Management's Responsibility for Financial Reporting

The 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 financial statements conform to Canadian generally accepted accounting principles. Financial information presented throughout the annual report is consistent with the 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 financial statements rests with the members of the Board. The Board is assisted in its responsibilities by the Audit & Actuarial Committee, consisting of six Board members who are not officers or employees of the plan administrator. In addition, the committee reviews the recommendations of the internal and external auditors for improvements in internal control and the action of management to implement such recommendations. In carrying out its duties and responsibilities, the committee meets regularly with management and with both the external and internal auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. This committee reviews the financial statements and recommends them for approval by the Board.

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

JIM LEECH
PRESIDENT AND CHIEF EXECUTIVE OFFICER
MARCH 2, 2012

SENIOR VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER

Auditor's Report to the Administrator

We have audited the accompanying financial statements of the Ontario Teachers' Pension Plan Board which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of changes in net assets available for benefits, statements of changes in accrued pension benefits, and statements of changes in deficit for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Accounting Standards for Pension Plans, and for such internal controls as management determines are 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 audits. We conducted our audits 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 controls 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 controls. 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 in our audits 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 the Ontario Teachers' Pension Plan Board as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and changes in its net assets available for benefits, changes in accrued pension benefits and changes in deficit for the years ended December 31, 2011 and December 31, 2010 in accordance with Accounting Standards for Pension Plans.

Deloitte & Touche

CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS
MARCH 2, 2012
TORONTO, ONTARIO

Actuaries' Opinion

Mercer (Canada) Limited was retained by the Ontario Teachers' Pension Plan Board (the Board) to perform an actuarial valuation of the assets and the going concern liabilities of the Ontario Teachers' Pension Plan (the Plan) as at December 31, 2011, for inclusion in the Plan's 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, 2011;
- methods prescribed by Section 4600 of the Canadian Institute of Chartered Accountants' Handbook for pension plan financial statements;
- real and nominal interest rates on long-term Canada bonds at the end of 2011;
- assumptions about future events (for example, future rates of inflation and future retirement rates) which have been communicated to us as the Board's best estimate of these events; and
- information obtained from the Ontario Ministry of Labour and other published data on negotiated wage settlements in the 2011/2012 school year.

The objective of the financial statements is to fairly present the financial position of the Plan on December 31, 2011 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 financial statements represent the Board's best estimate of future events and market conditions at the end of 2011, 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.

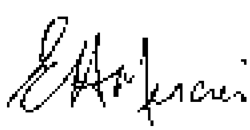
SCOTT CLAUSEN, F.C.I.A.
MARCH 2, 2012

MALCOLM P. HAMILTON, F.C.I.A.

Statements of Financial Position

(Canadian $ millions)	as at December 31 **2011**	as at December 31 2010	as at January 1 2010
Net Assets Available for Benefits			
Assets			
Cash	**$ 435**	$ 432	$ 493
Receivable from the Province of Ontario (note 3)	**2,717**	2,627	2,524
Receivable from brokers	**39**	101	93
Investments (note 2)	**156,563**	136,194	108,086
Premises and equipment	**37**	41	43
	159,791	139,395	111,239
Liabilities			
Accounts payable and accrued liabilities	**542**	250	181
Due to brokers	**1,847**	137	79
Investment-related liabilities (note 2)	**40,305**	31,473	14,577
	42,694	31,860	14,837
Net assets available for benefits	**$ 117,097**	$ 107,535	$ 96,402
Accrued pension benefits and deficit			
Accrued pension benefits (note 4)	**$ 162,587**	$ 146,893	$ 131,858
Deficit	**(45,490)**	(39,358)	(35,456)
Accrued pension benefits and deficit	**$ 117,097**	$ 107,535	$ 96,402

On behalf of the Plan Administrator:



Chair of the Board

Chair, Audit & Actuarial Committee

Statements of Changes in Net Assets Available for Benefits

for the year ended December 31 (Canadian $ millions)	2011	2010
Net assets available for benefits, beginning of year	**$ 107,535**	$ 96,402
Investment Operations		
Investment income (note 6)	**11,735**	13,269
Administrative expenses (note 11a)	**(289)**	(290)
Net investment operations	**11,446**	12,979
Member Service Operations		
Contributions (note 9)	**2,823**	2,697
Benefits paid (note 10)	**(4,663)**	(4,500)
Administrative expenses (note 11b)	**(44)**	(43)
Net member service operations	**(1,884)**	(1,846)
Increase in net assets available for benefits	**9,562**	11,133
Net assets available for benefits, end of year	**$ 117,097**	$ 107,535

Statements of Changes in Accrued Pension Benefits

for the year ended December 31 (Canadian $ millions)	2011	2010
Accrued pension benefits, beginning of year	**$ 146,893**	$ 131,858
Increase in Accrued Pension Benefits		
Interest on accrued pension benefits	**5,944**	6,057
Benefits accrued	**4,409**	3,354
Changes in actuarial assumptions and methods (note 4a)	**9,819**	10,440
Changes in plan provisions	**6**	–
Experience losses (note 4c)	**179**	–
	20,357	19,851
Decrease in Accrued Pension Benefits		
Benefits paid (note 10)	**4,663**	4,500
Experience gains (note 4c)	**–**	316
	4,663	4,816
Net increase in accrued pension benefits	**15,694**	15,035
Accrued pension benefits, end of year	**$ 162,587**	$ 146,893

Statements of Changes in Deficit

for the year ended December 31 (Canadian $ millions)	2011	2010
Deficit, beginning of year	**$ (39,358)**	$ (35,456)
Increase in net assets available for benefits	**9,562**	11,133
Net increase in accrued pension benefits	**(15,694)**	(15,035)
Deficit, end of year	**$ (45,490)**	$ (39,358)

Notes to Financial Statements

for the year ended December 31, 2011

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 of 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 benefits and required contributions is made on the basis of periodic actuarial valuations.

(c) Retirement pensions

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

(d) Disability pensions

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

(e) Death benefits

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

(f) Escalation of benefits

Pension benefits are adjusted in January each year for inflation, subject to an upper limit of 8% and a lower limit of 0% in any one year with any excess above or below those limits carried forward. For credited service earned up to December 31, 2009, inflation protection is 100% of the change in the Consumer Price Index. Credited service earned after December 31, 2009 is subject to conditional inflation protection with a guaranteed level of inflation protection set at 50% of the change in the Consumer Price Index. Depending on the Plan's funded status as at the next filing, 100% inflation protection is possible and any years that did not receive full inflation protection can be restored to be fully indexed by the co-sponsors on a go-forward basis.

(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 $137,979 (CPP-exempt members $127,611) in 2011 and $134,811 (CPP-exempt members $124,722) in 2010; 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 financial statements.

Note 1.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation
These financial statements are prepared in Canadian dollars, the Plan's functional currency, in accordance with the accounting standards for pension plans in Part IV of the Canadian Institute of Chartered Accountants (CICA) Handbook (Section 4600). Section 4600 provides specific accounting guidance on investments and pension obligations. For accounting policies that do not relate to either investments or pension obligations, the Plan must consistently comply with either International Financial Reporting Standards (IFRS) in Part I or accounting for private enterprises in Part II of the CICA Handbook. The Plan has elected to comply with IFRS in Part I of the CICA Handbook commencing January 1, 2011. To the extent that IFRS in Part I is inconsistent with Section 4600, Section 4600 takes precedence.

Investment holding companies either acquired or created by the Plan are recognized as investment assets. Under Section 4600, investment assets, including those over which the Plan has control or has significant influence, are presented on a non-consolidated basis.

The financial statements for the year ended December 31, 2011 were authorized for issue through a resolution of the Board on March 2, 2012.

(b) Changes in accounting policies
These financial statements are the Plan's first in compliance with Section 4600 and IFRS. The comparatives as at January 1, 2010 and for the year ended December 31, 2010 have been restated accordingly. Prior to 2011, the financial statements were prepared in accordance with CICA Handbook Section 4100 – Pension Plans and Part V of the CICA Handbook.

The Plan has elected to early adopt IFRS 13, Fair Value Measurement, on a prospective basis, commencing January 1, 2010. The measurement requirements under IFRS 13 were applied consistently to the fair value of all investment assets and investment-related liabilities in the periods presented in the financial statements. The definition of fair value has been amended to comply with IFRS 13. There is no impact on the values of either investment assets or investment-related liabilities. As per Section 4600, the Plan is not required to comply with the disclosure requirements prescribed in IFRS 13.

The following accounting policies have been revised upon implementation of Section 4600 and IFRS:

Non-consolidation
Prior to the implementation of Section 4600, the Plan prepared consolidated financial statements. In accordance with Section 4600, the Plan presents investments on a non-consolidated basis. As a result of this requirement, investments and investment-related liabilities both decreased with no impact on net assets available for benefits.

Elimination of actuarial asset value adjustment
In accordance with Section 4100, the actuarial asset value adjustment was included in the determination of the financial statement surplus or deficit. As per Section 4600, the actuarial asset value adjustment is no longer permitted.

The tables on the following pages show the impact of these revised accounting policies on prior years' Statements of financial position and Statements of changes in deficit.

