ONTARIO TEACHERS' PENSION PLAN

2016 Annual Report

A PLAN FOR ALL SEASONS





FUNDING

A preliminary valuation shows Ontario Teachers' Pension Plan is 105% funded as of January 1, 2017.

That translates into an $11.5 billion surplus. This, as we continue to exercise prudence with a 4.8% discount rate.

Because our liabilities are in Canadian dollars, our assets are also stated in our home currency.

We invest in 37 currencies around the world. These have been converted back into Canadian dollars for fair comparison with our liabilities.

105%
FUNDED

$11.5
BILLION SURPLUS

4.8%
DISCOUNT RATE

RATE OF RETURN

$175.6
BILLION IN NET ASSETS

4.2%
TOTAL-FUND RATE OF RETURN

7.2%
ASSET RETURN IN LOCAL CURRENCY

-$4.5
BILLION IMPACT OF CURRENCY

Net assets increased to $175.6 billion.

Our 2016 total-fund rate of return was 4.2%. Asset returns in local currency were 7.2%. This is in line with our four-year asset returns (see graph on next page).

In Canadian dollars, however, currency had a -2.8% impact, for a loss of $4.5 billion. This illustrates the swings that currency can create year over year. In 2015, for example, currency impact added 8.3% to our total-fund return.

INVESTMENT PERFORMANCE[1]
(percent)

	2016	4-Year	5-Year	10-Year
Total return	**4.2**	9.9	10.5	7.3
Benchmark	**3.5**	8.2	8.7	6.3
Dollars earned above benchmark (Canadian $ billions)	**$1.3**	$10.1	$12.3	$14.2

[1] Returns exclude Ontario Teachers' investment administrative expenses (see page 18).

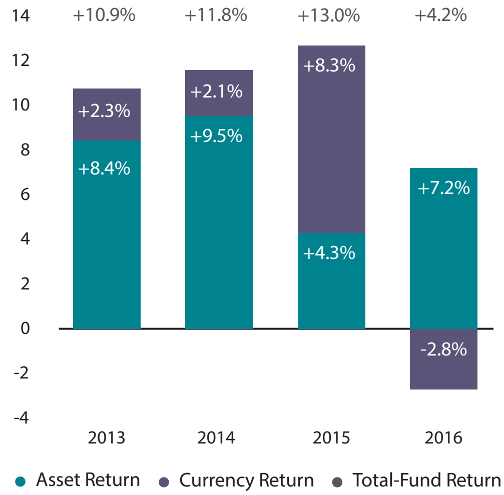
$1.3
BILLION ABOVE BENCHMARK

CURRENCY

As our 2016 and 2015 results show, our global investments can be impacted positively or negatively in the near term by currency movement.

Currency is part of our overall portfolio construction, and we take the risk associated with currency into consideration. In certain circumstances, we will take hedging measures to shield the fund from such major events as the U.K.'s Brexit results.

CURRENCY IMPACT ON TOTAL-FUND RETURN*
(percent)



* For performance calculations, asset and currency returns are calculated geometrically, as opposed to arithmetically added together, to produce the Canadian dollar return.

MEMBER SERVICES

Members continued to rate the plan's services highly. The total Quality Service Index remained 9.1 out of 10.

And compared to other pension plans, the plan was ranked by CEM Benchmarking Inc. as second in its peer group and internationally.

9.1/10
QUALITY SERVICE INDEX MEMBER RATING

$45,000
AVERAGE STARTING PENSION

318,000
ACTIVE AND RETIRED MEMBERS

59
AVERAGE RETIREMENT AGE

ABOUT ONTARIO TEACHERS' PENSION PLAN

The Ontario Teachers' Pension Plan, better known as Ontario Teachers', is Canada's largest single-profession pension plan. Ontario Teachers' is an independent organization established under Ontario legislation. Its two sponsors are the Ontario government and Ontario Teachers' Federation (OTF). The Ministry of Education and the Ministry of Finance jointly represent the Ontario government.

TABLE OF CONTENTS

REPORT FROM THE CHAIR

"Ontario Teachers' has once again demonstrated its ability to generate positive results while managing a number of challenging risks."

FUNDED STATUS

As of January 1, 2017, the plan had a preliminary funding surplus of $11.5 billion, based on conditional inflation protection at 90%. Ontario Teachers' Federation (OTF) and the Ontario government, joint sponsors of the plan, will determine how to allocate this surplus if they choose to file the funding valuation with the regulators.

The sponsors filed a balanced funding valuation in 2016. They agreed to use a portion of the funding surplus that existed as of January 1, 2016, to increase inflation protection levels for pension credit earned after 2009. The ability to adjust inflation protection depending on the plan's funded status has proven to be an extremely effective tool that facilitates stability in contribution levels and benefits.

The annual funding surpluses of the past four years are positive and welcome. However, they should not generate complacency. Due to the funding valuation methodology, portions of these recent surpluses came from pre-2016 investment gains, when investment returns were in the double digits. As we have said for years, such high returns cannot be expected indefinitely. Prudence should be our mantra, given the plan's maturity and the complex global environment in which it operates.

APPROPRIATE RISK ACCOUNTABILITY

The board spent much of 2016 considering changes in Ontario Teachers' risk governance structure and investment strategy. We decided the existing governance structure could be improved by modifying the balance of accountability for plan funding risks.

With our new approach, the board sets risk tolerance levels. Management has greater responsibility for investment decision making, within the board-approved parameters and with board oversight. Instead of emphasizing value-added returns solely, the new OneTeachers' investment strategy recognizes that minimizing risk and striving to keep contribution rates and pension benefits stable are equally as important as value-added returns in providing retirement security to plan members. This ensures full alignment of our members' interests with board and management decision making.

RISK GOVERNANCE

Board members are charged with staying abreast of global risks including geopolitical and market developments, and economic, environmental, social and technological change. We must do so to ensure plan management has sufficient and appropriate strategies in place to address the risks that are most relevant to Ontario Teachers'.

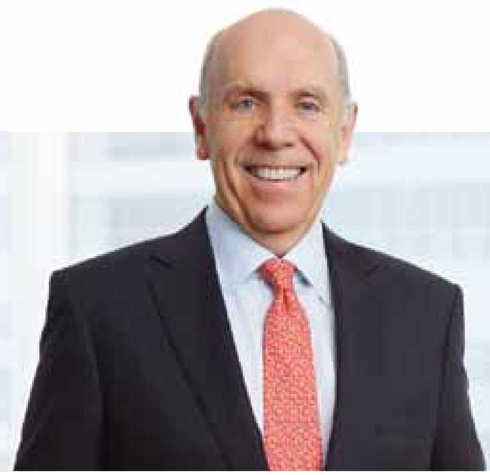
Of course, risks are not only global and external – they are inherent in the plan's internal activities and operations. With the plan's growing reliance on sophisticated and interconnected information systems and technology, a new Operational Risk Committee of the board began meeting in 2016 to assist in the oversight of technology, enterprise project management, operations and security.

The board's decisions on risk governance and strategy, coupled with the associated organizational changes made by management, position the plan for continued success for years to come.

Jean Turmel

Jean Turmel, B.Comm., MA
Chair

REPORT FROM THE CEO



"We laid the foundation for future success in 2016. All areas of the organization dealt with an unusually high degree of complex change as we made key decisions to prepare for the next decade and beyond, and all of the plan's dedicated employees contributed to this effort."

PREPARING FOR THE FUTURE

In his first year as Chief Investment Officer, Bjarne Graven Larsen put the required pieces in place to execute our OneTeachers' investment strategy. It is based on three pillars: total-fund returns, value-add (above benchmark) returns and volatility management. At a high level, this strategy builds on our unified, total-fund approach to investing. It gives management more authority to manage funding risk (within board-approved risk tolerances) to promote stability in contribution and benefit levels.

We aligned the Investment Division structure and our senior investment professionals' roles and responsibilities with the OneTeachers' investment strategy. We also overhauled our compensation program for all employees, effective January 1, 2017, to better align compensation practices to this strategy's key performance indicators. This updated pay-for-performance program will help us attract and retain the top talent we need to be successful in this highly competitive industry.

Pension plans must always consider the long-term impact of decisions made today. As such, we completed a review of our key internal governance committees, and have more effectively integrated business priorities, goals, risk mitigation plans and budgeting.

2016 PERFORMANCE, PRELIMINARY SURPLUS

The plan had a funding surplus of $11.5 billion as at January 1, 2017, based on conditional inflation protection at 90%. This was achieved with a 4.8% discount rate. Although among the lowest discount rates in the industry, it is prudent and realistic.

Despite major challenges in the global economy, including market volatility and limited investment opportunities, the pension fund earned a 4.2% rate of return. Asset returns were 7.2% in local currency, compared to 4.3% in 2015. So as you can see, currency had an impact of approximately -3% in 2016. The fund delivered investment income of $7.0 billion and finished the year $1.3 billion above benchmark. Net assets rose to $175.6 billion, up from $171.4 billion in 2015.

Our Member Services Division distinguished the plan as one of the top two in the world for service and once again earned high satisfaction scores in surveys of plan members.

COMPREHENSIVE REPORTING

We have produced our first stand-alone responsible investing report. How we consider environmental, social and governance (ESG) factors in our investment process is increasingly important, and ESG risks and opportunities are constantly changing. The 2016 report is available on otpp.com.

We will also begin semi-annual financial reporting in 2017 to provide greater transparency.

FUTURE OUTLOOK

Global growth has picked up somewhat from a very low level, but remains vulnerable to risk. The new U.S. administration and the Brexit vote signal potentially substantial policy changes, yet it is unclear how, or to what extent, trade and business will be affected. We can expect global currency markets to remain volatile. As we saw in 2015 and 2016, this volatility in global currencies can cause large swings in the value of plan assets in the short term. Shorter term volatility aside, we remain focused on the plan's long-term performance.

To remain successful in an era of such constant change, and to keep contribution rates and benefit levels stable for members, we must make prudent investment and risk management decisions. I look forward to reporting on these efforts next year.

R Mock.

Ron Mock, B.A.Sc., MBA
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion and 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. The MD&A includes historical information and forward-looking statements about management's objectives, outlook and expectations. Such statements involve risks, assumptions and uncertainties, and 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.

MISSION

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

VISION

Striving to be the world's leading pension plan

VALUES

HUMILITY: We temper our accomplishments

INTEGRITY: We do the right thing

PERFORMANCE: We are driven to succeed

PARTNERSHIP: We are stronger together

INNOVATION: We have the courage to forge new paths

EXECUTIVE TEAM

(l–r) **Ron Mock**, B.A.Sc., MBA, President and Chief Executive Officer; **Bjarne Graven Larsen**, M.Econ., Executive Vice-President, Investments, and Chief Investment Officer; **Tracy Abel**, BA, MBA, Chief Pension Officer; **David McGraw**, B.Comm., MBA, FCPA, FCA, ICD.D, Chief Financial Officer; **Rosemarie McClean**, BA, MBA, CPA, CMA, ICD.D, Chief Operating Officer; **Barbara Zvan**, M.Math, FSA, FCIA, CERA, Chief Risk & Strategy Officer; **Jeff Davis**, BA, LLB, Chief Legal & Corporate Affairs Officer

PLAN OVERVIEW

The Ontario Teachers' Pension Plan (Ontario Teachers') manages investments and administers pension benefits on behalf of its members: Ontario's 182,000 school teachers and 136,000 pensioners.

Ontario Teachers' has approximately 1,100 employees in Toronto, London and Hong Kong. Approximately 1,500 people work at our real estate subsidiary, The Cadillac Fairview Corporation Limited.

The pension plan 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.

Ontario Teachers' Federation (OTF) and the Ontario government are the plan's joint sponsors. Together, OTF and the government ensure the plan remains appropriately funded to pay pension benefits. The sponsors jointly decide the contribution rate paid by working teachers (and matched by the government and designated employers); the benefits that members will receive, including inflation protection; and how to address any funding shortfall or apply any surplus.

Management's role

Management of the pension plan has three main responsibilities:

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

Management sets long-term investment and service strategies that take member demographics, and economic, investment and market risks into account.

Board's role

An 11-member board, appointed by OTF and the government, oversees the management of the pension plan. Board members are required to act independently of both the plan sponsors and management, and to make decisions in the best interests of all plan beneficiaries.

PREPARING FOR THE FUTURE

Ontario Teachers' mission is clear: Outstanding service and retirement security for our members – today and tomorrow.

To fulfill our mission, we need to look ahead and abroad. We operate in a rapidly changing, competitive business environment that includes the following elements:

- Capital is no longer a differentiator. We face increasingly strong competition from other institutional investors around the world.
- The market is global, highly regulated, technology-driven and increasingly complex.
- International markets, laws and regulations are all changing swiftly. Global growth is shifting to emerging markets, bringing new legal challenges. We are experiencing increased regulatory pressures that have heightened operational complexity.
- Top talent is in high demand and low supply. Our talent is our most valuable asset and it is increasingly important as we strengthen our presence in select global regions and build new internal competencies.
- Our members' needs are changing. We face expanded service expectations in the wake of instantaneous online services and speed-of-light technological advances. The demand for enhanced digital capabilities and communications is pushing us to adapt and evolve our service delivery model.

This increasingly complex and fast-changing environment prompted a reconsideration of Ontario Teachers' risk governance framework and a reallocation of accountability for managing plan funding risk in 2016.

Historically, plan management worked with the board to establish a long-term asset-mix policy that took future liabilities into account, and there were strong incentives for management to outperform asset-class benchmarks (known as value-added returns). Reflecting today's environment, the board agreed that plan management was better positioned to manage both the policy and asset mix together under an expanded total-fund framework that aligns investment decision making with the plan's mission to provide retirement security.

Known as the OneTeachers' strategy, this unified approach emphasizes that earning total-fund returns and achieving risk reduction are as important as value-added returns for plan sustainability. As noted in the Report from the CEO, the plan's organizational structure and compensation program have been changed to implement the OneTeachers' strategy and support the total-fund focus.

The Hong Kong and London offices invest regionally and are pivotal to the cultivation of strategic investment relationships. The plan's centralized trade and treasury capabilities will support new, innovative trading strategies, improve effectiveness and reduce execution costs.

On the Member Services side, our Clarity strategy addresses operational complexity and members' changing needs and expectations. This strategy has made progress in simplifying and personalizing information for members and streamlining processes.

Ontario Teachers' established a new rolling three-year enterprise planning process in 2016 that integrates strategies, enterprise priorities, goals and associated costs. The organization selected a three-year planning horizon to balance a long-term perspective with short-term agility.

The executive team is charged with overseeing and implementing the three-year enterprise plan, which is also designed to mitigate a number of risks. Additional details on enterprise and operational risk management as well as board oversight can be found in the Plan Governance section of this report.

STATE OF THE PLAN

The Ontario Teachers' Pension Plan is designed to deliver pension benefits to its members for life. Jointly sponsored by Ontario Teachers' Federation and the Ontario government, it is the largest single-profession plan in Canada.

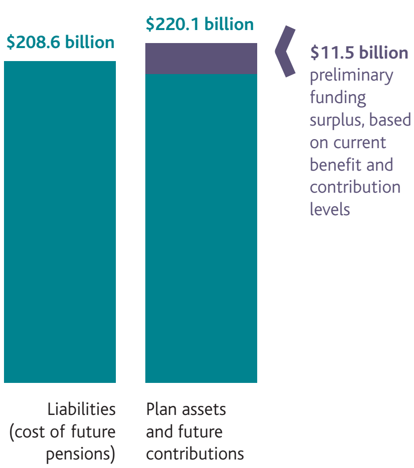
At January 1, 2017, for the fourth consecutive year, the plan had a preliminary surplus, largely due to gains from prior years in the asset smoothing adjustment methodology described on page 8. This surplus assumes current levels of contributions and benefits continue in the future. The sponsors will determine how to apply this surplus should they decide to file the funding valuation with the regulatory authorities.

FUNDING STATUS

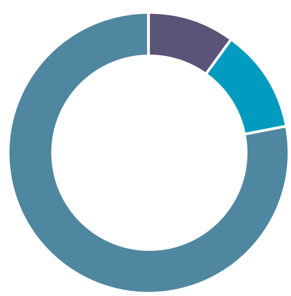
A funding valuation is an assessment of the financial health of a pension plan on a defined date. It determines whether the plan's projected assets are reasonably sufficient to pay all promised pensions in the future.

PRELIMINARY FUNDING VALUATION

As at January 1, 2017



PENSION FUNDING SOURCES SINCE 1990



- **10%** Member Contributions
- **12%** Government/Employer Contributions*
- **78%** Investments

* Includes 1% original plan deficit funding.

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 ONTARIO TEACHERS' DO?

- Earns investment returns to help pay pensions
- Administers the plan and pays benefits
- Reports and advises on the plan's funding status and regulatory requirements

Ontario Teachers' funding valuation:

- looks ahead to the remaining expected lifetime of each plan member (a period of more than 70 years);
- is prepared by an independent actuary;
- projects members' future contributions, benefits and their cost;
- is filed with regulatory authorities at least every three years;
- cannot be in a deficit position when filed.

A preliminary valuation is one that is not finalized or filed with the regulators. The plan sponsors, OTF and the Ontario government, jointly determine how to balance the plan should they decide to file the valuation with the regulators.

2017 preliminary valuation

The plan's preliminary funding valuation showed a surplus of $11.5 billion at January 1, 2017. The surplus reflects asset smoothing (explained in detail below) and prudence on the part of plan sponsors. At this surplus level, the plan had 105% of the assets required to meet future pension liabilities, based on current contribution rates and current (reduced) levels of inflation protection.

Inflation protection is set at 90% of the Consumer Price Index (CPI) increase for pension credit earned after 2009 and 100% for pension credit earned before 2010. The current contribution rates are: 10.4% of earnings below the Canada Pension Plan (CPP) limit, 12% of earnings above the CPP limit, plus a 1.1% special contribution that is scheduled to end in December 2026. The 2016 CPP limit was $54,900.

Details are provided in the Funding Valuation Summary table on page 9.

Smoothing adjustment

Smoothing is a common practice in funding valuations that is used to reduce short-term volatility. Ontario Teachers' funding valuations smooth asset gains and losses over a three-year period. By deferring recognition of gains and losses, the plan's funding ratio, contribution rates and benefit levels are less volatile. Without the use of smoothing, the sponsors might have to change contributions and benefits more frequently to achieve funding stability.

As noted in the Funding Valuation Summary table, the plan's asset smoothing adjustment has been substantially reduced due to the release of prior asset gains that were being "held back." There was $2.9 billion in unrecognized gains in the 2017 preliminary valuation, down from $10.8 billion in the 2016 valuation. Unrecognized gains that are held back act as a margin in the valuation results. With fewer gains left to be recognized, much of the margin in the plan's asset value for funding purposes has been released.

2016 filed valuation

In 2016, OTF and the Ontario government filed a funding valuation with the regulators that is detailed in the Funding Valuation Summary table. They used some of the $13.2 billion preliminary funding surplus to increase inflation protection levels for pension credit earned after 2009 to 90% (from 70%) of the annual increase in the cost of living. The sponsors also left some surplus funds. Surplus funds are beneficial as they can help facilitate stability in contribution and benefit levels in case a future funding valuation shows a decline in assets or an increase in pension costs. All members will benefit from the additional stability provided by surplus funds.

Inflation protection on the portion of pension credit that plan members earned after 2009 is conditional on the funded status of the plan. This lever is used to help keep the plan sustainable in the long term. Inflation protection payments may be bigger if there is a projected funding surplus, or smaller if there is a projected funding shortfall. Pension credit that members earned before 2010 remains fully indexed to infl ation.

2017 marks the 100th anniversary of the Ontario Teachers' Pension Plan's predecessor, the Ontario Teachers' Superannuation Fund. Teachers in this province have had a pension since the mid-1850s. *The Teachers' and Inspectors' Superannuation Act* of 1917 created the Teachers' and Inspectors' Superannuation Commission, comprising people designated by the Minister of Education, and elected representatives of the fund's members. Its responsibility was to administer the fund and examine applications for a pension. This marked the beginning of regular funding valuations that examined the balance of the fund's assets and liabilities. There have been many funding changes to the plan since then. You can see the chronology of the key funding decisions at **otpp.com/plan-history**.

