There are teachers working in Ontario TODAY who will be collecting their pensions in 2083. Think about it. We do, every day. It's what we were created FOR – to be an innovative and independent organization with a clear mandate to plan ahead, to be ready for TOMORROW.

TODAY FOR TOMORROW

2013 ANNUAL REPORT

TEACHERS'™ PENSION PLAN
ONTARIO

ABOUT ONTARIO TEACHERS' PENSION PLAN

The Ontario Teachers' Pension Plan, better known as Teachers', is Canada's largest single-profession pension plan. Teachers' is an independent organization set up by its two sponsors, the Ontario government and Ontario Teachers' Federation (OTF). OTF represents all members. The Ministry of Education and the Ministry of Finance jointly represent the Ontario government.

WHAT DO THE SPONSORS DO?

- Appoint independent board members
- Set benefits and contribution rates
- Ensure the plan is appropriately funded with enough money to meet its obligation to members

WHAT DOES TEACHERS' DO?

- Earns money – through investing – to help pay pensions
- Administers the plan and pays benefits
- Reports and advises on the plan's funding status and regulatory requirements

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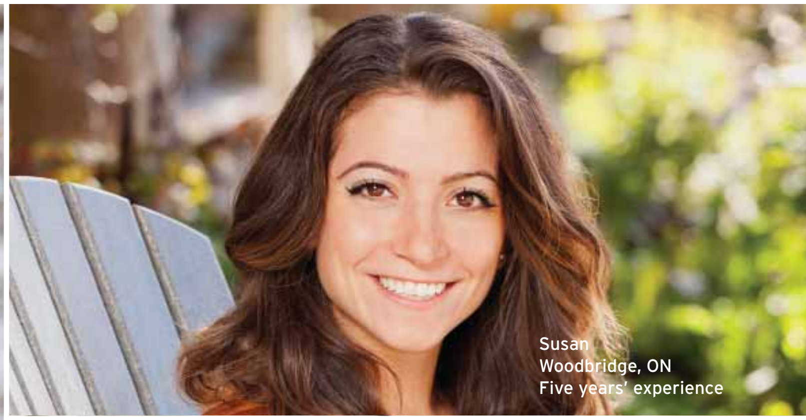
Brett
Sault Ste. Marie, ON
Retires in 2015



Susan
Woodbridge, ON
Five years' experience

Franka
Brampton, ON
Retired in 2010

2013 HIGHLIGHTS

A combination of solid investment returns and higher interest rates produced a preliminary funding surplus at January 1, 2014. The first preliminary surplus since 2003 is a positive achievement. But the demographic reality of our plan and the volatility of markets mean that long-term challenges remain to make the plan sustainable for teachers at all stages of membership.

$5.1 billion

Preliminary surplus represents **103% funding** based on current benefit and contribution levels

10.9%

Rate of return for 2013 was above benchmark and in line with our annualized return of 10.2% since inception, boosting net assets to **$140.8 billion**

9.1/10

Service satisfaction rating from plan members (**180,000 active** and **127,000 pensioners**) remains at an industry-leading level

REPORT FROM THE CHAIR

Eileen Mercier,
MA, MBA, FICB, F.ICD

Chair

Transition and change – operational and societal – drove much of the plan's activities in 2013.

As a pension plan, we are in the business of understanding the present and its effect on the future. Every day, the plan provides service to members and makes investment decisions. But at the same time, staff and board members are also focused on how today's actions will prepare us for tomorrow's success – whether that is service that has been adapted to meet the future technology and demographic environment, or investments that set return expectations for the years to come.

The rate and depth of change have never been faster or deeper. The world shrinks, the marketplace expands, the clock runs 24/7 and longevity rates continue to challenge experts everywhere. Yesterday's barriers to business have crumbled with instant access to information.

And in the midst of this rapid and unprecedented change, the pension plan's board members and management are planning how to meet future pension obligations, and determining what types of investments will be required to meet our return target. We view this future through the lenses of actuarial assumptions and economic outlooks. The decisions the pension plan makes today are designed to provide ongoing retirement security.

It was through this lens of the future that the board undertook the most important decision it can make: selecting a new CEO. The board members carefully considered the candidate criteria required to manage the plan in the future and then assessed this against many capable candidates before naming a successor to Jim Leech. Our selection of Ron Mock reflects a tradition of cultivating talent internally and of thoughtful succession planning consistent with our goal to promote from within where possible.

Ron joined Teachers' in 2001 and was most recently Senior Vice-President with responsibility for fixed income assets and alternative investments. He brings an ideal combination of experience, knowledge and leadership acumen to his new role. His track record leading the fixed income and alternatives team is excellent. We are confident Ron will lead Teachers' to new heights.

The board would also like to extend its thanks to Jim Leech for his outstanding leadership as CEO. Jim joined Teachers' as head of Teachers' Private Capital and Infrastructure in 2001. He met the challenge of taking the private equity and infrastructure units into U.S. and international markets as the portfolio grew in size. He led some of its largest deals, before meeting the biggest challenge: taking on the President and CEO role just as the financial crisis gripped the world's economy.

Jim remained a calm voice of reason for all staff during the turmoil. He reassured the many who had never experienced an extreme market event that Teachers' had the brains and fortitude to withstand this shock. For six years as the top executive at Teachers', he led major efforts to deepen the organization's leadership talent and modernize the internal infrastructure.

Jim also worked tirelessly to inform plan sponsors, members, governments and the media about the key issues affecting Teachers' and advocated for changes to keep the defined benefit pension plan model sustainable. He and co-author Jacquie McNish took a broad perspective in their 2013 book, *The Third Rail*, stimulating Canadians' discussion about important pension trends.

The global environment

Teachers' operates in a global environment. Our investment professionals must remain abreast of international markets, products, laws and regulations, all of which are changing swiftly and becoming more complex.

Board members provide effective oversight as we consider new and emerging markets. We must understand what is happening in China, for example, as we move deeper into promising new regions seeking superior risk-adjusted returns and diversification. We must always consider challenges and risks, such as operational and governance issues in emerging markets.

Evolution continues

As a mature plan, Teachers' felt funding pressures earlier than its peers in Ontario and the plan sponsors have been taking constructive action, particularly since the 2005 valuation was filed. The sponsors increased contribution rates and introduced partial inflation protection, based on the financial health of the plan. In early 2013, as part of the 2012 filing agreement, they agreed to make future inflation increases fully conditional on the plan's funded status. These changes illustrate the sponsors' commitment to adapting to our changing demographics.

They are not alone in this challenge. Around the world, pension plans are under great pressure. Aging populations mean longer retirement periods, while continuing low interest rates push up the estimated costs of future benefits. As such, many plans cannot fund their long-term obligations. In Europe, Britain and the United States, plan design changes are underway to ensure affordability. According to a recent Aon Hewitt report, 71% of public-sector plans in Canada are considering increasing member contributions, about one-third are looking to reduce benefits, and 43% are exploring "target benefits," which is a hybrid between defined benefit and defined contribution plans.

The January 1, 2014, preliminary funding valuation showed this plan is 103% funded, assuming current contribution rates (including a 1.1%-of-pay special contribution) and current benefit levels (including reduced levels of inflation protection for post-2009 credit). With full indexation and without the special contribution, the plan would be 91% funded.

While conditional inflation protection is clearly a positive and substantial step in managing our funding position, it has limited immediate impact on pension benefits as service earned by members before 2010 remains fully indexed on a guaranteed basis. In other words, most of the plan's current obligations remain protected by legislation, so it will take time for conditional inflation protection to have a material impact on the plan's ability to manage risk.

Demographic reality remains

While increasing interest rates will have a positive effect on our funding valuation, they are not the solution to our demographic dilemma.

The fact is that teachers, as a group, are living longer and typically are retired for five years longer than they contributed to the plan. A joint task force of the government, OTF and plan management is studying how to address the plan's ability to meet the needs of the present without compromising the ability of future generations to meet their own needs.

On a personal note, 2014 is my last year as board chair and I am honoured to have served the plan over the last 10 years. I have seen enormous progress over the years and I predict the pace will accelerate. I am confident that the board will stay abreast of the many pension service, funding and investment issues the plan must address.

I would like to thank my fellow board members for their commitment and valued insight. It has been my great pleasure to work with you on behalf of the active and retired teachers of Ontario.

REPORT FROM THE CEO

Ron Mock,
B.A.Sc., MBA

President and Chief Executive Officer

It is my honour to inherit the leadership of this thriving and successful organization from my predecessor, Jim Leech.

I am extremely fortunate to be working with such smart, motivated colleagues and board members who are focused on a clear mission: Outstanding service and retirement security for our members – today and tomorrow.

I am committed to Teachers' tradition of building valuable partnerships and creating better ways of funding and administering our members' pensions. We need to preserve the qualities that make this organization a world leader among pension plans, while anticipating the requirements of tomorrow. Agility, innovation and strategic partnerships are fundamental to our ability to stay a step ahead in a changing world.

For years, Teachers' has promoted the defined benefit pension model as the most efficient option available for retirement security. Even with our record of above 10% annualized returns, challenges remain due to increased longevity, longer retirement periods and a more volatile, lower-return investing environment. To their credit, the sponsors have been proactive in the face of these challenges. They have demonstrated leadership in adjusting plan provisions, especially inflation protection, to provide temporary flexibility during recent years of historically low interest rates and to address the reality of longer life expectancies.

Good results in 2013

Thanks to the hard work of Teachers' dedicated employees, the pension plan earned a 10.9% return with $13.7 billion of income in 2013. This return includes $2.1 billion above our fund benchmark. And the preliminary valuation shows the plan was 103% funded as of January 1, 2014, based on current plan provisions.

The exceptional performance of both our investment and service groups has been recognized by CEM Benchmarking Inc., a leader in pension performance measurement. CEM ranked Teachers' first in its peer group of large global pension funds for 10-year total investment returns (to 2012) as well as for pension service. This is a significant achievement.

But we must always consider the future of the plan. The plan sponsors are well aware of the cost and demographic issues we face. We will work closely with them to safeguard the plan's sustainability.

Requirements of tomorrow

Meanwhile, our business environment has changed markedly since the 2008 financial crisis. Teachers' is built on staying ahead in a changing world; on breaking new ground. We have been leaders in finding, creating and growing investment assets, in responding quickly to opportunities and in building successful partnerships around the world. You have my assurance that this will not just continue, but accelerate.

External changes since 2008 include more stringent regulatory activity, greater emphasis on risk management, rapid globalization and far more investment competition than ever before. These factors have the potential to reduce our investment returns unless we are agile, innovative and responsive. We must therefore constantly consider our talent management, processes and systems – the foundations of our competitive advantage – against the current and future changing world.

Forward thinking

Significant, multi-year programs to upgrade our investment infrastructure are in progress, which ultimately will reduce operational risk and improve the speed and accuracy of our decision making and record keeping. That is one way we're improving our agility. Another is maintaining our ability to act swiftly when investment opportunities arise, no matter where they may be. To achieve our objectives, we must be a truly global player, in outlook and presence. We have expanded our global footprint, most recently in 2013 with a new Asia office in Hong Kong. Our international presence will continue to grow, allowing us to develop meaningful relationships with local investment partners.

Our investment strategy has always focused on carefully selecting investments and partners, and this will not change. The choices we make and the relationships we develop are very deliberate. They set the stage for long-term partnerships: not only the next generation of deals, but follow-on transactions after that.

Finally, to earn the risk-adjusted returns needed to meet our long-term funding obligations, we must continue Teachers' tradition of investment innovation. We will research new ideas and enter new areas that our due diligence shows are appropriate.

On the service side of our business, we will stay a step ahead of expectations by anticipating our members' needs. We are simplifying our processes and providing more personalized service. We will continue to deliver service and information to members in industry-leading ways, as with our new mobile applications and social media channels.

We will also continue to advise our regulators on changes being contemplated. This will help to ensure that large and complex plans such as ours are not overburdened with costly changes that do not apply to our business model.

Developing our key asset: talent

Teachers' is known for recruiting and developing smart people, and our employees deserve the credit for our accomplishments. Building internal expertise has been important in lowering costs and being a pension leader.

We will stay a step ahead of competitors by giving our young talent exciting development opportunities and recruiting forward-thinking individuals. In October, we announced new assignments for senior executives in the Investment Division to bring fresh perspectives to our asset groups. We expect them to challenge the status quo and build on our record of innovation.

In order to be the best at what we do – fund management, risk management and member service – we will concentrate on talent management, organizational efficiency and responsiveness, and cultivating global relationships. Our efforts on these priorities directly support our mission of delivering outstanding service and retirement security for our members – today and tomorrow.

I look forward to addressing the challenges ahead and working with my colleagues, our sponsors and our investment partners. Leading Teachers' is an invigorating challenge and I welcome the opportunity to serve our members.

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion & Analysis (MD&A) presents a view of the pension plan through the eyes of management by interpreting the material trends and uncertainties affecting the results and financial condition of the plan.

In addition to historical information, the MD&A contains forward-looking statements regarding management's objectives, outlook and expectations. These statements involve risks and uncertainties and, as such, the plan's actual results will likely differ from those anticipated. The plan's consolidated financial statements should be read in conjunction with the MD&A.

PLAN OVERVIEW

The Ontario Teachers' Pension Plan (Teachers') administers the pension benefits of Ontario's 180,000 elementary and secondary school teachers and 127,000 pensioners. A pension plan was created for Ontario's educators in 1917. When the Ontario government established the Ontario Teachers' Pension Plan Board as an independent organization in 1990, it was given the authority to diversify the plan's holdings and administer the plan. Today, Teachers' has more than 1,000 employees in Toronto, London and Hong Kong. The plan also has an office in New York City.

Mission

Outstanding service and retirement security for our members – today and tomorrow.

Teachers' is governed by the Teachers' Pension Act and must comply with Ontario's Pension Benefits Act, the federal Income Tax Act, and laws in the various jurisdictions in which it invests. The Teachers' Pension Act provides for the joint stewardship of the pension plan by the Ontario government, through the Minister of Education, and the Executive of Ontario Teachers' Federation (OTF). OTF and the Ontario government are the plan sponsors. They must ensure the plan remains appropriately funded and jointly decide:

- the benefits members will receive, including the level of inflation protection;
- the contribution rate paid by working teachers, which is 100% matched by the government and designated employers; and
- how any funding shortfall is addressed or any surplus is used.

A nine-member board, appointed by OTF and the government, oversees the administration of the pension plan and reports the plan's funding status to the plan sponsors. Board members are required to act independently of the plan sponsors and to make decisions in the best interests of all members of the plan.

EXECUTIVE TEAM

(l-r) **Ron Mock**, President and Chief Executive Officer; **Neil Petroff**, Executive Vice-President, Investments and Chief Investment Officer; **Rosemarie McClean**, Senior Vice-President, Member Services; **David McGraw**, Senior Vice-President and Chief Financial Officer; **Barbara Zvan**, Senior Vice-President, Asset Mix and Risk and Chief Investment Risk Officer

VISION AND VALUES

Our vision is to be the world's leading pension plan organization.

This means being:

- The best at what we do (fund management, risk management, service to members)
- Respected as industry thought leaders
- The partner of choice

We are guided by our core values:

- We recognize that our people drive our success
- We promote personal development, collaboration and innovation
- We communicate openly and honestly
- We demand the highest level of integrity
- We champion accountability and risk consciousness
- We embrace talent, respect diversity and recognize accomplishments
- We temper our accomplishments with humility

(l-r) **Jacqueline Beaurivage**, Vice-President, enterprise Project Management Office; **Melissa Kennedy**, Senior Vice-President, General Counsel, Secretary, Corporate Affairs; **Russ Bruch**, Senior Vice-President and Chief Information Officer; **Marcia Mendes-d'Abreu**, Senior Vice-President, Human Resources and Facilities

MANAGEMENT'S ROLE

The pension plan has three responsibilities:

- invest the plan's assets to help pay pensions;
- administer the pension plan and pay benefits to members and their survivors; and
- report and advise on the plan's funding status and regulatory requirements.

Fulfilling these responsibilities requires highly skilled and experienced investment professionals and pension experts who understand risks and how to manage them. Management must set the right long-term strategies that take pension demographics, economics, market realities and a number of other factors into account.

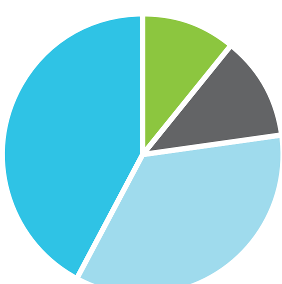
Our investment strategies aim to earn returns that support stable contribution rates and help meet the plan's long-term funding needs. Our member services strategy is designed to deliver outstanding, personalized service at a cost that is reasonable for the complexity of the plan.

STATE OF THE PLAN

Prudent measures taken in the past few years by the plan sponsors on inflation protection and contribution levels have improved the risk profile of the plan and helped manage liabilities more effectively. The preliminary valuation shows a $5.1 billion surplus, based on current benefit levels (including reduced levels of inflation protection for post-2009 credit) and current contribution rates (including a 1.1%-of-pay special contribution).

Despite improved funding levels, the pension plan still faces challenges resulting from increasing longevity, longer retirements and a volatile investing environment. In addressing these challenges, the sponsors will ensure the plan remains viable and affordable for all generations of teachers.

PENSION FUNDING SOURCES SINCE 1990



- **11%** Member Contributions
- **12%** Government/Employer Contributions*
- **35%** Investments – Active Management
- **42%** Investments – Benchmark

*Includes 1% original plan deficit funding.

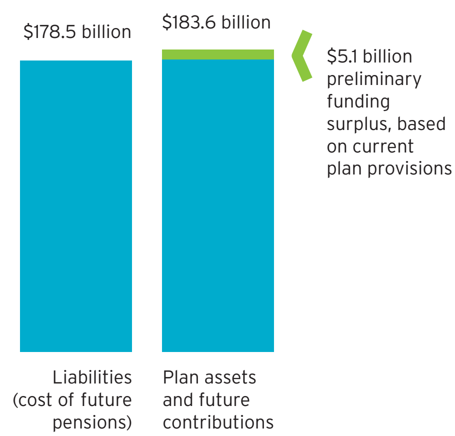
$49,300

Average unreduced pension for teachers who retired in 2013

59

Average retirement age in 2013

PRELIMINARY FUNDING VALUATION
(as at January 1, 2014)



PROTECTING RETIREMENT SECURITY

The plan is designed to deliver pension benefits to members for life. Balancing plan assets and the cost of future benefits is an ongoing objective for the sponsors of the pension plan: OTF and the Ontario government. OTF and the government set contribution and benefit levels based on the plan's funded status.

Plan management invests contributions from members, the government and designated employers in a wide range of assets to earn income to pay pensions. Since 1990, investment returns have funded 77% of teachers' pensions.

In recent years, OTF and the government have increased contribution rates and adjusted the level of inflation protection some members receive in retirement in response to recurring funding shortfalls. OTF and the government have resolved five shortfalls since 2005. The shortfalls arose, despite strong long-term investment returns, because future pension costs continued to grow faster than plan assets. Increased pension costs are due primarily to low interest rates and increasing life expectancy.

The sponsors' decision in early 2013 to make inflation protection for future pension credit fully conditional on the plan's funded status was a significant step toward supporting the plan's long-term funding stability.

However, Teachers' must continue to adapt to changing demographic and economic factors to remain sustainable at affordable contribution rates. As such, additional risk-sharing mechanisms may become necessary to ensure pension security for all generations of members, particularly under challenging market scenarios and until conditional inflation protection affects more members and has a material impact on the plan's ability to manage risk.

A teacher earning $80,000 a year will contribute approximately $9,600 in 2014.

The role of funding valuations

Funding valuations are conducted each year to assess the plan's current long-term financial health. The valuation estimates whether the plan has a surplus, a shortfall or sufficient assets to cover future pensions for all current members as of the date the valuation was performed.

The funding valuation looks ahead more than 70 years. It calculates benefits earned to date, plus projected future benefit costs and scheduled contributions for current plan members. Funding valuations are used by the plan sponsors to set contribution and benefit levels.

A funding valuation must be filed with pension regulators at least every three years. A filed valuation cannot show a funding shortfall: if a shortfall is estimated, OTF and the Ontario government must address it before submitting a valuation to the regulators. OTF and the government jointly decide how to address funding shortfalls, use surplus funds and whether to file the plan's funding valuations in those years when a filing is not required by law.

Plan management offers advice and analytical support on plan funding issues, but does not make contribution, benefit or filing decisions.

It is plan management's responsibility to offer advice and analytical support on plan funding issues, but management does not make contribution or benefit decisions. The sponsors do.

CALCULATING THE PLAN'S FUNDING POSITION

The plan sponsors have a Funding Management Policy to guide their decisions on using surplus funds and addressing funding shortfalls.

The annual preliminary valuation uses benefit and contribution levels defined in the last filed valuation as a starting point to calculate the plan's funded status.

The current maximum contribution rate in the Funding Management Policy is 15% of members' earnings above the Canada Pension Plan (CPP) limit. The CPP limit is $52,500 in 2014. Members now contribute 13.1% of earnings above the CPP limit, and total contributions are matched annually by the Ontario government and designated employers. However, the government has capped contribution rates to a number of jointly sponsored pension plans in Ontario (including Teachers') until the end of 2017.

Funding zones

The plan's funding position can be described in terms of four zones.

Usable Surplus Zone: Improve benefits or lower contributions

The plan has usable surplus funds when projected assets are more than 10% greater than liabilities (the cost of future pensions). In this zone, retired members are receiving 100% inflation protection for all pension credit, while working members are paying the base contribution rate of 12% of earnings above the CPP limit (which is $52,500 in 2014).

OTF and the government can use the surplus to improve pension benefits or lower contributions. In this zone, the funding valuation uses a discount rate that supports the sustainability of any improvement in benefits.

Funded Zone With Base Provisions: Maintain benefits and contributions

The plan is considered funded and requires no change in contribution rates or benefits when plan assets equal or are up to 10% greater than plan liabilities *and* benefits and contributions are at base levels. That is, retired members are receiving 100% inflation protection for all pension credit, while working members are paying the base contribution rate of 12% of earnings above the CPP limit.

As of January 1, 2014, the plan was in the Funded Zone Without Base Provisions.

Funded Zone Without Base Provisions: Raise contributions or lower inflation protection

In this zone, contribution rates and inflation protection are used as levers to keep plan assets and liabilities in balance.

OTF and the government can provide less than 100% inflation protection for pension credit earned after 2009 and, under normal circumstances, increase contribution rates to a maximum of 15% of members' earnings above the CPP limit. When the plan's funding position improves, OTF and the government can fully or partially restore inflation protection and contributions to base levels.

As of January 1, 2014, the plan was in this zone because it had a funding surplus based on contribution rates and inflation levels outside the base levels. The contribution rate is currently 13.1% of earnings above the CPP limit and retirees are receiving less than 100% inflation protection for pension credit earned after 2009.

Shortfall Zone: Reduce pension benefits

The plan is in a shortfall position when it does not have enough funds to meet its long-term pension obligations. In this zone, members are anticipated to be paying the maximum contribution rate of 15% of earnings above the CPP limit and inflation protection is at minimum allowable levels. To eliminate the shortfall, OTF and the government must reduce other pension benefits members will earn in future years.

The value of pension benefits already earned is protected under Ontario's Pension Benefits Act. Accordingly, when the plan is in a shortfall position, OTF and the government consider changes to future benefits only.