STATEMENT OF FINANCIAL POSITION

as at December 31, 2010 (Canadian $ millions)	As Previously Reported	Adjustments: Non-consolidation	Adjustments: Actuarial Asset Value Adjustment	**Revised per CICA Section 4600**
Assets				
Cash	$ 432	$ –	$ –	**$ 432**
Receivable from the Province of Ontario	2,627	–	–	**2,627**
Receivable from brokers	101	–	–	**101**
Investments	155,360	(19,166)	–	**136,194**
Premises and equipment	41	–	–	**41**
	158,561	(19,166)	–	**139,395**
Liabilities				
Accounts payable and accrued liabilities	250	–	–	**250**
Due to brokers	137	–	–	**137**
Investment-related liabilities	50,639	(19,166)	–	**31,473**
	51,026	(19,166)	–	**31,860**
Net assets available for benefits	$ 107,535	$ –	$ –	**$ 107,535**
Actuarial asset value adjustment	6,655	–	(6,655)	**–**
Actuarial value of net assets available for benefits	$ 114,190	$ –	$ (6,655)	**$ 107,535**
Accrued pension benefits and deficit				
Accrued pension benefits	$ 146,893	$ –	$ –	**$ 146,893**
Deficit	(32,703)	–	(6,655)	**(39,358)**
Accrued pension benefits and deficit	$ 114,190	$ –	$ (6,655)	**$ 107,535**

STATEMENT OF CHANGES IN DEFICIT

(Canadian $ millions)	As Previously Reported	Adjustments: Non-consolidation	Adjustments: Actuarial Asset Value Adjustment	**Revised per CICA Section 4600**
Deficit, January 1, 2010	$ (22,752)	$ –	$ (12,704)	**$ (35,456)**
Increase in net assets available for benefits	11,133	–	–	**11,133**
Change in actuarial asset value adjustment	(6,049)	–	6,049	**–**
Increase in actuarial value of net assets available for benefits	5,084	–	6,049	**11,133**
Net increase in accrued pension benefits	(15,035)	–	–	**(15,035)**
Deficit, December 31, 2010	$ (32,703)	$ –	$ (6,655)	**$ (39,358)**

OPENING STATEMENT OF FINANCIAL POSITION

as at January 1, 2010 (Canadian $ millions)	As Previously Reported	Adjustments: Non-consolidation	Adjustments: Actuarial Asset Value Adjustment	**Revised per CICA Section 4600**
Assets				
Cash	$ 493	$ –	$ –	**$ 493**
Receivable from the Province of Ontario	2,524	–	–	**2,524**
Receivable from brokers	93	–	–	**93**
Investments	123,900	(15,814)	–	**108,086**
Premises and equipment	43	–	–	**43**
	127,053	(15,814)	–	**111,239**
Liabilities				
Accounts payable and accrued liabilities	181	–	–	**181**
Due to brokers	79	–	–	**79**
Investment-related liabilities	30,391	(15,814)	–	**14,577**
	30,651	(15,814)	–	**14,837**
Net assets available for benefits	$ 96,402	$ –	$ –	**$ 96,402**
Actuarial asset value adjustment	12,704	–	(12,704)	**–**
Actuarial value of net assets available for benefits	$ 109,106	$ –	$ (12,704)	**$ 96,402**
Accrued pension benefits and deficit				
Accrued pension benefits	$ 131,858	$ –	$ –	**$ 131,858**
Deficit	(22,752)	–	(12,704)	**(35,456)**
Accrued pension benefits and deficit	$ 109,106	$ –	$ (12,704)	**$ 96,402**

STATEMENT OF CHANGES IN DEFICIT

(Canadian $ millions)	As Previously Reported	Adjustments: Non-consolidation	Adjustments: Actuarial Asset Value Adjustment	**Revised per CICA Section 4600**
Deficit, January 1, 2009	$ (11,184)	$ –	$ (19,524)	**$ (30,708)**
Increase in net assets available for benefits	8,969	–	–	**$8,969**
Change in actuarial asset value adjustment	(6,820)	–	6,820	**–**
Increase in actuarial value of net assets available for benefits	2,149	–	6,820	**8,969**
Net increase in accrued pension benefits	(13,717)	–	–	**(13,717)**
Deficit, January 1, 2010	$ (22,752)	$ –	$ (12,704)	**$ (35,456)**

The implementation of Section 4600 has no effect on either the statements of changes in net assets available for benefits or the statements of changes in accrued pension benefits for the year ended December 31, 2010.

(c) Future changes in accounting policies

The International Accounting Standards Board has issued a number of new and amended standards that are not yet effective as at December 31, 2011. The relevant new guidance not yet adopted by the Plan includes:

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

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

(d) Investments

Valuation of investments

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

Fair values of investments are determined as follows:

a. Short-term money-market securities 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 if the quoted prices represent fair value. If not, management adjusts the quoted prices or estimates the fair value by using appropriate techniques including valuation models.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(e) 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.

(f) Accrued pension benefits
The value of accrued pension benefits and changes therein during the year are based on an actuarial valuation prepared by Mercer (Canada) Limited, an independent firm of actuaries. The valuation is made annually as at September 1 and then extrapolated to year end. It uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation date, of various economic and non-economic assumptions.

As described in paragraph (f) of the Description of Plan note, the inflation protection benefits for credited service earned after December 31, 2009 will vary between 50% and 100% of the change in the Consumer Price Index. For the financial statement valuation, the Plan accrues the minimum guaranteed inflation protection benefits and discloses the maximum amounts of potential inflation protection benefits at the 100% level in note 4b.

(g) 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.

(h) 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.

(i) Premises and equipment

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

(j) Use of estimates

In preparing these 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 and assumption is revised if the revision affects only that period. Significant estimates and assumptions are used primarily in the determination of accrued pension benefits and the fair value of investments and investment-related receivables and liabilities. Note 4 explains how estimates and assumptions are used in determining accrued pension benefits and note 1d explains how estimates and assumptions are used to derive the fair value of investments and investment-related receivables and liabilities.

(k) 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 financial statements. A provision for a present obligation is recognized when a reliable estimate can be determined and the settlement of the obligation is probable.

Note 2.
INVESTMENTS

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

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

The schedule below summarizes the Plan's investments and investment-related liabilities, including net accrued interest and dividends of $270 million (December 31, 2010 – $298 million and January 1, 2010 – $263 million), before allocating the effect of derivative contracts:

	as at December 31, 2011		as at December 31, 2010		as at January 1, 2010	
(Canadian $ millions)	**Fair Value**	**Cost**	Fair Value	Cost	Fair Value	Cost
Fixed income						
Debentures	**$ 662**	**$ 635**	$ 1,333	$ 1,223	$ 2,499	$ 2,258
Bonds	**31,033**	**27,806**	27,622	27,552	18,089	19,548
Money-market securities	**7,545**	**7,562**	4,735	4,835	3,207	3,308
Alternative investments[2]	**5,821**	**5,482**	5,231	5,021	5,829	6,139
Canadian real-rate products	**19,766**	**13,109**	16,207	12,119	13,031	10,159
Non-Canadian real-rate products	**9,066**	**7,210**	6,869	6,892	6,518	6,621
	73,893	**61,804**	61,997	57,642	49,173	48,033
Equity						
Publicly traded						
Canadian	**5,188**	**5,325**	5,411	4,831	1,761	1,373
Non-Canadian	**28,934**	**29,752**	25,947	24,873	20,658	19,464
Non-publicly traded						
Canadian	**2,280**	**1,422**	1,961	1,470	1,464	1,314
Non-Canadian	**10,252**	**10,507**	9,673	9,885	7,163	8,148
	46,654	**47,006**	42,992	41,059	31,046	30,299
Real assets						
Real estate (note 5)	**14,960**	**8,660**	16,861	11,898	14,209	10,456
Infrastructure	**8,709**	**7,460**	7,070	5,771	5,568	4,824
Timberland	**2,166**	**2,092**	2,220	2,108	2,339	2,116
	25,835	**18,212**	26,151	19,777	22,116	17,396
	146,382	**127,022**	131,140	118,478	102,335	95,728
Investment-related receivables						
Securities purchased under agreements to resell	**7,245**	**7,219**	2,286	2,291	2,453	2,455
Cash collateral deposited under securities borrowing arrangements	**841**	**841**	249	249	983	1,005
Derivative-related, net	**2,095**	**1,141**	2,519	1,128	2,315	1,208
	10,181	**9,201**	5,054	3,668	5,751	4,668
Investments	**$ 156,563**	**$ 136,223**	$ 136,194	$ 122,146	$ 108,086	$ 100,396

[1] For additional details, refer to the schedule of Investments over $100 million on pages 118–121.

