described in paragraph (f) of the Description of Plan note, the inflation protection benefits for credited service earned after December 31, 2009 is conditional, depending on the Plan's funded status. For the financial statement valuation, the Plan accrues the minimum guaranteed inflation protection benefits and discloses accrued pension benefits with inflation protection assumed at the 100% level in note 4b.

(f) Contributions

Contributions from the members, the Province and designated employers are recorded on an accrual basis. Cash received from members for credited service and cash transfers from other pension plans are recorded when received.

(g) Benefits

Benefit payments to members and others, commuted value payments and refunds to former members, and transfer payments to other plans are recorded in the period in which they are paid. Any benefit payment accruals not paid are reflected in accrued pension benefits.

(h) Premises and equipment

Premises and equipment are recorded at cost and amortized on a straight-line basis over their estimated useful lives.

(i) Use of estimates

In preparing these consolidated financial statements, management uses estimates and assumptions that primarily affect the reported values of assets and liabilities, and related income and expenses. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable and relevant under the circumstances. The effect of a change in an estimate or assumption is recognized in the period in which the estimate or assumption is revised, if the revision affects only that period. Significant estimates and assumptions are used primarily in the determination of accrued pension benefits and the fair value of investments and investment-related receivables and liabilities. Note 4 explains how estimates and assumptions are used in determining accrued pension benefits and note 1c explains how estimates and assumptions are used to derive the fair value of investments and investment-related receivables and liabilities.

(j) Contingencies

A contingent liability is a possible obligation that depends on the occurrence or non-occurrence of one or more future events not controlled by the Plan. Contingent liabilities are not recognized but the nature and extent are disclosed in the notes to the consolidated financial statements. A provision for a present obligation is recognized when a reliable estimate can be determined and the settlement of the obligation is probable.

NOTE 2.
INVESTMENTS

The Plan invests, directly or through derivatives, in fixed income, equities and real asset investments in accordance with the Board's policy of asset diversification.

(a) Investments[1] before allocating the effect of derivative contracts

The schedule below summarizes the Plan's investments and investment-related liabilities, including net accrued interest and dividends of $258 million (December 31, 2011 – $270 million), before allocating the effect of derivative contracts:

as at December 31		2012		2011
(Canadian $ millions)	Fair Value	Cost	Fair Value	Cost
Fixed income				
Debentures	**$ –**	**$ –**	$ 662	$ 635
Bonds	**37,555**	**34,494**	31,033	27,806
Short-term investments	**9,176**	**9,240**	7,545	7,562
Alternative investments[2]	**7,048**	**6,259**	5,821	5,482
Canadian real-rate products	**21,963**	**15,105**	19,766	13,109
Non-Canadian real-rate products	**8,798**	**7,138**	9,066	7,210
	84,540	**72,236**	73,893	61,804
Equity				
Publicly traded				
Canadian	**4,895**	**4,987**	5,188	5,325
Non-Canadian	**28,423**	**26,210**	28,934	29,752
Non-publicly traded				
Canadian	**1,496**	**1,529**	2,280	1,422
Non-Canadian	**12,390**	**11,708**	10,252	10,507
	47,204	**44,434**	46,654	47,006
Real assets				
Real estate[3] (note 5)	**21,227**	**12,979**	14,960	8,660
Infrastructure	**9,646**	**8,077**	8,709	7,460
Timberland	**2,173**	**2,092**	2,166	2,092
	33,046	**23,148**	25,835	18,212
	164,790	**139,818**	146,382	127,022
Investment-related receivables				
Securities purchased under agreements to resell	**7,200**	**7,193**	7,245	7,219
Cash collateral deposited under securities borrowing arrangements	**1,167**	**1,167**	841	841
Derivative-related, net	**1,574**	**675**	2,095	1,141
	9,941	**9,035**	10,181	9,201
Investments	**$ 174,731**	**$ 148,853**	$ 156,563	$ 136,223

[1] For additional details, refer to the schedule of Investments over $100 million on pages 102–105.

[2] Comprised primarily of hedge funds and managed futures accounts.

[3] The real estate portfolio is presented on a consolidated basis as described in note 1a.

as at December 31		2012		2011
(Canadian $ millions)	Fair Value	Cost	Fair Value	Cost
Investment-related liabilities				
Securities sold under agreements to repurchase	**$ (35,674)**	**$ (35,775)**	$ (35,088)	$ (35,112)
Securities sold but not yet purchased				
Fixed income	**(4,713)**	**(4,766)**	(2,076)	(2,048)
Equities	**(1,193)**	**(1,101)**	(847)	(826)
Real estate[3] (note 5)	**(4,371)**	**(3,952)**	–	–
Cash collateral received under credit support annexes	**(263)**	**(263)**	(458)	(458)
Derivative-related, net	**(1,254)**	**(541)**	(1,836)	(532)
	(47,468)	**(46,398)**	(40,305)	(38,976)
Net investments (note 2d)	**$ 127,263**	**$ 102,455**	$ 116,258	$ 97,247

[3] The real estate portfolio is presented on a consolidated basis as described in note 1a.

(b) Fair value hierarchy

The schedule below presents the Plan's investments and investment-related liabilities within the fair value hierarchy as outlined in note 1c:

				December 31, 2012
(Canadian $ millions)	Level 1	Level 2	Level 3	**Total**
Fixed income	$ 66,815	$ 6,612	$ 11,113	**$ 84,540**
Equity	31,144	878	15,182	**47,204**
Real assets	1,191	361	31,494	**33,046**
Net investment-related receivables/(liabilities)	(4,831)	(31,043)	(1,653)	**(37,527)**
Net investments	$ 94,319	$ (23,192)	$ 56,136	**$ 127,263**

				December 31, 2011
(Canadian $ millions)	Level 1	Level 2	Level 3	Total
Fixed income	$ 59,389	$ 4,309	$ 10,195	$ 73,893
Equity	32,013	1,069	13,572	46,654
Real assets	856	205	24,774	25,835
Net investment-related receivables/(liabilities)	(2,533)	(27,885)	294	(30,124)
Net investments	$ 89,725	$ (22,302)	$ 48,835	$ 116,258

The schedule below presents a reconciliation of investments and investment-related receivables/(liabilities) measured at fair value using significant unobservable inputs (Level 3) during the year. Realized and unrealized gains/(losses) are included in investment income.

					2012
(Canadian $ millions)	Fixed income	Equity	Real assets	Net investment-related receivables/ (liabilities)	**Total**
Balance, beginning of year	$ 10,195	$ 13,572	$ 24,774	$ 294	**$ 48,835**
Purchases	3,123	4,928	5,309	9,752	**23,112**
Sales	(2,697)	(4,819)	(4,626)	(9,801)	**(21,943)**
Transfers in[4]	–	–	4,228	(4,228)	**–**
Transfers out[5]	–	–	–	2,592	**2,592**
Gains/(losses) included in investment income					
Realized	16	1,295	12	224	**1,547**
Unrealized	476	206	1,797	(486)	**1,993**
Balance, end of year	$ 11,113	$ 15,182	$ 31,494	$ (1,653)	**$ 56,136**

[4] The real estate portfolio is presented on a consolidated basis as described in note 1a.

					2011
(Canadian $ millions)	Fixed income	Equity	Real assets	Net investment-related receivables/ (liabilities)	Total
Balance, beginning of year	$ 10,333	$ 12,704	$ 24,430	$ (188)	$ 47,279
Purchases	3,394	3,408	5,833	3,671	16,306
Sales	(4,202)	(3,678)	(7,308)	(3,582)	(18,770)
Transfers in[5]	253	–	–	(9)	244
Transfers out[5]	(170)	(259)	–	27	(402)
Gains included in investment income					
Realized	31	854	286	84	1,255
Unrealized	556	543	1,533	291	2,923
Balance, end of year	$ 10,195	$ 13,572	$ 24,774	$ 294	$ 48,835

[5] Transfers in and transfers out of Level 3 are due to the change in the availability of observable inputs used for fair value measurement of investment assets or related liabilities. Similarly, transfers between Level 2 and Level 1 are due to the change in the availability of observable inputs. See note 1c Fair Value Hierarchy.

(c) Derivative contracts

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

Notional amounts of derivative contracts 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 flow involved or the current fair value of the derivative contracts and, therefore, do not indicate the Plan's exposure to credit or market risks. 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 in the OTC market or on regulated exchanges, include:

Swaps

Swaps are OTC contracts in which two counterparties exchange a series of cash flows based on agreed upon rates to a notional amount. The various swap agreements that the Plan enters into are as follows:

Equity and commodity swaps are contracts in which one counterparty agrees to either pay or receive from the other cash flows based on changes in the value of either an equity or commodity index, a basket of stocks or commodities, or a single stock or commodity.

Interest rate swaps are agreements where two counterparties exchange a series of payments based on different interest rates applied to a notional amount.

Currency swaps involve the exchange of fixed payments in one currency for the receipt of fixed payments in another currency.

Forwards and futures

Futures are standardized contracts traded on regulated future exchanges, whereas forward contracts are negotiated agreements that are transacted between counterparties in the OTC market. Examples of futures and forwards are described below:

Equity and commodity futures are contractual obligations to either buy or sell at a fixed value (the contracted price) of an equity or commodity index, a basket of stocks, a single stock or commodities at a predetermined future date.

Interest rate futures are contractual obligations to either buy or sell an interest-rate sensitive financial instrument on a predetermined future date at a specified price.

Currency forwards and futures are contractual obligations to exchange one currency for another at a specified price or settlement at a predetermined future date.

Options

Options may be either acquired in standardized amounts on regulated exchanges or customized and acquired in the OTC market. They 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. The various option agreements that the Plan enters into include equity and commodity options, interest rate options, and foreign currency options.

Credit derivatives

Credit derivatives are OTC contracts that transfer credit risk related to an underlying financial instrument (referenced asset) from one counterparty to another. Examples of credit derivatives include credit default swaps, equity default swaps, total return swaps, and loan participations.

Credit default swaps and equity default swaps provide protection against the decline in value of the referenced asset as a result of specified events such as payment default or insolvency. These swaps are similar in structure to an option whereby the purchaser pays a premium to the seller of the credit default swap or an equity default swap in return for payment related to the deterioration in the value of the referenced asset. The referenced asset for credit default swaps is a debt instrument while the referenced asset for equity default swaps is an equity instrument.

Total return swaps are contracts in which one counterparty agrees to pay or receive from the other cash flows based on changes in the value of the referenced asset.

Loan participations are contracts in which one counterparty provides funding to the other party in exchange for participation interests in sharing the risks and profits of the loans originated by the other party.