FUNDING STATUS

The plan's preliminary funding valuation showed a surplus of $5.1 billion at January 1, 2014. This means at the start of 2014, the plan had 103% of the assets required to meet future pension liabilities based on current contribution rates and current (reduced) levels of inflation protection. The plan would have only 91% of the assets required to meet future liabilities if it restored contribution rates to 12% of earnings above the CPP limit, from the current 13.1%, and conditional inflation protection (CIP) for all credit to 100% of the increase in the Consumer Price Index on a go-forward basis. Being in a surplus position, but without sufficient assets to restore base contribution rates and full inflation protection, puts the plan in the Funded Zone Without Base Provisions (explained on page 12).

The plan's assets increased in 2013 due to a 10.9% investment return. The projected cost of future benefits, based on current (reduced) levels of inflation protection, was estimated at $178.5 billion, while projected assets (including smoothing and future contributions) were estimated at $183.6 billion.

OTF and the government will decide what to do with the surplus when they file a funding valuation with the provincial pension regulator. Members will be advised when that decision is made.

A funding valuation...

- is an independent actuary's assessment of the current financial health of the plan
- projects whether the pension plan has sufficient assets to pay future pension benefits to all current members
- uses assumptions to project assets and liabilities 70+ years into the future
- is used to set contribution and benefit levels, including scenario analysis for planning purposes

FUNDING VALUATION SUMMARY

(as at January 1) ($ billions)

	2014 Preliminary	2013 Preliminary	2012 Filed
Net assets available for benefits	$ 140.8	$ 129.5	$ 117.1
Smoothing adjustment	(7.2)	(8.2)	(3.0)
Value of assets	**$ 133.6**	**$ 121.3**	**$ 114.1**
Future basic contributions	37.5	37.0	35.4
Future special contributions	3.5	3.5	3.3
Future matching of CIP benefit reduction	9.0	9.1	7.3
Total assets	**$ 183.6**	**$ 170.9**	**$ 160.1**
Cost of future pensions	(188.2)	(185.7)	(167.6)
Reduction in cost due to less than 100% indexing	9.7	9.7	7.7
Surplus/(deficit)	**$ 5.1**	**$ (5.1)**	**$ 0.2**
Assumptions (percent)			
Inflation rate	2.10	2.25	2.20
Real discount rate	2.85	2.75	3.10
Discount rate	4.95	5.00	5.30

Funding valuation assumptions

Funding valuations use a number of assumptions to project the value of future pension plan liabilities. The plan's independent actuary must make assumptions about the future inflation rate, salary increases, age at retirement, life expectancy and other factors. These variables are determined through analysis and discussion by board members and are finalized when confirmed by the actuary.

Valuation assumptions change over time and typically differ from actual results. The plan's demographic assumptions were reviewed and revised in 2012, including the adoption of an updated teacher mortality table that captures the recent experience of Ontario teachers (who live longer than the average Canadian).

The table on page 13 shows some of the assumptions used in the 2014 and 2013 preliminary valuations. Explanations of the inflation and discount rate assumptions follow.

Inflation protection

Annual inflation increases for retired Ontario teachers are based on three periods of pension credit:

1. Pension credit earned until the end of 2009 is 100% protected against inflation, meaning this portion of a member's pension keeps pace with increases in the cost of living.
2. Pension credit earned from 2010 to the end of 2013 is conditionally protected against inflation. Increases can range from 50% to 100% of the change in the Consumer Price Index (CPI), depending on the plan's funded status. The plan sponsors, OTF and the Ontario government, have set the level of inflation protection for this period of pension credit at 50% until the next funding valuation is filed with the provincial regulator.
3. Pension credit earned after 2013 is conditionally protected against inflation. Increases can range from zero to 100% of the CPI change, depending on the plan's funded status. OTF and the government have set the level of inflation protection for this period of credit at 45% until the next valuation filing.

Discount rate

The discount rate plays a key role in assessing whether the pension plan has enough assets to meet its future pension obligations. The discount rate is derived from the expected rate of return on investments and takes into consideration the cost of running the plan and provisions for major adverse events, such as the 2008 financial crisis and the tech bubble in 2001.

The board used a 4.95% discount rate assumption (2.85% real, plus 2.1% inflation) for the 2014 preliminary funding valuation. It had assumed a 5.3% discount rate assumption (3.1% real, plus 2.2% inflation) for the 2012 funding valuation that was filed with the provincial pension regulator and a 5.0% discount rate (2.75% real, plus 2.25% inflation) for the 2013 preliminary valuation. The discount rate generally follows interest rate trends, which reflect what can be earned in the bond market over the next 30 years.

Investment returns typically fluctuate significantly compared to the discount rate assumptions.

The board's discount rate has been independently reviewed by industry experts three times in the last six years and each time was confirmed to be valid and reasonable.

TEACHERS' FUNDING CHALLENGES

Increased life expectancy and long retirement periods

Ontario teachers live longer than the general population, and their life expectancy continues to increase.

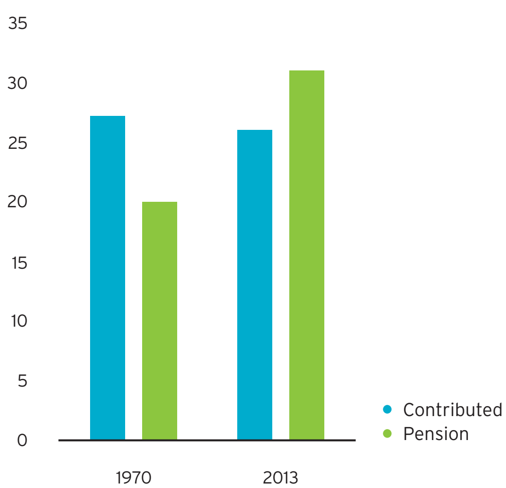
Members are eligible for unreduced pensions when their age plus qualifying service equals 85. The combined effect of early retirement rules and increased longevity now means that a teacher typically contributes to the pension plan for 26 years and collects a pension for 31 years. In other words, a typical member receives a pension for five years more than he or she contributed to the pension plan, and a survivor may receive a pension for an additional period.

The work-retirement challenge is complicated by the wide range of ages at which teachers retire – from age 50 to 71. Some 25% of members retire by age 55 and about 50% of members retire by age 58.

Defined benefit plans everywhere face the same reality: It is more expensive to fund a pension when it is paid out for a longer period than originally designed. A task force made up of representatives of OTF, the government and pension plan management is working together to address known demographic challenges.

The average retirement age for members is 59; life expectancy is 90 years, about five years longer than the Canadian average.

CONTRIBUTING YEARS COMPARED TO YEARS ON PENSION
(average)



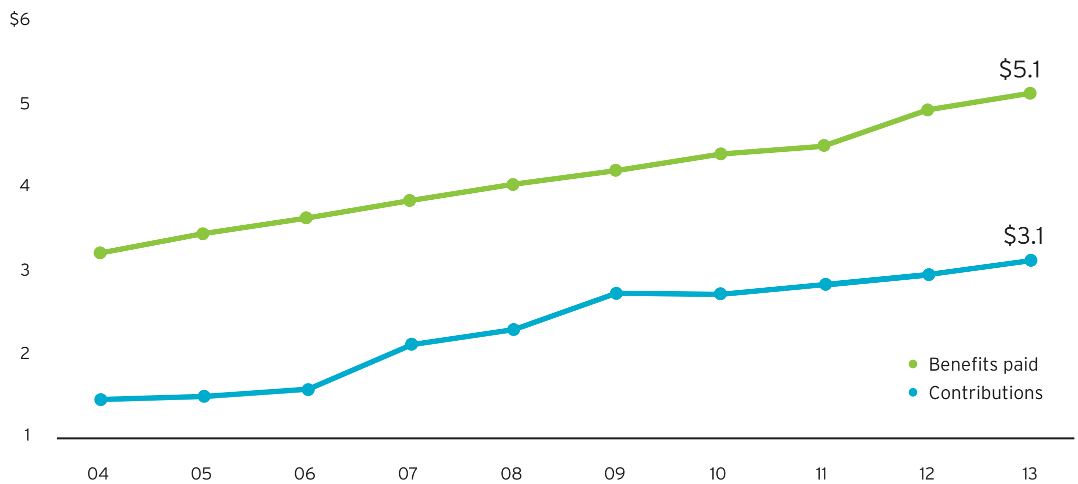
Plan maturity and intergenerational equity

Teachers' is considered to be a mature plan because of the low ratio of working teachers to retirees. This ratio means the amount paid out in annual pension benefits is more than that collected in contributions. In most years, investment income has more than made up the difference. However, the gap between benefits paid and contributions collected is expected to grow as the ratio of working teachers to retirees continues to decline. This puts more pressure on the plan's investment program and increases the importance of sound risk management.

Members now contribute 13.1% of their salary above CPP limits to the cost of their pensions. The Ontario government and designated employers match total annual contributions from teachers.

CONTRIBUTIONS VS. BENEFITS PAID

(for the years ended December 31) ($ billions)



Currently, there are 1.4 working teachers for each retiree in the plan. We expect a further decline to 1.3:1 by 2020.

RATIO OF WORKING-TO-RETIRED MEMBERS

Increasing contributions, lowering inflation protection or reducing future benefits to address funding shortfalls affects new and younger teachers for longer than it does other groups. Pensioners and teachers near retirement have already earned all or most of their pensions. Under Ontario's Pension Benefits Act, benefits already earned cannot be reduced to offset funding shortfalls. However, most of the service of new and younger teachers lies in the future. Their future service is subject to higher contribution rates, reduced benefit levels and lower inflation protection. This means new and younger teachers are exposed to more funding risk because of the plan's mature demographic profile.

Pension plan sustainability is a challenge being studied by a joint task force of the plan and its sponsors. Plan sustainability is defined as the ability to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Market conditions

Long-term real (excludes inflation) interest rates are used to estimate the cost of providing pensions because they are considered the best estimate of future economic growth. When interest rates are low, the sponsors need to set more money aside to pay future pensions.

Government of Canada long-term real-return bond yields were approximately 1.25% at the end of 2013, compared to an average of 1.40% over the last 10 years. Although they are increasing, interest rates are expected to remain low by historical standards for some time.

ASSETS REQUIRED TODAY FOR A TYPICAL $48,000 PENSION STARTING AT AGE 59

Real Interest Rate	Amount Required
1.0%	$1,205,000
1.5%	$1,115,000
2.0%	$1,035,000
3.0%	$900,000
4.0%	$795,000
5.0%	$705,000

Based on an unreduced pension with a normal form of 50% joint and survivor pension and 10-year pension guarantee.

It costs more to secure a typical $48,000 pension when the real discount rate is low.

The 2008 financial crisis proved that market losses can exceed expectations that are based on recent experience. While the plan must remain invested in global capital markets to earn returns, the potential for catastrophic market losses or severe economic events does pose a risk. The plan is constantly working to understand the investment risk that it can afford to take and how best to manage it. However, occasional losses are virtually certain.

Plan management cannot reasonably expect to replicate the strong investment returns earned in previous decades because of the combined effect of lower economic growth, low interest rates, market volatility and greater competition for investments from other pension plans and institutions.

PRELIMINARY FUNDING VALUATION

(as at January 1) ($ billions)

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

Despite plan changes and strong asset growth, funding shortfalls have been frequent in the past decade. Additional plan changes may be needed in the future.

INVESTMENTS

A long-term global outlook, strong risk management and a diversified portfolio provided the foundation for good investment returns in 2013. The plan generated $13.7 billion in investment income and outperformed its composite benchmark by 1.6 percentage points, earning $2.1 billion in value added and increasing net assets to a new record level. Since 1990, the investment program has generated 77% of the plan's income, with active management accounting for 35% of that total.

A record of strong returns over a long horizon supports retirement security for all members. The plan currently pays out $2 billion more in benefits annually than it receives in contributions, with investment returns bridging the gap and building assets to pay future pensions. To continue its investment success, Teachers' must be agile enough to move quickly on opportunities in increasingly competitive markets, while constantly pursuing innovation and fostering worldwide partnerships.

INVESTMENT PERFORMANCE

(percent)	**2013**	2012	4-Year	10-Year	Since Inception
Total return	**10.9**	13.0	12.3	8.9	10.2
Benchmark	**9.3**	11.0	10.0	7.2	8.0
Return above benchmark ($ billions)	**$2.1**	$2.2	$9.8	$16.2	$29.0

80%

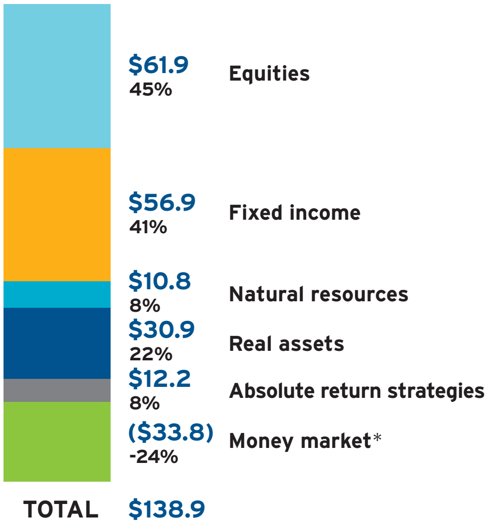
Amount of portfolio managed in-house by Teachers' investment employees

50

Number of countries in which the plan has direct investments

ACTUAL PORTFOLIO

($ billions)



*Money market asset class provides funding for investments in other asset classes.

OBJECTIVES AND STRATEGIES

The key objective of Teachers' investment program is to help the plan meet its long-term funding needs. More than three-quarters of the plan's income since inception has come from investment returns, with the remainder from member and government contributions.

The plan seeks to maximize returns at an appropriate level of risk that takes into account the cost of future pension benefits (pension liabilities). The aim is to create a total portfolio with risk and return characteristics that support stable benefits and contribution rates, and plan sustainability.

To meet these objectives, Teachers' manages funding and investment risk together and uses integrated strategies that constantly evolve to reflect: i) the plan's maturing demographics; ii) the need to continuously adapt to business cycles and changing global investment environments; iii) competition for investment opportunities; and iv) the increasing complexity associated with managing a fund that now has $140.8 billion of net assets.

Risk management

Teachers' strategies begin with determining the level of risk that is appropriate, now and over the long term. Risk affects the plan's investment assets and its estimated liabilities.

Since Teachers' believes that investment returns are a function of detailed risk management and good judgment, the Investment Division allocates considerable resources to measuring investment risk against the plan's liabilities and mitigating risks at all levels of the organization. Teachers' risk-conscious culture ensures that risk awareness and accountability are championed throughout the organization. The Asset Mix and Risk department supports much of the plan's asset mix and risk activity with the Chief Investment Officer, including the development of the fund's long-term investment strategy based on economic outlooks, asset and liability matching, and risk analysis. It works closely with the investment teams and is led by a Chief Investment Risk Officer, who is a member of the executive team.

Risk system

Risk budgeting is used to spread active risk across the plan's asset classes with the aim of generating superior risk-adjusted returns and to guide investment decisions. To understand long-term dynamics for investment planning purposes, a comprehensive asset-liability model is maintained.

Proactively managing risks requires substantial attention by Teachers' board members and the Investment Division. The Investment Committee of the board, which comprises all board members, reviews and approves the risk budget and asset-mix policy annually, monitors overall investment risk exposure, and reviews and approves risk management policies that affect the total portfolio. (See otpp.com for the board-approved Risk Appetite Statement.)

Management provides the dedicated focus needed to understand plan funding risks through its Investment Division Risk Committee, comprising investment, economics, finance and legal professionals. This approach allows for: i) better portfolio construction and the facilitation of improved investment risk management across the fund in order to effectively diversify risk; ii) improved ongoing assessment of asset-mix decisions to enhance long-term investment success; and iii) improved communication and collaboration among diverse investing teams.

Investment beliefs

Teachers' investment beliefs (available at otpp.com) define the plan's philosophy for earning superior risk-adjusted returns and support the plan's mission, vision and values. Teachers' investment strategies are driven by, and consistent with, these beliefs.

Teachers' developed and continually advances a risk system that uses sophisticated tools and processes to support daily risk measurement and management on a coordinated basis across the entire fund. The system's universal focus ensures diversified portfolios are constructed without inadvertent risk duplication and enables the potential for loss to be measured in several ways:

- within each portfolio and series of portfolios;
- across departments;
- across asset classes; and
- at the total-fund level.

Selecting an appropriate asset mix

Asset-mix selection (the types of assets owned and the relative emphasis placed on each asset group) is an important driver of the plan's long-term investment performance. The plan's asset mix generally includes diversification across equities, fixed income, natural resources (commodity derivatives and physical assets including timberland and oil) and real assets (real estate and infrastructure).

Teachers' board members approve the asset-mix policy annually, making modifications if required throughout the year based on expected market conditions. The board delegates to management the discretion to refine asset weightings within defined tolerance levels to take advantage of investment opportunities as they arise.

Ensuring adequate liquidity

Liquidity risk is inherent in the plan's operation and refers generally to the risk that the plan does not have sufficient cash to meet its current liabilities or to opportunistically acquire investments in a cost-effective manner.

The fund's liquidity position is governed by the plan's investment policy, is periodically tested through simulations of major catastrophic events such as significant movements in capital markets, and is analyzed and reported regularly to the board's Investment Committee.

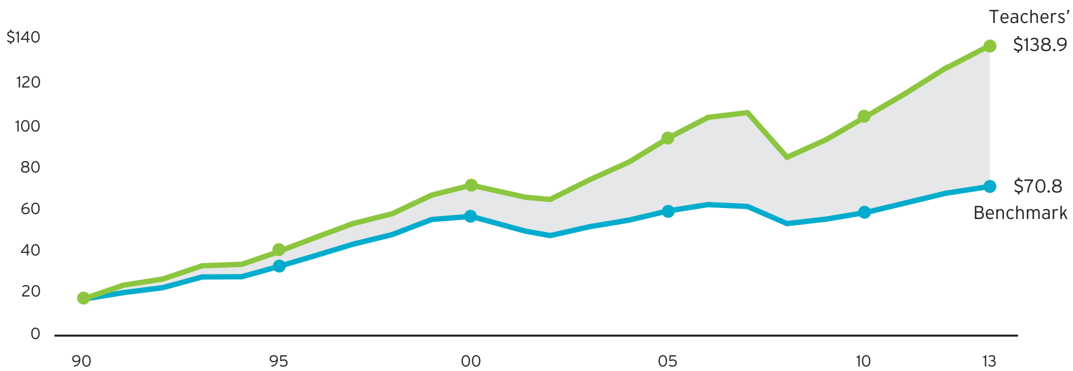
As part of its liquidity management program, the fund is required to hold a portion of the plan's assets in unencumbered Canadian treasury bills. At year end, Teachers' held $35.0 billion in unencumbered government bonds and $7.0 billion in treasury bills – 31% of the plan's assets – compared to $35.0 billion and $4.0 billion respectively at year-end 2012. This liquidity position supports the plan's larger asset base and generally allows the plan to adjust the asset mix in response to market movements and avoid selling high-quality long-term assets to meet short-term funding needs at inopportune times.

Actively managing assets to add value

Active management is a cornerstone of the plan's investment success. Each year, Teachers' reviews thousands of potential opportunities and invests in only a select few that the Investment Division believes are good value. In making these investment choices, both fundamental and quantitative strategies are employed to optimize risk-adjusted returns. The objective is to exceed the returns available from passively investing in indices at asset-mix policy weights. Such outperformance is referred to as "value added" and the relevant indices are called benchmarks.

Several strategies are used to maximize returns within risk limits and outperform the markets in which we invest. This approach encourages information sharing and movement of capital among managers of the different asset classes and portfolios. Value-added decisions are also coordinated at the total-fund level, and portfolio managers are rewarded for maximizing value-added returns within the risk limit on total assets, not just on their own portfolios.

INVESTMENT ASSET GROWTH
(as at December 31) ($ billions)



MANAGING INVESTMENTS

Responsible investing

Teachers' seeks to achieve the best risk-return trade-off for plan members by applying sound, responsible investing practices when selecting and managing assets. Responsible investing at Teachers' involves several dimensions:

- objectively evaluating investments against financial and non-financial factors, including risks associated with environmental, social and governance (ESG) issues, because we believe they can materially impact the value of our investments;
- effectively stewarding an asset for as long as it is owned by Teachers', which includes exercising the right to vote all public company shares held and board representation for private companies;
- expanding our knowledge, deepening our understanding and evolving our responsible investing practices to foster a culture of thought leadership and collaboration;
- collaborating with leading organizations, like-minded peers, market regulators and researchers around the world to advance the understanding of responsible investing; and
- seeking clear and relevant disclosure of information that may assist the investment decision process.

Teachers' good reputation builds its credibility with regulators and market participants and gives access to investment opportunities. How the plan addresses ESG issues can have an impact on that reputation. Good governance of the plan's investments provides a solid foundation for understanding, mitigating and managing reputation risks.

Responsible investing activities are consistent with Teachers' efforts to exercise diligence and manage risks when investing on behalf of members.

While responsible investing does not preclude ownership of assets that some plan members may find objectionable, it does mean Teachers' considers all material ESG risks and opportunities in selecting and managing assets. In addition, the plan is a signatory to the United Nations–supported Principles for Responsible Investment and contributes to a number of that organization's initiatives. Teachers' is also a member of various groups and associations of global institutional investors that focus on responsible investing, including the improvement of corporate governance practices in markets around the world.

Corporate governance activities

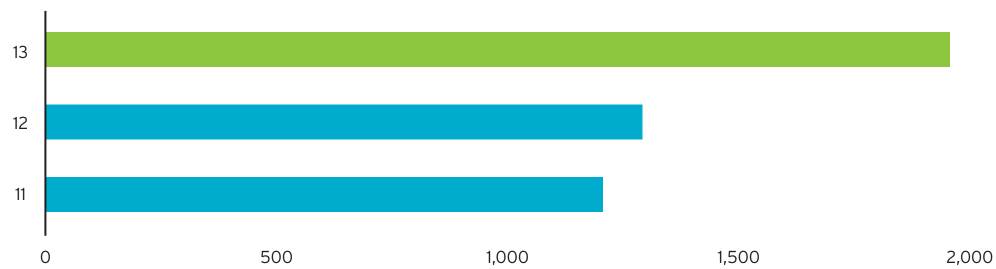
Consistent with a responsible investing approach, Teachers' votes all shares of the public companies it owns from a total-plan perspective. In 2013, Teachers' voted at 1,959 shareholder meetings, a 52% increase over 2012, reflecting the plan's continued shift from synthetic investments to physical index portfolios.

Executive compensation plans, shareholder democracy, environmental and social concerns, and political contributions continue to be the most common shareholder proposals reviewed. We have noted that more companies are voluntarily implementing procedures to address environmental and social risks and reporting their activities to shareholders, a positive trend.

One area where Teachers' continues to encounter issues is executive compensation. When voting shares at public company meetings, the plan continued to find a large number of stock option plans put to a shareholder vote unacceptable as they exceeded our thresholds for dilution and/or they allowed for automatic vesting on a change in control. Teachers' also voted against a majority of so-called golden-parachute severance packages because they allowed all equity to immediately vest upon a change in control.

Teachers' not only votes all of its proxies, it promotes effective governance practices around the world. In 2013, Teachers' wrote to 600 companies to proactively outline its views on important governance issues and collaborated with institutional investors in many countries on important topics. Teachers' website continues to be a well-referenced resource for those wishing to review the plan's voting intentions and principles, outlined in our Corporate Governance Principles and Proxy Voting Guidelines (available at otpp.com under Responsible Investing).