FUNDING VALUATION SUMMARY

As at January 1 (Canadian $ billions)

	2017 Preliminary	2016 Filed	2016 Preliminary
Net assets available for benefits	$ 175.6	$ 171.4	$ 171.4
Smoothing adjustment	(2.9)	(10.8)	(10.8)
Value of assets	**$ 172.7**	**$ 160.6**	**$ 160.6**
Future basic contributions	41.9	41.5	41.5
Future special contributions[1]	3.0	3.1	3.2
Future matching of conditional inflation protection benefit reduction	2.5	2.3	6.6
Total assets	**$ 220.1**	**$ 207.5**	**$ 211.9**
Liabilities (cost of future pensions)	(211.1)	(205.3)	(205.3)
Reduction in cost due to less than 100% indexing	2.5	2.3	6.6
Surplus	**$ 11.5**	**$ 4.5**	**$ 13.2**
Assumptions (percent)			
Inflation rate	2.00	2.00	2.00
Real discount rate[2]	2.75	2.75	2.75
Discount rate	4.80	4.80	4.80

[1] Special contributions were introduced in 2011 and are scheduled to end in December 2026.

[2] Real rate shown as the geometric difference between the discount rate and the inflation rate.

Assumptions

A funding valuation uses a number of assumptions to project the value of future pension plan liabilities and contributions. Assumptions are made about future inflation, salary increases, retirement ages, life expectancy and other variables. One of the most important assumptions for the board to consider is the discount rate, which is used to calculate the present value of future pension benefits the plan expects to pay to members as well as contributions it anticipates receiving. Plan liabilities are sensitive to changes in the discount rate, with a decreased rate resulting in increased liabilities. 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.

The assumption setting process is extremely robust and includes an annual in-depth analysis of plan experience as well as input from the sponsors. If assumptions show a pattern of deviating from actual experience, they are reviewed and may be adjusted annually. The independent actuary must confirm that the assumptions are appropriate and works closely with board members in the assumption setting exercise. The Canadian Institute of Actuaries (CIA) Standards of Practice require that each assumption is independently reasonable and that assumptions are appropriate in aggregate.

The inflation and discount rate assumptions in the most recent valuations are shown in the Funding Valuation Summary table above.

PLAN FUNDING CONSIDERATIONS

When making decisions on behalf of all beneficiaries, the plan's management and the sponsors consider ever-changing demographic and economic factors and risks.

The Funding Variables table on page 10 shows how some important variables have changed over time. It is followed by brief discussions of some key funding considerations. The plan has identified four main funding risks – longevity, interest rates, inflation and asset volatility – and seeks to manage intergenerational equity given these risks.

FUNDING VARIABLES – PAST AND PRESENT

	2016	1990
Average retirement age	**59**	58
Average starting pension	**$45,000**	$29,000
Average contributory years at retirement	**26**	29
Expected years on pension	**31**	25
Number of pensioners aged 100 or more	**142**	13
Ratio of active teachers to pensioners	**1.3 to 1**	4 to 1
Average contribution rate	**12.3%**	8.0%

Longevity

Teachers in Ontario live longer than the general Canadian population and their life expectancy continues to increase. It costs more to pay lifetime pensions when members live longer. Members are contributing to the plan for fewer years than in the 1990s, and their retirement periods are longer. Over time, increased longevity can have a significant impact on liabilities: if the 1990 mortality assumptions had been used in recent funding valuations, pensions would be approximately 20% less expensive, all other factors being equal. The plan regularly updates its mortality assumptions and has adopted more innovative modelling to predict improvements in longevity, consistent with ongoing efforts by the actuarial profession in Canada, the United States and the United Kingdom.

Interestrates

Subdued economic growth and low inflation have kept interest rates at historically low levels. In Canada, long-term real-return bond yields have declined from 2.07% over the last 20 years, on average, to 0.51% at the end of 2016. Interest rates affect asset prices, and an increase in rates could reduce the value of plan assets. Long-term interest rates are also an important input to the discount rate decision. The discount rate reflects what the plan's assets can reasonably be expected to earn over the long term, minus a provision for risk that the plan is exposed to. Plan liabilities are sensitive to changes in the discount rate. Assuming a higher rate would reduce plan liabilities.

Inflation

The plan seeks to provide retired members with annual pension increases to offset the impact of inflation. Inflation that is higher than assumed in the valuation increases the plan's liabilities, given the plan's inflation protection feature, while inflation that is lower than assumed reduces the plan's liabilities. The annual increase received by members who retire after 2009 is conditional on the plan's funded status. Inflation in Canada has been stable since 1991, generally remaining within one percentage point of the Bank of Canada's 2% target. The annual percentage change in the monthly Consumer Price Index ranged from 1.1% to 2.0% in 2016.

Asset volatility

Strong stock market performance in recent years has helped produce positive investment returns for the plan. In an environment of modest global growth, increasing macroeconomic and geopolitical risks and tighter U.S. monetary policy, higher valuations will result in higher market volatility. A number of major currencies moved sharply after unexpected results in the U.K. referendum on E.U. membership and the U.S. election. Further currency volatility can be expected as the implications of these geopolitical developments become clear, and as some central banks begin to raise interest rates, while others maintain low policy rates. Volatile markets can present opportunities for long-term investors but they can also lead to investment losses.

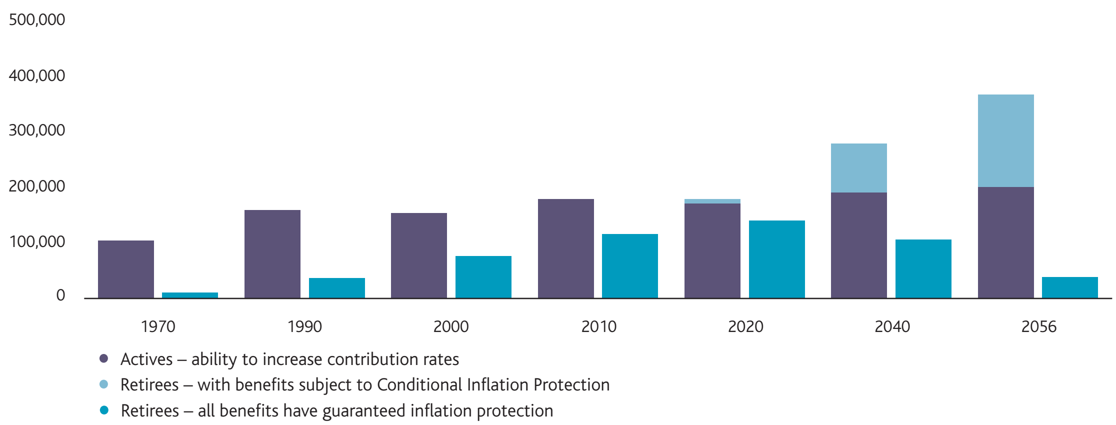
Intergenerational equity aids sustainability

The plan's sustainability is defined as its ability to meet the needs of the present without compromising the ability of future generations to meet their own needs. Intergenerational equity is the principle that members of each generation contribute the right amount to pay for the benefits they receive. It is an important aspect of sustainability.

In the event of significant investment losses or a funding shortfall, the sponsors have two primary funding levers to bring the plan back into balance: increase contribution rates and reduce inflation protection. However, Ontario Teachers' is a mature pension plan, with relatively fewer active, contributing members available to fund any major investment losses. It would be unlikely that increases in contribution rates alone would be sufficient to fund major investment losses and, in addition, these increases would be borne solely by active plan members. This was the basis for the sponsors' proactive adoption of Conditional Inflation Protection (CIP) into plan design.

As noted, CIP provides flexibility in the amount of inflation increase provided to pensioners for benefits earned after 2009. CIP is an effective lever for mitigating funding risks while also promoting intergenerational equity because, over time, the risk of significant investment losses or a funding shortfall is distributed more broadly among the membership – risk is shared by more retired members. CIP will become more powerful over time: the amount of service that members have earned after 2009 continues to grow, while the proportion of service earned before 2010 (which is fully indexed to inflation) is in decline. These trends mean that, eventually, all pension benefits will be subject to CIP and active and retired plan members will more equitably share the risk of a loss.

SHARING RISK OF LOSS[1]



[1] Based on estimates that are subject to change.

As CIP applies to more pension beneficiaries, it will be able to absorb greater losses, making it a more effective risk management tool.

	1990	2016	2026
Increase in contributions required for 10% loss in assets	1.9%	4.8%	5.3%
Decrease in level of CIP required for 10% loss in assets	n/a	36%	24%
Asset loss capable of being absorbed by fully invoked CIP (Canadian $ billions)	n/a	$31	$67

The figures above are relative to a fully funded plan, with 100% inflation protection provided for all benefits and average contributions of 11%. As an example, a 10% asset loss in 2026 could be absorbed by lowering inflation protection increases for benefits earned after 2009 from 100% to 76%. In the most extreme case, if CIP levels were lowered to 50% on benefits earned during 2010–2013 and 0% on benefits earned after 2013, this funding lever would be powerful enough to absorb a 2026 asset loss of $67 billion.

The maturity of the pension plan, the desire for intergenerational equity and the effectiveness of CIP as a funding lever are key considerations for funding sustainability.

REPORT FROM THE CIO

“Our diverse portfolio is structured to generate long-term returns, and to absorb bumps along the way.”

2016 was truly an extraordinary investment year. Unexpected political events like Brexit and a new U.S. administration as well as changed monetary policy signals from several central banks had a significant impact on financial markets. This, combined with a growing skepticism regarding globalization in several countries, was a driving force behind significant movements in exchange rates that in some instances dwarfed the returns on the underlying assets.

In a challenging year, our rate of return was 4.2%. Long-term performance is a key measure of the plan’s ability to deliver retirement security to our members. Returns will vary from year to year. Our investment policy is designed to allow us to achieve superior risk-adjusted returns over the long term, while at the same time avoiding serious drawdowns in any given year. Our portfolio is diversified across different asset classes and geographies. Equity, interest rate and inflation risks are balanced to optimize returns across different economic states of the world. We therefore expect our investments to do very well when evaluated over the long term.

OneTeachers’ STRATEGY

We make investments to pay pensions for generations. We began to implement our updated investment strategy, OneTeachers’, in 2016. OneTeachers’ integrates the fund’s well-proven top-down risk management and asset allocation processes with our strong bottom-up approach to asset selection.

In 2016, we updated our investment team structure. We created a Portfolio Construction group, enhancing our ability to ensure returns are sufficient to meet the plan’s needs while managing risk. We also combined our Fixed Income, Tactical Asset Allocation and Alternative Investments teams into the Capital Markets group, with an ongoing and substantial investment in treasury and execution capabilities.

In addition to in-house investment management, we rely on strong, intelligent partners around the world for investments and co-investments. We are committed to strengthening existing relationships and building new ones. With this priority in mind, we created new roles and announced promotions in 2016 to deepen these essential links.

NEW APPOINTMENTS

We created a new Global Strategic Relationships department led by Managing Director Jonathan Hausman. This group is responsible for developing long-term global relationships, with a view that goes beyond individual transactions.

Jo Taylor was promoted to the new role of Senior Managing Director, International. Jo is based in our London office, and oversees our international presence in both London and Hong Kong.

Nicole Musicco was named Senior Managing Director of Public Equities, replacing Wayne Kozun, who left the plan after more than 20 years of service.

LOOKING AHEAD

To manage the plan and generate returns through good markets and bad, our portfolio will have a diverse allocation of risk, with appropriate equity, interest rate, inflation and foreign exchange exposures.

The OneTeachers’ strategy will be realized through innovation, deepening our global relationships, and continuing our success in direct investing and in developing our people.

Bjarne Graven Larsen, M.Econ.
Executive Vice-President, Investments, and Chief Investment Officer

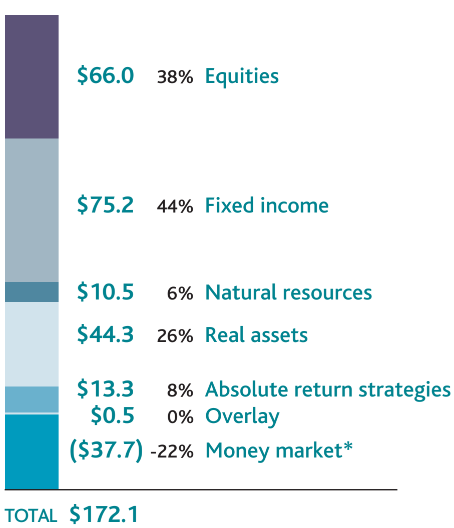
INVESTMENTS

Ontario Teachers' is a globally active investor with holdings in more than 50 countries across diversified sectors and asset classes. The investment program is designed to help the plan meet its obligations to pay pensions and minimize funding volatility. Since Ontario Teachers' inception in 1990, more than three-quarters of the plan's income has come from investment returns, with the remainder from member and government contributions.

In 2016, the plan's net assets increased to a record $175.6 billion, and the plan outperformed its composite benchmark to earn $1.3 billion in value added. Our total-fund rate of return was 4.2%. Asset returns in local currency remained strong at 7.2%, which is in line with our four-year asset returns.

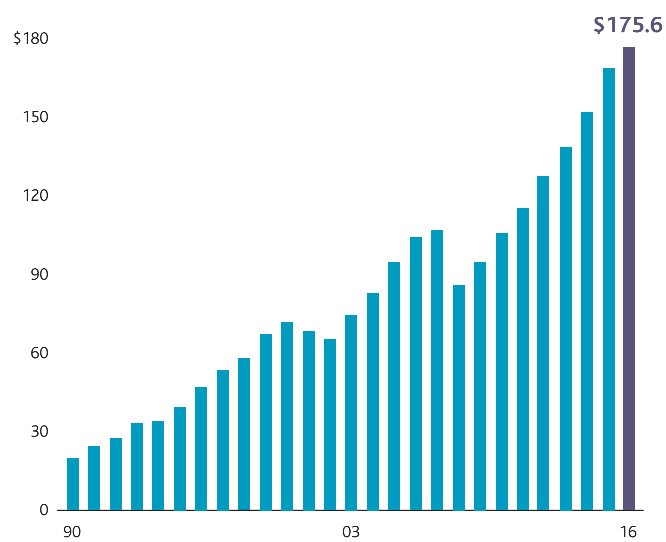
In Canadian dollars, however, currency had a -2.8% impact, for a loss of $4.5 billion. As a result, the total-fund return was 4.2%. This illustrates the swings that currency can create year over year. In 2015, for example, currency impact added 8.3% to our total-fund return. The 2016 Performance section provides more detail on investment results.

NET INVESTMENTS BY ASSET CLASS
As at December 31, 2016 (Canadian $ billions)



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

NET ASSETS
As at December 31 (Canadian $ billions)



Net assets include investment assets less investment liabilities (net investments), plus the receivable from the Province of Ontario, and other assets less other liabilities.

INVESTMENT PROGRAM OVERVIEW

(l–r) **Michael Wissell**, MBA, CFA, ICD.D, Senior Managing Director, Portfolio Construction; **Jane Rowe**, MBA, ICD.D, Senior Managing Director, Private Capital; **Nicole Musicco**, HBA, MBA, Senior Managing Director, Public Equities; **John Sullivan**, MBA, President and CEO, Cadillac Fairview; **Andrew Claerhout**, HBA, ICD.D, Senior Managing Director, Infrastructure & Natural Resources; **Ziad Hindo**, M.Sc., CFA, Senior Managing Director, Capital Markets; **Jo Taylor**, MBA, Senior Managing Director, International; **Jonathan Hausman**, M.Sc., MPA, Managing Director, Global Strategic Relationships

Ontario Teachers' seeks to maximize investment returns at a level of risk that takes into account the cost and nature of future benefits (pension liabilities). The aim is to create a total portfolio with risk and return characteristics that support stable pension benefits and contribution rates.

Our view is that passive investing through market indices cannot, alone, generate the risk-adjusted returns needed to meet the plan's obligations. To add value, the investment team employs active management strategies with a global perspective to identify and acquire undervalued investments and optimize returns.

Investment strategy

Asset-mix selection

Recognizing that asset-mix selection is an important driver of long-term performance, the plan devotes considerable attention to choosing the types of assets owned and the relative emphasis placed on each asset class and geography.

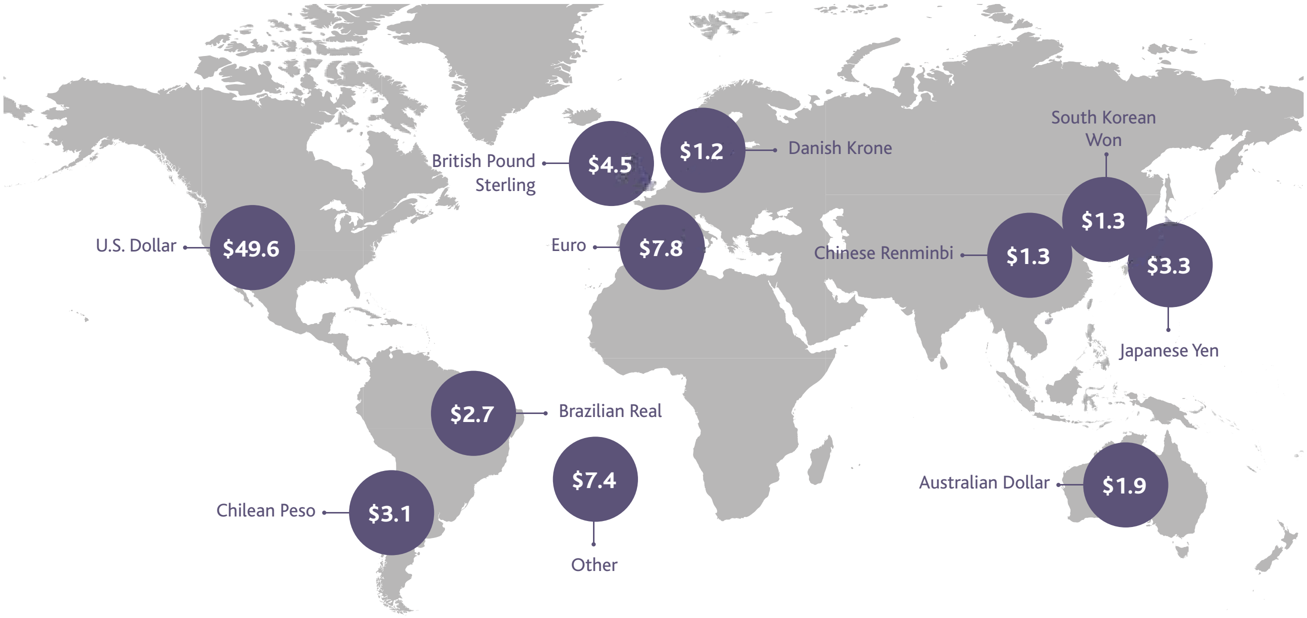
With board oversight, the plan's management now manages both the policy and asset mix together under our expanded OneTeachers' total-fund strategy. It integrates total returns, portfolio risk management and value-added returns, positioning Ontario Teachers' for the future in a complex and fast-paced environment. Management determines exposure to each asset class within ranges approved by the board.

Diversification and balance

Total-fund diversification, through effective portfolio construction, is fundamental to the plan's success. Diversification allows us to spread risk across key factors such as time periods, geography and economic outcomes, which reduces the adverse impact of any one investment loss on the fund overall. Exposure to the economies of different countries reduces overall volatility and offers the potential for better returns.

NET CURRENCY EXPOSURES

As at December 31, 2016 (Canadian $ billions)



Proactive risk management

Ontario Teachers' actively manages funding and investment risk together. This work is guided by the Strategy & Risk group, which reports directly to the CEO. Each year, the plan determines the level of total risk that is appropriate to meet its objectives. Risk budgeting is then used to spread active risk across asset classes.

The Investment Committee of the board reviews and approves the risk budget annually, monitors overall investment risk exposure and reviews and approves risk management policies that affect the total portfolio, as well as new investment programs.

Management oversees investment and risk decisions through a two-part Investment Committee composed of senior investment professionals. The Investment Committee – Total Fund is responsible for considerations around the overall investment program, including the ability of the total-fund portfolio to achieve the real-return and volatility targets. The Investment Committee – Global Private and Illiquids is responsible for oversight of major private market or illiquid transactions and the overall private portfolio composition.

Ontario Teachers' has continually advanced its risk culture with sophisticated tools and processes to support risk measurement and management on a coordinated basis across the entire fund, all asset classes, all departments as well as within each portfolio.

In 2016, a new and more robust risk management system called OneRisk was launched after more than four years of development and testing. The OneRisk system is the cornerstone of our risk management efforts: with deeper insights and consistency in risk numbers, it provides improved oversight of the fund's risk-taking activities. On a daily basis, OneRisk calculates over a billion numbers and generates more than 30 reports to enable informed portfolio decision making. It replaced two legacy risk systems.

Liquidity management

Not only must the plan have sufficient cash on hand to meet current liabilities; it must also seek to take advantage of investment opportunities. The liquidity position is therefore managed carefully. Ontario Teachers' has an established liquidity governance framework, limits and reporting requirements. The plan tests its liquidity position regularly through simulations of major market events. The board's Investment Committee receives regular updates on the plan's liquidity position.

The liquidity positioning of the plan remained strong in 2016.