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

	as at December 31, 2011		as at December 31, 2010		as at January 1, 2010	
(Canadian $ millions)	**Fair Value**	**Cost**	Fair Value	Cost	Fair Value	Cost
Investment-related liabilities						
Securities sold under agreements to repurchase	**$ (35,088)**	**$ (35,112)**	$ (28,245)	$ (28,741)	$ (9,684)	$ (9,701)
Securities sold but not yet purchased						
Fixed income	**(2,076)**	**(2,048)**	(898)	(901)	(1,429)	(1,467)
Equities	**(847)**	**(826)**	(249)	(212)	(983)	(911)
Cash collateral received under credit support annexes	**(458)**	**(458)**	(383)	(383)	(268)	(268)
Derivative-related, net	**(1,836)**	**(532)**	(1,698)	(915)	(2,213)	(1,512)
	(40,305)	**(38,976)**	(31,473)	(31,152)	(14,577)	(13,859)
Net investments (note 2d)	**$ 116,258**	**$ 97,247**	$ 104,721	$ 90,994	$ 93,509	$ 86,537

(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 1d:

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

				December 31, 2010
(Canadian $ millions)	Level 1	Level 2	Level 3	Total
Fixed income	$ 46,817	$ 4,847	$ 10,333	$ 61,997
Equity	30,096	192	12,704	42,992
Real assets	1,435	286	24,430	26,151
Net investment-related liabilities	(1,233)	(24,998)	(188)	(26,419)
Net investments	$ 77,115	$ (19,673)	$ 47,279	$ 104,721

				January 1, 2010
(Canadian $ millions)	Level 1	Level 2	Level 3	Total
Fixed income	$ 31,695	$ 5,426	$ 12,052	$ 49,173
Equity	20,893	351	9,802	31,046
Real assets	1,378	301	20,437	22,116
Net investment-related liabilities	(1,617)	(6,739)	(470)	(8,826)
Net investments	$ 52,349	$ (661)	$ 41,821	$ 93,509

Comparative figures have been restated due to non-consolidation under Section 4600. There is no impact on the net investments.

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

					2011
(Canadian $ millions)	Fixed Income	Equity	Real Assets	Net Investment-related Receivables/ (Liabilities)	**Total**
Balance, beginning of year	$ 10,333	$ 12,704	$ 24,430	$ (188)	**$ 47,279**
Purchases	3,394	3,408	5,833	3,671	**16,306**
Sales	(4,202)	(3,678)	(7,308)	(3,582)	**(18,770)**
Transfers in(3)	253	–	–	(9)	**244**
Transfers out(3)	(170)	(259)	–	27	**(402)**
Gains included in investment income (note 6)					
Realized	31	854	286	84	**1,255**
Unrealized	556	543	1,533	291	**2,923**
Balance, end of year	$ 10,195	$ 13,572	$ 24,774	$ 294	**$ 48,835**

					2010
(Canadian $ millions)	Fixed Income	Equity	Real Assets	Net Investment-related Receivables/ (Liabilities)	Total
Balance, beginning of year	$ 12,052	$ 9,802	$ 20,437	$ (470)	$ 41,821
Purchases	4,827	3,929	10,084	5,039	23,879
Sales	(6,785)	(2,550)	(7,782)	(5,048)	(22,165)
Transfers in(3)	–	–	–	5	5
Transfers out(3)	(87)	(69)	–	41	(115)
Gains/(losses) included in investment income (note 6)					
Realized	(601)	423	68	(77)	(187)
Unrealized	927	1,169	1,623	322	4,041
Balance, end of year	$ 10,333	$ 12,704	$ 24,430	$ (188)	$ 47,279

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

(c) Derivative contracts

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

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

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

Swaps

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

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

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

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

Forwards and futures

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

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

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

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

Options

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

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

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

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

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

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

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

		as at December 31, 2011		as at December 31, 2010		as at January 1, 2010	
(Canadian $ millions)		**Notional**	**Fair Value**	Notional	Fair Value	Notional	Fair Value
Equity and commodity derivatives							
Swaps		**$ 22,496**	**$ (178)**	$ 15,332	$ 884	$ 15,102	$ 977
Futures		**10,003**	**(97)**	5,494	(4)	6,920	3
Options: Listed	– purchased	**158**	**3**	185	3	136	4
	– written	**149**	**(3)**	278	(5)	213	(6)
OTC	– purchased	**5,271**	**423**	5,492	337	4,563	324
	– written	**4,059**	**(111)**	6,325	(294)	2,924	(216)
		42,136	**37**	33,106	921	29,858	1,086
Interest rate derivatives							
Swaps		**26,557**	**5**	19,347	16	5,146	7
Futures		**92,951**	**24**	28,479	–	29,669	(8)
Options: Listed	– purchased	**–**	**–**	1,308	–	–	–
	– written	**7**	**–**	1,463	(1)	73	(1)
OTC	– purchased	**1,815**	**76**	5,382	28	5,739	37
	– written	**4,384**	**(80)**	2,115	(26)	1,098	(20)
		125,714	**25**	58,094	17	41,725	15
Currency derivatives							
Swaps		**274**	**5**	44	4	44	2
Forwards[(4)]		**38,177**	**20**	35,548	200	31,004	138
Futures		**62**	**–**	16	–	16	–
Options: OTC	– purchased	**5,660**	**30**	14,583	125	10,431	180
	– written	**5,526**	**(31)**	12,300	(114)	8,877	(145)
		49,699	**24**	62,491	215	50,372	175
Credit derivatives							
Loan participations		**–**	**–**	35	–	189	101
Credit default swaps	– purchased	**8,510**	**300**	8,043	82	10,825	209
	– written	**1,729**	**(308)**	2,049	(267)	2,494	(567)
Total return swaps		**10**	**1**	–	–	37	(16)
		10,249	**(7)**	10,127	(185)	13,545	(273)
Other derivatives							
Statistic swaps		**4,147**	**(61)**	4,968	(76)	15,481	(246)
Dividend swaps		**439**	**(37)**	364	(24)	263	(28)
		4,586	**(98)**	5,332	(100)	15,744	(274)
		232,384	**(19)**	169,150	868	151,244	729
Net cash collateral (received)/paid under derivative contracts		**–**	**278**	–	(47)	–	(627)
Notional and net fair value of derivative contracts		**$ 232,384**	**$ 259**	$ 169,150	$ 821	$ 151,244	$ 102

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

The net fair value of derivative contracts in the previous table is represented by:

	as at December 31	as at December 31	as at January 1
(Canadian $ millions)	2011	2010	2010
Derivative-related receivables	$ 2,025	$ 2,578	$ 3,004
Cash collateral paid under derivative contracts	307	113	132
Derivative-related liabilities	(2,044)	(1,710)	(2,275)
Cash collateral received under derivative contracts	(29)	(160)	(759)
	$ 259	$ 821	$ 102

(d) Investment asset mix

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

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

	as at December 31, 2011		as at December 31, 2010		as at January 1, 2010	
	Effective Net Investments at Fair Value ($ millions)	Asset Mix %	Effective Net Investments at Fair Value ($ millions)	Asset Mix %	Effective Net Investments at Fair Value ($ millions)	Asset Mix %
Equity						
Canadian	$ 10,636	9%	$ 9,286	9%	$ 8,427	9%
Non-Canadian	41,034	35	38,203	36	32,755	35
	51,670	44	47,489	45	41,182	44
Fixed income						
Bonds	26,500	23	22,728	22	15,462	17
Real-rate products[5]	29,291	25	23,245	22	19,882	21
	55,791	48	45,973	44	35,344	38
Commodities[6]	5,645	5	5,226	5	1,939	2
Real assets						
Real estate (note 5)	14,960	13	16,861	16	14,209	15
Infrastructure	8,709	7	7,070	7	5,568	6
Timberland	2,166	2	2,220	2	2,338	3
	25,835	22	26,151	25	22,115	24
Absolute return strategies[7]						
Internal absolute return strategies	7,679	7	6,845	7	6,299	7
Alternative investments	4,652	4	4,531	4	5,367	5
	12,331	11	11,376	11	11,666	12
Money market[7]	(35,014)	(30)	(31,494)	(30)	(18,737)	(20)
Net investments	$ 116,258	100%	$ 104,721	100%	$ 93,509	100%

[5] Beginning January 1, 2010, real rate products are included in fixed income instead of real assets. January 1, 2010 comparative figures have been reclassified to reflect this change.

[6] Beginning January 1, 2010, commodities, previously included in real assets, are reported in a separate asset class. January 1, 2010 comparative figures have been reclassified to reflect this change.

[7] Beginning January 1, 2010, absolute return strategies and money market, previously included in fixed income, are each reported in a separate asset class. January 1, 2010 comparative figures have been reclassified to reflect this change.

(e) Risk management

Objectives

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

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

Policies

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

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

Processes

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

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

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

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

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

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

Except for debt issued or guaranteed without significant conditions by the Government of Canada, by the government of a province or territory of Canada (with a minimum DBRS credit rating of "AA"), 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. Further, not more than 20% of the market value of all bonds, debentures, real return debt products, mezzanine debt and other debt investments (excluding the market value of the non-marketable Ontario Debentures, debt owed by affiliated third parties in relation to real estate properties, and debt associated with an investment strategy approved by the Board) shall be made up of investments rated below a DBRS credit rating of "BBB" or its equivalent or that are unrated.

The Plan has a credit risk assessment process to determine authorized counterparties for repurchase agreements, reverse repurchase agreements, and derivative contracts. The Plan deals primarily with counterparties that have a credit rating of "A" or higher for derivative contracts. Policies are also in place to limit the maximum exposures to any individual counterparty for derivative contracts.

Collateral is an important mitigator of counterparty credit risk. The Plan routinely obtains collateral, such as in the case of reverse repurchase agreements and OTC derivative contracts. Note 2i provides further details on securities collateral.