PROXY VOTING
(for the years ended December 31)



Internal talent development

Developing Teachers' investment talent has given the plan the intellectual capital and expertise for generating fund returns, and innovating in areas such as risk management, private market investments and emerging markets while containing costs.

For these reasons, talent development remains a key tenet of our strategy. As one of Canada's largest pension funds, Teachers' provides employees with the resources, training and career opportunities needed to meet the highest professional standards. These are important factors in the ability to attract and retain leading investment professionals as the plan's global presence grows. Our people are passionate about their work, innovative and deeply engaged with strategies and activities.

Today, approximately 80% of the investment portfolio is managed in-house. There are markets, however, where it is more advantageous for the plan to invest through externally managed funds. External managers are therefore used to target investments that require local and/or specialized expertise.

Evolving our leadership team

In October 2013, Teachers' announced a number of cross-department transfers and promotions among the senior-most levels of the investment team. These changes reflect increasing complexity in capital markets and were designed to develop leadership skills and position the team for long-term global advantage and innovation. See otpp.com for further details.

Long-term planning

The plan's investment and liability risks change over time. Rather than relying on past experience or historical data alone, Teachers' engages in thorough long-term planning and proprietary research as a means of positioning the plan for expected macro trends in the global economy. For example, the likely impact of various economic scenarios on expected asset-class performance are modelled; forecasts are developed to determine how demographic changes may affect the future investment climate; and in-country insights are aggregated from the plan's portfolio managers to develop macro or "top-down" investment theses. The growth of the plan's investment activities around the world and its physical presence in London and Hong Kong greatly assist long-term planning, which is one of Teachers' advantages.

Long-term priorities

The Investment Division operates with several long-term priorities. Chief among these is earning superior investment returns, with reasonable risk, in order to pay member pensions. Moreover, we seek to:

- foster good communication with sponsors, board members and employees to promote an understanding of, and a commitment to, the investment program;
- maintain a collaborative planning process;
- improve coordination among investment departments in order to realize synergies and optimize the total-fund portfolio;
- develop enhanced risk management tools and processes to support continued innovation and a risk-conscious culture;
- mitigate operational risks related to managing complex cross-departmental projects; and
- enhance cost effectiveness.

PERFORMANCE

Measuring performance

Teachers' is a long-term investor, and therefore the most relevant measure of plan performance is over multiple years. This annual report describes the plan's total-fund rate of return on an actual basis and against a benchmark on a one-, four- and 10-year basis, as well as since 1990, when we began our investment program. Investment returns are calculated net of trading costs, investment management expenses and external management fees, and stated in Canadian dollars. Returns for all capital market indices are also converted to Canadian dollars for comparison purposes.

Total plan returns are measured against a Canadian dollar–denominated composite benchmark, which is calculated by aggregating results from each of the policy asset-class benchmarks and weighting those benchmarks so that they are the same as the plan's asset-mix policy weightings.

Benchmarking is important because it allows investment strategies and activities to be measured for effectiveness relative to the risks taken. In each case, the plan seeks to outperform benchmark rates of return, and when this happens, it is described as value added.

Teachers' receives top marks for performance

For the 10 years ended December 31, 2012, Teachers' total returns and value-added returns were the highest among large global peer pension funds, according to CEM Benchmarking Inc., an independent authority on pension fund benchmarking. This was the third consecutive year Teachers' has been ranked first in both performance measures.

Establishing appropriate benchmarks is a complex task, and for that reason Teachers' employs a benchmarking committee chaired by the CEO to provide oversight. The committee uses a rigorous process for recommending and adjusting benchmarks. Board members oversee all changes to total-plan benchmarks.

Benchmarking enables the plan to evaluate the effectiveness of investment strategies and activities relative to the risks taken over time.

BENCHMARKS USED TO MEASURE PLAN PERFORMANCE

	Benchmark
Fixed income	Custom Canada Bond Universe Custom Canada Long Bond Universe Custom Provincial Long Bond Barclays Capital U.S. Treasury 15+ Index Custom U.S. Interest Rate Benchmark Custom Canada Real Return Bond Barclays Capital U.S. TIPS 15+ Index Custom Global Inflation Hedge Benchmarks (U.S., U.K., Euro) DEX 91 Day T-Bill Custom U.S. OIS Index
Canadian equity	S&P/TSX 60 Custom Long-Term Canadian Equity
Non-Canadian equity	S&P 500 MSCI All Country World ex Canada MSCI Emerging Markets MSCI Emerging Markets ETF Custom Non-Canadian National Indices Custom MSCI Global Index Custom Long-Term Non-Canadian Equity
Real assets	5.0% + IPD Canada Capital Growth (Real Estate excluding Brazil) DEX BBB Real Estate Debt Local CPI plus 4% plus country risk premium (Infrastructure and Real Estate Brazil)
Natural resources	NCREIF Timberland Index (U.S. Timberland) Local CPI plus 4% plus country risk premium (Sector Investment and Non-U.S. Timberland) Goldman Sachs Commodities Index Goldman Sachs Commodities Index 3 Month Forward Custom Commodities Hedge
Total fund	Custom Canadian CDOR Index Custom U.S. LIBOR Index Custom U.S. T-Bill Index Custom Local OIS Index (Canada, U.S., U.K. and Euro)

RATES OF RETURN COMPARED TO BENCHMARKS

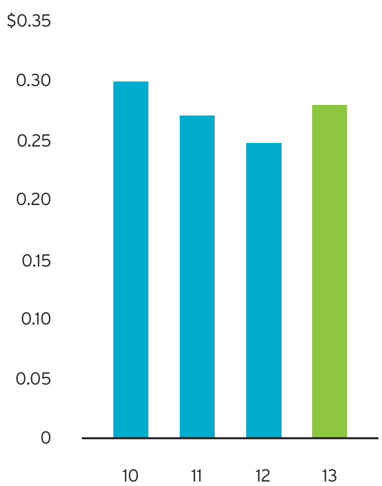
(percent)	1-Year Actual	1-Year Benchmark	4-Year Actual	4-Year Benchmark
Equities	**27.6**	**26.3**	**12.4**	**9.9**
Canadian equity	12.2	13.1	6.5	6.1
Non-Canadian equity	31.3	29.9	13.8	10.8
Fixed income	**(7.9)**	**(8.1)**	**6.2**	**5.9**
Bonds	(3.0)	(3.3)	7.7	7.0
Real-rate products	(12.9)	(12.8)	4.8	4.8
Natural resources	**4.2**	**4.2**	**1.6**	**2.9**
Real assets	**14.6**	**10.6**	**15.1**	**9.7**
Real estate	13.2	12.1	16.9	14.2
Infrastructure	16.8	10.9	11.4	7.2
Total plan[1]	**10.9**	**9.3**	**12.3**	**10.0**

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

Investment costs

Managing a successful investment program involves costs such as salaries, benefits, fees and research. The plan is committed to cost effectiveness and views certain expenditures as necessary to achieve long-term performance requirements. In 2013, total investment costs were $364 million or 28 cents per $100 of average net assets, compared to $302 million or 25 cents per $100 in 2012. The increase reflects increased head count and performance-based incentives.

COST PER $100 OF AVERAGE NET ASSETS



2013 markets in review

We continue to see the world economy in transition, with the U.S. taking the lead in the global recovery and emerging market economies shifting into a lower gear as governments adopt structural reforms in pursuit of a more balanced growth model.

There is growing evidence that the U.S. economy has entered the long-awaited transition from "muddling through" to a more sustainable recovery. The broad-based recovery in housing and strong equity performance have boosted consumer confidence, resulting in a reacceleration in employment and household spending during the second half of 2013. In light of the improving fundamentals, the U.S. Federal Reserve decided to begin reducing the size of its quantitative easing program starting in January 2014. However, this decision does not change the Fed's zero-interest-rate stance that has been in place since the 2008 financial crisis.

Economic conditions in the Eurozone also improved in 2013. While exiting a recession that lasted for six consecutive quarters was a big step forward, many structural challenges remain. In particular, unemployment remains at elevated levels and private lending conditions are still tight in peripheral countries, precluding an acceleration in the recovery process.

In Canada, record-high household debt levels – even surpassing those in the U.S. prior to the financial crisis – and elevated housing prices are two major headwinds for the economy and the Canadian dollar.

China is experiencing a structural slowdown. In contrast to the double-digit growth observed during the mid-2000s, 7% growth is becoming the new norm. The pace of economic growth is no longer the single focus of the new Chinese government as they are juggling among multiple objectives to maintain social harmony.

The market turbulence triggered by expectations of rising interest rates in U.S. Treasuries this past year exposed weak spots in certain emerging economies. Countries heavily reliant on foreign funding to finance their large current-account deficits, such as Brazil, India, Indonesia, South Africa and Turkey, experienced bouts of capital market volatility and significant currency depreciation as U.S. interest rates rose.

As a result of improving market sentiment and rising optimism regarding the global recovery in developed countries, equity markets in many countries delivered strong performance. Bond market returns, however, were negative as 10-year benchmark yields rose to their highest levels in two years.

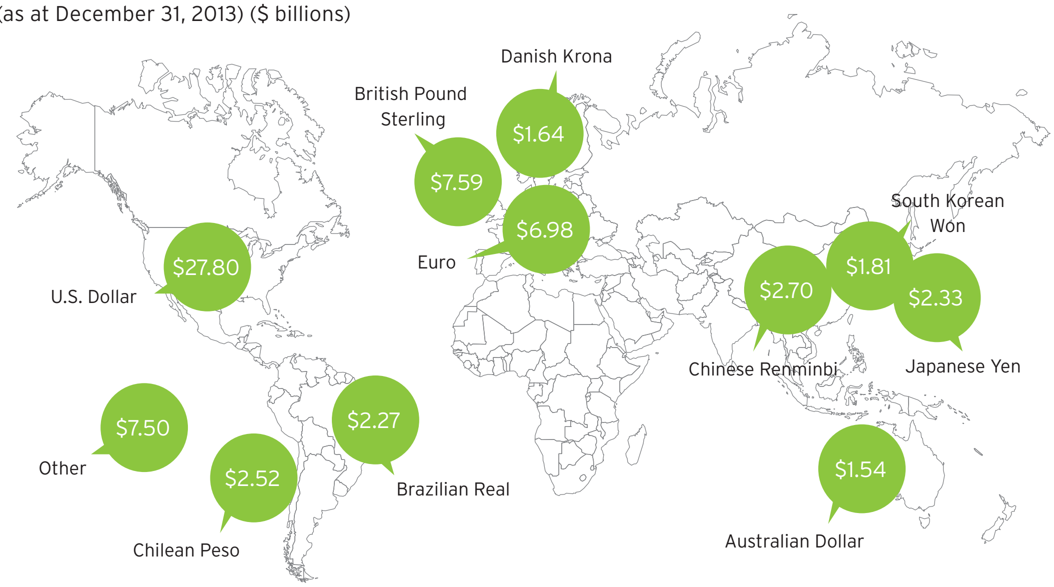
We measure the plan's performance in Canadian dollars. Significant exposures to other currencies are noted below.

Pursuing global opportunities

Teachers' regional offices in London (opened in 2007) and Hong Kong (opened in September 2013) ensure the plan can be prudent direct investors and partners with businesses in some of the world's largest economic zones.

NET CURRENCY EXPOSURES

(as at December 31, 2013) ($ billions)

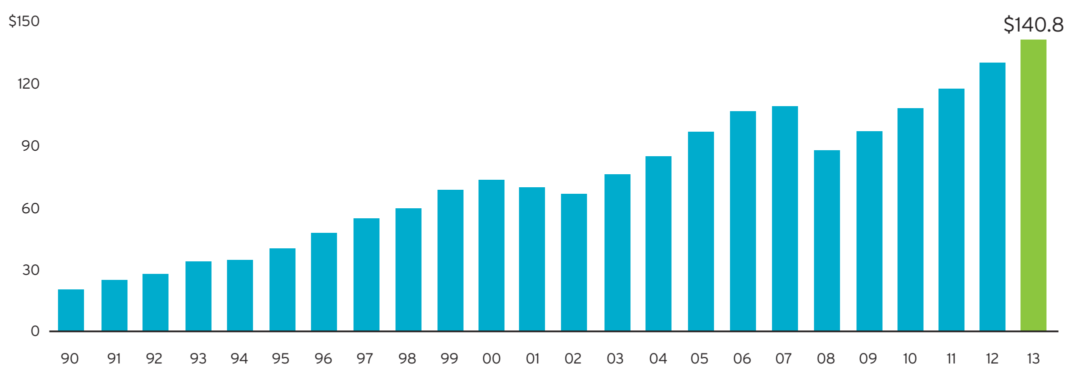


Total return

The fund generated $13.7 billion in investment income in 2013 with a return of 10.9%. Net assets were $140.8 billion compared to $129.5 billion at the end of 2012.

The fund's total one-year return outperformed the composite benchmark by 1.6 percentage points for $2.1 billion in value added. Value-added returns were generated in equities and real assets. One-year returns in natural resources were the same as the benchmark. The total plan's annual growth was 12.3% over the past four years as it outperformed the composite benchmark by 2.3 percentage points for $9.8 billion in value added. Since Teachers' inception in 1990, the fund has generated a 10.2% annualized rate of return.

NET ASSETS
(as at December 31) ($ billions)



ASSET-CLASS REVIEW

Equities

The plan uses equities to deliver investment growth and investment income. This asset class includes public equities (companies listed on a stock exchange) and private equities, which are less liquid and best suited for patient investors willing to participate for long-term gains.

The value of the equity portfolio year to year reflects the plan's policy asset weighting as a percentage of total assets. On a constant policy weight, the value of the plan's equities increased to $61.9 billion from $59.5 billion at December 31, 2012, as a result of growth in the plan's total assets. Much of the plan's growth in 2013 was delivered by the equities portfolio.

On a one-year basis, the total equities class (including those segmented below) returned 27.6%, outperforming the benchmark return of 26.3% for value added of $0.6 billion. On a four-year basis, the equities class generated a 12.4% annualized return compared to the four-year benchmark of 9.9% for $4.2 billion in value added. The asset-class benchmark is a composite of Canadian and international indices.

Non-Canadian equity

Non-Canadian equity (both public and private) totalled $51.0 billion at year end compared to $48.1 billion at December 31, 2012, reflecting year-end valuations and net redemptions to sustain policy asset weighting.

This portfolio returned 31.3% compared to a benchmark return of 29.9% for $0.7 billion in value added. On a four-year basis, non-Canadian equity generated a 13.8% annualized return compared to the four-year benchmark return of 10.8% for $4.2 billion in value added.

There was wide variation in the performance of equity markets worldwide in 2013 (the following are total returns expressed in Canadian dollars). The S&P 500 was up 41% year over year, outpacing the performance of Canada's main index for the third year in a row. European markets responded to signs of an economic recovery and ended 2013 with one-year gains of 40% for the German DAX index and 30% for the London FTSE 100. The Tokyo Nikkei 225 led the Asian markets with a return of 40% whereas Hong Kong's Hang Seng index returned 14%. Emerging markets lagged developed markets in 2013 with the broad-based MSCI Emerging Markets index returning 4%.

Canadian equity

Canadian equity (both public and private) totalled $10.9 billion at year end compared to $11.4 billion at December 31, 2012, reflecting policy asset weighting.

Canadian equity underperformed the benchmark on a one-year basis, returning 12.2% compared to a benchmark return of 13.1% for underperformance of $0.1 billion. On a four-year basis, Canadian equity generated a 6.5% annualized return, compared to the four-year benchmark of 6.1%.

Canadian market returns in 2013 were strong compared to 2012 but lagged behind the returns achieved in many global markets due to the preponderance of natural resource companies on the S&P/TSX index.

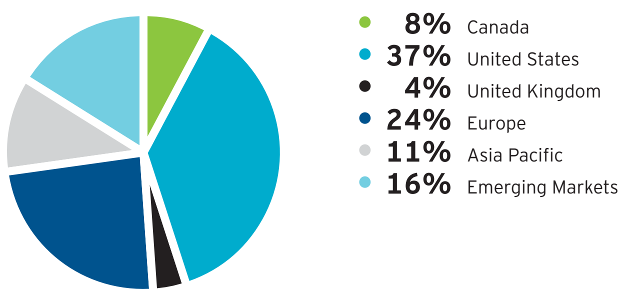
Michael Wissell,
MBA, CFA, ICD.D
Senior Vice-President,
Public Equities

Public equities

The public equities portfolio includes assets in three broad categories: passive investments that replicate the performance of major stock indices in Canada, the U.S. and abroad; actively managed equities chosen using fundamental analysis; and relationship investments that include significant minority ownership positions in companies already public as well as some private companies working toward becoming public, in which the plan works to increase shareholder value.

Equity markets in many developed countries surged in 2013 and produced double-digit one-year returns. Dividend yields in North America remained well above inflation and bond yields, and dividends added $1.2 billion to the plan's one-year performance.

PUBLIC EQUITIES PORTFOLIO BY REGION
(as at December 31, 2013)



Teachers' Private Capital

Formed in 1991, Teachers' Private Capital (TPC) invests directly in private companies, either on its own or with partners, and indirectly through private equity and venture capital funds managed by third parties. Today, it is a member of the Dow Jones Private Equity Hall of Fame and in 2013 was the recipient of Canada's Venture Capital & Private Equity Association (CVCA) *Deal of the Year* award in the private equity category.

Jane Rowe, MBA, ICD.D
Senior Vice-President,
Teachers' Private Capital

The performance of private equities managed by TPC is consolidated within the Canadian and non-Canadian segments previously noted. However, due to the unique risk and liquidity profile of these investments, TPC results are segregated here for reference.

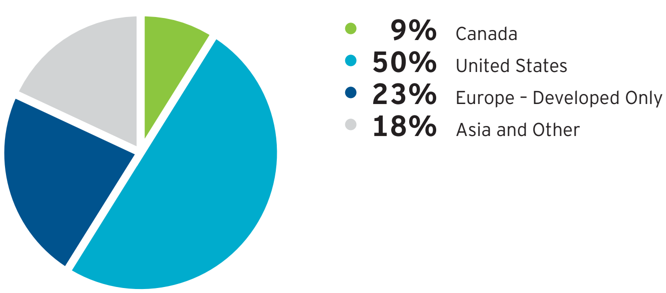
Since its inception, TPC's core portfolio (direct investments, co-investments and private equity funds) has generated an internal rate of return of 19.5%.

Private equity investments totalled $14.8 billion at year end compared to $12.0 billion at December 31, 2012. Growth in the portfolio reflected an increase in the value of existing investments and new investments made during the year, partially offset by value realized from monetizing previous investments. TPC invested in three new direct investments in 2013 and four new buyout funds.

On a one-year basis, TPC returned 26.9% but the benchmark return was stronger at 33.4%. While TPC earned a record $3.1 billion during 2013, the benchmark return was $3.6 billion, for underperformance of $0.5 billion. On a four-year basis, TPC assets generated a 20.3% annualized return, compared with the four-year benchmark return of 12.8%.

During 2013, TPC onboarded the large number of investments made in 2012, employing a process that involves developing long-term value creation plans, assessing and building internal talent in its portfolio company management teams and boards, and ensuring good governance practices. The team pursued strategic acquisitions and divestitures within its portfolio companies, tapped liquid credit markets, and invested growth capital in several assets, all in the pursuit of value creation. TPC also assigned staff to the Hong Kong office to lead its investment activities in the Asia-Pacific region. In late 2013, TPC assumed responsibility for Teachers' Long-Term Equities portfolio, which will be consolidated within TPC's results in 2014.

TPC PORTFOLIO BY REGION
(as at December 31, 2013)



Wayne Kozun,
MBA, CFA, ICD.D
Senior Vice-President,
Fixed Income &
Alternative Investments

Fixed income

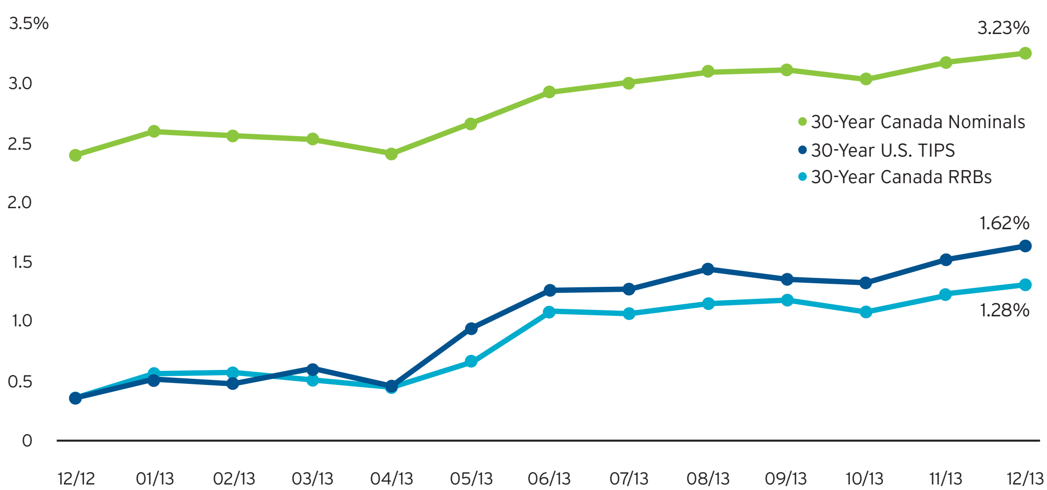
Teachers' fixed income investments are used to provide investment security and steady income and, more generally, to stabilize fund returns and hedge against interest rate risks inherent in the plan's liabilities.

The plan owns a diversified portfolio of Government of Canada bonds, provincial bonds, real-return bonds and inflation-linked bonds. Real-return bonds provide returns that are indexed to inflation, as measured by the Consumer Price Index, and include debt issued primarily by the Canadian and U.S. governments.

Fixed income assets totalled $56.9 billion at year end compared to $60.0 billion at December 31, 2012, as rising interest rates reduced the value of the portfolio. Despite negative one-year returns of 7.9%, fixed income outperformed the benchmark's negative return of 8.1% to deliver $0.1 billion in value added. The increase in interest rates in 2013 decreased the value of bonds, with a larger effect on longer-term bonds. The value added primarily reflected the performance contribution from corporate bonds in the portfolio. On a four-year basis, fixed income generated a 6.2% annualized return, outperforming the benchmark return of 5.9% for $0.7 billion in value added.

Long-term interest rates increased during 2013 due to economic growth in the United States and Europe and, despite the U.S. Federal Reserve's quantitative easing policies, they are likely to increase over the mid-term as a result of improved economic performance which will allow central banks to further taper their bond-buying programs.

GOVERNMENT BOND YIELDS

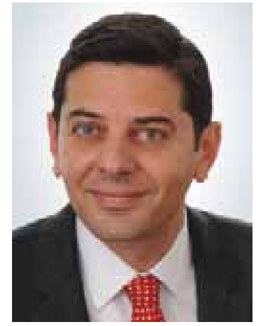


Natural resources

Teachers' established its Natural Resources Group (NRG) at the beginning of 2013. NRG assets include financial exposure to commodities through investing in the S&P GSCI commodity index and direct physical investments in producing natural resource assets.