Changing rules and regulations affecting banks are indirectly impacting Ontario Teachers', so plan management continues to adapt and enhance the way that it manages, oversees, measures and reports on liquidity. The 2016 reorganization in the Investment Division included the creation of a centralized treasury group within the Capital Markets team.

Having cash and liquid assets on hand is vital for several reasons. It allows us to:

- avoid selling high-quality long-term assets to meet short-term funding needs at inopportune times;
- adjust our asset mix in response to market movements;
- invest in assets such as real estate, infrastructure, timberland and private equity that cannot be quickly monetized;
- meet short-term, mark-to-market payments embedded in our derivative exposure.

Note 2(h) to the financial statements provides additional details on liquidity risk management, liquid assets and investment-related liabilities.

Investment funding strategy

Ontario Teachers' is pursuing an investment funding strategy designed to diversify its sources of investment funding, reduce costs and manage portfolio risk. The plan has used bond repurchase agreements for cash management since the early 1990s because it is cost effective and allows Ontario Teachers' to retain economic exposure to government bonds.

In 2016, the strategy was reviewed in the context of changing regulations. New funding sources are being considered to manage the maturity profile of the plan's investment assets and financial liabilities, reduce the overall cost of funding and manage currency exposure.

In 2015, a new cost-effective funding vehicle, the Ontario Teachers' Finance Trust (OTFT), began issuing commercial paper. $9.1 billion of commercial paper was outstanding at December 31, 2016.

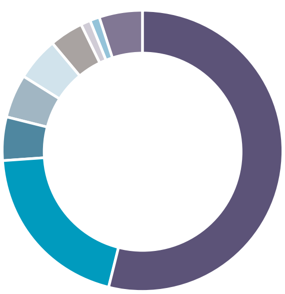
Investment strengths

Global presence

The plan's investment professionals are based in Toronto, London and Hong Kong, sourcing and managing investments in the Americas, Europe, and the Asia-Pacificregion.

GEOGRAPHIC EXPOSURE[1]

As at December 31, 2016



- 54% Canada
- 20% U.S.
- 5% Asia
- 5% U.K.
- 5% Europe excluding U.K.[2]
- 4% Latin America[3]
- 1% Australia and New Zealand
- 1% Rest of the World[4]
- 5% Other[5]

[1] Based on country of primary listing, location of head office, or location of the property.

[2] Developed countries only.

[3] South and Central Americas and Mexico.

[4] Countries not otherwise specified above.

[5] Predominantly alternative investment strategies to which a country exposure has not been assigned.

The Toronto office was established at the plan's inception in 1990 and is the North American hub for investment staff.

Ontario Teachers' established its London office in 2007 and expanded it in 2015. From this base, investment professionals look for opportunities throughout Europe, the Middle East and Africa. The teams in London collaborate with colleagues in Toronto and Hong Kong, as well as local partners, to cultivate strategic relationships and identify and execute on a wide range of investment opportunities.

Ontario Teachers' has been investing in the Asia-Pacific region since 1991 and opened a Hong Kong office in 2013 to gain greater access to opportunities in the region. It enables the plan's investment professionals to build even stronger relationships with key players in business and finance throughout the region, with its unique and dynamic mix of developed, developing and emerging economies.

In-house talent

Approximately 80% of the investment portfolio is managed in-house by highly skilled, specialized teams. As one of Canada's largest pension funds, Ontario Teachers' provides employees with the resources, training and career opportunities needed to achieve the highest professional standards. Talent development is critically important to building and retaining the intellectual capital and in-house expertise required to employ sophisticated and innovative strategies.

Funds and partnerships

Externally managed investments consist of alternative investments (hedge funds), private equity funds and public equity funds. External hedge fund managers provide access to unique investment approaches that both add to performance and diversify risk. We have strategic investments with many of the world's leading private equity firms, which open up private capital opportunities in markets we cannot easily access directly. We also partner with carefully chosen global and regional managers of public equity funds, who deliver value-added returns and provide local expertise in key global markets.

Global strategic relationships

Relationships with key external partners are a significant component of our success. The pension plan created a new Global Strategic Relationships department in 2016 to develop and cultivate mutually beneficial investment relationships around the world. Members of this department will work across asset classes and in all global regions to strengthen existing relationships and build new ones.

Responsible investing

Ontario Teachers' first responsible investing report, released along with the annual report, summarizes our thoughtful approach to responsible investing as environmental, social and governance (ESG) factors become increasingly important to the management of the plan's risk exposure and sustainability.

2016 PERFORMANCE

NET INVESTMENTS AND RATES OF RETURN BY ASSET CLASS

As at December 31

	(Canadian $ billions)		(percent)					
			1-Year		4-Year		5-Year	
	2016	2015	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark
Equities			4.8	4.9	15.6	14.6	15.3	14.4
Canadian equity	**4.3**	3.5	19.1	16.9	7.4	8.5	6.9	8.4
Non-Canadian equity	**61.7**	74.0	4.1	4.3	17.1	16.0	17.0	15.7
Fixed income			0.8	1.0	2.4	2.4	3.0	2.8
Bonds	**43.5**	38.0	(1.2)	(1.1)	2.3	2.3	3.0	2.7
Real-rate products	**31.7**	31.1	3.3	3.3	2.7	2.7	3.1	3.1
Natural resources	**10.5**	10.2	8.3	6.7	(2.7)	(4.3)	(2.2)	(3.4)
Real assets			5.3	3.4	11.6	7.7	12.4	8.2
Real estate	**26.5**	24.9	7.7	7.4	11.2	8.7	12.8	10.0
Infrastructure	**17.8**	15.7	1.4	(2.3)	12.1	7.0	11.4	7.2
Absolute return strategies[1]	**13.3**	17.7						
Overlay[2]	**0.5**	–						
Money market[1]	**(37.7)**	(46.9)						
Total plan[1]	**172.1**	168.2	4.2	3.5	9.9	8.2	10.5	8.7

[1] Returns generated by absolute return strategies and money market are included in the total plan return and not attributed to an asset class. Net investments are defined as investments of $255.7 billion minus investment-related liabilities of $83.6 billion. See the consolidated statements of financial position (page 45).

[2] Overlay includes strategies to overweight or underweight certain index and foreign currency positions and is included in the calculation of the overall plan return.

The total-fund rate of return is net of trading costs, investment management expenses and external management fees, and is reported in Canadian dollars for five periods: one, four, five and 10 years, and since the current investment program began in 1990.

The plan produced a one-year total-fund return of 4.2% before Ontario Teachers' investment administrative costs, or a net rate of return of 4.0% after investment administrative costs. The first figure is net of trading costs, investment management expenses and external management fees but excludes internal administration costs, while the second figure is net of all investment costs. Strong performance within our Real Assets and Natural Resources assets was partially offset by currency losses due to the appreciation of the Canadian dollar.

The plan compares its performance to a Canadian dollar-denominated composite benchmark, which is calculated by aggregating results from each of the asset-class benchmarks using the same weightings as the plan's asset-mix policy weightings.

INVESTMENT PERFORMANCE[1]
(percent)

	2016	2015	4-Year	5-Year	10-Year	Since Inception
Total return	**4.2**	13.0	9.9	10.5	7.3	10.1
Benchmark	**3.5**	10.1	8.2	8.7	6.3	7.9
Dollars earned above benchmark (Canadian $ billions)	**$1.3**	$4.2	$10.1	$12.3	$14.2	$36.9

[1] Returns exclude Ontario Teachers' investment administrative costs.

Benchmarks

Benchmarking is important because it allows board members, plan members and investment professionals to evaluate the effectiveness of the plan's strategies and activities relative to the risks taken. Appropriate benchmarks are established by a committee, chaired by the CEO. Any material or non-technical changes to total plan benchmarks must be approved by Ontario Teachers' board members.

On a total-fund basis and for each investment class, the plan seeks to outperform benchmark rates of return, and this outperformance is described as "value added." A complete list of benchmarks is available at otpp.com.

Investment cost management

The plan is committed to cost effectiveness and believes costs should be managed and linked to the investment value creation process. The board and management employ various tools to ensure that costs are well thought out and controlled. Costs are evaluated relative to target value added, and against peer plans through participation in global benchmarking comparisons.

The amount of invested capital, asset-class weightings and investing style are factors that affect asset management costs. Generally, the absolute costs of management increase as more capital is invested, which can be partly offset by economies of scale.

Extensive reliance on in-house management is a cost-effective means to implement Ontario Teachers' strategies. However, the plan's substantial investments in private assets and commitment to active management result in higher costs than if assets were deployed in lower-cost public securities and passive mandates. Further, the plan incurs costs to maintain international offices as part of its commitment to identify and participate in global investment opportunities.

The strategic planning process aligns costs with strategy. Annual budgets are reviewed by the Audit & Actuarial Committee of the board. Expense policies are in place to ensure costs incurred are appropriate, and opportunities to improve asset management efficiency are regularly sought out.

In 2016, investment costs, including administrative expenses, management fees and transaction costs, were 66 cents per $100 of average net assets, compared with 74 cents per $100 in 2015. Each of these categories is described in detail below.

Administrative expenses

Investment administrative expenses include staff salaries, incentives and benefits, premises and equipment, professional and consulting services, information services, communication and travel, and custodial, audit and board fees. Ontario Teachers' believes that certain investment programs can be most efficiently delivered using in-house talent. The costs related to employing in-house investment teams and related supporting functions such as legal, operations and finance represent the majority of administrative expenses.

Administrative expenses were $451 million or 27 cents per $100 of average net assets in 2016, compared to $429 million or 27 cents per $100 in 2015. Administrative expenses increased by 5% due to higher salaries and benefits and increases in premises and equipment and professional and consulting services.

Management fees

Ontario Teachers' selectively allocates capital to key external managers in order to access specialized talent and investment opportunities where it is not efficient or practical to maintain the equivalent in-house. Through these relationships, the plan incurs both traditional management fees, which are typically based on the amount of capital allocated, and performance-based fees, which are based on returns above a pre-determined threshold and can vary significantly from year to year. The plan attempts to strike the right balance between these fees in order to align the interest of the external managers with the investment objectives they have been engaged to pursue.

In some cases, management and performance fees are incurred by entities in which the plan has invested, rather than directly by the plan. When directly invoiced, or when information is otherwise available from capital notices or other manager communications, management and performance fees are reported as such in the plan's financial statements. Fees related to other externally managed investments are reflected in the plan's unrealized investment income.

In 2016, management fees were $358 million, down from $421 million in 2015. Management fees decreased due to a reduction in external assets under management and related management and performance fees.

Transaction costs

Transaction costs are those directly attributable to the acquisition or disposal of investments. Due diligence and advisory costs are the most significant transaction costs that support private asset transactions. In the case of public securities, these costs primarily consist of commissions.

Transaction costs decreased by $49 million in 2016 to total $299 million. Transaction costs will vary year by year, depending on the level of activity and nature of private asset transactions.

ASSET-CLASS REVIEW

Equities

The plan uses equities to deliver long-term investment growth and income and applies various strategies to deliver value-added performance. This asset class includes public equities (those trading on a stock exchange) and private equities (not stock-exchange traded), managed by the Public Equities and Private Capital groups, respectively. Any funds not in an active program are managed passively to maintain exposure to the equity markets at the weighting outlined in our asset-mix policy.

The asset class, which is reported as Canadian and non-Canadian equities, had total returns of 4.8% in 2016 compared to its benchmark of 4.9%. The total value of the plan's equities decreased to $66.0 billion at the end of 2016 from $77.5 billion a year earlier. The reduction from the previous year was partly due to a strategic decision to reduce total portfolio risk by lowering exposure to equities and increasing exposure to fixed income securities.

Public equities: The Public Equities department focuses on fundamental investing in equities primarily traded on Canadian and international exchanges. Its Global Active Equities team of sector-focused internal portfolio managers seek to outperform relevant benchmarks through bottom-up stock picking. Their efforts are complemented by the department's Global Equity Managers team, which identifies and allocates capital to top-tier external managers. The shared insights of the professionals in the department contribute to its Relationship Investing team's strategy, which looks to opportunistically purchase significant minority equity stakes in public and near-public companies, often in a transformational setting. A team of top-down focused professionals in the Portfolio Strategy group within the department work to manage aggregate portfolio risks. As public company investors, the department also houses the plan's Corporate Governance and Voting team, which represents the plan's corporate governance issues globally with responsibility for policy development, proxy voting and the public company governance engagement program.

In 2016, most of the world's major equity market indices posted gains, although results from global investments were negatively affected by the appreciation of the Canadian dollar.

PUBLIC EQUITIES PORTFOLIO

As at December 31, 2016

Private capital: The Private Capital group invests directly in private companies, either on its own or with partners, and indirectly through private equity funds. It seeks to add value to its portfolio companies by assisting in long-term strategic planning, creating high-performing management teams and boards, and ensuring good governance practices. In 2016, Private Capital marked 25 years of making direct and fund investments. Over that time, it has invested in more than 500 companies and funds, deployed approximately $40 billion in capital on a global scale and developed expertise in specific industry sectors.

Private equity investments totalled $26.6 billion at December 31, 2016, compared to $28.4 billion at the end of 2015. Assets under management decreased during the year as a result of sizeable divestitures through public markets and private sales as well as negative foreign exchange movements caused by a strengthening Canadian dollar. This was partially offset by modest growth in the portfolio and the addition of six new direct investments.

In 2016, private equity investments generated a return of 4.3% and underperformed the benchmark return of 5.4%. The four-year annualized return of 20.8% exceeds the benchmark return of 17.5%.

PRIVATE CAPITAL PORTFOLIO

As at December 31, 2016

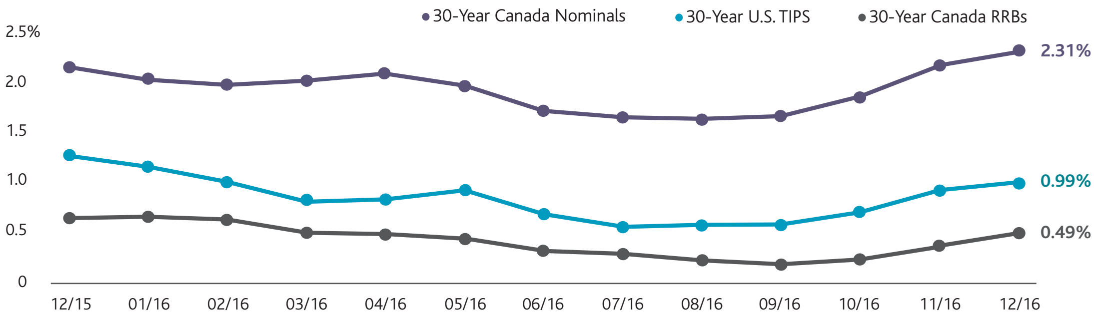
The plan assumed full ownership of Australia's leading data centre provider, Metronode. It also bought the market leader in Canada's wine industry, Constellation Brands Canada, for $1.03 billion. Constellation owns iconic Canadian brands such as Jackson Triggs, Inniskillin and Sumac Ridge, and sells top international wine labels including Kim Crawford, Hardy's and Robert Mondavi. These transactions demonstrate Ontario Teachers' capacity and skills to finance sizeable private-company transactions around the world, and work with management teams in various sectors to capitalize on growth opportunities.

Fixed income

Ontario Teachers' uses fixed income investments to provide security and steady income, hedge against interest rate risks inherent in the plan's liabilities and stabilize total returns. The plan owns a diversified portfolio of government bonds, provincial bonds, corporate bonds and real-return 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. federal governments.

Fixed income assets totalled $75.2 billion at the end of 2016, compared to $69.1 billion a year earlier. The increase in market value over the previous year was partly due to a strategic decision to reduce total portfolio risk by lowering exposure to equities and increasing exposure to fixed income securities. The portfolio of bonds and real-rate products delivered a return of 0.8%, slightly below the benchmark of 1.0%. Strong performance from real-rate products, emerging market bonds and U.S. corporate bonds was offset by negative returns from government bonds.

GOVERNMENT BOND YIELDS



Real assets

Real assets include real estate and infrastructure investments. Strategically, these assets provide returns that are often related to changes in inflation and therefore hedge against the cost of paying inflation-protected pensions.

At December 31, 2016, the total value of real assets was $44.3 billion, compared to $40.6 billion at year-end 2015. Total returns for 2016 were 5.3%, exceeding the 3.4% benchmark.

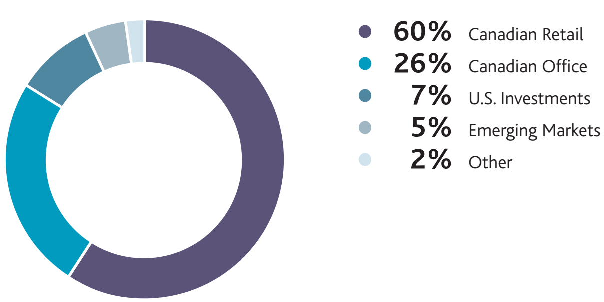
Real estate: The real estate portfolio is managed by the plan's wholly owned subsidiary, The Cadillac Fairview Corporation Limited, which maintains a well-balanced portfolio of retail and office properties designed to provide dependable cash flows.

The real estate portfolio returned 7.7% compared to a benchmark return of 7.4% for the year ended December 31, 2016. Net asset value of real estate holdings was $26.5 billion at year-end 2016, compared to $24.9 billion the previous year. The increase reflects valuation growth in North American and emerging market holdings. Canadian properties experienced growth in earnings as well as marginal capitalization rate declines in the year.

Portfolio highlights included the completion of major development projects including City Centre in Calgary, a major expansion at Rideau Centre in Ottawa, and major redevelopment at CF Toronto Eaton Centre. Further investment was made in emerging markets in Brazil and Mexico. The portfolio earned operating income of $1.1 billion in 2016 ($1.2 billion in 2015), primarily from Canadian retail and office properties. The decline in operating income from 2015 reflects special dividends received on our U.S. holdings in the prior year. At year-end 2016, the retail occupancy rate was 93% (92% in 2015), while the office occupancy rate was 93% (92% in 2015).

REAL ESTATE PORTFOLIO

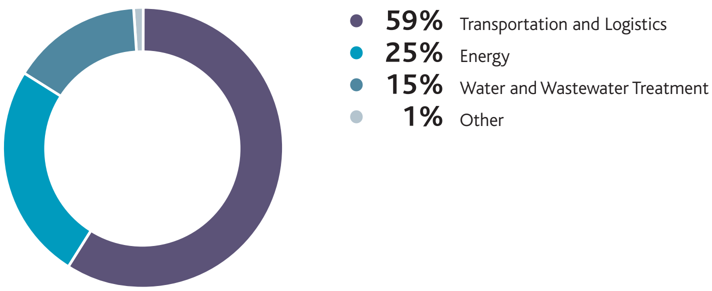
As at December 31, 2016 (based on total assets)



Infrastructure: The plan's infrastructure assets include investments in toll roads, airports, seaports and high-speed rail, conventional and renewable energy, water distribution and wastewater plants. The majority of infrastructure assets are held outside of Canada, principally in the U.K., Europe, Chile, the U.S. and Australia. Overall, Ontario Teachers' seeks to build an infrastructure portfolio that will steadily increase in value, provide predictable cash flow and correlate to inflation.

The value of the infrastructure portfolio increased to $17.8 billion at the end of 2016, compared to $15.7 billion a year earlier. New investments and higher valuations for existing assets were partly offset by the impact of a stronger Canadian dollar. Infrastructure assets delivered a one-year return of 1.4%, outperforming the benchmark return of -2.3%. (As country benchmarks are assigned to each asset, conversion back to Canadian dollars results in a negative benchmark.)

INFRASTRUCTURE PORTFOLIO
As at December 31, 2016



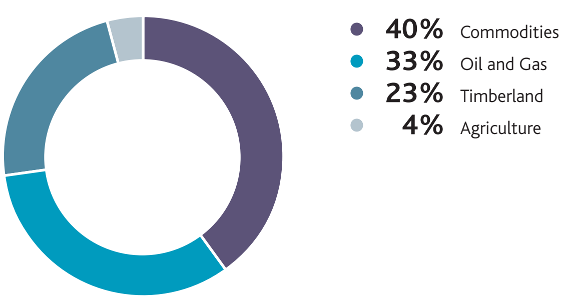
The plan made a number of notable infrastructure investments with strong partners in 2016. It purchased a 20% stake in Mexican toll road concession Arco Norte, providing a strong foundation for continued growth of the infrastructure portfolio in Latin America. The plan increased its stake in Cubico Sustainable Investments Ltd., a global renewable energy company, and in Koole Terminals, a leading independent storage company in northwest Europe. In addition, the plan acquired interests in London City Airport, the Chicago Skyway toll road and Westerleigh, a U.K. crematoria developer and operator, through consortiums with other like-minded investors. These transactions demonstrate Ontario Teachers' commitment to making substantial, direct investments in infrastructure on a global basis.