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 all OTC derivative counterparties, which allows both parties to settle obligations on a net basis when termination or other pre-determined events occur. The Plan also negotiates a collateral agreement known as Credit Support Annex (CSA) with its 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.

Maximum exposure to credit risk before collateral held

The following table presents the maximum exposure as at December 31, 2011, December 31, 2010 and January 1, 2010 to credit risk from balance sheet and off-balance sheet financial instruments and arrangements before taking account of any collateral held. The analysis includes financial assets subject to credit risk only; other financial assets, mainly equity securities, as well as non-financial assets are excluded. For off-balance sheet guarantees, the maximum exposure to credit risk is the maximum amount that the Plan would have to pay if the guarantees were to be called upon. For loan commitments and risk participation agreements, the maximum exposure is the committed amount under the agreements. For credit derivatives, the maximum exposure is the notional amount of written credit derivatives as presented in note 2c.

(Canadian $ millions)	**as at December 31 2011**	as at December 31 2010	as at January 1 2010
On balance sheet:			
Cash	**$ 435**	$ 432	$ 493
Receivable from the Province of Ontario	**2,717**	2,627	2,524
Receivable from brokers	**39**	101	93
Fixed income			
Debentures	**662**	1,333	2,499
Bonds	**31,033**	27,622	18,089
Money-market securities	**7,545**	4,735	3,207
Canadian real-rate products	**19,766**	16,207	13,031
Non-Canadian real-rate products	**9,066**	6,869	6,518
Securities purchased under agreements to resell	**7,245**	2,286	2,453
Derivative-related receivables	**2,025**	2,578	3,004
Total on balance sheet	**$ 80,533**	$ 64,790	$ 51,911
Off balance sheet:			
Guarantees	**$ 2,867**	$ 233	$ 1,532
Loan commitments	**33**	380	611
Risk participation agreements	**113**	133	125
Notional amount of written credit derivatives	**1,729**	2,049	2,494
Total off balance sheet	**4,742**	2,795	4,762
Total maximum exposure	**$ 85,275**	$ 67,585	$ 56,673

Comparative figures for guarantees, total off-balance sheet amounts and total maximum exposure decreased by $192 million for the year ended December 31, 2010 and increased by $1,149 million as at January 1, 2010 due to non-consolidation under Section 4600.

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, 2011, 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 $42.1 billion (December 31, 2010 – $34.9 billion, January 1, 2010 – $22.0 billion), U.S. Treasury issued securities of $9.6 billion (December 31, 2010 – $8.4 billion, January 1, 2010 – $6.5 billion), Province of Ontario bonds of $2.9 billion (December 31, 2010 – $1.4 billion, January 1, 2010 – $0.8 billion), receivable from the Province (see note 3) of $2.7 billion (December 31, 2010 – $2.6 billion, January 1, 2010 – $2.5 billion), non-marketable Province of Ontario debentures of $0.7 billion (December 31, 2010 – $1.3 billion, January 1, 2010 – $2.5 billion), and future provincial funding requirements of the Plan.

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

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

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

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

The ETL methodology is a statistical approach that accounts for market volatility and credit risk as well as risk diversification achieved by investing in various products and markets. Risks are measured consistently across all markets and products and can be aggregated to arrive at a single risk number. The one-year 99% ETL number used by the Plan is generated using a historical simulation and bootstrap sampling approach that reflects the expected annual return on the portfolio in the worst 1% of the cases. The Plan currently uses the previous 25 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 chart below shows the year-over-year change in Total Asset Risk ETL of the Plan. The $3 billion increase for the year is mainly due to a change in the modelling of real interest rates by employing a method based on level changes observed in comparable historical periods versus one based on random sampled percentage changes. This change was necessitated by the current low interest rate environment and impacted directly the real rate product assets. The changes in the other assets are mainly due to changes in the market value of the Plan's holdings, foreign exchange hedging and additional risk model changes.

as at December 31

(Canadian $ billions)[8]	2011	2010
Equity		
Canadian	**$ 4.0**	$ 3.5
Non-Canadian	**12.5**	11.0
Fixed income		
Bonds	**2.0**	2.0
Real-rate products	**4.5**	1.5
Commodities	**3.5**	2.5
Real assets		
Real estate	**1.5**	2.5
Infrastructure	**1.5**	1.0
Timberland	**0.5**	0.5
Absolute return strategies	**1.0**	2.0
Money market	**4.5**	3.5
Total Asset Risk ETL Exposure[9][10]	**$ 21.5**	$ 18.5

[8] Rounded to the nearest $0.5 billion.

[9] Total ETL Exposure does not equal the sum of ETL exposure for each asset class because diversification reduces total risk exposure.

[10] In prior years, Total Risk ETL was presented instead of Total Asset Risk ETL. Total Risk ETL is the risk of the Plan associated with the difference in value between the assets and the liabilities or the funding surplus/deficit over a one-year horizon. With the changes to the real interest model, Total Risk ETL is driven primarily by real interest rate movements through the impact on the liability value. Total Asset Risk ETL is the risk associated with the net investment assets only. In the context of investment risk, market or credit risks, and changes made to the investment portfolio and their resulting impacts to the risk of loss of the Plan's assets, Total Asset Risk ETL is the risk measure that summarizes the impact of changes in the Plan's holdings. Total Asset Risk ETL is monitored and reported to both management and the Board. The Board Investment Policy sets out limits in the management of the Plan's Total Asset Risk ETL. Total Risk ETL continues to be monitored and reported to both management and the Board; however, it is managed in conjunction with longer-term Asset-Liability Studies.

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 financial statements. After giving effect to the derivative contracts and investment-related receivables and liabilities discussed in note 2c, a 1% increase in nominal interest rates would result in a decline in the value of the Plan's investments in fixed-income securities of 6% (December 31, 2010 – 6%, January 1, 2010 – 6%). 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% (December 31, 2010 – 16%, January 1, 2010 – 14%).

As at December 31, 2011, holding the inflation and salary escalation assumptions constant, a 1% decrease in the assumed long-term real rates of return would result in an increase in the pension liabilities of approximately 19% (December 31, 2010 – 18%, January 1, 2010 – 18%).

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, 2011, December 31, 2010, and January 1, 2010 the Plan had investments exposed to foreign currency. In Canadian dollars this exposure is as follows:

	December 31	December 31	January 1
(Canadian $ millions)	**2011**	2010	2010
Currency	**Net Exposure**	Net Exposure	Net Exposure
United States Dollar	**$ 22,877**	$ 20,970	$ 19,978
British Pound Sterling	**5,759**	5,565	4,673
Euro	**4,684**	4,632	5,358
Brazilian Real	**3,021**	3,202	4,237
Japanese Yen	**2,538**	2,655	2,155
Chilean Peso	**1,968**	1,492	1,279
Chinese Renminbi	**1,892**	410	220
Australian Dollar	**1,495**	2,361	1,935
South Korean Won	**1,011**	520	391
Swedish Krona	**723**	678	68
Other	**4,920**	4,045	3,086
	$ 50,888	$ 46,530	$ 43,380

A 1% increase/decrease in the value of the Canadian dollar against all currencies, with all other variables and underlying values held constant, would result in an approximate decrease/increase in the value of net investments of $509 million as at December 31, 2011 (December 31, 2010 – $465 million, January 1, 2010 – $434 million).

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

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

Liquid assets
The Plan maintains a portfolio of highly marketable assets including Canada and U.S. government bonds that can be sold or funded on a secured basis as protection against any unforeseen interruption to cash flow. The fair value of the Canada and U.S. government bonds is $51,695 million as at December 31, 2011 (December 31, 2010 – $43,285 million, January 1, 2010 – $28,495 million). The Plan also has publicly traded equities of $34,122 million (December 31, 2010 – $31,358 million, January 1, 2010 – $22,419 million) which are listed on major recognized stock exchanges. These securities are readily realizable and convertible to cash.

Contractual maturity

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

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

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

			2010
(Canadian $ millions)	Within One Year	One to Five Years	Total
Securities sold under agreements to repurchase	$ (28,245)	$ –	$ (28,245)
Securities sold but not yet purchased			
Fixed income	(898)	–	(898)
Equities	(249)	–	(249)
Cash collateral received under credit support annexes	(383)	–	(383)
Derivative-related, net	(1,698)	–	(1,698)
Total	$ (31,473)	$ –	$ (31,473)

The Plan's investment-related liabilities by maturity as at January 1 are as follows:

			2010
(Canadian $ millions)	Within One Year	One to Five Years	Total
Securities sold under agreements to repurchase	$ (9,684)	$ –	$ (9,684)
Securities sold but not yet purchased			
Fixed income	(1,429)	–	(1,429)
Equities	(983)	–	(983)
Cash collateral received under credit support annexes	(268)	–	(268)
Derivative-related, net	(2,213)	–	(2,213)
Total	$ (14,577)	$ –	$ (14,577)

The comparative figure for total investment-related liabilities decreased by $19,166 million (December 31, 2010), $15,814 million (January 1, 2010) due to non-consolidation under Section 4600.

