2014 ANNUAL REPORT

25 YEARS OF BUILDING FOR THE FUTURE

ABOUT ONTARIO TEACHERS' PENSION PLAN

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

Ontario > TEACHERS' PENSION PLAN < OTF

WHAT DO THE SPONSORS DO?

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

WHAT DOES TEACHERS' DO?

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

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Since 1990, Teachers' has been recognized as an innovator and leader that introduced a new pension model to the world. We're proud of that achievement, but we're more interested in what's ahead, in expanding our global presence, in establishing rewarding partnerships, in delivering growth. And in building for the future.

2014 HIGHLIGHTS

Strong investment returns, combined with recent contribution and benefit changes, produced the plan's second consecutive preliminary funding surplus at January 1, 2015.

FUNDING

Preliminary surplus represents **104% funding** based on current benefit and contribution levels

$6.8 billion

INVESTMENTS

Rate of return for 2014 was above benchmark and exceeded our annualized return of 10.2% since inception, boosting net assets to **$154.5 billion**

11.8%

SERVICE

Service satisfaction rating from plan members (**182,000 active** and **129,000 pensioners**) remains at an industry-leading level

9.2/10

REPORT FROM THE CHAIR

Since taking over as board chair in January, and in my previous terms as a board member, I have been immersed in the strategic and investment issues facing the Teachers' organization.

When the inaugural board began work 25 years ago, creating an institution that is now respected around the world, I dare say the issues were much different than they are now. Twenty-five years on, the pension fund is substantially larger and more diverse; employees and plan assets are global, necessitating more investment in talent and risk management; technology is dramatically different; and the plan serves more members, who are living longer. These changes and complexities shape our plan governance discussions and strategic decisions.

In 2014, after a decade of regular funding shortfalls, Teachers' reported a preliminary surplus of $5.1 billion. The plan sponsors, Ontario Teachers' Federation and the Ontario government, used this surplus to partially restore inflation protection to recent retirees. The funding valuation they filed with the regulatory authorities included a modest surplus of $1.2 billion.

As of January 1, 2015, the plan had another preliminary surplus; this time it is $6.8 billion. The credit for this positive development goes to the sponsors, for making recent contribution and benefit changes, and to plan management, for consistently posting solid investment returns. It will be up to the sponsors to determine what to do with any surplus if they decide to file the January 1, 2015, valuation.

The sponsors worked together in 2014 to address important issues. Their joint task force refined the funding management policy, which sets out how the sponsors handle funding surpluses or shortfalls, and they analyzed demographic issues, including the imbalance between the number of years, on average, that members contribute to the plan (26) and the number of years they collect a pension (31).

Teachers' governance model – including an independent, professional board – is justly hailed as a key component of its success. My predecessor as board chair, Eileen Mercier, served with great dedication for 10 years. On behalf of my colleagues, I thank Eileen for her strong leadership.

We also said farewell to board members Hugh Mackenzie and Patsy Anderson, and welcomed new board members John Murray, former Deputy Governor of the Bank of Canada; Bill Chinery, an actuary and former CEO of Blackrock Asset Management Canada; and Steve McGirr, a former chief risk officer at CIBC. Our thanks go to all of these talented individuals for contributing their time and expertise on behalf of Ontario's teachers.

Jean Turmel

Jean Turmel, B.Comm., MA
Chair

REPORT FROM THE CEO

Our focus on agility, innovation and partnerships paid off with solid investment results and strong service scores in 2014.

Teachers' performance reflects our culture, and is driven by our mission: Outstanding service and retirement security for our members – today and tomorrow. In fact, we revisited our Mission, Vision and Values in 2014, and employees told us resoundingly that our mission should not change – that we should continue to ensure the best possible service and risk-adjusted returns on our members' behalf.

The fund's net assets grew to $154.5 billion last year, with a rate of return of 11.8%. These strong results were achieved despite a turbulent investment environment: low interest rates, intense global competition pushing up asset prices, the fourth-quarter slide in oil prices and resulting stock market volatility. It was not an easy road to success.

Our Member Services employees continue to simplify our members' experience and make it more personal. For the third straight year, CEM Benchmarking Inc., an independent industry benchmarking firm, ranked our service to members number one.

In 2015, Teachers' marks its 25th anniversary as an independent organization and the birth of our mandate to build a diversified investment portfolio. Canadian pension funds in 1990 were not the major investment force that they are today, and I salute Teachers' founders for establishing the culture of high performance that prevails today.

As we continued to implement major technology and process changes that will improve our agility in today's increasingly complex business and investment environments, it became apparent that a full-time, dedicated operations executive was needed. After a detailed review of our structure, we created the new position of Chief Operations Officer in late 2014. We were delighted that Rosemarie McClean, previously our Senior Vice-President, Member Services, took on this new role.

We drew from our depth of in-house experience in filling two executive team vacancies in 2014. Tracy Abel was appointed Senior Vice-President, Member Services, and Jeff Davis was appointed General Counsel, Senior Vice-President, Corporate Affairs and Corporate Secretary. Congratulations to them.

A few things about 2015 are already clear. First, the sponsors' decision to adopt conditional inflation protection will continue to prove prudent. It is the biggest impact move the sponsors could have taken from a funding perspective, as it helps us manage our liability risk related to interest-rate sensitivity. This new provision's impact will continue to grow into the plan in coming years. We also face asset risks, however, especially the risk of another 2008-like asset shock. Should such an event occur, additional, but smaller, changes could be needed to buttress the fund. Our liability risks are further compounded by members' ever-increasing longevity rates. We are glad the sponsors continue to discuss what additional options might be appropriate.

Second, markets are unpredictable and, as a mature pension plan, we will continue to closely manage assets to reduce the risk of financial loss. Third, with heated competition for good investment opportunities, we will keep looking for the best global prospects with our partners; our international expansion is designed to help us do that.

I would like to thank the board members and Teachers' employees for their support during my first year as CEO.

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

INTEGRITY: We do the right thing
INNOVATION: We have the courage to forge new paths
PERFORMANCE: We are driven to succeed
PARTNERSHIP: We are stronger together
HUMILITY: We temper our accomplishments

FOR MORE INFORMATION, VISIT OTPP.COM/MISSIONVISIONVALUES

EXECUTIVE TEAM

(l-r) **Ron Mock**, B.A.Sc., MBA, President and Chief Executive Officer; **Neil Petroff**, BBA, MBA, Executive Vice-President, Investments, and Chief Investment Officer; **Tracy Abel**, BA, MBA, Senior Vice-President, Member Services; **David McGraw**, B.Comm., MBA, FCPA, FCA, ICD.D, Senior Vice-President and Chief Financial Officer; **Rosemarie McClean**, BA, MBA, CPA, CMA, ICD.D, Senior Vice-President and Chief Operations Officer; **Barbara Zvan**, M.Math, FSA, FCIA, CERA, Senior Vice-President, Asset Mix & Risk, and Chief Investment Risk Officer; **Jeff Davis**, BA, LLB, General Counsel, Senior Vice-President, Corporate Affairs, and Corporate Secretary; **Marcia Mendes-d'Abreu**, BA, M.Sc., HRCCC, Senior Vice-President, Human Resources & Facilities

PLAN OVERVIEW

The Ontario Teachers' Pension Plan (Teachers') manages investments and administers pension benefits on behalf of its members: Ontario's 182,000 school teachers and 129,000 pensioners.

Teachers' has approximately 1,100 employees in Toronto, London and Hong Kong.

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, economic, investment and market issues, and numerous other factors into account.

STATE OF THE PLAN

The Ontario Teachers' Pension Plan is designed to deliver pension benefits to its members for life.

Balancing plan assets and the cost of future benefits is an ongoing objective for the two sponsors of the plan: Ontario Teachers' Federation (OTF) and the Ontario government. The sponsors set contribution rates and pension benefits based on the plan's funded status.

At January 1, 2015, for the second consecutive year, the plan had a preliminary surplus. This surplus assumes current levels of contributions and benefits continue in the future. The sponsors will determine how to apply this surplus if they decide to file the funding report with the regulatory authorities.

For more information on plan funding, visit otpp.com/planfunding

FUNDING STATUS

2015 preliminary valuation

The plan's preliminary funding valuation showed a surplus of $6.8 billion at the start of the year. At January 1, 2015, the plan had 104% of the assets required to meet future pension liabilities, based on current contribution rates and current (reduced) levels of inflation protection.

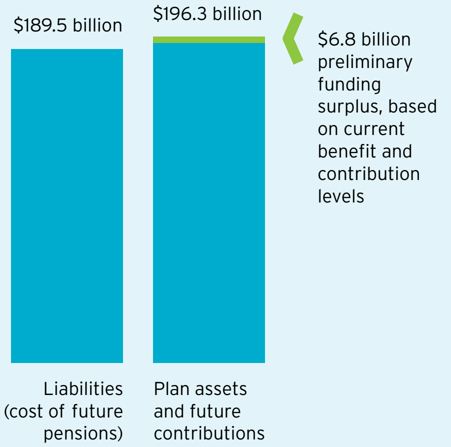
Current inflation protection is set at 60% of the Consumer Price Index (CPI) increase for pension credit earned after 2009 and 100% for pension credit earned before 2010. Current contributions are based on 11.5% of earnings below the Canada Pension Plan (CPP) limit and 13.1% of earnings above the CPP limit. The 2014 CPP limit was $52,500.

2014 filed valuation

In 2014, OTF and the Ontario government filed a funding valuation with the regulators. The sponsors used a $5.1 billion preliminary surplus to partially restore inflation protection for recent retirees. Pensioners who retired after 2009 received a one-time increase in January 2015 to bring their pension up to the level it would have been at if full inflation protection had been provided each year since they retired.

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, known as conditional inflation protection (CIP), is used to help keep the plan sustainable in the long term. Inflation increases may be bigger if there is a projected funding surplus, or smaller if there is a projected funding shortfall. Pension credit earned before 2010 remains fully indexed to inflation.

PRELIMINARY FUNDING VALUATION
As at January 1, 2015



PENSION FUNDING SOURCES SINCE 1990

- **10%** Member Contributions
- **12%** Government/Employer Contributions*
- **36%** Investments – Active Management
- **42%** Investments – Benchmark

*Includes 1% original plan deficit funding.

1.4

Number of active teachers for each pensioner

0.62%

Yield for Canadian real-return bonds at end of 2014

FUNDING VALUATION SUMMARY
As at January 1 (Canadian $ billions)

	2015 Preliminary	2014 Filed	2014 Preliminary
Net assets available for benefits	$ 154.5	$ 140.8	$ 140.8
Smoothing adjustment	(8.2)	(7.2)	(7.2)
Value of assets	**$ 146.3**	**$ 133.6**	**$ 133.6**
Future basic contributions	38.8	37.5	37.5
Future special contributions	3.4	3.5	3.5
Future matching of CIP benefit reduction	7.8	7.4	9.0
Total assets	**$ 196.3**	**$ 182.0**	**$ 183.6**
Cost of future pensions	(197.3)	(188.2)	(188.2)
Reduction in cost due to less than 100% indexing	7.8	7.4	9.7
Surplus	**$ 6.8**	**$ 1.2**	**$ 5.1**
Assumptions (percent)			
Inflation rate	2.00	2.10	2.10
Real discount rate	2.85	2.85	2.85
Discount rate	4.85	4.95	4.95

Funding valuation background

A funding valuation is an assessment of the financial health of a pension plan at a defined date. Teachers' funding valuation:

- looks ahead more than 70 years;
- is prepared by an independent actuary;
- projects members' future contributions, benefits and their cost;
- is filed with government authorities at least every three years;
- must be balanced when filed.

The valuation uses a number of assumptions to project the value of future pension plan liabilities. 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. Plan liabilities are sensitive to changes in the discount rate, with a decreased rate resulting in increased liabilities. The assumption setting process is extremely robust and includes an annual in-depth analysis of plan experience as well as input from the sponsors. 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 rate and discount rate assumptions in the most recent valuations are shown in the Funding Valuation Summary table on page 7.

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 table below summarizes how the pension plan has evolved over the past quarter-century. 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 also seeks to manage intergenerational equity.

6

Increase in expected years on pension since 1990

FUNDING VARIABLES 25-YEAR COMPARISON

	1990	**2014**
Average retirement age	58	**59**
Average starting pension	$29,000	**$44,000**
Average contributory years at retirement	29	**26**
Expected years on pension	25	**31**
Ratio of active teachers to pensioners	4 to 1	**1.4 to 1**
Average contribution rate	8.0%	**12.3%**
Increase in contributions required for 10% loss in assets	1.9%	**4.6%**

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. The plan is moving toward 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.

Interest rates

Interest rates have declined globally since the onset of the 2008 financial crisis. Central banks have kept policy rates low and used other monetary tools to support economic growth. When interest rates are low, pension liabilities rise as more money must be set aside to earn enough to pay future pensions. In Canada, long-term real-return bond yields have declined from 1.25% over the last 10 years, on average, to 0.62% at the end of 2014. Interest rates also affect asset prices, so while an increase in rates could reduce the plan's liabilities, it could also reduce the value of our assets.

Inflation

The plan seeks to provide retired members with annual pension increases to offset the impact of inflation. Higher inflation increases the plan's liabilities. The level of annual increases 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. In this era of low policy rates, economic uncertainty and volatile commodity and currency markets, it is more likely that inflation could miss the bank's target.

Asset volatility

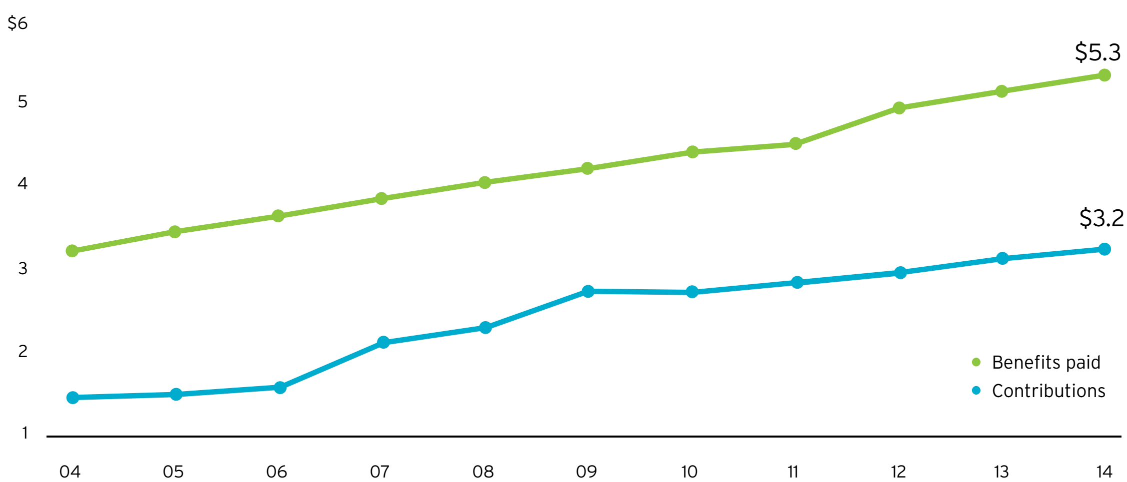
Good stock market performance in recent years has helped produce strong returns for the plan, but many valuations are now above historical norms. In an environment of modest global growth, heightened macroeconomic and geopolitical risks and an expected tightening of U.S. monetary policy, higher valuations will result in higher market volatility. Market downturns are expected to become more frequent and tighter regulation of financial market participants is likely to exacerbate the magnitude of such corrections. While declining asset prices can present opportunities for long-term investors such as Teachers', they can also lead to investment losses. As a result, Teachers' board members and management work constantly to understand various investment risks and how best to manage them.