Natural resources

The plan's natural resources holdings include investments in royalties from oil and gas, commodity indices and physical, producing assets such as timberlands and farmlands. The natural resources mandate is also focused on acquiring assets in the mining sector. These assets provide the plan with superior risk-adjusted returns, diversification and protection against unexpectedly high inflation.

Investments in natural resources were $10.5 billion at the end of 2016, compared to $10.2 billion in 2015. These assets returned 8.3%, compared to the benchmark return of 6.7%. Results reflect an increase in the market value of commodity indices and higher valuations for assets within the portfolio, partly offset by the impact of the strengthening Canadian dollar and asset sales in the timberland portfolio.

NATURAL RESOURCES PORTFOLIO
As at December 31, 2016



Absolute return and money market

Ontario Teachers' uses absolute return strategies to generate positive returns that are constructed to be uncorrelated to the returns of the plan's other assets. 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. In 2016, we concentrated our efforts on more strategic relationships. As a result, we reduced the overall number of external managers.

Assets employed in absolute return strategies totalled $13.3 billion at 2016 year end compared to $17.7 billion in 2015.

Money-market activity provides funding for investments in all asset classes, and is comparable to a corporation's treasury department. 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 Ontario Teachers' to retain economic exposure to government bonds. These activities result in a negative net exposure in the asset mix and the amount is expected to vary from year to year based on the plan's needs.

List of investments

The plan publishes an annual list of individual investments that exceeded $150 million. The list as at year-end 2016 begins on page 80. News releases on notable transactions are also available on otpp.com.

Asset classes redefined in 2017

The board sets ranges for allocations to the asset classes. Management determines exposure within the board-approved bands, based on the underlying risk factors in each asset class, expected returns, and the risk balance and other limits in the total-fund portfolio.

Effective January 1, 2017, as part of the implementation of the OneTeachers' investment strategy, we redefined the asset classes and reorganized the plan's existing holdings.

There are six asset classes:

Our Equities asset class continues to comprise public and private equities.

The Fixed Income asset class includes nominal bonds, real-rate products and short-term investments, while corporate and emerging market debt moved into the Credit asset class.

Natural resources and other securities that provide exposure to inflation form the Inflation Sensitive asset class.

The Real Assets asset class continues to include real estate and infrastructure.

The Absolute Return Strategies asset class encompasses the portfolio's hedge funds and innovative strategies.

2016 ASSET CLASSES	2017 ASSET CLASSES
Equities	Equities
Fixed Income	Fixed Income
	Credit
Natural Resources	Inflation Sensitive
Real Assets	Real Assets
Absolute Return Strategies	Absolute Return Strategies

MEMBER SERVICES

Outstanding service to members is central to Ontario Teachers' mission. The plan delivers personalized service through digital and direct service channels to meet the needs of a broad range of active and retired members.

Member Services administers one of Canada's largest payrolls, with pension and benefit payments of $5.7 billion in 2016.

2016 SERVICE HIGHLIGHTS

The service strategy continued to focus on three objectives to sustain high member satisfaction: simplification, personalization and insight.

Three prime examples of this strategy in action in 2016 were the creation of a new Statement of Pension Benefits; the introduction of an updated website that provides an integrated online experience; and the implementation of plan amendments that removed complexity for members.

The previous Statement of Pension Benefits was an eight-page customized booklet that had been in the same format for many years. The revised statement is more concise (half as long) and uses graphics and personalized text to improve the member experience and promote better understanding of benefits. Members can easily find the information that matters on the first page. The new statement promotes Ontario Teachers' digital channels by directing members online for tools – for example, our interactive pension calculator.

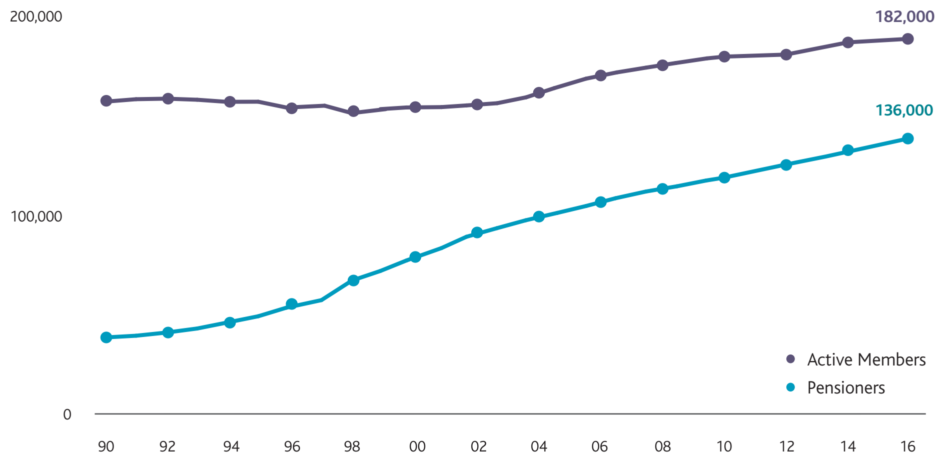
In 2016, Ontario Teachers' integrated the secure web experience so that members can access information and service through otpp.com. This offers a seamless experience and reduces the effort required to find information and complete transactions. The new "mobile first" platform and design recognizes personal usage trends, and each member has instant access to his or her personal pension records anytime, anywhere. The site content focuses on telling stories and making emotional connections, leading to a more engaged, informed and satisfied membership.

Member Services also worked proactively with the plan sponsors to implement amendments that simplify requirements in certain situations. The changes include removal of a medical review requirement to obtain a spousal survivor benefit higher than 60%, and removal of the actuarial reduction when a member's spouse waives the right to the survivor pension in a marital breakdown.

In 2016, we launched our new educational program, myOTPP101. We answer our members' questions live, online via Facebook, and Pinterest serves as a hub for all educational material.

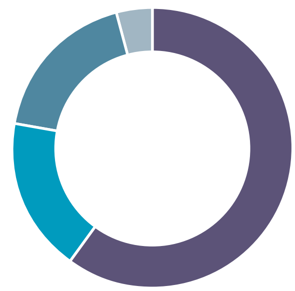
ACTIVE MEMBERS AND PENSIONERS

As at December 31



SERVICE SATISFACTION ACCORDING TO SURVEYS

For the year ended December 31, 2016



- **60%** 10/10 Extremely Satisfied
- **18%** 9/10 Very Satisfied
- **18%** 7–8/10 Satisfied
- **4%** 6 and Under – Neutral or Not Satisfied

MEMBERSHIP PROFILE

Plan membership has grown every year since 1917, when the predecessor Ontario Teachers' Superannuation Fund was created.

WHO? Our membership is diverse

Pensioners range from **AGE 7–109**

Average age of pensioner is **71**

142 pensioners **AGED 100+**

WHAT? We administer one of Canada's largest payrolls

12 PENSIONS in pay for **50+ YEARS**

4,819 PENSIONS added to payroll

WHY? Our members are leading increasingly digital lives, both in the classroom and in retirement

DIGITAL SERVICE

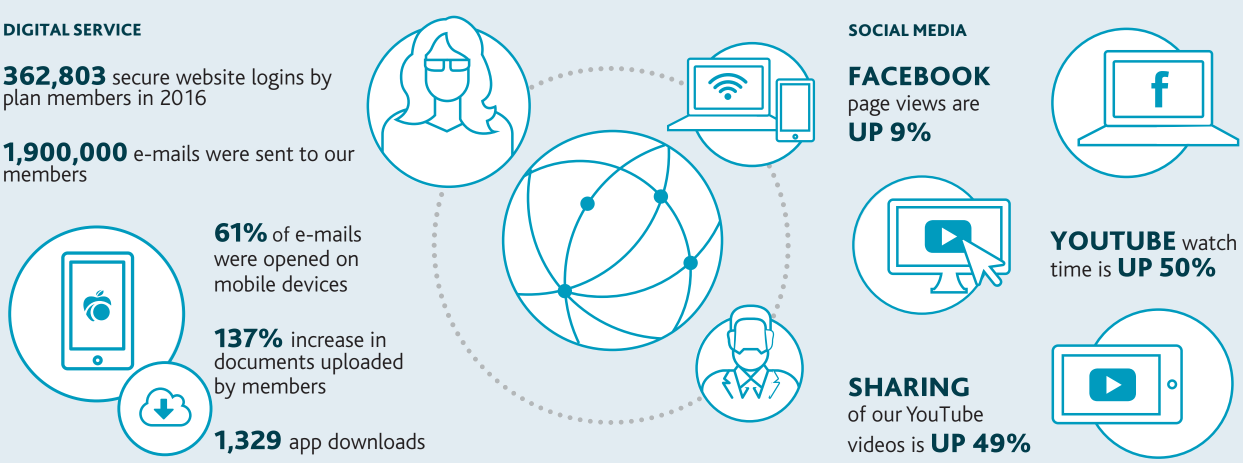
362,803 secure website logins by plan members in 2016

1,900,000 e-mails were sent to our members

61% of e-mails were opened on mobile devices

137% increase in documents uploaded by members

1,329 app downloads



SOCIAL MEDIA

FACEBOOK page views are **UP 9%**

YOUTUBE watch time is **UP 50%**

SHARING of our YouTube videos is **UP 49%**

SERVICE PERFORMANCE

Members consistently give the plan very high ratings and the majority of service requests are completed within one day. In 2016, members had 540,000 interactions with the plan (including digital, contact centre and personal interactions). More than 225,000 members have an online Ontario Teachers' account.

The Quality Service Index (QSI) is our primary performance measurement. An independent company surveys a sample of members throughout the year about the quality of Ontario Teachers' pension service and communications. We began testing a new survey methodology in 2016 as our member demographics and the way members interact with the plan have changed. The new methodology contacts members through multiple channels, not just by telephone, and addresses the full member experience, not just recent service received.

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

	2016	2015
Total QSI	**9.1**	9.1
Service QSI (85%)	**9.2**	9.2
Communications QSI (15%)	**8.8**	8.7

Ontario Teachers' service is also measured against leading pension plans worldwide through surveys conducted by CEM Benchmarking Inc., an independent research company that ranks plan performance in various categories.

BENCHMARKING RESULTS – SERVICE LEVEL SCORE COMPARISON

	2015	2014	2013	2012
Ontario Teachers' Pension Plan	**92**	93	93	92
CEM world average	**78**	77	76	76
Peer group average	**82**	81	80	80
Canadian participants – average	**76**	75	74	74

Note: Scores are rounded and based on fiscal year data using current survey weights.

Source: CEM Benchmarking Inc.

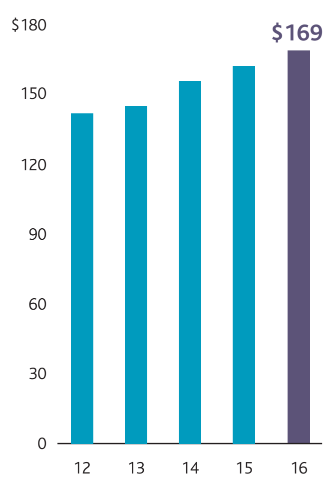
In 2016, the plan was ranked second for pension service in its peer group and internationally.

SERVICE COSTS

The cost per member was $169 in 2016, versus $162 in 2015.

The cost of administering the pension plan has increased in recent years. Investments are being made in systems and service channels to meet operational, regulatory and service requirements. Work is ongoing to replace outdated administrative systems.

SERVICE COST PER MEMBER
For the years ended December 31 (Canadian $)



PLAN GOVERNANCE

Ontario Teachers' believes good governance is good business because it helps companies deliver long-term value. As a plan administrator, we measure ourselves against best practices for governance, internal controls, risk management and stewardship because this helps us deliver long-term value to members.

Since its inception, Ontario Teachers' has been overseen by independent, professional board members who are required to make decisions in the best interest of all beneficiaries of the plan. The plan sponsors, the Ontario government and OTF, each appoint five board members and they jointly select the chair. This governance structure plays a crucial role in the plan's success.

ROLE OF THE BOARD

The board oversees management of the pension fund and administration of the pension plan. Board members are professionals with financial and governance expertise and are typically drawn from the fields of accounting, actuarial science, banking, business, economics, education and investment management.

Day-to-day investment management and plan administration is delegated to the President and CEO and his team. No member of management is a board member.

Through six committees, board members review progress against management's stated objectives and confirm that management's strategies and decisions are in the best interests of all plan beneficiaries. The committees are Investment, Audit & Actuarial, Governance, Human Resources & Compensation, Operational Risk, and Benefits Adjudication. The Investment Committee includes all board members.

Board members approve strategic plans, budgets, risk appetite including asset-mix ranges, investment policies, benchmarks, performance, compensation planning and succession plans. They monitor enterprise and operational risks and ensure appropriate mitigation plans are in place. They review and approve the audited consolidated financial statements.

In addition, the board oversees annual investment objectives and reviews transactions above pre-set limits. The board and management are responsible for investment decisions; the plan sponsors are not involved in such decisions.

The board conducts regular preliminary funding valuations to assess the pension plan's long-term financial health. The results of the preliminary funding valuations are reported to the plan sponsors. The board works closely with the independent actuary in setting actuarial assumptions for these valuations, including the discount rate, with input from management and the plan sponsors. The Canadian Institute of Actuaries Standards of Practice require that each assumption is independently reasonable and that assumptions are appropriate in aggregate.

BOARD MEMBERS

The plan sponsors reappointed Jean Turmel as chair for a second two-year term, commencing January 1, 2017. Bill Chinery and John Murray were each reappointed as board members for two-year terms.

Board and committee meeting attendance was 100% in 2016. Please visit otpp.com for biographies of board members and committee mandates.

JEAN TURMEL
CHAIR
Appointed 2007;
Chair since 2015
Attendance 100%

President, Perseus Capital Inc.; Board member, Alimentation Couche-Tard Inc.; Former Chair, Montreal Derivatives Exchange; Former President, Financial Markets, Treasury and Investment Bank, National Bank of Canada

ROD ALBERT
Appointed 2010
Attendance 100%

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

Benefits Adjudication*, Human Resources & Compensation and Audit & Actuarial Committees

BILL CHINERY
FSA, FCIA
Appointed 2015
Attendance 100%

Former CEO, BlackRock Asset Management; Chair, Salvation Army Investment Committee; Chair, the Independent Review Committee for the Sun Life Investment Management Institutional Pooled Funds

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

PATTI CROFT
ICD.D
Appointed 2016
Attendance 100%

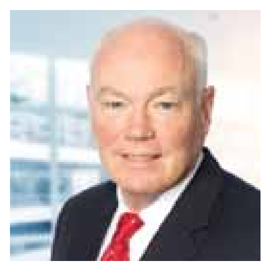
Former Chief Economist with RBC Global Asset Management; Phillips, Hager and North; Sceptre Investment Counsel; and TD Canada Trust. Vice-Chair, Ontario Pension Board. Past director, founding member, Women in Capital Markets, and past director, International Foundation for Employee Benefit Plans, Canadian Medical Association Holdings Inc. and the Boilermakers' National Pension Plan Canada.

Audit & Actuarial and Governance Committees

LISE FOURNEL
Appointed 2016
Attendance 100%

Senior Vice-President and Chief Information Officer at Air Canada; Member of the Technology Committee on the board of l'Université de Montréal; Former board member, l'Université de Montréal, Tourisme Montréal, CIREM and Musée Pointe-à-Callière

Operational Risk* and Audit & Actuarial Committees



STEVE N. McGIRR
Appointed 2015
Attendance 97%

Former Senior EVP and Chief Risk Officer of CIBC; Senior Advisor, Lazard Canada Inc.; Member, Queen's University Cabinet; Director and Investment Committee chair of Wellspring Cancer Support Network

Human Resources & Compensation, Operational Risk and Governance* Committees

JOHN MURRAY
Appointed 2014
Attendance 100%

Former Deputy Governor, Bank of Canada; Adjunct professor at Queen's University; Former assistant professor and visiting assistant professor, respectively, at the University of British Columbia and the University of North Carolina; Former lecturer, Princeton University

Audit & Actuarial and Governance Committees

KATHLEEN O'NEILL
FCPA, FCA, ICD.D
Appointed 2016
Attendance 100%

Board member, Finning International Inc., ARC Resources Ltd. and Invesco Canada; Former Executive Vice-President, Personal & Commercial Development, and Head of Small Business Banking at BMO Bank of Montreal; Past chair, St. Joseph's Health Centre Foundation and St. Joseph's Health Centre, Toronto

Audit & Actuarial and Operational Risk Committees

BARBARA PALK
CFA, FCSI, ICD.D
Appointed 2012
Attendance 100%

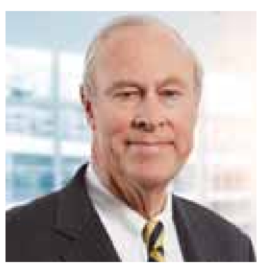
Board member, TD Asset Management USA Funds Inc.; Director, First National Financial; Member, board of trustees, Crombie REIT; Former Chair of the board of trustees at Queen's University; Former President, TD Asset Management Inc.; Former Governance Chair, Canadian Coalition for Good Governance

Investment*, Human Resources & Compensation and Operational Risk Committees

DAVID SMITH
FCPA, FCA, ICD.D
Appointed 2009
Attendance 100%

Chair, Government of Canada's Small Departments Audit Committee; Former Chair and Senior Partner, PricewaterhouseCoopers; Former President & CEO, Canadian Institute of Chartered Accountants; Former Chair, Government of Canada's Audit Committee

Audit & Actuarial* and Governance Committees



DANIEL SULLIVAN
Appointed 2010
Attendance 100%

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

Human Resources & Compensation, Operational Risk and Benefits Adjudication** Committees

* Committee Chair
** Committee Vice-Chair

2016 HIGHLIGHTS

In 2016, board governance and effectiveness were key areas of focus. Board members completed an in-depth review of each board committee's terms of reference, as well as a board effectiveness assessment.

Board members met 11 times in 2016 for board meetings and nine times for Investment Committee meetings. In addition, the Governance Committee met four times, the Human Resources & Compensation Committee met six times, the Audit & Actuarial Committee also met six times and the Benefits Adjudication Committee held two general meetings and one appeal hearing. The newly formed Operational Risk Committee met twice in 2016.

ENTERPRISE RISK MANAGEMENT (ERM)

Through its regular operations, Ontario Teachers' is exposed to a variety of risks that could negatively affect achievement of the plan's objectives.

The board provides oversight of management's efforts to manage and mitigate risk within the board-approved Enterprise Risk Appetite Statement.

A management Enterprise Risk Management Committee oversees investment and non-investment risks faced by the plan. The committee is chaired by the CEO 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.

The executive team is responsible for establishing and implementing risk policies, including the continued identification, assessment, control and mitigation, and monitoring of investment, operational, governance, strategic and reputational risks. Management's governance committees ensure that Ontario Teachers' oversees, on a continuous basis, the top risks that could impact the plan's ability to achieve objectives.

Three risk committees were established in 2016 to further enhance management's risk oversight capabilities. They are summarized below.

- A CEO-led Member Services Risk Committee – Member Services provides oversight and assurance that the Member Services Division is aligned with the board's Enterprise Risk Appetite Statement, the organization's Mission, Vision and Values, and the Member Services strategy. Management can escalate issues regarding the governance and management of the Member Services Division to this committee for resolution, as required. The committee's purpose is to share information, ensure internal coordination, provide advice and make decisions.
- A CEO-led Investment Risk Committee – Investments is responsible for the effective risk oversight and management of governance, strategic, business, operational and reputational risk related to the investment program. Management can escalate issues regarding the governance and management of the Investment Division to this committee for resolution, as required.
- An Operations Committee steers priorities and strategies to manage the operations and operational risk of Ontario Teachers'. The committee, led by the Chief Operating Officer, has a mandate to review, monitor and make decisions with respect to data, operational risk, system architecture, and operational processes and strategies.

Risk management is integrated into the enterprise planning process so that risk management activities and resources are allocated appropriately to support effective risk mitigation.

Ontario Teachers' five enterprise risk categories and risk management activities are as follows:

Investment risk: risks associated with effective management of the plan's assets, including market, credit and liquidity risks. Committees that provide oversight and effective management of these risks include the Investment Committee, the Investment Division Counterparty Credit Committee, the Emerging Markets Information Committee, the Investment Division Liquidity Committee, and department committees. They oversee risks associated with efficacy of the total-fund portfolio, extreme market events, liability growth and liquidity. See note 2e to the financial statements for more details about investment risk management policies and processes.

Operational risk: risks of direct or indirect loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operational risks include trade life cycle capture and management, the ability to deliver large, cross-divisional programs and projects, and information technology and information security capabilities.