Other derivative products

The Plan also transacts in other derivative products including statistic swaps and dividend swaps in the OTC market. An investor may trade the statistic swaps with the objective of adding value or hedging for risks associated with the magnitude of movement, i.e., volatility, variance, correlation, covariance of some underlying products, such as exchange rates, or stock indexes. Dividend swaps are an OTC contract where an investor agrees to match all dividends paid out by an underlying stock or index over a specified time period. In return, the dividend payer receives a fixed amount at expiry called the dividend swap rate.

The following schedule summarizes the notional amounts and fair value of the Plan's derivative contracts held as at December 31:

			2012		2011
(Canadian $ millions)		Notional	Fair Value	Notional	Fair Value
Equity and commodity derivatives					
Swaps		**$ 21,840**	**$ 240**	$ 22,496	$ (178)
Futures		**6,720**	**19**	10,003	(97)
Options: Listed	– purchased	**252**	**5**	158	3
	– written	**353**	**(3)**	149	(3)
OTC	– purchased	**3,623**	**74**	5,271	423
	– written	**2,179**	**(78)**	4,059	(111)
		34,967	**257**	42,136	37
Interest rate derivatives					
Swaps		**27,936**	**61**	26,557	5
Futures		**120,436**	**1**	92,951	24
Options: Listed	– purchased	**2,222**	**–**	–	–
	– written	**989**	**–**	7	–
OTC	– purchased	**4,538**	**27**	1,815	76
	– written	**9,416**	**(24)**	4,384	(80)
		165,537	**65**	125,714	25
Currency derivatives					
Swaps		**1,856**	**7**	274	5
Forwards[6]		**51,305**	**46**	38,177	20
Futures		**104**	**–**	62	–
Options: OTC	– purchased	**11,824**	**140**	5,660	30
	– written	**9,506**	**(114)**	5,526	(31)
		74,595	**79**	49,699	24
Credit derivatives					
Credit default swaps	– purchased	**7,199**	**(3)**	8,510	300
	– written	**4,058**	**(138)**	1,729	(308)
Total return swaps		**4**	**–**	10	1
		11,261	**(141)**	10,249	(7)
Other derivatives					
Statistic swaps		**4,533**	**(41)**	4,147	(61)
Dividend swaps		**404**	**(13)**	439	(37)
		4,937	**(54)**	4,586	(98)
		291,297	**206**	232,384	(19)
Net cash collateral paid under derivative contracts		**–**	**114**	–	278
Notional and net fair value of derivative contracts		**$ 291,297**	**$ 320**	$ 232,384	$ 259

[6] Excludes currency forwards related to Real Estate assets as disclosed in note 5.

The net fair value of derivative contracts as at December 31 in the previous table is represented by:

(Canadian $ millions)	2012	2011
Derivative-related receivables	**$ 1,470**	$ 2,025
Cash collateral paid under derivative contracts	**169**	307
Derivative-related liabilities	**(1,264)**	(2,044)
Cash collateral received under derivative contracts	**(55)**	(29)
	$ 320	$ 259

(d) Investment asset mix

The Plan had a policy asset mix of 45% equities, 48% fixed income, 5% commodities, 25% real assets and (23%) money market as at December 31, 2012. The Plan had a policy asset mix of 45% equities, 49% fixed income, 5% commodities, 25% real assets and (24%) money market as at December 31, 2011.

Direct investments, derivative contracts, and investment-related receivables and liabilities are classified by asset-mix category based on the intent of the investment strategies of the underlying portfolios of the Plan. The Plan's net investments are summarized in Canadian dollars below as at December 31:

	2012		2011	
	Effective Net Investments at Fair Value ($ millions)	**Asset Mix %**	Effective Net Investments at Fair Value ($ millions)	Asset Mix %
Equity				
Canadian	**$ 11,395**	**9%**	$ 10,636	9%
Non-Canadian	**48,116**	**38**	41,034	35
	59,511	**47**	51,670	44
Fixed income				
Bonds	**28,866**	**23**	26,500	23
Real-rate products	**31,145**	**25**	29,291	25
	60,011	**48**	55,791	48
Commodities	**6,974**	**5**	5,645	5
Real assets				
Real estate (note 5)	**16,856**	**13**	14,960	13
Infrastructure	**9,646**	**8**	8,709	7
Timberland	**2,173**	**2**	2,166	2
	28,675	**23**	25,835	22
Absolute return strategies				
Internal absolute return strategies	**6,659**	**5**	7,679	7
Alternative investments	**5,611**	**4**	4,652	4
	12,270	**9**	12,331	11
Money market	**(40,178)**	**(32)**	(35,014)	(30)
Net investments	**$ 127,263**	**100%**	$ 116,258	100%

(e) Risk management

Objectives

The Plan's primary long-term risk is that the Plan's assets will fall short of its liabilities (i.e., benefits owed to members). Therefore, the objective of investment risk management is to achieve a diversifying of risks and returns in a fashion that minimizes the likelihood of an overall reduction in total fund value and maximizes the opportunity for gains over the entire portfolio. This is achieved through asset diversification so that the market and credit exposure to any single issuer and to any single component of the capital markets is reduced to an acceptable level.

The Plan also manages its liquidity risk so that there is sufficient liquidity to meet short-term marked-to-market payments resulting from the Plan's derivative exposure and to give the Plan the ability to adjust the asset mix in response to the changes in the market conditions.

Policies

The Plan does not manage market and credit risk separately. To apply risk management to investments in a consistent manner, the Plan has a number of policies, for example:

- Statement of Investment Policies and Procedures – The statement addresses the manner in which the fund shall be invested. Investments shall be selected and held in accordance with the criteria and limitations set forth in the statement and in accordance with all relevant legislation. The Board approves the policies in the statement and reviews them at least annually.
- Board Investment Policy – This policy applies to the total fund and aggregate asset classes. The policy addresses the risks that are relevant and material at the total fund level. The policy specifies asset mix and risk budget allocation and lists investment constraints such as maximum exposures permitted for a single issuer, liquidity requirements, and currency management. The Board approves this policy and reviews it regularly.
- Portfolio policies for each investment department – These policies are developed to apply to the individual portfolios within each asset class managed by the Investment Division. All portfolio policies include the departments' investment strategies, operating procedures, trading limits and approval requirements, risk factors and a description of how the risks will be managed, and reporting requirements for each portfolio manager, particularly relating to reporting deviations from the approved portfolio policy. All portfolio policies are reviewed annually and approved by the Executive Vice-President of the Investment Division and the Senior Vice-President responsible for the department.
- Trade Authorization and Execution Operation Policy – This policy provides guidance on trading with authorized counterparties and the procedures for obtaining authorization to trade with a new counterparty.
- Pre-Trade Clearance Policy – This policy formalizes the procedures to ensure the data needed for trade capture, pricing, risk management, and accounting is accurate, complete, and can be entered into the Plan's systems of record on a timely basis prior to commencement of trading.

Processes

The Plan uses risk budgeting to allocate risk across the investment asset classes. The risk budget is presented to the Board annually for review and approval. Each investment department is responsible for managing the investment risks associated with the investments they manage within the risk budget allocated to them. Each department is subject to compliance with the Statement of Investment Policies and Procedures, the Board Investment Policy (which includes the risk budget allocated to them), Trade Authorization and Execution Operation Policy, Pre-Trade Clearance Policy and the applicable portfolio policies. In addition, the Fixed Income Department is responsible for maintaining the liquidity positions in accordance with the Plan's policies on liquidity. The Finance Division independently measures the investment risk exposure and the liquidity position of the Plan and provides the information to the Investment Division and the Investment Committee of the Board.

Each investment department has an investment committee, or an equivalent, which meets regularly to assess the investment risks associated with the portfolios it manages and determines action plans, if required. Individual managers in each investment department receive limited authority to invest from the Board by sub-delegation from senior management. Trading limits and approval requirements are set out in the portfolio policies for the department. For investments not traded on exchanges, such as alternative investments and private equity investments, the investment departments conduct due diligence before acquisition and use it as a tool to monitor the investments after acquisition. The objective is to obtain as much transparency as possible for the departments to assess the risk exposure arising from these private and alternative investments.

The senior representatives from each investment department form the Investment Risk Committee (IRC) which focuses on managing investment risks at a total fund level. The Chief Financial Officer attends all meetings of the committee as an observer. This committee brings together the experience, investment and operational business judgment required for assessing and managing market, credit and liquidity risks on a regular basis. It monitors the currency positions, interest rate risk and liquidity risk at the total fund level. The committee meets every other week, or more frequently as required. Reporting to the IRC are the Investment Division Credit Committee and the Investment Division Liquidity Committee.

The Enterprise Risk Management Committee oversees and manages investment and non-investment risks faced by the Plan. The committee is chaired by the Chief Executive Officer and includes senior representatives from all divisions. The Enterprise Risk Management Committee meets regularly and reports to the Board semi-annually and more frequently as necessary.

(f) Credit risk

The Plan is exposed to the risk that a counterparty defaults or becomes insolvent (credit risk). Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. A credit risk may arise directly from an obligor, an issuer of securities, or indirectly from a guarantor of a credit obligation.

Credit risk management

The Plan actively manages its credit exposures. When over exposures are detected – either in individual exposures or in groups of exposures – the Plan takes action to mitigate the risks. Such actions may include reducing the exposures and using credit derivatives.

Except for debt issued or guaranteed without significant conditions by the Government of Canada, by the government of a province or territory of Canada (with an investment grade credit rating), or by the Government of the United States of America, the Plan's total investment in securities of a single issuer across all asset classes shall not exceed 3% of the market value of the total fund without the approval of the Board. Debt exposure to a single issuer or with a single guarantor shall not exceed 2% of the market value of the Plan without approval of the Board. Further, not more than 10% of the market value of the Plan may be made up of non-investment grade or unrated investments.

The Plan enters into agreements with counterparties to limit its exposure to credit losses. An International Swaps and Derivatives Association (ISDA) Master Agreement is executed with most OTC derivative counterparties, which allows both parties to settle obligations on a net basis when termination or other pre-determined events occur. The Plan also negotiates collateral agreements known as Credit Support Annex (CSA) with key counterparties to further mitigate counterparty credit risk. A CSA gives the Plan the power to realize collateral posted by counterparties in the event of a default by such counterparties.

Since collateral is an important mitigant of counterparty credit risk, the Plan routinely obtains collateral from its counterparties, not only under OTC derivative contracts but also under reverse repurchase agreements. Note 2i provides further details on securities collateral.

The Plan has a credit risk assessment process to approve prospective new counterparties and to monitor authorized counterparties for derivative contracts, repurchase and reverse repurchase agreements, prime broker relationships and futures and options clearing. The Plan deals primarily with counterparties that have an investment grade credit rating. Policies are in place to limit the maximum exposures to any individual counterparty for derivative contracts or repurchase and reverse repurchase agreements, prime broker relationships and futures and options clearing.