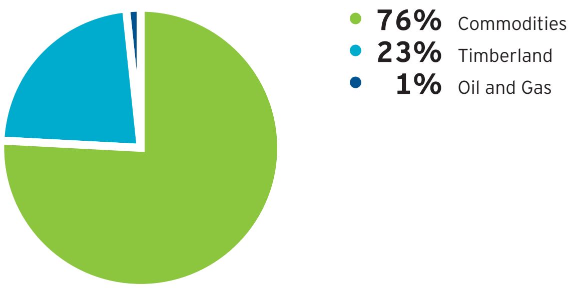
The group's broader goal is to provide the plan with superior risk-adjusted returns, diversification and protection against adverse macroeconomic environments that could lead to unexpectedly high inflation. In addition to its current physical investments, which include timberlands and Canadian oil and gas assets, NRG can also invest in agriculture and mining as a means of growing its cash-generating assets.

Investments in natural resources totalled $10.8 billion at year end compared to $9.2 billion at December 31, 2012, reflecting year-end valuations and additional investments to sustain policy asset weighting. The portfolio returned 4.2%, the same as the benchmark. On a four-year basis, these assets generated a 1.6% annualized return compared to 2.9% for the benchmark for a negative $0.4 billion in value added.



Ziad Hindo,
M.Sc., CFA
Senior Vice-President,
Tactical Asset Allocation &
Natural Resources

NATURAL RESOURCES PORTFOLIO
(as at December 31, 2013)



Real assets

Real assets include real estate and infrastructure investments. These assets provide returns that are often related to changes in inflation and therefore act as a hedge against the cost of paying inflation-protected pensions. Over the past 10 years, these investments have played an increasingly important role in helping Teachers' to meet its performance objectives.

In aggregate, real assets totalled $30.9 billion at year end compared to $26.5 billion at year-end 2012, reflecting the move of timberland to the Natural Resources Group. This asset class earned a one-year return of 14.6% compared to the benchmark return of 10.6% for $0.9 billion in value added. On a four-year basis, the annualized return from real assets was 15.1% compared to a benchmark return of 9.7% for $3.1 billion in value added.

John Sullivan, MBA
President & CEO,
Cadillac Fairview

Real estate

Teachers' real estate portfolio is managed by our wholly owned subsidiary, The Cadillac Fairview Corporation Limited, which maintains a well-balanced portfolio of retail and office properties designed to provide dependable cash flows.

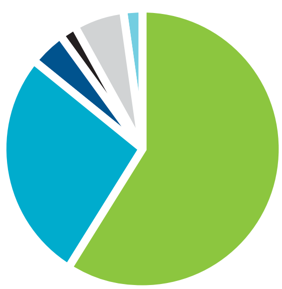
The net value of the real estate portfolio totalled $19.2 billion at year end compared to $16.9 billion at December 31, 2012. This increase reflected valuation growth in North American properties as demand for high-quality assets remained strong, partially offset by a decline in the market price of Multiplan, a large publicly traded real estate company in Brazil.

Portfolio highlights in 2013 included: investments in industrial and office properties in Brazil and Colombia; the renovation and expansion of the Rideau Centre in Ottawa; the purchase of the remaining 50% interest in Shell Centre, an office building in Calgary; commenced the redevelopment of three former Sears stores in Canada to make way for new Nordstrom stores; and the buyout of five more Sears stores, which provides the opportunity to redevelop and remerchandise significant blocks of space in sought-after Canadian markets. Nordstrom subsequently committed to open a store in the Sears location at Toronto Eaton Centre. Dispositions included two office properties in Ottawa and three U.S. properties from the jointly owned portfolio with Macerich.

The real estate portfolio returned 13.2% compared to a benchmark return of 12.1% for the year ended December 31, 2013, for value added of $0.3 billion. On a four-year basis, the real estate portfolio generated a 16.9% annualized return, compared to the four-year benchmark of 14.2% for $1.7 billion in value added. The portfolio earned operating income of $1.0 billion in 2013, primarily from retail and office properties. At year end, the retail occupancy rate was 95% (94% in 2012), while the office occupancy rate was 96% (95% in 2012), in line with long-range targets for occupancy.

REAL ESTATE PORTFOLIO

(as at December 31, 2013) (based on total assets)



- **59%** Canadian Retail
- **27%** Canadian Office
- **5%** U.S. Retail
- **1%** U.K. Office
- **7%** Investments (mainly Brazil)
- **1%** Other (condos and hotels)

Infrastructure

Teachers' invests directly in infrastructure, either on its own or with partners, because these assets generally offer stable long-term cash flows linked to inflation. The plan's portfolio includes investments in transportation and logistics (including airports, seaports and high-speed rail), energy (including electricity and gas) and drinking water and waste water. Overall, Teachers' seeks to build a portfolio which will steadily increase in value, provide predictable cash flow and correlate to inflation.

Andrew Claerhout,
HBA, ICD.D
Senior Vice-President,
Infrastructure

The infrastructure portfolio totalled $11.7 billion at year end compared to $9.6 billion at December 31, 2012, due to increased year-end valuations and additional investments in portfolio companies. In 2013, infrastructure assets returned 16.8% compared to a benchmark return of 10.9% for $0.6 billion in value added. On a four-year basis, the annualized return was 11.4%, compared to the four-year benchmark of 7.2% for $1.4 billion of value added.

The portfolio can be segmented into three general categories: volume-driven assets whose fundamentals are tied directly to throughput and more indirectly to macroeconomic conditions, including Gross Domestic Product; regulated companies whose revenues are explicitly linked to formal regulatory regimes; and contracted assets with a significant percentage of revenues tied to long-term contracts. The majority of infrastructure assets are held outside of Canada, principally in the U.K., Europe, Chile, the U.S. and Australia.

INFRASTRUCTURE PORTFOLIO
(as at December 31, 2013)

- **56%** Transportation and Logistics
- **24%** Energy
- **20%** Water and Waste

Absolute return strategies and money market

Teachers' uses absolute return strategies to generate positive returns that are constructed to be uncorrelated to the returns of the plan's other asset classes. The strategies are executed primarily by the Tactical Asset Allocation & Natural Resources and Fixed Income & Alternative Investments teams. Internally managed absolute return strategies generally look to capitalize on market inefficiencies. The plan also uses external hedge fund managers to earn uncorrelated returns, to access unique strategies that augment returns and to diversify risk. Assets employed in absolute return strategies totalled $12.2 billion at year end compared to $12.3 billion a year ago.

Money-market activity provides funding for investments in all asset classes, and is comparable to a treasury department in a corporation. Derivative contracts and bond repurchase agreements have played a large part in the investment program since the early 1990s. For efficiency reasons, the plan often uses derivatives to gain passive exposure to global equity and commodity indices instead of buying the actual securities. The plan uses bond repurchase agreements to fund investments in all asset classes because it is cost effective and allows Teachers' to retain economic exposure to government bonds. These activities result in a negative net exposure in our asset mix and the amount is expected to vary from year to year based on the plan's needs.

NET INVESTMENTS BY ASSET CLASS

(as at December 31, 2013) ($ billions)	**2013**	2012
Canadian equity	**10.9**	11.4
Non-Canadian equity	**51.0**	48.1
Bonds	**30.5**	28.9
Real-rate products	**26.4**	31.1
Natural resources	**10.8**	9.2
Real estate	**19.2**	16.9
Infrastructure	**11.7**	9.6
Absolute return strategies	**12.2**	12.3
Money market	**(33.8)**	(40.2)
Total	**138.9**	127.3

Net investments are defined as investments of $198.1 billion minus investment-related liabilities of $59.2 billion, as noted in the consolidated statements of financial position (page 65).

NOTABLE 2013 TRANSACTIONS

The plan publishes a complete list of individual investments that exceeded $100 million at year-end 2013, beginning on page 100 of this report. Some notable transactions from the past year are described below.

Hudson's Bay Company: Through its Relationship Investing team, Teachers' provided US$500 million of equity funding to support Hudson's Bay Company's US$2.9 billion merger with Saks Incorporated. This transaction brought Hudson's Bay, Lord & Taylor and Saks Fifth Avenue together to create a leading North American retailer across the luxury, mid-tier and outlet sectors.

Weyburn Unit: Teachers' acquired a working interest in the Weyburn Unit, a Saskatchewan oil asset. The Unit has been in operation since 1963 and features long-life reserves, a predictable production profile and free cash-flow generation. This was the first acquisition made by Teachers' recently formed Natural Resources Group.

Burton's Biscuit Company: Teachers' Private Capital acquired a majority stake in Burton's, a major player in the U.K. biscuit market with annual sales of more than £340 million, 2,000 employees, three manufacturing facilities and iconic brands including Cadbury Fingers, Maryland Cookies, Jammie Dodgers, Wagon Wheels and Lyons.

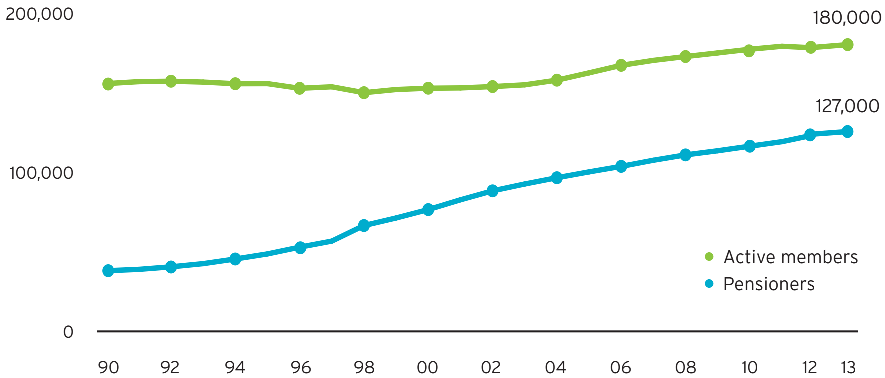
Nextgen Group: Led by its Long-Term Equities team, Teachers' acquired approximately 70% of three Australian telecommunications companies, with Leighton Holdings Limited retaining the balance of ownership. These companies, which deliver high-speed fibre network, data centre, cloud and ICT services, were subsequently rebranded Nextgen Group.

MEMBER SERVICES

Member Services continues to look ahead to anticipate member needs and deliver timely, reliable service and pension information that is accurate and relevant. This means making complex information easier to understand, providing meaningful communication across a variety of channels and understanding how members interact with evolving technology. The goal is to give members what they need before they know that they need it.

Members in the late stages of their teaching careers usually have many questions about their pensions as they approach retirement. During this transition period, there are a variety of methods for interacting with Teachers' and obtaining the information needed to plan for a secure retirement.

ACTIVE MEMBERS AND PENSIONERS
(as at December 31)



126

Number of pensioners aged 100 years or more at the end of 2013

58%

Percentage of members who rated service a perfect 10/10

clarity
SIMPLE PERSONAL INSIGHTFUL

Teachers' pension strategy:
- Simplification
- Personalization
- Insight

Trusted. Caring. Resourceful. Proactive. These four service principles guide us in delivering an excellent member experience.

OBJECTIVE AND MANAGEMENT STRATEGIES

The Member Services Division delivers pension services directly to plan members and interacts with school boards and designated employers. It processes billions of dollars of contributions and millions of pieces of personal information every year while administering one of Canada's largest payrolls – $5.1 billion in annual pension and benefit payments – to 127,000 retirees and their survivors.

The plan's objective is to deliver outstanding service to all members at a reasonable cost. It consistently earns high service ratings from members and places at or near the top in annual rankings of international pension plans. Members deserve timely, reliable service and pension information that is accurate and relevant to them at different stages of their lives.

The Member Services philosophy is to exceed expectations, every day.

Clarity strategy moves ahead

In 2013, Teachers' implemented "Clarity," a pension service strategy that is designed to remove complexity for plan members, while making use of insight to create personalized service experiences.

The three aspects of this strategy are:

1. **Simplification:** Pension benefits and plan rules are complex, and decisions made by individuals can have long-term ramifications. A large part of the job of Member Services is helping members understand what the plan provides and how it works. Our staff are committed to simplifying information and streamlining processes to help members navigate the pension plan and make well-informed decisions. They also work with the plan sponsors to simplify the plan rules.

   Example: In 2013, the plan sponsors simplified the treatment of unpaid days mandated by the Putting Students First Act. Instead of having to contact us to buy back credit for these absences, members automatically maintain full service credit in the plan.

2. **Personalization:** Working teachers and pensioners have diverse needs that change throughout their careers and in retirement. Members' expectations also change over time according to their experiences with other organizations and their adaptation of technology. Teachers' strives to make pension services more meaningful by providing relevant and consistent information across all channels.

   Example: Paper-based channels are no longer our primary communication channel. Digital services and mobile devices have become more popular. The Member Services team is enhancing electronic communication and creating digital tools, such as mobile apps, to meet specific needs.

3. **Insight:** Making pensions simple and providing personalized service require insight into members' needs and an understanding of how developing technologies intersect with their evolving expectations. The organization uses member data and trend indicators from across the services industry to help anticipate what members value and to plan improvements accordingly.

Example: The Corporate Executive Board (CEB), a leading member-based advisory company, surveyed a small sample of plan members in 2013 about the effort required to handle a service issue. The survey assessed the person's perceived effort, the ease of handling his or her issue and whether he or she felt contacting Teachers' was worthwhile. Teachers' overall Customer Effort Assessment was the best that CEB had seen in similar assessments in 2013 and more than 90% of plan members agreed Teachers' made it easy to handle their issue. The CEB insight and recommendations will be used to refine certain facets of service to members.

MEMBERSHIP FACTS AND TRENDS

Plan membership grows every year

The number of members has grown every year since 1917, when the first pension plan for Ontario teachers was created. The total membership reached 376,000 members at the end of 2013, including working teachers, pensioners and inactive members (former teachers who are entitled to a pension but are not currently contributing or receiving benefits). The plan continues to mature as the proportion of working teachers to retirees declines. See page 15 for more about plan maturity and its implications.

Quick facts:

- Number of pensioners has tripled since 1990
- 56% of pensioners are under age 70
- Oldest pensioner was 110 at the end of the year
- Average new unreduced pension starting in 2013 was $49,300

MEMBER PROFILE
(as at December 31, 2013)

180,000	+	69,000	+	127,000	=	376,000
Active members		Inactive members		Pensioners		Total members

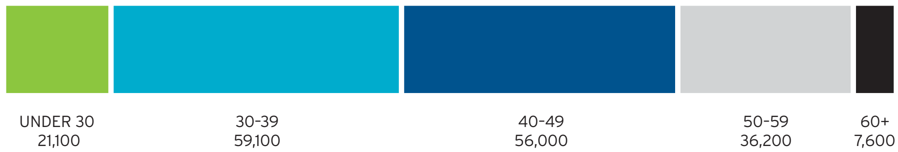
TRENDS

Average age of teachers retiring last year	59	Average age at retirement is increasing slowly
Number of new retirements last year (retirement and disability pensions)	4,600	Number of retirements decreased by 13% from 2012
Number of teachers entering or returning to the teaching profession	6,700	New and returning teachers increased slightly after declining in the last five years due to a smaller student population
Average years retirees are expected to collect pensions	31	Members are, on average, retired for five years longer than they worked
Typical years of credit at retirement	26	

- The average age of teachers is 42 years
- The average age of pensioners is 70 years
- 126 pensioners are 100 years of age or older
- Our oldest member has collected a pension for more than 45 years

TEACHERS AND PENSIONERS BY AGE

180,000 ACTIVE MEMBERS



127,000 PENSIONERS

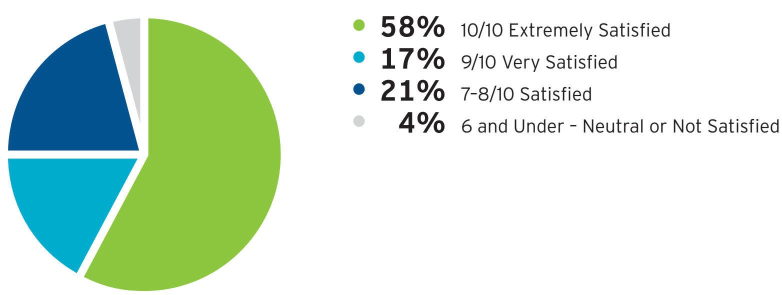
MANAGING SERVICE COMPLEXITIES

The operating environment changes continually. Plan membership is dynamic, and new pension regulations and plan changes are frequently introduced. Teachers' relies on highly trained staff, advanced technology and employer data quality to meet its service obligations and execute its strategy.

Balancing service and cost

Members consistently rate the plan's services very highly, and the majority of service requests are completed within one day. Maintaining high service ratings becomes more challenging as expectations and work volumes increase alongside the growth in membership. Management aims to strike the right balance between service and cost: expenditures related to service improvements must be cost effective and create long-term value for our members.

SERVICE SATISFACTION ACCORDING TO SURVEYS
(for the year ended December 31, 2013)



Growing service demands and channels

The number of members served increases each year and expectations change over time. Teachers' offers services by telephone, by mail and e-mail, in person, and electronically through a secure member website, *i*Access™ Web.

Member interactions totalled 445,000 in 2013, up 1.4% from the prior year. We completed 179,000 personal member requests, compared to 184,000 the year before, and responded to 57% on the same day.

Members' usage of online services grows every year, and new web capabilities and other innovations are added regularly to keep pace and stay efficient.

In 2013, Teachers' introduced two new mobile applications for members to use on their personal devices: Worklog, which allows re-employed retired members to track the number of days they have worked, and Classtime, which helps occasional teachers keep track of where and when they have worked. Realizing that plan members increasingly rely on mobile devices in their daily lives, our in-house IT professionals created simple tools that help members navigate pension rules. More than 2,200 people have downloaded these two mobile apps. This represents a major step in the evolution of services to members.

Teachers' social media communications began in 2012 with a Facebook page for plan members, and the use of social media grew in 2013 with a Twitter feed (@OtppInfo) and YouTube channel (OtppInfo). These platforms highlight relevant information and give members the opportunity to learn and provide feedback about their pensions. The plan's YouTube channel, for example, has playlists dedicated to answering members' frequently asked questions.

Online facts:

- Web and personal interactions average 1,200 every day
- We enhanced e-mails for 175,000 members who receive electronic plan updates and introduced two mobile apps
- The number of members registered for *i*Access™ Web, our secure member website, surpassed 200,000

Website enhancements

The proportion of total service provided to members through Teachers' secure website continues to grow. Members logged on for 271,000 web sessions last year, compared to 260,000 in 2012. Pension Estimates was the most frequently accessed online service.

Providing members with online service continues to be a priority. Members saw enhancements to *i*Access™ Web in 2013, including a redesigned pension payments section and graphs showing historical pension payments.

SELF-SERVICE ACTIVITIES ON *i*Access™ WEB
(for the year ended December 31, 2013)

- **102,800** Pension Estimates
- **55,800** Changes to Personal Information
- **63,300** E-document Viewings

Plan and regulatory compliance

In recent years, Teachers' has been dealing with an unprecedented number of plan and regulatory changes that must be implemented, communicated and understood. They affect systems, processes and staff training needs. Changes prescribed in regulations often make plan rules more complex, so management works proactively with policy-makers, regulators and the plan sponsors to simplify these rules, where possible.

More information on regulatory compliance and advocacy efforts is available on page 47.

We work closely with employers on pension reporting requirements because accurate data is essential for excellent pension service.

Employment data quality

The ability to deliver outstanding service is largely dependent on getting accurate, up-to-date employment information from 170 school boards and designated employers. This information is used to calculate benefits, respond to members' requests promptly, and anticipate their needs for service. The plan works closely with employers to ensure they understand pension reporting requirements. We support their staff with workshops and hands-on technology assistance.

In 2013, Teachers' rolled out Spark, a secure online tool employers can use to connect with each other and with our specialists about pensions, payroll and related topics. In the past, these discussions took place via e-mail. Spark also contains a database of answers to frequently asked employer queries, enabling school boards and designated employers to work more effectively with the plan.

Annually, school board finance officers are asked to certify that the contributions and service information delivered to the pension plan are correct. This has proven invaluable in receiving accurate data.

Training

Teachers' has 45 pension benefit specialists who serve plan members through a contact centre. In order to meet the complex service needs of members, new specialists go through extensive classroom and one-on-one training for the first year of employment. As part of the plan's commitment to service quality, ongoing coaching and feedback are provided to all front-line specialists.

MEASURING PERFORMANCE

A comprehensive approach is taken to measure performance. This includes using service satisfaction and cost measurements, third-party verification of service delivery levels and internal key performance indicators.

The QSI measures service satisfaction based on member surveys. This is the third time since 2005 that Teachers' attained a 9.1 out of 10 rating.

Quality Service Index

The Quality Service Index (QSI) is our primary performance measurement. An independent company surveys a membership sample by telephone several times each year in order to gauge the quality of Teachers' service and communications. Members are randomly selected to participate after accessing a specific service. Management continually reviews and refines the survey protocol to reflect current services and communications.

We ended the year with an overall QSI score of 9.1 on a 10-point scale, and 58% of respondents awarded the plan 10 out of 10. Members rate the personal service received (85% of overall score) and general communications (15% of score). To maintain these high ratings, management must continuously evaluate and reinvent the organization's approach to service.

QUALITY SERVICE INDEX
(on a scale of 0 to 10)

	2013	2012
Total QSI	**9.1**	9.1
Service QSI (85%)	**9.2**	9.2
Communications QSI (15%)	**8.7**	8.9

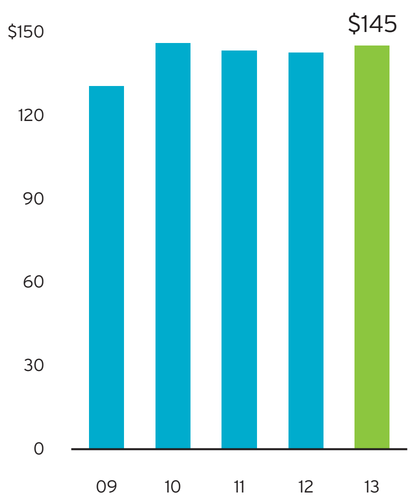
Service cost and expense management

The total cost of administering the pension plan increased in past years due to several factors, including:

- increasing number of plan members;
- ongoing investments in systems to support service and regulatory activities; and
- expansion of service channels to meet growing member demands.

The annual service cost per member is measured to manage costs effectively. The cost per member in 2013 was $145 compared to $142 the previous year. We managed costs within our allocated budget while complying with plan changes and investing in the technology and people required to evolve our service model.

SERVICE COST PER MEMBER
(for the years ended December 31) (dollars)



CEM Benchmarking Inc.

Teachers' has its services measured against leading pension plans worldwide by participating in surveys conducted by CEM Benchmarking Inc. This evaluation helps the plan to better understand whether we are striking the right balance between service and cost, and shows where Teachers' stands in relation to peers around the world.

For 2012, we placed first for pension service internationally and also earned the top spot among 12 peer pension plans in North America. Our total service score was 92 out of 100, versus the peer average score of 80. The CEM study ranks plan performance in 11 service categories, including telephone call wait times, quality of member statements, accuracy of data and website tools. The 2013 rankings will be released in mid-2014.

For the second straight year, Teachers' placed first internationally and in a North American peer group in the latest ranking by CEM Benchmarking Inc.

CEM BENCHMARKING RESULTS – SERVICE LEVEL SCORE COMPARISON

	2012	2011	2010	2009
Ontario Teachers' Pension Plan	**92**	92	91	91
CEM world average	**76**	76	75	76
Peer group average	**80**	79	78	79
Canadian participants – average	**74**	73	72	72

Source: CEM Benchmarking Inc.

PLAN GOVERNANCE

As an investor, we believe that good governance is good business because it helps companies deliver long-term shareholder value. As a plan administrator, we measure ourselves against best practices for governance, internal controls, risk management and stewardship.