Governance risk: risks associated with the structure and functioning of Ontario Teachers'. The executive team and risk committees in the Investment and Member Services divisions oversee these risks, which include the capacity to absorb rapid organizational change and ensuring the appropriate governance structure is in place to address plan design.

Strategic risk: risks associated with the long-term strategic direction of Ontario Teachers'. The executive team oversees these risks, which include the plan's brand and position in the global marketplace, talent management and succession planning.

Reputational risk: risks associated with a change in perception of Ontario Teachers' or its public image. The executive team and all Investment, Member Services and Operational committees oversee such risks.

LEGISLATIVE UPDATE

Regulatory oversight

The Ontario government passed framework legislation in 2016 to establish a new financial services and pension regulator, the Financial Services Regulatory Authority (FSRA). The new entity is intended to have regulatory authority across multiple financial sectors and to modernize some current regulators, including the Financial Services Commission of Ontario, which regulates Ontario Teachers' and other pension plans.

The legislation establishing FSRA has not yet been proclaimed in force and related regulations have not been released, so the impact of this change on Ontario Teachers' is not yet known. Further details and more clarity on the impact are expected when the Ontario government releases its implementation plan and introduces further legislation and regulation.

Compliance and advocacy

Ontario Teachers' must comply with federal and provincial legislation and investment regulations that govern registered pension plans in Ontario. It also has to comply with various rules and regulations in countries where it invests.

We interact with regulatory and government officials on a variety of investment and pension administrative matters, advocating for clear and consistent rules and sharing our expertise on public policy issues that are relevant to our mission of providing outstanding service and retirement security for plan members. We also work with the plan sponsors to implement amendments to the plan.

Plan changes

The pension plan was amended in 2016 to:

- provide that the 50-day re-employment limit resets in September every year for all members, not just those who work from September to June;
- permit the removal of the actuarial reduction required to provide a survivor pension greater than 50% for members who are in a marital breakdown situation after retirement, where the spouse waives the right to the survivor pension;
- remove the medical review requirement for an increased spousal survivor pension, meaning that any member may elect a survivor pension higher than 60% at retirement without having to pass a medical exam.

Teachers' Pension Act (TPA) changes

Effective April 19, 2016, the TPA was amended to clarify that the pension plan's re-employment rules prevail over the *Pension Benefits Act* to the extent of any conflict.

COMPENSATION DISCUSSION & ANALYSIS*

The Compensation Discussion & Analysis explains Ontario Teachers' approach to compensation, the various elements of our pay programs and the remuneration paid to our named executive officers. In fiscal 2016, our named executives were:

Ron Mock, President and CEO;

David McGraw, Senior Vice-President (SVP) and CFO;

Bjarne Graven Larsen, Executive Vice-President and CIO;

Jane Rowe, SVP, Private Capital;

Barbara Zvan, SVP, Strategy & Risk, and Chief Investment Risk Officer(CIRO).

Our compensation framework

Compensation philosophy and objectives

Ontario Teachers' compensation framework has been developed on a foundation of pay-for-performance. Our compensation programs consist of base salary, annual incentive, and long-term incentive and are structured to ensure that there is direct alignment between 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.

Benchmarking process

Given the varied employment opportunities at Ontario 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, including Canadian pension funds, banks, insurance companies, and investment managers. For certain positions in international markets, we also compare to the investment management organizations in the U.S., the U.K. and Hong Kong. We target our total direct compensation at the median of our peers for target performance and at the top quartile of our peers for exceptional performance.

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. Actual investment performance at the total-fund and departmental levels (measured in dollars of value added after expenses) is compared against the expected performance goals. 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 annual and long-term incentives 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;
- clawback provisions stating that employees committing willful acts of dishonesty, fraud or theft shall be required to pay back amounts paid to the participant under the terms of the incentive plans.

* The Compensation Discussion & Analysis section reflects titles in use during 2016.

Independent advisors

In 2016, Ontario Teachers' engaged Willis Towers Watson to assist with a review and redesign of the compensation program for the organization. The new compensation program, which takes effect January 2017, will continue to reinforce our pay-for-performance philosophy and support our business strategy.

Additionally, the board members retained the services of Mercer, a global human resources consulting firm, to review board members' compensation.

Elements of our compensation program – Overview

Our compensation program comprises base salary, annual incentives, and long-term incentive for non-union employees.

Base salary

Base salaries compensate employees for fulfilling their day-to-day responsibilities and are reviewed annually. Each employee at Ontario 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.

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. The table below illustrates our 2016 AIP and highlights those components used to measure our named executive officers' performance.

PERFORMANCE MEASURES

	Teachers' Performance	+	Division Performance	+	Four-Year Total-Fund Performance	+	Four-Year Investment Department Performance	+	Individual Performance	=	AIP Payout
President & CEO	✓				✓				✓		AIP payout ranges from 0 to 2x target award
SVP & CFO	✓		✓						✓		
EVP, Investments	✓		✓		✓				✓		
SVP, Investments	✓		✓		✓		✓		✓		

Weightings for each element vary for Investment, Corporate and Member Services employees.

Deferred Incentive Plan (DIP)

Employees can generally 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)

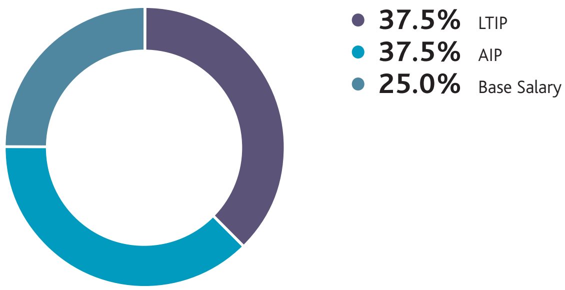
Our LTIP is designed to reward participating employees for delivering total-fund net value added (returns above benchmark after investment administrative expenses) and positive actual returns, net of costs, over the long term. Each year, a small percentage of the year's total-fund net value added will fund an LTIP pool, which is allocated to participating employees' notional accounts. In years when total-fund net value added is negative, participating employees will not share in any gains until further cumulative positive performance, net of expenses, mitigates the loss. Individual LTIP accounts are adjusted annually based on the total-fund actual rate of return. Each April, 25% of individual account balances are paid to active employees.

LTIP eligible employees include Investment employees at the assistant portfolio manager level and above; and Corporate and Member Services employees at the director level and above.

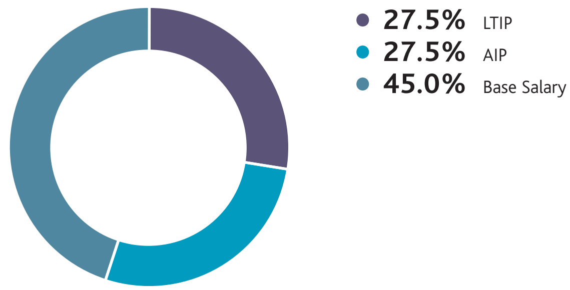
Pay mix

The mix of fixed and variable pay varies by role and level, with higher variable pay for more senior leaders. 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 Ontario Teachers', divisional, and investment performance and the named executive officers' individual performance.

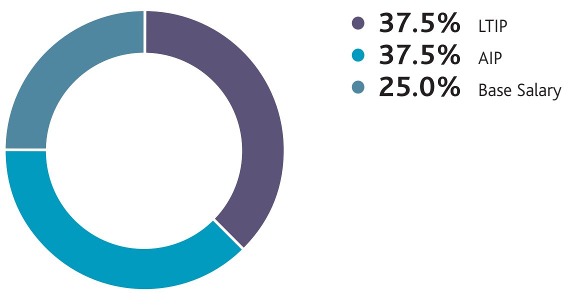
PRESIDENT AND CEO



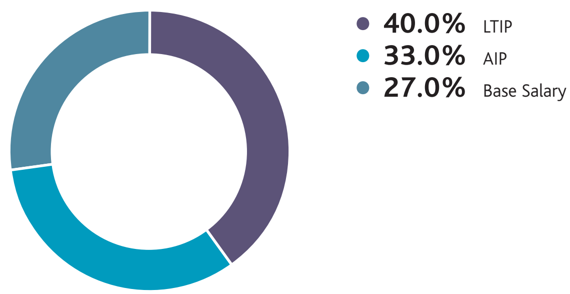
SVP AND CFO



EVP, INVESTMENTS



SVP, INVESTMENTS



Retirement benefits

Ontario Teachers' employees participate in the Public Service Pension Plan (PSPP) and Public Service Supplementary Plan (PSSP), or the OPSEU Pension Plan, all of which are defined benefit plans.

Employees with pensionable earnings in excess of *Income Tax Act* (ITA) regulations also participate in a non-registered, unfunded Supplemental Employee Retirement Plan (SERP). For roles at the vice-president level or above, a portion of their annual incentive may be included as pensionable earnings.

Benefits and other compensation

Ontario 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.

Executive employment contracts

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

Compensation decisions made in 2017 reflecting 2016

How decisions are made

Annually, board members and the CEO agree on the key financial and non-financial objectives comprising the CEO's individual performance measures. At the end of the year, board members evaluate the CEO's performance relative to the annual objectives and responsibilities and assign an overall performance rating. The CEO's individual performance rating, Ontario Teachers' performance and total-fund performance are all considered when the board determines the CEO's total direct compensation.

Similar to the CEO, senior officers establish individual performance goals annually, and at year end they are evaluated relative to these goals. The outcome of individual goals and other performance measures as previously noted informs the total direct compensation recommendations for senior officers which are presented to board members for their approval.

2016 performance results

Ontario Teachers' performance

To ensure we stay focused on our mission to provide outstanding service and retirement security to our members today and tomorrow, we prepare an enterprise scorecard comprising financial and non-financial goals and measures for four categories. The scorecard ensures a balanced view of key areas that will drive employees to achieve our short-, medium-, and long-term goals. Below is a description of the four categories:

RETIREMENT SECURITY	MEMBERS AND STAKEHOLDERS	OPERATIONS	PEOPLE
Includes rate of return and net value added	Includes plan governance, member satisfaction and service quality	Includes cost, efficiency and risk measures	Includes initiatives to attract, develop and retain the best talent

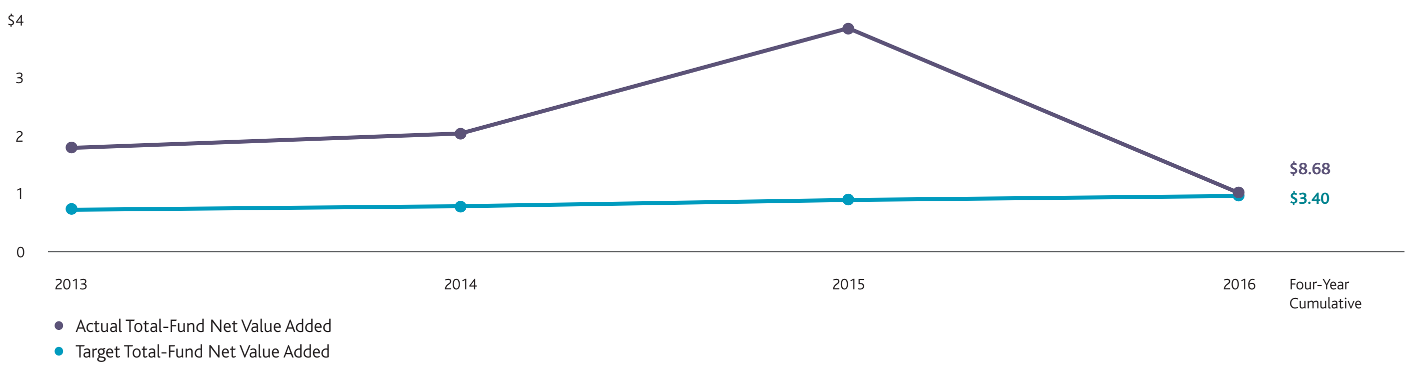
At the end of the year, the scorecard is evaluated and the results are presented to board members for their approval. In 2016, employees delivered above-target performance with a multiplier of 1.63 out of 2.0.

Total-fund performance

The graph below summarizes, at the total-fund level, the net value added performance for 2013 through to 2016 relative to the return on risk targets less cost allowance. Over the four-year cumulative period, staff outperformed target total-fund net value added by $5.3 billion, resulting in the maximum performance multiplier of 2.0x target.

FOUR-YEAR TOTAL-FUND INVESTMENT PERFORMANCE

(Canadian $ billions)



Four-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 four-year risk allocation for each of the respective investment departments listed below:

Year	Public Equities	Private Capital	Infrastructure & Natural Resources	Capital Markets
2013 to 2016	Below target	Above target	Exceptional	Exceptional

Executive compensation

The compensation table represents disclosure of base salary, annual incentive, long-term incentive and other compensation earned in 2014, 2015 and 2016 by the CEO, the CFO and the three other most highly compensated executive officers, 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
Ron Mock President and CEO	2016	$514,615	$1,364,200	$1,287,000	$2,208,000	$1,159	$771,600	$3,165,815	$4,087,974
	2015	500,000	1,425,000	3,000,000	2,412,600	1,160		4,925,000	4,338,760
	2014	498,654	1,321,500	1,800,000	1,961,700	1,185		3,620,154	3,783,039
David McGraw SVP and CFO	2016	367,615	374,200	345,000	654,800	828	210,600	1,086,815	1,397,443
	2015	360,769	383,700	670,000	727,200	6,300		1,414,469	1,477,969
	2014	344,231	345,700	475,000	660,500	2,106		1,164,931	1,352,537
Bjarne Graven Larsen EVP and CIO	2016	384,135	1,036,300	1,050,000	497,000	1,236,293	174,300	2,470,435	3,153,728
Jane Rowe SVP, Private Capital	2016	342,769	793,900	490,400	1,456,900	772	222,700	1,627,069	2,594,341
	2015	334,000	842,800	2,600,000	1,706,700	775		3,776,800	2,884,275
	2014	332,154	809,100	1,450,000	1,246,900	799		2,591,254	2,388,953
Barbara Zvan SVP, Strategy & Risk, and CIRO	2016	299,369	717,900	500,000	1,391,600	674	322,300	1,517,269	2,409,543
	2015	290,600	723,200	1,800,000	1,620,000	674		2,813,800	2,634,474
	2014	288,062	703,100	800,000	1,380,600	685		1,791,162	2,372,447

[1] Other compensation includes one or more of the following: group term life insurance, accidental death & dismemberment, and unused vacation cashout. Bjarne Graven Larsen joined Ontario Teachers' on February 1, 2016, and received a bonus of $1.2 million and a one-time relocation allowance.

[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.

Notional account balances

The table below outlines the notional account balances for each named executive.

Notional Account Activity

Name and Principal Position	Opening Balance	2016 Rate of Return	January 1, 2017 Allocation	2017 Payment	Balance
Ron Mock President and CEO	$7,237,730	4.24%	$1,287,000	$2,208,000	$6,623,805
David McGraw SVP and CFO	2,181,789	4.24%	345,000	654,800	1,964,556
Bjarne Graven Larsen EVP and CIO	900,000	4.24%	1,050,000	497,000	1,491,184
Jane Rowe SVP, Private Capital	5,120,155	4.24%	490,400	1,456,900	4,370,888
Barbara Zvan SVP, Strategy & Risk, and CIRO	4,860,052	4.24%	500,000	1,391,600	4,174,650

Retirement benefits

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 CEO, the CFO and the three other most highly compensated executive officers, 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 January 1, 2016	2016 Compensatory Annual Change in Pension Value	2016 Non-Compensatory[1] Annual Change in Pension Value	Present Value of Total Pension December 31, 2016
Ron Mock President and CEO	17	$387,800	$5,174,700	$498,400	$273,200	$5,946,300
David McGraw SVP and CFO	17	170,200	1,594,900	139,800	70,800	1,805,500
Bjarne Graven Larsen EVP and CIO	13	224,500	–	174,300	–	174,300
Jane Rowe SVP, Private Capital	13	182,000	915,900	177,600	45,100	1,138,600
Barbara Zvan SVP, Strategy & Risk, and CIRO	39	688,300	2,946,500	163,800	158,500	3,268,800

[1] The 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

The Governance Committee of the board is responsible for making recommendations with respect to board and committee member remuneration.

In 2016, board members retained the services of Mercer, an independent compensation consultant, to conduct an assessment of board member remuneration.

Each board member receives an annual retainer of $70,000. The Chair of the Board receives an annual retainer of $170,000. 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 receive an additional $5,000 retainer.

Board members are reimbursed for normal expenses for travel, meals and accommodation, as required. For 2016, these expenses totalled $86,244.

Board Member		Board Meetings	Committee Meetings	2016 Total Remuneration
Jean Turmel	Chair of the Board	11	25	$170,000
Rod Albert	Chair, Benefits Adjudication Committee	11	24	90,000
Bill Chinery	Chair, Human Resources & Compensation Committee, and IT Lead Director	11	25	93,750
Patti Croft		11	19	75,000
Lise Fournel	Chair, Operational Risk Committee	11	15	90,000
Steve N. McGirr	Chair, Governance Committee	11	18	90,000
John Murray		11	19	70,000
Kathleen O'Neill		11	15	75,000
Barbara Palk	Chair, Investment Committee	11	15	85,000
David Smith	Chair, Audit & Actuarial Committee	11	19	85,000
Daniel Sullivan		11	18	90,000

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 consolidated 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 & 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 actuarial 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, actuarial and 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 statements is based on market rates, as at the valuation date, of bonds issued by the Province of Ontario, which have characteristics similar to the Plan's liabilities. The discount rate is determined by using a cash flow-based estimation methodology which applies a weighted average discount rate that reflects the estimated timing and amount of benefit payments. The discount rate used is 3.25% (3.25% in 2015). Further details on the methods and assumptions used can be found in note 4 of the plan's consolidated financial statements.

FINANCIAL POSITION AS AT DECEMBER 31, 2016

The plan ended 2016 with a financial statement deficit of $13.8 billion, up from the deficit of $1.8 billion at the end of 2015. The deficit represents the difference between net assets available for benefits of $175.6 billion and accrued pension benefits of $189.4 billion at year end.

YEAR-END FINANCIAL POSITION

(as at December 31) (Canadian $ billions)		2016		2015
Net assets available for benefits	$	**175.6**	$	171.4
Accrued pension benefits		**189.4**		173.2
Deficit	$	**(13.8)**	$	(1.8)

During 2016, net assets available for benefits increased by $4.2 billion. Net investment income of $7.0 billion and contributions of $3.4 billion increased net assets available for benefits, while benefits paid of $5.7 billion and administrative expenses of $0.5 billion decreased the net assets available. Net investment income was due to moderate gains across all asset classes (investment returns are discussed in the Investments section of the MD&A).

NET ASSETS AVAILABLE FOR BENEFITS

(as at December 31) (Canadian $ billions)		2016		2015
Net assets available for benefits, beginning of year	$	**171.4**	$	154.5
Investment income		**7.0**		19.6
Contributions		**3.4**		3.3
Benefits paid		**(5.7)**		(5.5)
Administrative expenses		**(0.5)**		(0.5)
Increase in net assets available for benefits		**4.2**		16.9
Net assets available for benefits, end of year	$	**175.6**	$	171.4

Accrued pension benefits increased by $16.2 billion during the year to $189.4 billion. Changes in actuarial assumptions increased the accrued pension benefits amount by $9.4 billion. Benefits paid during 2016 of $5.7 billion include the addition of 4,800 retirement and disability pensions and 1,000 survivor pensions during 2016, as well as a 1.3% cost-of-living increase.

ACCRUED PENSION BENEFITS

(as at December 31) (Canadian $ billions)		2016		2015
Accrued pension benefits, beginning of year	$	**173.2**	$	172.7
Interest on accrued pension benefits		**5.7**		5.8
Benefits accrued		**5.3**		5.2
Benefits paid		**(5.7)**		(5.5)
Changes in actuarial assumptions		**9.4**		(3.6)
Changes in level of conditional indexing		**1.7**		0.7
Experience gains		**(0.2)**		(2.1)
Increase in accrued pension benefits		**16.2**		0.5
Accrued pension benefits, end of year	$	**189.4**	$	173.2

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, 2016 (Canadian $ millions)	Level 1	Level 2	Level 3	**Total**
Fixed income	$ 83,706	$ 12,051	$ 14,238	**$ 109,995**
Equity	27,785	248	29,361	**57,394**
Natural resources	–	–	6,273	**6,273**
Real assets	3,271	295	45,183	**48,749**
Investment-related receivables	2,146	30,922	237	**33,305**
Investment-related liabilities	(21,343)	(60,284)	(2,007)	**(83,634)**
Net investments	$ 95,565	$ (16,768)	$ 93,285	**$ 172,082**

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 Chief Financial Officer 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, 2016, that they are effective.

