



AN EVOLVING PLAN

2012 REPORT TO MEMBERS

2012 Highlights

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Ontario Teachers' Pension Plan is a recognized leader in pension fund management, governance, service and innovation. In 2012, the plan sponsors took a major step forward in ensuring our plan's evolution and ongoing viability.

13% rate of return

Investments

Teachers' investments performed extremely well in 2012, increasing net assets to a new high of \$129.5 billion. Our sustained focus on risk management and continuous search for the best investment opportunities support members' long-term retirement security.

9.1 out of 10

Member Services

Again, more than half of members surveyed for our Quality Service Index gave us a perfect 10 out of 10. We serve an increasing number of clients, and continue to look for ways to deliver outstanding service at a reasonable cost.

97% funded

Plan Funding

Our annual preliminary funding valuation showed the plan had 97% of the assets required to meet its long-term pension obligations. There was a \$5.1 billion gap between projected assets and liabilities (the cost of future pensions) on Jan. 1, 2013.

Report to Members

We are pleased to report that the plan sponsors, Ontario Teachers' Federation (OTF) and the Ontario government, filed a balanced valuation to eliminate a 2012 preliminary funding shortfall and took important steps to assure the plan's long-term funding stability. However, as expected, another preliminary shortfall emerged in 2013. While no immediate action is required, it illustrates the recurring nature of shortfalls in the Teachers' plan, as the projected cost of future pensions keeps growing faster than plan assets, despite solid investment returns.

PROGRESS MADE IN 2012

The changes resulting from the 2012 valuation filed with the pension regulator are two-fold.

First, inflation protection for pension credit earned after 2013 will be 100% conditional. Increases for the portion of pensions earned after 2013 could range from zero to 100% of the change in the cost of living, depending on how much the plan can afford. In order to file a balanced 2012 funding valuation, the sponsors set inflation protection at 45% of the cost-of-living increase for pension credit earned after 2013. This will be reflected in pension increases beginning in 2015.

Second, inflation increases on the portion of pension credit earned during the 2010-2013 period will be reduced to 50%, beginning in 2014.

These changes allow the plan to manage its liabilities more effectively, while continuing to provide inflation protection when plan funding permits.

Pension credit earned before 2010 remains fully (100%) protected against increases in the cost of living.

ADDITIONAL CHANGES REQUIRED

Economic instability and persistent low interest rates have been a challenge for several years. While the plan continues to deliver outstanding financial returns, two key issues - demographics and intergenerational risk - mean we cannot rely solely on investment returns to bring the plan into balance.

"Our success at Teachers' comes from a commitment to our members that we will be the best in our industry by doing the right things every day to enhance pension security and service."

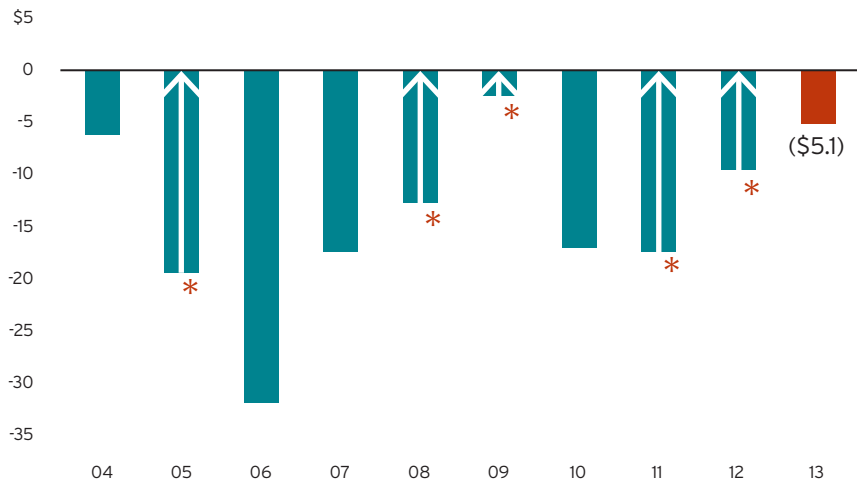
JIM LEECH, MBA, ICD.D
PRESIDENT AND CHIEF EXECUTIVE OFFICER

"With these changes, the sponsors have taken a positive step forward to protect pension security for all present and future plan members."