Governance involves a system of checks and balances to help ensure that an organization pursues its mission in a legal, responsible and effective manner. It links decision-making authority with accountability, and ensures that those managing the organization are capable and fairly compensated and that management interests are properly aligned with the organization.

STRONG GOVERNANCE PRACTICES

Teachers' governance structure plays a crucial role in the organization's success. Since its inception in 1990, Teachers' has been overseen by independent board members – business professionals with financial and other relevant expertise – who have consistently set the tone from the top for an innovative and successful investment program and for excellence in service delivery.

Board composition and independence

The pension plan is overseen by nine board members. Four board members are appointed by each of the plan's two sponsors – the Ontario government and Ontario Teachers' Federation (OTF). The two sponsors jointly appoint the board's chair.

Board members are appointed for two-year terms and may be re-appointed for up to a maximum of four consecutive terms. This process ensures that the plan sponsors consider the qualifications and effectiveness of individual board members on an ongoing basis and constantly plan for renewal.

Board members act independently of the plan sponsors to make decisions in the best interest of all members of the plan. Further, the roles of the Chair and the Chief Executive Officer (CEO) are separate and no member of management is a board member. The board meets regularly without management present and, when needed, obtains advice from external advisors in order to foster additional views on key board decisions. The board is required to retain external professional firms to provide actuarial and audit services.

Board member qualifications

Board members have extensive experience in a wide range of disciplines necessary to oversee a sophisticated pension plan. They are drawn from the fields of business management, finance and investment management, economics, education and accounting. Teachers' supports ongoing director education through the program offered by the Institute of Corporate Directors (ICD) and the Rotman International Centre for Pension Management (ICPM) at the University of Toronto. Board Chair Eileen Mercier has been recognized as a Fellow of the ICD for exceptional corporate governance leadership.

BOARD MEMBERS

Three of nine board members are due to retire at the end of 2014: Board Chair Eileen Mercier, Hugh Mackenzie and Jean Turmel. The sponsors will name their replacements in 2014.

Board and committee meeting attendance was 98% in 2013. For more information on board members and board committees, please see our website (otpp.com).

Eileen Mercier, Chair
FICB, F.ICD

Appointed 2005; Chair since 2007

Attendance 97%

Board member, Intact Financial Corporation, Teekay Shipping Corporation and University Health Network

Former Senior Vice-President and Chief Financial Officer of Abitibi-Price Inc.

Rod Albert

Appointed 2010

Attendance 100%

Former President, Ontario Teachers' Federation; Former President and General Secretary of Ontario Secondary School Teachers' Federation

Benefits Adjudication* and Audit & Actuarial Committees

Patsy Anderson
C.M., ICD.D

Appointed 2012

Attendance 96%

Member, Arts & Science Advisory Council, Queen's University; Chair, Aldeburgh Connection

Former Chair, SickKids Foundation, and the Corporation of Roy Thomson Hall and Massey Hall

Audit & Actuarial and Governance Committees, Lead Director – Information Technology

Hugh Mackenzie
ICD.D

Appointed 2007

Attendance 100%

Principal, Hugh Mackenzie and Associates; Board member, Ontario Pension Board; Member, Investment Advisory Committee of the Canada Post Pension Plan; Past Chair and Investment Committee Chair, Atkinson Foundation

Human Resources & Compensation* and Governance Committees

Barbara Palk
CFA, ICD.D

Appointed 2012

Attendance 100%

Board member, TD Asset Management USA Funds Inc.; Chair of the board of trustees at Queen's University; Director, First National Financial

Former President, TD Asset Management Inc.; Former Governance Chair, Canadian Coalition for Good Governance

Benefits Adjudication**, Audit & Actuarial and Governance Committees

Sharon Sallows
ICD.D

Appointed 2007

Attendance 100%

Director, Chartwell Seniors Housing REIT; Director, RioCan Real Estate Investment Trust

Former Senior Vice-President, Bank of Montreal

Human Resources & Compensation and Governance* Committees

David Smith
CFA, ICD.D

Appointed 2009

Attendance 100%

Chair, Government of Canada's Audit Committee

Former Chair and Senior Partner, PricewaterhouseCoopers; Former President & CEO, Canadian Institute of Chartered Accountants

Audit & Actuarial* and Human Resources & Compensation Committees

Daniel Sullivan
ICD.D

Appointed 2010

Attendance 100%

Former Consul General of Canada in New York; Former Deputy Chairman, Scotia Capital; Former Chair and Director of the Toronto Stock Exchange; Former board member, Cadillac Fairview

Human Resources & Compensation and Governance Committees

Jean Turmel

Appointed 2007

Attendance 93%

President, Perseus Capital Inc.; Board member, Canam Group Inc., Alimentation Couche-Tard Inc.

Former President, Financial Markets, Treasury and Investment Bank, National Bank of Canada

Investment*, Audit & Actuarial and Human Resources & Compensation Committees

*Committee Chair, ** Committee Vice-Chair

BOARD MEMBER RESPONSIBILITIES

The board is responsible for the management of the pension fund and the administration of the pension plan. To carry out its responsibilities, it delegates the day-to-day management to the CEO, who has the authority to sub-delegate.

Board members review progress against management's stated objectives and confirm that management's strategies and decisions are in the best interests of all pension beneficiaries. Board members approve strategic plans and budgets, investment policies, risk appetite and asset mix, benchmarks, performance and compensation planning, and succession plans. They also monitor enterprise-wide risks.

In addition, board members oversee annual performance objectives for the investment portfolio and review transactions that reach certain limits set by the board. The board and plan management are responsible for investment decision making. The plan sponsors are not involved in investment decisions.

Finally, the board must conduct regular funding valuations for the pension plan to assess its long-term financial health. The board sets key actuarial assumptions for these valuations, with input from the plan actuary and management. The board is responsible for reporting the plan's funding status to the plan sponsors, and reviews and approves the audited consolidated financial statements.

EFFECTIVE OVERSIGHT AND CONTROLS

Board members oversee all aspects of the plan through five committees: Investment, Audit & Actuarial, Human Resources & Compensation, Governance and Benefits Adjudication. All board members serve on the Investment Committee. The board also establishes task forces or special committees to examine specific issues.

Board and committee mandates, as well as Teachers' Code of Conduct, are available on our website (otpp.com).

Board member remuneration is discussed on page 57.

Board members met 10 times in 2013 for board meetings and eight times for Investment Committee meetings. In addition, the Governance Committee met two times; the Human Resources & Compensation Committee met five times; the Audit & Actuarial Committee met six times; and the Benefits Adjudication Committee held three general meetings. Regularly scheduled meetings of the board, the Audit & Actuarial Committee and the Human Resources & Compensation Committee included six sessions without management present.

Board members receive regular reports from management on the financial and funding positions of the plan, progress against strategic initiatives, employee engagement, investment performance, regulatory compliance, risk levels, client satisfaction ratings and key Member Services initiatives. They also receive regular reports concerning the performance of each investment department, internal controls, enterprise risk, enterprise projects and all other significant events.

Board members must ensure that the organization's standards are respected and that its policies and procedures are appropriate. Supporting these responsibilities is an internal audit function that reports directly to the Audit & Actuarial Committee.

In addition, board members regularly hear from experts on investment and economic topics to ensure they are well briefed on important matters. For example, international portfolio investment experts addressed board members at their September 2013 offsite meeting to provide insight on risks and opportunities in four countries.

Board members also help ensure that management can attract and retain the best available talent. A committee of board members was engaged in the 2013 CEO succession process for more than two years. Independent advisor Handfield Jones Inc. was retained to support the board members with CEO succession planning.

In 2013, a Lead Director for Information Technology position was created to assume board-level oversight responsibility for information technology, reflecting its strategic importance to the organization.

An executive-level committee chaired by the President and CEO leads the ERM program.

Enterprise risk management (ERM)

The pension plan is exposed to a number of risks that have the potential to result in material financial losses, reputational damage or other undesirable outcomes. The purpose of enterprise risk management is to ensure that significant risks to the organization – investment, strategic, operational, reputational and governance risks – are managed effectively. It provides a framework to identify and assess risks and to employ mitigating strategies, when appropriate, to address them.

An ERM policy establishes a process through which employees across the organization identify, manage, measure and report risks. (See otpp.com for the board-approved Risk Appetite Statement.)

The ERM Committee, chaired by the President and CEO and comprising the heads of all divisions, meets regularly to review the most critical risks, consider new and emerging risks, and decide how best to manage them. The committee delivers a formal annual assessment of the organization's enterprise risks to board members, with a mid-year update on top risks. It is supported by a cross-functional working committee that communicates and implements ERM activities across the organization.

The importance of risk awareness is embedded in Teachers' Mission, Vision and Values statements, which highlight "accountability and risk consciousness" as one of seven core values for all employees. The 2013 employee survey indicated that risk awareness is advancing among all Teachers' employees.

In 2013, Teachers' started to develop a program designed to monitor and manage operational risk in a more systematic fashion. The goal of operational risk management (ORM) is to support Teachers' business objectives and risk appetite, while providing a more proactive and consistent approach to evaluating, monitoring, managing and reporting operational risk. The pension plan has multi-year programs in progress aimed at reducing operational risk by improving and upgrading internal coordination, data governance and key systems. ORM is expected to complement these programs.

In addition, Teachers' has active programs in business continuity, disaster recovery and crisis management. These plans are tested on a regular basis and updated as required.

Transparent communication

Teachers' keeps plan members and stakeholders informed about plan provisions and services, plan changes, funding challenges, investment news and other important information through the following communication activities and vehicles:

- this annual report, and an annual performance summary for plan members;
- annual pension statements;
- frequent pension-related news online, by e-mail and in newsletters;
- Teachers' corporate website (otpp.com);
- Facebook, Twitter and YouTube content;
- FundingYourPension.com, a website developed in 2010 with the plan sponsors and the affiliated teachers' unions to explain the plan's funding challenges; and
- an annual meeting each April for the plan sponsors and plan members. It will be held at the Carlu in Toronto on Thursday, April 10, 2014, at 4:45 p.m. A live and archived webcast is available at otpp.com for convenience.

In addition, the board chair and other board members address the OTF Board of Governors three times annually.

Management has regular meetings with the Partners' Consultative Committee on matters related to plan funding, and takes part in discussions with the plan's and sponsors' actuaries. This process keeps plan sponsors informed of the plan's evolving funding status.

A joint task force of the government, OTF and plan management is studying how to address the plan's ability to meet the needs of the present without compromising the ability of future generations to meet their own needs. Dr. Harry Arthurs, past president of York University and former chair of the Ontario Expert Commission on Pensions, is facilitating these discussions.

LEGISLATIVE UPDATE

The pension plan must comply with provincial and federal legislation and investment regulations that govern and apply to registered pension plans in Ontario. The plan has been affected by a record number of amendments approved by the plan sponsors, and other pension reforms proposed or passed in recent years.

Teachers' comments on proposed legislation and advocates for sensible and effective regulation.

Advocacy efforts

The pace of legislative change and an increasingly complex regulatory environment since the 2008 financial crisis have highlighted the importance of Teachers' advocacy efforts on proposed laws and regulations. We strongly support ongoing government efforts to achieve needed and productive pension reform in Canada.

We advocate for the defined benefit pension model because it is cost effective and provides broader benefits to society at large. A 2013 study commissioned by Teachers' and nine other public pension plans in Canada detailed how the "top 10" public sector plans provide Canadians with one of the strongest retirement income systems in the world and contribute significantly to national prosperity. A second phase of the study calculated how defined benefit pensioners strengthen the Canadian economy through decreased reliance on government support, thanks to the reliable stream of pension income they receive. The study was conducted by Boston Consulting Group.

Canada's 10 largest public pension plans have invested roughly $400 billion in Canadian assets and directly employ 10,000 financial and real estate professionals. (Source: Boston Consulting Group, June 2013)

Teachers' favours rule changes that give pension plans greater flexibility to match investments to plan liabilities. The plan was therefore pleased with the Ontario government's 2013 commitment to amend the regulations to the Pension Benefits Act (PBA) to modernize two investment rules: first, by providing an exemption for the "10% rule" (Section 9 of Schedule III of the Federal Investment Regulations), which limits the percentage of assets a pension plan can invest in one entity; and second, by exempting pension plans from the "30% rule" (which limits ownership to 30% of shares that vote for directors of a corporation) for certain Ontario infrastructure projects. The exemption for investments in U.S. government-issued securities from the application of the "10% rule" came into force in March 2014. We look forward to implementing more flexible investment decisions as a result of these rules being amended.

Teachers' considers opportunities to provide input on proposed financial services and tax changes, both directly and through industry organizations. The organization faces ongoing uncertainty arising from financial services regulatory reform around the world. Employees closely monitor and review dozens of proposed regulations regarding derivatives and new tax policies, for example, to assess their potential impact on the fund.

Teachers' encourages consistent interpretations of pension rules and simplification where possible. Along with other pension plans, we sought amendments to the PBA to clarify spousal pre-retirement death benefit entitlements following a decision of the Ontario Court of Appeal in 2012. These changes were included in Bill 151, which is currently being considered by the Ontario Legislative Assembly.

Plan changes and amendments to the Pension Benefits Act

In 2013, the sponsors announced an agreement that provides contribution stability for the next five years. Contribution rates cannot increase before 2018 and the next mandatory filing could be on January 1, 2016, if the sponsors elect to exercise a temporary option for a one-year extension. Certain named jointly sponsored pension plans (JSPPs), including Teachers', continue to be exempted from the requirement to prepare a reference valuation, also known as a benefit allocation method valuation. Certain other named JSPPs, including Teachers', are also currently exempted from solvency concerns testing, which result in a requirement to file annually if solvency concerns are disclosed.

The plan was amended effective January 1, 2014, to provide for the conditional inflation protection regime for pension credit accrued after 2013. Inflation increases for credit earned after 2013 will range from zero to 100% of the annual increase in the cost of living, depending on the plan's funded status.

The Ontario government passed Bill 115, effective September 1, 2012. This legislation imposed a wage freeze and changed certain conditions in collective agreements for teachers. As a result of Bill 115 and subsequent negotiations, the plan was amended in 2013 to provide for accrual of credit during unpaid professional activity (PA) days and partially paid sick days.

Teachers' and the plan sponsors work together to keep the plan current with broader policy issues and to simplify the plan rules where possible. The plan sponsors adopted several amendments in 2013, including the ability to pay small survivor pensions in a lump sum to survivors of deceased retirees.

COMPENSATION DISCUSSION & ANALYSIS

The Compensation Discussion & Analysis explains Teachers' approach to compensation, the various elements of our pay programs and the remuneration paid to our named executive officers. In fiscal 2013, our named executives were:

Jim Leech, President and CEO;

Ron Mock, Senior Vice-President (SVP), Fixed Income & Alternative Investments, and President and CEO (designate);

David McGraw, SVP and CFO;

Neil Petroff, Executive Vice-President (EVP), Investments; and

Wayne Kozun, SVP, Fixed Income & Alternative Investments.

Our compensation framework

Compensation philosophy and objectives

Teachers' compensation framework has been developed on a foundation of pay-for-performance. Our compensation programs consist of base salary, annual incentives, and long-term incentives and are structured to ensure that there is direct alignment between Teachers' total-fund net value added (after expenses) and the compensation paid to senior management.

Our philosophy and pay practices are based upon the following key objectives:

- attracting and retaining high-calibre employees;
- motivating and rewarding top performance, encouraging teamwork, aligning personal and organizational objectives and rewarding successful performance over the long term;
- measuring and monitoring our investment incentive compensation framework relative to our risk budget and ensuring our compensation programs do not encourage excessive risk-taking; and
- targeting total direct compensation (base salary, annual incentive, and long-term incentive allocation) at the median of our peers. Exceptional performance at the total-fund, asset-class, divisional and corporate levels will result in top-quartile pay relative to our peers, while performance below board-approved financial and operational targets will result in pay below median levels.

Benchmarking process

Given the varied employment opportunities at Teachers', executive and non-executive positions are compared against relevant job groups and incentive programs in like markets. Our objective is to be competitive with those organizations against which we compete directly for talent. These organizations include other major Canadian pension funds, banks, insurance companies, and investment managers. For certain positions, we also compare to the general financial industry in Canada as well as U.S., U.K. and Hong Kong investment management organizations.

Design principles

The key design principle impacting each employee's incentive pay, at varying degrees, is our risk budget. At the beginning of each year, board members approve the active risk allocations for the total fund and each investment department, which in turn establish expected annual dollar value-added performance goals (i.e., dollars earned versus benchmark dollars earned) for the year. The greater the risk allocation for a department, the greater the value-added target to be achieved. Actual investment performance at the total-fund and departmental levels (measured in dollars of value added after expenses) is compared against the target for adding value above the benchmark. The Annual Incentive Plan (AIP) is based upon this value-added performance measured over two consecutive years. The Long-Term Incentive Plan (LTIP) measures the annual total-fund net value added (after expenses), a percentage of which is allocated to reward employees over time. Additional measures used to monitor, assess and mitigate risk in our incentive programs include:

- setting an upper limit on individual annual incentive payments;
- modelling and testing our AIP and LTIP under multiple performance scenarios in order to ensure that the payouts align with expected performance outcomes;
- comprehensive balanced scorecards that measure progress against strategic objectives across each division/department including risk management initiatives; and
- clawback provisions stating that employees committing willful acts of dishonesty, fraud or theft shall be required to pay back to Teachers' all amounts paid to the participant under the AIP and/or LTIP.

Elements of our compensation program – Overview

During 2013, salaries, incentives and benefits for 1,038 employees were $262.1 million.

Compensation structures for bargaining unit staff have been negotiated into the collective agreement. The new four-year agreement runs through to December 31, 2017.

The table below summarizes the elements of Teachers' compensation program.

Element	Purpose	Primary Performance Drivers	Variability with Performance	Applicability
Base Salary	Compensates employees commensurate with their demonstrated skills, knowledge and level of performance	Position description and individual proficiency	Low	All employees
Annual Incentive	Rewards employees for their contribution to the achievement of Teachers' results, divisional results, and their individual level of performance	Teachers', divisional, and individual performance	Moderate	All employees
		Investment value-added performance	High	Investment employees
Long-term Incentive	Designed to reward participating employees for the delivery of total-fund net value added (after expenses) and positive actual returns, net of costs, over the long term	Total-fund value added and actual returns	High	Investment employees at the assistant portfolio manager level and above Corporate and Member Services employees at the director level and above

Mix of pay

Investment, Corporate, and Member Services employees have different percentages of their compensation tied to our variable pay programs. Recognizing their direct influence on investment results, investment professionals, including our CEO, have a greater percentage of their total direct compensation (base salary, annual incentive, and long-term incentive) tied to our variable pay programs. Detailed below is the target total direct compensation mix for our named executive officers. The actual pay mix realized may be different depending upon Teachers' corporate and investment performance and the named executive officers' individual performance.

		Variable		
Position	Base Salary	Annual Incentive	Long-Term Incentive	% of Target Total Compensation Which Is Variable
President and CEO	25%	37.5%	37.5%	75%
SVP and CFO	45%	27.5%	27.5%	55%
EVP, Investments	25%	37.5%	37.5%	75%
SVP, Investments	27%	33%	40%	73%

Base salary

Base salaries compensate employees for fulfilling their day-to-day responsibilities. Each employee at Teachers' is assigned a job level with a corresponding salary grade that is designed to provide market-competitive pay commensurate with the employee's responsibilities, demonstrated skills, knowledge and track record of performance.

Base salaries are reviewed annually and salaries for vice-presidents and above are approved by the board members.

Annual Incentive Plan (AIP)

Our AIP rewards employees with cash awards based on business and individual performance results relative to pre-approved financial and non-financial measures. All non-union employees participate in the AIP. Weightings for each element vary for Investment, Corporate, and Member Services employees. Detailed below are the components used to measure our named executive officers' performances within the AIP:

Performance Measure	President and CEO	SVP and CFO	EVP, Investments	SVP, Investments
Teachers' Performance – Measured annually based on a company-wide scorecard that includes investment and non-investment measures	✓	✓	✓	✓
Division/Department Performance – Measured annually based on specific divisional scorecards		✓	✓	✓
Two-Year Total-Fund Performance – Value-added performance (after expenses) measured over two full calendar years relative to return on risk targets	✓		✓	✓
Two-Year Investment Department Performance – Pool of incentive dollars determined by net value-added dollars (after expenses) earned relative to the return required on the two-year risk allocation for that department; discretionary allocation based on individual performance				✓
Individual Performance – Based on the employee's performance against specific objectives established at the beginning of the calendar year	✓	✓	✓	✓

Deferred Incentive Plan (DIP)

Employees can choose to allocate all or a portion of their AIP payment to either a Total-Fund Plan or a Private Capital Plan, or a combination of the two, for up to two years. The deferred amount will increase or decrease in value over the two-year deferral period based on actual rates of return of the respective plan.

Long-Term Incentive Plan (LTIP)

Our LTIP is designed to reward participating employees for delivering total-fund net value-added (after expenses) and positive actual returns, net of costs, over the long term. When total-fund net value added (after expenses) is positive, participants share in the positive gains; conversely, when total-fund net value added (after expenses) is negative, participants share in the loss. Each year, a small percentage of the year's total-fund net value added (after expenses) will fund an LTIP pool, which is allocated to participating employees' notional accounts. For these purposes, annual total-fund net value added (after expenses) can be positive or negative. There is no upper or lower limit on total-fund net value added (after expenses). In years when total-fund net value added (after expenses) is negative, participating employee accounts will be reduced accordingly; individual employee accounts cannot be reduced below zero. Individual LTIP accounts are adjusted annually based on the total-fund actual rate of return. Each April, following the allocation related to the previous performance year, 25% of individual account balances are paid to eligible employees.

Benefits and other compensation

Teachers' provides a competitive benefit program that includes life insurance, disability, health and dental benefits, vacation and other leave policies and an Employee Assistance Program. Teachers' retirement benefit for employees is a defined benefit pension plan described on page 56.

Executive employment contracts

There are no executive employment contracts or severance guarantees in place.

Compensation decisions made in 2014 reflecting 2013

How decisions are made

Each year, the Human Resources & Compensation Committee of the board reviews compensation policies, including incentive components linked to corporate, investment and total-fund performance. In addition, the committee reviews:

- the achievement of the performance measures for the President and CEO and other senior officers;
- the total direct compensation of the President and CEO and recommends to the board members for approval; and
- the total direct compensation of other senior officers as recommended by the President and CEO and recommends to the board members for approval.

Total direct compensation provides a view to compensation decisions that relate directly to the performance period.

The committee's review is supported by total direct compensation market data for similar investment and non-investment positions in our peer group. As previously noted, Teachers' board members approve at the beginning of each year the annual dollar value-added performance goals (i.e., dollars earned versus benchmark dollars earned) used to measure and determine investment incentive compensation for the year.

2013 performance results

Teachers' overall performance – Annual Incentive Plan

Each year, the executive team establishes enterprise and divisional objectives for the year. All employees are aligned with individual goals to support the enterprise and/or divisional objectives. The enterprise objectives, which are approved by board members, include a measure of the rate of return, dollars of value added (i.e., dollars earned after costs versus benchmark dollars earned) and service quality as well as significant strategic initiatives.

Quarterly, performance against enterprise and divisional objectives is assessed and a scorecard is prepared. The scorecard provides a visual snapshot of the overall level of performance achieved.

As illustrated in the scorecard below, for 2013, we collectively delivered above-target performance with an incentive multiplier of 1.7 out of 2.