Managing intergenerational equity

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 must be considered because pensioners and teachers near retirement have already earned all or most of their pensions. Under Ontario's *Pension Benefits Act*, benefits already earned cannot be reduced to offset funding shortfalls. New and younger teachers, whose service lies mainly in the future, are therefore exposed to more funding risk, because their contribution rates *and* benefits can be adjusted to make up for shortfalls. If funding shortfalls are projected, the sponsors can increase contributions, adjust inflation protection, reduce future benefits, or employ a combination of these three measures. Conditional inflation protection, under which inflation protection can be adjusted depending on the plan's funded status, provides an effective means for mitigating our funding risks and will promote intergenerational equity over time.

CONTRIBUTIONS VS. BENEFITS PAID

For the years ended December 31 (Canadian $ billions)



$2.1 billion

Amount benefit payments exceeded contributions from members, government and designated employers in 2014

INVESTMENTS

Teachers' investment program is designed to help the plan meet its long-term funding needs. The plan continues to actively develop its strategies by expanding its global investment horizons to address ever-changing market and economic circumstances. Since its inception 25 years ago, more than three-quarters of the plan's income has come from investment returns, with the remainder from member and government contributions.

In 2014, the plan again realized the advantages accruing from its responsive, risk-managed approach. An 11.8% rate of return generated $16.3 billion of investment income from the plan's diversified portfolio, and increased its net assets to a record $154.5 billion, outperforming its composite benchmark to earn $2.4 billion in value added.

INVESTMENT OVERVIEW

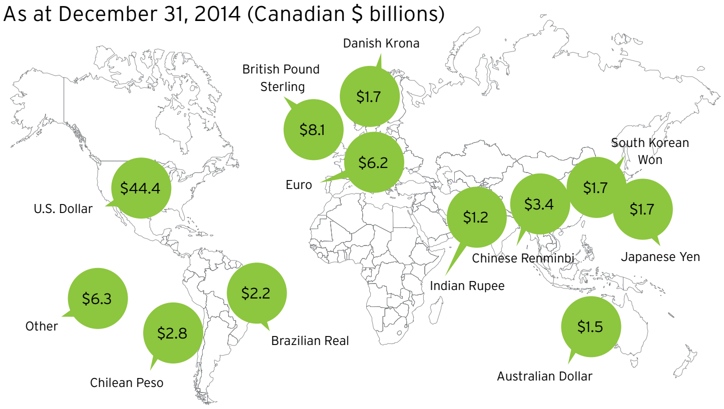
Teachers' is a globally active investor with holdings in more than 50 countries across diversified asset classes. Investment professionals are located at offices in Toronto, London and Hong Kong, sourcing and managing investments in the Americas, Europe–Middle East–Africa and Asia-Pacific, respectively. The growth of the plan's investment activities around the world is directly supported by its international presence and is a result of long-term strategies.

To achieve its objectives, the plan 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 benefits and contribution rates, and plan sustainability.

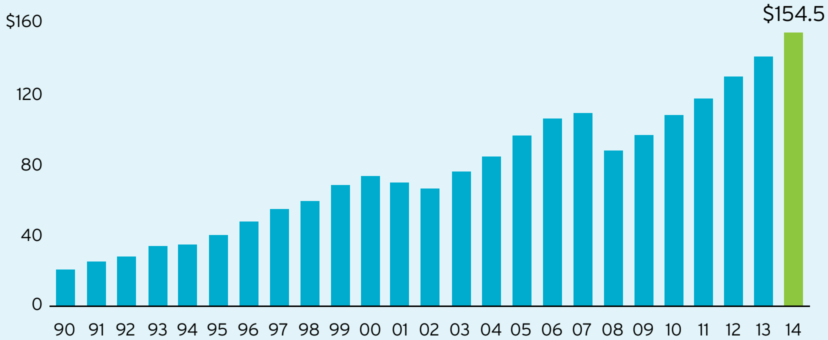
As a recognized innovator, the plan has developed and employs a number of integrated strategies. These strategies are driven by a set of Investment Beliefs that define the plan's philosophy for earning superior risk-adjusted returns and are consistent with Teachers' investment mandate in its Statement of Investment Policies and Procedures.

NET CURRENCY EXPOSURES

As at December 31, 2014 (Canadian $ billions)

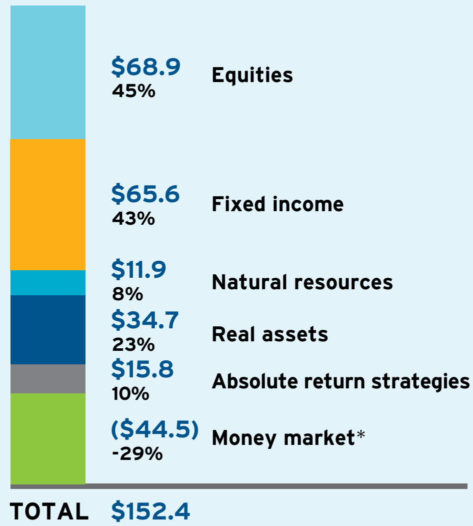


NET ASSETS
As at December 31 (Canadian $ billions)



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

NET INVESTMENTS BY ASSET CLASS
(Canadian $ billions)



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

$16.3 billion

Investment income in 2014

10.2%

Annualized total return since 1990

Proactive risk management

Each year, the plan determines the level of total risk that is appropriate to meet its objectives, now and over the long term. Risk budgeting is then used to spread active risk across asset classes. 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, departments as well as within each portfolio.

Responsible investing: Teachers' approach to responsible investing supports the plan's sustainability by evaluating environmental, social and governance (ESG) risk factors alongside other risks and opportunities that are present in all phases of investment ownership. These factors can materially affect investment value and Teachers' reputation. Over time, ESG factors will become more efficiently priced into global investments and the plan will continue to refine its ESG assessment methods as responsible investing strategies evolve. Teachers' is an active member of organizations that promote improved disclosure of ESG factors and adoption of responsible investment practices, including the United Nations–backed Principles for Responsible Investment.

Corporate governance: Consistent with its responsible investing approach, Teachers' votes all of the shares of the companies it owns. In 2014, the plan voted at 1,983 shareholder meetings, with significant growth in voting activity in the United Kingdom, China and Hong Kong. It also continues to promote effective governance practices through engagement with governance groups worldwide, publication of its widely followed principles and guidelines, and advising on voting intentions through otpp.com.

PROXY VOTING
For the years ended December 31

Asset-mix selection

Recognizing that asset-mix selection is an important driver of performance, the plan devotes considerable attention each year to choosing the types of assets owned and the relative emphasis placed on each asset group and geography. The plan's asset-mix policy is approved by Teachers' board members annually and modified as necessary through the year.

Liquidity management

The plan must have sufficient cash to meet current liabilities and to opportunistically acquire investments and therefore manages its liquidity position carefully within the context of its investment policy. As part of its liquidity strategies, the plan tests its position periodically through simulations of major market events and reports its findings to the board's Investment Committee.

Active management

To add value, the plan employs active management strategies to identify undervalued investments and optimize returns. Passive investing through market indices cannot, alone, generate the risk-adjusted returns Teachers' needs to meet its objectives. Relationships with our investment partners around the world are key to the plan's successful active management program.

In-house talent

Teachers' provides employees across the organization with the resources, training and career opportunities needed to meet the highest professional standards. As one of Canada's largest pension funds, and with approximately 80% of the investment portfolio managed in-house today, Teachers' believes that developing industry-leading in-house expertise is especially important for the Investment Division. Having the intellectual capital and expertise required to employ sophisticated strategies and to innovate in areas such as risk management, private investments and emerging markets are key to our success.

2014 PERFORMANCE

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

The plan also compares its performance to a Canadian dollar–denominated composite benchmark, which is calculated by aggregating results from each of the asset-class benchmarks and weighting those benchmarks so that they are the same as the plan's asset-mix policy weightings.

INVESTMENT PERFORMANCE

(percent)	**2014**	2013	4-Year	10-Year	Since Inception
Total return	**11.8**	10.9	11.7	8.6	10.2
Benchmark	**10.1**	9.3	10.0	7.2	8.0
Return above benchmark (Canadian $ billions)	**$2.4**	$2.1	$8.2	$15.6	$31.4

A complete list of benchmarks is available at otpp.com/benchmarks

Benchmarks

Benchmarking is important because it allows investment strategies and activities to be measured for effectiveness relative to the risks taken. Appropriate benchmarks are established by a committee, chaired by the CEO, and any changes to total plan benchmarks must be approved by Teachers' board members.

On a total-fund basis and for each investment class, the plan seeks to outperform benchmark rates of return, and when this happens, it is described as "value added."

Investment costs

The plan is committed to cost effectiveness. In 2014, total investment costs, including expenditures for salaries, benefits, fees and research, were $409 million or 28 cents per $100 of average net assets, compared to $364 million or 28 cents per $100 in 2013.

ASSET-CLASS REVIEW

(l-r) **Michael Wissell**, MBA, CFA, ICD.D, Senior Vice-President, Public Equities; **Jane Rowe**, MBA, ICD.D, Senior Vice-President, Teachers' Private Capital; **Wayne Kozun**, MBA, CFA, ICD.D, Senior Vice-President, Fixed Income & Alternative Investments; **John Sullivan**, MBA, President & CEO, Cadillac Fairview; **Andrew Claerhout**, HBA, ICD.D, Senior Vice-President, Infrastructure; **Ziad Hindo**, M.Sc., CFA, Senior Vice-President, Tactical Asset Allocation & Natural Resources

NET INVESTMENTS AND RATES OF RETURN BY ASSET CLASS

As at December 31	(Canadian $ billions)		(percent)			
			1-Year		4-Year	
	2014	2013	Actual	Benchmark	Actual	Benchmark
Equities			13.4	13.4	13.1	11.4
Canadian equity	**10.7**	10.9	12.7	12.2	6.0	5.7
Non-Canadian equity	**58.2**	51.0	13.5	13.6	14.9	12.7
Fixed income			12.0	11.9	6.8	6.5
Bonds	**35.2**	30.5	7.9	7.8	6.8	6.3
Real-rate products	**30.4**	26.4	17.1	17.1	6.8	6.8
Natural resources	**11.9**	10.8	(19.4)	(19.8)	(4.6)	(3.8)
Real assets			10.8	6.6	13.8	10.0
Real estate	**22.1**	19.2	11.1	7.3	15.4	14.0
Infrastructure	**12.6**	11.7	10.1	5.9	10.7	7.7
Absolute return strategies[1]	**15.8**	12.2				
Money market[1]	**(44.5)**	(33.8)				
Total plan[1]	**152.4**	138.9	11.8	10.1	11.7	10.0

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

Net investments are defined as investments of $225.2 billion minus investment-related liabilities of $72.8 billion. See the consolidated statements of financial position (page 37).

$152.4 billion

2014 net investments

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 group and Teachers' Private Capital, respectively. Any funds not in an active program are managed passively by the plan to maintain exposure to the equity markets at the level outlined in our asset-mix policy. The asset class, which is reported as Canadian and non-Canadian equities, had 2014 total returns of 13.4%, equal to the benchmark.

Dividends added $1.2 billion to the plan's one-year performance as dividend yields in North America remained well above inflation and bond yields. On a constant policy weight, the total value of the plan's equities increased to $68.9 billion at the end of 2014 from $61.9 billion a year earlier.

Public equities: The public equities department approaches active investing by choosing equities using bottom-up fundamental analysis. It also uses a relationship investing strategy which involves taking significant minority ownership positions in public (and sometimes pre-IPO private) companies, partnering with world-class entrepreneurs while investing in companies with the potential for excess returns. In 2014, the world's major equity markets, expressed in Canadian dollars, were generally positive.

PUBLIC EQUITIES PORTFOLIO
As at December 31, 2014

- **25%** Consumer Discretionary
- **22%** Financials
- **11%** Information Technology
- **11%** Industrials
- **9%** Consumer Staples
- **7%** Healthcare
- **6%** Energy
- **5%** Materials
- **4%** Telecommunication and Utilities

Teachers' Private Capital: TPC invests directly in private companies, either on its own or with partners, and indirectly through private equity and venture capital funds. TPC seeks to add value in its portfolio companies by assisting in long-term business planning, ensuring good governance practices and developing board and management talent.

Private equity investments totalled $21.0 billion at year end, compared to $14.8 billion at December 31, 2013. Growth in the portfolio reflected an increase in the book value of existing investments (including the consolidation of the Long-Term Equities (LTE) portfolio at the start of 2014) and 13 new direct investments, partially offset by net realizations from fund investments and divestments. In 2014, TPC returned 22.0%, exceeding its 16.3% benchmark.

TPC PORTFOLIO
As at December 31, 2014

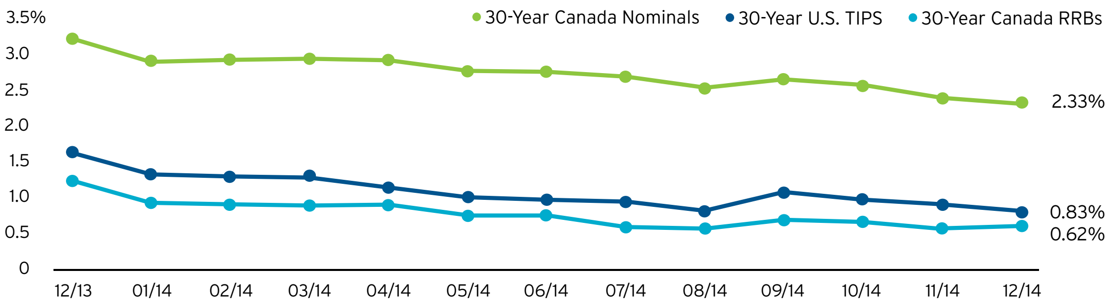
- **33%** Consumer and Retail
- **22%** Industrials
- **18%** Telecom, Media and Technology
- **10%** Healthcare
- **9%** Financial Services
- **4%** Energy and Power
- **4%** Venture Capital and Growth Equity

Fixed income

Teachers' uses fixed income investments to provide security and steady income, to hedge against interest-rate risks inherent in the plan's liabilities and to stabilize total returns. The plan owns a 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.

At 2014 year end, fixed income assets totalled $65.6 billion, compared to $56.9 billion at December 31, 2013. Returns for 2014 were 12.0% and the benchmark was 11.9%. Fixed income assets enjoyed strong returns in 2014 due to the decrease in longer-term interest rates.

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.

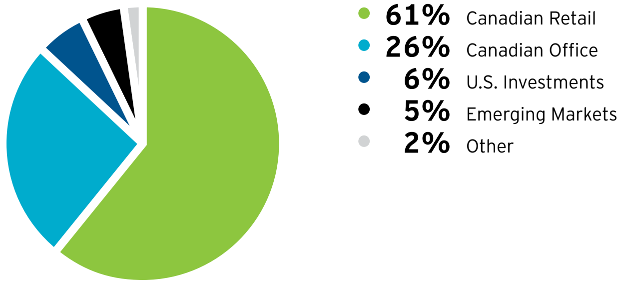
At December 31, 2014, the total value of real assets was $34.7 billion, compared to $30.9 billion at year-end 2013. Total returns for 2014 were 10.8%, exceeding the 6.6% benchmark.

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 11.1% compared to a benchmark return of 7.3% for the year ended December 31, 2014. Net asset value of real estate holdings was $22.1 billion at year-end 2014, compared to $19.2 billion the previous year. The increase reflected valuation growth in North American properties as demand for high-quality assets remained strong, driving further capitalization rate declines in the year. Portfolio highlights included: the acquisition of the Hudson's Bay downtown flagship retail complex and Simpson's Tower, including a commitment to open the first Saks Fifth Avenue stores in Canada at Toronto Eaton Centre and Sherway Gardens; the sale of the 49% interest in the U.S. retail portfolio to our partner Macerich in exchange for common shares; further investment in major development projects including new office towers in Calgary and Montreal, and expansions of Rideau Centre in Ottawa and Sherway Gardens in Toronto; and additional investment in emerging markets in Brazil and Colombia. The portfolio earned operating income of $1.0 billion in 2014, primarily from retail and office properties. At year end, the retail occupancy rate was 94% (95% in 2013), while the office occupancy rate was 96% (96% in 2013), in line with long-range targets.