We have also designed internal control over financial reporting, using the Integrated Framework issued in 2013 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. We have evaluated the effectiveness of the plan's internal control over financial reporting and concluded they are effective as at year end.

Protecting audit quality and integrity

A key oversight activity of audit committees is annually assessing the effectiveness of the external auditor. This helps audit committees meet their responsibility to make informed recommendations to the board on whether or not to reappoint the external auditor. Ontario Teachers' has conducted assessments annually. Ontario Teachers' Audit & Actuarial Committee recommended, and the board approved, the reappointment of the external auditor for 2016.

Ontario 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 disclose the total amount paid for such services. In 2016, fees paid to Deloitte Touche Tohmatsu Limited (of which the Canadian firm is the plan's auditor) totalled $11.1 million ($11.8 million in 2015), of which $10.4 million was for audit activities and $715,000 was for non-audit services. Of the $715,000 paid for non-audit services, approximately $335,000 related to the plan, $370,000 related to subsidiaries audited by Deloitte and the balance of $10,000 was for subsidiaries not audited by Deloitte. Of the $370,000 paid by the subsidiaries audited by Deloitte, $115,000 was paid to Deloitte (Canada) and $255,000 was paid to Deloitte firms outside of Canada, which are 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 seven 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.

Ron Mock
President and Chief Executive Officer
March 2, 2017

David McGraw
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, 2016, 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 financial statements in accordance with Canadian accounting standards for pension plans and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

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

Deloitte LLP.

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Ontario
March 2, 2017

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, 2016, 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, 2016;
- 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 2016;
- 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, where applicable, on wage rate changes.

The objective of the consolidated financial statements is to fairly present the financial position of the Plan on December 31, 2016, 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 2016, 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 at that time.

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

Scott Clausen, F.C.I.A., F.S.A.
March 2, 2017

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31 (Canadian $ millions)		2016		2015
Net assets available for benefits				
ASSETS				
Cash	$	241	$	340
Receivable from the Province of Ontario (note 3)		3,273		3,208
Receivable from brokers		907		39
Investments (note 2)		255,716		262,912
Premises and equipment		57		64
		260,194		266,563
LIABILITIES				
Accounts payable and accrued liabilities		382		377
Due to brokers		608		80
Investment-related liabilities (note 2)		83,634		94,666
		84,624		95,123
Net assets available for benefits	$	175,570	$	171,440
Accrued pension benefits and deficit				
Accrued pension benefits (note 4)	$	189,397	$	173,266
Deficit		(13,827)		(1,826)
Accrued pension benefits and deficit	$	175,570	$	171,440

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)	2016	2015
Net assets available for benefits, beginning of year	$ 171,440	$ 154,476
Investment operations		
Net investment income (note 6)	6,998	19,672
Administrative expenses (note 11a)	(451)	(429)
Net investment operations	6,547	19,243
Member service operations		
Contributions (note 9)	3,363	3,310
Benefits paid (note 10)	(5,725)	(5,537)
Administrative expenses (note 11b)	(55)	(52)
Net member service operations	(2,417)	(2,279)
Increase in net assets available for benefits	4,130	16,964
Net assets available for benefits, end of year	$ 175,570	$ 171,440

CONSOLIDATED STATEMENTS OF CHANGES IN ACCRUED PENSION BENEFITS

For the year ended December 31 (Canadian $ millions)		2016		2015
Accrued pension benefits, beginning of year	$	173,266	$	172,725
Increase in accrued pension benefits				
Interest on accrued pension benefits		5,679		5,804
Benefits accrued		5,303		5,246
Changes in actuarial assumptions and methods (note 4a)		9,394		–
Changes in level of conditional indexing (note 4b)		1,674		675
		22,050		11,725
Decrease in accrued pension benefits				
Benefits paid (note 10)		5,725		5,537
Changes in actuarial assumptions and methods (note 4a)		–		3,538
Experience gains (note 4c)		194		2,109
		5,919		11,184
Net increase in accrued pension benefits		16,131		541
Accrued pension benefits, end of year	$	189,397	$	173,266

CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIT

For the year ended December 31 (Canadian $ millions)		2016		2015
Deficit, beginning of year	$	(1,826)	$	(18,249)
Increase in net assets available for benefits		4,130		16,964
Net increase in accrued pension benefits		(16,131)		(541)
Deficit, end of year	$	(13,827)	$	(1,826)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

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 $156,299 (CPP-exempt members $144,500) in 2016 and $152,447 (CPP-exempt members $140,945) in 2015; 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. The Plan consolidates CFCL, Ontario Teachers' Finance Trust (OTFT), a special purpose entity created to support the Plan's financing activities, and 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, 2016 were authorized for issue through a resolution of the Board on March 2, 2017.

(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 new standard will come into effect January 1, 2018, with early application permitted.

Management does not expect any significant impact on either the Plan's financial position or its 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 be 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 and commercial paper 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. Properties with a value of over $250 million will be valued independently every year.

   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 through the calculation of a credit valuation adjustment.
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.

Net 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. Net 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 when directly invoiced or information is otherwise available from capital notices or other manager communications. Fees related to other externally managed investments are offset against investment income.

(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 $527 million (2015 – $625 million), before allocating the effect of derivative contracts:

As at December 31		2016		2015
(Canadian $ millions)	Fair Value	Cost	Fair Value	Cost
Fixed income				
Bonds	$ 52,355	$ 51,050	$ 53,776	$ 49,376
Short-term investments	9,521	9,504	8,919	8,860
Alternative investments[2]	11,727	8,862	13,014	9,110
Canadian real-rate products	20,381	14,993	20,694	15,346
Non-Canadian real-rate products	16,011	12,866	17,061	13,934
	109,995	97,275	113,464	96,626
Equity				
Publicly traded				
Canadian	2,075	2,053	2,048	2,551
Non-Canadian	27,423	22,081	33,317	25,840
Non-publicly traded				
Canadian	2,786	2,480	2,533	2,505
Non-Canadian	25,110	19,704	26,555	19,249
	57,394	46,318	64,453	50,145
Natural resources				
Timberland	2,442	1,356	2,705	1,437
Sector investment[3]	3,831	3,802	3,547	3,745
	6,273	5,158	6,252	5,182
Real assets				
Real estate (note 5)	30,923	19,064	29,441	18,034
Infrastructure	17,826	13,832	15,193	10,694
	48,749	32,896	44,634	28,728
	222,411	181,647	228,803	180,681
Investment-related receivables				
Securities purchased under agreements to resell	27,910	27,621	29,465	28,419
Cash collateral deposited under securities borrowing arrangements	1,967	1,967	2,111	2,111
Cash collateral paid under credit support annexes	121	121	108	108
Derivative-related, net	3,307	1,761	2,425	486
	33,305	31,470	34,109	31,124
Investments	$ 255,716	$ 213,117	$ 262,912	$ 211,805

[1] For additional details, refer to the Major Investments on page 80.

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

[3] Sector investment includes oil, gas, and agricultural assets.

As at December 31	2016		2015	
(Canadian $ millions)	Fair Value	Cost	Fair Value	Cost
Investment-related liabilities				
Securities sold under agreements to repurchase	$ (47,422)	$ (47,1 31)	$ (60,768)	$ (59,665)
Securities sold but not yet purchased				
Fixed income	(19,108)	(17,656)	(20,509)	(16,632)
Equities	(1,947)	(1,752)	(2,125)	(1,988)
Real estate (note 5)	(3,196)	(2,876)	(4,581)	(4,178)
Commercial Paper	(9,120)	(8,9 35)	(3,058)	(2,985)
Cash collateral received under credit support annexes	(163)	(163)	(154)	(154)
Derivative-related, net	(2,678)	(845)	(3,471)	(724)
	(83,634)	(79, 358)	(94,666)	(86, 326)
Net investments (note 2d)	$ 172,082	$ 133,759	$ 168,246	$ 125,479

(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, 2016
(Canadian $ millions)	Level 1	Level 2	Level 3	Total
Fixed income	$ 83,706	$ 12,051	$ 14,238	$ 109,995
Equity	27,785	248	29,361	57,394
Natural resources	—	—	6,273	6,273
Real assets	3,271	295	45,183	48,749
Investment-related receivables	2,146	30,922	237	33,305
Investment-related liabilities	(21,343)	(60,284)	(2,007)	(83,634)
Net investments	$ 95,565	$ (16,768)	$ 93,285	$ 172,082

				December 31, 2015
(Canadian $ millions)	Level 1	Level 2	Level 3	Total
Fixed income	$ 88,106	$ 9, 327	$ 16,0 31	$ 11 3,464
Equity	33,141	716	30,596	64,45 3
Natural resources	—	—	6,252	6,252
Real assets	3,257	168	41,209	44,6 34
Investment-related receivables	2,289	31,62 3	197	34,109
Investment-related liabilities	(22,910)	(69,661)	(2,095)	(94,666)
Net investments	$ 10 3,88 3	$ (27,827)	$ 92,190	$ 168,246

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.

2016

(Canadian $ millions)	Fixed Income	Equity	Natural Resources	Real Assets	Investment-Related Receivables	Investment-Related Liabilities	Total
Balance, beginning of year	$ 16,031	$ 30,596	$ 6,252	$ 41,209	$ 197	$ (2,095)	$ 92,190
Purchases	5,228	7,294	289	7,714	6,489	6,851	33,865
Sales	(6,937)	(9,188)	(375)	(4,008)	(6,485)	(6,863)	(33,856)
Transfers in[4]	206	—	—	—	12	(77)	141
Transfers out[4]	—	—	—	—	(24)	131	107
Gains/(losses) included in investment income							
Realized	1,118	2,231	71	507	49	32	4,008
Unrealized	(1,408)	(1,572)	36	(239)	(1)	14	(3,170)
Balance, end of year	$ 14,238	$ 29,361	$ 6,273	$ 45,183	$ 237	$ (2,007)	$ 93,285

2015

(Canadian $ millions)	Fixed Income	Equity	Natural Resources	Real Assets	Investment-Related Receivables	Investment-Related Liabilities	Total
Balance, beginning of year	$ 13,816	$ 22,354	$ 2,867	$ 36,433	$ 501	$ (2,433)	$ 73,538
Purchases	4,279	8,320	4,038	4,842	2,128	2,687	26,294
Sales	(4,201)	(6,104)	(1,176)	(4,140)	(2,576)	(2,257)	(20,454)
Transfers in[4]	—	—	—	—	(4)	—	(4)
Transfers out[4]	—	—	—	—	(1)	26	25
Gains/(losses) included in investment income							
Realized	569	2,722	311	380	176	(135)	4,023
Unrealized	1,568	3,304	212	3,694	(27)	17	8,768
Balance, end of year	$ 16,031	$ 30,596	$ 6,252	$ 41,209	$ 197	$ (2,095)	$ 92,190

[4] 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 in 2016 of $330 million (2015 - nil) are due to the change in the applicability of non-observable inputs. See note 1c Fair Value Hierarchy.

(c) Derivative contracts

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

Notional amounts of derivative contracts represent the contractual amount to which a rate or price is applied for computing the cash to be paid or received. Notional amounts are the basis upon which the returns from, and the fair value of, the contracts are determined. They do not necessarily indicate the amounts of future cash flow involved or the current fair value of the derivative contracts and, therefore, do not indicate the Plan's exposure to credit or market risks. The derivative contracts become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in either market rates or prices relative to their terms. The aggregate notional amounts and fair values of derivative contracts can fluctuate significantly.

Derivative contracts, transacted either in the OTC market or on regulated exchanges, include:

Swaps

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

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

Interest rate swaps are agreements where two counterparties exchange a series of payments based on different interest rates applied to a notional amount. Certain interest rate swaps traded with U.S. counterparties in the OTC market are 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. Certain credit default swaps traded with U.S. counterparties in the OTC market are 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 OTC contracts 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:

		2016		2015	
(Canadian $ millions)		Notional	Fair Value	Notional	Fair Value
Equity and commodity derivatives					
Swaps		$ 21,454	$ 402	$ 32,893	$ (666)
Futures		5,572	14	3,581	11
Options: Listed	– purchased	350	21	190	3
	– written	669	(28)	145	(7)
OTC	– purchased	14,114	730	1,125	83
	– written	3,125	(195)	1,464	(69)
		45,284	944	39,398	(645)
Interest rate derivatives					
Swaps		90,105	29	93,721	(42)
Futures		103,444	(10)	218,564	–
Options: Listed	– purchased	11,318	5	20,550	8
	– written	10,673	(6)	9,730	(9)
OTC	– purchased	30,398	115	13,942	39
	– written	42,699	(110)	28,302	(40)
		288,637	23	384,809	(44)
Currency derivatives					
Swaps		11,215	(70)	6,653	(162)
Forwards[5]		70,956	(119)	55,688	(66)
Options: OTC	– purchased	8,299	121	6,277	104
	– written	7,839	(111)	6,086	(94)
		98,309	(179)	74,704	(218)
Credit derivatives					
Credit default	– purchased	16,099	(286)	15,158	(47)
	– written	19,793	140	13,389	(78)
		35,892	(146)	28,547	(125)
Other derivatives					
Statistic swaps		5,061	(19)	5,304	(59)
Dividend swaps		254	(21)	199	(3)
		5,315	(40)	5,503	(62)
		473,437	602	532,961	(1,094)
Net cash collateral paid under derivative contracts		–	27	–	48
Notional and net fair value of derivative contracts		$ 473,437	$ 629	$ 532,961	$ (1,046)

[5] 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)	2016	2015
Derivative-related receivables	$ 2,678	$ 2,388
Cash collateral paid under derivative contracts	31	52
Derivative-related liabilities	(2,076)	(3,482)
Cash collateral received under derivative contracts	(4)	(4)
	$ 629	$ (1,046)

(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:

	2016		2 015	
	Effective Net Investments at Fair Value ($ millions)	Asset Mix %	Effective Net Investments at Fair Value ($ millions)	Asset Mix %
Equity				
Canadian	$ 4,275	2 %	$ 3,538	2%
Non-Canadian	61,679	36	74, 003	44
	65,954	38	77,541	46
Fixed income				
Bonds	43,529	25	37,974	23
Real-rate products	31,725	19	31,131	18
	75,254	44	69,1 05	41
Natural resources				
Commodities	4,184	3	3,996	2
Timberland	2,442	1	2,7 05	2
Sector investment[6]	3,831	2	3,547	2
	10,457	6	1 0,248	6
Real assets				
Real estate	26,470	16	24,86 0	15
Infrastructure	17,826	10	15,661	9
	44,296	26	4 0,521	24
Absolute return strategies				
Internal absolute return strategies	4,864	3	8,291	5
Alternative investments	8,414	5	9,468	6
	13,278	8	17,759	11
Overlay[7]	512	—	—	—
Money market	(37,669)	(22)	(46,928)	(28)
Net investments	$ 172, 082	100 %	$ 168,246	1 00%

[6] Sector investment includes oil, gas, and agricultural assets.

[7] Overlay includes strategies to overweight or underweight certain index and foreign currency positions.

(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 June 16, 2016. 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	37 %	42 %	47 %
Fixed income	37 %	50 %	58 %
Natural resources	3 %	6 %	11 %
Real assets	20 %	25 %	30 %
Money market[8]	(26)%	(23)%	(15)%
		100 %	

[8] 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 Capital Markets 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 Committee Total Fund (IC–TF) 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 IC–TF 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. 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 predetermined events occur. The Plan also negotiates collateral agreements known as credit support annexes (CSAs) 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 collateral pledged and received.

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, securities borrowing 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 net 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:

					2016
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)	$ 41,168	$ 32,697	$ –	$ –	$ –
AA/R-1 (mid)	2,502	–	5,990	–	83
A/R-1 (low)	9,376	3,482	21,006	–	891
BBB/R-2	5,259	–	–	–	–
Below BBB/R-2	2,123	–	–	–	–
Unrated[9]	1,448	213	914	12,243	–
	$ 61,876	$ 36,392	$ 27,910	$ 12,243	$ 974

					2015
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)	$ 41,555	$ 33,533	$ –	$ –	$ –
AA/R-1 (mid)	1,872	101	913	–	69
A/R-1 (low)	10,542	3,879	26,570	–	94
BBB/R-2	3,096	12	–	–	5
Below BBB/R-2	2,813	–	–	–	–
Unrated[9]	2,817	230	1,982	9,818	–
	$ 62,695	$ 37,755	$ 29,465	$ 9,818	$ 168

[9] 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, 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)		2016		2015
Guarantees	$	314	$	574
Loan commitments		133		385
Notional amount of written credit derivatives		19,793		13,389
Total off balance sheet credit risk exposure	$	20,240	$	14,348

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, 2016, 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 $51.0 billion (2015 – $47.0 billion), U.S. Treasury issued securities of $0.2 billion (2015 – $5.9 billion), Province of Ontario bonds of $5.0 billion (2015 – $5.4 billion), receivable from the Province of Ontario (see note 3) of $3.3 billion (2015 – $3.2 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 approximate to 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. When sufficient historical data is not available, proxies and statistical methods are used to complete the data series.

Changes to risk measurement

During 2016 we transitioned to a new system to calculate Total Asset Risk. The new system uses the most recent 10 years of market data, compared to the previous system which used 29 years of history. The reduced historical period means a higher proportion of actual market data is used to calculate Total Asset Risk, with use of fewer proxies and statistical methods.

As of year end 2015, Total Asset Risk was measured at $29.0 billion in the previous system, compared to $41.5 billion in the new system. The difference between these measurements is due to changes between the two systems resulting from refinement of our risk measurement methodology.

The shortened historical window contributes over half of the increase in measured Total Asset Risk. This is due to two reasons. The first is that the market events of 2007-2009 comprise a larger proportion of the historical market data used. As a consequence, certain assets which are most affected by such market events, such as equities, corporate bonds, credit derivatives, hedge funds and commodities have a higher measured risk. The second is that low interest rates have been more prevalent over the past 10 years, increasing the measured risk related to the fund experiencing very low interest rates.

Most of the remaining increase in Total Asset Risk is due to changes in modeling assumptions. For example, for many of our private equity holdings we have introduced a leverage adjustment to reflect that the risk of a loss increases as a company's leverage increases. In addition, for our fixed income investments we no longer incorporate the positive impact of yield in our measured risk, which is more consistent with how risk is traditionally measured.

Measurement limitations

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 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 based on our new risk measurement system.

(Canadian $ billions)[10]	2016	2015
Equity		
Canadian	$ 2.0	$ 2.5
Non-Canadian	22.5	25.5
Fixed income		
Bonds	4.5	6.0
Real-rate products	6.5	6.5
Natural Resources		
Commodities	2.0	2.0
Timberland	0.5	0.5
Sector investment[11]	2.0	1.5
Real assets		
Real estate	4.0	4.0
Infrastructure	3.0	3.0
Absolute return strategies	2.0	3.5
Money market	6.5	8.5
Total Asset Risk ETL Exposure[12]	$ 37.5	$ 41.5

[10] Rounded to the nearest $0.5 billion.

[11] Sector investment includes oil, gas, and agricultural assets.

[12] 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 7% or $2.9 billion (2015 – 7% or $2.7 billion). Similarly, a 1% increase in real interest rates would result in a decline in the value of the Plan's investments in real-rate products of 16% or $4.8 billion (2015 – 14% or $5.3 billion).

As at December 31, 2016, 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 22% or $40.8 billion (2015 – 21% or $36.0 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)	2016	2015
Currency	Net Exposure	Net Exposure
United States Dollar	$ 49,553	$ 52,56 4
Euro	7,774	9,238
British Pound Sterling	4,505	10,305
Japenese Yen	3,275	4,625
Chilean Peso	3,108	2,7 44
Brazilian Real	2,673	1,665
Australian Dollar	1,944	2,156
South Korean Won	1,343	1,867
Chinese Renminbi	1,307	3,785
Danish Krone	1,175	1,718
Other	7, 450	9, 419
	$ 84,107	$ 100,086

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)	2016	2015
Currency	Change in Net Investment Value	Change in Net Investment Value
United States Dollar	$ 2,478	$ 2,628
Euro	389	462
British Pound Sterling	225	515
Japanese Yen	164	231
Other	950	1,168
	$ 4,206	$ 5,004

(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 1.7% 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 Canadian 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 Canadian and U.S. government bonds is $51,208 million as at December 31, 2016 (2015 – $52,991 million). The Plan also has a net position of publicly traded equities of $27,551 million (2015 – $33,240 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 securities sold but not yet purchased, cash collateral received under credit support annexes and 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)				2016
	Within One Year	One to Five Years	Over Five Years	Total
Securities sold under agreements to repurchase	$ (39,736)	$ (7,686)	$ —	$ (47,422)
Securities sold but not yet purchased				
Fixed income	(19,108)	—	—	(19,108)
Equities	(1,947)	—	—	(1,947)
Real estate	(920)	(1,929)	(347)	(3,196)
Commercial Paper	(9,120)	—	—	(9,120)
Cash collateral received under credit support annexes	(163)	—	—	(163)
Derivative-related, net	(2,678)	—	—	(2,678)
	$ (73,672)	$ (9,615)	$ (347)	$ (83,634)

(Canadian $ millions)				2015
	Within One Year	One to Five Years	Over Five Years	Total
Securities sold under agreements to repurchase	$ (53,477)	$ (7,291)	$ —	$ (60,7 68)
Securities sold but not yet purchased				
Fixed income	(20,509)	—	—	(20,509)
Equities	(2,125)	—	—	(2,125)
Real estate	(2,225)	(1,351)	(1,005)	(4,581)
Commercial Paper	(3,058)	—	—	(3,058)
Cash collateral received under credit support annexes	(154)	—	—	(154)
Derivative-related, net	(3,471)	—	—	(3,471)
	$ (85,019)	$ (8, 642)	$ (1,005)	$ (94, 666)

(i) Collateral Pledged and Received

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 to sell them to another entity unless the Plan substitutes such securities with other eligible securities. The Plan holds 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. The fair value of collateral sold or repledged as at December 31, 2016 is $20 million (2015 - $ nil).