Maximum exposure to credit risk before collateral held

The following table presents the maximum exposure as at December 31, 2012 and December 31, 2011 to credit risk from balance sheet and off-balance sheet financial instruments and arrangements before taking account of any collateral held. The analysis includes financial assets subject to credit risk only; other financial assets, mainly equity securities, as well as non-financial assets are excluded. For off-balance sheet guarantees, the maximum exposure to credit risk is the maximum amount that the Plan would have to pay if the guarantees were to be called upon. For loan commitments and risk participation agreements, the maximum exposure is the committed amount under the agreements. For credit derivatives, the maximum exposure is the notional amount of written credit derivatives as presented in note 2c.

as at December 31 (Canadian $ millions)	2012	2011
On balance sheet:		
Cash	**$ 344**	$ 435
Receivable from the Province of Ontario	**2,831**	2,717
Receivable from brokers	**125**	39
Fixed income		
Debentures	**–**	662
Bonds	**37,555**	31,033
Short-term investments	**9,176**	7,545
Canadian real-rate products	**21,963**	19,766
Non-Canadian real-rate products	**8,798**	9,066
Securities purchased under agreements to resell	**7,200**	7,245
Derivative-related receivables	**1,470**	2,025
Total on balance sheet	**$ 89,462**	$ 80,533
Off balance sheet:		
Guarantees	**$ 324**	$ 2,867
Loan commitments	**10**	33
Risk participation agreements	**28**	113
Notional amount of written credit derivatives	**4,058**	1,729
Total off balance sheet	**4,420**	4,742
Total maximum exposure	**$ 93,882**	$ 85,275

While the Plan's maximum exposure to credit risk is the carrying value of the assets, or, in the case of off-balance sheet items, the amount guaranteed or committed, in most cases the likely exposure is far less due to collateral, credit enhancements (e.g., guarantees in favour of the Plan) and other actions taken to mitigate the Plan's exposure, as described previously.

To monitor credit risk, the Plan produces, on a quarterly basis, a concentration report by credit rating of all credit sensitive financial securities.

Counterparties are assigned a credit rating as determined by recognized credit rating agencies. If the agencies disagree as to a security's credit quality, the most conservative rating is used.

The fair value of debt investments exposed to credit risk, by credit rating category and without taking account of any collateral held or other credit enhancements as at December 31, is as follows:

			2012
Credit rating (Canadian $ millions)	Bonds and Short-Term Investments	Real-Rate Products	Loans and Private Debt
AAA/R-1 (high)	$ 32,518	$ 17,508	$ –
AA/R-1 (mid)	7,123	9,850	–
A/R-1 (low)	2,308	3,098	–
BBB/R-2	1,075	23	–
Below BBB/R-2	1,287	–	–
Unrated[7]	2,420	282	2,932
Total	**$ 46,731**	**$ 30,761**	**$ 2,932**

			2011
Credit rating (Canadian $ millions)	Bonds and Short-Term Investments	Real-Rate Products	Loans and Private Debt
AAA/R-1 (high)	$ 29,710	$ 15,333	$ –
AA/R-1 (mid)	3,164	10,115	–
A/R-1 (low)	1,577	3,070	–
BBB/R-2	539	23	–
Below BBB/R-2	896	–	–
Unrated[7]	2,692	291	2,696
Total	$ 38,578	$ 28,832	$ 2,696

[7] Unrated comprises securities where ratings are either privately held, managed externally, or not rated by the rating agencies.

Credit risk concentrations

As at December 31, 2012, the Plan has a significant concentration of credit risk with the Government of Canada, the Province of Ontario and the U.S. Treasury. This concentration relates primarily to holding Government of Canada issued securities of $45.4 billion (December 31, 2011 – $42.1 billion), U.S. Treasury issued securities of $8.7 billion (December 31, 2011 – $9.6 billion), Province of Ontario bonds of $4.1 billion (December 31, 2011 – $2.9 billion), receivable from the Province of Ontario (see note 3) of $2.8 billion (December 31, 2011 – $2.7 billion), non-marketable Province of Ontario debentures – nil (December 31, 2011 – $0.7 billion), and future provincial funding requirements of the Plan.

(g) Market risk

Market risk is the risk of loss that results from fluctuations in equity and commodity prices, interest and foreign exchange rates, and credit spreads. The Plan is exposed to market risk from its investing activities. The level of market risk to which the Plan is exposed varies depending on market conditions, expectations of future price movements, the occurrence of certain catastrophic events (e.g., hurricanes and earthquakes) affecting the prices of insurance linked securities, expectations of future yield movements and the composition of the asset mix.

Market risk management

The Plan manages market risk primarily through diversifying the investments across industry sectors, investment strategies and on a global basis. A variety of derivative contracts are also utilized to manage the Plan's market risk exposures.

Market and credit risk measurement

The Plan uses a statistical Value-at-Risk (VaR)-type approach, the expected tail loss (ETL) methodology, to measure investment risk comprising of market and credit risk over a one-year horizon at a 99% confidence level. The ETL methodology captures the effect of more extreme loss events than VaR for the same confidence level as it is the average of all the losses in the tail.

Total Asset Risk is prepared using the ETL methodology. This risk captures the investment risk exposure by asset class reflecting the risk of potential losses in net assets due to both market and credit risk factors. Statistically, the Plan would expect to see losses in excess of the risk exposure on the report only 1% of the time over a one-year period, subject to certain assumptions and limitations discussed below.

The ETL methodology is a statistical approach that accounts for market volatility and credit risk as well as risk diversification achieved by investing in various products and markets. Risks are measured consistently across all markets and products and can be aggregated to arrive at a single risk number. The one-year 99% ETL number used by the Plan is generated using a historical simulation and bootstrap sampling approach that reflects the expected annual return on the portfolio in the worst 1% of the cases. The Plan currently uses the previous 26 years of market data. When sufficient historical data is not available, proxies and statistical methods are used to complete the data series.

There are limitations to the ETL methodology in use. For example, historical data may not provide the best estimate of future changes. It may fail to capture the correlation in asset returns in extreme adverse market movements which have not occurred in the historical window. The bootstrap sampling approach and long historical window, however, mitigate this limitation to some extent by enabling the generation of a set of scenarios that include extreme adverse events. Another limitation is that the Plan computes the risk relative to asset positions at the close of the business day. Positions may change substantially during the course of a trading day. These limitations and the nature of the ETL measure mean that the Plan's losses may exceed the risk exposure amounts indicated in any risk reports.

The Plan continuously monitors and enhances the risk calculation methodology, striving for better estimation of risk exposure. A number of initiatives were completed in the past year that significantly improved the accuracy of calculated risk measures. Existing risk methodologies were modified to incorporate more accurate risk models and more reliable risk data.

The table below shows the year-over-year change in Total Asset Risk ETL of the Plan as at December 31.

(Canadian $ billions)[8]	2012	2011
Equity		
Canadian	**$ 4.5**	$ 4.0
Non-Canadian[9]	**16.0**	12.5
Fixed income		
Bonds	**2.0**	2.0
Real-rate products	**5.0**	4.5
Commodities	**4.0**	3.5
Real assets		
Real estate	**1.0**	1.5
Infrastructure	**1.5**	1.5
Timberland	**0.5**	0.5
Absolute return strategies	**1.5**	1.0
Money market	**4.5**	4.5
Total Asset Risk ETL Exposure[10]	**$ 26.5**	$ 21.5

8 Rounded to the nearest $0.5 billion.

9 The increase from 2011 to 2012 for Non-Canadian equity is mitigated by a model change in 2012, which if implemented in 2011 would have seen an increase by up to an estimated $1.0 billion.

10 Total Asset Risk ETL Exposure does not equal the sum of ETL exposure for each asset class because diversification reduces total risk exposure.

Interest rate risk

Interest rate risk refers to the effect on the market value of the Plan's assets and liabilities due to fluctuations in interest rates. The value of the Plan's assets is affected by short-term changes in nominal and real interest rates. Pension liabilities are exposed to fluctuations in long-term interest rates as well as expectations for salary escalation.

The Plan manages the interest rate risk by using interest rate derivatives as detailed in note 2c to the consolidated financial statements. After giving effect to the derivative contracts and investment-related receivables and liabilities discussed in note 2c, a 1% increase in nominal interest rates would result in a decline in the value of the Plan's investments in fixed-income securities of 6% or $1.8 billion (December 31, 2011 – 6% or $1.7 billion). Similarly, a 1% increase in real interest rates would result in a decline in the value of the Plan's investments in real-rate products of 17% or $5.2 billion (December 31, 2011 – 17% or $4.8 billion).

As at December 31, 2012, holding the inflation and salary escalation assumptions constant, a 1% decrease in the assumed long-term real rates of return would result in an increase in the pension liabilities of approximately 21% or $35.3 billion (December 31, 2011 – 21% or $33.9 billion).

Foreign currency risk

Foreign currency exposure arises from the Plan's holdings of foreign currency-denominated investments and related derivative contracts.

As at December 31, the Plan had investments exposed to foreign currency. In Canadian dollars this exposure is as follows:

(Canadian $ millions)	2012	2011
Currency	Net Exposure	Net Exposure
United States Dollar	**$ 23,065**	$ 22,877
British Pound Sterling	**6,970**	5,759
Euro	**6,644**	4,684
Brazilian Real	**3,078**	3,021
Chinese Renminbi	**2,634**	1,892
Japanese Yen	**2,590**	2,538
Chilean Peso	**2,496**	1,968
Australian Dollar	**1,983**	1,495
South Korean Won	**1,392**	1,011
Danish Krona	**1,211**	720
Other	**8,277**	4,923
	$ 60,340	$ 50,888

A 1% increase/decrease in the value of the Canadian dollar against all currencies, with all other variables and underlying values held constant, would result in an approximate decrease/increase in the value of net investments of $603 million as at December 31, 2012 (December 31, 2011 – $509 million).

(h) Liquidity risk

Liquidity risk refers to the risk that the Plan 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.

Liquidity risk management

The liquidity position of the Plan is analyzed daily to ensure the Plan maintains at least 1.25% of its assets in unencumbered Canadian treasury bills. The Plan also manages its liquidity by holding additional unencumbered Government of Canada securities (bonds, treasury bills and real-rate bonds) and U.S. Government securities that are available for repurchase agreements so that the Plan is able to withstand the liquidity effects of an equity market downturn that have 1-in-10 and 1-in-100 chance of occurring over a one-year time horizon. The Plan's liquidity position is periodically tested by simulations of major events such as significant movements in the market.