REAL ESTATE PORTFOLIO

As at December 31, 2014 (based on total assets)

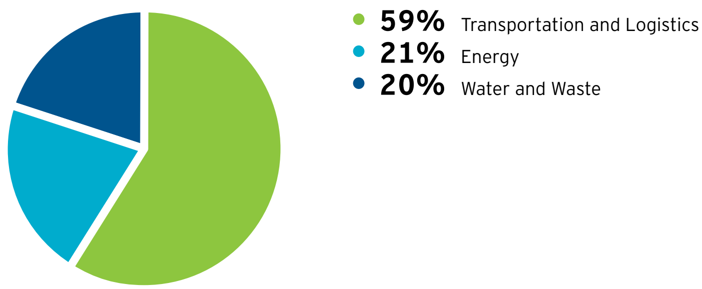


Infrastructure: The plan's infrastructure assets include investments in airports, seaports, high-speed rail, power generation and distribution, water and wastewater treatment. The majority of infrastructure assets are held outside of Canada, principally in the U.K., Europe, Chile, U.S. and Australia.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

The value of the infrastructure portfolio increased to $12.6 billion at the end of 2014 from $11.7 billion the previous year. The growth is due to additional investments and higher valuations for existing assets, divestments and new investments. In 2014, infrastructure assets returned 10.1%, compared to a benchmark of 5.9%.

INFRASTRUCTURE PORTFOLIO

As at December 31, 2014

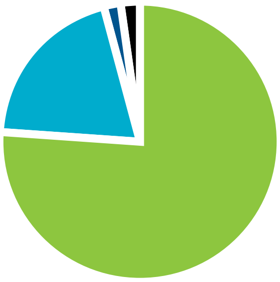


Natural resources

Natural Resources invests in commodity indices and directly in physical, producing natural resource assets. Current physical investments include timberlands, agriculture and Canadian oil and gas assets, with a mandate that also includes mining sector acquisitions. The asset group aims to provide the plan with superior risk-adjusted returns, diversification and protection against adverse macroeconomic environments that could lead to unexpectedly high inflation.

Investments in natural resources increased to $11.9 billion at year-end 2014 from $10.8 billion at December 31, 2013. The growth primarily reflects additional investments to sustain policy asset weighting. The portfolio returns for 2014 were -19.4%, largely due to lower commodity prices and slightly above the benchmark of -19.8%.

NATURAL RESOURCES PORTFOLIO
As at December 31, 2014



- **76%** Commodities
- **22%** Timberland
- **1%** Oil and Gas
- **1%** Agriculture

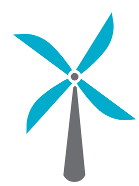
Absolute return and money market

Teachers' uses absolute return strategies to generate positive returns that are constructed to be uncorrelated to the returns of the plan's other assets. These strategies are executed primarily by the Tactical Asset Allocation and Fixed Income & Alternative Investments teams. Internally managed absolute return strategies generally look to capitalize on market inefficiencies. The plan also uses external hedge fund managers to earn uncorrelated returns, to access unique strategies that augment returns and to diversify risk. Assets employed in absolute return strategies totalled $15.8 billion at 2014 year end compared to $12.2 billion the previous year.

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 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.

NOTABLE TRANSACTIONS

The plan publishes a list of individual investments that exceeded $150 million at year-end 2014, beginning on page 68. Some notable transactions announced in 2014 are described below:



Renewable Energy: Teachers' Infrastructure Group, together with the Public Sector Pension Investment Board and Banco Santander, agreed to jointly acquire a US$2 billion portfolio of wind, solar and water infrastructure assets that are operating or under development in seven countries. To manage these assets, when the deal closes in 2015 the partners will create a new company and plan to invest significantly in its growth over the next five years.

Irish National Lottery: Premier Lotteries Ireland Limited (PLI), a Teachers' subsidiary in partnership with An Post, finalized terms with the Irish government to operate the Irish National Lottery under a 20-year licence. Camelot Group, the operator of the U.K. National Lottery and owned by Teachers', will provide consulting services that build on its expertise in the international lottery sector. The transaction was led by Teachers' Private Capital's Long-Term Equities group.

GE Aviation: Teachers' entered into a partnership with GE Aviation to fund development of technologies for the fuel-efficient GE9X engine which will power Boeing's 777X aircraft. In connection with this partnership, Teachers' public equities team established a global relationship with the Development Bank of Japan to provide innovative financing.

MEMBER SERVICES

Outstanding service to members is central to Teachers' mission. The plan delivers personalized service through both digital communications and direct service channels to meet the needs of a broad range of member demographics.

Member Services administers one of Canada's largest payrolls, with pension and benefit payments of $5.3 billion in 2014.

For the third year in a row, Member Services was ranked number one for pension service in its peer group and internationally for 2013. This ranking is provided by CEM Benchmarking Inc., an independent company which measures the performance of global pension funds.

2014 HIGHLIGHTS

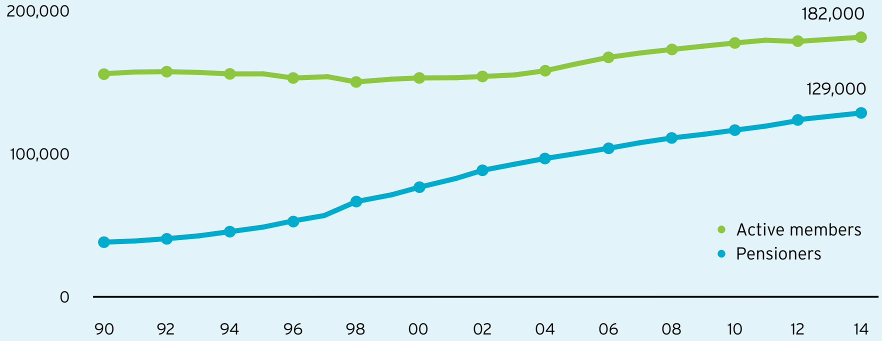
Teachers' service strategy focuses on three objectives: simplification, personalization and insight. In 2014, the Member Services Division continued to simplify pension information and streamline processes where possible; provided personalized service at different stages of teachers' lives; and used member data and trend indicators to make service improvements. Employees also worked closely with school boards and designated employers to ensure accuracy of employment data and reported information.

In 2014, Member Services reorganized its customer contact centre into five teams based on core member experiences in order to enhance the delivery of personalized service to members. Now, the Client Solutions team handles member phone calls and provides immediate service. If members need more intricate guidance – when retiring or leaving the plan, for example – they are directed to the appropriate team.

Teachers' continues to introduce innovative digital tools to help members understand plan rules and benefits. Its three mobile applications cater to various stages of a teacher's life. BabySteps – the latest arrival in the app family – is lifestyle focused and enables women on maternity leave to track the pension service they can buy back. It also features content from award-winning parenting experts. BabySteps complements two apps released in 2013 – Worklog and Classtime. Collectively, these apps have been downloaded more than 3,500 times, with over 100,000 user sessions.

ACTIVE MEMBERS AND PENSIONERS

As at December 31



4,550

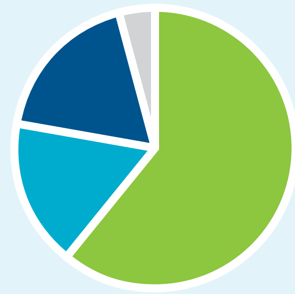
Number of new retirements in 2014

135

Number of pensioners aged 100 years or more at end of 2014

SERVICE SATISFACTION ACCORDING TO SURVEYS

For the year ended December 31, 2014

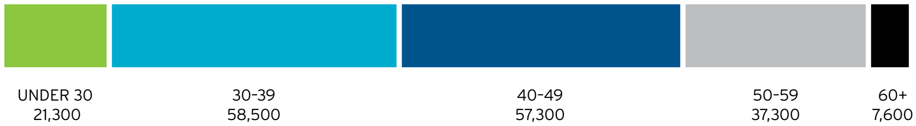


- **61%** 10/10 Extremely Satisfied
- **17%** 9/10 Very Satisfied
- **18%** 7-8/10 Satisfied
- **4%** 6 and Under – Neutral or Not Satisfied

MEMBERSHIP FACTS

TEACHERS AND PENSIONERS BY AGE

182,000 active members



129,000 pensioners

70,000 inactive members

311,000

Total number of active members and pensioners

26	Typical years of credit at retirement
31	Average years retirees are expected to collect pensions
59	Average age of teachers retiring last year
7,600	Number of teachers entering or returning to the teaching profession

SERVICE PERFORMANCE

Members consistently rate the plan's services very highly, and the majority of service requests are completed within one day. Website and personal interactions average 1,200 a day. The proportion of service provided through Teachers' secure member website grows each year, and more than 200,000 members are registered for online service.

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 Teachers' pension service and communications.

QUALITY SERVICE INDEX

(on a scale of 0 to 10)

	2014	2013
Total QSI	**9.2**	9.1
Service QSI (85%)	**9.3**	9.2
Communications QSI (15%)	**8.8**	8.7

Teachers' service is also measured against leading pension plans worldwide through surveys of those plans conducted by CEM Benchmarking Inc., which ranks plan performance in various categories.

BENCHMARKING RESULTS – SERVICE LEVEL SCORE COMPARISON

	2013	2012	2011	2010
Ontario Teachers' Pension Plan	**92**	92	92	91
CEM world average	**75**	75	75	75
Peer group average	**80**	80	79	78
Canadian participants – average	**72**	72	70	70

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

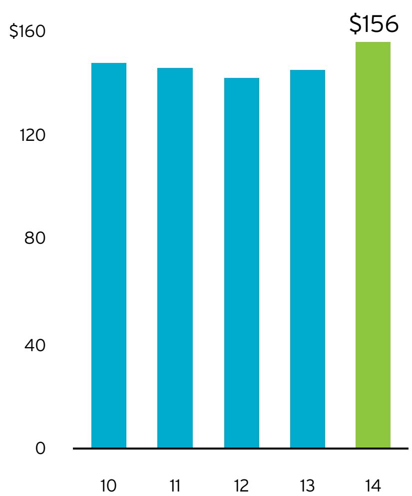
Source: CEM Benchmarking Inc.

The cost per member was $156 in 2014, versus $145 in 2013.

The cost of administering the pension plan has been relatively stable in recent years. The 2014 increase reflects ongoing investments which must be made in systems and service channels to meet operational, regulatory and service requirements.

SERVICE COST PER MEMBER

For the years ended December 31 (Canadian $)



PLAN GOVERNANCE

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

Since its inception, 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 four 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 expertise and are typically drawn from the fields of accounting, banking, business, economics, education and investment management.

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

Through five 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, Human Resources & Compensation, Governance and Benefits Adjudication.

Board members approve strategic plans, budgets, investment policies, risk appetite and asset mix, benchmarks, performance, compensation planning and succession plans. They monitor enterprise risks. 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 funding valuations to assess the pension plan's long-term financial health. The results of the funding valuations are reported to the plan sponsors. The board works closely with the independent actuary in setting the 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

Jean Turmel took over as board chair effective January 1, 2015, replacing Eileen Mercier, who retired after completing two terms as chair. Hugh Mackenzie completed his terms and Patsy Anderson resigned from the board in 2014. The sponsors named Bill Chinery, Steve McGirr and John Murray as new members.

Board and committee meeting attendance was 99% in 2014. Please visit otpp.com for full biographies of board members and committee mandates.

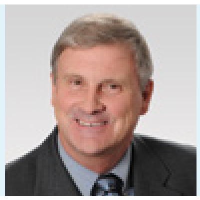
Jean Turmel, Chair

Appointed 2007; Chair since 2015

Attendance 96%

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

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



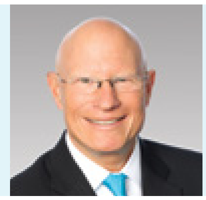
Rod Albert

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 Governance Committees



Bill Chinery

FSA, FCIA

Appointed 2015

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

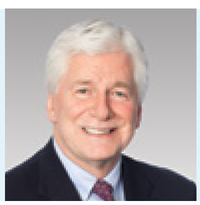
Human Resources & Compensation and Audit & Actuarial Committees, Lead Director – Information Technology

Steve McGirr

Appointed 2015

Former Senior EVP and Chief Risk Officer of CIBC; Member, Queen's University Cabinet; Director and Investment Committee chair of Wellspring, a cancer support network

Human Resources & Compensation and Governance* Committees

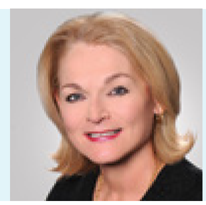


John Murray

Appointed 2014

Former Deputy Governor, Bank of Canada; 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



Barbara Palk

CFA, FCSI, ICD.D

Appointed 2012

Attendance 100%

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

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

Investment*, Benefits Adjudication** and Governance Committees

Sharon Sallows

ICD.D

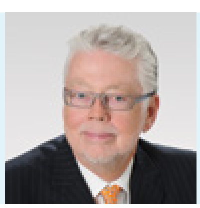
Appointed 2007

Attendance 95%

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

Former Senior Vice-President, Bank of Montreal

Human Resources & Compensation* and Audit & Actuarial Committees



David Smith

FCPA, FCA, ICD.D

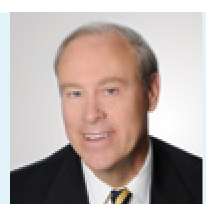
Appointed 2009

Attendance 100%

Chair, Government of Canada's Audit Committee

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

Audit & Actuarial* and Governance Committees



Daniel Sullivan

Appointed 2010

Attendance 97%

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

Human Resources & Compensation and Audit & Actuarial Committees

*Committee Chair, ** Committee Vice-Chair

FOR MORE INFORMATION, VISIT OTPP.COM/GOVERNANCE

2014 HIGHLIGHTS

Board renewal was a key feature of 2014. A new chair and three new members were appointed by the plan sponsors to replace outgoing members. A new orientation and training program for new board members was launched in late 2014 to support their information needs.

Board members met 14 times in 2014 for board meetings and 12 times for Investment Committee meetings. In addition, the Governance Committee met three times, the Human Resources & Compensation Committee met 10 times, the Audit & Actuarial Committee met six times, and the Benefits Adjudication Committee held two general meetings and one appeal hearing.

Board members regularly hear from experts on investment and economic topics to ensure they are well briefed on important matters, including risks and opportunities.

ENTERPRISE RISK MANAGEMENT (ERM)

Through its regular operations, Teachers' is exposed to risks that could negatively affect achievement of the plan's objectives. These enterprise risks are broadly categorized as strategic, reputational, governance, investment and operational risks.

An ERM policy establishes the process through which management and employees identify, measure, manage and report risks. The ERM Committee, chaired by the President and CEO, provides executive-level oversight of the ERM program, which identifies potential events and risks as well as effective mechanisms to mitigate them. Highly ranked risks and mitigation strategies are reported to the board regularly.

The organization has multi-year programs in progress aimed at reducing enterprise risk, with a continued focus on operational risk. As part of these programs, business continuity, disaster recovery and crisis management plans are in place and are tested on a regular basis.

Board members approved an updated Investment Risk Appetite Statement in 2014. It articulates the board's tolerance for various investment-related risks senior management face when pursuing Teachers' strategic objectives. A summary of the statement is available on otpp.com.

LEGISLATIVE UPDATE

Compliance and advocacy

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. Due to the complexity and dynamic nature of applicable laws and regulations, the legal compliance program was reconfigured in 2014 to include new resources, policies, procedures and training.

In addition, the Government and Public Affairs department was formed in 2014 to guide the coordination of Teachers' interactions with government and ensure that advocacy efforts support the plan's corporate objectives. Advocacy efforts focus on three main areas:

- supporting Teachers' investment teams when dealing with government officials and navigating regulatory processes;
- helping to build a positive regulatory environment;
- maintaining Teachers' role as a thought leader on public policy issues.