The Plan engages in securities borrowing transactions and pledges associated collateral. 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 fair value of collateral pledged and received, as well as the securities purchased under agreements to resell and sold under agreements to repurchase and securities borrowed as at December 31 are as follows:

(Canadian $ millions)		2016		2015
Securities purchased under agreements to resell and sold under agreements to repurchase				
Securities purchased under agreements to resell	$	27,910	$	29,465
Collateral held		27,749		29,767
Securities sold under agreements to repurchase		47,422		60,768
Collateral pledged		47,438		64,250
Securities borrowing				
Securities borrowed		4,979		4,545
Collateral pledged[13]		5,382		4,936
Derivative-related				
Collateral received[14]		1,003		230
Collateral pledged[15]		1,175		1,584

[13] Includes cash collateral of $1,967 (2015 - $2,111)

[14] Includes cash collateral of $163 (2015 - $154)

[15] Includes cash collateral of $121 (2015 - $108)

(j) Offsetting financial assets and financial liabilities

The Plan enters into agreements with counterparties such as ISDA Master Agreements and Global Master Repurchase Agreements (GMRA's) in order to mitigate its exposure to credit losses (see note 2f). These agreements provide rights to allow the parties to settle obligations on a net basis when certain predetermined events occur. As these rights of offset are conditional, the related amounts are not netted in the Consolidated Statements of Financial Position.

The impact of these arrangements as at December 31 is presented in the following table:

(Canadian $ millions)				2016
	Gross amount presented in note 2a	Amounts subject to netting agreements	Securities and cash collateral [16]	Net Exposure
Financial assets				
Securities purchased under agreements to resell	$ 27,910	$ (18,753)	$ (9,154)	$ 3
Derivative-related receivables	3,307	(1,699)	(927)	681
	$ 31,217	$ (20,452)	$ (10,081)	$ 684
Financial liabilities				
Securities sold under agreements to repurchase	$ (47,422)	$ 18,753	$ 28,666	$ (3)
Derivative-related liabilities	(2,678)	1,699	967	(12)
	$ (50,100)	$ 20,452	$ 29,633	$ (15)

(Canadian $ millions)				2015
	Gross amount presented in note 2a	Amounts subject to netting agreements	Securities and cash collateral [16]	Net Exposure
Financial assets				
Securities purchased under agreements to resell	$ 29,465	$ (27,931)	$ (1,529)	$ 5
Derivative-related receivables	2,425	(1,905)	(161)	359
	$ 31,890	$ (29,836)	$ (1,690)	$ 364
Financial liabilities				
Securities sold under agreements to repurchase	$ (60,768)	$ 27,931	$ 32,824	$ (13)
Derivative-related liabilities	(3,471)	1,905	1,380	(186)
	$ (64,239)	$ 29,836	$ 34,204	$ (199)

[16] Securities and cash collateral exclude over-collateralization and collateral in transit. See note 2i for the total amount of collateral.

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)	2016	2015
Contributions receivable	$ 3,224	$ 3,157
Accrued interest receivable	49	51
	$ 3,273	$ 3,208

The receivable as at December 31, 2016, from the Province of Ontario consists of $1,635 million, which was received in January 2017, and an estimated $1,638 million to be received with interest in January 2018. The receivable as at December 31, 2015, from the Province consisted of $1,598 million, which was received in January 2016, and an initial estimate of $1,610 million to be received in January 2017. 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 $189,397 million (2015 – $173,266 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 market rates, as at the valuation date, of bonds issued by the Province of Ontario, which have characteristics similar to the Plan's liabilities. The discount rate was determined by applying a weighted average discount rate that reflects the estimated timing and amount of benefit payments. The inflation rate is the geometric 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	**2016**	2015
Discount rate	**3.25 %**	3.25%
Salary escalation rate	**2.80 %**	2.50%
Inflation rate	**1.80 %**	1.50%
Real rate[1]	**1.40 %**	1.70%

[1] Real rates shown as the geometric difference between the discount rate and the inflation rate.

The primary economic assumptions were changed as a result of changes in capital markets during 2016. The changes in economic assumptions resulted in a net increase in the value of accrued pension benefits of $9,281 million (2015 – $5,003 million decrease inclusive of the impact of the salary agreements reached with the Affiliates of Ontario Teachers' Federation in 2015 noted below).

The primary economic assumptions for 2015 incorporated the agreement between the Province of Ontario and the Affiliates of Ontario Teachers' Federation providing for a 1% increase in salaries on September 1, 2016 plus an additional increase of 0.5% on the 98th day of the 2016 school year. The agreement also provided for a lump sum payment on September 1, 2015 of 1% of earned wages to all members covered by the collective agreement. This lump sum payment is included in members' pensionable earnings.

There were no material changes adopted in 2016 to the non-economic assumptions. However, there was a small refinement to the assumed retirement age for inactive members. The non-economic assumptions were updated in 2015 to reflect recent experience of Plan members related to retirement, termination of plan membership and increases in salaries related to experience. The change in non-economic assumptions increased the accrued pension benefits by $113 million (2015 - $1,465 million). The changes in economic and non-economic assumptions resulted in a net increase in the value of accrued pension benefits of $9,394 million (2015 - $3,538 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 forego up to a maximum foregone 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, 2016 are as follows:

Credited service	Inflation protection level
Earned before 2010	100% of CPI
Earned during 2010 – 2013	90% of CPI
Earned after 2013	90% of CPI

In the most recent filing, inflation protection was partially restored for recent retirees. Effective January 1, 2017, pensioners who retired after 2009 received a one-time increase to their pensions to prospectively restore benefits to the level they would have been had 100% inflation protection been provided on January 1, 2016. Future cost of living increases will be equal to 90% of the annual increase in the CPI on credited service earned after 2009 (up from the previous level of 70%). This level will remain in effect until the next actuarial valuation is filed with the regulatory authorities at which time the level may be reduced or increased depending on the funded status of the Plan. The change in the level of conditional indexing resulted in an increase in the value of accrued pension benefits of $1,674 million (2015 – $675 million).

(c) Experience gains and losses

Experience gains on the accrued pension benefits of $194 million (2015 – $2,109 million) arose from differences between the actuarial assumptions and actual results.

NOTE 5.
INVESTMENT IN REAL ESTATE

The Plan's real estate portfolio is comprised of real estate-related investments that are either owned or managed on behalf of the Plan by The Cadillac Fairview Corporation Limited (CFCL), a wholly owned subsidiary. 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 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		2016		2015
(Canadian $ millions)	Fair Value	Cost	Fair Value	Cost
Assets [1, 2]				
Real estate properties	$ 26,506	$ 15,695	$ 25,220	$ 14,783
Investments	4,159	3,113	3,966	3,003
Other assets	258	256	255	248
Total assets	30,923	19,064	29,441	18,034
Liabilities [1, 2]				
Long-term debt	2,324	2,196	3,640	3,451
Other liabilities	872	680	941	727
Total liabilities	3,196	2,876	4,581	4,178
Net investment in real estate	$ 27,727	$ 16,188	$ 24,860	$ 13,856

[1] U.S. Dollar, Mexican Pesos and Colombian Pesos net assets have been hedged by way of foreign currency forward contracts for a notional amount of $1,423 million (2015 – $1,660 million) with a combined fair value of ($8) million (2015 – ($54) 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 $708 million (2015 – $751 million) and liabilities of $305 million (2015 - $402 million).

(Canadian $ millions)	2016	2015
Revenue		
Rental	$ 1,949	$ 1,822
Investment and other	92	244
	2,041	2,066
Expenses		
Property operating	850	799
General and administrative	36	57
Other	15	21
	901	877
Operating income	1,140	1,189
Interest expense	(90)	(124)
Income (note 6)	1,050	1,065
Net investment gain	906	1,792
Net real estate income	$ 1,956	$ 2,857

NOTE 6.

NET INVESTMENT INCOME

Net investment income/(loss) after allocating net realized and unrealized gains on investments, management fees and transaction costs to asset classes

Net investment income is reported net of management fees, transaction costs, and is grouped by asset class. Net investment income, after giving effect to derivative contracts, for the year ended December 31, is as follows:

Net Investment Income							2016
(Canadian $ millions)	Income [1]	Realized [2]	Unrealized [2 3]	Investment Income	Management Fees	Transaction Costs	Net Investment Income
Fixed income							
Bonds	$ 800	$ (540)	$ (1,040)	$ (780)	$ (3)	$ (16)	$ (799)
Short-term investments	(7)	502	(154)	341	–	–	341
Alternative investments [4]	173	1,077	(769)	481	(25)	(2)	454
Canadian real-rate products	482	177	40	699	(2)	(5)	692
Non-Canadian real-rate products	208	137	48	393	–	–	393
	1,656	1,353	(1,875)	1,134	(30)	(23)	1,081
Equity							
Publicly traded							
Canadian	34	(137)	545	442	(1)	(10)	431
Non-Canadian	534	3,197	(2,355)	1,376	(44)	(43)	1,289
Non-publicly traded							
Canadian	50	(84)	278	244	(10)	(33)	201
Non-Canadian	746	2,084	(1,903)	927	(242)	(117)	568
	1,364	5,060	(3,435)	2,989	(297)	(203)	2,489
Natural resources							
Commodities	(24)	(110)	791	657	–	(3)	654
Timberland	153	70	(182)	41	–	–	41
Sector investment [5]	186	1	227	414	(20)	(3)	391
	315	(39)	836	1,112	(20)	(6)	1,086
Real assets							
Real estate (note 5)	1,065	371	535	1,971	(1)	(14)	1,956
Infrastructure	896	58	(505)	449	(10)	(53)	386
	1,961	429	30	2,420	(11)	(67)	2,342
	$ 5,296	$ 6,803	$ (4,444)	$ 7,655	$ (358)	$ (299)	$ 6,998

[1] Income includes interest, dividends, real estate operating income (net of interest expense), and other investment-related income and expenses.

[2] Includes net foreign currency losses of $209 million (both realized and unrealized).

[3] Net of certain management and performance fees.

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

[5] Sector investment includes oil, gas, and agricultural assets.

Net Investment Income 2015

(Canadian $ millions)	Income	Realized[6]	Unrealized[6,7]	Investment Income	Management Fees	Transaction Costs	Net Investment Income
Fixed income							
Bonds	$ 630	$ 2,646	$ (1,273)	$ 2,003	$ (5)	$ (9)	$ 1,989
Short-term investments	—	88	41	129	—	—	129
Alternative investments[8]	60	(961)	1,239	338	(53)	(1)	284
Canadian real-rate products	467	85	7	559	—	(1)	558
Non-Canadian real-rate products	207	108	1,267	1,582	—	—	1,582
	1,364	1,966	1,281	4,611	(58)	(11)	4,542
Equity							
Publicly traded							
Canadian	(41)	97	(816)	(760)	—	(13)	(773)
Non-Canadian	757	5,923	(778)	5,902	(73)	(68)	5,761
Non-publicly traded							
Canadian	42	63	(141)	(36)	(17)	(8)	(61)
Non-Canadian	652	2,510	3,139	6,301	(239)	(184)	5,878
	1,410	8,593	1,404	11,407	(329)	(273)	10,805
Natural resources							
Commodities	(19)	(3,700)	1,974	(1,745)	—	(3)	(1,748)
Timberland	79	345	343	767	(1)	—	766
Sector investment[9]	53	—	(196)	(143)	(22)	(20)	(185)
	113	(3,355)	2,121	(1,121)	(23)	(23)	(1,167)
Real assets							
Real estate (note 5)	1,085	153	1,639	2,877	(1)	(19)	2,857
Infrastructure	751	2	1,914	2,667	(10)	(22)	2,635
	1,836	155	3,553	5,544	(11)	(41)	5,492
	$ 4,723	$ 7,359	$ 8,359	$ 20,441	$ (421)	$ (348)	$ 19,672

[6] Includes net foreign currency losses of $588 million (both realized and unrealized).

[7] Net of certain management and performance fees.

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

[9] Sector investment includes oil, gas, and agricultural assets.

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:

	2016		2015	
(percent)	**Investment Returns**	**Investment Benchmark Returns**	Investment Returns	Investment Benchmark Returns
Fixed income	**0.8 %**	**1.0 %**	5.9 %	6.0%
Canadian equity	**19.1**	**16.9**	(11.7)	(6.8)
Non-Canadian equity	**4.1**	**4.3**	21.2	17.6
Natural resources	**8.3**	**6.7**	(1.3)	(6.1)
Real assets	**5.3**	**3.4**	16.0	10.2
Total Plan	**4.2 %**	**3.5 %**	13.0 %	10.1%

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

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

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

NOTE 8.
STATUTORY ACTUARIAL VALUATIONS

Statutory actuarial valuations are prepared periodically to determine the funding requirements of the Plan. Active members are required to contribute 11.50% of the portion of their salaries covered by the CPP and 13.10% 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%	1 2.40 %
2013	11.15%	1 2.75 %
2014 to 2026	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, 2016, by Mercer (Canada) Limited and disclosed a funding surplus of $4,522 million, after adopting conditional inflation protection of 90% for credited service earned between 2010 and 2013 and after 2013, as well as recognizing the special contributions included in the 2016 contribution rate described above, of 1.1% of salary payable until December 31, 2026.

NOTE 9.
CONTRIBUTIONS

(Canadian $ millions)	2016	2015
Members		
Current service[1]	$ 1,619	$ 1,592
Optional credit	34	35
	1,653	1,627
Province of Ontario		
Current service	1,596	1,567
Interest	36	37
Optional credit	31	32
	1,663	1,636
Designated employers	34	33
Transfers from other pension plans	13	14
	47	47
	$ 3,363	$ 3,310

[1] Contributions past due are less than $1 million in 2016 and 2015.

NOTE 10.
BENEFITS PAID

(Canadian $ millions)	2016	2015
Retirement pensions	$ 5,227	$ 5,056
Death benefits	376	344
Disability pensions	26	27
Commuted value transfers	64	74
Family law transfers	24	27
Transfers to other plans	8	8
Refunds	—	1
	$ 5,725	$ 5,537

NOTE 11.
ADMINISTRATIVE EXPENSES

(a) Investment expenses

(Canadian $ millions)	2016	2015
Salaries, incentives and benefits	$ 290.1	$ 277.7
Premises and equipment	49.4	44.9
Professional and consulting services	50.1	46.0
Information services	28.7	25.8
Communication and travel	16.4	16.8
Custodial fees	7.3	10.2
Statutory audit fees	2.3	1.9
Board and committee remuneration	0.9	0.8
Other	6.0	5.0
	$ 451.2	$ 429.1

(b) Member services expenses

(Canadian $ millions)	2016	2015
Salaries, incentives and benefits	$ 37.4	$ 36.3
Premises and equipment	10.6	8.8
Professional and consulting services	4.8	4.2
Communication and travel	1.2	1.4
Statutory audit fees	0.1	0.1
Board and committee remuneration	0.1	0.1
Other	0.8	0.9
	$ 55.0	$ 51.8

(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)	2016	2015
Short-term employee benefits	$ 14.6	$ 13.0
Post-employment benefits	2.4	5.9
Termination benefits	3.5	–
Other long-term benefits	12.6	16.3
	$ 33.1	$ 35.2

[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 2017 are approximately $12.3 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 $12.5 million (2015 – $15.3 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 more than sufficient to pay the benefits over the next 12 months. At the beginning of 2017, the actuary determined that the limit should remain at $14,500. 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:

As at December 31 (Canadian $ thousands)	2016	2015
Statements of financial position		
NET ASSETS AVAILABLE FOR BENEFITS		
Assets	$ 41,619	$ 27,186
Liabilities	(5,382)	(2,060)
	$ 36,237	$ 25,126
ACCRUED BENEFITS AND DEFICIT		
Accrued benefits	$ 335,040	$ 309,172
Deficit	(298,803)	(284,046)
	$ 36,237	$ 25,126
Statements of changes in net assets available for benefits		
Contributions	$ 20,662	$ 11,251
Investment income	138	150
	20,800	11,401
Benefits paid	9,524	12,272
Expenses	165	105
	9,689	12,377
Increase/(decrease) in net assets available for benefits	$ 11,111	$ (976)

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, 2016, these commitments totalled $10,597 million (2015 – $13,112 million).

NOTE 15.
GUARANTEES AND INDEMNIFICATIONS

Guarantees

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 2016 or 2015 under these guarantees.

The Plan guarantees loan and credit agreements. The Plan's maximum exposure is $nil million as at December 31, 2016 (2015 – $149 million).

The Plan guarantees lease agreements for a subsidiary with expiry dates ranging from 2017 to 2059. The Plan's maximum exposure is $96 million as at December 31, 2016 (2015 – $96 million). There were no default lease payments in either 2016 or 2015.

The Plan also guarantees the ability of certain investee companies to settle certain financial obligations. The Plan's maximum exposure is $67 million as at December 31, 2016 (2015 - $116 million).

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 five years. The maximum exposure cannot be determined because the projects are not yet complete. These guarantees amounted to $151 million as at December 31, 2016 (2015 – $213 million) and have not been recognized in the real estate liabilities.

The Plan guarantees the 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 debentures. The debentures are comprised of $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. As at December 31, 2015, the Plan also guaranteed the $1.25 billion 3.24% Series A Debentures which matured on January 25, 2016. 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 Plan also guarantees commercial paper issued by Ontario Teachers' Finance Trust which the Plan consolidates. No payments have been made by the Plan into the trust or related to the commercial paper, which are issued through private placements in U.S. and Canada. The maximum aggregate principal amounts outstanding at any one time do not exceed $10 billion. As at December 31, 2016, commercial paper issued by the trust amounted to $9,127 million (2015 - $3,062 million). The commercial paper, included in the Plan's investment-related liabilities, is not redeemable prior to maturity or subject to voluntary prepayment. The maturity terms are up to 270 days from the date of issue in U.S. and up to 364 days in Canada.

Indemnifications

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

MAJOR INVESTMENTS

As at December 31, 2016

FIXED INCOME AND SHORT-TERM INVESTMENTS OVER $150 MILLION

Type (Canadian $ millions)	Maturity	Coupon (%)	Fair Value	Cost
Government of Canada bonds	2017–2064	0.00–9.00	$ 29,756	$ 28,454
Canadian corporate bonds	2017–2043	0.00–14.00	956	950
Securities purchased under agreements to resell	2017–2017	-1.50–1.25	27,910	27,621
Commercial paper	2017–2017	0.00–0.00	1,405	1,402
Canada treasury bills	2017–2017	0.00–0.00	4,606	4,604
International sovereign debt	2018–2060	0.00–26.38	2,655	2,909
International corporate bonds	2017–2053	0.00–13.00	7,047	7,023
U.S. treasury bonds	2017–2046	0.63–6.25	(10,084)	(8,559)
International agency bonds	2017–2024	3.13–8.25	376	375
Provincial bonds	2018–2048	1.20–8.50	8,307	8,043
Bank notes	2017–2017	0.00–0.55	3,420	3,408
Securities sold under agreements to repurchase	2017–2017	-0.40–2.10	(47,422)	(47,131)
Commercial paper issued	2017–2017	0.00–1.40	(9,120)	(8,935)

REAL-RETURN INVESTMENTS OVER $150 MILLION

Type (Canadian $ millions)	Maturity	Coupon (%)	Fair Value	Cost
Real-return Canada bonds	2021–2047	1.25–4.25	$ 16,686	$ 12,966
Real-return Canadian corporate bonds	2021–2046	0.00–5.33	1,675	700
U.S. treasury inflation protection	2017–2044	0.13–3.88	10,153	6,976
Real-return provincial bonds	2021–2036	2.00–4.50	1,925	1,243

CORPORATE SHARES/UNITS OVER $150 MILLION

As at December 31, 2016 (millions)

Security Name	Shares	Fair Value	Security Name	Shares	Fair Value
The Macerich Company	23.3	$2,212.2	FedEx Corp.	0.8	$194.8
iShares MSCI Emerging Markets Index	37.5	1,755.4	LafargeHolcim Ltd.	2.7	189.3
Multiplan Empreendimentos Imobiliarios S.A.	54.8	1,302.5	Athene Holding Ltd.	3.2	185.1
Samsung Electronics Co., Ltd.	0.2	468.8	XPO Logistics, Inc.	3.2	183.7
Sprint Corporation	34.7	392.2	Tencent Holdings Limited	5.4	176.0
Alphabet Inc.	0.3	343.4	Sony Corporation	4.7	175.7
Hudson's Bay Company	23.0	304.8	EXOR N.V.	3.0	171.1
JPMorgan Chase & Co.*	2.4	273.0	Daimler AG	1.7	166.7
American International Group, Inc.	3.1	272.3	Comcast Corporation	1.7	162.4
Level 3 Communications, Inc.	3.1	236.0	Chubb Limited	0.9	160.8
Microsoft Corporation	2.7	226.4	Citigroup Inc.	2.0	159.5
General Motors Company	4.8	225.2	Nokia Corporation	24.3	157.7
Aircastle Limited	7.9	220.5	Facebook, Inc.	1.0	156.9
SoftBank Group Corp.	2.4	209.9	Lloyds Banking Group plc	150.8	156.2
Nissan Shatai Co., Ltd.	15.7	205.6	Wells Fargo & Company*	2.6	153.2
TMX Group Limited	2.8	203.4	Nestlé S.A.	1.6	153.0

* Includes fair market value of warrants .