EILEEN MERCIER, MA, MBA, FICB, F.ICD
CHAIR



PRELIMINARY FUNDING VALUATION
(as at January 1) (\$ billions)



Despite contribution and benefit changes and strong asset growth, funding shortfalls have been recurring for many years.

* Sponsors filed a funding valuation that brought the fund into balance through contribution, benefit and/or economic assumption changes.

Teachers' is a mature plan. Working teachers are becoming a smaller proportion of the overall plan membership. This means we must manage investment risk more conservatively than pension plans whose membership is proportionately younger. In the past, occasional shortfalls or investment losses could be resolved by raising contribution rates; that is a much less effective option with fewer contributing members and higher contribution rates than in the past. Increased longevity leading to an imbalance between working and retirement periods is a significant funding risk: teachers typically work for 26 years and are retired for approximately 31 years.

Our plan is not alone in facing this demographic reality, but our sponsors are leading the way in addressing it. Dr. Harry Arthurs, professor at York University and former chair of the Ontario Expert Commission on Pensions, will facilitate deliberations between OTF and the government as they study possible solutions. Members will be surveyed in the future to determine what changes they would prefer to see to allow the plan to evolve.

ALMOST FULLY FUNDED

Based on our preliminary funding valuation as of January 1, 2013, the plan is 97% funded, with a shortfall of \$5.1 billion (based on long-term projections). No action is needed to eliminate this funding deficit until the next funding valuation is required by the pension regulator.

EXCELLENT RATE OF RETURN AND SERVICE CONTINUE

As a result of strong risk management and diversification, Teachers' net assets grew to \$129.5 billion in 2012. Our investment professionals achieved a 13% rate of return, surpassing the fund's 11% benchmark. Our 10-year total returns rank highest among global fund peers, and we also ranked first among our international peers for exceptional pension service, according to CEM Benchmarking Inc., an independent authority.

PRESERVING THE DEFINED BENEFIT MODEL

At Teachers', we believe that defined benefit (DB) pensions are the best vehicle for providing adequate and predictable retirement income at a reasonable cost, especially as life expectancy increases.

At the same time, we also recognize that the model must be sustainable - with realistic expectations for investment returns, and the ability to deal with major economic downturns and changing factors that affect pension costs. In short, the DB model needs to evolve to remain relevant as economic and demographic conditions change.

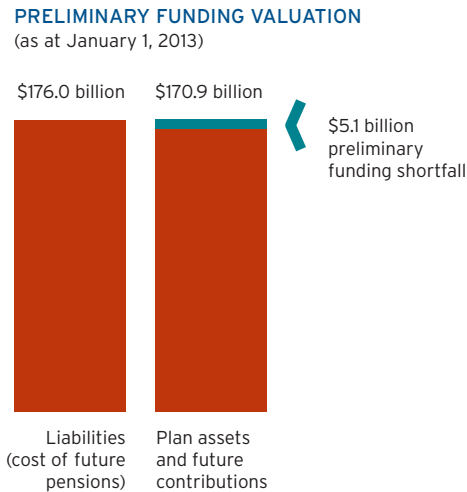
In 2012, our sponsors took a major step forward in ensuring our plan's evolution and ongoing viability. They added flexibility and committed to studying and recommending solutions to other outstanding funding issues. We are on the path to meeting the changing needs of our membership and protecting pension security for all plan members.

Plan Funding

The plan's most recent funding valuation projected a \$5.1 billion preliminary shortfall at January 1, 2013. The pension plan has experienced recurring funding shortfalls for many years. Despite strong investment returns, future pension costs are growing faster than plan assets due primarily to demographic and economic factors.

WHAT IS A FUNDING VALUATION?

It is an independent actuary's assessment of the plan's long-term financial situation (70 or more years in the future). Using assumptions, it projects whether the pension plan has sufficient assets to cover the cost of future pension benefits for all current members. The plan sponsors use funding valuations to determine required contributions and pension benefit levels.



ZERO TO 100% INFLATION PROTECTION INTRODUCED

While full inflation protection remains the goal, annual increases for pension credit earned after 2013 could range from zero to 100% of the change in the cost of living.