Plan changes

In 2014, the pension plan was amended to permit payment of the commuted value of a post-retirement survivor benefit, provided the annual benefit payable or the commuted value does not exceed certain limits.

The pension plan was amended to introduce the concept of a short absence: an employer-approved leave of five or fewer consecutive school days. As of September 1, 2014, members automatically maintain service credit for short absences.

The Partners' Agreement was amended to allow a director to remain on the Ontario Teachers' Pension Plan Board for five consecutive terms where their initial term was to replace an existing director mid-term.

Changes to the *Pension Benefits Act* (PBA)

The PBA was amended in 2014 to clarify entitlement of common-law spouses to survivor pensions and to provide a discharge to the administrator for survivor pensions already paid.

The PBA was further amended to require plan administrators to provide biennial statements to former and retired members. Teachers' will be required to provide statements every two years beginning no later than July 1, 2017.

Effective January 1, 2015, teachers who terminate their membership in the pension plan can transfer the commuted value of their pension benefits to a plan elsewhere in Canada, even if Teachers' does not have a reciprocal agreement with that plan.

Effective January 1, 2016, plan administrators must file a Statement of Investment Policies and Procedures (SIPP) with the Financial Services Commission of Ontario. SIPPs must include information about whether and how environmental, social and governance factors are incorporated. The plan's SIPP currently includes this information. Effective July 1, 2016, the information must also be disclosed on member statements.

COMPENSATION DISCUSSION & ANALYSIS

The Compensation Discussion & Analysis explains Teachers' approach to compensation, the various elements of our pay programs and the remuneration paid to our named executive officers. In fiscal 2014, our named executives were:

Ron Mock, President and CEO;

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

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

Wayne Kozun, SVP, Fixed Income & Alternative Investments;

Jane Rowe, SVP, Teachers' Private Capital.

Our compensation framework

Compensation philosophy and objectives

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

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

- attracting and retaining high-calibre employees;
- motivating and rewarding top performance, encouraging teamwork, aligning personal and organizational objectives and rewarding successful performance over the long term;
- measuring and monitoring our investment incentive compensation framework relative to our risk budget and ensuring our compensation programs do not encourage excessive risk-taking.

Benchmarking process

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

Design principles

The key design principle impacting each employee's incentive pay, at varying degrees, is our risk budget. At the beginning of each year, board members approve the active risk allocations for the total fund and each investment department, which in turn establish expected annual dollar value-added performance goals (i.e., dollars earned versus benchmark dollars earned) for the year. 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 to Teachers' all amounts paid to the participant under the AIP and/or LTIP.

Changes to Teachers' compensation program

In 2014, we undertook a comprehensive review of our compensation program to assess whether it continues to align with Teachers' strategic goals, is market competitive and drives the desired behavioural outcomes for Teachers' continued success. This review will continue throughout 2015.

Independent advisors

In 2014, board members retained the services of McLagan, an independent compensation consultant, to assist with the review of and recommended changes to the compensation program.

Elements of our compensation program – Overview

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

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

During 2014, salaries, incentives and benefits for 1,109 employees were $300.5 million.

Base salary

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

Annual Incentive Plan (AIP)

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

Performance Measure	President and CEO	SVP and CFO	EVP, Investments	SVP, Investments
Teachers' Performance	√	√	√	√
Division/Department Performance		√	√	√
Four-Year Total-Fund Performance	√		√	√
Four-Year Investment Department Performance				√
Individual Performance	√	√	√	√

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 (after 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 (after expenses) will fund an LTIP pool, which is allocated to participating employees' notional accounts. In years when total-fund net value added (after expenses) 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.

Mix of pay

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

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

Benefits and other compensation

Teachers' provides a competitive benefit program that includes life insurance, disability, health and dental benefits, vacation and other leave policies and an Employee Assistance Program. Teachers' retirement benefit for employees is a defined benefit pension plan described on page 28.

Executive employment contracts

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

Compensation decisions made in 2015 reflecting 2014

How decisions are made

Annually, the 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, the 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, 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 and approved by the board members.

2014 performance results

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 we take a balanced view of key areas that will drive us to achieve our short-, medium-, and long-term goals. Below is a description of the four categories:

- *Retirement Security* includes rate of return and net value added;
- *Members and Stakeholders* includes plan governance, member satisfaction and service quality;
- *Operations* includes cost, efficiency, and risk measures;
- *People* includes initiatives to attract and retain the best talent.

At the end of the year, the scorecard is evaluated and the results are presented and approved by the board members. For 2014, we delivered above-target performance with a multiplier of 1.74 out of 2.

Four-year total-fund investment performance

The table below summarizes, at the total-fund level, the net value added (after expenses) performance for 2011 through to 2014 relative to the return on risk targets less cost allowance. Over the four-year cumulative period, we outperformed our target total-fund net value added (after expenses) by $4.05 billion, resulting in the maximum performance multiplier of 2.0x target.

Year	Total-Fund Net Value Added	Target	Multiplier
2011	$1.21 billion	$0.72 billion	1.67x
2012	$1.95 billion	$0.72 billion	2.72x
2013	$1.81 billion	$0.72 billion	2.52x
2014	$2.04 billion	$0.80 billion	2.55x
Four-Year	$7.01 billion	$2.96 billion	2.00x (maximum)

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	Fixed Income & Alternative Investments	Tactical Asset Allocation & Natural Resources
2011 to 2014	Below target	Above target	Above target	Above target	Above target

Executive compensation

The compensation table represents disclosure of base salary, annual incentive, long-term incentive and other compensation earned in 2012, 2013 and 2014 by the CEO, the CFO and the three other most highly compensated executives, excluding subsidiary companies.

Name and Principal Position	Year	Base Salary A	Annual Incentive B	Long-Term Incentive Allocation C	Long-Term Incentive Paid D	Other[1] E	Change in Pension Value	**Total Direct Compensation[2] A+B+C**	Total Compensation[3] A+B+D+E
Ron Mock	2014	$498,654	$1,321,500	$1,800,000	$1,961,700	$1,185	$1,906,900	**$3,620,154**	$3,783,039
President and CEO	2013	322,346	787,900	900,000	1,802,800	703		**2,010,246**	2,913,749
	2012	310,385	788,400	1,300,000	1,896,600	447		**2,398,785**	2,995,832
David McGraw	2014	344,231	345,700	475,000	660,500	2,106	367,400	**1,164,931**	1,352,537
SVP and CFO	2013	332,692	335,700	420,000	646,000	725		**1,088,392**	1,315,117
	2012	322,692	348,500	440,000	650,300	464		**1,111,192**	1,321,956
Neil Petroff	2014	466,538	1,291,900	1,800,000	2,722,300	1,108	1,415,600	**3,558,438**	4,481,846
EVP, Investments	2013	451,538	1,293,300	1,780,000	2,709,900	984		**3,524,838**	4,455,722
	2012	436,539	1,268,500	1,850,000	2,722,500	628		**3,555,039**	4,428,167
Wayne Kozun	2014	331,923	808,100	1,037,800	1,832,200	788	878,300	**2,177,823**	2,973,011
SVP, Fixed Income	2013	322,808	775,900	900,000	1,875,600	704		**1,998,708**	2,975,012
& Alternative	2012	313,654	667,300	1,030,000	1,984,100	451		**2,010,954**	2,965,505
Investments									
Jane Rowe	2014	332,154	809,100	1,450,000	1,246,900	799	260,300	**2,591,254**	2,388,953
SVP, Teachers'	2013	323,115	778,300	875,000	1,054,700	704		**1,976,415**	2,156,819
Private Capital	2012	310,385	788,400	1,300,000	1,004,800	576		**2,398,785**	2,104,161

[1] Other compensation includes one or more of the following: group term life insurance, accidental death & dismemberment, and unused vacation cashout.

[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 of our named executives.

Notional Account Activity

Name and Principal Position	Opening Balance	2014 Rate of Return	January 1, 2015 Allocation	2015 Payment	Balance
Ron Mock President and CEO	$5,408,454	11.8%	$1,800,000	$1,961,700	$5,885,222
David McGraw SVP and CFO	1,938,104	11.8%	475,000	660,500	1,981,397
Neil Petroff EVP, Investments	8,129,561	11.8%	1,800,000	2,722,300	8,166,956
Wayne Kozun SVP, Fixed Income & Alternative Investments	5,626,667	11.8%	1,037,800	1,832,200	5,496,496
Jane Rowe SVP, Teachers' Private Capital	3,163,958	11.8%	1,450,000	1,246,900	3,740,563

Retirement benefits

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.

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

Name and Principal Position	Projected Years of Service at Age 65	Estimated Total Annual Pension Benefit at Age 65	Present Value of Total Pension at January 1, 2014	2014 Compensatory Annual Change in Pension Value	2014 Non-Compensatory[1] Annual Change in Pension Value	Present Value of Total Pension at December 31, 2014
Ron Mock President and CEO	17	$375,500	$2,210,800	$1,454,200	$452,700	$4,117,700
David McGraw SVP and CFO	17	177,800	1,022,200	138,600	228,800	1,389,600
Neil Petroff EVP, Investments	32	833,000	5,184,700	259,100	1,156,500	6,600,300
Wayne Kozun SVP, Fixed Income & Alternative Investments	36	677,000	2,512,800	102,300	776,000	3,391,100
Jane Rowe SVP, Teachers' Private Capital	13	191,900	460,000	135,000	125,300	720,300

[1] 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

In 2014, board members retained the services of Mercer, an independent compensation consultant, to conduct an assessment of board member remuneration. Changes were made in September to increase the annual retainers for all board members by $5,000 each.

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 2014, these expenses totalled $82,000.

Board Member		Board Meetings	Committee Meetings	2014 Total Remuneration
Eileen Mercier	Chair of the Board	14	31	$166,250
Rod Albert	Chair, Benefits Adjudication Committee	14	21	82,450
Patsy Anderson[1]	Lead Director, Information Technology	6	12	40,000
Hugh Mackenzie	Chair, Human Resources & Compensation Committee	14	25	81,250
Barbara Palk	Vice-Chair, Benefits Adjudication Committee	14	24	72,450
Sharon Sallows	Chair, Governance Committee	13	24	86,250
David Smith	Chair, Audit & Actuarial Committee	14	28	86,250
Daniel Sullivan		14	24	66,250
Jean Turmel	Chair, Investment Committee	13	30	81,250

[1] Patsy Anderson resigned in July 2014.

FINANCIAL REPORTING

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

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

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

FINANCIAL STATEMENT VALUATION

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

Methods and assumptions used for the financial statement valuation

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

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

The discount rate for the financial 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. In 2014, the cash flow-based estimation methodology for determining the discount rate was adopted as it applies a weighted average discount rate that reflects the estimated timing and amount of benefit payments and is considered more accurate than the previous approach. The discount rate used is 3.35% (4.20% in 2013). 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, 2014

The plan ended 2014 with a financial statement deficit of $18.2 billion, up from the deficit of $7.8 billion at the end of 2013. The deficit represents the difference between net assets available for benefits of $154.5 billion and accrued pension liabilities of $172.7 billion at year end.

YEAR-END FINANCIAL POSITION

As at December 31 (Canadian $ billions)

	2014	2013
Net assets available for benefits	**$ 154.5**	$ 140.8
Accrued pension benefits	**(172.7)**	(148.6)
Deficit	**$ (18.2)**	$ (7.8)

During 2014, net assets available for benefits increased by $13.7 billion. Investment income of $16.3 billion and contributions of $3.2 billion increased net assets available for benefits while benefits paid of $5.3 billion and administrative expenses of $0.5 billion decreased the net assets available. Investment income of $16.3 billion was due primarily to strong equity, fixed income, and real asset returns partially offset by negative commodity returns (investment returns are discussed in the Investments section of the MD&A).

NET ASSETS AVAILABLE FOR BENEFITS

As at December 31 (Canadian $ billions)

	2014	2013
Net assets available for benefits, beginning of year	**$ 140.8**	$ 129.5
Investment income	**16.3**	13.7
Contributions	**3.2**	3.1
Benefits paid	**(5.3)**	(5.1)
Administrative expenses	**(0.5)**	(0.4)
Increase in net assets available for benefits	**13.7**	11.3
Net assets available for benefits, end of year	**$ 154.5**	$ 140.8

Accrued pension benefits increased by $24.1 billion during the year to $172.7 billion. Changes in actuarial assumptions (mainly a decrease in the discount rate of 85 basis points) increased the accrued pension benefits amount by $18.3 billion. Benefits paid during 2014 of $5.3 billion include the addition of 4,600 retirement and disability pensions and 900 survivor pensions during 2014, as well as a 0.9% cost-of-living increase.

ACCRUED PENSION BENEFITS

As at December 31 (Canadian $ billions)

	2014	2013
Accrued pension benefits, beginning of year	**$ 148.6**	$ 166.0
Interest on accrued pension benefits	**6.2**	5.6
Benefits accrued	**4.4**	5.0
Benefits paid	**(5.3)**	(5.1)
Changes in actuarial assumptions	**18.3**	(22.0)
Changes in level of conditional indexing	**0.4**	–
Experience losses/(gains)	**0.1**	(0.9)
Increase/(decrease) in accrued pension benefits	**24.1**	(17.4)
Accrued pension benefits, end of year	**$ 172.7**	$ 148.6

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, 2014 (Canadian $ millions)	Level 1	Level 2	Level 3	**Total**
Fixed income	$ 75,492	$ 7,961	$ 13,816	**$ 97,269**
Equity	34,862	357	22,354	**57,573**
Natural resources	–	–	2,867	**2,867**
Real assets	2,551	270	36,433	**39,254**
Net investment-related receivables/(liabilities)	(16,408)	(26,237)	(1,932)	**(44,577)**
Net investments	$ 96,497	$ (17,649)	$ 73,538	**$ 152,386**

EFFECTIVE OVERSIGHT AND CONTROLS

Disclosure and financial reporting controls

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

We have designed disclosure controls and procedures to provide reasonable assurance that material information related to the plan is gathered and reported to management in order to allow timely decisions regarding public disclosure. We evaluated our disclosure controls and procedures and concluded as at December 31, 2014, that they are effective.

We have also designed internal control over financial reporting, using the Integrated Framework updated 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. Teachers' has conducted assessments annually. In 2014, an "Enhancing Audit Quality" initiative developed by the Chartered Professional Accountants of Canada, the Canadian Public Accountability Board and the Institute of Corporate Directors resulted in the issuance of two publications: (1) Annual Assessment of the External Auditor – Tool for Audit Committees; and (2) Periodic Comprehensive Review of the External Auditor – Tool for Audit Committees. In 2014, Teachers' conducted a comprehensive review of its external auditor, and leveraged the tools provided in the publication as well as its prior annual assessments. Based on the review's findings, Teachers' Audit & Actuarial Committee recommended, and the board approved, the reappointment of the external auditor for 2014.

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

We strive to minimize our own use of consulting services involving the plan's auditor and we always disclose the total amount paid for such services. In 2014, fees paid to Deloitte Touche Tohmatsu Limited (of which the Canadian firm is the plan's auditor) totalled $9.4 million ($8.2 million in 2013), of which $8.7 million was for audit activities and $700,000 was for non-audit services. Of the $700,000 paid for non-audit services, approximately $30,000 related to the plan, $520,000 related to subsidiaries audited by Deloitte and the balance of $150,000 was for subsidiaries not audited by Deloitte. Of the $520,000 paid by the subsidiaries, $10,000 was paid to Deloitte (Canada) and $510,000 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 five Board members who are not officers or employees of the Plan administrator. In addition, the Committee reviews the recommendations of the internal and external auditors for improvements in internal control and the action of management to implement such recommendations. In carrying out its duties and responsibilities, the Committee meets regularly with management and with both the external and internal auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. This Committee reviews the consolidated financial statements and recommends them for approval by the Board.