Liquid assets

The Plan maintains a portfolio of highly marketable assets including Canada and U.S. government bonds that can be sold or funded on a secured basis as protection against any unforeseen interruption to cash flow. The fair value of the Canada and U.S. government bonds is $54,072 million as at December 31, 2012 (December 31, 2011 – $51,695 million). The Plan also has publicly traded equities of $33,318 million (December 31, 2011 – $34,122 million) which are listed on major recognized stock exchanges. These securities are readily realizable and convertible to cash.

Contractual maturity

The Plan's liabilities include accrued pension benefits, real estate liabilities, investment-related liabilities, due to brokers, accounts payable and accrued liabilities. Due to brokers, accounts payable and accrued liabilities are all due within one year. As the Plan may settle derivatives at fair value before contractual maturity, they are considered to mature within one year.

The Plan's investment-related liabilities by maturity as at December 31 are as follows:

(Canadian $ millions)				**2012**
	Within One Year	One to Five Years	Over Five Years	**Total**
Securities sold under agreements to repurchase	$ (30,661)	$ (5,013)	$ –	**$ (35,674)**
Securities sold but not yet purchased				
Fixed income	(4,713)	–	–	**(4,713)**
Equities	(1,193)	–	–	**(1,193)**
Real estate	(539)	(1,597)	(2,235)	**(4,371)**
Cash collateral received under credit support annexes	(263)	–	–	**(263)**
Derivative-related, net	(1,254)	–	–	**(1,254)**
Total	$ (38,623)	$ (6,610)	$ (2,235)	**$ (47,468)**

(Canadian $ millions)			2011
	Within One Year	One to Five Years	Total
Securities sold under agreements to repurchase	$ (29,565)	$ (5,523)	$ (35,088)
Securities sold but not yet purchased			
Fixed income	(2,076)	–	(2,076)
Equities	(847)	–	(847)
Cash collateral received under credit support annexes	(458)	–	(458)
Derivative-related, net	(1,836)	–	(1,836)
Total	$ (34,782)	$ (5,523)	$ (40,305)

(i) Securities collateral

Canadian and U.S. government securities with a fair value of $808 million (December 31, 2011 – $1,260 million) have been either deposited or pledged with various financial institutions as either collateral or margin. Generally, additional collateral is provided if the value of the securities falls below a predetermined level. The securities transferred are recognized as assets when the Plan retains substantially all risks and rewards, including credit risk, settlement risk and market risk. The Plan is not allowed to either pledge the same securities with other financial institutions or to sell them to another entity unless the Plan could substitute such securities with other securities that the counterparties accept.

At the end of the reporting period, securities transferred as collateral for securities sold under agreements to repurchase amounted to $35,986 million (2011 – $36,507 million) with an associated liability of $35,674 million (2011 – $35,088 million). Securities transferred as collateral or margin for derivative-related liabilities amounted to $800 million (2011 – $1,251 million) with the associated liability is $1,264 million (2011 – $2,044 million).

Canadian and U.S. government securities with a fair value of $938 million (December 31, 2011 – $1,838 million) have been received from various financial institutions as collateral. The collateral is not recognized as the Plan's asset since the risks and rewards of the ownership remain with the counterparties. The Plan holds the collateral received as long as the Plan is not a defaulting party or an affected party in connection with a specified condition listed on the contractual agreements and there is no early termination of the contractual agreement. The Plan is permitted to either sell or repledge the collateral in the absence of default by the owner of the collateral but it has neither sold nor repledged any collateral as of December 31, 2012 and 2011.

NOTE 3.
RECEIVABLE FROM THE PROVINCE OF ONTARIO

The receivable from the Province consists of required matching contributions and interest thereon.

as at December 31 (Canadian $ millions)	2012	2011
Contributions receivable	**$ 2,777**	$ 2,663
Accrued interest receivable	**54**	54
	$ 2,831	$ 2,717

The receivable as at December 31, 2012 from the Province of Ontario consists of $1,393 million, which was received in January 2013, and an estimated $1,438 million to be received with interest in January 2014. The receivable as at December 31, 2011 from the Province consisted of $1,344 million, which was received in January 2012, and an initial estimate of $1,373 million to be received in January 2013. The difference between the initial estimates and the actual amount received was due to interest.

NOTE 4.
ACCRUED PENSION BENEFITS

(a) Actuarial assumptions

The actuarial assumptions used in determining the value of accrued pension benefits of $166,009 million (December 31, 2011 – $162,587 million) reflect management's best estimate of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, the salary escalation rate and the inflation rate. The discount rate is based on the market rate, as at the valuation date, of long-term Government of Canada bonds, which have characteristics similar to the Plan's liabilities, plus a spread to reflect the credit risk of the Province of Ontario. The inflation rate is the difference between the yield on Government of Canada long-term nominal bonds and Government of Canada real-return bonds. The salary escalation rate incorporates the inflation rate assumption and long-term expectation of growth in real wages.

In 2011, the spread was changed from 50 basis points to the prevailing spread as at December 31 between the Government of Canada and the Province of Ontario long-term nominal bonds. As the change in accounting estimate was applied prospectively beginning January 1, 2011, the change in accrued benefits for 2012 was not affected (2011 – $12,397 million decrease).

A summary of the primary economic assumptions is as follows:

as at December 31	2012	2011
Discount rate	**3.40%**	3.40%
Salary escalation rate	**3.00%**	3.05%
Inflation rate	**2.00%**	2.05%
Real rate	**1.40%**	1.35%

The primary economic assumptions were changed as a result of changes in capital markets during 2012 and the legislated salary freeze noted below. These changes resulted in a net decrease in the value of accrued pension benefits of $5,699 million (December 31, 2011 – $22,284 million increase).

The primary economic assumptions also incorporated the Province of Ontario's two-year legislated teachers' salary freeze for 2012 and 2013. The accrued pension benefits as at December 31, 2012 would increase by $4.3 billion if the salary freeze had not been reflected. There is an outstanding court challenge by the Elementary Teachers' Federation of Ontario and the Ontario Secondary School Teachers' Federation to this legislation and it is not possible to assess the probable outcome until the court decides and/or the parties settle.

The non-economic assumptions were updated in 2012 to reflect recent experience of Plan members related to retirement, termination and mortality rates and expected rates of improvement in future mortality. Changes in non-economic assumptions and the valuation methods increased the accrued pension benefits by $3,026 million (December 31, 2011 – $68 million decrease). The changes in economic and non-economic assumptions resulted in a net decrease in the value of accrued pension benefits of $2,673 million (December 31, 2011 – $9,819 million increase).

(b) Plan provisions

Credited service earned after December 31, 2009 is subject to conditional inflation protection as described in paragraph (f) of the Description of Plan note. The inflation protection benefits vary between 50% and 100% of the change in the Consumer Price Index (CPI) for credited service earned between January 1, 2010 and December 31, 2013 and vary between 0% and 100% of the change in the CPI for credited service earned after 2013. The conditional inflation protection provision can only be invoked or updated when a funding valuation is filed. The Ontario government and designated employers participating in the Plan will make extra contributions to the Plan to match the inflation protection benefits members forgo up to a maximum forgone inflation of 50% of CPI.

Conditional inflation protection was initially invoked in 2011, resulting in the level of inflation protection being set at 60% of the change in the CPI for the post-2009 credited service. The provision has been revised based on the filed funding valuation as at January 1, 2012. Effective January 1, 2014, inflation protection has been revised to be 50% of the change in the CPI for credited service earned between 2010 and 2013 and 45% for credited service after 2013. The level of inflation protection may be updated based on the Plan's funded status when a subsequent funding valuation is filed. Pension legislation prescribes the timing of periodic valuations but the co-sponsors can elect to file a funding valuation at an earlier date.

For the financial statement valuation at December 31, 2012, the Plan accrues the minimum amount of inflation protection benefits for credited services earned by members until 2012. With respect to the credited service earned between 2010 and 2012, the minimum inflation protection benefits are 60% of CPI for payments in 2013 and 50% of CPI for payments after 2013. The indexation percentage for credited service earned before 2010 remains at 100% for all future year payments.

If 100% indexation had been assumed starting after the next statutory filing, with full inflation protection restored on a go-forward basis, the accrued pension benefits would increase $2,414 million (December 31, 2011 – $1,620 million) to $168,423 million (December 31, 2011 – $164,207 million). The present value of the maximum extra contributions the Plan will receive from the Ontario government and designated employers will be $2,414 million (December 31, 2011 – $1,620 million).

Effective July 1, 2012, the Ontario pension regulations were amended, providing for immediate vesting of accrued benefits for members who terminate on or after July 1, 2012. The changes to plan provisions resulted in an increase in the value of accrued pension benefits of $107 million as at December 31, 2012.

(c) Experience gains and losses

Experience losses on the accrued pension benefits of $286 million (December 31, 2011 – $179 million) arose from differences between the actuarial assumptions and actual results.

NOTE 5.
INVESTMENT IN REAL ESTATE

The Plan's real estate portfolio is comprised of real estate-related investments that are either owned or managed on behalf of the Plan by The Cadillac Fairview Corporation Limited (CFCL), a wholly-owned subsidiary. As the Plan is now more actively involved with CFCL, the Plan now consolidates the fair value of the assets and liabilities of CFCL and the investment holding companies managed by CFCL. Investment holding companies and investment entities, including the joint ventures, managed by external parties, are recognized as the Plan's investments measured at fair value and presented on a non-consolidated basis. The consolidation of the real estate portfolio in 2012 and the non-consolidation of the real estate portfolio in 2011 have no impact on the net investment in real estate. The operating income (net of interest expense) earned from the real estate portfolio continues to be recorded as the Plan's real estate investment income.

The tables below provide information on the real estate portfolio. Intercompany transactions and balances are eliminated upon consolidation in 2012. The first table presents major components of the net investment in real estate including, as at December 31, 2011, the non-consolidated liabilities. The second table presents major components of net real-estate income.

as at December 31		2012		2011
(Canadian $ millions)	**Fair Value**	**Cost**	Fair Value	Cost
Assets[1, 2]				
Real estate properties	**$ 18,320**	**$ 11,259**	$ 18,866	$ 12,593
Investments	**2,681**	**1,513**	1,234	869
Other assets	**226**	**207**	306	268
Total assets	**21,227**	**12,979**	20,406	13,730
Liabilities[1, 2]				
Long-term debt	**3,704**	**3,457**	4,665	4,527
Other liabilities	**667**	**495**	781	543
Total liabilities	**4,371**	**3,952**	5,446	5,070
Net investment in real estate	**$ 16,856**	**$ 9,027**	$ 14,960	$ 8,660

1 As at December 31, 2012, U.S. Dollar and British Pound Sterling net assets have been hedged by way of foreign currency forward contracts for a notional amount of $1,143 million (December 31, 2011 – $915 million) with a combined fair value of $4 million (December 31, 2011 – ($43) million).