Objective	Goal	Actual	Achieved
Retirement Security			
Earn superior returns through value added	$720 million, after costs	$1.8 billion[1]	Exceptional
Real returns	3.5% real, after costs	10.0% (10.9% nominal)	Exceptional
Reduce funding failure risk	Nominal interest rate sensitivity reduction target set	Developed and implemented	Exceptional
	Complete 2012 filing	Complete	Above target
Members and Stakeholders			
Sustain high member satisfaction	QSI > 8.8	9.1	Exceptional
Regulatory environment	Complete according to plan	Complete	Above target
Operations			
Deliver the foundation for business agility	Complete portfolio of projects according to plan	Complete	Above target
Manage costs effectively	Meet budget	Met budget	At target
People			
Be employer of choice	Maintain or increase Employee Commitment Index by up to 3%	> 3%	Exceptional

1 Net of expenses.

Two-year total-fund investment performance

The table below summarizes, at the total-fund level, the net value added (after expenses) performance for 2012 and 2013 relative to the return on risk targets less cost allowance. For 2012 and 2013, we outperformed our target total-fund net value added (after expenses) of $0.72 billion by $1.09 billion, resulting in the maximum performance multiplier of 2.0x target.

Year	Total-Fund Net Value Added	Target[1]	Above Target[2]	Multiplier
2012	$1.95 billion	$0.72 billion	$1.44 billion	2.72x
2013	$1.81 billion	$0.72 billion	$1.44 billion	2.52x
2012 and 2013	$3.76 billion	$1.44 billion	$2.88 billion	2.00x (maximum)

1 Target total-fund investment performance for 2013 is 8.6% return on risk less a cost allowance of 17 basis points.

2 Above-target total-fund investment performance for 2013 is 17.1% return on risk less a cost allowance of 34 basis points.

Two-year investment department performance

The table below summarizes performance in terms of net value added dollars (after expenses) earned relative to the return required on the two-year risk allocation for each of the respective investment departments listed below:

Year	Public Equities	Private Capital	Infrastructure	Fixed Income & Alternative Investments	Tactical Asset Allocation & Natural Resources
2012 and 2013	Exceptional	Below target	Above target	Exceptional	Above target

Investment performance – Long-Term Incentive Plan

In 2013, the total-fund net value added performance (after expenses) was equal to $1.81 billion, resulting in an aggregate LTIP pool for distribution of $47.1 million. Notional deposits were made to eligible participants effective January 1, 2014.

Year	Total-Fund Net Value Added	Performance	Aggregate LTIP Notional Deposits
2012	$1.95 billion	Above target	$49.9 million
2013	$1.81 billion	Above target	$47.1 million

Executive compensation

The compensation table represents disclosure of base salary, annual incentive, long-term incentive and other compensation earned in 2011, 2012 and 2013 by the CEO, the CFO and the three other most highly compensated executives, excluding subsidiary companies.

Name and Principal Position	Year	Base Salary A	Annual Incentive B	Long-Term Incentive Allocation C	Long-Term Incentive Paid D	Other[1] E	Change in Pension Value	**Total Direct Compensation[2] A+B+C**	Total Compensation[3] A+B+D+E
Jim Leech[4]	2013	$550,000	$1,493,300	$1,995,000	$6,524,200[5]	$1,199	$532,800	**$4,038,300**	$8,568,699
President and CEO	2012	545,385	1,546,900	2,160,000	3,321,700	785		**4,252,285**	5,414,770
	2011	523,077	1,470,800	1,350,000	2,381,000	2,938		**3,343,877**	4,377,815
Ron Mock[4]	2013	322,346	787,900	900,000	1,802,800	703	158,200	**2,010,246**	2,913,749
SVP, Fixed Income	2012	310,385	788,400	1,300,000	1,896,600	447		**2,398,785**	2,995,832
& Alternative Investments, and President and CEO (designate)	2011	295,385	743,400	800,000	1,405,300	442		**1,838,785**	2,444,527
David McGraw	2013	332,692	335,700	420,000	646,000	725	-21,100	**1,088,392**	1,315,117
SVP and CFO	2012	322,692	348,500	440,000	650,300	464		**1,111,192**	1,321,956
	2011	311,538	315,000	290,000	477,700	466		**916,538**	1,104,704
Neil Petroff	2013	451,538	1,293,300	1,780,000	2,709,900	984	-415,900	**3,524,838**	4,455,722
EVP, Investments	2012	436,539	1,268,500	1,850,000	2,722,500	628		**3,555,039**	4,428,167
	2011	419,231	1,180,000	1,250,000	1,896,000	627		**2,849,231**	3,495,858
Wayne Kozun	2013	322,808	775,900	900,000	1,875,600	704	-515,000	**1,998,708**	2,975,012
SVP, Fixed	2012	313,654	667,300	1,030,000	1,984,100	451		**2,010,954**	2,965,505
Income & Alternative Investments	2011	305,769	509,500	700,000	1,465,600	458		**1,515,269**	2,281,327

1 Other compensation includes one or more of the following: group term life insurance, accidental death & dismemberment, automobile allowance, and unused vacation cashout. The automobile allowance was discontinued in April 2011.

2 When making compensation decisions, the board and management focus on Total Direct Compensation (TDC), which reflects base salary, annual incentive and long-term incentive allocation.

3 Change in pension value and long-term incentive allocation are not included in total compensation.

4 Effective January 1, 2014, Ron Mock was appointed as President and CEO as Jim Leech retired from the organization.

5 LTIP payout reflects the retirement provision of the LTI plan to pay out the notional account balance over a two-year period rather than 25% per year.

Notional account balances

The table below outlines the notional account balances for each of our named executives.

Notional Account Activity

Name and Principal Position	Opening Balance	2013 Rate of Return	January 1, 2014 Allocation	2014 Payment	Balance
Jim Leech President and CEO	$9,965,100	10.92%	$1,995,000	$6,524,200	$6,524,300
Ron Mock SVP, Fixed Income & Alternative Investments, and President and CEO (designate)	5,689,800	10.92%	900,000	1,802,800	5,408,500
David McGraw SVP and CFO	1,951,000	10.92%	420,000	646,000	1,938,100
Neil Petroff EVP, Investments	8,167,400	10.92%	1,780,000	2,709,900	8,129,600
Wayne Kozun SVP, Fixed Income & Alternative Investments	5,952,100	10.92%	900,000	1,875,600	5,626,700

Retirement benefits

Teachers' employees participate in the Public Service Pension Plan (PSPP) and the Public Service Supplementary Plan (PSSP), or the OPSEU Pension Plan. Combined, these plans provide indexed pension benefits equal to 2% of the employee's best five-year average annual base salary for each year of service, less a Canada Pension Plan (CPP) integration formula. Benefits under these combined plans are capped by the base salary reached at the maximum pension contribution permitted under Income Tax Act (ITA) regulations.

Employees with 2013 pensionable earnings in excess of $201,600 also participate in a non-registered, unfunded Supplemental Employee Retirement Plan (SERP). This plan provides 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. For roles at the vice-president level or above, a portion of their annual incentive may be included as pensionable earnings.

The total liability for the SERP increased by a net amount of $0.4 million in 2013 for a total accrued SERP liability of $32.1 million as at December 31, 2013.

The table below outlines the estimated present value of the total pension from all sources (PSPP, PSSP and SERP) and estimated annual pension benefits at age 65 for the Chief Executive Officer, the Chief Financial Officer and the three other most highly compensated executives, excluding subsidiary companies.

Name and Principal Position	Projected Years of Service at Age 65	Estimated Total Annual Pension Benefit at Age 65	Present Value of Total Pension at January 1, 2013	2013 Compensatory Annual Change in Pension Value	2013 Non-Compensatory[2] Annual Change in Pension Value	Present Value of Total Pension at December 31, 2013
Jim Leech President and CEO	12[1]	$314,900[1]	$4,011,600	$463,700	$69,100	$4,544,400
Ron Mock SVP, Fixed Income & Alternative Investments, and President and CEO (designate)	17	214,900	2,052,600	290,300	-132,100	2,210,800
David McGraw SVP and CFO	17	169,400	1,043,300	120,200	-141,300	1,022,200
Neil Petroff EVP, Investments	32	835,000	5,600,600	307,600	-723,500	5,184,700
Wayne Kozun SVP, Fixed Income & Alternative Investments	36	676,000	3,027,800	151,200	-666,200	2,512,800

1 Reflects service beyond age 65 to December 31, 2013.

2 Non-compensatory changes include interest on liabilities and impact of any assumption changes.

The values shown above are estimated based on assumptions and represent entitlements that may change over time.

Board and committee member remuneration

Each board member receives an annual retainer of $65,000. The Chair of the board receives an annual retainer of $165,000. The Chairs of the Investment, Governance, Human Resources & Compensation, Benefits Adjudication and Audit & Actuarial Committees receive additional retainers of $15,000 each. Board members who are appointed to more than three committees or who are in their first year of tenure will receive an additional $5,000 retainer.

Board members are reimbursed for normal expenses for travel, meals and accommodation, as required. For 2013, these expenses totalled $43,000.

Board Member		Board Meetings	Committee Meetings	2013 Total Remuneration
Eileen Mercier	Chair of the board	10	20	$165,000
Rod Albert	Chair, Benefits Adjudication Committee	10	17	83,600
Patsy Anderson	Lead Director, Information Technology	10	15	76,250
Hugh Mackenzie	Chair, Human Resources & Compensation Committee	10	15	80,000
Barbara Palk	Vice-Chair, Benefits Adjudication Committee	10	19	74,850
Sharon Sallows	Chair, Governance Committee	10	15	85,000
David Smith	Chair, Audit & Actuarial Committee	10	19	85,000
Daniel Sullivan		10	15	65,000
Jean Turmel	Chair, Investment Committee	9	18	80,000

FINANCIAL REPORTING

The Financial Reporting section highlights sections of the financial statements that management views as key to understanding the financial position of the plan.

Included in the pages preceding the consolidated financial statements are three letters that describe the responsibility of management, the auditors and the actuaries:

- Management's Responsibility for Financial Reporting – identifies that management is responsible for preparation of the financial statements. The financial statements are prepared according to Canadian accounting standards for pension plans. The board, which is independent from management, has ultimate responsibility for the financial statements and is assisted in its responsibility by the Audit and Actuarial Committee.
- Auditor's Report to the Administrator – the formal opinion issued by an external auditor on the consolidated financial statements.
- Actuaries' Opinion – identifies that valuation methods are appropriate, data is sufficient and reliable and the assumptions are in accordance with accepted actuarial practices. The actuarial valuation is based on membership data, accounting standards, and long-term interest rates.

FINANCIAL STATEMENT VALUATION

The financial statement valuation measures the fair value of the plan's net assets available for benefits and pension liabilities at a point in time. The financial statement valuation provides a snapshot of the financial health of the plan as it does not assume any future contributions and does not project the cost of benefits that current members have not yet earned. The financial statement valuation is therefore not considered an indicator of the long-term sustainability of the plan and not used by the plan sponsors to set contribution rates and benefit levels.

Methods and assumptions used for the financial statement valuation

The financial statement valuation is prepared in accordance with guidance from Chartered Professional Accountants of Canada (CPA Canada). The pension liabilities, prepared by an independent actuary, take into account pension credit earned to date by all plan members and contributions already received by the plan. Valuation techniques, estimates and pension liabilities are described further in the notes to the consolidated financial statements.

The actuarial assumptions used in determining the pension liabilities reflect best estimates of future economic and non-economic factors proposed by management and approved by the plan's board. Actual experience typically differs from these assumptions, and the differences are recognized as experience gains and losses in future years.

The discount rate for the financial statement valuation is based on the market rate 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 discount rate used is 4.20% (3.40% in 2012).

FINANCIAL POSITION AS AT DECEMBER 31, 2013

The plan ended 2013 with a financial statement deficit of $7.8 billion, down significantly from the deficit of $36.5 billion at the end of 2012. The deficit represents the difference between net assets available for benefits of $140.8 billion and accrued pension liabilities of $148.6 billion at year end.

YEAR-END FINANCIAL POSITION

(as at December 31) ($ billions)	**2013**	2012
Net assets available for benefits	**$ 140.8**	$ 129.5
Accrued pension benefits	**(148.6)**	(166.0)
Deficit	**$ (7.8)**	$ (36.5)

During 2013, net assets available for benefits increased by $11.3 billion to $140.8 billion. Investment income of $13.7 billion and contributions of $3.1 billion increased net assets available for benefits while benefits paid of $5.1 billion and administrative expenses of $0.4 billion decreased the net assets available. Investment income of $13.7 billion was due primarily to strong equity returns partially offset by negative fixed income returns (investment returns are discussed in the Investments section of the MD&A).

NET ASSETS AVAILABLE FOR BENEFITS

(as at December 31) ($ billions)	**2013**	2012
Net assets available for benefits, beginning of year	**$ 129.5**	$ 117.1
Investment income	**13.7**	14.7
Contributions	**3.1**	2.9
Benefits paid	**(5.1)**	(4.9)
Administrative expenses	**(0.4)**	(0.3)
Increase in net assets available for benefits	**11.3**	12.4
Net assets available for benefits, end of year	**$ 140.8**	$ 129.5

Accrued pension benefits decreased by $17.4 billion during the year to $148.6 billion. Changes in actuarial assumptions (mainly an increase in the discount rate of 80 basis points) reduced the accrued pension benefits amount by $22.0 billion. Benefits paid during 2013 of $5.1 billion include the addition of 4,600 retirement and disability pensions and 900 survivor pensions during 2013, as well as a 1.9% cost-of-living increase.

ACCRUED PENSION BENEFITS

(as at December 31) ($ billions)	**2013**	2012
Accrued pension benefits, beginning of year	**$ 166.0**	$ 162.6
Interest on accrued pension benefits	**5.6**	5.5
Benefits accrued	**5.0**	5.1
Benefits paid	**(5.1)**	(4.9)
Changes in actuarial assumptions	**(22.0)**	(2.7)
Changes in plan provisions	**–**	0.1
Experience (gains)/losses	**(0.9)**	0.3
(Decrease)/increase in accrued pension benefits	**(17.4)**	3.4
Accrued pension benefits, end of year	**$ 148.6**	$ 166.0

FAIR VALUE HIERARCHY

The plan's investments and investment-related liabilities are stated at fair value. The objective of fair value determination is to estimate an exit price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants. Valuation techniques are employed in order to measure fair value. As described in note 1c of the plan's consolidated financial statements, these techniques utilize inputs such as prices for market transactions, discount rates, contractual or expected future cash flows and other relevant factors that impact the assessment of fair value.

As required under Canadian accounting standards, the plan has classified and disclosed its fair value measurements into one of three categories based upon the degree of observable inputs used in their determination. Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities; Level 2 inputs are derived from observable prices but do not meet the Level 1 criteria, while Level 3 inputs are unobservable. If different levels of inputs are used to measure the fair value of an investment, the classification within the hierarchy is based upon the lowest level input that is significant to the fair value measurement.

Level 1 net investments comprise the majority of the plan's government bonds and publicly traded equities, including these securities that are sold but not yet purchased, which are valued using quoted prices. Examples of Level 2 net investments include marketable corporate bonds that are valued using quoted prices from less actively traded markets and securities purchased under agreements to resell and securities sold under agreements to repurchase, which are valued using discounted cash flows and observable market yields. Examples of Level 3 investments include real assets such as real estate and infrastructure, non-publicly traded equities, and natural resource investments, which are valued using appropriate techniques that involve the use of significant unobservable inputs such as forecasted cash flows or other information that is specific to the entity.

The table below shows the plan's net investments based on the fair value hierarchy. Further details of each category can be found in note 2a of the plan's consolidated financial statements.

(for the year ended December 31) ($ millions)	Level 1	Level 2	Level 3	**Total**
Fixed income	$ 66,593	$ 4,529	$ 11,197	**$ 82,319**
Equity	32,372	995	19,893	**53,260**
Natural resources	–	–	2,612	**2,612**
Real assets	965	280	34,011	**35,256**
Net investment-related receivables/(liabilities)	(14,107)	(18,779)	(1,658)	**(34,544)**
Net investments	$ 85,823	$ (12,975)	$ 66,055	**$ 138,903**

EFFECTIVE OVERSIGHT AND CONTROLS

Disclosure and financial reporting controls

We take guidance from National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, issued by the Canadian Securities Administrators, as part of our commitment to good governance practices. The President and CEO, and the Senior Vice-President and Chief Financial Officer (CFO) are responsible for establishing and maintaining disclosure controls and procedures, and internal control over financial reporting.

We have designed disclosure controls and procedures to provide reasonable assurance that material information related to the plan is gathered and reported to management in order to allow timely decisions regarding public disclosure. We evaluated our disclosure controls and procedures and concluded as at December 31, 2013, that they are effective.

We have also designed internal controls over financial reporting, using the Integrated Framework issued in 1992 by the Treadway Commission's Committee of Sponsoring Organizations (the COSO Framework), to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with Canadian Generally Accepted Accounting Principles. The COSO Framework was updated in 2013 and will be effective in 2014.

We are assessing the implications of the COSO Framework updates and any resulting changes to our internal controls will be implemented in 2014. We have evaluated the effectiveness of the plan's internal controls over financial reporting and concluded they are effective as at year end. There were no changes in our internal controls over financial reporting in 2013 that materially affected, or are reasonably likely to materially affect, our financial reporting.

Protecting audit integrity

Teachers' and other corporate governance advocates have expressed concern over the years about accounting firms that audit public companies and also earn substantial revenue from those companies for non-audit consulting services. We believe that such consulting fees can compromise, or appear to compromise, the integrity of the audit function.

We strive to minimize our own use of consulting services involving the plan's auditor and we always disclose the total amount paid for such services. In 2013, fees paid to Deloitte Touche Tohmatsu Limited (of which the Canadian firm is the plan's auditor) totalled $8.2 million ($6.1 million in 2012), of which $7.3 million was for audit activities and $850,000 was for non-audit services. Of the $850,000 paid for non-audit services, approximately $640,000 related to the plan, $160,000 related to subsidiaries audited by Deloitte and the balance of $50,000 was for subsidiaries not audited by Deloitte. Of the $160,000 paid by the subsidiaries, $10,000 was paid to Deloitte (Canada) and $150,000 was paid to Deloitte firms outside of Canada, which is considered to have lower risk of impairing the independence of the plan's auditor.

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 five 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 auditor, Deloitte LLP, is directly accountable to the Audit & Actuarial Committee and has 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 auditor has 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.

R Mock.

Ron Mock
President and Chief Executive Officer
March 6, 2014

David McGraw

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, 2013, 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, 2013, and the changes in its net assets available for benefits, changes in its 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 6, 2014

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, 2013, 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, 2013;
- methods prescribed by Section 4600 of the Chartered Professional Accountants Canada Handbook for pension plan financial statements;
- real and nominal interest rates on long-term bonds at the end of 2013;
- 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 2013/2014 school year.

The objective of the consolidated financial statements is to fairly present the financial position of the Plan on December 31, 2013 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 2013, 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

Scott Clausen, F.C.I.A., F.S.A
March 6, 2014

Lise Houle

Lise Houle, F.C.I.A., F.S.A

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

as at December 31 (Canadian $ millions)	**2013**	2012
Net assets available for benefits		
ASSETS		
Cash	**$ 67**	$ 344
Receivable from the Province of Ontario (note 3)	**2,965**	2,831
Receivable from brokers	**46**	125
Investments (note 2)	**198,109**	174,731
Premises and equipment	**32**	27
	201,219	178,058
LIABILITIES		
Accounts payable and accrued liabilities	**333**	270
Due to brokers	**916**	796
Investment-related liabilities (note 2)	**59,206**	47,468
	60,455	48,534
Net assets available for benefits	**$ 140,764**	$ 129,524
Accrued pension benefits and deficit		
Accrued pension benefits (note 4)	**$ 148,571**	$ 166,009
Deficit	**(7,807)**	(36,485)
Accrued pension benefits and deficit	**$ 140,764**	$ 129,524

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)	**2013**	2012
Net assets available for benefits, beginning of year	**$ 129,524**	$ 117,097
Investment operations		
Investment income (note 6)	**13,718**	14,752
Administrative expenses (note 11a)	**(364)**	(301)
Net investment operations	**13,354**	14,451
Member service operations		
Contributions (note 9)	**3,081**	2,944
Benefits paid (note 10)	**(5,150)**	(4,924)
Administrative expenses (note 11b)	**(45)**	(44)
Net member service operations	**(2,114)**	(2,024)
Increase in net assets available for benefits	**11,240**	12,427
Net assets available for benefits, end of year	**$ 140,764**	$ 129,524

CONSOLIDATED STATEMENTS OF CHANGES IN ACCRUED PENSION BENEFITS

for the year ended December 31 (Canadian $ millions)	2013	2012
Accrued pension benefits, beginning of year	**$ 166,009**	$ 162,587
Increase in accrued pension benefits		
Interest on accrued pension benefits	**5,642**	5,531
Benefits accrued	**4,992**	5,095
Changes in plan provisions	**–**	107
Experience losses (note 4c)	**–**	286
	10,634	11,019
Decrease in accrued pension benefits		
Benefits paid (note 10)	**5,150**	4,924
Changes in actuarial assumptions and methods (note 4a)	**21,973**	2,673
Experience gains (note 4c)	**949**	–
	28,072	7,597
Net (decrease)/increase in accrued pension benefits	**(17,438)**	3,422
Accrued pension benefits, end of year	**$ 148,571**	$ 166,009

CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIT

for the year ended December 31 (Canadian $ millions)	2013	2012
Deficit, beginning of year	**$ (36,485)**	$ (45,490)
Increase in net assets available for benefits	**11,240**	12,427
Net decrease/(increase) in accrued pension benefits	**17,438**	(3,422)
Deficit, end of year	**$ (7,807)**	$ (36,485)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2013

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 either age 65 or when 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 $145,769 (CPP-exempt members $134,834) in 2013 and $142,990 (CPP-exempt members $132,334) in 2012; 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 Chartered Professional Accountants (CPA) Canada Handbook (Section 4600). Section 4600 provides specific accounting guidance on investments and pension obligations. For accounting policies that do not relate to either investments or pension obligations, the Plan must consistently comply with either International Financial Reporting Standards (IFRS) in Part I or accounting for private enterprises in Part II of the CPA Canada Handbook. The Plan has elected to comply with IFRS in Part I of the CPA Canada Handbook. To the extent that IFRS in Part I is inconsistent with Section 4600, Section 4600 takes precedence.

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, which the Plan consolidates. The Plan also consolidates wholly-owned investment holding companies that are managed by either the Plan or CFCL. 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, 2013 were authorized for issue through a resolution of the board on March 6, 2014.

(b) Future changes in accounting policies

The relevant new guidance issued by the International Accounting Standards Board not yet adopted by the Plan includes:

- 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, impairment and hedge accounting. The mandatory effective date for the new standard is yet to be determined as further amendments remain ongoing. Immediate application is permitted.

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

(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 natural resources 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.

   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 natural resources – 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 August 31 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 estimates the conditional inflation protection benefits based on the indexation levels stated in the most recent funding valuation filing.