(i) Securities collateral

Canadian and U.S. government securities with a fair value of $1,260 million (December 31, 2010 – $858 million, January 1, 2010 – $2,378 million) have been either deposited or pledged with various financial institutions as either collateral or margin. The Plan is not allowed to either pledge the same securities with other financial institutions or to sell them to another entity unless the Plan could substitute such securities with other securities that the counterparties accept.

Canadian and U.S. government securities with a fair value of $1,838 million (December 31, 2010 – $447 million, January 1, 2010 – $269 million) have been received from various financial institutions as collateral. 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, 2011, December 31, 2010, or January 1, 2010.

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	as at December 31	as at January 1
(Canadian $ millions)	**2011**	2010	2010
Contributions receivable	**$ 2,663**	$ 2,554	$ 2,445
Accrued interest receivable	**54**	73	79
	$ 2,717	$ 2,627	$ 2,524

The receivable as at December 31, 2011 from the Province consists of $1,344 million, which was received in January 2012, and an estimated $1,373 million to be received with interest in January 2013. The receivable as at December 31, 2010 from the Province consisted of $1,316 million, which was received in January 2011, and an initial estimate of $1,311 million to be received in January 2012. The receivable as at January 1, 2010 from the Province consisted of $1,245 million, which was received in January 2010, and an initial estimate of $1,279 million to be received in January 2011. 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 $162,587 million (December 31, 2010 – $146,893 million, January 1, 2010 – $131,858 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, salary escalation rate and the inflation rate. The discount rate is based on the market rate, as at the valuation date, of long-term Government of Canada bonds, which have characteristics similar to the Plan's liabilities, plus a spread to reflect the credit risk of the Province of Ontario. The inflation rate is the difference between the yield on Government of Canada long-term nominal bonds and Government of Canada real-return bonds. The salary escalation rate incorporates the inflation rate assumption and long-term expectation of growth in real wages.

In 2011, the spread was changed from 50 basis points to the prevailing spread at December 31 between the Government of Canada and the Province of Ontario long-term nominal bonds. This change in accounting estimate is applied prospectively beginning December 31, 2011. The effect of the change was a decrease in the value of accrued pension benefits by $12,397 million in 2011.

A summary of the primary economic assumptions is as follows:

	as at December 31 2011	as at December 31 2010	as at January 1 2010
Discount rate	**3.40%**	4.05%	4.60%
Salary escalation rate	**3.05%**	3.40%	3.55%
Inflation rate	**2.05%**	2.40%	2.55%
Real rate	**1.35%**	1.65%	2.05%

The primary economic assumptions were changed as a result of changes in capital markets during 2011. These changes resulted in a net increase in the value of accrued pension benefits of $22,284 million (December 31, 2010 – $10,242 million, January 1, 2010 – $9,941 million). No changes to the non-economic assumptions were adopted in 2011. The valuation methods were adjusted to reflect membership data being provided as at the end of each school year rather than as at the end of each calendar year commencing in 2011. Changes in non-economic assumptions and the valuation methods decreased the accrued pension benefits by $68 million including the impact of updating the membership data from calendar year to school year (December 31, 2010 – $198 million increase, January 1, 2010 – nil). The changes in economic and non-economic assumptions and the change in valuation methods resulted in a net increase in the value of accrued pension benefits of $9,819 million (December 31, 2010 – $10,440 million, January 1, 2010 – $9,941 million).

(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. The co-sponsors may only invoke the conditional inflation protection provision at the time of a funding valuation filing, depending on the Plan's funded status. The Ontario government and designated employers participating in the Plan will make extra contributions to the Plan equal to any inflation protection benefits members forego.

Conditional inflation protection was invoked in the filed funding valuation as at January 1, 2011. Effective January 1, 2012, inflation protection is 60% of the change in the Consumer Price Index for the post-2009 credited service. The co-sponsors are permitted to change the level of inflation protection when filing a subsequent funding valuation. The next required filing date is in 2014.

For financial statement valuations, the Plan accrues the minimum amount of inflation protection benefits estimated at 60% for post-2009 credited service until the next required filing and at the guaranteed level of 50% for the period thereafter. The indexation percentage for credited service earned before 2010 remains at 100%.

If 100% indexation had been assumed starting after the next statutory filing, with full inflation protection restored on a go-forward basis, the accrued pension benefits would increase $1,620 million (December 31, 2010 – $755 million) to $164,207 million (December 31, 2010 – $147,648 million). The present value of the maximum extra contributions the Plan will receive from the Ontario government and designated employers will be $1,620 million (December 31, 2010 – $755 million).

(c) Experience gains and losses

Experience losses on the accrued pension benefits of $179 million (December 31, 2010 – $316 million gain) arose from differences between the actuarial assumptions and actual results.

Note 5.
INVESTMENT IN REAL ESTATE

The Plan's real estate investments comprise real estate-related investments that are either owned or managed on behalf of the Plan by Cadillac Fairview Corporation Limited, a wholly-owned subsidiary. The tables below provide information on the net investment in real estate:

	as at December 31, 2011		as at December 31, 2010		as at January 1, 2010	
(Canadian $ millions)	**Fair Value**	**Cost**	Fair Value	Cost	Fair Value	Cost
Assets[1]						
Real estate properties[2]	**$ 18,866**	**$ 12,593**	$ 17,100	$ 12,505	$ 15,461	$ 12,167
Investments	**1,234**	**869**	1,831	1,392	1,992	1,509
Other assets[2]	**306**	**268**	361	321	319	248
Total assets	**20,406**	**13,730**	19,292	14,218	17,772	13,924
Liabilities[1]						
Long-term debt[2]	**4,665**	**4,527**	1,719	1,792	2,947	2,984
Other liabilities [2]	**781**	**543**	712	528	616	484
Total liabilities	**5,446**	**5,070**	2,431	2,320	3,563	3,468
Net investment in real estate	**$ 14,960**	**$ 8,660**	$ 16,861	$ 11,898	$ 14,209	$ 10,456

[1] As at December 31, 2011, U.S. Dollar and British Pound Sterling net assets have been hedged by way of foreign currency forward contracts for a notional amount of $915 million (December 31, 2010 – $1,253 million, January 1, 2010 – $1,698 million) with a combined fair value of ($43) million (December 31, 2010 – $24 million, January 1, 2010 – $71 million).

[2] Includes the proportionate share of assets and liabilities in real estate joint ventures of $3,717 million (December 31, 2010 – $3,259 million, January 1, 2010 – $3,489 million) and $1,144 million (December 31, 2010 – $1,305 million, January 1, 2010 – $1,371 million), respectively.

(Canadian $ millions)	**2011**	2010
Revenue		
Rental	**$ 1,804**	$ 1,773
Investment and other	**77**	66
	1,881	1,839
Expenses		
Property operating	**793**	776
General and administrative	**37**	32
Other [3]	**47**	24
	877	832
Operating income	**1,004**	1,007
Interest expense	**(176)**	(159)
Income (note 6)	**828**	848
Net investment gain[4][5]	**1,545**	1,519
Net real estate income	**$ 2,373**	$ 2,367

[3] Includes transaction costs of $24 million (2010 – $11 million).

[4] Includes unrealized net gain of $1,337 million (2010 – $1,210 million).

[5] This amount is included in net realized and unrealized gain on investments shown in note 6.

Note 6.
INVESTMENT INCOME

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

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

(Canadian $ millions)	2011	2010
Fixed income interest		
Debentures	**$ 99**	$ 156
Money-market securities	**(124)**	(138)
Bonds	**1,334**	1,049
Net repo interest expense	**(166)**	(56)
Net swap interest expense	**(154)**	(106)
Canadian real-rate products	**428**	393
Non-Canadian real-rate products	**171**	150
	1,588	1,448
Equity dividend income		
Canadian equity	**179**	148
Non-Canadian equity	**979**	643
	1,158	791
Real assets		
Real estate (note 5)	**828**	848
Infrastructure	**201**	273
Timberland	**60**	43
	1,089	1,164
	3,835	3,403
Net realized and unrealized gain on investments[1][2]	**8,233**	10,210
Direct management fees	**(218)**	(256)
Transaction costs	**(115)**	(88)
Investment income	**$ 11,735**	$ 13,269

[1] Includes unrealized net gains of $5,284 million (2010 – $6,755 million).

[2] Includes net foreign currency gains/(losses) of ($546) million (2010 – gains of $569 million).

(b) Investment income/(loss)

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

(Canadian $ millions)	2011	2010
Fixed income	$ 9,306	$ 4,172
Canadian equity	(267)	1,659
Non-Canadian equity	(248)	3,678
Commodities	(46)	660
Real assets	2,990	3,100
	$ 11,735	$ 13,269

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:

	2011		2010	
(percent)	Investment Returns	Investment Benchmark Returns	Investment Returns	Investment Benchmark Returns
Fixed income	19.9%	19.5%	9.9%	9.5%
Canadian equity	(5.0)	(9.1)	14.6	13.8
Non-Canadian equity	0.2	(4.4)	9.4	5.9
Commodities	(2.3)	(1.5)	3.2	3.3
Real assets	13.2	13.3	13.9	5.5
Total Plan	11.2%	9.8%	14.3%	9.8%

Investment returns have been calculated in accordance with the acceptable methods set forth by the CFA Institute and the Pension Investment Association of Canada.