REAL ESTATE PROPERTIES OVER $150 MILLION

As at December 31, 2016

Property	Total Square Footage (in thousands)	Effective % Ownership	Property	Total Square Footage (in thousands)	Effective % Ownership
Canadian Regional Shopping Centres			**Canadian Office Properties**		
Champlain Place, Dieppe	850	100%	City Centre Office, Calgary	853	100%
Chinook Centre, Calgary	1,419	100%	Deloitte Tower, Montreal	515	100%
Fairview Mall, Toronto	875	50%	Granville Square, Vancouver	403	100%
Fairview Park Mall, Kitchener	747	100%	HSBC Building, Vancouver	395	100%
Fairview Pointe Claire, Montreal	1,045	50%	Pacific Centre Office Complex, Vancouver	1,820	100%
Le Carrefour Laval, Montreal	1,435	100%	PricewaterhouseCoopers Place, Vancouver	241	100%
Les Galeries D'Anjou, Montreal	1,351	50%	RBC Centre, Toronto	1,223	50%
Les Promenades St. Bruno, Montreal	1,132	100%	Shell Centre, Calgary	693	100%
Lime Ridge Mall, Hamilton	806	100%	Toronto-Dominion Centre Office Complex, Toronto	4,425	70%
Market Mall, Calgary	934	50%	Toronto Eaton Centre Office Complex, Toronto	1,845	100%
Markville Shopping Centre, Markham	1,017	100%	Waterfront Centre, Vancouver	402	100%
Masonville Place, London	637	100%	Yonge Corporate Centre, Toronto	668	100%
Pacific Centre, Vancouver	1,070	100%			
Polo Park Mall, Winnipeg	1,199	100%			
Richmond Centre, Richmond	795	50%			
Rideau Centre, Ottawa	1,403	100%			
Sherway Gardens, Toronto	1,236	100%			
Shops at Don Mills, Toronto	468	100%			
The Promenade, Toronto	706	100%			
Toronto-Dominion Centre, Toronto	158	70%			
Toronto Eaton Centre, Toronto	2,903	100%			

PRIVATE COMPANIES AND PARTNERSHIPS OVER $150 MILLION

As at December 31, 2016

24 Hour Fitness Worldwide Inc.
AEA Investors Fund V LP
Aethon Energy Management LLC
Alliance Laundry Systems, LLC
Apollo Overseas Partners (Delaware 892) VI, L.P.
Apollo Overseas Partners (Delaware 892) VIII, L.P.
Apollo Special Situations Fund, L.P.
AQR Offshore Multi-Strategy Fund VII Ltd.
Ares Corporate Opportunities Fund III, L.P.
Ares Corporate Opportunities Fund IV, L.P.
Aroona Farms SA Pty Ltd.
Ascend Learning Holdings, LLC
Asia Opportunity Fund III, L.P.
Automobile Protection Corporation
Autopista Arco Norte, S.A. de CV
Baldr Fund Inc.
Baybridge Seniors Housing Inc.
BDCM Offshore Opportunity Fund II, Ltd.
Birmingham International Airport
BluEarth Renewables Inc.
Bridgewater Pure Alpha Fund II, Ltd.
Bristol Airport Limited
BroadStreet Capital Partners, Inc.
Busy Bees Benefits Holdings Limited
Camelot Group plc
Canada Guaranty Mortgage Insurance Company
Canbriam Energy, Inc.
Catalina Holdings (Bermuda) Ltd.
Catterton Partners VII, L.P.
Cerberus OT Partners, L.P.
Constellation Brands Canada, Inc.
Copenhagen Airport A/S
Coway Holdings, Inc.
CPG International Inc.
CSC ServiceWorks Holdings, Inc.
Cubico Sustainable Investments Limited
DaVinciRe Holdings Ltd.
DTZ Jersey Holdings Ltd.
EdgeMarc Energy Holdings, LLC
Empresa de Servicios Sanitarios del Bio-Bio S.A.
Esval S.A.
Euclid Fund
Exal International Limited
FAPS Holdings, Inc.
Fifth Cinven Fund (No. 6) Limited Partnership
Flexera Holdings, L.P.
Flynn Restaurant Group LLC
FMAP CIM Limited
FMAP PCM Limited
FMAP WMC Limited
FountainVest China Growth Fund II, L.P.
FountainVest China Growth Fund, L.P.
GCT Global Container Terminals Inc.
Hancock Timber Resource Group
HayFin Topaz L.P.
Heartland Dental Care, Inc.
Helly Hansen Group AS
Heritage Royalty Limited Partnership
HS1 Limited
Hudson Catastrophe Fund, Ltd.
Imperial Parking Corporation
Infiltrator Systems, Inc.
InterGen N.V.
Irish National Lottery
Kepos Alpha Fund Ltd.
Koole Tankstorage Zaandam B.V.
Kyobo Life Insurance Co., Ltd.
Lancaster Aircraft Leasing Limited Partnership
LMAP 902 Limited
LMAP 903 Limited
LMAP 904 Limited
LMAP 909
LMAP Chi Limited
London City Airport
Lowell Group Limited
MBK Partners Fund II, L.P.
MBK Partners III, L.P.
MR Argent Offshore Fund AB L.P.
MSB Capital Limited
Munchkin, Inc.
Nextgen Group Holdings Pty Limited
Nuevosur, S.A.
NXT Capital Holdings, L.P.
OGF SA
OLE Media Management L.P.
Orbis Institutional Global Equity L.P.
PAG Asia I L.P.
PetVet Care Centers, Inc.
PhyMed Healthcare Group
Plano Molding Company
Polar Multi-Strategy Fund (Legacy)
Providence Equity Partners VI L.P.
Providence Equity Partners VII-A L.P.
RedBird Capital Partners Platform L.P.
Resource Management Service Inc.
Riverbed Technology, Inc.
Scotia Gas Networks plc
SeaCube Container Leasing Ltd.
Serta Simmons Holdings, LLC
Shearer's Foods, Inc.
Silver Lake Partners III, L.P.
Silver Lake Partners IV, L.P.
Skyway Concession Company LLC
Sociedad Austral de Electricidad S.A.
Solus Offshore Opportunities Fund 5 L.P.
Storapod Holding Company, Inc.
Sydney Desalination Plant Pty Limited
Synlab Limited
TDR Capital II 'B' L.P.
Terranum Corporate Properties
The Brussels Airport Company
TierPoint, LLC
TP Partners Fund, L.P.
Trian Partners Co-Investment Opportunities Fund, L.P.
Trian Partners, Ltd.
Univision Communications Inc.
ValueAct Capital International II, L.P.
Westerleigh Group Holdings Limited
Woodspur Farming LLC

ELEVEN-YEAR FINANCIAL REVIEW

(Canadian $ billions)	**2016**	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
CHANGE IN NET ASSETS											
Income											
Investment income	**$7.00**	$19.67	$16.26	$13.72	$14.75	$11.74	$13.27	$10.89	$(19.03)	$4.68	$12.31
Contributions											
Members/transfers	**1.70**	1.67	1.63	1.55	1.48	1.41	1.35	1.29	1.13	1.06	0.83
Province of Ontario	**1.66**	1.64	1.59	1.53	1.46	1.41	1.35	1.43	1.18	1.08	0.82
Total income	**10.36**	22.98	19.48	16.80	17.69	14.56	15.97	13.61	(16.72)	6.82	13.96
Expenditures											
Benefits paid	**5.72**	5.54	5.31	5.15	4.92	4.66	4.50	4.39	4.20	4.02	3.82
Investment expenses	**0.45**	0.43	0.41	0.36	0.30	0.29	0.29	0.21	0.15	0.23	0.22
Member Services expenses	**0.06**	0.05	0.05	0.05	0.04	0.05	0.05	0.04	0.04	0.04	0.03
Total expenditures	**6.23**	6.02	5.77	5.56	5.26	5.00	4.84	4.64	4.39	4.29	4.07
Increase/(decrease) in net assets	**$4.13**	$16.96	$13.71	$11.24	$12.43	$9.56	$11.13	$8.97	$(21.11)	$2.53	$9.89
NET ASSETS											
Investments											
Fixed income											
Bonds	**$43.53**	$37.98	$35.19	$30.53	$28.87	$26.50	$22.73	$15.46	$14.22	$22.91	$20.86
Real-rate products	**31.72**	31.13	30.36	26.37	31.14	29.29	23.24	19.88	17.41	11.06	11.80
Equities											
Canadian	**4.27**	3.54	10.71	10.86	11.40	10.64	9.29	8.43	6.21	13.73	16.39
Non-Canadian	**61.68**	74.00	58.14	51.03	48.11	41.03	38.20	32.75	28.72	36.31	32.42
Natural resources											
Commodities	**4.18**	4.00	9.03	8.21	6.97	5.64	5.22	1.94	1.25	3.02	2.32
Timberland	**2.45**	2.70	2.59	2.45	2.17	2.17	2.22	2.34	2.80	2.12	2.05
Sector investment	**3.83**	3.55	0.28	0.17	–	–	–	–	–	–	–
Real assets											
Real estate	**26.47**	24.86	22.09	19.24	16.86	14.96	16.86	14.21	13.48	13.41	11.12
Infrastructure	**17.83**	15.66	12.66	11.68	9.65	8.71	7.07	5.57	7.23	6.72	4.73
Absolute return strategies	**13.28**	17.76	15.84	12.20	12.27	12.33	11.38	11.67	14.75	12.30	15.21
Overlay	**0.51**	–	–	–	–	–	–	–	–	–	–
Money market	**(37.67)**	(46.93)	(44.50)	(33.84)	(40.18)	(35.01)	(31.49)	(18.74)	(20.97)	(13.58)	(11.22)
Net investments	**172.08**	168.25	152.39	138.90	127.26	116.26	104.72	93.51	85.10	108.00	105.68
Receivable from Province of Ontario	**3.27**	3.21	3.10	2.97	2.83	2.72	2.63	2.52	2.19	1.84	1.58
Other assets	**1.21**	0.44	0.22	0.14	0.50	0.51	0.57	0.63	0.40	0.36	0.08
Other liabilities	**(0.99)**	(0.46)	(1.23)	(1.25)	(1.07)	(2.39)	(0.39)	(0.26)	(0.25)	(1.65)	(1.33)
Net assets	**175.57**	171.44	154.48	140.76	129.52	117.10	107.53	96.40	87.44	108.55	106.01
Accrued pension benefits	**189.40**	173.27	172.73	148.57	166.01	162.59	146.89	131.86	118.14	115.46	110.50
Deficit	**$(13.83)**	$(1.83)	$(18.25)	$(7.81)	$(36.49)	$(45.49)	$(39.36)	$(35.46)	$(30.70)	$(6.91)	$(4.49)
PERFORMANCE (percent)											
Rate of return	**4.2**	13.0	11.8	10.9	13.0	11.2	14.3	13.0	(18.0)	4.5	13.2
Benchmark	**3.5**	10.1	10.1	9.3	11.0	9.8	9.8	8.8	(9.6)	2.3	9.4

ASSUMPTIONS USED FOR FINANCIAL STATEMENT VALUATION

As at December 31 (percent)											
Discount rate	**3.25**	3.25	3.35	4.20	3.40	3.40	4.05	4.60	4.00	4.65	4.70
Salary escalation rate	**2.80**	2.50	2.70	3.00	3.00	3.05	3.40	3.55	2.35	3.20	3.40
Inflation rate	**1.80**	1.50	1.70	2.00	2.00	2.05	2.40	2.55	1.35	2.20	2.40
Real rate[1]	**1.40**	1.70	1.65	2.20	1.40	1.35	1.65	2.05	2.65	2.45	2.30

[1] Effective December 31, 2015, real rate shown as the geometric difference between the discount rate and the inflation rate . Previously, the real rate shown was based on the arithmetic difference between the discount rate and the inflation rate.

FUNDING VALUATION HISTORY

Funding valuations must be filed with pension regulatory authorities 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. The 10 most recent filed funding valuations and the assumptions used for each are summarized in the table below. Details on plan changes from funding decisions are available in the Plan Funding section at otpp.com.

In the 2016 filing, sponsors used some of the $13.2 billion preliminary funding surplus to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided on January 1, 2016. The surplus funds were also used to increase inflation protection levels for pension credit earned after 2009 to 90% from 70% of the increase in the cost of living. Both changes were effective January 2017. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or an increase in pension costs.

FILED FUNDING VALUATIONS[1]

As at January 1 (Canadian $ billions)	**2016**	2015	2014	2012	2011	2009	2008	2005	2003	2002
Net assets available for benefits	**$171.4**	$154.5	$140.8	$117.1	$107.5	$87.4	$108.5	$84.3	$66.2	$69.5
Smoothing adjustment	**(10.8)**	(8.2)	(7.2)	(3.0)	3.3	19.5	(3.6)	(1.5)	9.7	3.0
Value of assets	**160.6**	146.3	133.6	114.1	110.8	106.9	104.9	82.8	75.9	72.5
Future basic contributions	**41.5**	38.8	37.5	35.4	33.8	25.9	23.6	16.7	14.7	13.7
Future special contributions	**3.1**	3.5	3.5	3.3	3.8	5.5	5.6	6.2	–	–
Future matching of CIP benefit reduction	**2.3**	5.9	7.4	7.3	5.1	–	–	–	–	–
Total assets	**207.5**	194.5	182.0	160.1	153.5	138.3	134.1	105.7	90.6	86.2
Cost of future pensions[2]	**(205.3)**	(197.3)	(188.2)	(167.6)	(158.4)	(137.5)	(134.1)	(105.6)	(89.1)	(84.3)
Reduction in cost due to less than 100% indexing	**2.3**	5.9	7.4	7.7	5.1	–	–	–	–	–
Surplus	**$4.5**	$3.1	$1.2	$0.2	$0.2	$0.8	$0.0	$0.1	$1.5	$1.9

ASSUMPTIONS USED FOR FILED VALUATIONS

As at January 1 (percent)	**2016**	2015	2014	2012	2011	2009	2008	2005	2003	2002
Inflation rate	**2.00**	2.00	2.10	2.20	2.15	1.35	2.20	2.750	2.05	1.90
Real discount rate[3]	**2.75**	2.85	2.85	3.10	3.25	3.65	3.45	3.725	4.35	4.40
Discount rate	**4.80**	4.85	4.95	5.30	5.40	5.00	5.65	6.475	6.40	6.30

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

[2] Includes value of 100% inflation protection.

[3] Effective January 1, 2016, real rate shown as the geometric difference between the discount rate and the inflation rate. Previously, the real rate shown was based on the arithmetic difference between the discount rate and the inflation rate.

ASSUMPTIONS

Conditional Inflation Protection (CIP) Level	**2016**	2015	2014	2012	2011	2009	2008	2005	2003	2002
CIP – Post-2009–Pre-2014	**90.0**	70.0	60.0	50.0	60.0	100.0	n/a	n/a	n/a	n/a
CIP – Post-2013	**90.0**	70.0	60.0	45.0	60.0	100.0	n/a	n/a	n/a	n/a
Contribution level above the YMPE	**13.1**	13.1	13.1	12.4	12.0	12.0	11.2	8.9	8.9	8.9
Contribution level below the YMPE	**11.5**	11.5	11.5	10.8	10.4	10.4	9.6	7.3	7.3	7.3

CORPORATE DIRECTORY

ONTARIO TEACHERS' PENSION PLAN

Ron Mock,
President and CEO

Audit Services

Carol Gordon, Managing Director

Enterprise Operations Division

Rosemarie McClean, Chief Operating Officer

Neil Bisset, Senior Managing Director and Chief Information Officer

Jennifer Newman, Senior Managing Director, Enterprise Services

Robert De Santis, Managing Director, Solution Engineering

Douglas Gerhart, Managing Director, Investment IT Architecture

Jonathan Hammond, Managing Director, Enterprise Technology Services

Peter Simpson, Managing Director, Financial Operations

Alyssa Van Graft, Managing Director, Strategy & Business Management

Finance

David McGraw, Chief Financial Officer

Hersh Joshi, Managing Director, Taxation

Sandra McEwen, Managing Director, Valuation, Risk Analytics & Model Validation

Calum McNeil, Managing Director, Financial & Management Reporting

General Counsel's Office

Jeff Davis, Chief Legal & Corporate Affairs Officer

Deborah Allan, Managing Director, Communications & Media Relations

Rossana Di Lieto, Managing Director, Chief Compliance Officer

Marc Dupont, Managing Director, Government & Public Affairs

Human Resources & Facilities

(Vacant), Chief People Officer

Member Services Division

Tracy Abel, Chief Pension Officer

Charley Butler, Managing Director, Member Experience & Innovation

Strategy & Risk

Barbara Zvan, Chief Risk & Strategy Officer

Mary Cover, Managing Director, Pension Strategy & Enterprise Risk

Audrey Gaspar, Managing Director, Total Fund Architecture

Scott Picket, Managing Director, Research & Risk

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Bjarne Graven Larsen, EVP and Chief Investment Officer

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Jo Taylor, Senior Managing Director, International

Capital Markets

Ziad Hindo, Senior Managing Director

Gillian Brown, Managing Director, Credit, Insurance Linked Securities & Equity Products

Jason Chang, Managing Director, Fixed Income, Currencies & Commodities

Kevin Duggan, Managing Director, Execution & Treasury

Global Strategic Relationships

Jonathan Hausman, Managing Director

Infrastructure & Natural Resources

Andrew Claerhout, Senior Managing Director

Dale Burgess, Managing Director, Latin America

Stephen McLennan, Managing Director, Natural Resources

Olivia Steedman, Managing Director, Greenfield Investments & Value Creation

Charles Thomazi, Managing Director, EMEA

Investment Operations

Dan Houle, Managing Director

Portfolio Construction

Michael Wissell, Senior Managing Director

Chris Schindler, Managing Director, Portfolio Management & Asset Allocation

Private Capital

Jane Rowe, Senior Managing Director

Tanya Carmichael, Managing Director, Global Funds

Bogdan Cenanovic, Managing Director, Technology, Media & Telecom

Steve Faraone, Managing Director, Healthcare & Consumer Retail

Romeo Leemrijse, Managing Director, Industrial Products, Energy & Power

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The Cadillac Fairview Corporation Limited

John M. Sullivan, President and CEO

Wayne L. Barwise, EVP, Development

Sandra J. Hardy, EVP, General Counsel and Secretary

Salvatore (Sal) Iacono, EVP, Operations

Cathal J. O'Connor, EVP and Chief Financial Officer

Duncan Osborne, EVP, Investments

Norm Sabapathy, EVP, People

ANNUAL MEETING

April 6, 2017, at 4:45 p.m. ET
The Carlu
444 Yonge Street, 7th floor
Toronto

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We welcome your comments and suggestions on this annual report.

Concept and Design: THE WORKS DESIGN COMMUNICATIONS worksdesign.com

ONTARIO TEACHERS' PENSION PLAN

Pensions mean the world to us.

At Ontario Teachers', we anticipate members' changing needs. We plan for good markets and bad. And we adjust to the world's economic shifts. We truly are a plan for all seasons.