(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. 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, natural resources 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 $253 million (2012 – $258 million), before allocating the effect of derivative contracts:

as at December 31		**2013**		2012
(Canadian $ millions)	**Fair Value**	**Cost**	Fair Value	Cost
Fixed income				
Bonds	**$ 38,220**	**$ 38,145**	$ 37,555	$ 34,494
Short-term investments	**9,312**	**9,324**	9,176	9,240
Alternative investments[2]	**7,704**	**6,196**	7,048	6,259
Canadian real-rate products	**18,598**	**15,263**	21,963	15,105
Non-Canadian real-rate products	**8,485**	**8,207**	8,798	7,138
	82,319	**77,135**	84,540	72,236
Equity				
Publicly traded				
Canadian	**3,292**	**3,130**	4,895	4,987
Non-Canadian	**30,891**	**23,031**	28,423	26,210
Non-publicly traded				
Canadian	**2,089**	**2,107**	1,496	1,529
Non-Canadian	**16,988**	**13,575**	12,390	11,708
	53,260	**41,843**	47,204	44,434
Natural resources				
Timberland[3]	**2,446**	**2,078**	2,173	2,092
Sector investment[4]	**166**	**154**	–	–
	2,612	**2,232**	2,173	2,092
Real assets[3]				
Real estate (note 5)	**23,572**	**14,461**	21,227	12,804
Infrastructure	**11,684**	**9,458**	9,646	8,077
	35,256	**23,919**	30,873	20,881
	173,447	**145,129**	164,790	139,643
Investment-related receivables				
Securities purchased under agreements to resell	**21,851**	**21,692**	7,200	7,193
Cash collateral deposited under securities borrowing arrangements	**1,279**	**1,279**	1,167	1,167
Derivative-related, net	**1,532**	**604**	1,574	675
	24,662	**23,575**	9,941	9,035
Investments	**$ 198,109**	**$ 168,704**	$ 174,731	$ 148,678

1 For additional details, refer to the Major Investments on page 100.

2 Comprised primarily of hedge funds and managed futures accounts.

3 Beginning January 1, 2013, timberland, previously classified as real assets, is included in natural resources. 2012 comparative figures have been reclassified to reflect the change.

4 Sector investment includes oil and gas assets.

as at December 31		2013		2012
(Canadian $ millions)	**Fair Value**	**Cost**	Fair Value	Cost
Investment-related liabilities				
Securities sold under agreements to repurchase	**$ (37,875)**	**$ (37,957)**	$ (35,674)	$ (35,775)
Securities sold but not yet purchased				
Fixed income	**(13,861)**	**(14,818)**	(4,713)	(4,766)
Equities	**(1,269)**	**(1,110)**	(1,193)	(1,101)
Real estate (note 5)	**(4,333)**	**(4,029)**	(4,371)	(3,952)
Cash collateral received under credit support annexes	**(317)**	**(317)**	(263)	(263)
Derivative-related, net	**(1,551)**	**(685)**	(1,254)	(541)
	(59,206)	**(58,916)**	(47,468)	(46,398)
Net investments (note 2d)	**$ 138,903**	**$ 109,788**	$ 127,263	$ 102,280

(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, 2013
(Canadian $ millions)	Level 1	Level 2	Level 3	**Total**
Fixed income	$ 66,593	$ 4,529	$ 11,197	**$ 82,319**
Equity	32,372	995	19,893	**53,260**
Natural resources[5]	–	–	2,612	**2,612**
Real assets[5]	965	280	34,011	**35,256**
Net investment-related receivables/(liabilities)	(14,107)	(18,779)	(1,658)	**(34,544)**
Net investments	$ 85,823	$ (12,975)	$ 66,055	**$ 138,903**

				December 31, 2012
(Canadian $ millions)	Level 1	Level 2	Level 3	Total
Fixed income	$ 66,815	$ 6,612	$ 11,113	$ 84,540
Equity	31,609	413	15,182	47,204
Natural resources[5]	–	–	2,173	2,173
Real assets[5]	1,191	361	29,321	30,873
Net investment-related receivables/(liabilities)	(4,831)	(31,043)	(1,653)	(37,527)
Net investments	$ 94,784	$ (23,657)	$ 56,136	$ 127,263

[5] Beginning January 1, 2013, timberland, previously classified as real assets, is included in natural resources. 2012 comparative figures have been reclassified to reflect the change.

The schedule below presents a reconciliation of investments and net 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.

												2013
(Canadian $ millions)		Fixed Income		Equity		Natural Resources		Real Assets		Net Investment-Related Receivables/ (Liabilities)		**Total**
Balance, beginning of year	$	11,113	$	15,182	$	2,173	$	29,321	$	(1,653)	**$**	**56,136**
Purchases		3,710		3,742		155		3,958		2,783		**14,348**
Sales		(4,498)		(2,781)		(11)		(1,966)		(2,885)		**(12,141)**
Transfers in[6]		–		–		–		–		2		**2**
Transfers out[6]		–		(174)		–		–		–		**(174)**
Gains/(losses) included in investment income												
Realized		267		740		(4)		817		(19)		**1,801**
Unrealized		605		3,184		299		1,881		114		**6,083**
Balance, end of year	$	11,197	$	19,893	$	2,612	$	34,011	$	(1,658)	**$**	**66,055**

												2012
(Canadian $ millions)		Fixed Income		Equity		Natural Resources[8]		Real Assets[8]		Net Investment-Related Receivables/ (Liabilities)		Total
Balance, beginning of year	$	10,195	$	13,572	$	2,166	$	22,608	$	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[6, 7]		–		–		–		4,228		(4,228)		–
Transfers out[6]		–		–		–		–		2,592		2,592
Gains/(losses) included in investment income												
Realized		16		1,295		–		12		224		1,547
Unrealized		476		206		7		1,790		(486)		1,993
Balance, end of year	$	11,113	$	15,182	$	2,173	$	29,321	$	(1,653)	$	56,136

[6] 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, the transfers between Level 2 and Level 1 of $250 million in 2013 are due to the change in the applicability of non-observable inputs. See note 1c Fair Value Hierarchy.

[7] The real estate portfolio is presented on a consolidated basis starting in 2012, when the real estate liabilities were reclassified from real assets to investment-related liabilities.

[8] Beginning January 1, 2013, timberland, previously classified as real assets, is included in natural resources. 2012 comparative figures have been reclassified to reflect the change.

(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. With the new Dodd–Frank regulations, certain interest rate swaps traded with U.S. counterparties in the OTC market are now centrally cleared at regulated clearing houses.

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, total return swaps, and loan participations.

Credit 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 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. With the new Dodd-Frank regulations, certain credit default swaps traded with U.S. counterparties in the OTC market are now centrally cleared at regulated clearing houses.

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.

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:

		2013			2012
(Canadian $ millions)		**Notional**	**Fair Value**	Notional	Fair Value
Equity and commodity derivatives					
Swaps		**$ 23,038**	**$ 160**	$ 21,840	$ 240
Futures		**6,798**	**(40)**	6,720	19
Options: Listed	– purchased	**106**	**32**	252	5
	– written	**159**	**(3)**	353	(3)
OTC	– purchased	**2,821**	**66**	3,623	74
	– written	**3,953**	**(104)**	2,179	(78)
		36,875	**111**	34,967	257
Interest rate derivatives					
Swaps		**22,110**	**21**	27,936	61
Futures		**216,554**	**(13)**	120,436	1
Options: Listed	– purchased	**1,458**	**1**	2,222	–
	– written	**1,450**	**–**	989	–
OTC	– purchased	**8,932**	**100**	4,538	27
	– written	**16,961**	**(95)**	9,416	(24)
		267,465	**14**	165,537	65
Currency derivatives					
Swaps		**4,751**	**1**	1,856	7
Forwards[9]		**47,044**	**(118)**	51,305	46
Futures		**126**	**–**	104	–
Options: OTC	– purchased	**7,402**	**85**	11,824	140
	– written	**6,306**	**(56)**	9,506	(114)
		65,629	**(88)**	74,595	79
Credit derivatives					
Credit default swaps	– purchased	**9,294**	**(193)**	7,199	(3)
	– written	**7,259**	**52**	4,058	(138)
Total return swaps		**48**	**3**	4	–
		16,601	**(138)**	11,261	(141)
Other derivatives					
Statistic swaps		**3,746**	**(32)**	4,533	(41)
Dividend swaps		**361**	**(11)**	404	(13)
		4,107	**(43)**	4,937	(54)
		390,677	**(144)**	291,297	206
Net cash collateral paid under derivative contracts		**–**	**125**	–	114
Notional and net fair value of derivative contracts		**$ 390,677**	**$ (19)**	$ 291,297	$ 320

[9] 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)	2013	2012
Derivative-related receivables	**$ 1,494**	$ 1,470
Cash collateral paid under derivative contracts	**139**	169
Derivative-related liabilities	**(1,638)**	(1,264)
Cash collateral received under derivative contracts	**(14)**	(55)
	$ (19)	$ 320

(d) Investment asset mix

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:

	2013		2012	
	Effective Net Investments at Fair Value ($ millions)	**Asset Mix %**	Effective Net Investments at Fair Value ($ millions)	Asset Mix %
Equity				
Canadian	**$ 10,863**	**8%**	$ 11,395	9%
Non-Canadian	**51,034**	**37**	48,116	38
	61,897	**45**	59,511	47
Fixed income				
Bonds	**30,529**	**22**	28,866	23
Real-rate products	**26,368**	**19**	31,145	25
	56,897	**41**	60,011	48
Natural resources				
Commodities[10]	**8,215**	**6**	6,974	5
Timberland[11]	**2,446**	**2**	2,173	2
Sector investment[12]	**166**	**–**	–	–
	10,827	**8**	9,147	7
Real assets[11]				
Real estate (note 5)	**19,239**	**14**	16,856	13
Infrastructure	**11,684**	**8**	9,646	8
	30,923	**22**	26,502	21
Absolute return strategies				
Internal absolute return strategies	**6,009**	**4**	6,659	5
Alternative investments	**6,195**	**4**	5,611	4
	12,204	**8**	12,270	9
Money market	**(33,845)**	**(24)**	(40,178)	(32)
Net investments	**$ 138,903**	**100%**	$ 127,263	100%

10 Beginning January 1, 2013, commodities, previously classified as a separate class, are included in natural resources. 2012 comparative figures have been reclassified to reflect the change.

11 Beginning January 1, 2013, timberland, previously classified as real assets, is included in natural resources. 2012 comparative figures have been reclassified to reflect the change.

12 Sector investment includes oil and gas assets.

(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 enable the Plan to meet all of its future obligations as they become payable, which includes meeting 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

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, posted on the Plan's website, addresses the manner in which the fund shall be invested. The statement is subject to the board's review at least annually; the last review date was November 28, 2013. No significant changes were made to the statement at that time. The long-term rate of return goal is set at the actuarial assumed discount rate contained in the funding valuation using the going-concern basis. The Plan's investments are selected and held in accordance with the criteria and limitations set forth in the statement and in accordance with all relevant legislation. The statement includes a long-term asset mix policy:

Exposure	Minimum	Goal	Maximum
Equities	39%	44%	49%
Fixed income	36%	48%	56%
Natural resources	3%	8%	13%
Real assets	18%	23%	28%
Money market[13]	(26)%	(23)%	(16)%
		100%	

[13] The money market asset class provides funding for investments in other asset classes.

- 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.

- Investment Division Policy – This policy addresses the manner in which the Investment Division is organized for the purpose of undertaking the investment and risk management of the fund and for day-to-day operations management. This policy specifies the oversight role and activities of the senior committees within the Investment Division.

- 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. 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.

- Investment Division Counterparty Credit Policy – This policy applies to investments with credit risk exposure that arises from entering into certain counterparty agreements. The policy provides constraints on counterparty credit exposure and procedures for obtaining authorization to trade with a new counterparty.
- Pre-Investment Approval 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), Investment Division Policy, Trade Authorization and Execution Operation Policy, Pre-Investment Approval 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 Counterparty Credit Committee, the Investment Division Liquidity Committee, the Emerging Markets Committee, and the Responsible Investment Committee.

The Enterprise Risk Management Committee oversees 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 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 Plan assumes credit risk exposure through debt investments and amounts receivable from the Province of Ontario and brokers. The maximum exposure to credit risk related to these financial instruments is their fair value as presented in the consolidated statements of financial position and note 2a. The Plan is also exposed to credit risk of counterparties to its OTC derivative transactions. Counterparty credit risk exposure for OTC derivatives is measured as the positive fair value of the contractual obligations with the counterparties.

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 the Plan's internal credit risk management function. Counterparty credit ratings are also compared to their external ratings as provided by recognized credit rating agencies on a daily basis.

The credit risk exposure of debt investments and OTC derivatives, by credit rating category, without taking account of any collateral held or other credit enhancements as at December 31 is as follows:

2013					
Credit rating (Canadian $ millions)	**Bonds and Short-Term Investments**	**Real-Rate Products**	**Securities Purchased under Agreements to Resell**	**Loans and Private Debt**	**OTC Derivatives**
AAA/R-1 (high)	$ 32,509	$ 14,876	$ –	$ –	$ –
AA/R-1 (mid)	8,055	9,295	2,785	–	31
A/R-1 (low)	2,246	2,653	11,261	–	215
BBB/R-2	1,104	16	–	–	–
Below BBB/R-2	1,348	–	–	–	–
Unrated[14]	2,270	243	7,805	4,991	–
Total	**$ 47,532**	**$ 27,083**	**$ 21,851**	**$ 4,991**	**$ 246**

2012					
Credit rating (Canadian $ millions)	Bonds and Short-Term Investments	Real-Rate Products	Securities Purchased under Agreements to Resell	Loans and Private Debt	OTC Derivatives
AAA/R-1 (high)	$ 32,518	$ 17,508	$ –	$ –	$ –
AA/R-1 (mid)	7,123	9,850	855	–	78
A/R-1 (low)	2,308	3,098	2,452	–	311
BBB/R-2	1,075	23	–	–	1
Below BBB/R-2	1,287	–	–	–	–
Unrated[14]	2,420	282	3,893	2,932	–
Total	$ 46,731	$ 30,761	$ 7,200	$ 2,932	$ 390

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

The Plan is also exposed to credit risk through off-balance sheet arrangements. 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)	**2013**	2012
Guarantees	**$ 424**	$ 324
Loan commitments	**169**	10
Risk participation agreements	**–**	28
Notional amount of written credit derivatives	**7,259**	4,058
Total off-balance sheet credit risk exposure	**$ 7,852**	$ 4,420

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.

Credit risk concentrations

As at December 31, 2013, 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 $43.8 billion (2012 – $45.4 billion), U.S. Treasury issued securities of $0.8 billion (2012 – $8.7 billion), Province of Ontario bonds of $4.6 billion (2012 – $4.1 billion), receivable from the Province of Ontario (see note 3) of $3.0 billion (2012 – $2.8 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 more of the effect of 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 27 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)[15]	2013	2012
Equity		
Canadian	**$ 4.0**	$ 4.5
Non-Canadian	**16.5**	16.0
Fixed income		
Bonds	**2.5**	2.0
Real-rate products	**4.5**	5.0
Natural resources		
Commodities	**5.0**	4.0
Timberland	**0.5**	0.5
Real assets		
Real estate	**1.0**	1.0
Infrastructure	**2.0**	1.5
Absolute return strategies	**1.5**	1.5
Money market	**4.5**	4.5
Total Asset Risk ETL Exposure[16]	**$ 26.0**	$ 26.5

[15] Rounded to the nearest $0.5 billion.

[16] 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 $1.9 billion (2012 – 6% or $1.8 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 14% or $3.8 billion (2012 – 17% or $5.2 billion).

As at December 31, 2013, 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 19% or $28.9 billion (2012 – 21% or $35.3 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)	2013	2012
Currency	**Net Exposure**	Net Exposure
United States Dollar	**$ 27,796**	$ 23,065
British Pound Sterling	**7,587**	6,970
Euro	**6,977**	6,644
Chinese Renminbi	**2,701**	2,634
Chilean Peso	**2,517**	2,496
Japanese Yen	**2,331**	2,590
Brazilian Real	**2,266**	3,078
South Korean Won	**1,815**	1,392
Danish Krona	**1,640**	1,211
Australian Dollar	**1,540**	1,983
Swiss Franc	**1,022**	441
Other	**6,489**	7,836
	$ 64,681	$ 60,340

As at December 31, with all other variables and underlying values held constant, a 5% increase/decrease in the value of the Canadian dollar against major foreign currencies would result in an approximate decrease/increase in the value of net investments as follows:

(Canadian $ millions)	2013	2012
Currency	**Change in Net Investment Value**	Change in Net Investment Value
United States Dollar	**$ 1,390**	$ 1,153
British Pound Sterling	**379**	348
Euro	**349**	332
Chinese Renminbi	**135**	132
Other	**981**	1,052
	$ 3,234	$ 3,017

(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 a market stress event and pay its contractual cash flows and projected cash requirements over a one-year horizon with a 99% probability. 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 $44,544 million as at December 31, 2013 (2012 – $54,072 million). The Plan also has a net position of publicly traded equities of $32,914 million (2012 – $32,125 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, 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)				**2013**
	Within One Year	One to Five Years	Over Five Years	**Total**
Securities sold under agreements to repurchase	$ (35,873)	$ (2,002)	$ –	**$ (37,875)**
Securities sold but not yet purchased				
Fixed income	(13,861)	–	–	**(13,861)**
Equities	(1,269)	–	–	**(1,269)**
Real estate	(722)	(2,289)	(1,322)	**(4,333)**
Cash collateral received under credit support annexes	(317)	–	–	**(317)**
Derivative-related, net	(1,551)	–	–	**(1,551)**
Total	$ (53,593)	$ (4,291)	$ (1,322)	**$ (59,206)**

(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)

(i) Securities collateral

The Plan pledges and receives cash and security collateral in the ordinary course of managing net investments. Security collateral consists primarily of Canadian and U.S. government securities. 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 sell them to another entity unless the Plan substitutes such securities with other eligible securities.

As at December 31, 2013, securities transferred as collateral for securities sold under agreements to repurchase amount to $37,635 million (2012 – $35,986 million) with an associated liability of $37,875 million (2012 – $35,674 million). Securities transferred as collateral or margin for derivative-related liabilities amount to $900 million (2012 – $651 million) with an associated liability of $1,638 million (2012 – $1,264 million). Security collateral for securities sold but not yet purchased amounts to $194 million (2012 – $149 million) which, together with related cash collateral, has an associated liability of $1,269 million (2012 – $1,193 million).

Canadian and U.S. government securities with a fair value of $22,301 million (2012 – $8,140 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, 2013 and 2012.

(j) Securities borrowing

The Plan does not recognize any securities borrowed as its investment assets because the risks and rewards of the borrowed securities remain with the lenders. The security collateral posted by the Plan, related to the securities borrowed, continues to be recognized as the Plan's assets because the Plan retains all associated risks and rewards. As at December 31, 2013, securities with a fair value of $10 million (2012 – $ nil) were borrowed and collateral with a fair value of $11 million (2012 – $ nil) were posted by the Plan.

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)	**2013**	2012
Contributions receivable	**$ 2,914**	$ 2,777
Accrued interest receivable	**51**	54
	$ 2,965	$ 2,831

The receivable as at December 31, 2013 from the Province of Ontario consists of $1,461 million, which was received in January 2014, and an estimated $1,504 million to be received with interest in January 2015. The receivable as at December 31, 2012 from the Province consisted of $1,393 million, which was received in January 2013, and an initial estimate of $1,438 million to be received in January 2014. 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 $148,571 million (2012 – $166,009 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 spread equals the prevailing spread as at December 31 between the Government of Canada and the Province of Ontario long-term nominal bonds. 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.

A summary of the primary economic assumptions is as follows:

as at December 31	**2013**	2012
Discount rate	**4.20%**	3.40%
Salary escalation rate	**3.00%**	3.00%
Inflation rate	**2.00%**	2.00%
Real rate	**2.20%**	1.40%

The primary economic assumptions were changed as a result of changes in capital markets during 2013 and the Elementary Teachers' Federation of Ontario (ETFO) salary agreement reached in 2013 noted below. Other primary economic assumptions remain unchanged from the prior year. These changes in economic assumptions resulted in a net decrease in the value of accrued pension benefits of $21,973 million (2012 – $5,699 million decrease inclusive of the impact of the legislated salary freeze noted below).

The primary economic assumptions incorporate the Province of Ontario's two-year legislated teachers' salary freeze for 2012 and 2013 that was announced in 2012. The primary economic assumptions also incorporate that the ETFO will receive an additional 2% in the salary escalation rate effective September 1, 2014 based on an agreement reached with the Province in 2013.

No changes to the non-economic assumptions were adopted in 2013. 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. This had a $3,026 million increase in the accrued pension benefits in 2012. The changes in economic and non-economic assumptions resulted in a net decrease in the value of accrued pension benefits of $21,973 million (2012 – $2,673 million decrease).

(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.

For the financial statement valuation, future pension payments for the credited service earned are indexed at the levels stated in the most recent funding valuation filing. The indexation levels from the most recent filing as at January 1, 2012 are as follows:

Credited Service	Inflation Protection Level
Earned before 2010	100% of CPI
Earned during 2010–2013	50% of CPI
Earned after 2013[1]	45% of CPI

[1] Does not impact accrued pension benefits at December 31, 2013 as there is no credited service accrued in respect of periods after 2013.

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 gains on the accrued pension benefits of $949 million (2012 – $286 million losses) 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. The Plan 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 Plan guarantees three debentures issued by a real estate trust it consolidates. No payments have been made by the Plan into the real estate trust or related to the three debentures. 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, included in the Plan's real estate investment-related liabilities, may be redeemed by the issuer at any time prior to maturity.

The tables below provide information on the real estate portfolio. Intercompany transactions and balances are eliminated upon consolidation. The first table presents major components of the net investment in real estate. The second table presents major components of net real estate income:

as at December 31		2013		2012
(Canadian $ millions)	**Fair Value**	**Cost**	Fair Value	Cost
Assets[1, 2]				
Real estate properties	**$ 20,860**	**$ 13,013**	$ 18,320	$ 11,259
Investments	**2,534**	**1,283**	2,681	1,338
Other assets	**178**	**165**	226	207
Total assets	**23,572**	**14,461**	21,227	12,804
Liabilities[1, 2]				
Long-term debt	**3,626**	**3,454**	3,704	3,457
Other liabilities	**707**	**575**	667	495
Total liabilities	**4,333**	**4,029**	4,371	3,952
Net investment in real estate	**$ 19,239**	**$ 10,432**	$ 16,856	$ 8,852

[1] U.S. Dollar and British Pound Sterling net assets have been hedged by way of foreign currency forward contracts for a notional amount of $1,286 million (2012 – $1,143 million) with a combined fair value of ($30) million (2012 – $4 million).

[2] Joint ventures managed by external parties hold real estate properties and have liabilities. The net asset value of these joint ventures is included in investments, representing assets of $2,116 million (2012 – $1,897 million) and liabilities of $970 million (2012 – $920 million).

(Canadian $ millions)	2013	2012
Revenue		
Rental	**$ 1,700**	$ 1,678
Investment and other	**78**	96
	1,778	1,774
Expenses		
Property operating	**724**	746
General and administrative	**35**	39
Other[3]	**21**	13
	780	798
Operating income	**998**	976
Interest expense	**(139)**	(148)
Income (note 6)	**859**	828
Net investment gain[4, 5]	**1,394**	2,064
Net real estate income	**$ 2,253**	$ 2,892

[3] Includes transaction costs of $11 million (2012 – $13 million).