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

Ron Mock
President and Chief Executive Officer
March 5, 2015

David McGraw
Senior Vice-President and Chief Financial Officer

AUDITOR'S REPORT TO THE ADMINISTRATOR

We have audited the accompanying consolidated financial statements of Ontario Teachers' Pension Plan Board, which comprise the consolidated statements of financial position as at December 31, 2014, 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, 2014, and the changes in its net assets available for benefits, changes in accrued pension benefits and changes in deficit for the year then ended in accordance with Canadian accounting standards for pension plans.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
March 5, 2015

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, 2014, 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, 2014;
- methods prescribed by Section 4600 of the Chartered Professional Accountants of Canada Handbook for pension plan financial statements;
- real and nominal interest rates on long-term bonds at the end of 2014;
- 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, 2014, 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 2014, and while in our opinion these assumptions are reasonable, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan, and the contributions required to fund it, at that time.

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

Scott Clausen, F.C.I.A., F.S.A
March 5, 2015

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31 (Canadian $ millions)	**2014**	2013
Net assets available for benefits		
ASSETS		
Cash	**$ 129**	$ 67
Receivable from the Province of Ontario (note 3)	**3,098**	2,965
Receivable from brokers	**49**	46
Investments (note 2)	**225,172**	198,109
Premises and equipment	**44**	32
	228,492	201,219
LIABILITIES		
Accounts payable and accrued liabilities	**295**	333
Due to brokers	**935**	916
Investment-related liabilities (note 2)	**72,786**	59,206
	74,016	60,455
Net assets available for benefits	**$ 154,476**	$ 140,764
Accrued pension benefits and deficit		
Accrued pension benefits (note 4)	**$ 172,725**	$ 148,571
Deficit	**(18,249)**	(7,807)
Accrued pension benefits and deficit	**$ 154,476**	$ 140,764

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)	2014	2013
Net assets available for benefits, beginning of year	**$ 140,764**	$ 129,524
Investment operations		
Net investment income (note 6)	**16,260**	13,718
Administrative expenses (note 11a)	**(409)**	(364)
Net investment operations	**15,851**	13,354
Member service operations		
Contributions (note 9)	**3,216**	3,081
Benefits paid (note 10)	**(5,306)**	(5,150)
Administrative expenses (note 11b)	**(49)**	(45)
Net member service operations	**(2,139)**	(2,114)
Increase in net assets available for benefits	**13,712**	11,240
Net assets available for benefits, end of year	**$ 154,476**	$ 140,764

CONSOLIDATED STATEMENTS OF CHANGES IN ACCRUED PENSION BENEFITS

For the year ended December 31 (Canadian $ millions)	**2014**	2013
Accrued pension benefits, beginning of year	**$ 148,571**	$ 166,009
Increase in accrued pension benefits		
Interest on accrued pension benefits	**6,239**	5,642
Benefits accrued	**4,367**	4,992
Changes in actuarial assumptions and methods (note 4a)	**18,264**	–
Changes in level of conditional indexing (note 4b)	**451**	–
Experience losses (note 4c)	**139**	–
	29,460	10,634
Decrease in accrued pension benefits		
Benefits paid (note 10)	**5,306**	5,150
Changes in actuarial assumptions and methods (note 4a)	**–**	21,973
Experience gains (note 4c)	**–**	949
	5,306	28,072
Net increase/(decrease) in accrued pension benefits	**24,154**	(17,438)
Accrued pension benefits, end of year	**$ 172,725**	$ 148,571

CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIT

For the year ended December 31 (Canadian $ millions)	**2014**	2013
Deficit, beginning of year	**$ (7,807)**	$ (36,485)
Increase in net assets available for benefits	**13,712**	11,240
Net (increase)/decrease in accrued pension benefits	**(24,154)**	17,438
Deficit, end of year	**$ (18,249)**	$ (7,807)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2014

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 $149,714 (CPP-exempt members $138,500) in 2014 and $145,769 (CPP-exempt members $134,834) in 2013; and (2) members whose pensions would require a larger reduction for early retirement to comply with the ITA limitations than the Plan would impose. Because the RCA is a separate trust, the net assets available for benefits and accrued benefits and deficit of the RCA are not included in these consolidated financial statements.

NOTE 1.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

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

The Plan's real estate portfolio is comprised of real estate–related investments that are either owned or managed on behalf of the Plan by The Cadillac Fairview Corporation Limited (CFCL), a wholly owned subsidiary, which the Plan consolidates. The Plan also consolidates wholly owned investment holding companies that are managed by either the Plan or CFCL. Investment holding companies that are managed by external parties are recognized as the Plan's investment assets. Under Section 4600, investment assets, including those over which the Plan has control or significant influence, are measured at fair value and presented on a non-consolidated basis.

The consolidated financial statements for the year ended December 31, 2014, were authorized for issue through a resolution of the Board on March 5, 2015.

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

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

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

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

e. Real estate, private equities, infrastructure, and natural resources are valued based on estimated fair values determined by using appropriate techniques and best estimates by either management, appraisers, or both. Where external appraisers are engaged to perform the valuation, management ensures the appraisers are independent and compares the assumptions used by the appraisers with management's expectations based on current market conditions and industry practice to ensure the valuation captures the business and economic conditions specific to the investment.

   At least 70% of the value of the rental property portfolio covering all product types and geographic regions is independently appraised annually. At a minimum, 90% of the real estate portfolio will be valued by independent appraisers at least every three years.

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

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

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

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

- Bond prices – quoted prices are generally available for government bonds, certain corporate bonds and some other debt-related products.

- Credit spreads – where available, credit spreads are derived from prices of credit default swaps or other credit-based instruments, such as debt securities. For others, credit spreads are obtained from pricing services.

- Interest rates – principally derived from benchmark interest rates such as quoted interest rates from central banks and in swap, bond and futures markets. Benchmark interest rates are considered when determining discount rates used in the present-value approaches.

- Foreign currency exchange rates – there are observable markets, both spot and forward, and in futures in all major currencies.
- Public equity and equity index prices – quoted prices are generally readily available for equity shares listed on the stock exchanges and for indices on such shares.
- Commodity prices – many commodities are actively traded in spot, forward and futures markets.
- Price volatilities and correlations – volatility is a measure of the tendency of a specific price to change over time. Correlation measures the degree to which two or more prices or other variables are observed to have moved together historically. Volatility is an input in valuing options and certain products such as derivatives with more than one underlying variable that is correlation-dependent. Volatility and correlation values are either obtained from broker quotations, from pricing services, or are derived from quoted option prices.
- Forecasts on operating cash flows of real estate, private equities, infrastructure, and natural resources – forecasts include assumptions on revenue, revenue growth, expenses, capital expenditures, and capital structure. They are generally provided by either management of the companies in which the Plan invests or external managers. Additional assumptions from external parties, for example, external appraisers, may also be used in the forecast.

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

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

Fair value hierarchy

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

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

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

Trade-date reporting

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

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.

(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 $500 million (2013 – $253 million), before allocating the effect of derivative contracts:

As at December 31		2014		2013
(Canadian $ millions)	**Fair Value**	**Cost**	Fair Value	Cost
Fixed income				
Bonds[2, 3]	**$ 51,250**	**$ 47,409**	$ 38,812	$ 38,660
Short-term investments[2, 3]	**5,495**	**5,477**	8,345	8,329
Alternative investments[2, 4]	**10,400**	**8,054**	8,018	6,576
Canadian real-rate products	**20,563**	**15,222**	18,598	15,263
Non-Canadian real-rate products	**9,561**	**7,698**	8,485	8,207
	97,269	**83,860**	82,258	77,035
Equity				
Publicly traded				
Canadian	**2,900**	**2,635**	3,292	3,130
Non-Canadian	**33,664**	**25,542**	30,891	23,031
Non-publicly traded				
Canadian[2]	**2,009**	**1,839**	2,254	2,151
Non-Canadian[2]	**19,000**	**14,840**	16,884	13,631
	57,573	**44,856**	53,321	41,943
Natural resources				
Timberland	**2,592**	**1,699**	2,446	2,078
Sector investment[5]	**275**	**276**	166	154
	2,867	**1,975**	2,612	2,232
Real assets				
Real estate (note 5)	**26,595**	**16,870**	23,572	14,461
Infrastructure	**12,659**	**10,079**	11,684	9,458
	39,254	**26,949**	35,256	23,919
	196,963	**157,640**	173,447	145,129
Investment-related receivables				
Securities purchased under agreements to resell	**24,136**	**23,754**	21,851	21,692
Cash collateral deposited under securities borrowing arrangements	**2,322**	**2,322**	1,279	1,279
Cash collateral paid under credit support annexes	**178**	**178**	–	–
Derivative-related, net	**1,573**	**1,066**	1,532	604
	28,209	**27,320**	24,662	23,575
Investments	**$ 225,172**	**$ 184,960**	$ 198,109	$ 168,704

1 For additional details, refer to the Major Investments on page 68.

2 Beginning in January 1, 2014, fund investments have been classified based on the type of fund and valuation methodology. 2013 comparative figures have been reclassified to reflect the change.

3 Beginning in January 1, 2014, bonds with a maturity less than a year, previously classified as short-term investments, have been classified as bonds. 2013 comparative figures have been reclassified to reflect the change.

4 Comprised primarily of hedge funds and managed futures accounts.

5 Sector investment includes oil, gas and agricultural assets.

As at December 31		2014		2013
(Canadian $ millions)	**Fair Value**	**Cost**	Fair Value	Cost
Investment-related liabilities				
Securities sold under agreements to repurchase	**$ (45,260)**	**$ (44,846)**	$ (37,875)	$ (37,957)
Securities sold but not yet purchased				
Fixed income	**(16,522)**	**(14,431)**	(13,861)	(14,818)
Equities	**(2,291)**	**(2,090)**	(1,269)	(1,110)
Real estate (note 5)	**(4,507)**	**(4,147)**	(4,333)	(4,029)
Cash collateral received under credit support annexes	**(57)**	**(57)**	(317)	(317)
Derivative-related, net	**(4,149)**	**(1,411)**	(1,551)	(685)
	(72,786)	**(66,982)**	(59,206)	(58,916)
Net investments (note 2d)	**$ 152,386**	**$ 117,978**	$ 138,903	$ 109,788

(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, 2014
(Canadian $ millions)	Level 1	Level 2	Level 3	**Total**
Fixed income	$ 75,492	$ 7,961	$ 13,816	**$ 97,269**
Equity	34,862	357	22,354	**57,573**
Natural resources	–	–	2,867	**2,867**
Real assets	2,551	270	36,433	**39,254**
Net investment-related receivables/(liabilities)	(16,408)	(26,237)	(1,932)	**(44,577)**
Net investments	$ 96,497	$ (17,649)	$ 73,538	**$ 152,386**

				December 31, 2013
(Canadian $ millions)	Level 1	Level 2	Level 3	Total
Fixed income[6]	$ 66,593	$ 4,529	$ 11,136	$ 82,258
Equity[6]	32,372	995	19,954	53,321
Natural resources	–	–	2,612	2,612
Real assets	965	280	34,011	35,256
Net investment-related receivables/(liabilities)	(14,107)	(18,779)	(1,658)	(34,544)
Net investments	$ 85,823	$ (12,975)	$ 66,055	$ 138,903

[6] Beginning in January 1, 2014, fund investments have been classified based on the type of fund and valuation methodology. 2013 comparative figures have been reclassified to reflect the change.

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

						2014
(Canadian $ millions)	Fixed Income[8]	Equity[8]	Natural Resources	Real Assets	Net Investment-Related Receivables/ (Liabilities)	**Total**
Balance, beginning of year	$ 11,136	$ 19,954	$ 2,612	$ 34,011	$ (1,658)	**$ 66,055**
Purchases	5,173	5,763	295	6,238	5,063	**22,532**
Sales	(3,797)	(5,699)	(522)	(6,652)	(4,338)	**(21,008)**
Transfers in[7]	–	–	–	–	(12)	**(12)**
Transfers out[7]	–	–	–	–	1	**1**
Gains/(losses) included in investment income						
Realized	118	1,265	(30)	2,282	54	**3,689**
Unrealized	1,186	1,071	512	554	(1,042)	**2,281**
Balance, end of year	$ 13,816	$ 22,354	$ 2,867	$ 36,433	$ (1,932)	**$ 73,538**

						2013
(Canadian $ millions)	Fixed Income[8]	Equity[8]	Natural Resources	Real Assets	Net Investment-Related Receivables/ (Liabilities)	Total
Balance, beginning of year	$ 11,113	$ 15,182	$ 2,173	$ 29,321	$ (1,653)	$ 56,136
Purchases	3,766	3,686	155	3,958	2,783	14,348
Sales	(4,525)	(2,754)	(11)	(1,966)	(2,885)	(12,141)
Transfers in[7]	–	106	–	–	2	108
Transfers out[7]	(106)	(174)	–	–	–	(280)
Gains/(losses) included in investment income						
Realized	268	739	(4)	817	(19)	1,801
Unrealized	620	3,169	299	1,881	114	6,083
Balance, end of year	$ 11,136	$ 19,954	$ 2,612	$ 34,011	$ (1,658)	$ 66,055

[7] Transfers in and transfers out of Level 3 are due to the change in the availability of observable inputs used for fair value measurement of investment assets or related liabilities. Similarly, the transfers between Level 2 and Level 1 of $365 million (2013 – $250 million) are due to the change in the applicability of non-observable inputs. See note 1c Fair Value Hierarchy.

[8] Beginning in January 1, 2014, fund investments have been classified based on the type of fund and valuation methodology. 2013 comparative figures have been reclassified to reflect the change.

(c) Derivative contracts

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

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

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

Swaps

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

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

Interest rate swaps are agreements where two counterparties exchange a series of payments based on different interest rates applied to a notional amount. With the Dodd-Frank regulations, certain interest rate swaps traded with U.S. counterparties in the OTC market are now centrally cleared at regulated clearing houses.

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

Forwards and futures

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

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

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

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

Options

Options may be either acquired in standardized amounts on regulated exchanges or customized and acquired in the OTC market. They are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) a security, exchange rate, interest rate, or other financial instrument or commodity at a predetermined price, at or by a specified future date. The seller (writer) of an option can also settle the contract by paying the cash settlement value of the purchaser's right. The seller (writer) receives a premium from the purchaser for this right. The various option agreements that the Plan enters into include equity and commodity options, interest rate options, and foreign currency options.

Credit derivatives

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

Credit default swaps provide protection against the decline in value of the referenced asset as a result of specified events such as payment default or insolvency. These swaps are similar in structure to an option whereby the purchaser pays a premium to the seller of the credit default swap in return for payment related to the deterioration in the value of the referenced asset. The referenced asset for credit default swaps is a debt instrument. With the Dodd-Frank regulations, certain credit default swaps traded with U.S. counterparties in the OTC market are now centrally cleared at regulated clearing houses.