2 Joint ventures managed by external parties hold real estate properties and have liabilities. As at December 31, 2012, the net asset value of these joint ventures is included in investments, representing assets of $1,897 million and liabilities of $920 million. As at December 31, 2011, the proportionate share of assets and liabilities in these joint ventures of $1,675 million and $787 million were included in assets and liabilities respectively.

(Canadian $ millions)	2012	2011
Revenue		
Rental	**$ 1,678**	$ 1,804
Investment and other	**96**	77
	1,774	1,881
Expenses		
Property operating	**746**	793
General and administrative	**39**	37
Other[3]	**13**	47
	798	877
Operating income	**976**	1,004
Interest expense	**(148)**	(176)
Income (note 6)	**828**	828
Net investment gain[4, 5]	**2,064**	1,545
Net real estate income	**$ 2,892**	$ 2,373

[3] Includes transaction costs of $13 million (2011 – $24 million).

[4] Includes unrealized net gain of $1,529 million (2011 – $1,337 million).

[5] These amounts are included in net realized and unrealized gains on investments shown in note 6.

NOTE 6.
INVESTMENT INCOME

(a) Investment income/(loss) before allocating net realized and unrealized gains on investments, management fees and transaction costs to asset classes

Investment income, before allocating the net realized and unrealized gains on investments, management fees and transaction costs to asset classes, for the year ended December 31, is as follows:

(Canadian $ millions)	2012	2011
Fixed income interest		
Debentures	**$ 31**	$ 99
Short-term investments	**(87)**	(124)
Bonds	**1,485**	1,334
Net repo interest expense	**(104)**	(166)
Net swap interest expense	**(91)**	(154)
Canadian real-rate products	**460**	428
Non-Canadian real-rate products	**164**	171
	1,858	1,588
Equity dividend income		
Canadian equity	**148**	179
Non-Canadian equity	**1,121**	979
	1,269	1,158
Real assets		
Real estate (note 5)	**828**	828
Infrastructure	**469**	201
Timberland	**68**	60
	1,365	1,089
	4,492	3,835
Net realized and unrealized gain on investments[1, 2]	**10,792**	8,233
Management fees	**(216)**	(218)
Transaction costs	**(316)**	(115)
Investment income	**$ 14,752**	$ 11,735

[1] Includes net foreign currency gains of $53 million (2011 – losses of $546 million).

[2] Includes unrealized net gains of $5,797 million (2011 – gains of $5,284 million).

(b) Investment income/(loss)

Investment income/(loss) by asset class, after allocating net realized and unrealized gains and losses on investments, management fees, and transaction costs, for the year ended December 31, is as follows:

(Canadian $ millions)	2012	2011
Fixed income	**$ 3,738**	$ 9,306
Canadian equity	**740**	(267)
Non-Canadian equity	**6,623**	(248)
Commodities	**(59)**	(46)
Real assets	**3,710**	2,990
	$ 14,752	$ 11,735

NOTE 7.
INVESTMENT RETURNS AND RELATED BENCHMARK RETURNS

Investment returns and related benchmark returns by investment asset class for the year ended December 31 are as follows:

	2012		2011	
(percent)	Investment Returns	Investment Benchmark Returns	Investment Returns	Investment Benchmark Returns
Fixed income	**5.1%**	**4.5%**	19.9%	19.5%
Canadian equity	**5.2**	**8.1**	(5.0)	(9.1)
Non-Canadian equity	**16.5**	**14.5**	0.2	(4.4)
Commodities	**(1.9)**	**(1.1)**	(2.3)	(1.5)
Real assets	**14.7**	**10.6**	13.2	13.3
Total Plan	**13.0%**	**11.0%**	11.2%	9.8%

Investment returns have been calculated using a time-weighted rate of return methodology.

The Plan identifies benchmarks to evaluate the investment management performance. The performance of each asset class is measured against benchmarks that simulate the results based on the investment strategies employed by the investment managers identified for the asset class.

The Total Plan return is measured against a Canadian dollar-denominated composite benchmark produced by aggregating returns from each of the policy asset class benchmarks, using the Plan's asset-mix policy weights.

NOTE 8.
STATUTORY ACTUARIAL VALUATIONS

Statutory actuarial valuations are prepared periodically to determine the funding requirements of the Plan. Active members are currently required to contribute 10.8% (2011 – 10.4%) of the portion of their salaries covered by the CPP and 12.4% (2011 – 12.0%) of salaries above this level. Member contributions are matched by the Province and designated employers. In addition, the Funding Management Policy established by the co-sponsors provides procedures for the co-sponsors to determine contributions and benefits.

Under an agreement between the co-sponsors, contribution rates are as follows:

	Contribution Rate	
(percent)	Covered by CPP	Not Covered by CPP
2012	10.80%	12.40%
2013	11.15%	12.75%
2014	11.50%	13.10%

The actuarial methods used to prepare statutory actuarial valuations are different than those used to prepare a financial statement actuarial valuation and the amounts disclosed in these consolidated financial statements. The statutory actuarial valuations use a valuation method which takes into account future benefits to be earned and future contributions to be made by members of the Plan as at the valuation date.

The most recent statutory actuarial valuation that has been filed with regulatory authorities was prepared as at January 1, 2012 by Mercer (Canada) Limited and disclosed a funding surplus of $209 million, after adopting conditional inflation protection of 60% for post-2009 to be paid in 2013, 50% for 2010 to 2013 service to be paid after 2013, and 45% for post-2013 service to be paid after 2014, as well as the contribution increases summarized above which will be payable over the 15-year period commencing January 1, 2012.

NOTE 9.
CONTRIBUTIONS

(Canadian $ millions)	2012	2011
Members		
Current service	**$ 1,418**	$ 1,352
Optional credit	**28**	25
	1,446	1,377
Province of Ontario		
Current service	**1,395**	1,345
Interest	**39**	40
Optional credit	**24**	21
	1,458	1,406
Other employers	**28**	26
Transfers from other pension plans	**12**	14
	40	40
	$ 2,944	$ 2,823

NOTE 10.
BENEFITS PAID

(Canadian $ millions)	2012	2011
Retirement pensions	**$ 4,550**	$ 4,329
Death benefits	**287**	259
Disability pensions	**29**	29
Commuted value transfers	**45**	33
Family law transfers	**6**	–
Transfers to other plans	**6**	10
Refunds	**1**	3
	$ 4,924	$ 4,663

NOTE 11.
ADMINISTRATIVE EXPENSES

(a) Investment expenses

(Canadian $ millions)	2012	2011
Salaries, incentives and benefits	**$ 179.7**	$ 180.6
Premises and equipment	**35.3**	31.5
Professional and consulting services	**41.3**	37.0
Information services	**16.4**	14.9
Communication and travel	**13.4**	12.0
Custodial fees	**9.0**	8.0
Statutory audit fees	**1.7**	1.6
Board and committee remuneration	**0.7**	0.6
Other	**4.0**	3.2
	$ 301.5	$ 289.4

(b) Member services expenses

(Canadian $ millions)	2012	2011
Salaries, incentives and benefits	**$ 28.2**	$ 28.6
Premises and equipment	**8.9**	8.8
Professional and consulting services	**4.4**	3.5
Communication and travel	**1.1**	1.7
Statutory audit fees	**0.1**	0.1
Board and committee remuneration	**0.1**	0.1
Other	**0.8**	0.8
	$ 43.6	$ 43.6

(c) Compensation of key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Plan, being the Board Members, the Executive Team and the Senior Vice-Presidents of the Investment Division.

The compensation of the key management personnel is included in the administrative expenses of the Plan. There are no other related party transactions between the key management personnel and the Plan.

The compensation of the key management personnel[1] as at December 31 is summarized below:

(Canadian $ millions)	2012	2011
Short-term employee benefits	**$ 12.4**	$ 12.0
Post-employment retirement benefits	**3.6**	3.1
Other long-term benefits	**17.0**	23.5
Total	**$ 33.0**	$ 38.6

[1] The table does not include compensation of either officers or directors of CFCL.

(d) Employees' post-employment retirement benefits

The employees of the Plan are either members of the Ontario Public Service Employees Union (OPSEU) Pension Plan or Public Service Pension Plan (PSPP). Some employees are also members of the Public Service Supplementary Plan (PSSP). These three pension plans are sponsored by the Province of Ontario and information is available on www.optrust.com and www.opb.ca. As the employer, the Plan matches the employees' contributions to these pension plans. Some senior management employees also participate in a non-registered, unfunded Supplemental Employee Retirement Plan (SERP) managed by the Plan to provide the employees non-indexed retirement benefits equal to 2% of the employee's pensionable earnings times the number of years of service, less the initial annual pension to which the employee is entitled under the PSPP and PSSP, combined. The contributions expensed by the Plan during the year were $12.7 million (2011 – $10.1 million). Contributions are included in the salaries, incentives and benefits expenses.

NOTE 12.
CAPITAL

The funding surpluses or deficits determined regularly in the funding valuations prepared by an independent actuary are described as the Plan's capital in the consolidated financial statements. The actuary's funding valuation is used to measure the long-term health of the Plan. The actuary tests the Plan's ability to meet its obligations to all current Plan members and their survivors. Using an assumed rate of return, the actuary projects the Plan's benefits to estimate the current value of the liability (see note 4), which is compared to the sum of the Plan assets, the future contributions for all current Plan members and the present value of the contribution increases for future members. The result of the comparison is either a surplus or a deficit.

The objective of managing the Plan's capital is to ensure the Plan is fully funded to pay the plan benefits over the long term. The co-sponsors change the benefit and contribution levels to eliminate any deficits. The Funding Management Policy set by the co-sponsors in the Partners' Agreement provides guidance on how the co-sponsors manage the Plan's capital.

A funding valuation including a plan to eliminate any deficit is required to be filed with the pension regulator at least every three years. A preliminary funding valuation is performed by the actuary when the valuation is not filed with the regulator assisting the co-sponsors in managing the Plan's capital.

The most recent funding valuation filed is disclosed in note 8.

NOTE 13.
RETIREMENT COMPENSATION ARRANGEMENT (RCA)

Restrictions in the ITA on the payment of certain benefits from a registered plan for periods of service after 1991 may impact some Plan members. To address affected members, the RCA was established by agreement between the co-sponsors as a supplementary plan to provide these benefits.

The RCA is administered under a trust separate from the assets of the Plan. The Board has been appointed by the co-sponsors to act as the trustee of the RCA.

Because the RCA is a separate trust and the Plan does not control the RCA, the net assets available for benefits and the value of accrued benefits and deficit, referred to below, have not been included in the consolidated financial statements of the Plan.