The new zero to 100% provision will have no effect on current retirees and minimal effect on older teachers, because the value of pensions already earned cannot be reduced under Ontario's Pension Benefits Act. Inflation protection is now based on three periods of credit:

Pension Credit	Inflation Protection	What It Means After a Member Retires
Earned before 2010	100%	This portion of a member's pension keeps pace with increases in the cost of living
Earned during 2010-2013	50% to 100%	Increases for this portion of a member's pension will range from 50% to 100% of the increase in the cost of living, depending on the plan's funded status
Earned after 2013	0% to 100%	Increases for this portion of a member's pension will range from zero to 100% of the increase in the cost of living, depending on the plan's funded status



Pension plan evolution

Teachers' has co-produced a documentary that examines how pension plans around the world are changing to stay ahead of their challenges. You can watch the video at otpp.com.

Visit otpp.com and FundingYourPension.com for more information on the plan's funding challenges.

Member Services

We provide services directly to a growing number of plan members, working to deliver exceptional service at a reasonable cost.

SERVICE HIGHLIGHTS

\$4.9 billion in benefits paid to members in 2012

56% of respondents gave us 10 out of 10 in service satisfaction surveys

More service to more members

439,000 member interactions, such as calls, e-mails and web sessions, including 184,000 personal member requests completed

Balancing service and cost

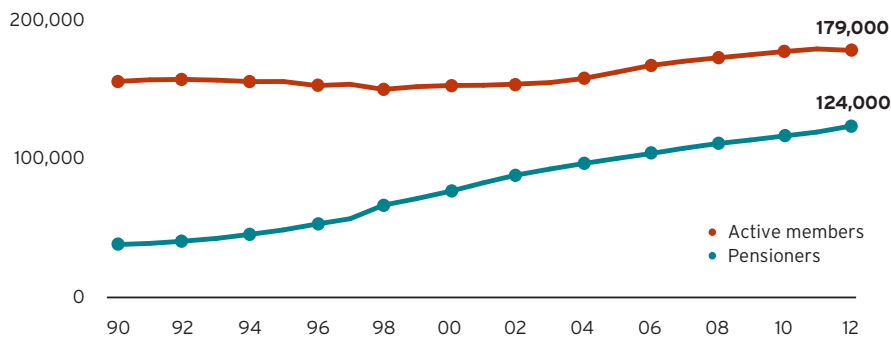
Cost per member was \$142 in 2012, compared with \$143 in 2011 and \$146 in 2010

Growth in use of online services

260,000 web sessions by members, most frequently for pension estimates and updates to personal information through iAccess Web™, our secure member website

ACTIVE MEMBERS AND PENSIONERS

(as at December 31)



Retirements increased 26% from 2011. Our oldest pensioner was 109 at year end.

“We focus on exceeding members’ expectations every day by delivering personalized service and simple solutions to meet their pension needs.”

ROSEMARIE McCLEAN,
MBA, CMA, ICD.D
SENIOR VICE-PRESIDENT, MEMBER SERVICES



CLARITY STRATEGY

In 2012, we initiated an evolution of our strategy that is designed to remove complexity for our members, while using insight to create personalized service experiences.

Investments

At Teachers' we believe superior investment returns are a consequence of detailed risk management and good judgment. Broad diversification across assets and geography is an important risk management tool. In 2012, the portfolio generated \$14.7 billion in investment income and net assets reached a record \$129.5 billion.

2012 RATES OF RETURN COMPARED TO BENCHMARKS

(percent)	Actual	Benchmark
Equities	14.2	13.1
Fixed income	5.1	4.5
Commodities	(1.9)	(1.1)
Real assets	14.7	10.6
Real estate	19.4	15.5
Infrastructure	8.4	8.0
Timberland	3.4	3.5
Total plan¹	13.0	11.0

» **Equities** - Our investments in publicly listed and private companies around the world totalled \$59.5 billion at the end of 2012.

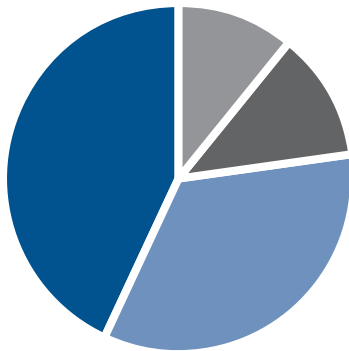
» **Fixed income** - Bonds offer steady income and stability for the pension plan. We have steadily increased our holdings to \$60.0 billion since 2008's financial crisis.