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

Other derivative products

The Plan also transacts in other derivative products including statistic swaps and dividend swaps in the OTC market. An investor may trade the statistic swaps with the objective of adding value or hedging for risks associated with the magnitude of movement, i.e., volatility, variance, correlation, covariance of some underlying products, such as exchange rates, or stock indexes. Dividend swaps are 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:

			2014		2013
(Canadian $ millions)		**Notional**	**Fair Value**	Notional	Fair Value
Equity and commodity derivatives					
Swaps		**$ 34,656**	**$ (2,558)**	$ 23,038	$ 160
Futures		**5,438**	**61**	6,798	(40)
Options: Listed	– purchased	**57**	**4**	106	32
	– written	**32**	**(5)**	159	(3)
OTC	– purchased	**4,525**	**91**	2,821	66
	– written	**3,864**	**(164)**	3,953	(104)
		48,572	**(2,571)**	36,875	111
Interest rate derivatives					
Swaps		**50,716**	**61**	22,110	21
Futures		**176,507**	**6**	216,554	(13)
Options: Listed	– purchased	**3,532**	**2**	1,458	1
	– written	**1,823**	**–**	1,450	–
OTC	– purchased	**6,188**	**43**	8,932	100
	– written	**17,061**	**(33)**	16,961	(95)
		255,827	**79**	267,465	14
Currency derivatives					
Swaps		**7,199**	**29**	4,751	1
Forwards[9]		**48,298**	**180**	47,044	(118)
Futures		**27**	**–**	126	–
Options: OTC	– purchased	**7,431**	**106**	7,402	85
	– written	**6,539**	**(92)**	6,306	(56)
		69,494	**223**	65,629	(88)
Credit derivatives					
Credit default swaps	– purchased	**12,414**	**(634)**	9,294	(193)
	– written	**9,263**	**434**	7,259	52
Total return swaps		**32**	**2**	48	3
		21,709	**(198)**	16,601	(138)
Other derivatives					
Statistic swaps		**4,571**	**(48)**	3,746	(32)
Dividend swaps		**332**	**(11)**	361	(11)
		4,903	**(59)**	4,107	(43)
		400,505	**(2,526)**	390,677	(144)
Net cash collateral (received)/paid under derivative contracts		**–**	**(50)**	–	125
Notional and net fair value of derivative contracts		**$ 400,505**	**$ (2,576)**	$ 390,677	$ (19)

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

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

(Canadian $ millions)	2014	2013
Derivative-related receivables	$ 1,624	$ 1,494
Cash collateral paid under derivative contracts	–	139
Derivative-related liabilities	(4,150)	(1,638)
Cash collateral received under derivative contracts	(50)	(14)
	$ (2,576)	$ (19)

(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:

	2014		2013	
	Effective Net Investments at Fair Value ($ millions)	Asset Mix %	Effective Net Investments at Fair Value ($ millions)	Asset Mix %
Equity				
Canadian	$ 10,707	7%	$ 10,863	8%
Non-Canadian	58,140	38	51,034	37
	68,847	45	61,897	45
Fixed income				
Bonds	35,188	23	30,529	22
Real-rate products	30,364	20	26,368	19
	65,552	43	56,897	41
Natural resources				
Commodities	9,032	6	8,215	6
Timberland	2,592	2	2,446	2
Sector investment[10]	275	–	166	–
	11,899	8	10,827	8
Real assets				
Real estate (note 5)	22,088	15	19,239	14
Infrastructure	12,659	8	11,684	8
	34,747	23	30,923	22
Absolute return strategies				
Internal absolute return strategies	7,976	5	6,009	4
Alternative investments	7,859	5	6,195	4
	15,835	10	12,204	8
Money market	(44,494)	(29)	(33,845)	(24)
Net investments	$ 152,386	100%	$ 138,903	100%

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

(e) Risk management

Objectives

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

The Plan also manages its liquidity risk so that there is sufficient liquidity to enable the Plan to meet all of its future obligations as they become payable, which includes meeting short-term marked-to-market payments resulting from the Plan's derivative exposure and to give the Plan the ability to adjust the asset mix in response to the changes in the market conditions.

Policies

To apply risk management to investments in a consistent manner, the Plan has a number of policies, for example:

- Statement of Investment Policies and Procedures – The statement, posted on the Plan's website, addresses the manner in which the fund shall be invested. The statement is subject to the Board's review at least annually; the last review date was November 27, 2014. No significant changes were made to the statement at that time. The long-term rate of return goal is set at the actuarial assumed discount rate contained in the funding valuation using the going-concern basis. The Plan's investments are selected and held in accordance with the criteria and limitations set forth in the statement and in accordance with all relevant legislation. The statement includes a long-term asset-mix policy:

Exposure	Minimum	Goal	Maximum
Equities	39%	44%	49%
Fixed income	35%	48%	56%
Natural resources	3%	8%	13%
Real assets	18%	23%	28%
Money market[11]	(26)%	(23)%	(15)%
		100%	

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

- Board Investment Policy – This policy applies to the total-fund and aggregate asset classes. The policy addresses the risks that are relevant and material at the total-fund level. The policy specifies asset mix and risk budget allocation and lists investment constraints such as maximum exposures permitted for a single issuer, liquidity requirements, and currency management. The Board approves this policy and reviews it regularly.
- Investment Division Policy – This policy addresses the manner in which the Investment Division is organized for the purpose of undertaking the investment and risk management of the fund and for day-to-day operations management. This policy specifies the oversight role and activities of the senior committees within the Investment Division.
- Portfolio policies for each investment department – These policies are developed to apply to the individual portfolios within each asset class managed by the Investment Division. Portfolio policies include the departments' investment strategies, operating procedures, trading limits and approval requirements, risk factors and a description of how the risks will be managed and reporting requirements for each portfolio manager, particularly relating to reporting deviations from the approved portfolio policy. All portfolio policies are reviewed annually and approved by the Executive Vice-President of the Investment Division and the Senior Vice-President responsible for the department.
- Trade Authorization and Execution Operation Policy – This policy provides guidance on trading with authorized counterparties.
- Investment Division Counterparty Credit Policy – This policy applies to investments with credit risk exposure that arises from entering into certain counterparty agreements. The policy provides constraints on counterparty credit exposure and procedures for obtaining authorization to trade with a new counterparty.
- Pre-Investment Approval Policy – This policy formalizes the procedures to ensure the data needed for trade capture, pricing, risk management, and accounting is accurate, complete, and can be entered into the Plan's systems of record on a timely basis prior to commencement of trading.

Processes

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

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

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

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

(f) Credit risk

The Plan is exposed to the risk that a counterparty defaults or becomes insolvent. Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. 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 securities collateral.

The Plan has a credit risk assessment process to approve prospective new counterparties and to monitor authorized counterparties for derivative contracts, repurchase and reverse repurchase agreements, 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:

2014

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)	$ 30,581	$ 16,594	$ –	$ –	$ –
AA/R-1 (mid)	13,749	10,356	3,291	–	15
A/R-1 (low)	4,549	2,918	14,903	–	275
BBB/R-2	2,364	12	464	–	–
Below BBB/R-2	2,361	–	–	–	–
Unrated[12, 13]	3,141	244	5,478	5,605	–
Total	**$ 56,745**	**$ 30,124**	**$ 24,136**	**$ 5,605**	**$ 290**

2013

Credit rating (Canadian $ millions)	Bonds and Short-Term Investments	Real-Rate Products	Securities Purchased under Agreements to Resell	Loans and Private Debt	OTC Derivatives
AAA/R-1 (high)	$ 32,509	$ 14,876	$ –	$ –	$ –
AA/R-1 (mid)	8,055	9,295	2,785	–	31
A/R-1 (low)	2,246	2,653	11,261	–	215
BBB/R-2	1,104	16	–	–	–
Below BBB/R-2	1,348	–	–	–	–
Unrated[12, 13]	1,895	243	7,805	4,955	–
Total	$ 47,157	$ 27,083	$ 21,851	$ 4,955	$ 246

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

13 Beginning on January 1, 2014, fund investments have been classified based on the type of fund and valuation methodology. 2013 comparative figures have been reclassified to reflect the change.

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)		**2014**		2013
Guarantees	**$**	**394**	$	424
Loan commitments		**139**		169
Notional amount of written credit derivatives		**9,263**		7,259
Total off-balance sheet credit risk exposure	**$**	**9,796**	$	7,852

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, 2014, the Plan has a significant concentration of credit risk with the Government of Canada, the Province of Ontario and the U.S. Treasury. This concentration relates primarily to holding Government of Canada issued securities of $43.3 billion (2013 – $43.8 billion), U.S. Treasury issued securities of $2.8 billion (2013 – $0.8 billion), Province of Ontario bonds of $6.2 billion (2013 – $4.6 billion), receivable from the Province of Ontario (see note 3) of $3.1 billion (2013 – $3.0 billion) and future provincial funding requirements of the Plan.

(g) Market risk

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

Market risk management

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

Market and credit risk measurement

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

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

The ETL methodology is a statistical approach that accounts for market volatility and credit risk as well as risk diversification achieved by investing in various products and markets. Risks are measured consistently across all markets and products and can be aggregated to arrive at a single risk number. The one-year 99% ETL number used by the Plan is generated using a historical simulation and bootstrap sampling approach that reflects the expected annual return on the portfolio in the worst 1% of the cases. The Plan currently uses the previous 28 years of market data. When sufficient historical data is not available, proxies and statistical methods are used to complete the data series.

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

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

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

(Canadian $ billions)[14]	**2014**	2013
Equity		
Canadian	**$ 4.0**	$ 4.0
Non-Canadian	**18.5**	16.5
Fixed income		
Bonds	**1.5**	2.5
Real-rate products	**5.5**	4.5
Natural resources		
Commodities	**4.0**	5.0
Timberland	**0.5**	0.5
Real assets		
Real estate	**1.5**	1.0
Infrastructure	**2.0**	2.0
Absolute return strategies	**2.5**	1.5
Money market	**5.5**	4.5
Total Asset Risk ETL Exposure[15]	**$ 28.0**	$ 26.0

[14] Rounded to the nearest $0.5 billion.

[15] 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 $2.4 billion (2013 – 6% or $1.9 billion). Similarly, a 1% increase in real interest rates would result in a decline in the value of the Plan's investments in real-rate products of 17% or $5.2 billion (2013 – 14% or $3.8 billion).

As at December 31, 2014, holding the inflation and salary escalation assumptions constant, a 1% decrease in the assumed long-term real rates of return would result in an increase in the pension liabilities of approximately 21% or $36.0 billion (2013 – 19% or $28.9 billion).

Foreign currency risk

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

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

(Canadian $ millions)	**2014**	2013
Currency	**Net Exposure**	Net Exposure
United States Dollar	**$ 44,383**	$ 27,796
British Pound Sterling	**8,137**	7,587
Euro	**6,179**	6,977
Chinese Renminbi	**3,426**	2,701
Chilean Peso	**2,794**	2,517
Brazilian Real	**2,207**	2,266
Japanese Yen	**1,764**	2,331
South Korean Won	**1,704**	1,815
Danish Krona	**1,668**	1,640
Australian Dollar	**1,496**	1,540
Indian Rupee	**1,176**	776
Other	**6,285**	6,735
	$ 81,219	$ 64,681

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)	**2014**	2013
Currency	**Change in Net Investment Value**	Change in Net Investment Value
United States Dollar	**$ 2,219**	$ 1,390
British Pound Sterling	**407**	379
Euro	**309**	349
Chinese Renminbi	**171**	135
Other	**955**	981
	$ 4,061	$ 3,234

(h) Liquidity risk

Liquidity risk refers to the risk that the Plan does not have sufficient cash to meet its current payment liabilities and acquire investments in a timely and cost-effective manner. Liquidity risk is inherent in the Plan's operations and can be impacted by a range of situation specific and market-wide events including, but not limited to, credit events and significant movements in the market.

Liquidity risk management

The liquidity position of the Plan is analyzed daily to ensure the Plan maintains at least 1.25% of its assets in unencumbered Canadian treasury bills. The Plan also manages its liquidity by holding additional unencumbered Government of Canada securities (bonds, treasury bills and real-rate bonds) and U.S. government securities that are available for repurchase agreements so that the Plan is able to withstand the liquidity effects of a market stress event and pay its contractual cash flows and projected cash requirements over a one-year horizon with a 99% probability. The Plan's liquidity position is periodically tested by simulations of major events such as significant movements in the market.

Liquid assets

The Plan maintains a portfolio of highly marketable assets including 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 $46,080 million as at December 31, 2014 (2013 – $44,544 million). The Plan also has a net position of publicly traded equities of $34,273 million (2013 – $32,914 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)				**2014**
	Within One Year	One to Five Years	Over Five Years	**Total**
Securities sold under agreements to repurchase	$ (39,783)	$ (5,477)	$ –	**$ (45,260)**
Securities sold but not yet purchased				
Fixed income	(16,522)	–	–	**(16,522)**
Equities	(2,291)	–	–	**(2,291)**
Real estate	(728)	(2,408)	(1,371)	**(4,507)**
Cash collateral received under credit support annexes	(57)	–	–	**(57)**
Derivative-related, net	(4,149)	–	–	**(4,149)**
Total	$ (63,530)	$ (7,885)	$ (1,371)	**$ (72,786)**

(Canadian $ millions)				2013
	Within One Year	One to Five Years	Over Five Years	Total
Securities sold under agreements to repurchase	$ (35,873)	$ (2,002)	$ –	$ (37,875)
Securities sold but not yet purchased				
Fixed income	(13,861)	–	–	(13,861)
Equities	(1,269)	–	–	(1,269)
Real estate	(722)	(2,289)	(1,322)	(4,333)
Cash collateral received under credit support annexes	(317)	–	–	(317)
Derivative-related, net	(1,551)	–	–	(1,551)
Total	$ (53,593)	$ (4,291)	$ (1,322)	$ (59,206)

(i) Securities collateral

The Plan pledges and receives cash and security collateral in the ordinary course of managing net investments. Security collateral consists primarily of Canadian and U.S. government securities. Generally, additional collateral is provided if the value of the securities falls below a predetermined level. The securities transferred are recognized as assets when the Plan retains substantially all risks and rewards, including credit risk, settlement risk and market risk. The Plan is not allowed to either pledge the same securities with other financial institutions or to sell them to another entity unless the Plan substitutes such securities with other eligible securities.

As at December 31, 2014, securities transferred as collateral for securities sold under agreements to repurchase amount to $46,662 million (2013 – $37,635 million) with an associated liability of $45,260 million (2013 – $37,875 million). Securities transferred as collateral or margin for derivative-related liabilities amount to $3,322 million (2013 – $900 million) with an associated liability is $4,150 million (2013 – $1,638 million). Security collateral for securities sold but not yet purchased amounts to $322 million (2013 – $194 million), which, together with related cash collateral, has an associated liability of $2,291 million (2013 – $1,269 million).

Canadian and U.S. government securities with a fair value of $25,924 million (2013 – $22,301 million) have been received from various financial institutions as collateral. The collateral is not recognized as the Plan's asset since the risks and rewards of the ownership remain with the counterparties. The Plan holds the collateral received as long as the Plan is not a defaulting party or an affected party in connection with a specified condition listed on the contractual agreements and there is no early termination of the contractual agreement. The Plan is permitted to either sell or repledge the collateral in the absence of default by the owner of the collateral, but it has neither sold nor repledged any collateral as of December 31, 2014, and 2013.

(j) Securities borrowing

The Plan does not recognize any securities borrowed as its investment assets because the risks and rewards of the borrowed securities remain with the lenders. The security collateral posted by the Plan, related to the securities borrowed, continues to be recognized as the Plan's assets because the Plan retains all associated risks and rewards. As at December 31, 2014, securities with a fair value of $589 million (2013 – $10 million) were borrowed and collateral with a fair value of $617 million (2013 – $11 million) were posted by the Plan.

NOTE 3.
RECEIVABLE FROM THE PROVINCE OF ONTARIO

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

As at December 31 (Canadian $ millions)	**2014**	2013
Contributions receivable	**$ 3,047**	$ 2,914
Accrued interest receivable	**51**	51
	$ 3,098	$ 2,965

The receivable as at December 31, 2014, from the Province of Ontario consists of $1,526 million, which was received in January 2015, and an estimated $1,572 million to be received with interest in January 2016. The receivable as at December 31, 2013, from the Province consisted of $1,461 million, which was received in January 2014, and an initial estimate of $1,504 million to be received in January 2015. 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 $172,725 million (2013 – $148,571 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. In 2014, the discount rate was determined by applying a weighted average discount rate that reflects the estimated timing and amount of benefit payments. In 2013, the discount rate was determined by identifying the rate on long-term Government of Canada bonds plus a spread of the Province of Ontario. This change in accounting estimate is applied prospectively beginning January 1, 2014, decreasing the accrued pension benefits by $1,564 million as at December 31, 2014. The inflation rate is the difference between the yield on Government of Canada long-term nominal bonds and Government of Canada real-return bonds. The salary escalation rate incorporates the inflation rate assumption and long-term expectation of growth in real wages.