[4] Includes unrealized net gain of $803 million (2012 – $1,704 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)	**2013**	2012
Fixed income interest		
Debentures	**$ –**	$ 31
Short-term investments	**(152)**	(87)
Bonds	**1,237**	1,485
Net repo interest expense	**(143)**	(104)
Net swap interest expense	**(101)**	(91)
Canadian real-rate products	**468**	460
Non-Canadian real-rate products	**163**	164
	1,472	1,858
Equity dividend income		
Canadian equity	**170**	148
Non-Canadian equity	**982**	1,121
	1,152	1,269
Natural resources		
Timberland[1]	**50**	68
Sector investment[2]	**22**	–
	72	68
Real assets[1]		
Real estate (note 5)	**859**	828
Infrastructure	**704**	469
	1,563	1,297
	4,259	4,492
Net realized and unrealized gain on investments[3, 4]	**10,017**	10,792
Management fees	**(257)**	(216)
Transaction costs	**(301)**	(316)
Investment income	**$ 13,718**	$ 14,752

[1] Beginning January 1, 2013, timberland, previously classified as real assets, is included in natural resources. 2012 comparative figures have been reclassified to reflect the change.

[2] Sector investment includes oil and gas assets.

[3] Includes net foreign currency losses of $852 million (2012 – gains of $53 million).

[4] Includes unrealized net gains of $4,132 million (2012 – $5,972 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)	**2013**	2012
Fixed income	**$ (4,623)**	$ 3,738
Canadian equity	**1,261**	740
Non-Canadian equity	**13,134**	6,623
Natural resources[5]	**41**	14
Real assets[5]	**3,905**	3,637
	$ 13,718	$ 14,752

[5] Beginning January 1, 2013, timberland, previously classified as real assets, is included in natural resources. 2012 comparative figures have been reclassified to reflect the change.

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:

	2013		2012	
(percent)	**Investment Returns**	**Investment Benchmark Returns**	Investment Returns	Investment Benchmark Returns
Fixed income	**(7.9)%**	**(8.1)%**	5.1%	4.5%
Canadian equity	**12.2**	**13.1**	5.2	8.1
Non-Canadian equity	**31.3**	**29.9**	16.5	14.5
Natural resources[1]	**4.2**	**4.2**	(0.4)	0.4
Real assets[1]	**14.6**	**10.6**	15.7	10.3
Total Plan	**10.9%**	**9.3%**	13.0%	11.0%

[1] Beginning January 1, 2013, timberland, previously classified as real assets, is included in natural resources. Commodities are not presented separately in 2013 but included in natural resources. 2012 comparative figures have been reclassified to reflect the changes.

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. In 2013, active members were required to contribute 11.15% (2012 – 10.8%) of the portion of their salaries covered by the CPP and 12.75% (2012 – 12.4%) 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 service 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)	**2013**	2012
Members		
Current service[1]	**$ 1,483**	$ 1,418
Optional credit	**28**	28
	1,511	1,446
Province of Ontario		
Current service	**1,464**	1,395
Interest	**37**	39
Optional credit	**26**	24
	1,527	1,458
Other employers	**29**	28
Transfers from other pension plans	**14**	12
	43	40
	$ 3,081	$ 2,944

[1] Contributions past due are less than $1 million in 2013 and 2012.

NOTE 10.
BENEFITS PAID

(Canadian $ millions)		2013		2012
Retirement pensions	**$**	**4,744**	$	4,550
Death benefits		**311**		287
Disability pensions		**28**		29
Commuted value transfers		**41**		45
Family law transfers		**17**		6
Transfers to other plans		**8**		6
Refunds		**1**		1
	$	**5,150**	$	4,924

NOTE 11.
ADMINISTRATIVE EXPENSES

(a) Investment expenses

(Canadian $ millions)		2013		2012
Salaries, incentives and benefits	**$**	**232.1**	$	179.7
Premises and equipment		**37.7**		35.3
Professional and consulting services		**46.8**		41.3
Information services		**18.5**		16.4
Communication and travel		**13.2**		13.4
Custodial fees		**8.9**		9.0
Statutory audit fees		**1.6**		1.7
Board and committee remuneration		**0.7**		0.7
Other		**4.8**		4.0
	$	**364.3**	$	301.5

(b) Member services expenses

(Canadian $ millions)		2013		2012
Salaries, incentives and benefits	**$**	**30.0**	$	28.2
Premises and equipment		**8.8**		8.9
Professional and consulting services		**4.3**		4.4
Communication and travel		**1.0**		1.1
Statutory audit fees		**0.1**		0.1
Board and committee remuneration		**0.1**		0.1
Other		**0.8**		0.8
	$	**45.1**	$	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)	2013	2012
Short-term employee benefits	**$ 14.8**	$ 12.4
Post-employment benefits	**0.6**	3.6
Termination benefits	**2.6**	–
Other long-term benefits	**21.4**	17.0
Total	**$ 39.4**	$ 33.0

[1] The table does not include compensation of either officers or directors of The Cadillac Fairview Corporation Limited.

(d) Employees' post-employment benefits

The employees of the Plan are members of the defined benefit plans, of either the Ontario Public Service Employees Union (OPSEU) Pension Plan or Public Service Pension Plan (PSPP). The expected contributions from the Plan in 2014 are approximately $10.5 million. 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 $7.9 million (2012 – $12.7 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 2014, the actuary determined that the limit should increase from $14,200 to $15,900. 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 is as follows:

December 31 (Canadian $ thousands)	**2013**	2012
Statements of financial position		
NET ASSETS AVAILABLE FOR BENEFITS		
Assets	**$ 27,948**	$ 18,912
Liabilities	**(3,583)**	(1,744)
	$ 24,365	$ 17,168
ACCRUED BENEFITS AND DEFICIT		
Accrued benefits	**$ 344,356**	$ 380,095
Deficit	**(319,991)**	(362,927)
	$ 24,365	$ 17,168
Statements of changes in net assets available for benefits		
Contributions	**$ 13,807**	$ 7,693
Investment income	**70**	70
	13,877	7,763
Benefits paid	**6,591**	6,060
Expenses	**89**	92
	6,680	6,152
Increase in net assets	**$ 7,197**	$ 1,611

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, 2013, these commitments totalled $8,151 million (2012 – $6,940 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 2013 or 2012 under these guarantees.

The Plan guarantees loan and credit agreements which will expire by 2017. The Plan's maximum exposure is $116 million as at December 31, 2013 (2012 – $139 million). The companies have drawn $115 million under the agreements (2012 – $128 million).

The Plan guarantees lease agreements for a subsidiary with expiry dates ranging from 2017 to 2059. The Plan's maximum exposure is $92 million as at December 31, 2013 (2012 – $84 million). There were no default lease payments in either 2013 or 2012.

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 $217 million as at December 31, 2013 (2012 – $101 million) 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 prevent 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 following proposed class actions were filed.

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, 2013)

FIXED INCOME AND SHORT-TERM INVESTMENTS OVER $100 MILLION

Type ($ millions)	Maturity	Coupon (%)	Fair Value	Cost
Securities purchased under agreements to resell	2014–2015	-0.40–2.43	$ 21,851	$ 21,692
Government of Canada bonds	2014–2045	0.75–9.25	21,494	21,046
Canada treasury bills	2014–2014	0.00–0.00	7,407	7,396
Provincial bonds	2015–2045	0.00–8.50	6,724	6,977
International corporate bonds	2014–2099	0.00–19.03	3,096	3,107
Canadian corporate bonds	2014–2108	0.00–14.00	1,229	1,256
Bank notes	2014–2014	0.00–0.95	799	797
U.S. agency bonds	2014–2023	0.35–5.48	451	433
U.S. treasury bills	2014–2014	0.00–0.00	139	136
International sovereign debt	2015–2060	0.70–12.00	(617)	(579)
U.S. treasury bonds	2015–2043	0.25–6.25	(7,580)	(8,602)
Securities sold under agreements to repurchase	2014–2015	-0.05–2.56	(37,875)	(37,957)

REAL-RETURN INVESTMENTS OVER $100 MILLION

Type ($ millions)	Maturity	Coupon (%)	Fair Value	Cost
Real-return Canada bonds	2021–2047	1.25–4.25	$ 14,863	$ 13,065
U.S. treasury inflation protection	2014–2043	0.13–3.88	8,221	7,954
Real-return Canadian corporate bonds	2016–2046	0.00–5.33	1,871	836
Real-return provincial bonds	2021–2036	2.00–4.50	1,730	1,243
Real-return international bonds	2016–2062	0.10–5.95	218	208
Index-linked mortgages	2023–2030	4.63–5.53	134	119

CORPORATE SHARES/UNITS OVER $100 MILLION

(as at December 31, 2013) (millions)

Security Name	Shares	Fair Value
iShares MSCI Emerging Markets Index	34.7	$1,533.5
Multiplan Empreendimentos Imobiliarios S.A.	54.8	1,236.7
Hudson's Bay Company*	30.7	558.5
Canadian Natural Resources Limited	12.7	458.6
Michael Kors Holdings Limited	4.2	365.5
Bank of America Corporation	21.6	357.7
Hitachi, Ltd.	43.5	350.0
Apple Inc.	0.6	345.6
Airbus Group N.V.	3.9	317.9
Microsoft Corporation	7.8	311.2
Nissan Shatai Co., Ltd.	20.0	309.0
Wells Fargo & Company*	7.0	308.4
Nippon Telegraph and Telephone Corporation	5.0	285.9
Samsung Electronics Co., Ltd.	0.2	280.8
Volkswagen AG	0.9	260.7
JPMorgan Chase & Co.*	4.1	255.3
Lafarge S.A.	3.2	251.9
General Motors Company	5.8	250.4
Daimler AG	2.7	249.3
CSX Corporation	8.0	246.0
Google Inc.	0.2	241.3
TMX Group Limited	4.6	237.0
The Bank of New York Mellon Corporation	5.6	207.9
Capital One Financial Corporation*	2.6	206.2
Grupo BTG Pactual	16.6	205.9
The Walt Disney Company	2.5	203.1
Constellium N.V.	8.0	197.2
Credit Suisse Group AG	6.0	194.1
Vodafone Group Plc	44.6	188.7
Metlife, Inc.	3.3	186.7
Thermo Fisher Scientific Inc.	1.6	184.3
Akzo Nobel N.V.	2.2	183.2
ACE Limited	1.7	182.4
CNH Industrial N.V.	14.7	177.9
Chesapeake Energy Corporation	6.2	177.6
RTL Group S.A.	1.3	175.0
Sanofi-Aventis	1.5	173.9
Toronto-Dominion Bank, The	2.4	171.0
Sprint Corporation	14.9	170.1
Macdonald, Dettwiler and Associates Ltd.	2.1	169.4
Idea Cellular Limited	58.8	168.6
Novartis AG	1.9	164.0
Cemex Latam Holdings S.A.	20.0	163.0

Security Name	Shares	Fair Value
Royal Bank of Canada	2.2	$159.2
Western Digital Corporation	1.8	157.6
Nordea Bank AB	10.7	153.9
NuVista Energy Ltd.	21.5	153.3
Twenty-First Century Fox, Inc.	4.1	152.2
FedEx Corporation	1.0	150.1
General Electric Company	5.0	149.6
Koninklijke KPN N.V.	43.0	147.7
American International Group, Inc.	2.7	146.2
General Mills, Inc.	2.7	145.6
Aircastle Limited	6.9	140.2
SunTrust Banks, Inc.*	3.6	137.2
TripAdvisor, Inc.	1.5	136.0
Viacom Inc.	1.5	135.0
The Dow Chemical Company	2.8	134.5
Amazon.com, Inc.	0.3	132.5
Koninklijke (Royal) Philips Electronics N.V.	3.4	132.3
Continental AG	0.6	130.8
Shriram Transport Finance Company Ltd.	11.3	130.7
BNP Paribas S.A.	1.6	129.1
Telecom Italia S.p.A.	120.7	127.4
Holcim Ltd.	1.6	126.7
Bank of Nova Scotia	1.9	124.5
Daiwa Securities Group Inc.	11.7	124.5
MMX Mineracao e Metalicos S.A.	113.7	124.4
Baidu, Inc.	0.7	124.2
Cheung Kong (Holdings) Limited	7.4	123.8
Republic Services, Inc.	3.5	122.7
Nestlé S.A.	1.6	121.6
DBS Group Holdings Ltd.	8.4	121.4
DIRECTV	1.6	120.0
Ivanhoe Mines Ltd.	64.1	119.9
Aurizon Holdings Limited	25.2	116.7
The Travelers Companies, Inc.	1.2	114.0
Loews Corporation	2.2	112.3
Total S.A.	1.7	110.1
Tencent Holdings Limited	1.6	107.9
Ferrovial, S.A.	5.2	106.6
Canadian National Railway Company	1.7	105.1
Exxon Mobil Corporation	0.9	101.9
Nokia Corporation	11.9	101.8
Applied Materials, Inc.	5.4	101.5
HSBC Holdings plc	8.7	101.4
Hewlett-Packard Company	3.4	100.2

* Includes fair market value of warrants and subscription receipts.

REAL ESTATE PROPERTIES OVER $100 MILLION

(as at December 31, 2013)

Property	Total Square Footage (in thousands)	Effective % Ownership
Canadian Regional Shopping Centres		
Champlain Place, Dieppe	670	100%
Chinook Centre, Calgary	1,215	100%
Fairview Mall, Toronto	876	50%
Fairview Park Mall, Kitchener	746	100%
Fairview Pointe Claire, Montreal	1,053	50%
Le Carrefour Laval, Montreal	1,293	100%
Les Galeries D'Anjou, Montreal	1,145	50%
Les Promenades St. Bruno, Montreal	1,136	100%
Lime Ridge Mall, Hamilton	806	100%
Market Mall, Calgary	971	50%
Markville Shopping Centre, Markham	1,013	100%
Masonville Place, London	687	100%
Pacific Centre, Vancouver	797	100%
Polo Park Mall, Winnipeg	1,232	100%
Richmond Centre, Richmond	777	50%
Rideau Centre, Ottawa	1,149	100%
Sherway Gardens, Toronto	980	100%
Shops at Don Mills, Toronto	469	100%
The Promenade, Toronto	705	100%
Toronto-Dominion Centre, Toronto	157	100%
Toronto Eaton Centre, Toronto	1,730	100%

Property	Total Square Footage (in thousands)	Effective % Ownership
Canadian Office Properties		
635 8th Avenue, Calgary	275	100%
Encor Place, Calgary	359	100%
Granville Square, Vancouver	402	100%
HSBC Building, Vancouver	395	100%
Pacific Centre Office Complex, Vancouver	1,532	100%
PricewaterhouseCoopers Place, Vancouver	241	100%
RBC Centre, Toronto	1,226	50%
Shell Centre, Calgary	692	100%
Simcoe Place, Toronto	759	25%
Toronto-Dominion Centre Office Complex, Toronto	4,101	100%
Toronto Eaton Centre Office Complex, Toronto	1,897	100%
Waterfront Centre, Vancouver	410	100%
Yonge Corporate Centre, Toronto	669	100%
U.S. Regional Shopping Centres		
Lakewood Mall, Lakewood, California	2,115	49%
Los Cerritos Center, Cerritos, California	1,327	49%
Queens Center, Queens, New York	942	49%
Stonewood Center, Downey, California	920	49%
Washington Square, Tigard, Oregon	1,317	49%
U.K. Office Properties		
Thomas More Square Estate, London	568	50%
Properties Under Development		
Deloitte Tower, Montreal	n/a	100%
City Centre Office, Calgary	n/a	100%
Ice Residential, Toronto	n/a	50%

PRIVATE COMPANIES AND PARTNERSHIPS OVER $100 MILLION

(as at December 31, 2013)

360buy Jingdong Inc.
Acorn Care and Education Limited
Actera Partners L.P.
Alexander Forbes Limited
Alliance Laundry Systems, LLC
ANV Holdings BV
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.
Asia Opportunity Fund III, L.P.
Autonomy Global Macro Fund Limited
Avaya Inc.
Baybridge Seniors Housing Inc.
BC European Capital IX LP
BC European Capital VIII-1
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
BroadStreet Capital Partners, Inc.
Burton's Biscuit Company
Busy Bees Benefits Holdings Limited
Camelot Group plc
Canada Guaranty Mortgage Insurance Company
Copenhagen Airport A/S
Coway Holdings, Inc.
CPG International Inc.
DaVinciRe Holdings Ltd.
Dematic S.A.
Downsview Managed Account Platform Inc.
Easton-Bell Sports, LLC
Empresa de Servicios Sanitarios del Bio-Bio S.A.
Esval S.A.
Exal International Limited
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.
Insight Pharmaceuticals LLC
IntelSat, Ltd.
InterGen N.V.
ISS A/S
Kepos Alpha Fund Ltd.
Kyobo Life Insurance Co., Ltd.
Laricina Energy Ltd.
LMAP ETA Limited
Manabi Holding S.A.
Maple Financial Group Inc.
MBK Partners Fund II, L.P.
MBK Partners, L.P.
Mitra Energy Limited
Munchkin, Inc.
MW Market Neutral TOPS Fund
NBCG Greenwich Sub-Fund
NBCG Lock Sub-Fund
NBCG Mason Sub-Fund
NBCG Oxford Sub-Fund
NBCG Sherwood Sub-Fund
NBCG Sonata Sub-Fund
NBCG Thor Sub-Fund
NBCG Valkyrie Sub-Fund
Nextgen Group Holdings Pty Limited
Northern Star Generation LLC
Nuevosur, S.A.
NXT Capital Holdings, L.P.
OLE Media Management, L.P.
Orbis SICAV Global Equity Fund
PAG Asia I LP
Park Square Capital Partners, L.P.
Permira IV L.P. 2
Plano Molding Company
Providence Equity Partners V L.P.
Providence Equity Partners VI L.P.
Q9 Networks Inc.
Quinte Limited
Resource Management Service Inc.
Rhône Offshore Partners III L.P.
Scotia Gas Networks plc
SeaCube Container Leasing Ltd.
Serta Simmons Holdings, LLC
Silver Creek Special Opportunities Fund Cayman III, L.P.
Silver Lake Partners III, L.P.
Sociedad Austral de Electricidad S.A.
Sydney Desalination Plant Pty Limited
TDR Capital II, L.P.
Terranum Corporate Properties
The Brussels Airport Company
The Eclectica Fund
TP Partners Fund, L.P.
Trez Capital Corporation
Univision Communications Inc.
ValueAct Capital International II, L.P.
Weyburn Unit
York Street Mezzanine Partners II, L.P.
Zalando GmbH

ELEVEN-YEAR FINANCIAL REVIEW

(Canadian $ billions)	**2013**	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
CHANGE IN NET ASSETS											
Income											
Investment income	**$13.72**	$14.75	$11.74	$13.27	$10.89	$(19.03)	$4.68	$12.31	$14.09	$10.80	$11.42
Contributions											
Members/transfers	**1.55**	1.48	1.41	1.35	1.29	1.13	1.06	0.83	0.79	0.75	0.71
Province of Ontario	**1.53**	1.46	1.41	1.35	1.43	1.18	1.08	0.82	0.78	0.75	0.72
Total income	**16.80**	17.69	14.56	15.97	13.61	(16.72)	6.82	13.96	15.66	12.30	12.85
Expenditures											
Benefits paid	**5.15**	4.92	4.66	4.50	4.39	4.20	4.02	3.82	3.62	3.43	3.20
Investment expenses	**0.36**	0.30	0.29	0.29	0.21	0.15	0.23	0.22	0.21	0.19	0.16
Client service expenses	**0.05**	0.04	0.05	0.05	0.04	0.04	0.04	0.03	0.03	0.03	0.03
Total expenditures	**5.56**	5.26	5.00	4.84	4.64	4.39	4.29	4.07	3.86	3.65	3.39
Increase/(decrease) in net assets	**$11.24**	$12.43	$9.56	$11.13	$8.97	$(21.11)	$2.53	$9.89	$11.80	$8.65	$9.46
NET ASSETS											
Investments											
Fixed income											
Bonds	**$30.53**	$28.87	$26.50	$22.73	$15.46	$14.22	$22.91	$20.86	$5.28	$8.96	$10.30
Real-rate products	**26.37**	31.14	29.29	23.24	19.88	17.41	11.06	11.80	10.56	11.90	7.07
Equities											
Canadian	**10.86**	11.40	10.64	9.29	8.43	6.21	13.73	16.39	19.26	16.80	15.19
Non-Canadian	**51.03**	48.11	41.03	38.20	32.75	28.72	36.31	32.42	25.78	23.09	19.13
Natural resources											
Commodities	**8.21**	6.97	5.64	5.22	1.94	1.25	3.02	2.32	2.65	2.13	1.89
Timberland	**2.45**	2.17	2.17	2.22	2.34	2.80	2.12	2.05	0.97	0.70	0.40
Sector investment	**0.17**	–	–	–	–	–	–	–	–	–	–
Real assets											
Real estate	**19.24**	16.86	14.96	16.86	14.21	13.48	13.41	11.12	8.75	7.20	6.20
Infrastructure	**11.68**	9.65	8.71	7.07	5.57	7.23	6.72	4.73	3.80	2.29	1.50
Absolute return strategies	**12.20**	12.27	12.33	11.38	11.67	14.75	12.30	15.21	9.49	11.18	10.69
Money market	**(33.84)**	(40.18)	(35.01)	(31.49)	(18.74)	(20.97)	(13.58)	(11.22)	8.26	(2.53)	2.06
Net investments	**138.90**	127.26	116.26	104.72	93.51	85.10	108.00	105.68	94.80	81.72	74.43
Receivable from Province of Ontario	**2.97**	2.83	2.72	2.63	2.52	2.19	1.84	1.58	1.50	1.42	1.36
Other assets	**59.34**	47.96	40.81	32.04	15.21	32.33	32.06	23.14	10.67	18.23	6.28
Total assets	**201.21**	178.05	159.79	139.39	111.24	119.62	141.90	130.40	106.97	101.37	82.07
Liabilities	**(60.45)**	(48.53)	(42.69)	(31.86)	(14.84)	(32.18)	(33.35)	(24.39)	(10.84)	(17.04)	(6.39)
Net assets	**140.76**	129.52	117.10	107.53	96.40	87.44	108.55	106.01	96.13	84.33	75.68
Accrued pension benefits	**148.57**	166.01	162.59	146.89	131.86	118.14	115.46	110.50	110.53	96.73	83.12
(Deficit)/surplus	**$(7.81)**	$(36.49)	$(45.49)	$(39.36)	$(35.46)	$(30.70)	$(6.91)	$(4.49)	$(14.40)	$(12.40)	$(7.44)
PERFORMANCE (%)											
Rate of return	**10.9**	13.0	11.2	14.3	13.0	(18.0)	4.5	13.2	17.2	14.7	18.0
Benchmark	**9.3**	11.0	9.8	9.8	8.8	(9.6)	2.3	9.4	12.7	10.6	13.5

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 106 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[3]	**(167.6)**	(158.4)	(137.5)	(134.1)	(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] Includes value of 100% inflation protection.

ASSUMPTIONS USED FOR FILED VALUATIONS (as at January 1) (percent)	**2012**	2011	2009	2008	2005	2003	2002	2001	2000	1999
Inflation rate	**2.20**	2.15	1.35	2.20	2.750	2.05	1.90	2.20	2.25	3.50
Real discount rate	**3.10**	3.25	3.65	3.45	3.725	4.35	4.40	4.05	4.25	4.00
Discount rate	**5.30**	5.40	5.00	5.65	6.475	6.40	6.30	6.25	6.50	7.50

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.

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Executive Vice-President

Investments

Russell Goin,
Executive Vice-President

Portfolio Operations

Ron Wratschko,
Executive Vice-President

People

Norm Sabapathy,
Executive Vice-President

ANNUAL MEETING

April 10, 2014 at 4:45 p.m. ET
The Carlu
444 Yonge Street, 7th floor
Toronto

We welcome your comments and suggestions on this annual report.

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