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

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

Note 8.
STATUTORY ACTUARIAL VALUATIONS

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

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

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

The actuarial methods used to prepare statutory actuarial valuations are different than those used to prepare a financial statement actuarial valuation and the amounts disclosed in these 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, 2011 by Mercer (Canada) Limited and disclosed a funding surplus of $212 million, after adopting conditional inflation protection of 60% for post-2009 service and the contribution increases summarized above which will be payable over the fifteen year period commencing January 1, 2012.

Note 9.
CONTRIBUTIONS

(Canadian $ millions)	**2011**	2010
Members		
Current service	**$ 1,352**	$ 1,294
Optional credit	**25**	19
	1,377	1,313
Province of Ontario		
Current service	**1,345**	1,280
Interest	**40**	52
Optional credit	**21**	16
	1,406	1,348
Other employers	**26**	25
Transfers from other pension plans	**14**	11
	40	36
	$ 2,823	$ 2,697

Note 10.
BENEFITS PAID

(Canadian $ millions)	**2011**	2010
Retirement pensions	**$ 4,329**	$ 4,190
Death benefits	**259**	244
Disability pensions	**29**	30
Commuted value transfers	**33**	21
Transfers to other plans	**10**	10
Refunds	**3**	5
	$ 4,663	$ 4,500

Note 11.
ADMINISTRATIVE EXPENSES

(a) Investment expenses

(Canadian $ millions)	2011	2010
Salaries, incentives and benefits	$ 180.6	$ 195.3
Premises and equipment	31.5	30.6
Professional and consulting services	37.0	26.0
Information services	14.9	14.5
Communication and travel	12.0	10.0
Custodial fees	8.0	9.0
Statutory audit fees	1.6	1.3
Board and committee remuneration	0.6	0.6
Other	3.2	2.7
	$ 289.4	$ 290.0

(b) Member Services expenses

(Canadian $ millions)	2011	2010
Salaries, incentives and benefits	$ 28.6	$ 27.9
Premises and equipment	8.8	9.2
Professional and consulting services	3.5	4.0
Communication and travel	1.7	1.5
Statutory audit fees	0.1	0.1
Board and committee remuneration	0.1	0.1
Other	0.8	0.8
	$ 43.6	$ 43.6

(c) Compensation of key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Plan, being the Board, 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 as at December 31 is summarized below:

(Canadian $ millions)	2011	2010
Short-term employee benefits	$ 12.0	$ 11.0
Post-employment benefits	3.1	3.0
Other long-term benefits	23.5	23.5
Termination payments	–	0.1
Total	$ 38.6	$ 37.6

(d) Employee post-employment benefits

The employees of the Plan are either members of the Ontario Public Service Employees Union (OPSEU) Pension Plan or Public Service Pension Plan (PSPP). Some employees are also members of the Public Service Supplementary Plan (PSSP). These three pension plans are sponsored by the Province of Ontario and information is available on www.optrust.com and www.opb.ca. As the employer, the Plan matches the employees' contributions to these pension plans. Some senior management employees also participate in a non-registered, unfunded Supplemental Employee Retirement Plan (SERP) managed by the Plan to provide the employees non-indexed retirement benefits equal to 2% of the employee's best three-year average pensionable earnings for each year 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 was $10.1 million (2010 – $11.9 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 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 and preliminary funding status are 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 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 2012, the actuary determined that the limit should increase from $14,500 to $15,000. 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. The comparatives as at January 1, 2010 and for the years ended December 31, 2010 and 2011 are shown below:

(Canadian $ thousands)	**December 31 2011**	December 31 2010	January 1 2010
STATEMENTS OF FINANCIAL POSITION			
Net assets available for benefits			
Assets	**$ 17,152**	$ 16,781	$ 14,931
Liabilities	**(1,595)**	(1,412)	(1,206)
	$ 15,557	$ 15,369	$ 13,725
Accrued benefits and deficit			
Accrued benefits	**$ 391,835**	$ 383,582	$ 295,992
Deficit	**(376,278)**	(368,213)	(282,267)
	$ 15,557	$ 15,369	$ 13,725
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS			
Contributions	**$ 6,142**	$ 6,467	
Investment income	**49**	42	
	6,191	6,509	
Benefits paid	**5,917**	4,810	
Expenses	**86**	55	
	6,003	4,865	
Increase in net assets	**$ 188**	$ 1,644	

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 percent 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, 2011, these commitments totalled $4,962 million (2010 – $4,628 million). The comparative figures decreased by $2,821 million due to non-consolidation under Section 4600.

Note 15.
GUARANTEES AND INDEMNIFICATIONS

The Plan provides guarantees to third parties related to certain companies the Plan invests in and will be called upon to satisfy the guarantees if the companies fail to meet their obligations. The Plan expects most guarantees to expire unused. No payments have been made by the Plan in either 2011 or 2010 under these guarantees.

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

The Plan guarantees loan and credit agreements which will expire between 2012 and 2014. The Plan's maximum exposure is $149 million as at December 31, 2011 (December 31, 2010 – $155 million, January 1, 2010 – $163 million). As at December 31, 2011, the companies have drawn $127 million under the agreements (December 31, 2010 – $133 million, January 1, 2010 – $141 million).

The Plan guarantees lease agreements for a subsidiary with expiry dates ranging from 2012 to 2059. The Plan's maximum exposure is $83 million as at December 31, 2011 (December 31, 2010 – $78 million, January 1, 2010 – $75 million). There were no default lease payments in either 2011 or 2010.

Note 16.
LITIGATION

In 2007, the Board on behalf of the Plan made an equity commitment in respect of a proposed transaction pursuant to which a corporation (the "Purchaser") organized by several investors was proposing to acquire BCE Inc. ("BCE"). Pursuant to the definitive agreement that was entered into between BCE and the Purchaser in respect of the proposed transaction, a break-up fee would have been payable by BCE in certain circumstances, and a reverse break-up fee would have been payable by the Purchaser in certain circumstances. Certain of the investors, including the Board, are parties to a limited guarantee of this reverse break-up fee. The transaction was terminated in 2008 because not all of the conditions required under the definitive agreement could be satisfied. In connection with the BCE transaction, the Board has been named as a defendant in the following cases:

Break fee litigation

BCE has made a claim in the Superior Court of Quebec for the reverse break-up fee of $1.2 billion under the BCE acquisition agreement. The Board would be responsible for 58.7% of such fee if the claim is successful. This action is still at the discovery stage. At this time it is not possible to predict the outcome.

Proposed class action

A proposed class action lawsuit was commenced in the Province of Saskatchewan in October 2008 regarding the non-payment of second and third quarter common share dividends by BCE. The plaintiff has taken no steps to advance the claim since 2008. A certification motion has not been scheduled. At this time it is not possible to predict the outcome.

Major Investments

FIXED INCOME AND SHORT-TERM INVESTMENTS OVER $100 MILLION

(as at December 31, 2011)

Type ($ millions)	Maturity	Coupon (%)	Fair Value	Cost
Government of Canada bonds	2012–2041	1.00–10.50	$ 20,960	$ 17,591
Securities purchased under agreements to resell	2012–2012	-0.30–1.02	7,245	7,219
Canada treasury bills	2012–2012	0.00–0.00	5,829	5,822
Provincial bonds	2016–2043	0.00–9.50	3,363	2,989
Canadian corporate bonds	2011–2108	0.00–30.00	2,435	2,470
International corporate bonds	2012–2037	0.00–13.53	2,335	2,709
United States treasury bonds	2012–2015	0.38–9.25	401	388
United States treasury bills	2012–2012	0.00–0.00	130	131
Securities sold under agreements to repurchase	2012–2012	0.05–1.57	(35,088)	(35,112)

REAL-RETURN INVESTMENTS OVER $100 MILLION

Type ($ millions)	Maturity	Coupon (%)	Fair Value	Cost
Real-return Canada bonds	2021–2044	1.50–4.25	$ 15,333	$ 10,797
United States treasury inflation protection	2014–2041	0.50–3.88	9,043	7,188
Real-return provincial bonds	2013–2036	2.00–4.50	2,228	1,333
Real-return Canada corporate bonds	2016–2046	0.00–5.33	2,041	841
Index-linked mortgages	2023–2030	4.63–5.53	165	137

PROVINCE OF ONTARIO DEBENTURES OVER $100 MILLION

Maturity Date ($ millions)	Coupon (%)	Fair Value	Cost
2012-2012	11.06–11.31	$ 662	$ 635

CORPORATE SHARES/UNITS OVER $100 MILLION

(as at December 31, 2011) (millions)