A summary of the primary economic assumptions is as follows:

As at December 31	**2014**	2013
Discount rate	**3.35%**	4.20%
Salary escalation rate	**2.70%**	3.00%
Inflation rate	**1.70%**	2.00%
Real rate	**1.65%**	2.20%

The primary economic assumptions were changed as a result of changes in capital markets during 2014. These changes in economic assumptions resulted in a net increase in the value of accrued pension benefits of $18,244 million (2013 – $21,973 million decrease inclusive of the impact of a 2% salary adjustment pursuant to the Elementary Teachers' Federation of Ontario salary agreement reached in 2013).

The non-economic assumptions were updated in 2014 to reflect recent experience of Plan members related to mortality rates and expected rates of improvement in future mortality. Changes in non-economic assumptions increased the accrued pension benefits by $1,584 million. No changes to the non-economic assumptions were adopted in 2013. The changes in economic and non-economic assumptions, including the change in estimate for determining the discount rate resulted in a net increase in the value of accrued pension benefits of $18,264 million (2013 – $21,973 million decrease).

(b) Plan provisions

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

For the financial statement valuation, future pension payments for the credited service earned are indexed at the levels stated in the most recent funding valuation filing. The indexation levels from the most recent filing as at January 1, 2014, are as follows:

Credited Service	Inflation Protection Level
Earned before 2010	100% of CPI
Earned during 2010–2013	60% of CPI
Earned after 2013	60% of CPI

In the most recent filing, inflation protection was partially restored for recent retirees. Effective January 1, 2015, 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 each year since retirement commenced. Future cost-of-living increases will be equal to 60% of the annual increase in the CPI on credited service earned after 2009 (up from the previous level of 50%). 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.

(c) Experience gains and losses

Experience losses on the accrued pension benefits of $139 million (2013 – $949 million gains) arose from differences between the actuarial assumptions and actual results.

NOTE 5.
INVESTMENT IN REAL ESTATE

The Plan's real estate portfolio is comprised of real estate-related investments that are either owned or managed on behalf of the Plan by The Cadillac Fairview Corporation Limited (CFCL), a wholly owned subsidiary. The Plan consolidates the fair value of the assets and liabilities of CFCL and the investment holding companies managed by CFCL. Investment holding companies and investment entities, including the joint ventures, managed by external parties, are recognized as the Plan's investments measured at fair value and presented on a non-consolidated basis.

The Plan guarantees three debentures issued by a real estate trust it consolidates. No payments have been made by the Plan into the real estate trust or related to the three debentures. The debentures are comprised of $1.25 billion 3.24% Series A Debentures maturing on January 25, 2016, $0.75 billion 4.31% Series B Debentures maturing on January 25, 2021, and $0.6 billion 3.64% Series C Debentures maturing on May 9, 2018. The debentures, included in the Plan's real estate investment-related liabilities, may be redeemed by the issuer at any time prior to maturity.

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

As at December 31		2014		2013
(Canadian $ millions)	**Fair Value**	**Cost**	Fair Value	Cost
Assets[1, 2]				
Real estate properties	**$ 23,157**	**$ 14,371**	$ 20,860	$ 13,013
Investments	**3,218**	**2,301**	2,534	1,283
Other assets	**220**	**198**	178	165
Total assets	**26,595**	**16,870**	23,572	14,461
Liabilities[1, 2]				
Long-term debt	**3,623**	**3,418**	3,626	3,454
Other liabilities	**884**	**729**	707	575
Total liabilities	**4,507**	**4,147**	4,333	4,029
Net investment in real estate	**$ 22,088**	**$ 12,723**	$ 19,239	$ 10,432

[1] U.S. Dollar, British Pound Sterling and Colombian Pesos net assets have been hedged by way of foreign currency forward contracts for a notional amount of $1,476 million (2013 – $1,286 million) with a combined fair value of ($11) million (2013 – ($30) 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 $566 million (2013 – $2,116 million) and liabilities of $305 million (2013 – $970 million).

(Canadian $ millions)	**2014**	2013
Revenue		
Rental	**$ 1,796**	$ 1,700
Investment and other	**94**	78
	1,890	1,778
Expenses		
Property operating	**776**	724
General and administrative	**48**	35
Other	**29**	21
	853	780
Operating income	**1,037**	998
Interest expense	**(128)**	(139)
Income (note 6)	**909**	859
Net investment gain	**1,293**	1,394
Net real estate income	**$ 2,202**	$ 2,253

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							2014
(Canadian $ millions)	Income[1]	Realized[2]	Unrealized[2]	Investment Income	Management Fees	Transaction Costs	Net Investment Income
Fixed income							
Bonds[3]	$ 942	$ 1,281	$ 492	$ 2,715	$ (3)	$ (4)	$ 2,708
Short-term investments[3]	–	96	1	97	–	–	97
Alternative investments[3, 4]	92	(288)	894	698	(40)	(1)	657
Canadian real-rate products	470	55	2,005	2,530	–	–	2,530
Non-Canadian real-rate products	164	343	1,585	2,092	–	–	2,092
	1,668	1,487	4,977	8,132	(43)	(5)	8,084
Equity							
Publicly traded							
Canadian	(58)	1,112	(5)	1,049	–	(4)	1,045
Non-Canadian	619	3,903	372	4,894	(60)	(57)	4,777
Non-publicly traded							
Canadian[3]	41	(11)	67	97	(7)	(30)	60
Non-Canadian[3]	553	1,149	907	2,609	(194)	(140)	2,275
	1,155	6,153	1,341	8,649	(261)	(231)	8,157
Natural resources							
Commodities	(24)	(1,395)	(2,449)	(3,868)	(1)	(3)	(3,872)
Timberland	48	(30)	525	543	(1)	(3)	539
Sector investment[5]	34	–	(13)	21	(30)	(5)	(14)
	58	(1,425)	(1,937)	(3,304)	(32)	(11)	(3,347)
Real assets							
Real estate (note 5)	937	735	558	2,230	–	(28)	2,202
Infrastructure	524	322	354	1,200	(8)	(28)	1,164
	1,461	1,057	912	3,430	(8)	(56)	3,366
	$ 4,342	$ 7,272	$ 5,293	$ 16,907	$ (344)	$ (303)	$ 16,260

[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 $74 million.

[3] Beginning in January 1, 2014, fund investments have been classified based on the type of fund and valuation methodology. 2013 comparative figures have been reclassified to reflect the change.

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

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

Net Investment Income							2013
(Canadian $ millions)	Income	Realized[6]	Unrealized[6]	Investment Income	Management Fees	Transaction Costs	Net Investment Income
Fixed income							
Bonds[7]	$ 827	$ (85)	$ (2,031)	$ (1,289)	$ (1)	$ (1)	$ (1,291)
Short-term investments[7]	(152)	–	3	(149)	–	–	(149)
Alternative investments[7, 8]	147	(217)	741	671	(41)	(1)	629
Canadian real-rate products	468	266	(3,523)	(2,789)	–	–	(2,789)
Non-Canadian real-rate products	163	184	(1,373)	(1,026)	–	–	(1,026)
	1,453	148	(6,183)	(4,582)	(42)	(2)	(4,626)
Equity							
Publicly traded							
Canadian	126	744	310	1,180	–	(8)	1,172
Non-Canadian	863	3,958	5,297	10,118	(85)	(121)	9,912
Non-publicly traded							
Canadian[7]	45	29	17	91	(7)	(4)	80
Non-Canadian[7]	137	554	2,700	3,391	(102)	(67)	3,222
	1,171	5,285	8,324	14,780	(194)	(200)	14,386
Natural resources							
Commodities	–	(528)	227	(301)	–	–	(301)
Timberland	50	(4)	287	333	(2)	–	331
Sector investment[9]	22	–	12	34	(10)	(1)	23
	72	(532)	526	66	(12)	(1)	53
Real assets							
Real estate (note 5)	870	591	803	2,264	–	(11)	2,253
Infrastructure	704	393	662	1,759	(9)	(98)	1,652
	1,574	984	1,465	4,023	(9)	(109)	3,905
	$ 4,270	$ 5,885	$ 4,132	$ 14,287	$ (257)	$ (312)	$ 13,718

[6] Includes net foreign currency losses of $852 million.

[7] Beginning in January 1, 2014, fund investments have been classified based on the type of fund and valuation methodology. 2013 comparative figures have been reclassified to reflect the change.

[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:

	2014		2013	
(percent)	**Investment Returns**	**Investment Benchmark Returns**	Investment Returns	Investment Benchmark Returns
Fixed income	**12.0%**	**11.9%**	(7.9)%	(8.1)%
Canadian equity	**12.7**	**12.2**	12.2	13.1
Non-Canadian equity	**13.5**	**13.6**	31.3	29.9
Natural resources	**(19.4)**	**(19.8)**	4.2	4.2
Real assets	**10.8**	**6.6**	14.6	10.6
Total Plan	**11.8%**	**10.1%**	10.9%	9.3%

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

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

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

NOTE 8. STATUTORY ACTUARIAL VALUATIONS

Statutory actuarial valuations are prepared periodically to determine the funding requirements of the Plan. In 2014, active members were required to contribute 11.50% (2013 – 11.15%) of the portion of their salaries covered by the CPP and 13.10% (2013 – 12.75%) of salaries above this level. Member contributions are matched by the Province and designated employers. In addition, the Funding Management Policy established by the co-sponsors provides procedures for the co-sponsors to determine contributions and benefits.

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

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

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

The most recent statutory actuarial valuation that has been filed with regulatory authorities was prepared as at January 1, 2014, by Mercer (Canada) Limited and disclosed a funding surplus of $1,169 million, after adopting conditional inflation protection of 60% for credited service earned between 2010 and 2013 and after 2013, as well as recognizing the special contributions included in the 2014 contribution rate described above, of 1.1% of salary payable until December 31, 2026.

NOTE 9. CONTRIBUTIONS

(Canadian $ millions)	**2014**	2013
Members		
Current service[1]	**$ 1,547**	$ 1,483
Optional credit	**31**	28
	1,578	1,511
Province of Ontario		
Current service	**1,528**	1,464
Interest	**37**	37
Optional credit	**28**	26
	1,593	1,527
Other employers	**32**	29
Transfers from other pension plans	**13**	14
	45	43
	$ 3,216	$ 3,081

[1] Contributions past due are less than $1 million in 2014 and 2013.

NOTE 10. BENEFITS PAID

(Canadian $ millions)	2014	2013
Retirement pensions	**$ 4,883**	$ 4,744
Death benefits	**315**	311
Disability pensions	**27**	28
Commuted value transfers	**45**	41
Family law transfers	**26**	17
Transfers to other plans	**9**	8
Refunds	**1**	1
	$ 5,306	$ 5,150

NOTE 11. ADMINISTRATIVE EXPENSES

(a) Investment expenses

(Canadian $ millions)	2014	2013
Salaries, incentives and benefits	**$ 267.3**	$ 232.1
Premises and equipment	**35.9**	37.7
Professional and consulting services	**51.3**	46.8
Information services	**21.2**	18.5
Communication and travel	**16.0**	13.2
Custodial fees	**9.8**	8.9
Statutory audit fees	**1.9**	1.6
Board and committee remuneration	**0.7**	0.7
Other	**4.7**	4.8
	$ 408.8	$ 364.3

(b) Member services expenses

(Canadian $ millions)	2014	2013
Salaries, incentives and benefits	**$ 33.2**	$ 30.0
Premises and equipment	**9.1**	8.8
Professional and consulting services	**4.8**	4.3
Communication and travel	**1.2**	1.0
Statutory audit fees	**0.1**	0.1
Board and committee remuneration	**0.1**	0.1
Other	**0.9**	0.8
	$ 49.4	$ 45.1

(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)		2014		2013
Short-term employee benefits	**$**	**14.3**	$	14.8
Post-employment benefits		**7.1**		0.6
Termination benefits		**–**		2.6
Other long-term benefits		**15.1**		21.4
Total	**$**	**36.5**	$	39.4

[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 2015 are approximately $11.6 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 $17.6 million (2013 – $7.9 million). Contributions are included in the salaries, incentives and benefits expenses.

NOTE 12.
CAPITAL

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

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

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

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

NOTE 13.
RETIREMENT COMPENSATION ARRANGEMENT (RCA)

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

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

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

The RCA is funded on a pay-as-you-go basis from a portion of the contributions made to the Plan by members, the Province and designated employers. The portion is based on a limit on contributions to the Plan with contributions above the limit being remitted to the RCA. The limit is determined annually by the Plan's independent actuary such that the RCA contributions are expected to be sufficient to pay the benefits over the next 12 months. At the beginning of 2015, the actuary determined that the limit should decrease from $15,900 to $15,100. 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)	**2014**	2013
Statements of financial position		
NET ASSETS AVAILABLE FOR BENEFITS		
Assets	**$ 29,289**	$ 27,948
Liabilities	**(3,187)**	(3,583)
	$ 26,102	$ 24,365
ACCRUED BENEFITS AND DEFICIT		
Accrued benefits	**$ 329,994**	$ 344,356
Deficit	**(303,892)**	(319,991)
	$ 26,102	$ 24,365
Statements of changes in net assets available for benefits		
Contributions	**$ 10,843**	$ 13,807
Investment income	**56**	70
	10,899	13,877
Benefits paid	**9,035**	6,591
Expenses	**127**	89
	9,162	6,680
Increase in net assets	**$ 1,737**	$ 7,197

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, 2014, these commitments totalled $11,494 million (2013 – $8,151 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 2014 or 2013 under these guarantees.

The Plan guarantees loan and credit agreements which will expire by 2017. The Plan's maximum exposure is $124 million as at December 31, 2014 (2013 – $116 million). The companies have drawn $112 million under the agreements (2013 – $115 million).

The Plan guarantees lease agreements for a subsidiary with expiry dates ranging from 2017 to 2059. The Plan's maximum exposure is $91 million as at December 31, 2014 (2013 – $92 million). There were no default lease payments in either 2014 or 2013.

The Plan also guarantees the ability of certain investee companies to settle certain financial obligations. The Plan's maximum exposure is $84 million as at December 31, 2014. There were no default payments in 2014.

The Cadillac Fairview Corporation Limited manages the real estate investments and has provided guarantees relating to the completion of the construction of certain residential developments. The term of these guarantees spans the lives of the development projects, which range from one to three years. The maximum exposure cannot be determined because the projects are not yet complete. These guarantees amounted to $95 million as at December 31, 2014 (2013 – $217 million) and have not been recognized in the real estate liabilities.