The RCA is funded on a pay-as-you-go basis from a portion of the contributions made to the Plan by members, the Province and designated employers. The portion is based on a limit on contributions to the Plan with contributions above the limit being remitted to the RCA. The limit is determined annually by the Plan's independent actuary such that the RCA contributions are expected to be sufficient to pay the benefits over the next 12 months. At the beginning of 2013, the actuary determined that the limit should decrease from $15,000 to $14,200. Due to the funding policy adopted by the co-sponsors, the net assets available for benefits will continue to be substantially less than the accrued benefits.

In addition, because it is difficult to predict the benefits expected to be paid over the next 12 months, it is possible that the assets may be insufficient to pay the benefits. In such a case, the payment of benefits will be temporarily suspended and contributions raised in order to fund the payments that are due under the RCA.

The RCA financial statements are in compliance with Section 4600 and IFRS. A summary of the financial statements for the RCA as at December 31 is as follows:

as at December 31 (Canadian $ thousands)	2012	2011
Statements of financial position		
Net assets available for benefits		
Assets	**$ 18,912**	$ 17,152
Liabilities	**(1,744)**	(1,595)
	$ 17,168	$ 15,557
Accrued benefits and deficit		
Accrued benefits	**$ 380,095**	$ 391,835
Deficit	**(362,927)**	(376,278)
	$ 17,168	$ 15,557
Statements of changes in net assets available for benefits		
Contributions	**$ 7,693**	$ 6,142
Investment income	**70**	49
	7,763	6,191
Benefits paid	**6,060**	5,917
Expenses	**92**	86
	6,152	6,003
Increase in net assets	**$ 1,611**	$ 188

The actuarial assumptions and the accrual of conditional inflation protection used in determining the value of accrued benefits are consistent with the Plan except that the assumed discount rate has been adjusted to reflect the effect of the 50% refundable tax under the RCA.

The estimate of the value of accrued benefits is highly sensitive to salary increases, both actual and assumed. Any changes to the salary assumptions will have a significant effect on the liabilities for future benefits. In addition, significant uncertainty exists in projecting the liabilities of the RCA due to changes in the number of future participants as well as changes to the income tax regulations relating to pensions.

NOTE 14.
COMMITMENTS

The Plan has committed to enter into investment and other transactions, which may be funded over the next several years in accordance with the terms and conditions agreed to. As at December 31, 2012, these commitments totalled $6,940 million (December 31, 2011 – $4,962 million).

NOTE 15.
GUARANTEES AND INDEMNIFICATIONS

The Plan provides guarantees to third parties related to certain companies the Plan invests in and will be called upon to satisfy the guarantees if the companies fail to meet their obligations. The Plan expects most guarantees to expire unused. No payments have been made by the Plan in either 2012 or 2011 under these guarantees.

The Plan guarantees three debentures issued by a real estate trust in 2011. The debentures are comprised of $1.25 billion 3.24% Series A Debentures maturing on January 25, 2016, $0.75 billion 4.31% Series B Debentures maturing on January 25, 2021 and $0.6 billion 3.64% Series C Debentures maturing on May 9, 2018. The debentures may be redeemed by the issuer at any time prior to maturity. The Plan's maximum exposure is $2,635 million as at December 31, 2012 (December 31, 2011 – $2,635 million).

As the Plan now consolidates real estate liabilities, these debentures are included in real estate investment-related liabilities in note 2 in 2012. In 2011, the debentures were included in net investment in real estate.

The Plan guarantees loan and credit agreements which will expire between 2013 and 2014. The Plan's maximum exposure is $139 million as at December 31, 2012 (December 31, 2011 – $149 million). The companies have drawn $128 million under the agreements (December 31, 2011 – $127 million).

The Plan guarantees lease agreements for a subsidiary with expiry dates ranging from 2013 to 2059. The Plan's maximum exposure is $84 million as at December 31, 2012 (December 31, 2011 – $83 million). There were no default lease payments in either 2012 or 2011.

The Cadillac Fairview Corporation Limited manages the real estate investments and has provided guarantees relating to the completion of the construction of certain residential developments. The term of these guarantees spans the lives of the development projects, which range from one to three years. The maximum exposure cannot be determined because the projects are not yet complete. These guarantees amounted to $101 million as at December 31, 2012 and have not been recognized in the real estate liabilities.

Indemnifications

The Plan provides that Board members, employees and certain others are to be indemnified in relation to certain proceedings that may be commenced against them. In addition, in the normal course of operations, the Plan may, in certain circumstances, agree to indemnify a counterparty. Under these agreements, the Plan, its subsidiaries and joint ventures may be required to compensate counterparties for costs incurred as a result of various contingencies such as legal claims or changes in laws and regulations. The number of such agreements, the variety of indemnifications and their contingent character prevents the Plan from making a reasonable estimate of the maximum amount that would be required to pay all such counterparties.

NOTE 16.
LITIGATION

In 2007, the Board on behalf of the Plan made an equity commitment in respect of a proposed transaction pursuant to which a corporation (the Purchaser) organized by several investors was proposing to acquire BCE Inc. (BCE). The transaction was terminated in 2008 because not all of the conditions required under the definitive agreement could be satisfied. In connection with the BCE transaction, the Board was named as a defendant in the following cases:

Break fee litigation

BCE made a claim for the reverse break-up fee of $1.2 billion, which was payable in certain circumstances, under the BCE acquisition agreement. Certain of the investors, including the Board, were parties to a limited guarantee of this reverse break-up fee. This action was settled in 2012 as part of the acquisition of an investment called Q9 Networks.

Proposed class actions

A proposed class action was commenced in the Province of Saskatchewan in 2008 regarding the non-payment of second and third quarter common share dividends by BCE. A certification motion has not been scheduled. At this time, it is premature to estimate the Board's liability, if any.

A proposed class action was commenced in the Province of Ontario in 2011 by a former holder of BCE call options, claiming damages of $30 million and punitive damages of $5 million. The plaintiff alleges that certain statements reported anonymously in a news article misrepresented the status of the negotiations that eventually led to the definitive agreement between BCE and the Purchaser. At this time, it is premature to estimate the Board's liability, if any.

Major Investments

(as at December 31, 2012)

FIXED INCOME AND SHORT-TERM INVESTMENTS OVER $100 MILLION

Type ($ millions)	Maturity	Coupon (%)	Fair Value	Cost
Government of Canada bonds	2013–2045	0.75–9.25	$ 20,642	$ 17,553
Canada treasury bills	2013–2013	0.00–0.00	7,251	7,238
Securities purchased under agreements to resell	2013–2013	-0.75–1.08	7,200	7,193
Provincial bonds	2016–2044	0.00–9.50	5,555	5,218
International corporate bonds	2013–2099	0.00–22.07	2,762	3,031
U.S. government agency bonds	2014–2017	0.38–5.00	2,572	2,566
Canadian corporate bonds	2013–2085	0.00–14.00	1,993	2,017
International sovereign debt	2013–2025	2.00–9.91	392	376
U.S. treasury bills	2013–2013	0.00–0.00	137	137
Bank notes	2013–2013	0.00–0.05	103	103
Securities sold under agreements to repurchase	2013–2013	0.10–1.35	(35,674)	(35,775)

REAL-RETURN INVESTMENTS OVER $100 MILLION

Type ($ millions)	Maturity	Coupon (%)	Fair Value	Cost
Real-return Canada bonds	2021–2044	1.50–4.25	$ 17,508	$ 12,804
U.S. treasury inflation protection	2014–2042	0.50–3.88	8,605	6,956
Real-return provincial bonds	2013–2036	2.00–4.50	2,222	1,333
Real-return Canadian corporate bonds	2016–2046	0.00–5.33	2,078	839
Index-linked mortgages	2023–2030	4.63–5.53	155	129

CORPORATE SHARES/UNITS OVER $100 MILLION

(as at December 31, 2012) (millions)

Security Name	Shares	Fair Value
iShares MSCI Emerging Markets Index	56.8	$2,507.0
Multiplan Empreendimentos Imobiliarios S.A.	52.1	1,541.6
Hitachi, Ltd.	117.5	682.1
Canadian Natural Resources Limited	17.0	487.9
Michael Kors Holdings Limited	9.2	465.0
Nippon Telegraph and Telephone Corporation	7.8	324.8
ACE Limited	3.9	310.8
Wells Fargo & Company*	9.4	292.9
Toronto-Dominion Bank, The	4.1	286.5
Royal Bank of Canada	4.6	276.4
Transocean Ltd.	6.1	269.1
Grupo BTG Pactual	16.6	239.0
TMX Group Limited	4.6	235.6
European Aeronautic Defence and Space Company N.V.	6.1	235.2
JPMorgan Chase & Co.*	5.5	232.6
Microsoft Corporation	8.4	223.3
CSX Corporation	10.8	212.6
MMX Mineracao e Metalicos S.A.	124.1	210.1
Sprint Nextel Corporation	37.2	209.9
Bank of Nova Scotia	3.6	206.4
Google Inc.	0.3	205.3
Goldcorp Inc.	5.6	203.7
Kroger Co., The	7.9	203.6
Nestlé S.A.	3.1	198.8
Royal Dutch Shell plc	3.2	194.0
Barrick Gold Corporation	5.5	193.2
3M Company	2.1	191.5
Lafarge S.A.	3.0	188.5
Akzo Nobel N.V.	2.9	188.1
PNC Financial Services Group, Inc.*	3.8	181.9
Daiwa Securities Group Inc.	31.0	169.8
Ivanplats Ltd.	4.2	168.9
The Walt Disney Company	3.4	166.6
Credit Suisse Group AG	6.8	164.0
Novartis AG	2.6	162.9
DaimlerChrysler AG	3.0	162.5
UBS AG	10.2	158.8
Apple Inc.	0.3	157.4
MacDonald, Dettwiler and Associates Ltd.	2.8	155.3
Toyota Motor Corporation	3.3	150.4
CVS Caremark Corporation	3.1	150.2
Total S.A.	3.2	$148.6
Unilever N.V.	3.9	148.5
SunTrust Banks, Inc.*	5.3	146.3
Exxon Mobil Corporation	1.7	146.2
FedEx Corporation	1.6	146.1
LLX Logistica S.A.	124.1	144.9
The Bank of New York Mellon Corporation	5.6	143.7
News Corporation	5.7	143.7
Intel Corporation	6.9	142.1
Applied Materials, Inc.	12.5	142.0
Cemex, S.A. de C.V.	22.0	141.1
Canadian Imperial Bank of Commerce	1.8	140.1
Metlife, Inc.	4.3	138.9
Pfizer Inc.	5.5	137.1
HSBC Holdings plc	12.5	131.3
Bank of Montreal	2.2	131.2
Chow Tai Fook Jewellery Company Limited	81.0	130.0
Oracle Corporation	3.8	126.2
NuVista Energy Ltd.	21.5	126.0
Koninklijke (Royal) Philips Electronics N.V.	4.8	125.9
Continental AG	1.1	123.7
Portugal Telecom, SGPS, S.A.	24.8	121.8
Shriram Transport Finance Company Ltd.	8.8	121.3
Canadian National Railway Company	1.3	120.4
General Mills, Inc.	2.9	118.0
TripAdvisor, Inc.	2.8	117.8
Enbridge Inc.	2.8	116.2
Viacom Inc.	2.2	114.6
TransCanada Corporation	2.4	113.5
Sampo Oyj	3.5	113.4
Chesapeake Energy Corporation	6.8	112.7
Idea Cellular Limited	58.8	110.9
Potash Corporation of Saskatchewan Inc.	2.7	109.7
Rockwell Collins, Inc.	1.9	108.0
Aurizon Holdings Limited	27.6	106.9
International Business Machines Corporation	0.6	106.0
Cisco Systems, Inc.	5.3	103.5
Cheung Kong (Holdings) Limited	6.8	103.3
Republic Services, Inc.	3.5	102.1
Woodside Petroleum Ltd.	2.9	101.2
Ferrovial, S.A.	6.9	100.8
Itaú Unibanco Holding S.A.	6.1	100.3

* Includes fair market value of warrants and subscription receipts.