Security Name	Shares	Fair Value
iShares MSCI Emerging Markets Index	49.7	$1,918.4
Multiplan Empreendimentos Imobiliarios S.A.	52.1	1,103.0
GNC Holdings, Inc.	26.3	742.5
Hitachi, Ltd.	131.6	703.6
Canadian Natural Resources Limited	15.1	576.9
Total SA	11.2	570.9
Vodafone Group Plc	184.8	544.1
The McGraw-Hill Companies, Inc.	11.9	543.6
ACE Limited	6.3	447.7
Nippon Telegraph and Telephone Corporation	8.2	427.3
Wells Fargo & Company*	15.2	404.3
Potash Corporation of Saskatchewan Inc.	9.6	402.3
Royal Dutch Shell plc	5.2	333.6
Michael Kors Holdings Limited	13.2	325.7
Deutsche Telekom AG	27.7	324.2
Goldcorp Inc.	6.8	307.6
Marathon Petroleum Corporation	8.9	301.2
Transocean Ltd.	7.5	291.6
Continental AG	4.6	290.0
Royal Bank of Canada	5.5	284.4
Barrick Gold Corporation	6.1	282.1
MMX Mineracao e Metalicos SA	147.7	278.9
Toronto-Dominion Bank, The	4.2	274.3
BRF–Brasil Foods S.A.	13.4	267.9
Nestlé SA	4.5	261.9
Safeway Inc.	11.9	256.8
Intel Corporation	10.3	253.2
Akzo Nobel N.V.	5.1	251.9
Unilever N.V.	7.2	251.4
Microsoft Corporation	9.5	250.5
Chow Tai Fook Jewellery Company Limited	130.7	238.6
LLX Logistica S.A.	124.1	228.3
HSBC Holdings plc	28.5	224.2
Sprint Nextel Corporation	91.6	218.2
Macdonald, Dettwiler and Associates Ltd.	4.4	208.5
GlaxoSmithKline plc	8.7	204.0
Novartis AG	3.3	193.5
Apple Inc.	0.5	190.1
Rockwell Collins, Inc.	3.3	185.1
Bank of Nova Scotia	3.5	178.0
The Walt Disney Company	4.4	169.2
Metlife, Inc.	5.2	165.1
Google Inc.	0.2	164.0
Canadian Pacific Railway Limited	2.3	157.0
Pfizer Inc.	7.1	156.1
PNC Financial Services Group, Inc.*	3.1	153.5
Suncor Energy, Inc.	5.1	151.2
3M Company	1.8	148.5
Itaú Unibanco Holding S.A.	7.8	147.9
DaimlerChrysler AG	3.2	143.9
JPMorgan Chase & Co.*	4.2	141.9
Education Management Corporation	5.0	141.1
BAE Systems plc	31.1	140.4
Johnson & Johnson	2.1	139.5
Canadian Imperial Bank of Commerce	1.9	136.8
Exxon Mobil Corporation	1.5	132.6
Wolseley plc	3.9	131.4
SunTrust Banks, Inc.*	7.3	129.7
Applied Materials, Inc.	11.6	126.8
Rio Tinto plc	2.5	122.4
OGX Petróleo e Gás Participações S.A.	16.4	121.7
Dell Inc.	8.0	118.9
CVS Caremark Corporation	2.9	118.7
Samsung Electronics Co., Ltd.	0.1	117.2
Chesapeake Energy Corporation	5.2	116.9
Thermo Fisher Scientific Inc.	2.6	116.8
Sampo Oyj	4.6	116.3
Tiffany & Co.	1.7	115.5
Toyota Motor Corporation	3.3	113.7
QE National	31.6	113.0
Hewlett-Packard Company	4.2	111.3
Cisco Systems, Inc.	6.0	109.9
News Corporation	6.0	109.3
Woodside Petroleum Ltd.	3.4	108.9
Credit Suisse Group AG	4.5	108.6
TransCanada Corporation	2.4	108.1
Illinois Tool Works Inc.	2.3	108.1
PSA Peugeot Citroen	6.7	107.3
Danaher Corporation	2.2	105.9
Metalurgica Gerdau S.A.	10.7	104.0
Nissan Shatai Co., Ltd.	10.5	103.5
Koninklijke (Royal) Philips Electronics N.V.	4.8	103.4
Canon Inc.	2.2	101.9
Kroger Co., The	4.1	100.3

*Includes fair market value of warrants and subscription receipts.

REAL ESTATE INVESTMENTS OVER $100 MILLION

(as at December 31, 2011)

Property	Total Square Footage (thousands)	Effective % Ownership
Canadian Regional Shopping Centres		
Champlain Place, Dieppe	719	100%
Chinook Centre, Calgary	1,383	100%
Fairview Mall, Toronto	875	50%
Fairview Park Mall, Kitchener	746	100%
Fairview Pointe Claire, Montreal	1,047	50%
Georgian Mall, Barrie	626	100%
Le Carrefour Laval, Montreal	1,360	100%
Les Galeries D'Anjou, Montreal	1,200	50%
Les Promenades St. Bruno, Montreal	1,138	100%
Lime Ridge Mall, Hamilton	814	100%
Market Mall, Calgary	971	50%
Markville Shopping Centre, Markham	979	100%
Masonville Place, London	684	100%
McAllister Place, St. John	483	100%
Pacific Centre, Vancouver	1,440	100%
Polo Park Mall, Winnipeg	1,233	100%
Regent Mall, Fredericton	494	100%
Richmond Centre, Richmond	793	50%
Rideau Centre, Ottawa	1,389	100%
Sherway Gardens, Toronto	986	100%
Shops at Don Mills, Toronto	470	100%
The Promenade, Toronto	704	100%
Toronto Eaton Centre, Toronto	1,710	100%

Property	Total Square Footage (thousands)	Effective % Ownership
Canadian Office Properties		
Encor Place, Calgary	359	100%
Granville Square, Vancouver	407	100%
HSBC Building, Vancouver	395	100%
Pacific Centre Office Complex, Vancouver	1,549	100%
PricewaterhouseCoopers Place, Vancouver	241	100%
RBC Centre, Toronto	1,226	100%
Shell Centre, Calgary	683	50%
Toronto-Dominion Centre Office Complex, Toronto	4,438	100%
Toronto Eaton Centre Office Complex, Toronto	1,897	100%
Waterfront Centre, Vancouver	410	100%
Yonge Corporate Centre, Toronto	669	100%
U.S. Regional Shopping Centres		
Lakewood Mall, Lakewood, California	2,093	49%
Los Cerritos Center, Cerritos, California	1,317	49%
Queens Center, Queens, New York	950	49%
Stonewood Center, Downey, California	923	49%
Washington Square, Tigard, Oregon	1,317	49%
U.K. Office Properties		
Thomas More Square Estate, London	558	50%

PRIVATE COMPANIES AND PARTNERSHIPS OVER $100 MILLION

(as at December 31, 2011)

AB Acquisition Holdings Ltd.
Acorn Care and Education Limited
Alliance Laundry Systems, LLC
AOT Bedding Holding Corp.
Apollo Overseas Partners (Delaware 892) VI, L.P.
Apollo Overseas Partners (Delaware 892) VII, L.P.
AQR Offshore Multi-Strategy Fund, Ltd.
ARC Energy Fund 5 Canadian Limited Partnership
Ares Corporate Opportunities Fund II, L.P.
Ares Corporate Opportunities Fund III, L.P.
Avaya Inc.
Barclays Private Credit Partners Fund L.P.
BC European Capital VIII
BDCM Intermediate Company A
BDCM Offshore Opportunity Fund II Ltd.
Birmingham International Airport
Bridgewater Pure Alpha Fund II Ltd.
Bristol Airports (Bermuda) Limited
The Brussels Airport Company
BANCO BTG Pactual S.A.
Camelot Group plc
The Campbell Global Assets Fund Limited SAC
Copenhagen Airport A/S
Crestline OT Opportunity Fund, L.P.
DaVinciRe Holdings Ltd.
Diamond Castle Partners IV-A, L.P.
Donnet Participações S.A.
Downsview Managed Account Platform Inc.
Easton-Bell Sports, LLC
Empresa de Servicios Sanitarios del Bio-Bio S.A.
EQT V (No. 2) Limited Partnership
Esval S.A.
Exal International Limited
Express Pipeline Ltd.
Flexera Holdings, LP
FountainVest China Growth Fund, L.P.
GCT Global Container Terminals Inc.
GMO Mean Reversion Fund (Offshore) L.P.
Gottex Real Asset Fund, L.P.
Grupo Corporativo Ono, S.A.
Hancock Timber Resource Group
HS1 Limited
Hudson Catastrophe Fund, Ltd.
INC Research, Inc.
IntelSat, Ltd.
InterGen N.V.
Ivanplats Ltd.
Manabi Holding S.A.
Maple Financial Group Inc.
Maple Leaf Sports & Entertainment Ltd.
Marathon Special Opportunity Fund Ltd.
MBK Partners Fund II, L.P.
MBK Partners, L.P.
Mitra Energy Limited
Munchkin, Inc.
NBCG Eaton Sub-Fund
Northern Star Generation LLC
Nuevosur, S.A.
NXT Capital Holdings, L.P.
OLE Media Management, L.P.
Orbis SICAV Global Equity Fund
Park Square Capital, LLC
Permira IV L.P.2
Pershing Square International, Ltd.
Providence Equity Partners Fund V L.P.
Providence Equity Partners Fund VI L.P.
Quinte Limited
R3, Ltd.
Resource Management Service Inc.
Rhône Offshore Partners III L.P.
Scotia Gas Networks PLC
Silver Creek Low Vol CO Cayman LP
Silver Creek Special Opportunities Fund Cayman II, L.P.
Silver Creek Special Opportunities Fund Cayman III, L.P.
Silver Lake Partners III, L.P.
Sociedad Austral de Electricidad S.A.
SonicWALL, Inc.
Steward Trust
TDR Capital II, L.P.
Trez Capital Corporation
ValueAct Capital International II, L.P.
Wellspring Capital Partners IV, L.P.
York Street Capital Partners II, L.P.