» **Real estate** - High-quality office and retail properties, mainly Canadian, are valued at \$16.9 billion and produce strong, predictable income.

» **Infrastructure** - Infrastructure assets totalled \$9.6 billion and provide low-risk, stable returns linked to inflation.

¹ Returns generated by absolute return strategies and money market are included in the total plan return and not attributed to an asset class.

PENSION FUNDING SOURCES SINCE 1990



- **11%** Member Contributions
- **12%** Government/Employer Contributions*
- **34%** Investments - Active Management
- **43%** Investments - Benchmark

* Includes 1% original plan deficit funding.

Active management of our portfolio has accounted for 34% of the plan's income since Teachers' inception in 1990.

INVESTMENT BELIEFS

Teachers' investment beliefs define our philosophy for earning superior risk adjusted returns. These beliefs, codified in 2012 and available on otpp.com, support the plan's mission, vision and values.

"We have a risk-conscious culture. We champion risk awareness and accountability across our investment teams."

NEIL PETROFF, MBA
EXECUTIVE VICE-PRESIDENT,
INVESTMENTS AND
CHIEF INVESTMENT OFFICER



Major Investments

All figures as at December 31, 2012

Bonds and real-return instruments

(\$ billions)

Canadian real-return bonds and mortgages	\$22.0
Government of Canada bonds	20.6
International government and real-return bonds and debt	9.1
Canadian treasury bills	7.3
Provincial bonds	5.6
Canadian and international corporate bonds	4.8
United States government agency bonds	2.6
Bank notes	0.1

Top 10 private companies and partnerships

Empresa de Servicios Sanitarios del Bio-Bio S.A.

Esva S.A.
Express Pipeline Ltd.
GCT Global Container Terminals Inc.
HSI Limited
Orbis SICAV Global Equity Fund
Resource Management Service Inc.
Scotia Gas Networks PLC
The Brussels Airport Company
TP Partners Fund, LP

Top 10 real estate properties

(Portfolio managed by subsidiary The Cadillac Fairview Corporation Limited)

Chinook Centre, Calgary
Le Carrefour Laval, Montreal
Les Promenades St. Bruno, Montreal
Pacific Centre, Vancouver
Polo Park Mall, Winnipeg
Queens Center, Queens, New York
Rideau Centre, Ottawa
Sherway Gardens, Toronto
Toronto-Dominion Centre, Toronto
Toronto Eaton Centre, Toronto

Corporate shares/units over \$100 million

(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

Security Name	Shares	Fair Value
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.

Online resources at otpp.com:

- View the CEO's video message
- Get the facts about plan funding
- Read the complete 2012 Annual Report
- View our annual meeting webcast live at 5 p.m. on April 11, 2013, or see the archive after the event

Online resources for members at FundingYourPension.com:

- Get the latest news on plan funding
- Explore myths vs. facts
- Take a 5-minute quiz
- Read the top funding Q&As

Contact us

We welcome your comments and suggestions on this Report to Members.

Please contact Andrew Kondraski at 416-730-6880 or 1-877-812-7989, or at communications@otpp.com.

Print copies of our 2012 Annual Report are available upon request.

Client services

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Fax: 416-730-7807 or 1-800-949-8208

E-mail: inquiry@otpp.com

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About Teachers'

Ontario Teachers' Pension Plan is an independent organization and the largest single-profession pension plan in Canada. It administers the pension benefits of Ontario's 179,000 elementary and secondary school teachers and 124,000 pensioners. The plan has one of the largest payrolls in Canada - it paid out \$4.9 billion in pension benefits in 2012.

The organization's mission is: **Outstanding service and retirement security for our members - today and tomorrow.**

The pension plan is sponsored by Ontario Teachers' Federation (OTF) and the Ontario government.



FAST FACTS*

- Number of pensioners has tripled since 1990
- On average, a member teaches for 26 years and is retired for 31 years
- 58% of pensioners are under age 70
- Average new unreduced pension starting in 2012 was \$48,000
- Pensioners who retired before 2010 have full inflation protection
- At 1% interest rate, the plan must set aside \$985,000 to secure a \$40,000 annual pension
- There were 107 pensioners over 100; the oldest was 109

* At December 31, 2012.

Return undeliverable Canadian addresses to:

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