REAL ESTATE INVESTMENTS OVER $100 MILLION

(as at December 31, 2012)

Property	Total Square Footage (in thousands)	Effective % Ownership
Canadian Regional Shopping Centres		
Champlain Place, Dieppe	731	100%
Chinook Centre, Calgary	1,382	100%
Fairview Mall, Toronto	875	50%
Fairview Park Mall, Kitchener	746	100%
Fairview Pointe Claire, Montreal	1,050	50%
Le Carrefour Laval, Montreal	1,357	100%
Les Galeries D'Anjou, Montreal	1,200	50%
Les Promenades St. Bruno, Montreal	1,135	100%
Lime Ridge Mall, Hamilton	810	100%
Market Mall, Calgary	972	50%
Markville Shopping Centre, Markham	896	100%
Masonville Place, London	687	100%
Pacific Centre, Vancouver	1,440	100%
Polo Park Mall, Winnipeg	1,232	100%
Richmond Centre, Richmond	773	50%
Rideau Centre, Ottawa	1,389	100%
Sherway Gardens, Toronto	992	100%
Shops at Don Mills, Toronto	470	100%
The Promenade, Toronto	704	100%
Toronto-Dominion Centre, Toronto	156	100%
Toronto Eaton Centre, Toronto	1,712	100%

Property	Total Square Footage (in thousands)	Effective % Ownership
Canadian Office Properties		
Encor Place, Calgary	359	100%
Granville Square, Vancouver	402	100%
HSBC Building, Vancouver	395	100%
Pacific Centre Office Complex, Vancouver	1,531	100%
PricewaterhouseCoopers Place, Vancouver	241	100%
RBC Centre, Toronto	1,226	50%
Shell Centre, Calgary	683	50%
Simcoe Place, Toronto	759	25%
Toronto-Dominion Centre Office Complex, Toronto	4,436	100%
Toronto Eaton Centre Office Complex, Toronto	1,898	100%
Waterfront Centre, Vancouver	410	100%
Yonge Corporate Centre, Toronto	670	100%
U.S. Regional Shopping Centres		
Lakewood Mall, Lakewood, California	2,079	49%
Los Cerritos Center, Cerritos, California	1,329	49%
Queens Center, Queens, New York	938	49%
Stonewood Center, Downey, California	920	49%
Washington Square, Tigard, Oregon	1,317	49%
U.K. Office Properties		
Thomas More Square Estate, London	566	50%

PRIVATE COMPANIES AND PARTNERSHIPS OVER $100 MILLION

(as at December 31, 2012)

360buy Jingdong Inc.
Acorn Care and Education Limited
Actera Partners L.P.
Alexander Forbes Limited
Alliance Boots GmbH
Alliance Laundry Systems, LLC
AlphaMikita
ANV Holdings BV
AOT Bedding Holding Corp.
Apollo Overseas Partners (Delaware 892) VI, L.P.
Apollo Overseas Partners (Delaware 892) VII, L.P.
AQR Offshore Multi-Strategy Fund VII Ltd.
Aquiline Financial Services Fund (Offshore) L.P.
ARC Energy Fund 5 Canadian Limited Partnership
Ares Corporate Opportunities Fund III, L.P.
Autonomy Global Macro Fund Limited
Avaya Inc.
Barclays Private Credit Partners Fund L.P.
Baybridge Seniors Housing Inc.
BC European Capital VIII
BDCM Intermediate Company A
BDCM Offshore Opportunity Fund II Ltd.
Birmingham International Airport
Blue Coat Systems, Inc.
Bridgewater Pure Alpha Fund II Ltd.
Bristol Airports (Bermuda) Limited
Camelot Group plc
Copenhagen Airport A/S
Crestline OT Opportunity Fund, L.P.
DaVinciRe Holdings Ltd.
Dematic S.A.
Diamond Castle Partners IV-A, L.P.
Donnet Participações S.A.
Downsview Managed Account Platform Inc.
Effissimo Capital Management Pte. Ltd.
Empresa de Servicios Sanitarios del Bio-Bio S.A.
Esval S.A.
Exal International Limited
Express Pipeline Ltd.
Flexera Holdings, L.P.
Fortress Macro Fund Ltd.
FountainVest China Growth Fund, L.P.
GCT Global Container Terminals Inc.
GMO Mean Reversion Fund (Offshore) L.P.
Gottex Real Asset Fund, L.P.
Grupo Corporativo Ono, S.A.
Hancock Timber Resource Group
Heartland Dental Care, Inc.
Helly Hansen Group AS
HS1 Limited
Hudson Catastrophe Fund, Ltd.
HUGO BOSS AG
Imperial Parking Corporation
INC Research, Inc.
IntelSat, Ltd.
InterGen N.V.
ISS A/S
JANA Partners LLC
Kepos Alpha Fund Ltd.
Kyobo Life Insurance Co., Ltd.
Laricina Energy Ltd.
Manabi Holding S.A.
Maple Financial Group Inc.
MBK Partners Fund II, L.P.
MBK Partners, L.P.
Mitra Energy Limited
Munchkin, Inc.
NBCG Greenwich Sub-Fund
NBCG Lock Sub-Fund
NBCG Mason Sub-Fund
NBCG Oxford Sub-Fund
Northern Star Generation LLC
Nuevosur, S.A.
NXT Capital Holdings, L.P.
OLE Media Management, L.P.
Orbis SICAV Global Equity Fund
Park Square Capital Partners, L.P.
Permira IV L.P.2
Pershing Square International, Ltd.
Plano Molding Company
Providence Equity Partners Fund VI L.P.
Q9 Networks Inc.
Quinte Limited
Resource Management Service Inc.
Rhône Offshore Partners III L.P.
Scotia Gas Networks plc
Silver Creek Special Opportunities Fund Cayman II, L.P.
Silver Creek Special Opportunities Fund Cayman III, L.P.
Silver Lake Partners III, L.P.
Sociedad Austral de Electricidad S.A.
Steward Trust
Sydney Desalination Plant Pty Limited
TDR Capital II, L.P.
The Brussels Airport Company
TP Partners Fund, L.P.
Trez Capital Corporation
ValueAct Capital International II, L.P.
York Street Mezzanine Partners II, L.P.

Eleven-year Review

(Canadian $ billions)	**2012**	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
CHANGE IN NET ASSETS											
Income											
Investment income	**$14.75**	$11.74	$13.27	$10.89	$ (19.03)	$4.68	$12.31	$14.09	$10.80	$11.42	$ (1.41)
Contributions											
Members/transfers	**1.48**	1.41	1.35	1.29	1.13	1.06	0.83	0.79	0.75	0.71	0.68
Province of Ontario	**1.46**	1.41	1.35	1.43	1.18	1.08	0.82	0.78	0.75	0.72	0.70
Total income	**17.69**	14.56	15.97	13.61	(16.72)	6.82	13.96	15.66	12.30	12.85	(0.03)
Expenditures											
Benefits paid	**4.92**	4.66	4.50	4.39	4.20	4.02	3.82	3.62	3.43	3.20	3.08
Investment expenses	**0.30**	0.29	0.29	0.21	0.15	0.23	0.22	0.21	0.19	0.16	0.10
Client service expenses	**0.04**	0.05	0.05	0.04	0.04	0.04	0.03	0.03	0.03	0.03	0.03
Total expenditures	**5.26**	5.00	4.84	4.64	4.39	4.29	4.07	3.86	3.65	3.39	3.21
Increase/(decrease) in net assets	**$12.43**	$9.56	$11.13	$8.97	$ (21.11)	$2.53	$9.89	$11.80	$8.65	$9.46	$ (3.24)
NET ASSETS											
Investments											
Fixed income											
Bonds	**$28.87**	$26.50	$22.73	$15.46	$14.22	$22.91	$20.86	$5.28	$8.96	$10.30	$13.80
Real-rate products	**31.14**	29.29	23.24	19.88	17.41	11.06	11.80	10.56	11.90	7.07	5.92
Equities											
Canadian	**11.40**	10.64	9.29	8.43	6.21	13.73	16.39	19.26	16.80	15.19	13.43
Non-Canadian	**48.11**	41.03	38.20	32.75	28.72	36.31	32.42	25.78	23.09	19.13	18.19
Commodities	**6.97**	5.64	5.22	1.94	1.25	3.02	2.32	2.65	2.13	1.89	1.48
Real assets											
Real estate	**16.86**	14.96	16.86	14.21	13.48	13.41	11.12	8.75	7.20	6.20	7.28
Infrastructure	**9.65**	8.71	7.07	5.57	7.23	6.72	4.73	3.80	2.29	1.50	0.88
Timberland	**2.17**	2.17	2.22	2.34	2.80	2.12	2.05	0.97	0.70	0.40	0.09
Absolute return strategies	**12.27**	12.33	11.38	11.67	14.75	12.30	15.21	9.49	11.18	10.69	2.52
Money market	**(40.18)**	(35.01)	(31.49)	(18.74)	(20.97)	(13.58)	(11.22)	8.26	(2.53)	2.06	1.85
Net investments	**127.26**	116.26	104.72	93.51	85.10	108.00	105.68	94.80	81.72	74.43	65.44
Receivable from Province of Ontario	**2.83**	2.72	2.63	2.52	2.19	1.84	1.58	1.50	1.42	1.36	1.32
Other assets	**47.96**	40.81	32.04	15.21	32.33	32.06	23.14	10.67	18.23	6.28	17.91
Total assets	**178.05**	159.79	139.39	111.24	119.62	141.90	130.40	106.97	101.37	82.07	84.67
Liabilities	**(48.53)**	(42.69)	(31.86)	(14.84)	(32.18)	(33.35)	(24.39)	(10.84)	(17.04)	(6.39)	(18.46)
Net assets	**129.52**	117.10	107.53	96.40	87.44	108.55	106.01	96.13	84.33	75.68	66.21
Accrued pension benefits	**166.01**	162.59	146.89	131.86	118.14	115.46	110.50	110.53	96.73	83.12	73.67
(Deficit)/surplus	**$(36.49)**	$(45.49)	$(39.36)	$(35.46)	$(30.70)	$(6.91)	$(4.49)	$(14.40)	$(12.40)	$(7.44)	$(7.46)
PERFORMANCE (%)											
Rate of return	**13.0**	11.2	14.3	13.0	(18.0)	4.5	13.2	17.2	14.7	18.0	(2.0)
Benchmark	**11.0**	9.8	9.8	8.8	(9.6)	2.3	9.4	12.7	10.6	13.5	(4.8)