Eleven-year Review

(Canadian $ billions)	**2011**	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
CHANGE IN NET ASSETS											
Income											
Investment income	**$11.74**	$13.27	$10.89	$(19.03)	$4.68	$12.31	$14.09	$10.80	$11.42	$(1.41)	$(1.74)
Contributions											
Members/transfers	**1.41**	1.35	1.29	1.13	1.06	0.83	0.79	0.75	0.71	0.68	0.64
Province of Ontario	**1.41**	1.35	1.43	1.18	1.08	0.82	0.78	0.75	0.72	0.70	0.68
Total income	**14.56**	15.97	13.61	(16.72)	6.82	13.96	15.66	12.30	12.85	(0.03)	(0.42)
Expenditures											
Benefits paid	**4.66**	4.50	4.39	4.20	4.02	3.82	3.62	3.43	3.20	3.08	3.08
Investment expenses	**0.29**	0.29	0.21	0.15	0.23	0.22	0.21	0.19	0.16	0.10	0.12
Client service expenses	**0.05**	0.05	0.04	0.04	0.04	0.03	0.03	0.03	0.03	0.03	0.04
Total expenditures	**5.00**	4.84	4.64	4.39	4.29	4.07	3.86	3.65	3.39	3.21	3.24
Increase/(decrease) in net assets	**$9.56**	$11.13	$8.97	$(21.11)	$2.53	$9.89	$11.80	$8.65	$9.46	$(3.24)	$(3.66)
NET ASSETS											
Investments											
Fixed income											
Bonds	**$26.50**	$22.73	$15.46	$14.22	$22.91	$20.86	$5.28	$8.96	$10.30	$13.80	$7.56
Real-rate products	**29.29**	23.24	19.88	17.41	11.06	11.80	10.56	11.90	7.07	5.92	6.98
Equities											
Canadian	**10.64**	9.29	8.43	6.21	13.73	16.39	19.26	16.80	15.19	13.43	17.06
Non-Canadian	**41.03**	38.20	32.75	28.72	36.31	32.42	25.78	23.09	19.13	18.19	24.28
Commodities	**5.64**	5.22	1.94	1.25	3.02	2.32	2.65	2.13	1.89	1.48	1.09
Real assets											
Real estate	**14.96**	16.86	14.21	13.48	13.41	11.12	8.75	7.20	6.20	7.28	7.25
Infrastructure	**8.71**	7.07	5.57	7.23	6.72	4.73	3.80	2.29	1.50	0.88	0.03
Timberland	**2.17**	2.22	2.34	2.80	2.12	2.05	0.97	0.70	0.40	0.09	–
Absolute return strategies	**12.33**	11.38	11.67	14.75	12.30	15.21	9.49	11.18	10.69	2.52	2.80
Money market	**(35.01)**	(31.49)	(18.74)	(20.97)	(13.58)	(11.22)	8.26	(2.53)	2.06	1.85	1.07
Net investments	**116.26**	104.72	93.51	85.10	108.00	105.68	94.80	81.72	74.43	65.44	68.12
Receivable from Province of Ontario	**2.72**	2.63	2.52	2.19	1.84	1.58	1.50	1.42	1.36	1.32	1.28
Other assets[1]	**40.81**	32.04	15.21	32.33	32.06	23.14	10.67	18.23	6.28	17.91	19.49
Total assets	**159.79**	139.39	111.24	119.62	141.90	130.40	106.97	101.37	82.07	84.67	88.89
Liabilities[1]	**(42.69)**	(31.86)	(14.84)	(32.18)	(33.35)	(24.39)	(10.84)	(17.04)	(6.39)	(18.46)	(19.43)
Net assets	**117.10**	107.53	96.40	87.44	108.55	106.01	96.13	84.33	75.68	66.21	69.46
Accrued pension benefits	**162.59**	146.89	131.86	118.14	115.46	110.50	110.53	96.73	83.12	73.67	65.43
(Deficit)/surplus[1]	**$(45.49)**	$(39.36)	$(35.46)	$(30.70)	$(6.91)	$(4.49)	$(14.40)	$(12.40)	$(7.44)	$(7.46)	$4.03

[1] Comparative figures have been revised to reflect the adoption of CICA Handbook Section 4600 and IFRS (see Note 1b to the financial statements).

PERFORMANCE (%)											
Rate of return	**11.2**	14.3	13.0	(18.0)	4.5	13.2	17.2	14.7	18.0	(2.0)	(2.3)
Benchmark	**9.8**	9.8	8.8	(9.6)	2.3	9.4	12.7	10.6	13.5	(4.8)	(5.3)

Funding Valuation History

Funding valuations must be filed with the pension regulator at least every three years. Valuation dates and voluntary filings are determined by OTF and the Ontario government. Filings must show the plan has sufficient assets to pay all future benefits to current plan members. For reference, all previously filed funding valuations and decisions made to use surplus or address shortfalls are detailed in this section. Assumptions used for each valuation are also reported below. The table summarizes all filed funding valuations that reflect the decisions of the sponsors as specified on page 124 of this annual report. In previous reports, figures for the years 1998–2001 were shown before the application of gains. Gains arose in those years as the plan performed better than the actuarial assumptions.

FILED FUNDING VALUATIONS[1]

(as at January 1) ($ billions)	2011	2009	2008	2005	2003	2002	2001	2000	1999	1998
Net assets	107.5	87.4	108.5	84.3	66.2	69.5	73.1	68.3	59.1	54.5
Smoothing adjustment	3.3	19.5	(3.6)	(1.5)	9.7	3.0	(4.3)	(7.3)	(5.1)	(6.0)
Value of assets	110.8	106.9	104.9	82.8	75.9	72.5	68.8	61.0	54.0	48.5
Future basic contributions	33.8	25.9	23.6	16.7	14.7	13.7	12.7	13.4	12.0	12.3
Future special contributions	3.8	5.5	5.6	6.2	–	–	–	–	–	–
Future matching of CIP benefit reduction	5.1	–	–	–	–	–	–	–	–	–
Special payments[2]	–	–	–	–	–	–	–	–	0.2	3.9
Total assets	153.5	138.3	134.1	105.7	90.6	86.2	81.5	74.4	66.2	64.7
Cost of future pensions	(158.4)[3]	(137.5)[3]	(134.1)[3]	(105.6)	(89.1)	(84.3)	(80.9)	(69.9)	(66.2)	(64.7)
Reduction in cost due to CIP	5.1	–	–	–	–	–	–	–	–	–
Surplus	0.2	0.8	0.0	0.1	1.5	1.9	0.6	4.5	0.0	0.0

1 Valuation filing dates determined by the plan sponsors.

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

3 Assumes 100% inflation protection.

ASSUMPTIONS USED FOR FILED VALUATIONS

(as at January 1) (percent)	2011	2009	2008	2005	2003	2002	2001	2000	1999	1998
Rate of return	5.40	5.00	5.65	6.475	6.40	6.30	6.25	6.50	7.50	7.50
Inflation	2.15	1.35	2.20	2.750	2.05	1.90	2.20	2.25	3.50	3.50
Real rate of return	3.25	3.65	3.45	3.725	4.35	4.40	4.05	4.25	4.00	4.00

FUNDING DECISIONS

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

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

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

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

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

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

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

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

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

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

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

2008: $12.7 billion preliminary funding shortfall resolved, leaving the plan in a balanced position; plan sponsors introduced conditional inflation protection for pension benefits earned after 2009 and increased the basic contribution rate to 9% from 8%.

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

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

Corporate Directory

ONTARIO TEACHERS' PENSION PLAN

President and Chief Executive Officer
Jim Leech

Audit Services
Carol Gordon, Vice-President

enterprise Project Management Office
Jacqueline Beaurivage, Vice-President

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

Human Resources
Marcia Mendes-d'Abreu, Vice-President

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

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

Member Services Division
Rosemarie McClean, Senior Vice-President

Investment Division
Neil Petroff, Executive Vice-President and Chief Investment Officer

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

Fixed Income and Alternative Investments
Ron Mock, Senior Vice-President
Jason Chang, Vice-President
Jonathan Hausman, Vice-President

Infrastructure
Stephen Dowd, Senior Vice-President
Olivia Steedman, Vice-President

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

Tactical Asset Allocation
Michael Wissell, Senior Vice-President
Kevin Duggan, Vice-President
Ziad Hindo, Vice-President

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

Investment Operations
Dan Houle, Vice-President

THE CADILLAC FAIRVIEW CORPORATION LIMITED

President and Chief Executive Officer
John M. Sullivan

Development
Wayne L. Barwise, Executive Vice-President

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

General Counsel and Secretary
Sandra J. Hardy, Executive Vice-President

Investments
Russell Goin, Executive Vice-President

Operations
Ron Wratschko, Executive Vice-President

ANNUAL MEETING

April 12, 2012 at 5 p.m.
The Carlu
444 Yonge Street, 7th floor
Toronto

We welcome your comments and suggestions on this annual report.

Please contact:
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