Indemnifications

The Plan provides that Board members, employees and certain others are to be indemnified in relation to certain proceedings that may be commenced against them. In addition, in the normal course of operations, the Plan may, in certain circumstances, agree to indemnify a counterparty. Under these agreements, the Plan, its subsidiaries and joint ventures may be required to compensate counterparties for costs incurred as a result of various contingencies such as legal claims or changes in laws and regulations. The number of such agreements, the variety of indemnifications and their contingent character 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, 2014

FIXED INCOME AND SHORT-TERM INVESTMENTS OVER $150 MILLION

Type (Canadian $ millions)	Maturity	Coupon (%)	Fair Value	Cost
Securities purchased under agreements to resell	2015–2015	-0.50–2.40	$ 24,137	$ 23,764
Government of Canada bonds	2015–2064	1.00–9.00	23,020	20,398
Provincial bonds	2015–2045	0.00–8.50	10,044	9,522
International corporate bonds	2015–2099	0.00–16.75	5,507	5,264
Canada treasury bills	2015–2015	0.00–0.00	3,649	3,642
Canadian corporate bonds	2015–2045	0.00–14.00	2,343	2,341
Commercial paper	2015–2015	0.00–0.00	797	795
Bank notes	2015–2015	0.00–0.05	592	589
International sovereign debt	2015–2068	0.00–12.00	402	393
International agency bonds	2015–2019	0.38–4.45	330	299
U.S. treasury bonds	2015–2044	0.25–6.25	(6,704)	(5,004)
Securities sold under agreements to repurchase	2015–2015	-0.85–2.75	(45,260)	(45,024)

REAL-RETURN INVESTMENTS OVER $150 MILLION

Type (Canadian $ millions)	Maturity	Coupon (%)	Fair Value	Cost
Real-return Canada bonds	2021–2047	1.25–4.25	$ 16,593	$ 13,026
U.S. treasury inflation protection	2019–2044	0.13–3.88	9,413	7,543
Real-return Canadian corporate bonds	2016–2046	0.00–5.33	1,967	845
Real-return provincial bonds	2021–2036	2.00–4.50	1,878	1,243

CORPORATE SHARES/UNITS OVER $150 MILLION

As at December 31, 2014 (millions)

Security Name	Shares	Fair Value
The Macerich Company	17.2	$1,658.6
Bank of America Corporation	63.7	1,320.5
Multiplan Empreendimentos Imobiliarios S.A.	54.8	1,142.0
iShares MSCI Emerging Markets Index	20.5	952.7
Hudson's Bay Company	30.7	754.9
ISS A/S	22.4	750.7
INC Research Holdings, Inc.	24.9	672.9
JD.com, Inc.	22.1	592.1
Microsoft Corporation	7.0	374.8
Wells Fargo & Company*	5.3	303.8
Nissan Shatai Co., Ltd.	20.1	286.1
General Motors Company	6.4	258.5
Volkswagen AG	0.9	239.3
JPMorgan Chase & Co.*	3.3	238.8
American International Group, Inc.	3.6	236.8
TMX Group Limited	4.6	235.0
Danone	2.9	222.6
Amazon.com, Inc.	0.6	219.7
Samsung Electronics Co., Ltd.	0.2	212.7
Compagnie Financière Richemont SA	2.1	212.4
Zalando SE	0.7	210.6
Barclays PLC	47.7	209.8
Grupo BTG Pactual	16.6	203.4
ACE Limited	1.5	198.7
Citigroup Inc.	3.2	198.5
The Walt Disney Company	1.8	198.2
Aircastle Limited	7.9	$195.2
Google Inc.	0.3	194.6
Daimler AG	2.0	191.7
Twenty-First Century Fox, Inc.	4.2	188.2
Thermo Fisher Scientific Inc.	1.3	186.1
Macdonald, Dettwiler and Associates Ltd.	2.0	185.4
European Aeronautic Defence and Space Company NV	3.2	184.8
Baidu, Inc.	0.7	183.2
Metlife, Inc.	2.9	179.2
Tripadvisor, Inc.	2.1	177.4
Capital One Financial Corporation*	1.9	175.2
Credit Suisse Group AG	5.9	173.7
Exor S.p.A	3.6	173.2
Western Digital Corporation	1.3	169.4
General Mills, Inc.	2.7	169.4
Hitachi, Ltd.	19.3	167.7
Constellium N.V.	8.6	162.9
Cheung Kong (Holdings) Limited	8.4	162.6
Oi S.A.	42.0	159.6
Novartis AG	1.5	159.4
Nokia Corporation	17.3	159.3
NuVista Energy Ltd.	21.5	159.1
Bunge Limited	1.5	156.4
BNP Paribas S.A.	2.2	153.0
Telefonaktiebolaget LM Ericsson	10.8	151.0

* Includes fair market value of warrants and subscription receipts.

REAL ESTATE PROPERTIES OVER $150 MILLION

As at December 31, 2014

Property	Total Square Footage (in thousands)	Effective % Ownership
Canadian Regional Shopping Centres		
Champlain Place, Dieppe	853	100%
Chinook Centre, Calgary	1,375	100%
Fairview Mall, Toronto	875	50%
Fairview Park Mall, Kitchener	746	100%
Fairview Pointe Claire, Montreal	1,053	50%
Le Carrefour Laval, Montreal	1,355	100%
Les Galeries D'Anjou, Montreal	1,355	50%
Les Promenades St. Bruno, Montreal	1,133	100%
Lime Ridge Mall, Hamilton	806	100%
Market Mall, Calgary	970	50%
Markville Shopping Centre, Markham	1,017	100%
Masonville Place, London	561	100%
Pacific Centre, Vancouver	798	100%
Polo Park Mall, Winnipeg	1,199	100%
Richmond Centre, Richmond	771	50%
Rideau Centre, Ottawa	1,155	100%
Sherway Gardens, Toronto	712	100%
Shops at Don Mills, Toronto	470	100%
The Promenade, Toronto	704	100%
Toronto-Dominion Centre, Toronto	158	100%
Toronto Eaton Centre, Toronto	2,560	100%

Property	Total Square Footage (in thousands)	Effective % Ownership
Canadian Office Properties		
Encor Place, Calgary	359	100%
Granville Square, Vancouver	403	100%
HSBC Building, Vancouver	395	100%
Pacific Centre Office Complex, Vancouver	1,531	100%
RBC Centre, Toronto	1,226	50%
Shell Centre, Calgary	692	100%
Simcoe Place, Toronto	759	25%
Toronto-Dominion Centre Office Complex, Toronto	4,434	100%
Toronto Eaton Centre Office Complex, Toronto	1,901	100%
Waterfront Centre, Vancouver	402	100%
Yonge Corporate Centre, Toronto	670	100%
Properties Under Development		
City Centre Office, Calgary	n/a	100%
Deloitte Tower, Montreal	n/a	100%
Ice Residential, Toronto	n/a	50%

PRIVATE COMPANIES AND PARTNERSHIPS OVER $150 MILLION

As at December 31, 2014

24 Hour Fitness Worldwide Inc.
Acorn Care and Education Limited
Alliance Laundry Systems, LLC
ANV Holdings BV
Apollo Overseas Partners (Delaware 892) VI, L.P.
AQR Offshore Multi-Strategy Fund VII Ltd.
Ares Corporate Opportunities Fund III, L.P.
Ares Corporate Opportunities Fund IV, L.P.
Ascend Learning Holdings, LLC
Asia Opportunity Fund III, L.P.
Baldr Fund Inc.
Baybridge Seniors Housing Inc.
BC European Capital IX-1 LP
BC European Capital VIII-1
BDCM Offshore Opportunity Fund II, Ltd.
Birmingham International Airport
Blue Coat Systems, Inc.
Bridgewater Pure Alpha Fund II Ltd.
Bridon Limited
Bristol Airports (Bermuda) Limited
BroadStreet Capital Partners, Inc.
Burton's Biscuit Company
Busy Bees Benefits Holdings Limited
Camelot Group plc
Canada Guaranty Mortgage Insurance Company
Canbriam Energy, Inc.
Copenhagen Airport A/S
Coway Holdings, Inc.
CPG International Inc.
CSC ServiceWorks Holdings, Inc.
DaVinciRe Holdings Ltd.
Dematic S.A.
Downsview Managed Account Platform Inc.
Empresa de Servicios Sanitarios del Bio-Bio S.A.
Esval S.A.
Exal International Limited
First Data Holdings Inc.
Flexera Holdings, L.P.
Flynn Restaurant Group LLC
FountainVest China Growth Fund, L.P.
GCT Global Container Terminals Inc.
GMO Mean Reversion Fund (Offshore) L.P.
Hancock Timber Resource Group
Heartland Dental Care, Inc.
Helly Hansen Group AS
HS1 Limited
Hudson Catastrophe Fund, Ltd.
HUGO BOSS AG
Imperial Parking Corporation
InterGen N.V.
Irish National Lottery
Kepos Alpha Fund Ltd.
Kyobo Life Insurance Co., Ltd.
LMAP Chi Limited
LMAP Iota Limited
Louis XIII Holdings Limited
Lowell Group Limited
MBK Partners Fund II, L.P.
MBK Partners, L.P.
Munchkin, Inc.
MW Market Neutral TOPS Fund
Nextgen Group Holdings Pty Limited
Nuevosur, S.A.
NXT Capital Holdings, L.P.
OLE Media Management, L.P.
Orbis SICAV Global Equity Fund
PetVet Care Centers, Inc.
PhyMed Healthcare Group
Plano Molding Company
Providence Equity Partners VI L.P.
Resource Management Service Inc.
Scotia Gas Networks plc
SeaCube Container Leasing Ltd.
Serta Simmons Holdings, LLC
Shearer's Foods, Inc.
Silver Lake Partners III, L.P.
Sociedad Austral de Electricidad S.A.
Sydney Desalination Plant Pty Limited
TDR Capital II, L.P.
Terranum Corporate Properties
The Brussels Airport Company
TP Partners Fund, L.P.
Univision Communications Inc.
ValueAct Capital International II, L.P.

ELEVEN-YEAR FINANCIAL REVIEW

(Canadian $ billions)	**2014**	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
CHANGE IN NET ASSETS											
Income											
Investment income	**$16.26**	$13.72	$14.75	$11.74	$13.27	$10.89	$ (19.03)	$4.68	$12.31	$14.09	$10.80
Contributions											
Members/transfers	**1.63**	1.55	1.48	1.41	1.35	1.29	1.13	1.06	0.83	0.79	0.75
Province of Ontario	**1.59**	1.53	1.46	1.41	1.35	1.43	1.18	1.08	0.82	0.78	0.75
Total income	**19.48**	16.80	17.69	14.56	15.97	13.61	(16.72)	6.82	13.96	15.66	12.30
Expenditures											
Benefits paid	**5.31**	5.15	4.92	4.66	4.50	4.39	4.20	4.02	3.82	3.62	3.43
Investment expenses	**0.41**	0.36	0.30	0.29	0.29	0.21	0.15	0.23	0.22	0.21	0.19
Member services expenses	**0.05**	0.05	0.04	0.05	0.05	0.04	0.04	0.04	0.03	0.03	0.03
Total expenditures	**5.77**	5.56	5.26	5.00	4.84	4.64	4.39	4.29	4.07	3.86	3.65
Increase/(decrease) in net assets	**$13.71**	$11.24	$12.43	$9.56	$11.13	$8.97	$ (21.11)	$2.53	$9.89	$11.80	$8.65
NET ASSETS											
Investments											
Fixed income											
Bonds	**$35.19**	$30.53	$28.87	$26.50	$22.73	$15.46	$14.22	$22.91	$20.86	$5.28	$8.96
Real-rate products	**30.36**	26.37	31.14	29.29	23.24	19.88	17.41	11.06	11.80	10.56	11.90
Equities											
Canadian	**10.71**	10.86	11.40	10.64	9.29	8.43	6.21	13.73	16.39	19.26	16.80
Non-Canadian	**58.14**	51.03	48.11	41.03	38.20	32.75	28.72	36.31	32.42	25.78	23.09
Natural resources											
Commodities	**9.03**	8.21	6.97	5.64	5.22	1.94	1.25	3.02	2.32	2.65	2.13
Timberland	**2.59**	2.45	2.17	2.17	2.22	2.34	2.80	2.12	2.05	0.97	0.70
Sector investment	**0.28**	0.17	–	–	–	–	–	–	–	–	–
Real assets											
Real estate	**22.09**	19.24	16.86	14.96	16.86	14.21	13.48	13.41	11.12	8.75	7.20
Infrastructure	**12.66**	11.68	9.65	8.71	7.07	5.57	7.23	6.72	4.73	3.80	2.29
Absolute return strategies	**15.84**	12.20	12.27	12.33	11.38	11.67	14.75	12.30	15.21	9.49	11.18
Money market	**(44.50)**	(33.84)	(40.18)	(35.01)	(31.49)	(18.74)	(20.97)	(13.58)	(11.22)	8.26	(2.53)
Net investments	**152.39**	138.90	127.26	116.26	104.72	93.51	85.10	108.00	105.68	94.80	81.72
Receivable from Province of Ontario	**3.10**	2.97	2.83	2.72	2.63	2.52	2.19	1.84	1.58	1.50	1.42
Other assets	**73.01**	59.34	47.96	40.81	32.04	15.21	32.33	32.06	23.14	10.67	18.23
Total assets	**228.50**	201.21	178.05	159.79	139.39	111.24	119.62	141.90	130.40	106.97	101.37
Liabilities	**(74.02)**	(60.45)	(48.53)	(42.69)	(31.86)	(14.84)	(32.18)	(33.35)	(24.39)	(10.84)	(17.04)
Net assets	**154.48**	140.76	129.52	117.10	107.53	96.40	87.44	108.55	106.01	96.13	84.33
Accrued pension benefits	**172.73**	148.57	166.01	162.59	146.89	131.86	118.14	115.46	110.50	110.53	96.73
Deficit	**$(18.25)**	$(7.81)	$(36.49)	$(45.49)	$(39.36)	$(35.46)	$(30.70)	$(6.91)	$(4.49)	$(14.40)	$(12.40)
PERFORMANCE (percent)											
Rate of return	**11.8**	10.9	13.0	11.2	14.3	13.0	(18.0)	4.5	13.2	17.2	14.7
Benchmark	**10.1**	9.3	11.0	9.8	9.8	8.8	(9.6)	2.3	9.4	12.7	10.6

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 2014 filing, the sponsors used the $5.1 billion preliminary funding valuation to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection to 60% of the increase in the cost of living for the portion of retirees' pensions earned after 2009. Both changes are effective with January 2015 pension payments.

FILED FUNDING VALUATIONS[1]

As at January 1 (Canadian $ billions)	**2014**	2012	2011	2009	2008	2005	2003	2002	2001	2000
Net assets available for benefits	**$140.8**	$117.1	$107.5	$87.4	$108.5	$84.3	$66.2	$69.5	$73.1	$68.3
Smoothing adjustment	**(7.2)**	(3.0)	3.3	19.5	(3.6)	(1.5)	9.7	3.0	(4.3)	(7.3)
Value of assets	**133.6**	114.1	110.8	106.9	104.9	82.8	75.9	72.5	68.8	61.0
Future basic contributions	**37.5**	35.4	33.8	25.9	23.6	16.7	14.7	13.7	12.7	13.4
Future special contributions	**3.5**	3.3	3.8	5.5	5.6	6.2	–	–	–	–
Future matching of CIP benefit reduction	**7.4**	7.3	5.1	–	–	–	–	–	–	–
Total assets	**182.0**	160.1	153.5	138.3	134.1	105.7	90.6	86.2	81.5	74.4
Cost of future pensions[2]	**(188.2)**	(167.6)	(158.4)	(137.5)	(134.1)	(105.6)	(89.1)	(84.3)	(80.9)	(69.9)
Reduction in cost due to less than 100% indexing	**7.4**	7.7	5.1	–	–	–	–	–	–	–
Surplus	**$1.2**	$0.2	$0.2	$0.8	$0.0	$0.1	$1.5	$1.9	$0.6	$4.5

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

[2] Includes value of 100% inflation protection.

ASSUMPTIONS USED FOR FILED VALUATIONS

As at January 1 (percent)	**2014**	2012	2011	2009	2008	2005	2003	2002	2001	2000
Inflation rate	**2.10**	2.20	2.15	1.35	2.20	2.750	2.05	1.90	2.20	2.25
Real discount rate	**2.85**	3.10	3.25	3.65	3.45	3.725	4.35	4.40	4.05	4.25
Discount rate	**4.95**	5.30	5.40	5.00	5.65	6.475	6.40	6.30	6.25	6.50

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EVP, General Counsel and Secretary
Russell Goin,
EVP, Investments
Ron Wratschko,
EVP, Portfolio Operations
Norm Sabapathy,
EVP, People

ANNUAL MEETING

April 9, 2015 at 4:45 p.m. ET
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444 Yonge Street, 7th floor
Toronto

We welcome your comments and suggestions on this annual report.

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PROUDLY PRINTED ON GREEN SEAL™ CERTIFIED PAPER

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

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