Funding Valuation History

Funding valuations must be filed with the pension regulator at least every three years. Valuation dates and voluntary filings are determined by OTF and the Ontario government. Filings must show the plan has sufficient assets to pay all future benefits to current plan members. For reference, all previously filed funding valuations and decisions made to use surplus or address shortfalls are detailed in this section. Assumptions used for each valuation are also reported below. The table summarizes all filed funding valuations that reflect the decisions of the sponsors as specified on page 108 of this annual report. In previous reports, figures for the years 1998–2001 were shown before the application of gains. Gains arose in those years as the plan performed better than the actuarial assumptions.

FILED FUNDING VALUATIONS[1]
(as at January 1) ($ billions)

	2012	2011	2009	2008	2005	2003	2002	2001	2000	1999
Net assets available for benefits	**$117.1**	$107.5	$87.4	$108.5	$84.3	$66.2	$69.5	$73.1	$68.3	$59.1
Smoothing adjustment	**(3.0)**	3.3	19.5	(3.6)	(1.5)	9.7	3.0	(4.3)	(7.3)	(5.1)
Value of assets	**114.1**	110.8	106.9	104.9	82.8	75.9	72.5	68.8	61.0	54.0
Future basic contributions	**35.4**	33.8	25.9	23.6	16.7	14.7	13.7	12.7	13.4	12.0
Future special contributions	**3.3**	3.8	5.5	5.6	6.2	–	–	–	–	–
Future matching of CIP benefit reduction	**7.3**	5.1	–	–	–	–	–	–	–	–
Special payments[2]	**–**	–	–	–	–	–	–	–	–	0.2
Total assets	**160.1**	153.5	138.3	134.1	105.7	90.6	86.2	81.5	74.4	66.2
Cost of future pensions	**(167.6)**	(158.4)[3]	(137.5)[3]	(134.1)[3]	(105.6)	(89.1)	(84.3)	(80.9)	(69.9)	(66.2)
Reduction in cost due to less than 100% indexing	**7.7**	5.1	–	–	–	–	–	–	–	–
Surplus	**$0.2**	$0.2	$0.8	$0.0	$0.1	$1.5	$1.9	$0.6	$4.5	$0.0

[1] Valuation filing dates determined by the plan sponsors.

[2] Owed by the Ontario government to pay off the plan's initial unfunded liability in 1990. The government used its portion of plan surpluses in the 1990s to eliminate the remaining payments.

[3] Assumes 100% inflation protection.

ASSUMPTIONS USED FOR FILED VALUATIONS
(as at January 1) (percent)

	2012	2011	2009	2008	2005	2003	2002	2001	2000	1999
Rate of return	**5.30**	5.40	5.00	5.65	6.475	6.40	6.30	6.25	6.50	7.50
Inflation rate	**2.20**	2.15	1.35	2.20	2.750	2.05	1.90	2.20	2.25	3.50
Discount rate	**3.10**	3.25	3.65	3.45	3.725	4.35	4.40	4.05	4.25	4.00

FUNDING DECISIONS

The plan sponsors jointly decide what benefits the plan will provide; the contribution rate paid by working members and matched by government and other designated employers; and how any funding shortfall is addressed and any surplus is used. A history of the sponsors' plan funding decisions follows:

1990: A preliminary unfunded liability of $7.8 billion to be amortized over 40 years by special payments from the Ontario government; basic contribution rate increased to 8% from 7%.

1993: A preliminary $1.5 billion surplus was distributed; $1.2 billion used to reduce government's special payments; $0.3 billion used to offset government cost reductions in the education sector (social contract days).

1996: A preliminary $0.7 billion surplus was distributed; $0.6 billion used to reduce early retirement penalty to 2.5% from 5% for each point short of the 90 factor and lower the CPP reduction after age 65 (to 0.68% from 0.7%).

1998: A preliminary $6.8 billion surplus was distributed; $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; $4.6 billion to reduce the value of special payments owed by the government; OTF and Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion would be available to OTF for benefit improvements.

1999: A preliminary $3.5 billion surplus was distributed; $3.5 billion to eliminate government's remaining special payments.

2000: $4.5 billion surplus; no changes to benefits or contribution levels.

2001: A preliminary $6.8 billion surplus was distributed; $6.2 billion to pay for benefit improvements: permanent 85 factor; 10-year pension guarantee; reduced pension as early as age 50; lower CPP reduction (to 0.45%); 5-year average Year's Maximum Pensionable Earnings (YMPE) to calculate CPP reduction; pension recalculation based on approximate best-5 salary for older pensioners; and top-up waived for Long-Term Income Protection (LTIP) contributions; $76 million was set aside in a contingency reserve to be used by OTF at a later date.

2002: $1.9 billion surplus; no changes to benefits or contribution levels.

2003: $1.5 billion surplus; no changes to benefits or contribution levels; Funding Management Policy adopted by plan sponsors.

2005: $6.1 billion preliminary funding shortfall resolved, leaving plan with a $0.1 billion surplus; plan sponsors introduced special contribution rate increases to resolve the shortfall, totalling 3.1% of base earnings by 2009 for teachers, the Ontario government and other employers; OTF used the $76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.

2008: $12.7 billion preliminary funding shortfall resolved, leaving the plan in a balanced position; plan sponsors introduced conditional inflation protection for pension benefits earned after 2009 and increased the basic contribution rate to 9% from 8%. Employers agree to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation.

2009: $2.5 billion preliminary funding shortfall resolved primarily by assuming a slightly higher long-term rate of return on investments: RRB yield plus 1.5% versus RRB plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.

2011: $17.2 billion preliminary shortfall resolved with 1.1% contribution rate increase (phased in over three years), slightly smaller annual cost-of-living increases for teachers who retired after 2009, and recognition of current contribution rate as the permanent base rate.

2012: $9.6 billion preliminary shortfall adjusted to reflect changes in mortality assumptions and the impact of the two-year freeze on teachers' salaries. 2012 shortfall resolved by making inflation protection for pension credit earned after 2013 fully conditional on the plan's funded status and providing slightly smaller pension increases, beginning in 2014, for members who retired after 2009. These changes enabled the plan to assume a slightly higher discount rate. The changes left the plan with a $200-million surplus at January 1, 2012.

Corporate Directory

ONTARIO TEACHERS' PENSION PLAN

President and Chief
Executive Officer
Jim Leech

Audit Services

Carol Gordon, Vice-President

enterprise Project Management Office

Jacqueline Beaurivage,
Vice-President

Finance

David McGraw, Senior Vice-President and Chief Financial Officer
Calum McNeil, Vice-President
Jennifer Newman, Vice-President
George Wong, Vice-President

Human Resources and Facilities

Marcia Mendes-d'Abreu,
Senior Vice-President

Legal

Melissa Kennedy, General Counsel and Senior Vice-President, Corporate Affairs
Jeff Davis, Vice-President and Associate General Counsel

Information and Technology

Russ Bruch, Senior Vice-President and Chief Information Officer
Douglas Gerhart, Vice-President
Maryam Ghiai, Vice-President
Jonathan Hammond, Vice-President
Phil Nichols, Vice-President

Member Services Division

Rosemarie McClean,
Senior Vice-President
Tracy Abel, Vice-President

Investment Division

Neil Petroff,
Executive Vice-President and Chief Investment Officer

Asset Mix and Risk

Barbara Zvan,
Senior Vice-President and Chief Investment Risk Officer
James Davis, Vice-President
Scott Picket, Vice-President

Fixed Income and Alternative Investments

Ron Mock, Senior Vice-President
Jason Chang, Vice-President
Jonathan Hausman, Vice-President

Infrastructure

Jane Rowe, Senior Vice-President
Olivia Steedman, Vice-President

Public Equities

Wayne Kozun, Senior Vice-President
Leslie Lefebvre, Vice-President
William Royan, Vice-President
Lee Sienna, Vice-President

Tactical Asset Allocation and Natural Resources

Michael Wissell, Senior Vice-President
Kevin Duggan, Vice-President
Ziad Hindo, Vice-President

Teachers' Private Capital

Jane Rowe, Senior Vice-President
Andrew Claerhout, Vice-President
Steve Faraone, Vice-President
Nicole Musicco, Vice-President
Glen Silvestri, Vice-President
Jo Taylor, Vice-President

Investment Operations

Dan Houle, Vice-President

THE CADILLAC FAIRVIEW CORPORATION LIMITED

President and Chief
Executive Officer
John M. Sullivan

Development

Wayne L. Barwise,
Executive Vice-President

Finance

Cathal J. O'Connor,
Executive Vice-President and Chief Financial Officer

General Counsel and Secretary

Sandra J. Hardy,
Executive Vice-President

Investments

Russell Goin,
Executive Vice-President

Portfolio Operations

Ron Wratschko,
Executive Vice-President

ANNUAL MEETING

April 11, 2013 at 5 p.m.
The Carlu
444 Yonge Street, 7th floor
Toronto

We welcome your comments and suggestions on this annual report.

Please contact:

Deborah Allan
Director, Communications and Media Relations
Tel: 416-730-5347
E-mail: communications@otpp.com

Ontario Teachers' Pension Plan

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New York Office:

375 Park Avenue
New York, NY 10152
212-888-5799

Ontario Teachers' Pension Plan (Asia) Limited

安大略教師退休金計劃（亞洲）有限公司
Office opening in Hong Kong in 2013

Concept and Design: THE WORKS DESIGN COMMUNICATIONS LTD. www.worksdesign.com